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COMMISSION STAFF WORKING PAPER

A Budget for Europe 2020: the current system of funding, the challenges ahead, the results of stakeholders consultation and different options on the main horizontal and sectoral issues.

Accompanying the document

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions

A Budget for Europe 2020

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Disclaimer

This document has been prepared by the services of the European Commission and does not prejudge the final form of any decision to be taken by the European Commission.

1. INTRODUCTION

This paper sets out the underpinning for the strategic orientations that the Commission is proposing for the EU's multiannual financial framework for the period after 2013. It builds on the analysis already carried out for the EU budget review[1] presented by the Commission in October 2010, and reflects lessons from the evaluation of current programmes and issues raised by stakeholders. It also takes into account the work of the European Parliament's special committee on policy challenges and budgetary resources for a sustainable European Union after 2013 (the SURE committee) as well as contributions from Member States. It analyses how different budget reform options can best deliver EU value added and ensure that EU expenditure contributes towards the achievement of the targets of the Europe 2020 strategy.

This document is not a formal impact assessment of the multiannual financial framework (MFF) package presented in June 2011. It is a supporting document that explains the key options on the main horizontal and sectoral issues. Work on the individual sectoral proposals for programmes and instruments is ongoing. These will be accompanied by more detailed individual impact assessment reports, which will be made available on the Europa web site[2] in the course of 2011.

The analysis is organised as follows. After an explanation of the process and an overview of issues relevant for stakeholders, the paper discusses the main horizontal and cross-cutting issues. Building on lessons from ex-post evaluations and stakeholder consultations, it presents key challenges for the next financial framework, in particular the implementation of the Europe 2020 strategy. It then discusses what should be the new objectives and policy options. This is followed by a discussion on the potential effects of the policy choices to be made. The same structure is mirrored for each main policy.

Inter-institutional issues

The current multiannual financial framework, covering the years from 2007 to 2013, was formally agreed by the European Parliament, the Council and the Commission on 17 May 2006[3]. The financial framework established the maximum amounts of expenditure per heading in terms of appropriations for commitments, together with overall annual maximum amounts of total EU expenditure in terms of both appropriations for commitments and appropriations for payments. The agreement stated that the Commission would present proposals for a new financial framework before 1 July 2011.

A declaration on the review of the financial framework, attached to the inter-institutional agreement, recalled the conclusions of the December 2005 European Council with regard to the invitation issued to the Commission to undertake a full, wide ranging review covering all aspects of EU spending, including the Common Agricultural Policy, and of resources, including the United Kingdom rebate. It also specified that the European Parliament would be associated with the review at all stages of the procedure.

In October 2010, the European Commission published its Communication on the EU Budget Review[4], in which it set out a number of core principles on which the EU budget must be based – the delivery of key policy priorities, the demonstration of EU added value, a budget driven by results, mutual benefits through solidarity, and a reformed financing of the EU budget. Emphasis was placed on the pursuit of the Europe 2020 agenda of smart, sustainable and inclusive growth, and on horizontal issues such as the need for greater flexibility of the financial framework, as well as simplification of delivery and conditionality of EU spending programmes.

1 COM (2010) 700.
2 http://ec.europa.eu/governance/impact/ia_carried_out/cia_2011_en.htm
3 Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management of 17 May 2007, OJ C 139, 14.6.2006, p.1.
4 COM (2010) 700.

The Treaty of Lisbon enshrined the multiannual financial framework into EU primary law. Article 312 of the Treaty on the Functioning of the European Union stipulates that the multiannual financial framework shall be established for a period of at least five years. The framework is set down in the form of a regulation to be adopted unanimously by Council after obtaining the consent of the European Parliament, given by a majority of its component members. The financial framework fixes the annual ceilings on commitment appropriations and the annual ceiling on payment appropriations. The categories of expenditure shall correspond to the Union's major sectors of activity.

In July 2010, the European Parliament established a special committee on policy challenges and budgetary resources for a sustainable European Union after 2013 (the SURE committee). The committee has examined a range of sectoral policies and horizontal issues such as the structure and duration of the multiannual financial framework, EU added value, flexibility mechanisms and the reform of EU financing. The Commission has been actively engaged in the work of the committee, with a number of Commissioners appearing before the committee to discuss specific policy objectives and the budgetary means to achieve them. The Commission has paid close attention to the issues raised in the working papers, draft reports and the opinions from other parliamentary committees that have contributed to the final report adopted by the European Parliament plenary on 8 June 2011[5]. In addition, the preparation of the next multiannual financial framework has been discussed in the regular meetings of the Presidents of the Commission and the European Parliament, and in trilateral meetings between the Presidents of the Commission, European Parliament and the Council.

Some Member States have made their positions known on general and specific issues related to the next multiannual financial framework, both formally (in the form of position papers and letters) and informally. Organs in some Member States have carried out analysis and have presented their findings and recommendations.

The Commission has also taken account of general positions expressed by the Committee of the Regions[6] and the European Economic and Social Committee[7] on the budget review and the preparation of the next multiannual financial framework; and of specific positions expressed by the other institutions (for example, Council conclusions and EP committee opinions) on sectoral issues of relevance to the preparation of the post-2013 framework.

Preparation within the Commission

Inside the Commission, the work on the preparation of the proposals for the post-2013 multiannual financial framework has been steered by a dedicated group of Commissioners, chaired by President Barroso. The entire Commission met in a series of seminars to prepare the post-2013 multiannual financial framework. A separate Commissioners' group on innovative financial instruments was established under the chairmanship of Commissioner Rehn. The European Investment Bank participated in several of its meetings.

At service level, both horizontal and sectoral issues have been prepared in a group of Directors General chaired by the Secretary General. This group has been used to refine issues for discussion at Commissioner level and to provide direction to the work of the interservice groups that are preparing the specific proposals for the sectoral instruments and programmes that will follow in the course of the rest of 2011.

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5 A7-0193/2011.

6 Opinion of the EU Committee of the Regions on the EU Budget Review, 89th plenary session, 31 March – 1 April 2011, document CdR 318/2010 rev. 2 FR/GW/NT/ss

7 CESE 748/2011.

Consultation processes

The Commission carried out extensive consultations in order to prepare the 2010 budget review. The details of this consultation process and the outcomes were already provided in the staff working document that accompanied the budget review[8].

This consultation process has continued after the adoption of the budget review, both formally and informally. For example, the Commission issued formal documents in several policy areas, such as the Communication on the Common Agricultural Policy towards 2020[9], the 5th report on economic, social and territorial cohesion[10] and the green paper on a common strategic framework for future EU research and innovation funding[11]. All of these documents have taken forward specific issues raised in the budget review and have provided more detail on the Commission's thinking in the relevant policy areas, in order to stimulate discussion with stakeholders.

Other Commission documents have provided more detail on the policy issues on which the EU should concentrate in the future, particularly in the period up to 2020. Apart from the flagship initiatives[12] under the Europe 2020 strategy, the Commission has issued in recent months detailed orientations on, for example, general energy policy[13], energy infrastructure[14], energy efficiency[15], decarbonisation[16], transport[17] and the single market[18]. All of these define the policy context within which the next multiannual financial framework is being elaborated and provide direction for future spending priorities.

In addition, the Commission services have carried out a number of specific stakeholder consultations in order to elicit the views of stakeholders on the operation of the current programmes and instruments and the preparation of the successor programmes and instruments in the post-2013 period. A list of the relevant consultations is provided in annex I. Further information on the consultations in the main policy areas is provided below, and will be further detailed in the individual impact assessment reports that will accompany the sectoral proposals later in 2011.

Consultation outcomes

While the breadth of issues mentioned and the variety of stakeholders' views are both significant, the majority of views indicates that the following issues are key:

(1) How well EU spending reflects the Europe 2020 priorities and targets ;

(2) What should be the relation to economic governance (and the European Semester);

(3) How to link EU spending to national spending;

(4) How to ensure flexibility within and across the headings, while guaranteeing accountability; and

(5) How to simplify programming and reduce administrative overheads.

8 SEC (2010) 7000.
9 COM (2010) 672.
10 COM (2010) 642.
11 COM (2011) 48.
12 COM (2010) 245; COM (2010) 546; COM (2010) 477; COM (2011) 21; COM (2010) 614; COM (2010) 682; COM (2010) 758.
13 COM (2010) 639.
14 COM (2010) 677.
15 COM (2011) 109.
16 COM (2011) 112.
17 COM (2011) 144.
18 COM (2011) 206.

2. HORIZONTAL AND CROSS CUTTING ISSUES

2.1. Challenges ahead and lessons learned from implementation of the current financial framework

While decisions on EU finances have always been a defining moment in the life of the Union[19], the preparation of the post-2013 MFF has attracted an unprecedented level of attention, well beyond the most immediately concerned political and administrative circles.

One of the reasons for this renewed interest in the EU budget is the awareness of the critical importance that public finances have for tackling Europe's present challenges. To recover from the economic crisis and avert a lost decade of low growth, high unemployment and ultimately stagnation, the EU has to change not only the direction of its policies, but also the way it funds and implements them.

Indeed, despite previous efforts to modernise it, the EU budget has not developed sufficiently, in contrast with the evolutions that have occurred in its wider political, institutional and legal context.

In the past two decades, after the completion of the Single Market, the EU has established an Economic and Monetary Union progressively extended to 17 Member States, has welcomed 15 new Member States in three successive waves of enlargement, has reformed its institutional setting with the Lisbon Treaty, which has strengthened existing EU responsibilities and added new competences, and has undertaken a profound review of its governance of macro-economic policies in the wake of the global economic and financial crisis.

The Lisbon Treaty has brought some changes to the rules governing the EU system of public finances and the budgetary process. It has confirmed the need to provide a medium term approach to EU spending through a multi-annual financial framework to be laid down in a Regulation adopted unanimously by Council with the consent of the European Parliament. It has also restated the principle that the EU is financed by own resources. It has reviewed rules on inter-institutional relations in the budgetary process and, amongst other things, suppressed the distinction between compulsory and non-compulsory expenditures and the maximum rate of increase.

Although the context framing the EU system of finances has changed in many respects, the main features of the way the EU funds and implements its policies are characterised by incremental changes. The size of the EU budget has not significantly varied over time. From a macro-economic perspective, the dimension of the budget is relatively limited. Before the crisis, it absorbed around 2.5% of the aggregate total public expenditure in Europe and amounted to around €125 billion annually. The main spending items and their relative weight in the budget have not considerably evolved over time, although a trend towards a decline in agriculture-related expenditure and an increase in spending for competitiveness can be observed.

This continuity is the result of some specific characteristics of the EU system of finances. Originally, the system was not designed with the aim of driving forward specific policy objectives, but reflected institutional decisions about the responsibilities assigned to the EU and provided the resources for the functioning of its institutions[20].

In retrospect, the EU budget has given the Union the means to realise some of its ambitions and provide valuable responses to citizens' expectations. Yet, it remains the subject of conflicting views about its architecture and ability to promote innovation, growth and welfare for citizens.

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19 J. Lindner, *Conflict and Change in EU Budgetary Politics*, London, 2006; R. Perissich, *Le risorse finanziarie e il bilancio europeo: cenni storici*, in M.T. Salvemini and F. Bassanini, *Il Finanziamento dell'Europa, Il bilancio dell'Unione e i beni pubblici europei*, Florence, 2010, pages 23-33.

20 B. Laffan *The Finances of the European Union*, New York, 1997

A modern budget should serve the Union's main policy priorities and be able to adjust swiftly to changing circumstances, as national public budgets do. Some commentators point to the prominence given to some categories of expenditure and the low importance assigned to others to highlight a conflict with theoretical assumptions about the distribution of fiscal responsibilities among different levels of government[21]. In contrast, others see those normative assumptions as a very imperfect reference to understand and reform the EU budget[22]. Rather, the limited size of the budget is the main element of deviation from other models of multi-level governance[23]. Another stream of comments focuses on the emphasis placed on 'net balances' and *juste retour*, which leads to putting a national flag on each element of a spending programme, sacrificing European added value, and creating a complex system of corrections[24]. In contrast, other critics argue that a greater upfront clarity about who obtains what from the EU budget would ensure a more transparent decision making process and even a more economically rational structure of the budget[25].

No matter how varied the views about EU finances are, a theme is common to all of them: the EU budget needs reform. The Budget Review has identified a number of problematic aspects that have to be tackled and resolved in the definition of the MFF for the post-2013 period and a number of principles that should guide the re-thinking of EU finances.

Some of these problems were on the table already at the time of the negotiations on the current MFF, but remain open today. Some others are new and have been brought centre-stage during the implementation of the current MFF or by the lessons learned by the EU when responding to the economic and financial crisis.

A budget with high European value added

An indispensable litmus test for any EU system of finances is its ability to demonstrate that spending at the European level offers extra advantages compared to what can be achieved through national programmes, or, in other words, brings with it a "European value added".

Discussions about the benefits and costs of membership of the European Union and concerns that any EU expenditure decisions be based on sound economic principles rather than on political compromises or bureaucratic inertia, have given the notion of "European value added" a central place in the discussion on EU finances. While the concept is hard to define and generally considered unable to capture the complexity of the political and economic implications of European integration, there is a consensus that it provides a useful reference to ensure that the Union acts when Member States cannot or where it can secure better results[26].

The principle of "European value added" reflects a legitimate expectation that EU spending is justified, based on its effective contribution to achieving the Union's policy goals efficiently. While

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21 See for instance A. Alesina and R. Wacziarg, *Is Europe going too far?*, in NBER Working paper no 6663; A. Alesina, I. Angeloni and L. Schuknecht, *What does the European Union do?* in *Public Choice*, 2005, No. 6, pp. 275-319, C. Vaneecloo, A. Badriotti and M. Fornasini, Fiscal Federalism in the EU and its countries. A confrontation between Theories and Facts, Brussels, 2006. See also the study accompanying the Commission Budget Review Communication, ECORYS, CPB ad IFO, A Study on EU spending. Final Report, Amsterdam, 2008.

22 I. Begg, *Fiscal Federalism, Subsidiarity and the EU Budget Review*, SIEPS, 2009.1.

23 J. Le Cacheux, *How to Herd Cats: Economic Policy Coordination in the Euro-zone in Tough Times*, in *Journal of European Integration*, Vol. 32, No 1, January 2010, pages 41-58.

24 J. Le Cacheux, *European budget: the poisonous budget rebate debate*, in *Notre Europe Studies and Research*, Paris, No. 41, 2005.

25 See for instance S. Richter, *Facing the monster "juste retour" – On the net financial position of Member States vis-à-vis the EU budget and a proposal for reform*, in EU-consent EU budget Working Paper no. 7, 2008 or J. Nunez Ferrer, *Can reforming own resources foster policy quality?*, Stockholm, SIEPS Report 2008:3. P. Wostner, On the Character of the EU and its Budget: Look into the Future, EU-consent EU-budget Working Paper No.8, 2008, S. Neheider and I. Santos, *Reframing the EU Budget Decision Making Process*, in *Journal of Common Market Studies*, Vol. 49, No. 3, 2011, pages 631-651.

26 See also the Commission Staff Working Paper "The added value of the EU budget", SEC(2011)xx.

reference to European value added does not replace political appreciation, it implies a reflection on whether spending is coherent with the mission and the goals of the EU and helps to resist path dependency that preserves obsolete programmes in place.

In a context of limited resources, the principle of European value added should help to define alternative courses of action and be a tool to shift the focus of discussion from net balances and redistribution to how common resources are best invested for shared purposes.

The concept of European value added has become a key component in the Commission's process of policy making, in both the impact assessments underpinning the preparation of new programmes and policies with budgetary impact and in the ex post assessment of their results. In the current context, where fiscal consolidation is a priority, demonstrating the European value added of spending programmes must have an even stronger importance. Ensuring European value added implicitly means maximising the efficiency of the aggregate public expenditure of the EU and its Member States. As the budget review noted, "the European dimension can maximise the efficiency of Member States' finances and help reduce total expenditure, by pooling common services and resources to benefit from economies of scale". The budget review also pointed to areas where European value added can be found: policies where EU level delivery can cut decision making costs and lead to better targeting; programmes for which the continental scale is the most adequate to address problems and achieve the expected results, also due to aspects of critical mass; EU level interventions that plug gaps in the public policy space or fill in missing links between Member States due to negative or positive externalities.

Various opinions exist about whether existing categories of expenditure in the EU budget fulfil the European value added criterion or not. A key issue is therefore to shape the new MFF according to demonstrable criteria of European value added, concentrating EU intervention where the EU dimension can offer more than the Member States or secure better results.

European value added also requires fully exploiting complementarities and synergies between EU and national spending. Yet, at present, the EU and national budgetary processes are largely separated. They are informed by different actors and set of priorities and follow different cycles. The resulting duplications, gaps or contradictions are a source of inefficiency and waste of resources. Greater synergy with national budgets could secure better results and produce savings. The introduction of greater coordination of economic policies within the "European Semester" has marked a step forward in terms of economic governance within the EU, which has an impact also on the governance of public finances. The logic of the "European Semester" means that Member States will have to translate EU guidance and rules in their annual policy and budgetary choices based on an iterative cycle of surveillance and peer review. This mechanism creates new bridges between the EU level and national level, but there is scope to create stronger links to improve coherence, transparency and efficiency of public spending.

The concept of EU added value is examined in more detail in an accompanying staff working paper.

A budget serving EU long term priorities: financing the Europe 2020 Strategy

Next to "European value added", the second most important concern with regard to EU finances is whether they serve the right set of priorities. The idea that EU spending should not only serve time-invariant institutional objectives but should be geared to support the Union's medium term policy priorities dates back to the debate on how the EU budget could complement the single market project. Since then, successive MFFs have sought to provide the EU with the means to implement its strategic policy priorities, whether economic and social cohesion in an expanding single market, enlargement or the implementation of the Lisbon Strategy for jobs and growth. However, the degree of consistency between the weight of different areas of spending and the core policy directions for the EU remains a source of dissatisfaction.

The importance for the EU budget to act as a lever to achieve policy goals has been enhanced by the Europe 2020 Strategy for smart, sustainable and inclusive growth. By definition, Europe 2020 is a long term strategy, aimed at supporting a major re-orientation of the European economy over a decade. As an integrated strategy, it calls on the contribution of virtually all EU policies to enhance action in key areas: knowledge and innovation, the transition to a low carbon, resource-efficient economy, employment and social inclusion. It provides a coherent joint framework for both EU level measures and Member States coordinated action for structural reforms. Because of this integrated, joined up and long term nature of the Strategy, the EU budget, is called to play a crucial part in making Europe 2020 a success. On the one hand, EU regulatory action and policy guidance are not always sufficient to trigger progress towards the Strategy's long term objective. Funding from the EU budget may be, in some instances, the best policy tool to produce results at EU level. On the other hand, EU funding can play a role in sustaining coordinated action at national level, providing incentives that reduce the costs of reforms and encourage policy makers to concentrate action in Europe 2020 relevant areas. A key issue for the next MFF is, therefore, how to ensure that the EU budget can effectively harness the resources needed to achieve the Europe 2020 priorities, by financing measures at EU level and by providing appropriate incentives for action at national level. On neither of the two fronts do the current EU budgetary arrangements provide sufficient room to respond to the challenge.

Currently, less than half of the EU annual budget is directed at financing initiatives that support Europe 2020. According to some estimates prepared by the Commission at the time of the discussion on the draft budget for 2011, only 43% of the budget, excluding administrative expenditures, supports Europe 2020. While calls for reorienting the current allocation of expenditure towards more Europe 2020-intensive policy areas have featured in the debate on the financing of the Europe 2020 strategy, this represents only one side of the problem. As the European Council has highlighted, all policies should contribute to the Europe 2020 Strategy. Ensuring an adequate match with Europe 2020 objectives is therefore a matter for each spending policy and depends on the policy's appropriate design and operational modality. As the Strategy itself indicates, for the next MFF to mirror the EU long term growth priorities, both the level of funding and the way concerned policies are devised are important issues.

A second issue is how the EU budget can set the right incentives to steer coordinated action at Member State level in key Europe 2020 areas. In other words, this means how the budgetary framework can be supportive of the Europe 2020 governance cycle, and of the reforms Member States commit to deliver under their National Reform Programme. Cohesion policy funds, with their catalytic and coordinating impact, can be key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions. EU funding, because of the size of the resources mobilised, can fill important gaps in the financing of Europe 2020 relevant policies, such as flexicurity, research and innovation or education. In other contexts, where national resources are not an issue, EU intervention can help policies align with the Integrated Guidelines or stimulate action to overcome policy weaknesses identified in the monitoring of the implementation of Europe 2020. Currently, however, there is only a loose link between Europe 2020 and cohesion policy. Earmarking a share of the funds for selected categories of expenditure, as foreseen in the current MFF in support of the former Lisbon Strategy, can ensure that money is spent on the areas where action matters the most. A stronger link between Europe 2020 reforms and EU spending would imply introducing forms of conditionality, linked to progress in achieving structural reforms. Some forms of ex-ante conditionality exist already under cohesion policy.

Under the current MFF, Member States have taken, either spontaneously or at the request of the Commission, commitments related to the regulatory framework, strategic programming, infrastructural planning and institutional and administrative performance. The experience so far has varied significantly, but has been generally considered positive in terms of increased programme effectiveness. As the budget review and the 5th Cohesion Report indicated, a new form of conditionality would mean that cohesion policy funding is made conditional on a Member State's commitment to put in place measures that are pre-requisite for the effective use of the funds or to make progress towards meeting its Europe 2020 targets and objectives.

However, designing efficient and viable forms of conditionality linked to structural reforms is everything but easy. Conditionality implies a connection between the purpose for which funds are allocated and the problems which the requested measures seek to address. This requires defining the administrative and structural reforms, and corresponding assessment criteria, which are relevant for ensuring the effective use of cohesion funds.

Secondly, conditionality can be intended either as ex ante conditionality, when the recipient entity needs to fulfil agreed conditions to qualify for financial support at the start of the programming period, or as performance conditionality, when satisfactory progress over the implementation period is rewarded with additional resources based on periodic reviews.

Thirdly, conditionality can take the form of either positive or negative incentives. In the first case, economic incentives, such as release of additional funds from a performance reserve, higher co-financing rates, higher advance payments or flexibility in the application of de-commitment rules, would reward Member States that implement the reforms outlined in their NRP, make progress in responding to the country specific recommendations and achieve milestones towards Europe 2020 objectives and targets. In the case of negative incentives, a Member State's failure to make progress towards agreed objectives and targets could result in holding back resources or reallocating them to better performing programmes.

The issue of aligning Europe 2020 and budgetary priorities has implications also for the structure of the budget. As the budget review indicated, the denomination can be an important instrument to communicate the purpose of the budget. There could be benefits in organising the budget in a way that reflects the Strategy's priorities, although gains in transparency and communication could imply a trade off with flexibility. A greater number of headings or sub-headings, in fact, reduces the degree of flexibility because it fragments margins and increases the likelihood of adjustments requiring a revision of the financial framework. In addition, as some policies contribute to more than one of the Strategy's objectives, their spread over several headings would entail a greater complexity for programming and management.

The EU budget as a tool for macro-economic stabilisation and solidarity

The EU budget, because of its size and the hybrid nature of some of its spending programmes, is not suited to pursuing a stabilisation role for the EU economy. The modest relevance of the stabilisation function, which is mainly left to Member States, is one of the features that sets the EU budget apart from the budgets of other multi-level governance systems and, in particular, from the model offered by federal states. Yet, the response to the global financial and economic crisis highlighted that the EU budget can be relevant as a tool to support macro-economic stabilisation and the coordination of Member States' economic policies. Limitations exist, however, that constrain its ability to perform that role.

The EU and its Member States have responded in a coordinated way to the macro-economic shock triggered by the sub-prime crisis through a large stimulus package adopted in 2008, the European Economic Recovery Plan. The EERP aimed at containing the effects of the crisis, ensuring the stability of the financial sector and safeguarding the chances of a swift return to growth for the economy.

Given the high interdependence of Member States' economic performances within the EMU, synchronising the timing of national fiscal stimuli and coordinating national authorities' attempts at saving and strengthening domestic financial institutions was crucial to avoid negative spillovers. The EERP also relied on a purely EU component, financed from the EU budget. However, this required amending twice the MFF with a cumbersome process. This experience highlights the insufficient flexibility of the current budgetary arrangements. Cohesion policy also provided a contribution to support Member States economies at the peak of the crisis, by accelerating disbursements and relaxing conditions for national co-financing. However, as cohesion policy funds are mainly concerned with longer term investments, there are limits to their ability to promote anti-cyclical policies with immediate effect.

Besides the EERP, the response to the crisis elicited a more comprehensive and deeper reform of economic policy coordination within the EU and the euro-area, to overcome some shortcomings in the design and operation of the Stability and Growth Pact and address the sovereign debt crisis in some Member States. The review of the surveillance framework, with 6 new legislative proposals adopted by the Commission on 29 September 2010 ("the governance package"), and the introduction of a more integrated surveillance cycle with the "European Semester" aim at strengthening both ex ante surveillance and coordination tools and ex post enforcement mechanisms to ensure macro-economic and fiscal stability within the EMU. The effect is to increase both positive and negative incentives for Member States to avoid inconsistent fiscal and macro-economic development and promote synergies, while respecting the multi-level nature of European economic governance. Even without playing a central role in this architecture, the EU budget could contribute to strengthening those incentives. Currently, however, the links between structural reforms and sound fiscal policies at national level and the EU spending instruments are very loose. Forms of conditionality in the allocation or disbursement of funds are at best minimal.

The crisis also brought to the fore the need for the euro-area to rely on a crisis resolution mechanism to provide assistance to Member States exposed to risks to their sovereign debt solvency. Such a mechanism was not foreseen at the moment of the creation of the euro. Legal – the Treaty no-bail out clause - and practical – the limited size of the budget – reasons limit the possibility of using the EU budget as a collateral to fund a rescue mechanism. However, the experience of the use of the balance of payment facility that provided assistance to non euro-area members in difficulty during 2009 and the ad hoc mechanisms set up to respond to the debt sovereign crisis in Greece shows that the EU budget can play a supportive role in the macro-economic stabilisation of the EMU. As part of the temporary arrangements decided by the European Council on 9 May 2010 to respond to the Greek crisis, the intergovernmental European Financial Stability Facility (EFSF)[27], which relies on guarantees backed up by Member States' budgets, has been complemented by a European Financial Stabilisation Mechanism (EFSM) managed by the Commission and backed up by EU budgetary resources. The EFSM enables the Commission to provide loans for €60 billion guaranteed from the EU budget to euro-area members in difficulty. While this experience highlights the potential contribution the EU budget can make to stabilisation, Member States have decided not to use the EU budget to support a permanent crisis resolution tool that will take over the role of the EFSF and EFSM after 2013. The future European Stabilisation Mechanism (ESM), agreed by Member States at the European Council meeting of 24-25 March 2011, will be established as an inter-governmental organisation under public international law and Member States only will subscribe its capital[28].

Adapting to changing circumstances and new policy priorities: flexibility in the EU budget

Flexibility is an indispensable requirement for a responsive budget. However, the current EU budgetary arrangements are characterised by a degree of inflexibility that ensures budgetary discipline, stability and predictability of spending but severely constrains the ability to adapt to changing circumstances[29].

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[27] The EFSF is established as a company whose shareholders are the States members of the euro area, which back up its issues with guarantees for €440 million.

[28] The ESM will be activated to provide assistance to a Member State when it is needed to ensure the stability of the euro-area as a whole and subject to strict conditionality. The fund will have a total subscribed capital of 700 billion euro, in order to ensure an effective lending capacity of 500 billion euro and will be subscribed by Member States. Of this amount, €80 billion will be in the form of paid-in capital provided by the euro area Member States being phased in from July 2013 in five equal instalments. In addition, the ESM will also dispose of a combination of committed callable capital and of guarantees from euro area Member States to a total amount of €620 billion. The adequacy of the lending capacity will be reviewed on a regular basis and at least every five years.

[29] The main source of rigidity is the use of multiannual financial frameworks to set in advance ceilings of expenditure for the reference period and frame the yearly budgetary process. The MFF was introduced to minimise the political costs of reaching an agreement on the overall finances and resources of the EU and reduce the chances of subsequent political quarrels on the yearly budgets. The main drivers for such institutional innovation were the concerns for budgetary discipline, stability and predictability of spending.

Rigidity exists horizontally, as the budget must be in equilibrium every year and "carry overs" are in principle subject to strong requirements, and vertically, as transfers between headings or revisions of the MFF must follow a cumbersome procedure.

In the current MFF, the cases of Galileo, ITER, the Food Facility and the European Economic Recovery Plan have demonstrated that the budgetary framework has serious limitations when it comes to adjusting more significantly to unexpected events and new priorities. Yet, flexibility will be a key asset for the future. Whilst the multiannual financial framework is of particular relevance for tackling long term challenges, such as climate change, or implementing strategies that unfold over several years, such as completing the single market, the Union's institutions are also called more and more to respond to short term challenges, such as natural and man-made disasters, sudden migratory influxes, security threats, or unforeseen and sudden rises in food or oil prices. But as the budget review notes, "the current budget has proved too inflexible to meet the pressure of events"[30].

Excessive rigidity affects the multiannual financial framework (MFF) at various levels: its duration, its thematic structure and the functioning of its "flexibility tools".

The duration of the MFF is inversely correlated to its flexibility. The longer is the duration of the MFF, the smaller is the degree of flexibility in adjusting to newly emerging priorities. The current MFF was established for seven years, as were the previous two, in order to provide stability for multi-annual programmes and reflect political agreements on the evolution over time of some categories of expenditure. The downside is that such a duration is not in line with the EU political cycle, notably the five-year mandates of the Commission and the European Parliament. As a result, different Colleges of Commissioners or successive European Parliaments are involved in the preparation, negotiation and implementation of the same MFF. This makes it more difficult to align policy priorities and budgetary priorities unless appropriate mechanisms are introduced for a mid-term review or the revision of the MFF. The budget review, the European Parliament and various stakeholders have highlighted the central importance of this issue and pointed to the need for reform.

The structure of the MFF, in terms of the number of headings and sub-headings, is a further source of rigidity. Given the rules limiting the possibility of transfers from heading to heading, the higher the number of headings, the smaller is the level of flexibility. In principle, a single heading for all internal policies and one for external policies would allow the maximum degree of flexibility, although this would put a greater number of policies in competition for the same margin. The fact that maximum amounts for programmes are set out in the respective legislative acts is a further constraining factor.

The third problematic issue concerns the functioning of the flexibility mechanisms that currently exist within the MFF. In the EU budget toolbox, there are three types of instruments designed to introduce some degrees of flexibility: a) tools that guarantees flexibility within the MFF b) flexibility instruments placed outside the MFF and c) tools to modify and amend the MFF. All of these instruments, in fact, have demonstrated serious shortcomings, or the need for improvement.

Within the first category, margins and reserves under Headings 1A and 4 (within the heading or within programmes) have proven to be too tight to allow for accommodating major unforeseen needs. In the case of Galileo and ITER, the need to cover unexpected cost-overruns has eroded the margin, reducing availabilities for other priority projects. The European Parliament has repeatedly voiced its concerns at the too low level of margins and the under-financing of some headings. The issue is therefore how to set margins at a sufficient level and avoid that they may be compressed or exhausted by the need to address other unforeseen spending. Another avenue for flexibility is the possibility, set out by point 37 of the current interinstitutional agreement on budgetary discipline and sound financial management, that the Commission and the budgetary authority can in the draft budget establish for a programme an amount which deviates from the reference amount set out in the legislative act within a certain threshold, corresponding to 5%. Any departure beyond this threshold is subject to stricter conditions.

[30] European Commission, Budget review, COM(2010) 700 final, page 23.

In practice, the overall financial allocations of the corresponding legislative act have been respected. The limited use of flexible modes of management over time can create a source of unnecessary rigidity for the EU budget. The principle of annuality of the budget does not allow for the automatic transfer of unallocated margins to the following budgetary year, the front- or back loading of expenditure or the transfer of unused commitment/payment appropriations from one annual budget to the next.

Four "flexibility instruments" exist outside the MFF (see section 2.4.2.2. below). The functioning of these instruments has proved to be problematic in many respects. Firstly, the procedures for mobilising them are still cumbersome in contrast with the need to act fast. Secondly, the volume of resources assigned to them has been subject to discussion, including the under-utilisation of some of them and the possibility to allow for carryovers. Thirdly, questions have arisen concerning their number and the opportunity to merge some of them or to create new instruments for specific purposes.

Another element of rigidity concerns the limitations to which the revision of the MFF is subjected. The IIA foresees the possibility of revising the agreed ceilings but subordinates this to specific substantial and procedural requirements. The decision to proceed to a revision of the MFF requires the approval of both branches of the budgetary authority, with the Council voting by qualified majority if the revision concerns less than 0.03% of the EU GNI and the European Parliament voting by a majority of its members and three fifths of the votes cast. The revision of the ceilings cannot go beyond the own resources ceiling. The institutional practice has added further political conditions. Before any revision of the agreed ceilings, the institutions should explore the scope for reallocation of expenditure within the heading and any raising of the ceiling in one heading should be fully offset by the lowering of the ceiling in another. This practice has been reflected in the arrangements reached to maintain the flexibility offered by the revision procedure also under the Lisbon Treaty, which, under a strict interpretation, would exclude the possibility of an amendment of the MFF by qualified majority. This resulted in the introduction of a "contingency margin", which would allow the mobilisation by qualified majority voting of up to 0.03% outside the ceilings of the MFF provided such an increase is fully offset. In the current MFF, the recourse to revisions has become at the same time more frequent and more problematic. Between 2007 and 2010, the IIA had to be amended four times (Galileo, High Food prices facility and twice for the EERP). A fifth revision has been proposed for ITER. In all cases, reaching an agreement required complex and time-consuming negotiations and was possible only by keeping any revisions below the 0.03% threshold and ensuring the full offsetting of the changes introduced. This drastically compressed the margins available for other headings. The unclear and possibly too lengthy procedure for the revision of the MFF, and to some extent, the lack of provisions for a mid-term review, are thus issues to be addressed.

Leveraging other public and private capital: innovative financial instruments and project bonds

Another way of increasing the growth-enhancing component of the EU budget is to maximise its potential for leveraging other sources of public or private capital in support of investments with EU added value. Over the past ten years, the EU has developed new financial instruments other than grants and loans to support project financing, such as guarantees and equity investment for SMEs.

In the 2007-2013 financial framework, a new generation of financial instruments was put in place in cooperation with the EIB, such as the Risk-Sharing Finance Facility (RSFF) under the 7th R&D Framework Programme, or the Loan Guarantee Instrument for TEN-T projects (LGTT). In the area of structural funds, financial instruments have been set up to support enterprises, urban development and energy efficiency through revolving funds. The EIB has established its role as an important counterparty for the Commission in developing risk sharing mechanisms, which in turn have permitted increased leverage of its resources and an extension of its reach. As noted in the budget review, the blending of grants from the EU budget and loans from the EIB and other financial institutions has trebled the financial impact of EU spending, attracting significant investment from other financial institutions[31]. However, there is a case for extending and improving the use of innovative financial

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[31] COM(2010) 700, page 20.

instruments in the future MFF. EU spending programme rules and implementation time are often hard to reconcile with the needs of private financing. The budget review also pointed to the possibility of greater consideration of projects' revenue generation capacities, including from either user charges or internalisation of external costs, when assessing them and selecting the most appropriate financing tools. For projects with long term commercial potential, the partnership with the private and banking sectors, particularly via the EIB but also other multilateral and national development banks, should become a normal instrument. As the current financial instruments operating in different sectors have been developed independently and problems of coherence have emerged, there is also scope for reducing fragmentation and ensuring a greater consistency of the tools used, which largely fall into the category of either debt or equity instruments.

The EU budget potential for leveraging and stimulating additional private investments presents a particular interest for the financing and implementation of infrastructure projects of European interest in energy, transport and telecommunications. In this sector, a huge funding gap is projected for the next decade. Preliminary Commission analysis estimate that to plug missing links in the Single Market and support the Europe 2020 strategic orientations, investment needs may range between €1.5 trillion and €2 trillion between now and 2020. Yet, in the wake of the economic and financial crisis, both private and public sources of funding are drying up. Private sector investments, typically covering about two thirds of the infrastructure investments in sectors such as utilities, have fallen. Capital market financing streams, such as project bond financing, have come to a halt while access to bank financing for project promoters has become more difficult, due to capital and liquidity constraints faced by commercial banks. At the same time, public budgets, which remain the most important source of financing for trans-national infrastructure investments, are under pressure across Member States for reasons of necessary fiscal consolidation. The EIB and other national or multilateral development banks have expanded the scale of their lending. However, to fill the gap, complementary solutions have to be found to unlock private capital and restore stable funding streams through the capital and banking market.

Some mechanisms, and in particular a greater use of risk-sharing and project finance techniques, offer innovative ways to enhance the catalysing role of the EU budget without assigning to the EU the responsibility to issue bonds. The budget review suggested that "EU budget appropriations could be used to support projects for the extent required to enhance their credit rating and thereby attract financing by the EIB, other financial institutions and private capital market investors like pension funds and insurance companies"[32]. In other words, the EU and the EIB would not directly issue project bonds, but would jointly provide guarantees or loans to the special vehicle set up by public or private partners to carry out an investment. As part of the project, credit risk would thus be absorbed by the EU/EIB, the project promoter would be in a better position to seek investors' funding by issuing project bonds for the remaining, non-guaranteed, part of the project costs. Eligible projects would respond to pre-determined criteria of European interest and have revenue potential. The EU participation and risk exposure would be capped at an agreed annual budgetary amount[33]. Developing effective EU/EIB risk sharing mechanisms for infrastructure funding means breaking new ground. Project financing techniques are being used in the current MFF, but only to a very limited extent[34] in some policy areas, not covering all types of infrastructure investments.

A budget delivering results

Ensuring that any money spent is used to deliver tangible results is a major priority for the EU budget. The budget review noted that "identifying those areas where the EU dimension can offer more is not in itself sufficient. Spending on the right policies is only worthwhile if it secures the desired results and

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[32] Idem, page 21.

[33] See Commission Staff Working Paper, *Stakeholder consultation paper on the Europe 2020 Project Bond Initiative*, Brussels, 28.02.2011.

[34] An example is the already mentioned Loan Guarantee Instrument for TEN-T projects (LGTT)

has a measurable and relevant impact"[35]. On a number of aspects, EU spending effectiveness and performance orientation are not yet satisfactory. This undermines the impact of EU actions and also weakens the legitimacy of the EU vis-à-vis public opinion.

Concentration on relevant priorities and coherence of intervention are pre-requisites for effective spending. Currently, EU spending tends to be spread over a large number of priorities and different programmes pursue complementary objectives. This creates overlaps, gaps in funding and insufficient exploitation of synergies.

There have been attempts to address the issue of greater concentration on strategic priorities and objectives in the 2007-2013 period. However, these have not always been successful. In large part, this has been due to the broad list of priorities laid down in the regulations from which Member States could select, but also due to the reluctance of Member States to narrow the selection down to just a few priorities. The introduction of earmarking provisions requiring that a major part of cohesion policy investments are allocated to the Lisbon priorities via an extensive list of spending categories was a step forward. However, as several studies and reports have shown, the results have been mixed[36].

A second factor undermining effectiveness is the lack of coordination and complementarity between the different funds. Stakeholders often complain about the complexity generated by overlapping schemes or by lack of coordination at the strategic level. As a result, when applicants are refused funding from one source, they proceed to apply to another fund for support for the same project.

Finally, a tension exists in the EU context, between delivering the best results and ensuring the predictable allocation of spending between the Member States. This is reflected in the limited development of mechanisms to reward performance and penalise non-effective use of the funds. The predominant attention to the legality and regularity of expenditure and the protection of EU financial interests further shifts the focus away from the results and effectiveness of interventions. In the case of cohesion policy, the insufficient performance orientation is a source of concern for both EU institutions and stakeholders. In the current programming period, there are not sufficient incentives to improve performance and tools to review it. A performance reserve existed in the 2000-2006 period, but the complexity of its rules and the lack of adequate evaluation of progress achieved by programmes limited the success of its implementation. As a result, in the current period, conditionality is generally restricted to compliance with formal standards. Incentives to reward performance in cohesion policy, but more broadly in other EU spending programmes, in practice do not exist.

Performance orientation needs also to be supported by appropriate objectives, smart indicators, relevant benchmarks and robust evaluations. *Ex post* evaluations and stakeholders' input to public consultation reveal that progress in this area would be beneficial to support programmes' effectiveness. Programmes' objectives often suffer from a lack of clarity, indicators are not robust or are too numerous, and objectives and targets agreed during the programming phase are not fully exploited in the management of the programmes. Evaluations are not timely or are not supported by clear benchmarks.

Effective spending also requires a sufficient level of resources to achieve the expected goals. In some cases, programmes lack sufficient financial critical mass for the scale of the problems or the number of potential beneficiaries to be reached and may not provide an adequate contribution to the solution of the issues they are meant to address.

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35 European Commission, Budget review, COM(2010) 700 final, page 5.

36 "The Potential of Regional Policy Instruments 2007-2013 to Contribute to the Lisbon and Göteborg Objectives for Growth, Jobs and Sustainable Development", Nordregio, 2009 and Commission Communication, "Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013", COM(2010)110 final, 31.03.2010.

A further potential limitation to the effectiveness of spending programmes is the quality of the administrative system and the regulatory environment in which they are implemented. Ex post evaluations have shown that EU policies, in particular cohesion policy, can generate spillovers to domestic administrative systems in terms of fostering an evaluation culture, strategic planning and performance orientation. However, there are cases in which the institutional and regulatory mechanisms are not in place to ensure the success of EU-funded interventions.

A simpler and more transparent budget

Sound, simple and cost-effective management and control rules are key to ensure that the EU budget and programmes deliver the expected outcomes. The public consultations on the budget review and on the revision of the Financial Regulation highlighted that, in many instances, rules governing the spending programmes or setting control requirements are excessively complicated and tend to discourage participation or delay implementation.

The complexity of programme structures and the multiplication of programmes also hamper the impact of EU spending and create administrative burden for applicants. There are too many separate programmes and instruments serving similar or complementary objectives, to which different management rules apply.

Fragmentation affects interventions that cut across policy areas, as it is the case for research and innovation. In the current MFF, financial support for R&I projects is spread across three different sources of funding: the 7th Framework Programme, the innovation part of the Competitiveness and Innovation programme and the European Institute of Technology, each with different management and eligibility rules. In the area of cohesion and structural policies, a separate set of strategic guidelines exists for structural funds (ERDF, Cohesion Fund, ESF) and for the European Agricultural Fund for Rural Development and the European Fisheries Fund.

Fragmentation also exists within individual policy areas. In the area of justice, citizenship and human rights, for instance, five separate programmes exist, while in maritime and fisheries, education, life long learning and culture or migration and asylum, several financial programmes are operational in the current MFF.

Another area characterised by high complexity and fragmentation is that of innovative financing. For more than ten years, the EU budget has been using financial instruments such as guarantees and equity investment for SMEs. Several independent and specific instruments have been developed in the financial framework 2007-2013 (Risk-Sharing Finance Facility (RSFF), the Loan Guarantee Instrument for TEN-T projects (LGTT), instruments in the area of structural funds, etc.). However, the lack of a common approach to the use of equity and debt instruments complicate relations with financing partners, in particular the European Investment Bank and other international financial institutions and reduce the leverage the EU has when dealing with the banks. It also negatively affects the outside visibility of EU intervention and its transparency vis-à-vis markets.

The fragmentation of financial instruments is often compounded by the segmentation of management and control rules that are highly programme-specific. Different sets of rules, exceptions or specificities turn these rules into significant obstacles to effective access and correct implementation. In the area of regional policy, for instance, implementation and control rules differ in a number of aspects from fund to fund. Within the framework of research and innovation funding, there are at least 30 funding schemes that apply, with rules on eligibility, accounting, reporting and auditing that vary in a number of aspects. In the case of grants, in particular for medium-sized and small amounts, administrative rules are still too complex and burdensome. Administrative burden is also generated by the segmentation of IT tools for the submission of documents and by the duplication of procedures for the application by the same beneficiary/participant to different types of financing schemes.

Control rules also present some problematic aspects, although they have contributed to a steady improvement in sound financial management. As noted by the budget review, "controls have also had a tendency to assess programmes on the basis of inputs rather than performance, reducing the incentives for effective results". The current eligibility rules based on the reimbursement of actual costs constitute a major source of complexity and errors. Alternative methodologies, such as lump sums, flat rates or scales of unit costs are insufficiently used. The current Commission proposal on the revision of the Financial Regulation could open new opportunities for setting clear, flexible rules as far as possible harmonised across the programmes. In addition, The Court of Auditors has recognised that reimbursing claims made by beneficiaries based on actual costs they have incurred implies a relatively high level of risk and that this risk should be specifically taken into account when designing or revising programmes. This has not been the case in the past and the legislator has not taken this factor into account in adopting legislation. An approach informed by greater cost-benefit considerations would reduce risks and lighten the burden on small beneficiaries.

2.2. Available policy choices

2.2.1. Structure of the multiannual financial framework

The current multiannual financial framework has 6 headings (1 to 6), two of which are broken down into sub-headings (1A, 1B, 3A and 3B), and 1 sub-ceiling under heading 2 (1^{st} pillar CAP).

Article 312(3) TFEU states that the number of categories of expenditure in the multiannual financial framework shall be limited and shall correspond to the Union's major sectors of activity. Any proposal to change the current structure in a future MFF needs to be evaluated against this TFEU requirement.

The titles of the headings offer the possibility to convey political messages concerning (changes to) the core areas of spending policy in the EU. This political opportunity must be weighed against the fact that any change to the structure of the headings entails a political and administrative cost.

There is a clear link between the structure of the budget and the degree of flexibility. A limited number of headings allows for the pooling of unallocated margins and greater possibilities to re-allocate funds between areas of spending in order to react quickly to unforeseen circumstances. The number of headings represents, however, just one element in determining the overall level of flexibility. With additional instruments, it is possible to ensure sufficient flexibility with a larger number of headings.

A *sub-heading* has exactly the same legal and budgetary implications as a normal heading. Its only function is to convey a political message (e.g. that Heading 1B "cohesion" belongs with Heading 1A "competitiveness for growth and employment", and that both are part of the 'Lisbon' expenditure). In budgetary terms, the current MFF therefore has 8 headings.

A *sub-ceiling* (e.g. for the 1^{st} pillar of CAP) contains the included expenditure but leaves the margin under the entire heading pooled together so that use of the margin under the sub-ceiling for other programmes within the heading (but outside the sub-ceiling) does not require a revision of the MFF.

It may be necessary to continue to ring-fence cohesion expenditure in a separate sub-heading since Member States may continue to require a predictable basis for their multiannual programmes.

There is also a continued need for a sub-ceiling for the first pillar of the CAP since the financial discipline mechanism, which is linked to the sub-ceiling, is the most effective tool for containing agriculture expenditure.

Three main options for the structure of the next MFF can be distinguished:

- No change: the current headings remain unchanged;
- Europe 2020 structure: restructuring of the current headings;
- Europe 2020 titles: renaming the current headings with limited restructuring.

2.2.2. Options

2.2.2.1. 'No change' option: Keep current multiannual financial framework

Pros	Cons
• Structure is known- no political investment needed to explain - no additional administrative costs for switch to new structure. • Conveys political messages (of Lisbon strategy)	• Limited flexibility- somewhat restrictive • Weak link to Europe 2020 strategy

H1A	Competitiveness for growth and employment
H1B	Cohesion for growth and employment
H2 (including a subceiling for 1st pillar CAP)	Preservation and management of natural resources
H3A	Freedom, Security and justice
H3B	Citizenship
H4	EU as a global player
H5	Administration

2.2.2.2. Europe 2020 structure

This option would adjust the structure of the MFF and the components making up the various headings to reflect the Europe 2020 headlines. This requires the splitting of the current large blocks of expenditure into components and their redistribution across a number of headings. For example, agriculture spending could be split under several headings reflecting the political objectives covered by the headings. Although this approach would reflect a more consistent allocation of the budget to specific priorities, it would greatly complicate the picture.

Pros	Cons
• An in-depth alignment of the structure with the Europe 2020 strategy	• Not always straightforward to allocate specific programmes to a single Europe 2020 objective • Unfamiliarity for stakeholders – learning process needed

H1	Smart growth
H2	Sustainable growth
H3	Inclusive growth
H4	Citizenship
H5	Global Europe
H6	Administration

(including in one of the headings a sub-ceiling for 1st pillar CAP)

2.2.2.3. Europe 2020 titles

This option would rename the titles of the headings of the MFF to reflect the Europe 2020 headlines but not change (or only marginally) the underlying structure.

Pros	Cons
• Europe 2020 strategy is given visibility • Limited political and administrative cost (no need to rework underlying structure) • Stakeholders' understanding easy to assure	• Only a marginal change is perceived.

H1 (including a subheading for cohesion)	Smart and inclusive growth: Competitiveness and cohesion for growth and jobs *(education, research, innovation, transport, energy, ICT, cohesion, employment)*
H2 (including a subceiling for 1st pillar CAP)	Sustainable growth: Natural resources *(CAP including rural development, environment)*
H3	Security and citizenship *(justice, home, immigration, culture, media, etc.)*
H4	Global Europe
H5	Administration

The report drawn up by the European Parliament's SURE committee proposed a variant - to establish under a Europe 2020 heading four subheadings involving linked policies that would also favour better coordination and implementation synergies between them, as follows:

1. Europe 2020	
1a. Knowledge for growth	(Research, innovation, education, internal market)
1b. Cohesion for growth and employment	(Cohesion and social policies)
1c. Management of natural resources and sustainable development	(Agriculture, rural development, fisheries, environment, climate change, energy, transport)
1d. Citizenship, freedom, justice and security	(Culture, youth, communication, fundamental rights and freedom, security, justice)
2. Global Europe	(External action, neighbourhood, development)
3. Administration	

2.2.3. Duration of the multiannual financial framework

Art. 312(1) of the Treaty on the Functioning of the European Union (TFEU) sets the minimum duration of the multiannual financial framework (MFF) at 5 years.

The following options could be considered.

2.2.3.1. A " 5 + " MFF?

Under this option, the ceilings and rules governing the MFF are set for a period of 5 years with no mid-term review. However, provisions would be made allowing for the continuation of certain multiannual programmes beyond the 5-year period fixed in the MFF Regulation.

This is the option that has been traditionally favoured by the European Parliament, with a view to aligning the duration of the MFF with the terms of the political mandates of the European Parliament and the Commission, which the Treaty on European Union (TEU) sets at 5 years.

While the European Parliament has so far consistently advocated a duration of 5 years[37], the report of the SURE Committee "*takes the view that for the next MFF a 7-year cycle, set until 2020, should be the preferred option as it could provide for more stability by ensuring the continuity of the programmes for a longer period, and also make a clear link with the Europe 2020 strategy*"[38].

When presenting its proposals for the 2007-2013 multiannual financial framework in 2004, the Commission argued that it should be followed by 5-year MFFs[39]:

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[37] See: 2005 Resolution on Policy Challenges and Budgetary Means of the Enlarged Union 2007-2013; Decision on the conclusion of an IIA on budgetary discipline and sound financial management of 17 May 2006; Resolutions adopted in 2008 and 2009 based on reports by MEPs Guy-Quint, Böge and Dehaene.

[38] A7-0193/2011, paragraph 158.

[39] COM (2004) 101 final/2 of 26.2.2004, p. 35.

The period covered by the new financial framework must be long enough to provide a coherent coverage, within reasonable budget limits, for the complete phasing in of reformed Community policies and for the successful integration of twelve new Member States.

The Commission as well as the EP have a five year term. Future financial frameworks should become more consistent with this institutional rhythm. Each Commission would participate in the finalization of a financial framework part of which it then has to implement. Based on this experience, it would also be responsible for laying the ground for the following financial framework. The Parliament would authorise and follow up implementation of annual budgets under the financial framework it agreed upon.

However, the Commission proposes transitionally a seven-year period extending from 2007 to 2013 before moving to a normal five-year cycle. This would be necessary since the evolution of market-related expenditure and direct payments in agriculture (EU-25) has been set until 2013 and the current implementation of structural funds as well as some adjustments on the side of all institutions will take time to implement.

While the MFF would be agreed for a period of 5 years (2014-2018), the accompanying IIA could set amounts for a longer (e.g. 7 year) period for specific policies or programmes. Except for the financing, the validity of the legislative texts concerned could even extend beyond (e.g. 10 years) so as to provide for a greater degree of continuity.

2.2.3.2. Seven years, or "5 + 2"?

Ceilings and MFF rules are set for 7 years. There are a number of sub-options in relation to a possible mid-term review:

– No mid-term review;

– A mid-term review based on a Commission report to be submitted by the end of the third year of the framework (as suggested in the 2006 Interinstitutional Agreement, Declarations No 1 and 3);

– A mid-term review after 5 years, as suggested in the budget review ("5+2"), i.e. "*a seven year period with a major review after five years, to allow for a final reallocation targeted specifically on Europe 2020*".

Continuation of the current 7-year framework appears to be the predominant view within the Council. Unlike the European Parliament and Commission, the Council does not follow a 5-year cycle.

The report of the SURE Committee takes the view that a "mid-term review should become a legally binding obligation enshrined in the MFF regulation" with the guarantee that ceilings, if considered inadequate, can be revised for the remainder of the period[40].

However, evidence from the current MFF suggests that the need for revision can arise at any time. The possibility to revise the MFF, in principle, at any moment does not require *per se* a mid-term review if appropriate provisions for revisions and flexibility are in place.

2.2.3.3. Ten years: "5 + 5", or "7 + 3"?

The budget review suggests that ceilings and core legal instruments could be determined for a period of ten years, but the distribution within (and/or between) headings left open for reassessment at mid-term. A mid-term review of the MFF could be facilitated through the retention of "*substantial reserves and margins in all parts of the budget*". The opinion of the Committee of the Regions on the EU

[40] Paragraph 143.

budget review suggests that the "review reserve" to be allocated could amount to 5 % of the total EU budget for the last 5 years, to be allocated within or between headings[41].

Should geographical eligibility for cohesion not be subject to updating at mid-term, aid intensities would be decided upon in 2012 and up to 2023 on the basis of 2007-2009 figures for the Structural Funds and 2008-2010 figures for the Cohesion Fund. Fixing aid intensities for such a long period could lead to economic distortions and be perceived as unfair by those who "pay the bill" for the continuation of high aid intensities in regions that have in practice 'phased out'.

A mid-term review under a 10-year MFF should thus in any event cover the review of eligibility for both the Cohesion and the Structural Funds[42]. Under both the "5 + 5" (2014-2018 and 2019-2023) and the "7 + 3" (2014-2020 and 2021-2023) options, the review would be decided upon by March 2019 on the basis of 2014-2016 GDP per capita figures for the Structural Funds and 2015-2017 GNI figures for the Cohesion Fund.

As to the timing of the mid-term review, "7 + 3" could be a second option for consideration (2014-2020 + 2021-2023). The review would be agreed upon under the 2014-2019 EP and Commission mandates, e.g. by March 2019 at the latest. "7 + 3" would offer the following advantages compared with "5 + 5":

– The MFF would remain aligned on the 2020 agenda while at the same time offering some alignment with the term of the institutions' mandates. Although the 2014-2019 European Parliament and Commission would have a more limited role in the MFF, their primary task would be to take stock of the implementation of the Europe 2020 strategy and pave the way for a new political agenda and the budgetary means to underpin it.

– It would respond to the expectations of stakeholders accustomed to 7-year frameworks: for cohesion, notably, the review of geographical eligibility would take place only after that period.

2.2.3.4. Aligning the MFF with the term of the institutions' mandates

The life-cycle of a financial framework will always entail the involvement of at least three successive European Parliaments and Commission colleges. Moreover, the institutions will always be accountable for the EU budget, irrespective of whether they have inherited the parameters of an MFF from their predecessors.

The question is how best to phase the various processes of preparation, implementation and winding up of the MFF with the successive terms of the institutions' mandates. In particular, should the difficult and sensitive process of preparing and negotiating the MFF and the related legislative acts be split between successive European Parliaments and Commissions?

A 5-year MFF starting in 2014 would avoid such disruption. It would also allow the next Commission and European Parliament to take stock of the experience with the preceding MFF:

– The current European Parliament (mid-2009 - mid-2014) and Commission (February 2010-November 2014) are responsible for monitoring the effective implementation of slightly more than the second half of the current MFF. Within their respective powers, they would prepare and agree with the Council and the Member States the full legislative package and launching of the multi-annual programmes for the 2014-2018 MFF. The next European Parliament (May/July 2014 to May/July 2019) and Commission (November 2014 to October 2019) would oversee the implementation of the 2014-2018 MFF and, on that basis, prepare the 2019-2023 MFF with the Commission's proposal due by June 2016.

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[41] CdR 318/2010 of 31.03.2011 (Rapporteurs: Ms Mercedes Bresso and Mr Valcárcel Siso).

[42] The review of the eligibility for the Cohesion Fund at mid-term of the seven years MFF is an *acquis* under the past and current regulatory framework.

In practice, however, it would also mean that each Commission and European Parliament would have to operate within a framework decided by its predecessors.

– A "5 + 5" or "7 + 3" MFF could also be fitted with a 5-year cycle starting in 2014.

A 7-year framework (2014-2020) may not fit well with the terms of the mandates if the current preparation cycles are maintained. The next European Parliament (until May 2019) and Commission (until November 2019) would have little time to complete negotiations and their successors would have to take up the process *en route* (as happened in 2004). A normal timetable would suggest a proposal in 2018, hence by an outgoing Commission, and an accommodation with an outgoing European Parliament would have to be found.

2.2.4. Own resources

The issue of the financing of the EU budget is another essential policy choice. This subject is taken up in the accompanying staff working paper on the current system of own resources and the proposal for a Decision on own resources, on the basis of Article 311 of the TFEU.

2.3. Ensuring EU added value

2.3.1. Leveraging investment and the use of innovative financial instruments

In the budget review, the Commission made clear its intention to promote the further use of innovative financial instruments in order to enhance the leverage effect of the EU budget. This orientation has been taken forward in reflection on relevant horizontal issues and will be further refined in the individual sectoral proposals that will be presented later in 2011.

The budget review noted that the use of **innovative financial instruments** could provide an important new financing stream for strategic investments. The norm for projects with long-term commercial potential should be that EU funds are used in partnership with the private and banking sectors, particularly via the European Investment Bank (EIB). Financial instruments should be focused on addressing identifiable market failures, taking into account the state of national financial markets, the legal and regulatory environment and the needs of final beneficiaries.

2.3.1.1. Instruments

For more than ten years, the EU budget has been using financial instruments such as guarantees and equity investment for SMEs. Under the 2007-2013 financial framework, a new generation of financial instruments have been put in place in cooperation with the European Investment Bank (EIB), such as the Risk-Sharing Finance Facility (RSFF) under the 7th R&D Framework Programme, or the Loan Guarantee Instrument for TEN-T projects (LGTT). In the area of cohesion policy, financial instruments have been set up to support enterprises, urban development and energy efficiency through revolving funds. These instruments have been developed independently and problems of coherence may have occurred.

A rationalisation of the management of these instruments based on two platforms is envisaged: the **EU Equity Platform** and an **EU Debt Platform**. The platforms will provide common rules for equity and debt instruments, so that there is an integrated vision of the use of financial instruments at EU and national / regional level. They will streamline relations with financing partners, in particular the international financial institutions, and provide leverage to the EU when dealing with the banks. They will provide transparency vis-à-vis the markets on how the EU intervenes in equity and debt instruments, ensuring higher visibility of the EU's intervention.

EU project bonds represent a financial instrument which would be used as a means of securing investment resources for infrastructure projects of key strategic European interest. Appropriations from the EU budget could be used to support projects to the extent required to enhance their credit rating, and thereby attract financing by the EIB, other financial institutions, and private capital market investors. EU project bonds are the subject of an ongoing public consultation. A public conference took place on 11 April 2011 and demonstrated general support for the initiative.

2.3.1.2. Implementation

Financial instruments should be part of EU budget interventions in internal policies pursuing the following objectives:

1. To foster the capacity of the private sector to deliver growth, job creation and/or innovation: support to start-ups, SMEs, mid-caps, knowledge transfer, investment in intellectual property.

2. To build infrastructures with an earmarked revenue stream (user or availability payment schemes) that reinforce EU competitiveness and sustainability: transport, energy and ICT infrastructures.

3. To support mechanisms that mobilise private investments to deliver a public good: knowledge (research and development), energy efficiency, promotion of technologies tackling climate change, social cohesion.

The design of the instruments will be guided by the following principles:

- **Proper governance arrangements**: the debt and equity platforms must be appropriately designed and have appropriate governance structures to ensure that the EU has effective oversight of the financial operations and investments.

- **Financing through different budget lines**: there would not be a single, specific envelope in the budget for financing such instruments; instead, the financial instruments will be financed through different budget lines from the specific policy areas, combined in appropriate cross-flagship instruments providing equity or debt.

- **Established as part of the financial regulation**: one way of ensuring coherence is to embed as far as possible the key principles of the two platforms in the Financial Regulation, which is currently under review in the Council and the European Parliament. This would help to ensure the buy-in of all actors in the set-up of financial instruments to the vision of streamlining and standardisation and would harmonise delivery mechanisms, offering a limited number of options.

- **Use of platforms mandatory**: the use of the platforms would be mandatory for internal policies and apply horizontally to equity and debt instruments across these policy areas. In the case of cohesion policy, the principle of shared management with Member States must be respected and therefore the EU models would be offered as optional best practice models, coupled with strong incentives for Member States to follow the EU level approach. Existing innovative financial instruments should be aligned to the two platforms.

Management by financial institutions: the management and implementation of financial instruments would in general be delegated to the EIB Group, other international financial institutions (IFIs) or public financial institutions where at least one Member State is a shareholder. It could also be delivered through an investment vehicle structure set up under national law and pooling resources from different public and private sector sources. Further cascade delegation to private financial actors would be possible.

2.4. Increasing flexibility within the EU budget

Finding the right balance between budgetary discipline, stability and predictability, on the one hand, and keeping the EU budget sufficiently flexible and responsive to changing circumstances and new challenges, on the other hand, is a key challenge for the multiannual financial framework.

The EU budget already has a wide range of instruments available in its 'flexibility toolbox'. With a view to making the budget more responsive to a rapidly changing world, some of these tools need to be preserved, others improved, and new elements added.

The report of the SURE committee reiterated the view that 'more flexibility within and across headings is an absolute necessity for the functioning capacities of the Union not only to face the new challenges but also to facilitate the decision-making process within the institutions.'[43] It also stressed the importance of ensuring sufficient reserves for each heading, enhancing flexibility below the ceilings, and called for the flexibility threshold of 5% above or below the amounts fixed to be maintained in the next multiannual financial framework.

A distinction can be made between:

– *revisions* which are a tool for major changes in the overall balance of the MFF; they usually require unanimity in the Council and the consent of the European Parliament. The possibility which existed in the past of revision by QMV (within certain limits) is contested under a strict interpretation of the Lisbon Treaty although the Council has accepted a much more constrained "Contingency margin" (see below);

– *flexibility instruments outside the MFF*, which allow for entering additional financial means into the budget if need be "over and above the ceilings": examples include the Flexibility instrument, the European Union Solidarity Fund (EUSF), the Emergency Aid Reserve (EAR), and the European Globalisation Adjustment Fund (EGF);

– *availabilities maintained within the headings and their ceilings*, notably margins and reserves (within the heading or within programmes);

– *flexibility* between subsequent budgetary years: carryovers, frontloading.

There is an obvious link between flexibility and the *duration* of the next MFF. The longer the next MFF, the more elements of flexibility are required to arrive at a more responsive budget for the Union.

2.4.1. What do we need flexibility for?

2.4.1.1. Rapid responses to emergencies:

This is of particular importance for external action, dealing with emergencies such as natural and man-made disasters, sudden migratory influxes, security threats (terrorist attacks), and pandemics affecting human beings or animals.

2.4.1.2. Structural readjustment to accommodate new priorities

More far-reaching adjustments consist of making available additional financial means for dealing with new priorities, as in the case of the European Economic Recovery Programme (EERP) in the area of energy. They require revising the financial framework and/or flexibility instruments of an appropriate scale.

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43 A7-0193/2011, paragraph 142.

2.4.2. Existing provisions and their shortcomings

2.4.2.1. Margins

Headings 1A and 4 have suffered from increasingly low margins and tight expenditure ceilings, which did not allow major unforeseen or new needs to be accommodated. Cost overruns of large-scale infrastructure projects (Galileo and ITER) reduced availabilities for other needs.

2.4.2.2. Flexibility mechanisms

Four flexibility instruments have been established under the 2006 Interinstitutional Agreement (IIA) on budgetary discipline and sound financial management: the Emergency Aid Reserve (€221 million per year in 2004 prices), the European Union Solidarity Fund (€1000 million per year in current prices), the European Globalisation Adjustment Fund (€500 million per year in current prices) and the Flexibility Instrument (€200 million per year in current prices).

Expenditure financed from any of the four flexibility mechanisms mentioned above can be entered into the annual budget on top of the ceilings agreed in the multiannual financial framework. Their mobilisation is "demand-driven" and unpredictable. The Flexibility Instrument and the EAR have been fully exploited over the period 2007-2010 while the EUSF and EGF have been mobilised for less than, respectively, 30% and 10% of available amounts.

2.4.2.3. Revisions of the Multiannual Financial Framework (MFF)

Under the terms of the 2006 IIA, the MFF could be revised by qualified majority vote in Council up to the equivalent of 0.03% of EU GNI. For larger revisions, unanimity is required. Between 2007 and 2010, the IIA had to be amended four times (Galileo, High Food Prices Facility, and twice for the EERP) already, with a fifth revision being proposed for ITER.

Politically, the revisions of the financial framework were only possible under the condition of full "offsetting", i.e. by the lowering of the ceilings for other headings so as to leave the overall amount of budgetary means avaible to the financial framework unchanged. This was only possible because of large availabilities under heading 2. In addition, the Council put increasing emphasis on redeployment.

The Lisbon Treaty has enshrined the MFF in primary Union law. The possibility to adopt revisions of the MFF with a qualifieda majority vote in Council has been questioned due to the provisions of Article 312 of the Treaty on the Functioning of the European Union. In the context of negotiations between institutions on the Article 312 Regulation laying down the 2007-2013 MFF, which are not yet completed, the Council has however agreed to establish a "Contingency Margin" which would allow the mobilisation by QMV of up to 0.03% of the EU GNI outside the ceilings of the MFF if fully compensated, similar to current practice.

2.4.2.4. Other provisions

Point 37 of the IIA defines the circumstances under which the amounts set out in the Draft Budget can depart by more than 5% from the reference amounts laid down in the legislative act, while it leaves to the Commission and to the budgetary authority a certain degree of discretion for deviations within the 5% limit. In practice, the overall financial allocations of the corresponding legislative act have been respected.

2.4.2.5. Flexibility options for the next MFF

2.4.2.6. Amending the Financial Framework

- **Revision of the MFF**: revising the MFF through a unanimous Council decision with the consent of Parliament shall remain the basic instrument to cope with the financial consequences of major unforeseen events.

- **Contingency margin:** reinforce the '0.03 % Contingency Margin' which preserves the flexibility level of the 2006 IIA under the legal framework of the Lisbon Treaty TFEU by removing the requirement of full offsetting. Under the present political circumstances and given the legal issues related to the new provisions of the Lisbon Treaty, having the Contingency Margin agreed by Council has been difficult and a considerable achievement. It reflects the current practice of revisions made since 2007.

- **Transfer between headings**: the MFF Regulation could establish reallocation flexibility for transfers between internal expenditure headings and the external expenditure heading in a given budgetary year. Flexibility would be increased if transfers across headings were possible within specific instruments (e.g. energy, migration), on the condition that the overall envelope of the instrument does not change.

2.4.2.7. Flexibility within the MFF

- **Leave sufficient margins below ceiling**: this can be achieved by setting a fixed minimum percentage (e.g. 5 %) for margins under each heading; alternatively start at a lower level and increase year-by-year over the period set for the MFF.

- **Non-programmed envelopes**: retention of non-programmed envelopes in all relevant parts of the budget. A number of instruments, notably for external action, have already built-in such a dedicated reserve. This allows tailor-made, in-built flexibility mobilised swiftly without having recourse to generic flexibility instruments.

2.4.2.8. Flexibility instruments outside the MFF

- **Significantly increase the EAR or the Flexibility Instrument** and/or allow for carry over for up to three years (n+3) of portions not used in year n and make it also available in situations concerning possible mass influxes of refugees and migrants into the EU.

- **Reduce the size of the EGF** while eliminating the current ad-hoc constraints with respect to the maximum amount to be mobilised. The EGF can currently be mobilised up to €500 million per year subject to additional constraints. The mobilisation over the period 2007-2010 has remained far below the limit.

2.4.2.9. Flexibility over time

- **Automatic transfer of unallocated margins to the following budgetary year**: unused margins from the budgetary year n-1 could be automatically transferred to year n.

- **Front- or back- loading of expenditure**: the MFF Regulation and IIA could establish flexibility to front- or backload spending within a heading's multi-annual envelope, within limits set in the Regulation, without needing to revise the MFF and thus with the same procedure as used for the 'Contingency Margin'.

- **Increase flexibility of amounts in legislative acts:** increase flexibility beyond 5 % of the amounts fixed in the legislative acts for multiannual programmes.

Transfer unused commitment / payment appropriations from one annual budget to the following: this would directly call into question the 'annuality principle' of voted budgetary allocations, and would end the reimbursement of annual surpluses to the Member States. However, the possibility of carryovers has already loosened the annuality principle, and some 'modern' national budgets have a multiannual approach, in particular to reduce end-of-the-year pressure on spending. Another issue is whether to keep the unused funds within the same heading or to transfer them to a general "pool".

2.5. Simplification

The public consultation on the budget review and on the revision of the Financial Regulation have conveyed a clear message that implementation procedures and control requirements of EU programmes are too complicated and can discourage participation and/or delay implementation. Any meaningful simplification of the use of EU funding will require the combined efforts of all the institutions in reviewing both the general rules in the Financial Regulation and the sector-specific rules under preparation. Future legislation must be designed to provide for sound and cost-effective management and controls, while supporting the attainment of specific policy objectives and the achievement of expected results.

A range of possibilities are being considered in the design of the next multiannual financial framework and the sectoral instruments and programmes:

- Reduction in the number of individual programmes
- Putting different instruments under a common strategic framework
- Streamlining innovative financial instruments

Beyond the structure of the instruments, a number of steps can be taken to simplify their implementation:

- Ensuring a high level of coherence between the overall framework provided by the Financial Regulation and the specific management and control provisions detailed in the relevant sectoral instruments and programmes.
- Shifting towards larger scale interventions.
- Lighter procedures for grants under a certain threshold.
- More extensive recourse to the use of executive agencies.
- The use of common electronic portals per type of intervention.
- The use of lumps sums, flat rates and scales of unit costs to reduce complexity and potential errors.
- Taking more account of the risk environment and making controls more cost effective.

2.6. Monitoring and evaluation arrangements

Implementing the financial instruments on the basis of clear objectives and robust indicators

Undertaken systematically and in good time, evaluations should play a pivotal role in maximising the added value of EU spending and the effectiveness of EU policy and regulatory interventions[44].

In light of this, the monitoring and evaluation arrangements need to be strengthened better to identify and track effectiveness and efficiency and to help concentrate efforts on the achievement of objectives. This requires a clear vision of what the financial instruments, policy or regulatory measures aim to achieve, a clear description of the intervention logic and how the results and impacts can be assessed.

First, clear objectives need to be set to allow progress against these objectives to be subsequently monitored and evaluated.

Second, a set of robust key performance indicators need to be defined and commonly applied by the Commission, Member States, regions and other involved actors[45]. This will enable comparisons and aggregations to be made across the EU. The indicators should focus not only on outputs, but more importantly on results and impacts, which are the ultimate expressions of performance. Progress on these key performance indicators should be regularly monitored, whenever relevant on an annual basis, against a pre-defined baseline.

Indicator-based monitoring is certainly important to regularly assess progress. However, it does not give a full picture of what has been achieved in terms of effects. It does not explain how the financial instruments, policy or regulatory measures have contributed to the observed change in society and how they thereby achieved their objectives. To better understand the causal links between various policy instruments and the actual results and impacts, an in-depth analysis of the instruments' effectiveness and efficiency is needed. This is the role of evaluation. The evaluations should also capture the instruments' EU added value and, whenever relevant, their contribution to progress towards EU strategic objectives (Europe 2020).

Smart timing of evaluation for better integration in the policy cycle

The timing of evaluation is crucial to ensure that the results can be effectively used for decision-making purposes. Indeed, evaluation results need to be available in time for any decision on the renewal, modification or suspension of an intervention.[46] Experience shows that if an evaluation is carried out too early, the results may not have materialised and can therefore not yet be observed and analysed. Similarly, if an evaluation is carried out too late, the results cannot be taken into account in decisions on the successor instruments or policy framework. The evaluation requirements in the financial instruments' legal bases therefore need to be closely aligned with the programming cycle.

Evaluations can obviously be carried out for different purposes and at different points in time. However, one evaluation exercise is sufficient as long as it also captures the long-term effects of the previous programming period and the results can be taken into account for decisions on future instruments.

Moreover, the legal base should clearly set out the arrangements for monitoring, reporting and evaluation, indicating the respective responsibilities of all levels of government involved.[47]

In order to ensure their usefulness for decision-making purposes, evaluations should also be conclusive. In other words, they should clearly establish whether, or to which extent, the intended benefits have been delivered and assess the reasons for possible failures and the costs entailed.[48]

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44 Commission Communication on the EU Budget Review - COM(2010) 700 final

45 Other involved actors may be EU delegations as regards the external instruments and partner countries in the case of budget support.

46 Article 21 of the Implementing Rules of the Financial Regulation, Commission Regulation 4782/2007

47 Article 21 of the Implementing Rules of the Financial Regulation, Commission Regulation 4782/2007

48 Commission Communication on Smart Regulation – COM(2010) 543 final

Links to new requirements

Evaluation activities should also facilitate the carrying out of new responsibilities given to the Commission by the Treaty on the Functioning of the European Union. In particular, evaluations should feed into the preparation of the evaluation report on the Union's finances based on the results achieved, which the Commission is required to submit to the European Parliament and to the Council under Article 318 of the TFEU.

3. POLICY AREAS

The following chapters present an overview of the options that are under consideration in the main policy areas. This work will be developed in the impact assessments for the relevant legislative proposals for programmes and instruments.

4. RESEARCH AND INNOVATION

Research and innovation are central components of the Europe 2020 Strategy. Europe's future growth and competitiveness depends on its ability to innovate and maintain a technological lead over its competitors. Scientific advances and new technologies are also needed to address pressing societal challenges, such as climate change, ageing population or resource scarcity. However, Europe is not catching up with the US and Japan in terms of innovation performance and its lead over China, Brazil and India is rapidly eroding. To reverse the current trend towards stagnant or even declining R&D investments, the Europe 2020 Strategy sets out a target of increasing spending in R&D to 3% of the GDP by 2020. The target is underpinned by the policy strategy sets out in the Innovation Union Flagship initiative, which aims inter alia at completing the European Research Area by 2014. Research and innovation are also key to achieving all the other headline targets and underpin virtually all the flagship initiatives.

At the same time, the European dimension has become more important for the research and innovation sector itself. High level research is increasingly complex and interdisciplinary, involves greater costs and requires "critical mass". While hardly any company, research laboratory or national system can respond to these challenges on its own, networking, cooperation among all levels and mobility of researchers and ideas are key assets for developing modern research in a global environment. In research and innovation, evidence shows that EU spending brings high value added.

Current system of funding

The main instrument of EU R&D policy has been a multi-annual framework programme. However, R&D and innovation related actions are also funded under other items in the budget. Currently, funding for research and innovation is spread over several programmes: the FP7, the Competitiveness and Innovation Programme (CIP), and the European Institute for Innovation and Technology. Cohesion policy funds also support some research and innovation actions.

In the 2007-2013 MFF, total EU funding for research and innovation (excluding cohesion policy) amounts to €59.3 billion.

The largest share of funding concerns the Seventh Framework Programme (FP7 EU + FP7 Euratom), with €55.4 billion. FP7 EU has a budget of €50 billion broken down into five "specific programmes": *Cooperation* (€32 billion), *Ideas* (€7.4 billion), *People* (€4.7 billion), *Capacities* (€4.0 billion) and *Direct Actions* of the Joint Research Centre (€1.7 billion). FP7 Euratom has a budget of €5.3 billion, of which €4.5 billion is for *Indirect Actions* and €0.7 billion for *Direct Actions* through the JRC.

Outside FP7, innovation-related actions are funded through the Competitiveness and Innovation Framework Programme (CIP), which is endowed with €3.6 billion distributed across three programmes: the CIP Entrepreneurship and Innovation Programme has a budget of €2.2 billion, the ICT Policy Support Programme and the Intelligent Energy Europe Programme have €0.7 billion each.

In addition, the European Institute for Innovation and Technology (EIT) has a budget of €0.3 billion.

R&D funding is currently following a linear upward progression from €5.48 billion (in 2007, equivalent to 4.3% of the annual budget) to €10.8 billion in 2013 (approx 7.41% of the budget). Adding together all research and innovation related expenditure from FP7, CIP and the EIT, in 2013 the total EU expenditure for research innovation will amount to €11 billion or 7.57% of the EU budget (a tripling compared to 1994).

Lessons learned from implementation of the current system

Successive evaluations[49] identified both elements of strength and weakness in EU action in support of research and innovation. While the elements of strength concern the global relevance, the quality and the impact/value of a policy at European level, the elements of weakness refer mainly to the modality of its implementation.

Evaluation studies confirm that the framework programme has had a significant impact both in terms of scale effects (helping to build critical mass for tackling EU-wide research issues) and leverage effects (improving quality of research as well as input, output and behavioural additionality).

Overall, evaluation findings support the rationale for a EU-level funding programme, demonstrating that no comparable programmes – promoting, for instance, the same level of competition for research funding - exist at national level, and confirm its overall high quality. FP7 actions included first-rate projects, involving top-quality researchers and well-managed consortia. Procedures for evaluation and selection of projects are regarded as very sound or at best practice level.

In the absence of EU funding, many projects supported by the FP7 would not be carried out, would be postponed, or would be scaled down (financially, or in scope and ambition, or in the number of partners). The level of additionality achieved is higher than that attained at national and regional level. Furthermore, FP projects produce large numbers of highly-cited (co)publications. They enhance the development and use of new tools and techniques; the design and testing of models and simulations; the production of prototypes, demonstrators, and pilots; and other forms of technological development. FP-funded projects also generate large numbers of patents.

Some interim evaluations have highlighted the creation and strengthening of long-term R&D alliances and their contribution to the integration of European research as one of the achievements, which provides a strong basis for transfer of technology and knowledge to national communities, thereby increasing competitiveness in Europe and its regions.

Regarding training and mobility, the ex-post impact assessment of the *Marie Curie Actions* showed a significant impact and positive contribution to researcher training, particularly early stage researchers. Many researchers would not have come back to Europe without Marie Curie grants (65% of reintegration grants awarded). 90% of researchers indicated that the participation in MCAs allowed them to make significant new research contacts, of which 70% were long-lasting collaborations.

There is strong evidence of the *macro-economic impact* of the FP. The multiplying effect of the RSFF, for instance, is expected to be 12 between the EU contribution and the volume of loans, and over 30 between the EU contribution and the additional leveraged investment in RDI. Different models have demonstrated significant positive effects on total factor productivity, and on growth, exports and employment. For large companies, the primary reason for participating in the FP is to establish technological and business partnerships, develop knowledge that informs later work, and use the FP to influence standards and explore markets. Even though the commercialisation of results is rarely the main objective of FP participation, there is evidence of significant impacts on innovation in terms of product and process development.

At the policy level, there is varied evidence to show the impact on standards and international agreements - such as in the environment, energy, transport and ICT. There is also common agreement on the policy impact and progress made with aligning research and policy agendas. Several new Member States have adopted the FP thematic priorities as a basis for their own research policies or have, inspired by the FP, taken a more networked, strategic, longer-term, and applied approach to

[49] Over the course of the last five years more than 100 evaluation studies have been completed; there have been two major FP level evaluations (FP6 ex post evaluation and FP7 Interim evaluation), and for FP7, annual monitoring reports provide comprehensive information on programme implementation using key indicators.

research funding. ERA-NETs and European Technology Platforms have proven to be useful focusing devices that help stakeholders identify and explain their R&D needs jointly, easing the process of developing mutually supportive policies at EU and Member State levels. Joint Technology Initiatives also focus and align key actors in their respective areas, serving as a support to develop coherent sectoral strategies.

Ex-post FP6 and interim FP7 evaluations of the Joint Research Centre’s direct actions in the framework programmes give broad support to its role as a Commission service to make science more visible in the work of the policy Directorates General. A running impact analysis confirms the strong relation of the JRC’s work with EU policies and a direct impact concentrated in the Commission. The analysis further proves that over a longer period the JRC generated a wide range of technical, economic and intangible benefits with frequent cases of high and positive return on investment.

Regarding past impacts, the interim evaluation of the EIP and the interim evaluation of the CIP have shown that the objectives are still relevant and comply with the strategic aims of key EU policies[50]. Against a budget which is limited in relation to the programmes' objectives, results achieved appear remarkable, in particular in the area of projects targeting SMEs.

For the innovative EIP financial instruments, the evaluation of the current equity instrument has shown that the 12 years of EU presence in the venture capital market has had a stabilising effect and has kept the market going, even in difficult times. It has potential to be geared up to deliver growth. Since 2007, it has acted as a cornerstone investor in 17 venture capital funds, leveraging €1.3billion of total investment in growth-oriented SMEs. The investments are long-term, favouring solid growth over periods of up to 10 years. Over 98% of the first generation of EU venture capital has been paid back. There are global winners among CIP beneficiaries: Skype (Voice over IP telephony); Vertaris (paper recycling); Solaire Direct (photovoltaic structures).

Regarding the European Institute of Technology, as it was only recently created, it is too early to have evaluation results.

Evaluations also highlighted a number of weaknesses. Almost all evaluation studies have pointed to a high administrative burden and the complexity of procedures. Implementation difficulties have limited, sometimes seriously, the overall performance. Heavy and complex financial and contractual procedures are associated with a declining industry participation rate in programmes (although there are differences between sectors) and problems with involving high tech SMEs. Low success rates are cited as another dysfunctional aspect, although the causes are as much due to an imbalance between supply and demand as the procedures themselves. The FP7 Interim evaluation also highlighted the need carefully to analyse the great number of existing instruments before launching new initiatives. Exploitation of results could also be strengthened through a more pro-active approach to valorisation and dissemination.

Many evaluations have pointed to the inevitable complexity of the concept of European Added Value, and the need to further strengthen its definition. The difficulty in finding a balance between top-down and bottom-up orientation for research funding has also been cited.

Stakeholders' views

In addition to a significant number of thematic and targeted consultations, the Commission launched a public consultation on the future of EU research and innovation funding through a Green Paper entitled 'From Challenges to Opportunities: Towards a Common Strategic Framework for EU research and innovation funding'[51]. Through this consultation, stakeholders were given the opportunity to

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[50] Further to these closed evaluation, the final evaluations of its three programmes are ongoing. The final evaluation of the CIP will be performed by end-2011.

[51] (COM(2011) 48) on 9 February 2011.

comment on key issues and questions to be addressed in further developing the concept of the Common Strategic Framework (CSF)[52]. Complementary consultations have been organised or are still ongoing on particular aspects of the Common Strategic Framework[53].

The public consultation was met with an overwhelming response. 775 position papers were received and more than 1300 responses to the online questionnaire.

Contributions were received from a wide range of stakeholders, the highest numbers coming from the research and higher education sectors, followed by the business sector and public administrations.

The following key messages emerged:

– The Common Strategic Framework should bring research and innovation closer together, in order to enhance the impact of EU funding and bring new ideas to the market in a more efficient manner;

– Simplification is considered to be a key priority for the Common Strategic Framework. A careful balance should be reached between the development of new approaches and the valued stability of rules;

– Excellence should continue to be the key criterion for distributing EU research and innovation funding provided through the Common Strategic Framework. The Structural Funds should be used to unlock the full research potential of Europe;

– Respondents strongly support an approach which places EU funding for research and innovation close to societal challenges and therefore to the EU's ambitious policy objectives in areas such as climate change, energy security and efficiency, demographic ageing or resource efficiency;

– There are strong calls to maintain continuity as regards the elements of the current programmes which are considered to be the most successful, notably the European Research Council and Marie Curie actions, along with recurring messages on keeping collaborative research (centred on themes/challenges) as the core element of the future funding programme;

– There is a recurring call for funding opportunities to be less prescriptive and more open, with sufficient scope for smaller projects and consortia, as these allow for more innovation. Project implementation should also be made more flexible;

– In terms of creating more innovation, the main message is that the EU should support all stages in the innovation chain, with the appropriate instruments that are fit for purpose. In this context, there is frequent mentioning of the need to include more support for closer to the market activities (such as demonstration, piloting and market replication) and to improve the framework for public-private partnerships;

– There is a shared view that all SMEs with innovation requirements should be able to benefit from EU research and innovation funding;

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[52] A dedicated consultation website and an interactive blog were set up at: http://ec.europa.eu/research/csfri. The deadline for submitting responses was 20 May 2011. A conference was organised on 10 June 2011 in Brussels to present and discuss the outcome of the consultation..

[53] See http://ec.europa.eu/cip/public_consultation/index_en.htm
and http://ec.europa.eu/dgs/education_culture/consult/index_en.html

– There is a widespread view that the CSF will need both curiosity-driven and agenda-driven activities, working in tandem. Many respondents point out that agendas should focus on main goals and principles. Also in the context of innovation, there is strong support for more bottom-up approaches;

A summary of the consultation outcome is available at the consultation website (http://ec.europa.eu/research/csfri). Furthermore, specific consultations on each of the challenges and objectives to be addressed through the Common Strategic Framework are currently being organised through a series of dedicated workshops with key experts and Member State representatives.

Challenges ahead

The challenges affect both the current EU research and innovation system (fragmentation of research funding and execution, insufficient industry-science collaboration and insufficient valorisation of research results into new processes and products on the market) and its policy instruments themselves (lack of whole-chain approach to research and innovation, complexity of instruments, over-bureaucratic implementation of rules and procedures, lack of transparency).

Furthermore, the Council, in its November 2010 conclusions on the Innovation Union[54], called for future EU funding programmes to focus more on Europe 2020 priorities, address societal challenges and key technologies, facilitate collaborative and industry-driven research, streamline the instruments, radically simplify access, reduce time to market and further strengthen excellence.

The general objective of the future framework for R&D and innovation should be to foster greater investments in R&D and innovation and to increase Europe's ability to compete on a global scale and attract the most skilled researchers, with a view to contributing to a smart, sustainable and inclusive growth, in line with the Europe 2020 Strategy.

In this context, a key challenge is to reduce the fragmentation of the EU R&I system and increase its effectiveness.

– The first specific objective is to strengthen Europe's science base so as to reinforce the foundations of future innovation

– The second specific objective is to help research and innovation respond more effectively to key societal challenges.

– The third specific objective is to harness research and innovation in order to enable the European Union to maintain or acquire a technological lead over its competitors, and to bring good ideas to market faster.

Policy choices

The EU Budget Review[55] put forward some general key principles that are of particular importance for the area of research and innovation - focussing on instruments with proven European added value, becoming more results-driven and leveraging other public and private sources of funding. More specifically, the Budget Review identified research and innovation spending as a key priority and called for future EU research and innovation instruments to work together in a common strategic framework (in line with the European Court of Auditors' Special Report 9/2007 concerning the evaluation of the EU Research and Technological Development (RTD) framework programmes).

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[54] See Council document 16911/10.
[55] COM (2010) 700.

Against his background, a range of options has been examined to reform the EU research and innovation funding framework:

1. Business-as-usual: maintaining the current plurality of programmes for R&D and innovation

In this scenario, the 7th Framework Programme (FP7), the Competitiveness and Innovation Framework Programme (CIP), and the European Institute of Technology and Innovation (EIT) would be re-proposed as separate instruments, and in their current formats, under the next multiannual financial framework.

The next framework programme would consist of a "Framework Programme of the European Community for Research, Technological development and Demonstration Activities" composed of 5 specific programmes ("Cooperation" ,"Ideas", "People", "Capacities" and "Non-nuclear actions of the Joint Research Centre") and a "Framework Programme of the European Atomic Energy Community (Euratom) for Nuclear Research and Training Activities" consisting of 2 specific programmes (one on fusion energy research, and nuclear fission and radiation protection, and one on the activities of the Joint Research Centre in the field of nuclear energy). Likewise, as is currently the case for the CIP, a future CIP would continue to have 3 specific programmes: the "Entrepreneurship and Innovation Programme", the "Information and Communications Technologies (ICT) Policy Support Programme" and the "Intelligent Energy-Europe Programme".

2. Establishing a Common Strategic Framework for Research and Innovation (CSF)

This option implies that **the three main existing sources of funding for research and innovation -** the 7th Framework Programme (FP7), the Competitiveness and Innovation Framework Programme (CIP) and the European Institute for Innovation and Technology (EIT) – would be brought together within a single unitary framework: the **Common Strategic Framework for Research and Innovation (CSF)**.The CSF would set out the strategic policy objectives for all research and innovation actions and provide the context for a major simplification and standardisation of funding schemes and implementing modalities. In this way, the current separation between research and innovation activities would be overcome. The selection of actions and instruments would be driven by policy objectives and not by instruments. The CSF would be based on multiple legal bases and structured around main blocks / programmes selected in line with the Europe 2020 priorities: 1) Excellence in the science base; 2) Tackling societal challenges; 3) Creating industrial leadership and competitive frameworks. In line with the concept of a CSF, implementing modalities would be standardised and simplified. The simplification would concern both funding schemes and administrative rules for participation and dissemination of results. The new single set of simplified rules would apply across the three blocks of the CSF, while allowing for flexibility in clearly justified cases. The CSF option would also include an expanded use of externalisation of the implementation of research and innovation actions and a greater reliance on innovative financial instruments.

The CSF option is the one devised to promote the Europe 2020 agenda and the flagships on Innovation Union, Digital Agenda, Industrial Policy, Resource-efficient Europe, Agenda for New Skills for New Jobs and Youth on the Move. It addresses the specific needs of the diverse research players and replies to the strong demand for new actions in the fields of industrial and basic research. This option was designed on the basis of the core principles underpinning the 2010 EU Budget Review: European added value, impact, and value-for-money. It responds to stakeholders' request for more user friendly EU-level support for research and innovation.

3. Bring to an end EU level R&D financing and re-nationalise R&D and innovation policies

The renationalisation option consists of spending EU research and innovation funds at Member State level. The no EU intervention option consists of completely eliminating EU research and innovation funding from EU public funding for research and innovation.

Assessment of available options

The three policy options identified were compared in an evidence-based manner along a comprehensive range of key public research and innovation intervention parameters: the clarity of focus of the intervention; the quality of the intervention logic underpinning the intervention; the extent to which the intervention achieves critical mass (minimum efficient scale) at both programme and project level; the extent to which the intervention promotes scientific and technological excellence; the extent of flexibility associated with the intervention; the accessibility and reach of the intervention; the extent to which the intervention promotes knowledge triangle (research, innovation, education) and broader horizontal policy coordination; the extent to which the intervention pursues European added value and a clear vertical division of labour with the Member States; the degree of stakeholder support for the intervention; and the scientific, technological, innovation, structuring, leverage, economic and competitiveness, social, environmental, and EU policy impacts of the intervention.

Based on a wide range of robust evidence,[56] it was determined that the business-as-usual option would suffer from a lack of clarity of focus (plethora of too abstract higher-level EU objectives; FP, CIP and EIT as 3 separate programmes; 10 FP thematic priorities; many specific programmes and funding schemes) and from an underdeveloped intervention logic (focus on sectors and technologies rather than societal challenges; insufficient breakdown of higher-level into intermediate and operational objectives). It would achieve critical mass at programme and project level and promote scientific and technological excellence (by defining excellence as a selection criterion, by organising the competition for funding at European rather than national or regional level) while entailing a measure of flexibility. However, because of high levels of administrative burden (multiple funding schemes and instruments with particular rules, procedures and management structures, which add to a complex, cluttered EU research and innovation landscape and high administrative burden), the accessibility and reach of the intervention would be compromised (e.g. low levels of industrial participation), which would negatively affect levels of stakeholder support. At the same time, knowledge triangle coordination would be weak (FP, CIP and EIT separate programmes) and the same would apply to broader horizontal policy coordination (weak links with other policies). European added value and a clear vertical division of labour with the Member States would not be pursued proactively. A business-as-usual approach would produce strong scientific, technological, structuring and leverage impacts. Significant innovation impacts would be achieved but would not be pursued proactively. Strong economic, social, environmental and European policy impacts would be achieved.

On the other hand, the Common Strategic Framework option would have clarity of focus (limited number of concrete higher-level EU objectives closely linked to Europe 2020; a single programme re-grouping FP, CIP and EIT; 6 societal challenges; few blocks and funding schemes) and benefit from a well-developed intervention logic. Like the business-as-usual option, it would achieve critical mass at programme and project level. At the same time, it would enhance the promotion of scientific and technological excellence (through, for instance, the transfer to other programmes of a number of capability-oriented programme components) and allow for more flexibility (improved balance between top-down and bottom-up schemes). Levels of administrative burden would be reduced drastically, which would improve significantly accessibility and increase levels of stakeholder support. Knowledge triangle and broader horizontal policy coordination would be enhanced by re-grouping research, innovation and education into a single programme and explicitly defining links with other policies. Through a more explicit consideration of European added value, the vertical division of labour with the Member States would be improved. Scientific, technological and innovation impacts would be enhanced through the provision of seamless support from scientific idea to marketable

[56] Analyses of available ex-post evaluations; foresight studies; statistical analyses of FP application and participation data and Community Innovation Survey data; analyses of science, technology and innovation indicators; econometric modelling exercises; reviews of academic literature on market and systemic failures and the impact of research and innovation, and of public funding for research and innovation; sectoral competitiveness studies; expert hearings; etc.

product, a stronger output orientation, a better dissemination of research results, clearer technological objectives, enhanced industrial and SME participation (due to increased attractiveness, better accessibility) and thus enhanced leverage, the funding of demonstration activities, and the provision of innovation financing and support. In combination with the aforementioned clarity of focus and high quality intervention logic, enhanced scientific, technological and innovation impacts would translate into larger downstream economic and competiveness, social, environmental and EU policy impacts.

In the case of the discontinuation/renationalisation option, it would be impossible to achieve clarity of focus (a great variety of national and regional objectives in 27 different Member States), critical mass (the scale of national and regional research and innovation programmes is often sub-par; they often fund too small projects) and excellence (limited competition for research and innovation funding at national and regional level). The quality of the intervention logic, the level of flexibility, the accessibility and reach, and the extent of knowledge triangle and broader horizontal policy coordination would not be clear *a priori* since they would depend on the nature and quality of each national research and innovation policy framework. EU initiatives that fundamentally restructure the European R&D landscape (European Research Council, ESFRI, joint programming, public-private partnership, cross-border mobility) would not be taken. Research that only takes place through EU-funded collaborative research projects would not take place. In the aggregate, this would compromise the return on investment in research as scientific, technological and innovation impacts would be reduced, which would translate into smaller economic and competitiveness, social, environmental and EU policy impacts.

Based on the aforementioned comprehensive in-depth comparison of the policy options, it emerges that the Common Strategic Framework option would be the most appropriate policy option, the preferred option, to achieve the objectives formulated.

5. LARGE SCALE PROJECTS

The EU has been involved in a number of trans-national large scale technological and research programmes, such as the European satellite navigation programmes Galileo and EGNOS, the European Earth Monitoring Programme (GMES) and ITER. These programmes are different in terms of rationale, purpose and intensity of the EU participation. However, their funding presents a common challenge for the EU budget.

Large scale programmes are characterised by a duration exceeding that of the multiannual financial framework, high project risks liable to produce substantial cost-overruns, limited or no participation of private capital, and modest ability to generate revenues from commercial exploitation. As noted in the Budget Review, these characteristics clash with the inherent rigidity of the EU budget and medium term discipline. Funding of unexpected expenditures linked to the implementation of those programmes has proven to be problematic under the current MFF.

There is a wide range of examples of large-scale projects carried out at European level, starting from the experience of the European Organisation for Nuclear Research (CERN) created under the auspices of the UNESCO in 1952 to conduct research on particle physics. Other intergovernmental technical and research projects have been developed over time to respond to a shared interest of various participating states and ensure the coordination and pooling of human and financial resources for a common objective. These programmes are normally funded from the EU through the research framework programme. The EU has subsequently taken a more intense responsibility for large-scale projects in the area of cooperation in space matters and nuclear research. This responsibility may entail exclusive ownership and implementation functions (Galileo), or a leading role in a collective effort with Member States, international organisations and third countries (ITER, GMES).

The European Satellite navigation programmes: Galileo/EGNOS

The Galileo programme aims at establishing Europe's autonomous global navigation satellite system. Galileo will lead to the provision of positioning, timing and navigation services to users worldwide for a wide range of uses, from air transport, financial securities clearance, electricity provision, weather forecasting, road tolling. Once operational, it will provide Europe with an independent technology alternative to the existing US GPS and Russian GLONASS satellite navigation systems but interoperable with them, thus offering complementary services that will increase the reliability and availability of navigation and positioning systems worldwide.

EGNOS – the European Geostationary Navigation Overlay Service – is a European system developed to improve the performance of the GPS system and of safety-of-life applications in air transport over the European area.

The rationale for both projects is to reduce Europe's dependency on third countries' systems and to open up to EU industries the fast growing and strategically important market of satellite positioning services (annual turnover worldwide is expected to reach around €240 billion by 2020 , according to projections). Both the Council and the European Parliament have consistently expressed full support for the two programmes. The Europe 2020 flagship initiative on "An industrial policy for the globalisation era" and the April 2011 Communication on Space policy[57] have underlined the central importance of the Galileo/EGNOS programmes for developing Europe's space and innovation

[57] COM (2011) 152.

potential and for the implementation of several other EU policies (transport, telecommunications, agriculture, etc).

The Galileo programme had initially been designed as a public-private partnership, but following the private sector's withdrawal from the negotiations in 2007 due to high project risks, the programme is now entirely owned, sponsored and funded by the EU. Regulation (EC) No. 683/2008 entrusts the Commission with the responsibility to manage the deployment phase of both Galileo and EGNOS based on full EU funding. The development of Galileo has led to costs significantly exceeding the EU budget commitments, due to implementation delays and cost overruns. Consequently, full operational capability was postponed from 2014 to 2018/2019. The EGNOS programme is already operational.

The European Earth Monitoring programme (GMES Global Monitoring for Environment and Security)

The GMES programme aims at establishing a European capacity for monitoring the state of marine, land and atmospheric subsystems and of climate change phenomena. The system is also meant to support emergency response and security-related surveillance and control activities. GMES monitoring and forecasting data serve different users and are necessary to policy makers at EU (but also national) level to feed the policy making process and monitor the implementation and impacts of legislation in the field of environment, agricultural and maritime policy and climate change. GMES is a core component – with the Galileo programme - of EU space activities.

As of 2014, the GMES project will move from development/initial operation to full operation. The scale and type of funding for the post 2013 period will have to reflect this transition. This implies a shift from mainly research-based funding to operational appropriations.

International Thermonuclear Experimental Reactor (ITER)

ITER is an international collaborative project to demonstrate the scientific and technological feasibility of nuclear fusion as an energy source for civilian purposes. Fusion is a totally different scientific and technological concept from fission; in particular, fusion has inherent safety aspects and relies on readily available natural resources. ITER is based on an International Agreement signed in 2006 between the European Atomic Energy Community (Euratom), represented by the Commission, and 6 other Parties - China, India, Japan, South Korea, Russia, the United States, with an initial duration of 35 years. The site for the construction of the experimental reactor has been fixed at Cadarache, France. The programme has a crucial importance within the EU's long term strategy for the security of energy supply and climate change and is emblematic of the EU's capacity to take a leading role at the global level in science and technology.

The review of the ITER project's global needs in 2008-2009 led to high cost overruns compared to the initially estimated costs. As a consequence, the EU contribution to the construction phase (which constitutes around 45% of the total costs of this phase) more than doubled. The European contribution for the ITER construction period (which is expected to last until 2020) was capped by the Council in July 2010 at €6.6 billion in 2008 value, including Fusion for Energy (F4E)'s running costs and other activities which are part of the ITER programme. This implied an additional contribution from the EU which exceeded the fixed budgetary commitments. In particular, in order to fulfil the obligations vis-à-vis the international partners, in 2010 the EU budgetary authority tried to find an ad hoc solution to cover a financing gap of about €1.3 billion for 2012-2013, inter alia through redeployments from other priority spending programmes. The Commission proposal for covering this shortfall was accompanied by a set of measures to be developed with the ITER international partners and the EU Member States in order to define a sound governance framework, inter alia to ensure effective cost-containment and give the Commission a weight in the collective decision making proportional to its financial contribution. Due to the failure to reach an inter-institutional agreement in 2010, the Commission has introduced a new proposal to cover the 2012-2013 budgetary shortfall.

An open question remains the establishment of a sustainable form of financing for the programme covering the whole duration of ITER (construction and operation) including the period for the next Multi Financial Framework (MFF) 2014 – 2020. In this respect, it must be recalled that the legal basis for the EU's contribution to ITER is the Euratom Treaty and any budgetary solution will have to take into account its specific features.

Current system of funding

In the current MFF, the implementation of the Galileo and EGNOS programmes is largely externalised. Only 10% of the budget is implemented directly by the Commission. The remaining part is implemented through the European Space Agency (ESA). The European GNSS agency has been created to support Galileo in a number of security related tasks.

An amount of €3.4 billion is set aside for the period up to 2013. This budget covers completion of the Galileo development phase (€600 million), the Galileo deployment phase (€2.4 billion) and the operation of EGNOS (€400 million). This corresponds to an average of €486 million per year over the whole 2007-2013 period and of €560 million since the 2008 decision on full EU funding.

The setting up of GMES has been funded through the Space Programme of the 7th Research and Development Framework Programme, with a budget of €1.2 million and, since 2011, by the GMES Programme established by Regulation 911/2010, with a budget of €107 million for 2011-2013. Developments related to the observation infrastructure are funded by the ESA for the space component (i.e. dedicated satellites or "Sentinel missions"), for an amount or around 1.6 billion (plus €103 million for development of services) and by the European Environment Agency and the Member States for the *in situ* component (ground stations, airborne and sea-borne sensors) and some national satellite missions ("contributing missions").

The EU has a leading role as the Host Party and major contributor of the ITER project. This results in specific international commitments to honour in the implementation of the ITER programme, in collaboration with the other six countries, which are parties to the 2006 Agreement establishing the ITER Organization (IO). According to the Agreement, each Party provides its contribution to the IO through an entity called Domestic Agency (DA). During the construction phase, the Parties are committed to deliver through their DAs the various constituent components as contributions in kind under their own financial responsibility. At EU level, Euratom contributes to ITER through a European Joint Undertaking for ITER – Fusion for Energy (F4E) -, which is established as the EU DA and is based in Barcelona. The 27 EU Member States, Euratom (represented by the Commission) and Switzerland are members of its Governing Board. Euratom has five votes out of a total of 70 and no veto power.

During the construction phase, the European contribution covers the largest share of the total costs (about 45%), as the project is sited in Europe. Of this European contribution to the construction costs, 80% is to be provided by the EU budget and 20% by France. EU funding is currently ensured through the 7th Framework Programme of the European Atomic Energy Community (Euratom) for nuclear research and training activities (2007-2011). A new Euratom Framework Programme proposal for 2012-2013 is currently under discussion in the EU Council and includes an increased budget for ITER.

Lessons learned from implementation of the current system

Evaluation studies carried out on the existing large scale projects as well as reports of the European Court of Auditors highlighted some lessons learnt from their initial implementation, with regard to the governance system, the design of the specific programmes, their resource needs and their impact and value added[58]. Some of these indications have already been integrated in the Commission and/or the Joint Undertaking's management of the programmes. Evaluations have also identified some common weak points in the governance and funding arrangements of the large scale programmes, such as the high likelihood of cost-overruns and the need for cost-containment strategies and autonomous, stable and professional management. Unclear governance set ups and the fact that the weight of the EU in them does not always correspond to its level of contribution mean that financing arrangements are not suited to the EU's budgetary rules.

Stakeholders' views

Various stakeholders' consultations have confirmed the strategic importance for the EU to continue to sponsor the existing large scale programmes given their long term economic potential. With regard to the Galileo Programme, Eurobarometer surveys conducted in June 2007 and July 2009 on a range of issues related to the EU involvement in space activities and in developing an independent positioning system in Europe have shown that a very large majority of citizens supports the realisation of an independent satellite navigation system for Europe (80% of the respondents in 2007 and 67% of all questioned respondents). Since 2006, Member States and users have been consulted at various stages of development of GMES, confirming their positive appreciation of the value added of the programme and expressing preferences with regard to different design options, in particular for the GMES services. In particular, stakeholders have indicated that the uninterrupted and guaranteed availability of the information coming from GMES services is the cornerstone for the success of the programme and for its benefits to materialise fully.

Several Eurobarometer surveys confirmed that fusion is widely recognised as an alternative energy source. Fusion was recognised by 51% of all EU respondents and only solar photovoltaic energy was recognised by more respondents (58%)(Eurobarometer no. 364, 2011, with similar conclusions in 2007 Eurobarometer no. 262). With regard to energy-related research, a large majority of Europeans (59%) believed that much more research is needed to confirm the potential of energy from nuclear fusion.

Challenges ahead

Lessons learnt from the programme implementation and from evaluation studies highlight that large scale programmes have some unique features. They are characterised by high uncertainty regarding the costs as they open new grounds and cost estimates cannot build on solid precedents. Their complexity, including the involvement of multiple players, implies trade offs between technical performances, costs, delays, the need to accommodate contributions in kind, interfaces which lead to higher costs, delays and loss of effectiveness. The type of administrative and funding involvement

[58] On the Galileo programme, in 2009 the Court of Auditors published a report on the management of the Galileo programme's development phase (until 2008). The Court concluded on a number of recommendations that were taken up by the Commission in the new governance design and which aimed at supporting the Commission in its task of the programme manager (since the adoption of Regulation (EC) 683/2008 in July 2008).In January 2011 the Commission published a Communication on a Mid-term review of the European satellite radio navigation programmes. The mid-term review evaluates ex-post the programmes since 2008 when the Commission took over as programme manager and concludes that significant progress has been made: The EGNOS system is operational, and the Galileo ground installations are ready for the launch of the first operational satellites in 2012. The GMES interim evaluation will be available only at the end of 2012, but indications are available from the external evalutation of the GMES Bureau in Febraury 2009 and the lessons learned from GMES activities financed under FP7 (in particular mid-term evaluation of service projects), and the results of audits carried out by the European Court of Auditors in 2010.

may also vary for the successive stages of the project. In general, the lifetime of such projects extends well beyond the duration of a single MFF. The long and difficult process of agreeing a new MFF may lead to uncertainties and considerably limit flexibility in adapting commitments and payments to the requirements and pace of real implementation, which, due to the nature of the project, is not fully predictable as to the technical challenges and choices and related cost evolution.

Cost overruns for Galileo and ITER have required difficult adjustments of the current MFF (not yet successful in the case of ITER), which siphoned off most of the margins available and required some level of redeployment from other priority spending programmes. A more suitable legal and budgetary framework seems therefore required for such large-scale projects.

Designing the EU funding of large scale projects for the next MFF raises two distinct sets of issues. The first one concerns the decision on whether to continue supporting these programmes and on the level of resources to be allocated to them. The second one is how to ensure the optimal solution for financing projects that have specific characteristics, which are not easy to reconcile with the current features of the EU budgetary framework. The detailed aspects of the design and governance of these programmes will be examined in the impact assessments accompanying the proposals for legal instruments underpinning them, which will be presented at a later stage.

The general objective is to set up a budgetary framework that secures predictable long term funding for large-scale projects, minimising the uncertainties linked to the periodic renewal of the MFF, and that offers the flexibility needed to respond quickly to unforeseen budgetary needs emerging during the programme's implementation.

For each of the large scale programmes the specific objectives guiding the review of their financing are:

– For Galileo, the objective is to ensure the completion of the deployment phase so that the programme reaches initial operational capacity and provide early services in 2014 and subsequently becomes fully operational by 2019. In addition, the operational management of the infrastructure, management of the services, the replacement and renewal of components needs to be ensured as well as adaptation of the services to the changing needs of the users.

– For EGNOS, the objective is to ensure the maintenance, operation and evolution of the system after 2013, so that it can provide the three services foreseen in the GNSS Regulation.

– For GMES, the objective is to ensure the sustainability of an operational programme, i.e. the continuity of data and information flows in the period after 2013 and ensure that the infrastructure will be renewed in due course, so that GMES services continue to be provided to users, adequate observation infrastructure is available in each thematic area and opportunities are created for the development of the European earth observation sector.

– For ITER, the objective is to ensure the success of the project at acceptable cost and with reasonable financial and technical risks, while ensuring the sound governance of the project.

Policy choices

Funding under the 7th Framework Programme has proven to be efficient and sufficiently flexible for those programmes where the EU has a supporting or minor partnering role (such as for the research infrastructures under FP7 or for the non nuclear energy projects to be developed under the SET plan).

For the funding of large scale programmes in which the EU has a leading role various options were explored to identify the most appropriate budgetary framework[59]:

(1) **Option n°1: Maintain the current system**, with a fixed budgetary allocation and unexpected cost overruns covered by *ad hoc* solutions consisting in either an amendment of the MFF Regulation/Inter-institutional agreement and/or in the mobilisation of all flexibility instruments and budgetary availabilities.

(2) **Option n°2: Set out a predetermined maximum amount within the MFF.** In case of cost overruns, the project design should be adapted to budget possibilities or the MFF Regulation shall be amended by a unanimous Council Decision requiring the consent of Parliament.

(3) **Option n°3: Set out a predetermined maximum amount within the MFF with no assumption that the EU budget should make up any shortfalls**. In case of cost overruns, the project design should be adapted to budget possibilities or the additional funds should be paid out by voluntary contributions of Member States.

(4) **Option n°4: Establish an instrument/fund outside both the MFF and the EU budget**. On the one hand, financing would not come under the Own Resources ceiling; the mechanism could cover the lifetime of the project, or particular stages of it, rather than being constrained by the duration of successive financial frameworks casting doubts on the Union's continued commitment to the project, leading to potential delays and efficiency losses. On the other hand, such an intergovernmental set-up would exclude the EU institutions, in particular the EP, from exerting their rights in the project (unless ad hoc solutions are identified).

(5) **Option n°5: Set up a mixed system** by which a fixed annual contribution for the project is included in the relevant heading and ceiling of the financial framework. This dedicated budgetary line would be complemented by a flexibility instrument or reserve over and above the MFF ceilings. The flexibility instrument/reserve would cover cost-overruns that cannot be absorbed through project re-definition.

Assessment of available alternatives

(a) Galileo and EGNOS programmes

The European Union is in charge of setting the European Global Navigation Satellite System (GNSS) policy and is the owner of the Galileo and EGNOS systems. There is a strong link between the ownership and responsibility for these programmes and the financing mechanisms. Should the Galileo and EGNOS programmes remain programmes of the EU, the EU would fully retain the decision making power and the funding would need to be fully covered through the EU budget.

The political mandate for the EU ownership and responsibility for the Galileo and EGNOS programmes have been recently confirmed by the Council which *'considers that, Galileo and EGNOS being European programmes owned by the EU, should continue to be financed by the EU budget'*[60] and the European Parliament which *'considers that Galileo and EGNOS, as European programmes*

[59] The differences of the role played by the EU in each of these programmes have to be taken into account. In the case of Galileo, the EU is the sole owner and sponsor of the project and therefore has more freedom to decide how to deal with cost overruns. In the ITER project, the EU is bound by an international obligation vis-à-vis the other partners and the decisions taken through the collective decision making.

[60] General Affairs Council conclusions, 31 March 2011.

owned by the EU which address a public interest at EU level, should mainly be financed through the EU budget'[61].

Consequently, the political feasibility of **option n°4** and **option n°5** is extremely low. In addition, these options would not in any case guarantee earlier completion of the project or substantially reduce the project risks or uncertainties.

The choice between the remaining options **option n°1**, **option n°2** and **option n° 3** will be determined by the total forecast project costs and by the cost implications of project risks (it needs to be noted that should the financial implications of project risks be low there is no need to alter the current system). A consequence of the latter is that emphasis must be placed on cost control. As an aside, the unpredictability of cost evolution poses as much a problem for national budgets as it does for the EU budget and no assumption can be made that Member States will be able or willing to cover ad hoc cost increases. If risks are properly factored into the cost estimates of the projects there will not be any difference between **option n°1** and **option n°3**.

The mid-term review (ex-post evaluation of the GNSS programmes) outlines the importance of risk assessment and has set out a cost estimate for the further completion of Galileo and the two GNSS systems' operation, factoring in certain risks.

To sum up, **options n° 4** and **n°5** should be excluded. **Options n°3** might be feasible but with a high risk of impossibility to predict the willingness of Member States to cover the potential cost increases from their own budgets.

Compared with **option n° 1**, **option n°2** provides for a 'ring-fencing' of the amount foreseen for EGNOS and Galileo. This aims at making sure that costs exceeding those foreseen for EGNOS and Galileo at the time of the decision on the MFF are not borne by other programmes. Based on its experience with the current (2007-2013) MFF, the Commission considers **option n°2,** with an application of strict financial and political supervision mechanisms, to be the most appropriate budgetary framework for Galileo and EGNOS programmes.

(b) GMES

Option n°4 (*instrument/fund outside both the MFF and the EU budget*) would create high uncertainty for GMES. Under this option, the EU would withdraw from GMES while it has not reached its maturity yet. It would be more than likely that this option would mean a discontinuation of GMES as no other partners would be in a position to take over the prominent role played so far by the EU in structuring and supporting – both politically and financially **-** GMES. It would lead to sunken costs and past investment would be lost. In this context, the increased flexibility for the implementation of the programme potentially offered by this option would be of limited interest.

The other three options would provide stability and predictability with a fixed budgetary allocation from the EU and guarantee the political involvement of the EU in GMES. This would facilitate the continuous involvement of the partners of the EU and the delivery of GMES, **<u>under the assumption</u>** that the EU predetermined or fixed contribution reaches a sufficient level to meet the objectives of a sustainable operational programme.

With **option n°3** (*Predetermined annual contribution with no instrument for costs overruns*) the EU contribution would be clearly defined and predictable. The absence of instrument for potential cost-overruns would be a further incentive to keep financial discipline and make sure that "design follows

[61] European Parliament resolution of 8 June 2011 on the mid-term review of the European satellite navigation programmes: implementation assessment, future challenges and financing perspectives.

budget". GMES has not experienced cost-overruns. With GMES entering into an operational phase (costs much more predictable than in a R&D phase), the likelihood of costs overruns in the future is low. This option would nevertheless mean that in case problems occur (which cannot be totally precluded), the EU would require from other partners to find solutions and/or make additional efforts. Redesigning a project is often a costly solution. This could complicate the partnership for GMES and negatively impact the implementation of the programme. However, unlike EGNOS and Galileo, Member States bear the costs for most of the infrastructure needed for GMES.

On top of the stability and predictability of the financial and political support of the EU, **option n°5** (*Dedicated budget line complemented by a flexibility instrument over and above the MFF ceilings*) and to a lesser extent **option n°1** (*Current system – fixed allocation and unexpected cost overruns covered by ad hoc solutions within the MFF*) would provide flexibility to the EU if problems occurs. However, under option n° 5, the existence of a flexibility instrument out of the MFF could weaken all cost-containment strategies: it could be perceived as a readiness of the EU to pay, without limitations since no ceilings would apply. Option n°1 would give to the EU the possibility to find ad-hoc solutions and to face its responsibilities towards the programme and its partners. However, ad-hoc solutions would be clearly constrained. Option n°2 would make a solution subject to a decision to be taken unanimously by Council with the consent of the European Parliament. As a conclusion, options n° 1, n° 4 and n°5 should be excluded. Options n°2 and n°3 are more convenient.

(c) ITER

Under option n° 1, the maintenance of the current system would imply the constant risk that cost overruns are to be paid by other spending programmes, in particular by research and innovation funding. This option is therefore not supported.

Under **option n° 3** (*setting out a predetermined contribution within the MFF with no assumption that it should make up any shortfalls*), a specific maximum amount for financing the construction of ITER would be determined under the MFF 2014-2020. Cost-overruns would not be subject to payments under the MFF/EU budget, but would need to be borne by Member States or other international partners.

Under **option n° 2**, a maximum amount for the financing of ITER from the EU budget would be set for 2014-2020. Unlike option n° 3, it would be possible to change this amount by modification of the MFF Regulation, i.e. a unanimous Council decision with consent of the Parliament.

In order to address possible cost overruns under options n°2 and n°3, the IIA accompanying the MFF could set out an additional interinstitutional mechanism. This option would be compatible with the July 2010 decision of the Council capping the EU contribution to €6.6 billion for the construction period expected to last until 2020 and is consistent with the approach followed by the Commission up to now. It would involve the lowest risks for the MFF/EU-budget while fully respecting the decision of the Council to cap the funding.

Under **option n° 4**, **- establish an instrument/fund outside both the MFF and the EU budget -** no financing of the construction of ITER for the period 2014 to 2020 would be foreseen under the MFF/EU Budget. This option should not be pursued as it is not compatible with the obligations under the ITER Agreement, where the Commission represents Euratom as one of the seven international Parties. In order to meet these commitments and having regard to the legal base for ITER funding in the Euratom Treaty, funding reflecting the Union's international commitments should be foreseen in the MFF/EU-budget.

Option n° 5 (*set-up a mixed system*) would appear as providing a disincentive to pursuing credible cost-containment strategies.

As a conclusion, options n° 1, n° 4 and n°5 should be excluded. Options n°2 and n°3 are more convenient.

6. COHESION POLICY

Cohesion policy is one of the most far-reaching tools of intervention available to the European Union. Having begun as a small-scale funding scheme for retraining workers and later for providing support to lagging regional economies, it has developed into a fully-fledged development policy that covers all the Member States of the Union. Its share of the budget, initially less than 16% of the EC budget, now represents 35.7% of the EU's budget in the 2007-2013 period. Cohesion policy supports every year many thousands of projects. It assists the implementation of EU policies in many areas, from transport to employment, competitiveness, environment, research and innovation, and climate change. It directly connects national, regional and local administrations with the EU, and influences the way they plan, design and implement regional development policies. This gives concrete meaning to the promotion of "economic, social and territorial cohesion, and solidarity among Member States," which the Treaty sets out as a central aim of the European Union.

The Treaty lays down the basis for a cohesion policy designed to promote "a harmonious development of the Union and, in particular, to reduce disparities between the levels of development of the various regions and the backwardness of least favoured regions", while paying particular attention to areas that are characterised by specific vulnerabilities. The Lisbon agenda of 2000 added a new dimension to the policy. Cohesion policy is no longer only a tool to accompany market integration and address its territorial consequences, but is a lever to promote development at national, regional and local level in line with EU-wide long term policy priorities. This motivation is further enhanced by the Europe 2020 Strategy and the introduction, with the European semester, of greater coordination of Member States' fiscal and macro-economic policies. As the Communication on the Europe 2020 Strategy pointed out, "cohesion policy and its structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions". Most recently, cohesion policy played a role in the EU response to the economic and financial crisis within the framework of the European Economic Recovery Plan, contributing to contain the effects of the crisis and to provide an anti-cyclical stimulus to the economy.

Current system of funding

The basic architecture of cohesion policy funding is centred on three Funds, the European Social Fund (from 1957), the European Regional Development Fund, created in 1975, and the Cohesion Fund, set up in 1994. For the 2007-2013 period, the European Agricultural Rural Development Fund (EARDF or rural fund) and the European Fisheries Fund (EFF), which financed interventions in the area of rural development and fisheries respectively, were moved out of cohesion policy and included in their respective policy areas.

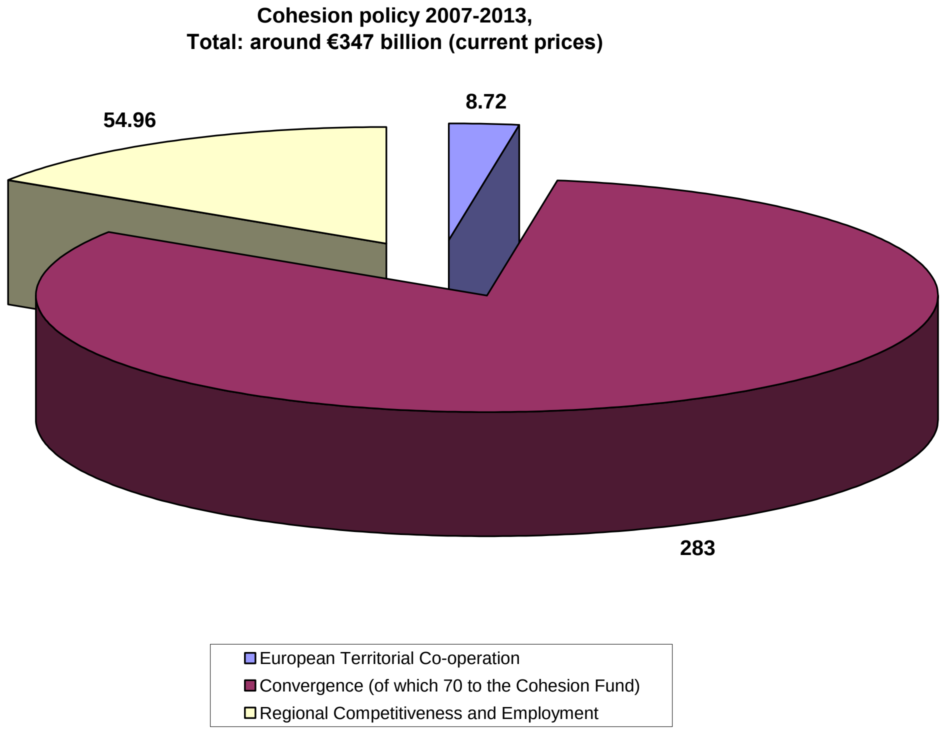
The European Fund for Regional Development (ERDF), the European Social Fund (ESF) and the Cohesion Fund contribute to three objectives: Convergence, Regional Competitiveness and Employment, and European Territorial Cooperation. While all funds contribute to the Convergence objective, the ESF and ERDF contribute to Regional Competitiveness and Employment and only the ERDF to the third objective.

The objective of the **Convergence objective** is to promote growth-enhancing conditions and factors leading to real convergence of the least-developed Member States and regions. In EU-27, this objective concerns – within 18 Member States – 84 regions with a total population of 154 million, and per capita GDP at less than 75 % of the Community average, and – on a “phasing-out” basis – another 16 regions with a total of 16.4 million inhabitants and a GDP only slightly above the threshold, due to the statistical effect of enlargement. The amount available under the Convergence objective is €282.8 billion, representing 81.5 % of the total. It is split as follows: €199.3 billion for the Convergence regions, while €14 billion is reserved for the "phasing-out" regions and €69.5 billion for the Cohesion Fund, the latter applying to 15 Member States.

The **Regional Competitiveness and Employment objective** aims at strengthening regional economies' competitiveness and attractiveness, as well as employment. First, development programmes help regions to anticipate and promote economic change through innovation and the promotion of the knowledge society, entrepreneurship, the protection of the environment, and the improvement of their accessibility. Second, more and better jobs are supported by adapting the workforce to changes in the labour market and by investing in human capital. In EU-27, a total of 168 regions are eligible, representing 314 million inhabitants. Within these, 13 regions with a total of 19 million inhabitants represent so-called "phasing-in" areas and are subject to special financial allocations due to their former status as "Objective 1" regions. The amount of €55 billion – of which €11.4 billion is for the "phasing-in" regions – represents just below 16% of the total allocation. Regions in 19 Member States are concerned with this objective. The former programmes Urban II and Equal are integrated into the Convergence and Regional Competitiveness and Employment objectives.

The **European Territorial Cooperation objective** aims at strengthening cross-border co-operation through joint local and regional initiatives, transnational co-operation aiming at integrated territorial development, and interregional co-operation and exchange of experience. The concerned population amounts to 181.7 million people (37.5 % of the total EU population). All EU regions and citizens are covered by one of the existing 13 transnational co-operation areas. €8.7 billion (2.5 % of the total) available for this objective is split as follows: €6.44 billion for cross-border, €1.83 billion for transnational and €445 million for inter-regional co-operation.

Cohesion policy for 2007-2013 (Heading 1B)	**€ billion**
Structural Funds, of which	**277.658**
ERDF	198.941
ESF	78.716
Cohesion Fund	**69.752**
Total Heading 1B	**347.410**



Lessons learned from implementation of the current system

The ex-post evaluations on the programmes implemented in the 2000-2006 period offer some insights to assess the contribution of cohesion policy to growth, social cohesion and environmental protection.

Economic impacts

1.4 million jobs created; 5,106 km of new and reconstructed motorways; 1,200 km of high speed rail, 7,260 km of standard rail; 20 million people gaining access to cleaner water; 38,000 research projects supported; over 230,000 SMEs receiving financial support and over 1.1 million SMEs receiving advice, mentoring or other non-financial support. These figures illustrate the key achievements of Cohesion policy for the 2000-2006 period, as detailed in the ex-post evaluation studies. A macro-economic simulation, undertaken in the context of the ex post evaluations, suggests that the entire EU - not just the major beneficiaries - was better off as a result of cohesion policy, notably because of increased trade effects. The multi-level governance of cohesion policy has also had positive spill-over effects on national and regional administrative systems. Cohesion policy has had a positive impact on the level of GDP and employment in the Member States and regions where investments were greatest. According to the results generated by the HERMIN model, investments undertaken in these regions during the 2000-2006 period, have led to: 1) an average increase in GDP of 1.2% every year during 2000-2009; 2) a rate of return of €2.1 for each euro of cohesion policy investment; 3) an expected increase in GDP of 0.4% and in employment of 0.2% up to 2014 (i.e after completion of the programming period), indicating the longer-term sustainable impact of the policy.

There is also evidence to suggest that, for example, in the case of cohesion funding attributed to Poland, there are significant direct benefits derived by companies in the EU-15 Member States, and indirect benefits to EU-15 from increased demand in Poland for imported goods and services. The implementation of projects co-financed by EU funds generates the need for subcontracting and provision of goods and services for the needs of project implementation. The total (i.e. direct and indirect) benefits gained in 2004-2009 by the EU-15 countries due to the implementation of EU cohesion policy in Poland represent €4.5 billion in 2008 prices, which is 27 % of the aggregated value of funds transferred to Poland under cohesion policy[62].

Social impacts

In the area of employment and social inclusion, the ex post evaluations confirm that the European Social Fund (ESF) provides added value, notably in Convergence regions by adding to action undertaken in Member States and by extending existing action to target groups or policy areas that would not otherwise receive support. Across the EU-25, the ex-post evaluations concluded that the ESF has also contributed to galvanising policy change and agenda setting, mutual learning, innovation, development of partnership, strategic and long term planning. Between 2000 and 2006, the ESF trained about 10 million people per year. On average, the ESF helped national employment policies reach nearly a third of the unemployed population in the EU every year. Evaluations found that 40% of the unemployed people receiving assistance from an ESF-supported programme also find employment. With regard to ESF support to systems and structures, ESF interventions concerned all EU countries, albeit to a different extent. The ESF ex-post evaluation of the programming period 2000-2006 estimated that 65% of the EU's working age population live in places where public employment services have been improved with support from the ESF 68 % where training systems have been improved and 25-30 % of the European population aged 6 to 18 where education systems have been improved.

Environmental impacts

€50 billion has been allocated to environmental protection and risk prevention over the 2007-13 period under the ERDF and Cohesion Fund, with a further €0.8 billion going to renewable energy and €2.5 billion to help SMEs develop and adopt environmentally friendly products and processes.

However, the ex post evaluation of the 2000-2006 period highlights that the need to comply with EU directives was the main driver of investments in environmental infrastructure, while in some cases the need to meet the requirements of the *acquis* was not reconciled with a wider development programme for the targeted region. The impact was also mitigated by the presence of oversized investments and by insufficient attention to their long term financial sustainability.

In the 2007-13 period, there is a stronger emphasis on sustainability across programmes: nearly half the Member States (Austria, Bulgaria, the Czech Republic, France, Germany, Hungary, Italy, Poland, Portugal, Romania, Slovakia, Slovenia and the United Kingdom) have included indicators for the reduction of greenhouse gas emissions in their programmes.

A European Court of Auditors Special report of 2009 shows that Cohesion Policy had a positive impact on waste water treatment in the four audited Member States (Spain, Greece, Ireland and Portugal). For 88% of the assessed treatment plants (64 out of 73), the quality of the discharged water met the EU requirements[63].

Polish Ministry of Regional Development, Evaluation of benefits gained by EU-15 States as a result of the implementation of cohesion policy in Poland, 2010.

63 European Court of Auditors, Special Report No 3/2009, "The effectiveness of Structural Measures spending on waste water treatment for the 1994-1999 and 2000-2006 programme periods".

Other impacts

Experience with the Lisbon strategy has shown that orienting the EU budget towards key EU priorities (such as the Europe 2020 strategy headline targets) is crucial. As outlined in the Fifth Cohesion Report, cohesion policy can represent up to 25% of the investment capacity of more developed regions and an even greater share when the resources which are available for alignment, on local, regional or national level, to European priorities are considered. For less developed regions, the multiplier effect is even greater.

Cohesion policy also contributes to building a common knowledge base, allows for a strategic use of comparisons and evaluations and helps ensure compliance at national level. In the area of employment, education and social inclusion, financial support at EU level through the European Social Fund can help to accelerate national reforms towards common employment objectives as enshrined in the Employment Guidelines. Ongoing evaluations during the 2007-2013 period provide further elements of assessment. The 2010 Strategic Report on the progress in the implementation of the cohesion programmes 2007-2013 shows a positive rate of programme implementation: by the end of 2009, of the €347 billion available under cohesion policy in the 7 year period, 27% of the funding has already been allocated to specific projects. This is a volume of EU support representing over €93 billion. The report also gives a clear picture of the type of projects being selected. More than one third of the total budget has been allocated to projects in areas such as promoting research and innovation in small and medium-sized enterprises, clean urban transport, education and health infrastructure. The expert evaluation network concluded in 2010 that, given budget constraints on national development spending, cohesion policy is likely to play an increasingly important role over the remainder of the current 2007-13 period in preventing regional disparities across the EU from widening further.

Ongoing evaluations show that progress in key sectors such as R&D and innovation is generally positive. Evidence of this was given in a 2010 policy paper on innovation by the Expert Evaluation Network 2007-2013 which concluded that support was "important not only in financial terms but also in stimulating the development of more coherent strategies at regional level which take into account local characteristics and the needs of business. The results as regards grants to research institutions and firms for R&D and innovation are generally positive in all countries. They have eased access of SMEs to research and innovation and have created a collaborative context which in most cases is self-sustainable" Member States have developed novel measures in the innovation policy area. These measures can be broadly classified under three policy areas: innovation-friendly environment; knowledge transfer, innovation poles and clusters; boosting applied research and product development.

With regards to the use of innovative financial instruments in the 2007-2013 period, their implementation is starting to generate results in terms of funding for SMEs. A conservative estimate based on available data indicates that €3.725 billion had been committed by the end of 2010 to financial intermediaries such as loan, guarantee and equity funds, thus being available to final recipients (SMEs). It is further estimated, based on information made available on a voluntary basis by the stakeholders in 2010, that Structural Funds and national contributions supported financial engineering instruments delivered at least €1.631 billion as effective support to enterprises. It is also estimated that these funds have contributed to additional investments from private sector which could achieve a multiplier effect of between 2 and 8 times the funds delivered through Structural Funds supported financial engineering instruments.

Stakeholders' views

Over the past years, a broad debate developed around the future evolution of cohesion policy. The EU institutions have contributed substantially to this debate. The European Parliament, the Committee of the Regions and the European Economic and Social Committee all adopted opinions on the Green Paper on Territorial Cohesion and the 5th Cohesion Report. The Council also adopted at several of its meetings conclusions about the future of cohesion policy[64]. Through various public consultations, such as those on the 4th Report on Cohesion and on the Green Paper on Territorial Cohesion of October 2008, and events such as the stakeholders Conference on "Shaping the future of the ESF - ESF & Europe 2020" of 23 and 24 June 2010, all stakeholders had a chance to make their views known about what cohesion policy should be in the future. A large debate was triggered by the 5th Cohesion Report. A number of conclusions emerge from the public consultation, which was held between 12 November 2010 and 31 January 2011:

– With regard to the architecture of cohesion policy post 2013, there was a general consensus on the need to have a cohesion policy covering all EU regions. A majority of contributions also encouraged the creation of an "intermediate category" of regions.

– Contributors supported in general a close link between cohesion policy and the objectives of Europe 2020, although recalled the need for reinforced partnership and better coordination between different levels of governance. Many contributions also emphasised the need for flexibility in integrating these priorities into national and sub-national programmes so as not to overlook territorial specificities.

– There was general agreement on strengthening thematic concentration of cohesion policy through the selection of a limited number of thematic priorities. However, there was less consensus on whether there should be compulsory priorities; those contributions that do mention the inclusion of compulsory priorities propose, in particular, the environment, social inclusion and innovation, with no overarching preference for a specific priority.

– Many stakeholders called for a more balanced approach in the eligibility rules between a set of fixed common rules and the flexibility needed to adapt them to types of interventions and to regional and local specificities.

– General support exists for the envisaged Partnership Contracts to go beyond cohesion policy and include other funds such as EAFRD and EFF, even going as far as including other financial instruments in transport, energy, or research

– Many contributors supported the introduction of incentives linked to the performance of cohesion policy, but tended to be less positive about the introduction of conditions which are not directly related to the effectiveness of the policy. Generally, respondents asked for further details on the different options.

– There was an overall agreement on the need to introduce more appropriate indicators, which are both quantitative and qualitative in nature. Respondents would like the breadth of indicators to be increased and include issues such as the quality of the environment, demographic change and social welfare.

– There is a general consensus on the need for cohesion policy to tackle problems at the urban level in particular, although other aspects of the territorial dimension of cohesion policy are also mentioned, such as regions with geographical challenges, urban-rural linkages and macro-regional strategies.

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[64] Czech Presidency, Communiqué of Ministers for Regional Policy, Mariánské Lázne, Czech Republic, 23 April 2009; Spanish Presidency Conclusion Document, Informal Meeting of Ministers of Regional Policy, Zaragoza, February 19, 2010; Belgian Presidency, Summary of the answers of the Member States to the Presidency questionnaire, Informal Meeting of the Ministers for Cohesion Policy, Liège - 22 and 23 November 2010; Belgian Presidency, Informal Meeting of the Ministers in charge of Cohesion Policy Liège, 22-23 November 2010, Presidency Conclusions, Conclusions of the General Affairs Council 21 February 2011, Informal Meeting of Ministers Responsible for Cohesion Policy, 20 May 2011, Gödöllő, Hungary.

– Greater involvement of local stakeholders and a clearer partnership approach at EU level are often called for.

Challenges ahead

Based on both the lessons learned from the evaluation of the impact of EU cohesion policy in the previous and current programming period and stakeholders' consultations, the 5th Cohesion Report and the EU Budget Review identify a set of issues on which progress should be made in the next programming period. These are: a) concentration of support; b) strategic programming and coordination of the Funds; c) concentration on EU priorities; d) establishing the necessary conditions for effective investment; e) better alignment to Europe 2020 priorities and synergies with national spending; f) greater flexibility; g) greater reduction of the risk of error; h) greater performance orientation; and ability for given funds to work together with other funds.

The general objective is to design a policy that promotes in Member States and regions a smart, sustainable and inclusive growth in line with the Europe 2020 strategy, developing the basic conditions for sustainable growth, facilitating processes of structural adjustment and fostering integration by removing cross-border and transnational barriers, including on the external borders of the EU.

More specifically a reformed cohesion policy will aim to:

– Enhance the **European value added** of cohesion policy support, so that it is directed at promoting the achievement of the Europe 2020 priorities, by either adding volume or scope to existing national activities that are in line with those priorities - or by refocusing national or regional interventions around them;

– Increase the **effectiveness** of cohesion policy, so that the respective scopes of the different funds are well delimited and funding is concentrated on those areas where a difference can be made and produces measurable substantial impacts in the receiving areas and communities;

– Increase the **efficiency** of cohesion spending, by removing unnecessary administrative and control requirements and by making the use of funds simpler and faster.

A number of changes are necessary to make sure that past weaknesses are overcome and the link between cohesion policy and the Europe 2020 strategy is exploited to the full. Thus, the operational policy objectives are the following:

– Ensure that resources are concentrated on fewer priority thematic areas corresponding to the Europe 2020 priorities;

– Enhance ability to provide strategic guidance at EU level, so that cohesion policy is a real lever for implementing EU-wide priorities and achieving tangible change in the national contexts;

– Increase the ability of the various Funds to work together, so that optimal coordination between the Funds is possible and national, regional and local authorities can more easily design integrated interventions using resources from different Funds (thematic multi-fund programmes) ;

– Optimise the use of resources by ensuring a greater ability to integrate innovative financial instruments;

– Simplify access and use of funds for the beneficiaries, so that the administrative hurdles are reduced to minimum and implementation of small projects becomes faster and easier;

– Improve effectiveness and performance-orientation, so that the adoption of programmes and the actual financing of them are made conditional on the respect of clear and previously agreed criteria and that progress towards agreed objectives is monitored, evaluated and rewarded based on transparent assessment of the results achieved.

Policy choices

For each of the problematic areas identified in the 5th Cohesion Report and the EU Budget Review, a range of different possible solutions has been examined, which represent options for shaping up the main elements of the new cohesion policy.

A. Concentration of support

For the post-2013 period, there are two issues relating to the issue of geographical concentration of support. The first issue concerns the extent to which cohesion policy support should continue to focus on more developed Member States and regions. A second issue relates to transition regions. These are the regions which for different reasons are not considered as lagging regions.

Nevertheless, these regions have not yet completed their catching-up process, continue to face significant social and economic challenges and find themselves with a GDP/capita rate between 75% and 90% of the EU average. The current 'phasing-in' and 'phasing-out' system is seen by most stakeholders to be overly complex and unfair, because regions with similar levels of GDP often find themselves under different categories as a result of their past status as an Objective 1 or 2 region. The current transition system with its phasing out of aid intensities over time also does not provide sufficient predictability of funding in phasing out regions, while the phasing-in system does not provide sufficient aid intensities to make a significant impact on economic restructuring and development.

For the future, four options for geographical concentration were examined. The basis for regional eligibility is the statistical average of 2005-2007. This introduces a number of changes as compared to the current situation.

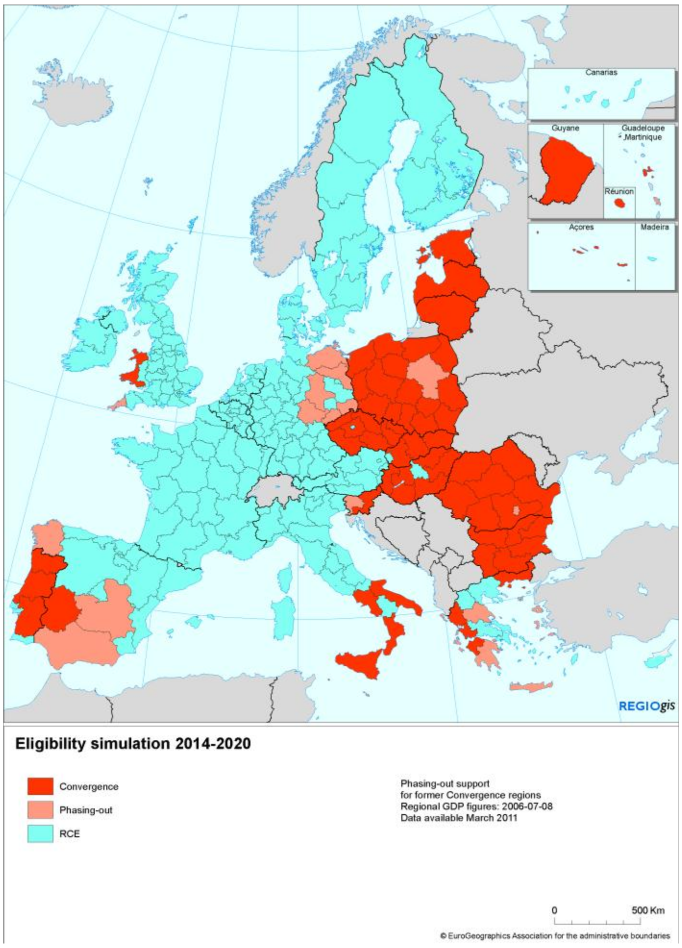
Option 1 – No policy change

Under this option, geographical coverage remains as in the current period, covering all EU regions. Regions below the 75% average EU GDP per capita threshold would be subject to maximum support levels. The convergence objective would remain the focus of Cohesion Policy. Current convergence regions which exceed the 75% threshold would benefit from phasing-out support.

Table 1: Eligibility rules in Status quo

Status quo	• current Cohesion Fund aid intensity for countries with GNI/head < 90% • current Convergence aid intensity for regions with GDP/head < 75% • Phasing-out support for former convergence regions • current aid intensity for the Regional Competitiveness and Employment Objective

Map 1: Geographical coverage under option 1



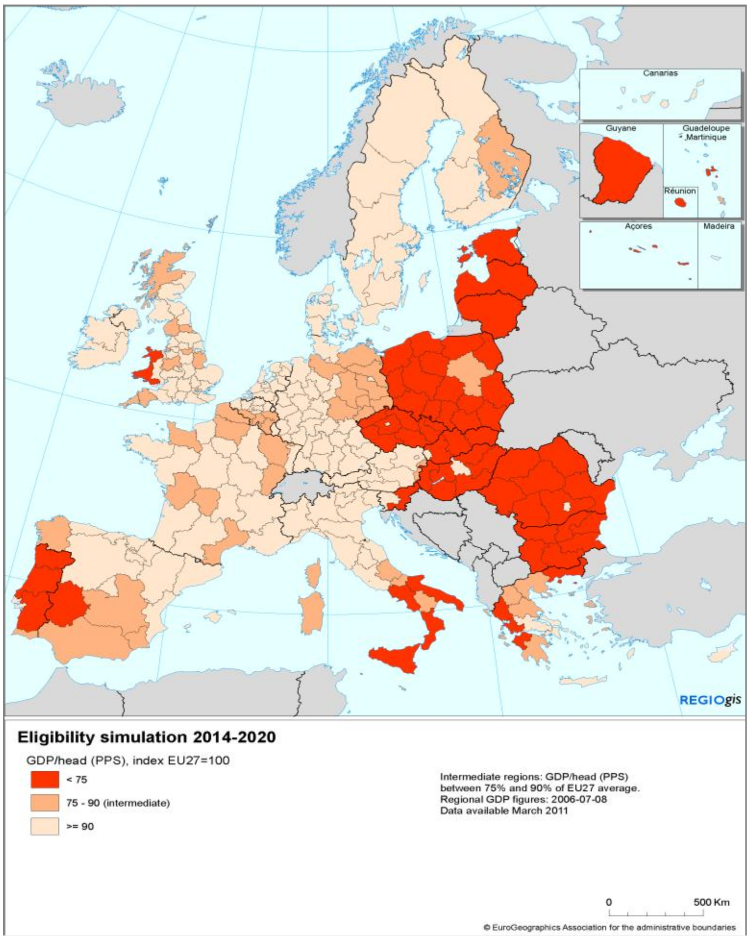
Option 2 – Full coverage with the introduction of a new transition category

As with Option 1, all EU regions would be eligible for cohesion policy support. The eligibility rules would remain the same, except that for those regions which are above the 75% GDP/head threshold for convergence but below the 90% threshold. For these regions, a new transition category would be established replacing the current statistical phasing-out and phasing-in regimes. It would cover as today the regions "graduating" from the Convergence objective, but also all other regions with a GDP between 75% and 90%.

Table 2: Eligibility rules in option 2

Option 2	• current Cohesion Fund aid intensity for countries with GNI/head < 90% • current Convergence aid intensity for regions with GDP/head < 75% • Transition category for regions between GDP/head of 75% and 90%. Aid intensity is differentiated between former convergence regions and all other regions which are part of this category. • current aid intensity for the Regional Competitiveness and Employment Objective

Map 2: Geographical coverage under option 2



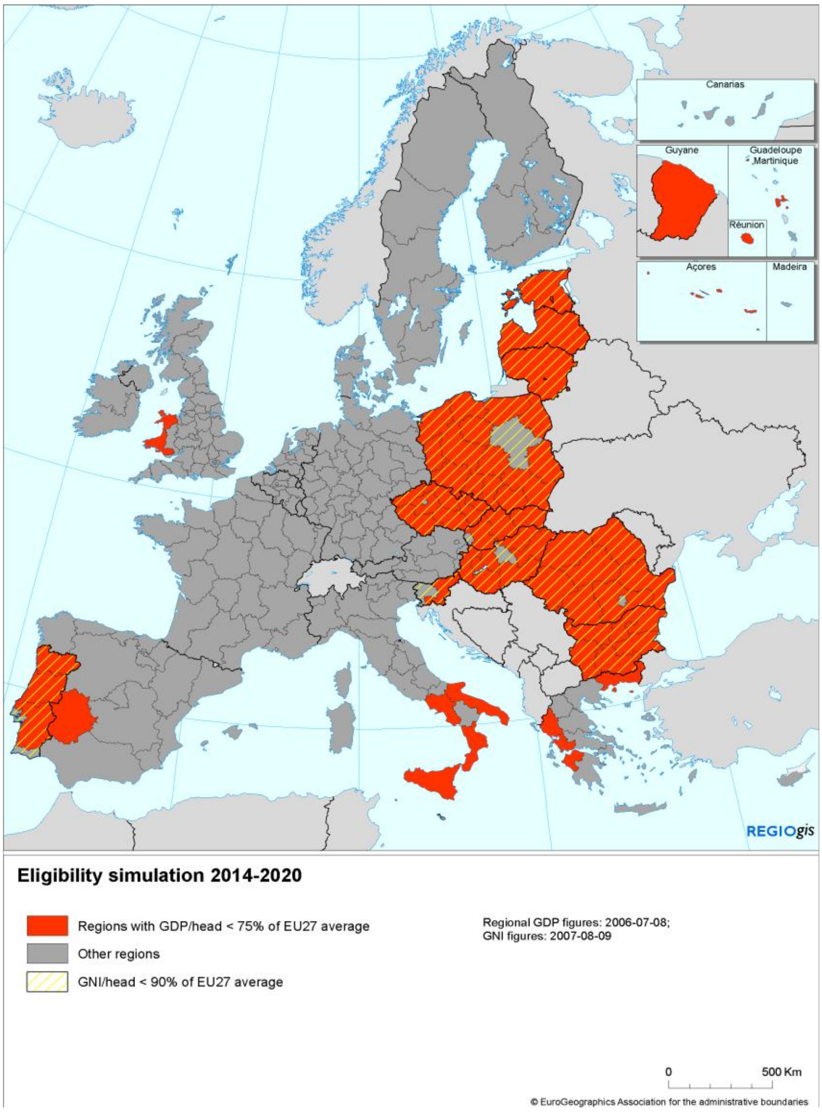
Option 3: Increased geographical concentration on lagging regions and Member States

Under this option, only regions with an average GDP of less than 75% of the Union's average per capita would remain eligible for structural funds. In addition, Member States with a GNI of less than 90% would remain eligible for the Cohesion Fund. Phasing-in and statistical phasing-out regions as well as RCE regions would not be eligible for Cohesion Policy interventions.

Table 3: Eligibility rules option 3

Option 3	• current Cohesion Fund aid intensity for countries with GNI/head < 90% • current Convergence (aid intensity for regions with GDP/head < 75%

Map 3: Geographical coverage of option 3



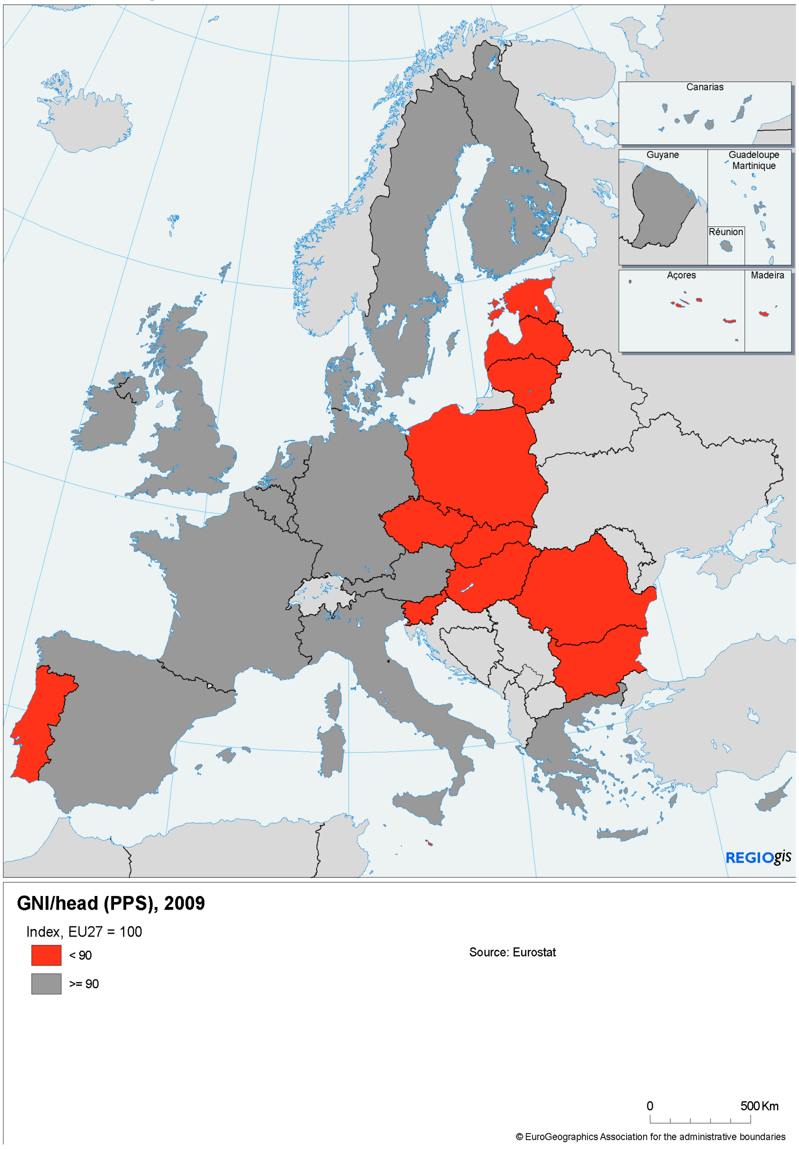
Option 4 - Increased geographical concentration on lagging Member States

Under this option, only Member States below a threshold of 90% of the average EU GNI would be eligible for support.

Table 4: Eligibility rules option 4

Option 4	current aid intensity for countries with GNI/head < 90%

Map 4: Geographical coverage of option 4



Transition system

Within the area of concentration of support, there is also, as mentioned above, the issue of a transition system for those regions between 75% and 90% of GDP. Thus, within the options outlined above, several options could be envisaged for a transition system.

Option 1 – no policy change

Under option 1, the current transition system in the form of phasing-out support for former convergence regions would be maintained. The anomaly of the current architecture would thus be sustained, since between 75% and 90% of GDP, there would be two groups of regions with similar socio-economic situations, which would receive very different financial support from the EU budget: those which have just left the "convergence" objective and the others, which receive a lower level of support.

In addition to the issue of fairness, this would also create a problem for the design and implementation of the policy. Regions with a poor socio-economic situation, higher unemployment, structural problems, and low budgetary/fiscal capacity would be expected to deliver Europe 2020 with the same support from the EU given to more competitive regions.

Option 2 – new transition system

Under option 2, a new transition system in the form of a transition category covering all regions with a GDP between 75% and 90% would be established. This would ensure that solidarity does not stop at 75%; that the massive threshold effect around 75% (with a 9:1 investment intensity ratio between a region at 74% and one at 76%) would be reduced; and that support provided to regions for delivering the Europe 2020 priorities would better reflect the level of economic development and the public investment capacity of the region concerned.

A gradation of the investment intensity within the transition regions would still be assured, with support for the ex convergence group of regions at a level closer to that for the rest of regions than in the previous option. This would achieve a fairer stepped approach.

No transition system could be envisaged under Options 3 and 4 outlined above, as cohesion policy would be limited to the least developed regions and/or Member States.

B. Strategic programming and coordination of the Funds

The 2007-2013 cohesion policy programmes have demonstrated their potential of contribution to the Lisbon objectives, although to a different degree between and across Member States and regions. While there have been links between the Lisbon National Reform Programmes (NRP) and the National Strategic Reference Frameworks (NSRF) through monitoring and reporting mechanisms[65], except for the ESF[66], the links between the Operational Programmes (OPs) and National Reform Programmes (NRPs) have been less clear.

In the period 2007-2013, the NSRF, which is established at Member State level, attempted to strengthen the strategic approach of cohesion policy, based on the Community Strategic Guidelines for Cohesion which laid out EU priorities. The NSRF established the priorities of investments in each Member State based on the Community Strategic Guidelines. However, once the Operational Programmes were adopted, there was insufficient follow up of the progress made in addressing the priorities defined in the Guidelines and the NSRFs. This was confirmed by different evaluations which found that the "links between National Strategic Reference Frameworks, defining regional policy priorities, and National Reform Programmes, defining socio-economic priorities, has helped ensure greater coherence but could have been further developed."[67] Part of the 'delivery gap' can be attributed to the lack of ownership of Lisbon priorities on the ground [68].

A number of adjustments to the current strategic programming are therefore needed to increase the EU added value through a closer alignment of cohesion policy with Europe 2020, including strengthening synergies with directly managed EU financial instruments.

Three options cover three different approaches towards strategic programming and coordination of the Funds.

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65 "The Potential of Regional Policy Instruments 2007-2013 to Contribute to the Lisbon and Göteborg Objectives for Growth, Jobs and Sustainable Development", Nordregio, 2009.

66 Article 4.1 of 1081/2006.

67 "Lisbon Strategy evaluation document" Commission Staff Working Document, SEC(2010) 114 final, 2.2.2010 p. 5.

68 Ibid, p. 6.

Option 1 – no policy change

This option foresees the continuation of the current strategic programming and coordination approach. It is based on three steps. At the EU level, the Common Strategic Guidelines (CSG) contain the cohesion policy priorities and the main principles of coordination with other EU policies and financial instruments. At Member State level, a National Strategic Reference Framework (NSRF) is established based on the principles laid down in the CSG. This document identifies the main priorities for investments of the ERDF, ESF and the CF at national level. The Operational Programmes (OP) at regional and national levels are the main management tool.

Option 2 – Alignment through a Common Strategic Framework

The option foresees a close alignment with the Europe 2020 governance structure. The Common Strategic Framework (CSF) provides a framework within which a) the mechanisms of coordination between the funds under shared management (ERDF, ESF, CF, EARDF, EFF) are outlined and b) cohesion policy investment priorities in relation to other EU policies and financial instruments are outlined. The CSF translates the Europe 2020 headline targets and objectives into investment priorities which Member States and regions are obliged to use when developing the Partnership Contract and the programmes.

The Partnership Contract sets out the development strategy and defines the national investment priorities, (in line with the priorities and macro-structural bottlenecks identified in its National Reform Programme), investment priorities and the allocation resources between priority areas and programmes. The main management and implementation tools remain the Operational Programmes. Clear conditionality would apply.

Option 3 – Strict Alignment with National Reform Programmes

Under this option, there would be no Guidelines specific to the funds such as the current Community Strategic Guidelines. The Integrated Guidelines would instead serve as the strategic reference framework for cohesion policy at EU level. This approach could ensure strict alignment with EU priorities. The National Reform Programmes (NRP) would become the reference framework for cohesion policy at MS level.

C. Concentration on EU priorities

A number of studies and ex-post evaluations of the 2000-2006 period have identified problems with insufficient concentration on strategic objectives, insufficient performance orientation and lack of incentives to promote concentration on results and impacts achieved. In large part, this has been due to the broad list of priorities laid down in the regulations from which Member States could select but also reluctance by Member States to narrow the selection down to just a few priorities. The introduction of earmarking requiring that a major part of cohesion policy investments are allocated to the Lisbon priorities via an extensive list of spending categories was a step forward to ensure greater focus on European priorities; however, as several studies and reports have shown, the results have been mixed[69].

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[69] "The Potential of Regional Policy Instruments 2007-2013 to Contribute to the Lisbon and Göteborg Objectives for Growth, Jobs and Sustainable Development", Nordregio, 2009 and Commission Communication, "Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013", COM(2010)110 final, 31.03.2010.

For the next period, the Europe 2020 strategy provides both a clear set of common priorities, and a clear framework for identification of funding priorities. Europe 2020 allows for a much greater concentration than in the past through headline targets and flagship initiatives. A clearer cohesion policy focus on Europe 2020 is largely supported by stakeholders[70]. Many regional and local authorities also indicated that the key areas of the Strategy correspond to their competences and that they can therefore use both their own and the Structural Fund resources to make a significant contribution to the delivery of reforms on the ground[71].

The following options examine ways in which cohesion policy can ensure concentration on a limited number of EU priorities. Options for ensuring concentration on EU priorities include:

Option 1 - No policy change

Concentration on EU priorities is achieved through the earmarking of expenditure towards Europe 2020 objectives; 75% in Regional Competitiveness and Employment regions, 60% in Convergence regions. At EU level, Community Strategic Guidelines provide a framework which Member States and regions are invited to use when developing national, regional, and local programmes. No effort made to achieve further thematic concentration beyond the Guidelines.

Option 2 – Concentration on EU priorities through menu of thematic objectives for all Member States and regions, regardless of their level of development

In order to achieve alignment with Europe 2020, the thematic objectives for Cohesion Policy would be set in the General Regulation in the form of a menu based on Europe 2020, the Integrated Guidelines and the seven flagship initiatives. This menu would reflect the objectives set out for Cohesion Policy in the Budget Review. The Common Strategic Framework and the General Regulation would set out in more detail how this alignment is to be achieved, in particular by outlining the specific investment priorities, and how Cohesion Policy interacts with the Europe 2020 strategy, National Reform Programmes and the European semester. Member States and regions would need to concentrate EU and national resources on a small number of objectives according to their specific challenges identified in the NRP and the European semester.

Option 3 – Concentration on EU priorities through menu of thematic objectives for all Member States and regions, taking into account different levels of development

In order to achieve alignment with Europe 2020, the thematic objectives for Cohesion Policy would be set in the General Regulation in the form of a menu based on Europe 2020, the Integrated Guidelines and the seven flagship initiatives. This menu would reflect the objectives set out for Cohesion Policy in the Budget Review. The Common Strategic Framework or the General Regulation would set out in more detail how this alignment is to be achieved, in particular by outlining the specific investment priorities, and how Cohesion Policy interacts with the Europe 2020 strategy, National Reform Programmes and the European semester.

Thematic concentration would be achieved in two ways. First, Member States and regions would need to concentrate EU and national resources on a small number of objectives according to their specific challenges. Second, thematic concentration would be achieved by having a reduced menu of thematic

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70 Présidence belge du Conseil de l'union européenne (2010). Informal Meeting of the Ministers for Cohesion policy. Liège - 22 and 23 November 2010. Summary of the answers of the Member States to the Presidency questionnaire.

71 "Europe 2020 – public consultation – overview of responses", Commission Staff Working Document, SEC(2010) 246 final, 4.3.2010, pp. 13-14.

objectives for more developed Member States and regions. The reduced menu would include only those objectives that relate directly to the headline targets.

D. Establishing preconditions for effective investment

The effectiveness of cohesion policy interventions depends on sound framework conditions such stable macroeconomic frameworks, favourable microeconomic environment and strong institutions. In the sectors where cohesion policy intervenes, appropriate institutional and regulatory mechanisms are necessary preconditions to ensure the added value of EU support is fully realised. Ensuring that these preconditions are adequately put in place often requires further reforms and adjustments in Member States. Many of the conditionalities applied so far in cohesion policy have only targeted management and control of the funds.

In the current regulatory framework, however, provisions to link structural preconditions with Cohesion Policy interventions and Community priorities are not systematic. This reduces the potential for spending cohesion funds effectively. In the 2007-2013 programming period, there is limited coordination between establishing sound structural preconditions and priority investment themes.

Fiscal conditionality has been so far limited to the Cohesion Fund, suspension of payments is only considered at a late stage of the Excessive Deficit Procedure, and is discretionary.

The following options examine ways in which conditionality could apply to cohesion policy with a view to ensuring the effectiveness and European added value of interventions. This section considers four different types of conditionalities: (i) macroeconomic conditionalities in the context of the Stability and Growth pact, (ii) ex-ante conditionality; and (iii) structural reform conditionalities in areas directly linked to the intervention of the funds in line with the Europe 2020 strategy.

Option 1 – Status quo

Compliance with sectoral EU legislation directly applicable to investment is required, no additional thematic conditionalities.

Option 2 – Macroeconomic conditionality

Macro-fiscal conditionality of cohesion policy could be strengthened in two steps. An effective application of the existing Cohesion Fund conditionality could be ensured by revising the current provisions for its implementation such as potentially earlier triggers in the EDP, progressive suspension of an increasing share of commitments in the case of repeated breaches of the SGP based on objective and transparent ex ante provisions and more automatic political decision making through reverse majority voting in the Council. Furthermore, these revised rules on macro-fiscal conditionality of the Cohesion Fund could be extended to the Structural Funds as their effectiveness is also dependent on sound fiscal policies.

The access to a possible performance reserve at mid-term could be denied to a Member State under Excessive Deficit Procedure which has been identified as not having taken action in response to a Council Recommendation (ex Art. 126 TFUE).

Option 3 – Ex-ante conditionality

Ex-ante conditionality could be linked to the fulfilment of ex-ante regulatory, strategic and institutional preconditions. Regulatory preconditions primarily relate to the transposition of EU legislation. Strategic preconditions are linked to overarching strategic frameworks for investments; while institutional preconditions relate to the effectiveness of institutional and administrative structures.

The fulfilment of the ex-ante conditionality could be set as a) a prerequisite for the disbursement of expenditure/commitment in the respective priority area and/or b) the basis for suspending future instalments if progress has not been achieved by a defined date.

Option 4 - Structural reform conditionality

Structural reform conditionality would create incentives for structural and administrative reforms in areas directly relevant to the effectiveness of cohesion policv. The structural reforms to be turned into conditionality would be reforms in policy areas which are subject to Council recommendation on the basis of Article 121(4) TFEU and Article 148(4) TFEU in the framework of the European semester.

Non-fulfilment of the condition would result in suspension of commitment appropriations for the corresponding priority axis of programmes. If the following year (or 2 years), the Council still have not dropped the recommendation, a more severe sanction (i.e. suspension of payments linked to the priority axis) could be imposed.

An alternative option is to make structural reform conditionality voluntary.

E. Better alignment to Europe 2020 priorities and synergy with national spending

The 5th Cohesion Report acknowledges the principle of co-financing as one of the fundamental elements of cohesion policy ensuring ownership of the policy on the ground. It indicates that levels of co-financing should be reviewed and, possibly, differentiated to reflect better the level of development, EU added value, types of action and beneficiaries.

The maximum EU co-financing rates are defined at EU level and vary to take into account the differences in the financing capacities of regions. Several options could be considered here:

Option 1 - No policy change

The current maximum rates (up to 85% for the Convergence objective and up to 50% for the Regional Competitiveness and Employment objective), introduced on an exceptional basis for the period 2007-2013 would be kept. The main argument for keeping the higher rates, particularly in Convergence objective regions is to facilitate the catching-up process in regions where public investment are low. Furthermore, higher co-financing rates increases the leverage of the Commission through the shared management process to influence how national policies are designed and implemented and resources are spent. The main drawback of keeping the higher rates is the 'crowding-out' effect of cohesion policy investment, where co-financing requirements divert national or regional financing away from domestic priorities or investment schemes to EU priorities. Furthermore, higher co-financing rates potentially mitigate the overall ownership and responsibility by national authorities of EU-funded projects.

Option 2 - Lowering co-financing rates

Under this option, maximum co-financing rates would be lowered to the level of 70-75% for the least developed regions and 30-40% for the more developed regions (possibly applying a rate of 50-60 % to the new intermediate category of transition regions). The main advantage of this option is that would ensure better commitment of Member States to result orientation and increase leverage. Reducing the co-financing rates would provide headroom for the modulation of the EU co-financing rate to encourage the financing of interventions of particularly high added value or significance. More generally it would maximise the overall investment effort of cohesion policy at EU level. The main drawback is that certain types of programmes which envisage high cost projects such as infrastructure would struggle to secure sufficient national resources to meet national co-financing requirements.

Option 3 – Modulation of co-financing rates

Under this option, maximum co-financing rates would be lowered to the level of 70-75% for the least developed regions and 30-40% for the more developed regions (possibly applying a rate of 50-60 % to the new transition category of regions). However, for certain priorities, maximum co-financing rates could be increased to the level of 80-85% to allow for the financing of projects of high EU added value. The main advantage of this option is that like option 2, it would ensure better commitment of Member States to result orientation and increase leverage. The main disadvantage is that it could ensure a disproportionate orientation towards Cohesion Fund projects.

At a time of fiscal consolidation in the Member States, consideration could also be given to increasing some co-financing rates by 5-10%, under certain conditions, for some Member States, as a means of assisting their recovery.

Under **better alignment to Europe 2020 priorities and synergies with national spending**, there is also the issue of capping. In the current period 2007-2013, structural transfers to the largest beneficiaries of cohesion policy have been capped at a maximum level of 3.8% of national GDP. While varying from country to country, the capacity to effectively utilise these financial resources has proved to be a challenge. It is therefore proposed to reduce the current capping ceilings. This would ensure a better absorption of the funds, reinforce the capacity of the beneficiaries to provide the necessary co-financing, and strengthen their capacity to respect the additionality principle, whereby EU resources are not allowed to replace national funding.

F. Greater flexibility

The day-to-day management of cohesion policy programmes is perceived to be overly complex. This is due to a number of reasons. First, the re-enforced focus of the current delivery system is on the legality and regularity of expenditure. Payments to beneficiaries are made on the basis of expenditure which they have incurred. Although this ensures transparency and accountability for the use of EU funds, it can also lead to inefficiencies in the delivery system by creating disproportionate administrative burdens. The system is also perceived to be complicated both for national administrations and final beneficiaries. The possibility to use simplified cost options (flat rates, lump sums etc.) was introduced in 2007-2013 but has required significant investments into developing the relevant methodologies.

A second related problem with delivery is in the area of closure. Often, projects are completed years before the end of the programming period. This can result in project files being audited more than 10 years after the completion of the project, placing an unnecessary burden on beneficiaries, who need to retain supporting documents over an extended period. Delays in closure also affect national or regional administrations in that the closure of programmes at the end of the programming period can be hugely resource intensive.

Option 1 – No policy change

Under this option, payments based on real costs provide assurance that EU funds are used towards co-financed projects. However, under this option, managing a real cost system in "soft" projects in particular can lead to a higher error rate and disproportional management costs. With regard to closure, cohesion policy programmes are closed at the end of the programming period, after 9 years of programme implementation. This places a disproportionate burden on beneficiaries and can also create a risk of error. The main drawback of this option is that despite the progress made in comparison with 2000-2006, cohesion policy remains the policy group most affected by errors, indicating further need for improvement.

Option 2 – Payments based on deliverables of the project; mandatory mid-term closure

Under Option 2, payments to projects based on deliverables increase the focus on results and render the system more accountable in terms of the results achieved. The main difficulty with this option is avoiding "creaming" effects (selecting projects where attainment of results is simple, rather than projects which are more necessary) and supporting innovative projects where deliverables could be difficult to define. With regard to closure, mandatory mid term closure of programmes would mean that projects in the first half of the programming period would be closed in the middle of the period. The main drawback of this option is that the interim closure risks increasing the costs involved for the Commission and the national/regional authorities, as closure procedures need to be performed twice.

Option 3- Payments based either on real costs or simplified cost options; annual closure

Under Option 3, payments are based either on real costs or simplified cost options. The main advantage of this option is that it would ease the transition to a range of simplified cost options for certain types of projects, parts of programmes or programmes and at the same time still allow for reimbursement based on real costs for all other projects. The main drawback of this option is that there is no evidence to suggest that moving towards a simplified reimbursement system could have a strong impact on the error rate. With regard to closure, the main advantage of this option would be that the annual closure of projects would minimize the delays between project implementation and closure. The main drawback of this option is that a reduction of administrative costs throughout the entire programming period is only assured if the closure procedures are simplified e.g. by using regular annual reporting for closure purposes.

G. Greater reduction in risk of error

Cohesion policy is implemented according to shared management. Implementation tasks are delegated to the Member States along with the obligations to manage the programmes, but also to ensure the legality and regularity of the expenditure and to protect the financial interests of the Union (in particular through the establishment of an effective control system). However, the final responsibility for the EU budget remains with the Commission, which must fulfil its supervisory role and implement financial corrections where necessary. Here again, the right balance needs to be found between the Commission's responsibility vis-à-vis the EU budget and the administrative burden imposed on both Member State administrations and final beneficiaries.

The most visible weakness related to assurance in the area of cohesion policy has been the annual error rate which for the past programming period has significantly exceeded the 2% threshold. Although there is evidence to suggest that in the period 2007-2013, the error rate is lower than in 2000-2006, the error rate is still likely to remain above this 2% threshold. Thus, despite progress made, there is scope to reinforce internal controls.

Option 1 – No policy change

Under this option, ex-ante verification of the compliance of national management and control systems is done with a "blanket" review by the Commission for all Operational Programmes (accreditation at national level with a 100% review by the Commission). Interim payments are initiated only upon a positive review by the Commission.

Option 2 – Member State responsibility for the ex-ante review of management and control systems (pure national accreditation)

Under this option, responsibility for the ex-ante assessment of management and control systems is placed clearly on the Member State. The main advantage is that a system of purely national accreditation would reduce administrative costs for the Commission and to an extent also for national authorities particularly in the initial stages. The main drawback of this option is that assurance at EU level relies heavily on the systems put in place by Member States.

Option 3 – Proportional approach to the ex-ante review of management and control systems

Under this option, a differentiated risk-based assurance system can be more effective and efficient because resources are focused on the areas where the value added of controls is predicted to be the greatest – areas of high risk. The main drawback of this option is that since annual error rates are still considered to be significant, there might be a need to direct more resources to high risk areas at EU level.

H. Greater performance-orientation

The extent to which programme implementation will focus on results instead of spending depends on better programme design, appropriate monitoring and evaluation arrangements and instruments to reward performance. Possible options range from relying exclusively non-financial incentives (status quo) up to different types of performance reserve (at national or EU level, obligatory or non-obligatory) and to linking reimbursements to progress towards targets.

Option 1 - No policy change

Under this option, there are no provisions in the General Regulation relating to performance. The timing and method of evaluations is left up to Member States and performance is not rewarded, with the exception of an optional performance reserve of maximum 3% of the cohesion policy allocation at Member State level.

Option 2 – Clear Results-Orientation and Performance framework linked to Europe 2020 objectives

Under this option, a much stronger focus on the results to be achieved would be built into programme design and implementation. Programmes would contain a clear articulation of the change sought, how this would contribute to the Europe 2020 goals, and how spending the resources on particular interventions will contribute to change. In addition, a performance framework would be established to establish critical milestones toward the achievement of Europe 2020 goals. These milestones would be agreed between the Commission and the Member States in the context of the negotiation of the programmes.

In order to assess performance, these milestones could be established on the basis of a limited number of programme indicators. These could be on input indicators (e.g. amount of money committed to key TENs interconnectors), output indicators (e.g. number of cooperation projects between enterprises and research institutions) or results (e.g. number of new employer enterprises started). In all cases, the progress towards milestones should provide a clear indication of progress towards delivery of investment priorities linked to Europe 2020 and provide policymakers and programme managers with robust information on delivery.

The existence of a performance framework linked to Europe 2020 goals within the partnership contract or the OPs could form the basis for a number of different incentive mechanisms:

– It could provide the basis for a peer review process in the context of a political debate;

– Satisfactory progress could be linked to disbursement at an EU or national level. Where progress was unsatisfactory, resources could be held back and, in severe cases, reallocated between priorities or programmes;

– It could form the basis for the allocation of a national or EU reserve. In this case, the main objective of the reserve would be to ensure that additional available resources are not allocated to poorly performing programmes.

Option 3 – Linking payments to performance

Under this option, there is a focus on performance by linking it to the payment of the funds. Payment would not be linked any more to the expenditure but triggered by outputs or results. Under this option, reimbursements are based on standardised unit costs or made only if pre-defined targets are reached. These pre-defined targets at the level of each Operational Programme or for parts of an Operational Programme would be agreed between the Commission and the Member States in the context of the negotiation of the programmes.

Linking reimbursements to performance could form the basis for a number of different incentive mechanisms:

– Satisfactory progress could be linked to disbursement at OP level. Where progress was unsatisfactory, payments would be reduced or suspended;

– It could form the basis for the allocation of a national or EU reserve. In this case, the main objective of the reserve would be to ensure that additional available resources are not allocated to poorly performing programmes.

I. Ability for given funds to work together with other funds

The questions of coordination and complementarity are important to the visibility, efficiency and effectiveness of EU interventions. Coordination and complementarity in the Europe 2020 framework address how to organise different policies and instruments and provides visibility and clarity of objectives within the overall framework. However, there is also a need to increase the added value of the Funds by improving the synergies between the Funds[72] and improve coordination between cohesion policy and other EU financial instruments and policies. The results of the public consultation confirm that many stakeholders continue to have problems with overlapping schemes and different rules. This is recognised by the budget review (p.13), which calls for beneficiaries of EU support to "be offered a consistent set of programmes complementing each other and allowing for 'smart specialisation' rather than being confronted with a multitude of partially overlapping schemes and different rules".

Four options are foreseen under this problem area.

Under the **no policy change option**, cross-financing provisions would continue to exist. The main drawback of this option is that the cross-financing provisions place an additional administrative burden on Managing Authorities and final beneficiaries since Managing Authorities need to keep track of the percentage of support provided to projects eligible under "the other" fund.

Under **option 2,** the delimitation between the ERDF and ESF is done on the basis of detailed investment priorities with a clear delimitation. One advantage of this option is greater clarity for administrations in determining which investments can be financed by the ESF and which can be financed by the ERDF. One drawback of this option is that increased clarity might but does not necessarily lead to improved coordination between different administrations responsible for the different Funds[73].

Under **option 3**, for thematic multi fund programmes, and where appropriate for geographic multi-fund programmes, a "lead fund" would be established, linked to the policy domain(s) of the programme. The main advantage of Option 3 is that it would apply the integrated approach to programming in line with the goals and objectives of Europe 2020. The main drawback of this option is that, on its own, it does not fully address the issue of coordination and does not correct overlaps between ERDF and ESF or with the other Funds.

Under **option 4**, cohesion policy resources are concentrated on a specific policy area by each Fund. The main advantage of this option would be policy coherence and simplification, as Managing Authorities would know clearly which Fund to choose from for which action. The main disadvantage of this option is that in some policy areas a clear demarcation would be difficult to establish. Thus, overlap could continue to be a problem.

Assessment of available options

Concerning the **concentration of support**, options 1 and 2 would ensure coverage, at different aid intensities, of the entire population of the EU. Therefore, all EU regions would receive cohesion policy support, while options 3 and 4 would ensure that cohesion policy resources are concentrated on lagging regions or Member States only. While options 1 and 2 both ensure a high level of aid intensity for the lagging regions, only option 2 provides a more comprehensive population coverage through the transition region category and achieves the highest GDP growth of all options. Although HERMIN modelling results identify option 2 as generating higher levels of overall growth in the EU-27 over the longer run than under option 1, the QUEST modelling results identify option 2 as slightly less positive than option 1. **Option 2 would be the preferred option.**

Concerning the issue of a transition system for those regions between 75% and 90% of GDP, several options could be envisaged for a transition system. Under option 1, the current transition system in the form of phasing-out support for former convergence regions would be maintained. Under this option, there would be two groups of regions with similar socio-economic situations, which would receive very different financial support from the EU budget. Under option 2, a new transition system in the

[72] Ex post evaluation of the European Social Fund (2000-2006), December 2010.
[73] The highlighted text is currently under discussion.

form of a transition category covering all regions with a GDP between 75% and 90% would be established. **Option 2 would be the preferred option.**

Concerning the **strategic programming and coordination of the Funds**, options 1 and 2 represent a graduated approach towards strategic alignment with Europe 2020. While option 1 provides a loose alignment based on non-binding Community Strategic Guidelines, option 2 provides a more comprehensive alignment with the Europe 2020 objectives through the Common Strategic Framework and Partnership Contract, while option 3 provides the strictest alignment of the 3 options through the National Reform Programmes. **Option 2 would be the preferred option.**

Concerning the **concentration on EU priorities**, option 1 presents a more flexible approach for Member States through the earmarking provisions, while options 2 and 3 provide a more visible and comprehensive link with the Europe 2020 headline targets and Integrated Guidelines. The main differences between Option 2 and 3 affect more developed Member States and regions, which have a more restricted menu of thematic objectives to choose from in option 3. **Option 3 would be the preferred option.**

Concerning the establishment of **the necessary conditions for effective investment**, a number of different options have been included which could be combined. Option 2 could be implemented independent of the decision concerning options 3 and 4. Certain elements of options 3 and 4 could be merged and implemented jointly. Options 1 and 3 would include conditionalities which would be directly linked to the management (in the case of option 1) or areas of investment (in the case of option 3) of cohesion policy. **No preferred option has been identified.**

Concerning **better alignment to Europe 2020 priorities and synergies with national spending**, Option 1 would increase the leverage of the Commission through the shared management process to influence how national policies are designed and implemented and resources are spent. Options 2 and 3 would ensure better commitment of Member States to result orientation and increase leverage, thereby maximising the overall investment effort. **Option 3 would be the preferred option.**

On the issue of capping, under option 1, structural transfers to the largest beneficiaries of cohesion policy would remain capped at the current maximum level of 3.8% of national GDP. Under option 2, there would be a reduction of the current capping ceilings. This would ensure a better absorption of the funds, reinforce the capacity of beneficiaries to provide the necessary co-financing, and strengthen their capacity to respect the additionality principle, whereby EU resources are not allowed to replace national funding. **Option 2 would be the preferred option.**

The options concerning **greater flexibility** examine different reimbursement options and programme closure. The main differences between the different options relate to what extent different reimbursement options can be introduced and whether these can or cannot be linked to results; and how best to simplify the closure of programmes. **Option 3 is the preferred option**.

The options concerning **greater reduction of the risk of error** examine different assurance options. The main differences between the different options relate to where responsibility for the assessment of management and control systems lie. **A combination of Options 2 and 3 has been identified as the preferred option.**

The options for **greater performance orientation** present a graduated approach. They are also not mutually exclusive. While Option 1 does little to reward or incentivise performance, leaving any system of incentives or rewards up to the Member State, Options 2 and 3 ensure that results are at the heart of programming and, furthermore, that performance is made transparent and is rewarded and incentivised. While both options include pre-agreed targets or milestones towards the Europe 2020 objectives, only Option 3 has an explicit link between disbursement and performance. **A combination of Option 1 and Option 3 on pilot has been identified as the preferred option.**

The options for the **ability for given funds to work together with other funds** also present a graduated approach. While Option 1 with its mono-fund programmes and cross-financing arrangements does little to ensure coordination and complementarity between the Funds, Option 4 which clearly provides a delineation between the ESF and ERDF with its one policy/one fund approach does not necessarily support the integrated approach inherent to cohesion policy. In this respect, the combination of Options 2 and 3 presents a more balanced approach between Options 1 and 4. The lead fund approach presented under Option 3 delineates the respective policy leads of the funds, while at the same time reflecting the contribution of both funds to all Europe 2020 objectives. **Option 3 has been identified as the preferred option.**

7. FINANCING INFRASTRUCTURE INVESTMENTS OF EU INTEREST

In the past decade, infrastructure spending in Europe has been, on average, on a declining path. The economic and financial crisis has, however, brought renewed interest in the need for infrastructure investment. During the economic crisis, targeted investments in infrastructure renewal or construction have been an important part of stimulus and recovery plans at EU and Member State levels, as a way of supporting aggregate demand while ensuring a long term return from money spent. Most importantly, the crisis has shown that infrastructures are crucial for Europe's economic future.

A truly integrated Single Market, as the Monti Report indicated[74], would not be possible without a seamless connection between all its component parts. Roads and other transport connections, electricity grids and broadband networks are vital for a functioning, integrated economic area and for its social and territorial cohesion. Yet, while regulatory integration advances within the EU and markets become more integrated, most recently in the energy sector with the adoption and entry into force of the third liberalisation package, cross-border physical interconnection is lagging. Missing links exist, notably in the new Member States, creating dividing lines between the centre and peripheries of the European Union and hampering the further development of intra-community exchanges or the growth of new economic sectors, such as e-commerce.

New infrastructure needs will also arise in connection with the implementation of the Europe 2020 Strategy. Fostering Europe's transformation into a knowledge-intensive, low-carbon and highly competitive economy requires adequate modern and flexible energy, transport and ICT infrastructure networks.

Huge investments, from both the public and private sectors, are needed to meet that infrastructure challenge. Commission preliminary estimates point to investment needs of between €1.5 trillion and €2 trillion in total for the three sectors. From now until 2020, €550 billion will be needed for the implementation of the Trans-European Transport Network (TEN-T) programme, of which €215 billion is for the removal of the main bottlenecks in the so called transport "core network". In the energy sector, public and private entities in the Member States will need to spend around €400 billion on distribution networks and smart grids, another €200 billion on transmission networks and storage as well as €500 billion to upgrade and build new generation capacity between now and 2020. Finally, between €180-270 billion in capital investment is required to bring fast and ultra-fast broadband to all households by 2020.

How to meet such investment challenge is one of the big questions that the European Union has to face in the next decade. While the market, through appropriate investment and pricing mechanisms, is expected to play a major role in delivering the required infrastructures, without public intervention some of the necessary investments would not take place or will be delayed far beyond 2020.

Given the constraints on national public and private sources of funding and other factors, such as externalities or cross-border coordination problems, there is no certainty that all the required investments will happen. The costs for Europe of not investing sufficiently in its future networks would be very high. The Commission has identified key priority network needs across Europe, in the "transport core network", the "energy priority corridors" for gas and electricity and digital infrastructures[75], for which action is urgent.

The EU has traditionally played a role in stimulating Member States and markets to invest in infrastructure of European interest and with wide socio-economic benefits. Articles 170 to 172 TFEU

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74 "*A new Strategy for the Single Market at the service of Europe's economy and society*". Report by Mario Monti to the President of the European Commission, 9 May 2010, page 64-65.

75 See European Commission, *Energy Infrastructure Package*, (COM(2010)677 and European Commission, *Digital Agenda for Europe*, (COM(2010)245.

lay down the legal basis for intervention on trans-European Networks. The policy framework for such interventions has been shaped over time by subsequent TEN-E and TEN-T guidelines[76] and relevant financing regulations[77]. Furthermore, the new Article 194 of the TFEU on energy explicitly refers to the aim of promoting the interconnection of energy networks.

There is therefore a case for reflecting on how the EU can, in the next MFF, re-define its role in promoting trans-European networks and contribute to set up the right conditions to boost investments, leverage funding from private or other public sources, and bridge remaining financial difficulties. This would, indirectly, also revitalise the interest of long term specialised investors for investing in Europe and thus contribute to growth and job creation.

Current system of funding

In the current MFF period, there are several different sources of EU funding for infrastructure projects in the energy, transport and ICT sectors, including funding from ERDF and Cohesion Fund.

In the energy sector, three instruments support the development of energy infrastructure in the EU. The TEN-E framework, first established in the 1990s, is the energy sector-specific tool to support initiatives aimed at supporting the creation of an energy single market, reducing the isolation of less-favoured and island regions, securing and diversifying the EU's energy supplies, also through cooperation with third countries, and contributing to sustainable development. For the period 2007-2013, the TEN-E has a modest budget of €155 million (about €22 million per year), mainly intended to finance feasibility studies in electricity, gas and olefin transmission networks. CO_2 transportation and oil pipeline infrastructure projects are excluded from its scope. TEN-E funds may co-finance up to 50% of eligible costs for studies and 10% of eligible works' costs for projects of European interest.

Within the framework of the EU response to the economic crisis, a new ad hoc instrument was adopted in 2009 to grant targeted financial assistance to projects in the field of energy, the European Energy Programme for Recovery (EEPR). A budget of €3.98 billion (2009-2010) was allocated to the programme, in order to grant support to a limited set of projects that were already mature and to overcome possible funding gaps due to the economic crisis. Eligible areas are gas and electricity interconnection, gas reverse flows and storage, offshore wind energy, and carbon capture and storage. A financial facility was also set up to support energy efficiency and renewable energy.

An additional source of financial support is provided by cohesion policy, but such assistance is exceptional and may not lead to any distortion of competition. In the current programming period, cohesion policy investments in trans-European energy networks in electricity and gas amount to €674 million.

In the transport sector, the TEN-T programme has a budget of around €8 billion. The main focus of the programme is on cross-border projects. TEN-T projects are also eligible for support from the ERDF and the Cohesion Fund – in the current programming period, cohesion policy provides €82 billion to the funding of transport, of which €43 billion is dedicated to TEN-T. Furthermore, the EIB provides substantial support through loans and a variety of financial instruments relevant to transport infrastructure. EIB financing for TEN-T has totalled €60.6 billion. In addition, the Commission, in cooperation with the EIB has established two innovative financial instruments relevant to transport - the Loan Guarantee Instrument for TEN-T projects (LGTT), which has an allocation of €500 million out of the TEN-T budget, and the equity fund Marguerite, which receives €80 million out of the TEN-T budget.

In the ICT sector, a total of €2.3 billion of Structural Funds was allocated to broadband infrastructure investments and €12.9 billion to information society services (this represents 4.4% of the cohesion

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[76] For TEN-E, 1364/2006/EC. For TEN-T,

[77] See Financial Regulation (EC) No 680/2007 of 20 June 2007.

budget) in the 2007-2013 programming period. €1.02 billion was earmarked for broadband investment under the European Agricultural Fund for Rural Development as part of the recovery plan. As part of the FP7 'capacities' programme, between €400 and €500 million has been allocated to e-infrastructures in the 2007-2013 period. EIB financing for ICT infrastructure stands at €2 billion per year on average. In addition the Risk Sharing Finance Facility (RSFF) has supported two higher risk broadband operations under its innovation window: Reggefiber (allocated budget €285 million) and Iliad (allocated budget €150 million).

Taken together, the cumulative amount of EU funding for the three sectors stands at €73.5 billion.

Lessons learned from the implementation of the current system

A number of evaluation studies and reports provide useful insights on the strengths and weaknesses of current EU funding for infrastructure. In the area of energy, the Report on the implementation of the TEN-E framework published in April 2010[78] highlighted that TEN-E played an important role in supporting immature and risky projects, financing feasibility and other technical studies. However, the limited size of the budget would constrain its ability to deal with the much more significant challenges that will emerge in energy infrastructure in the coming years. Furthermore, the TEN Financing Regulation allows only grants and interest rate rebates, while the market could also benefit from innovative financial instruments such as guarantees or equity participations for risk mitigation. Furthermore, the Regulation does not allow funding of capital expenditures outside the EU, which are an indispensable component for investments in large gas import infrastructure and related connection to upstream sources or for electricity interconnections with third countries. With regard to the EEPR, although evaluation studies are not yet available, initial feedback shows that it has been important in accelerating implementation of major energy projects and stimulating economic recovery. The leverage effect is also estimated to be significant (at 1:10).

In the transport sector, the Report on TEN-T evaluation points to a number shortcomings in the functioning of the programme. In particular, the objectives of the TEN-T programme are very general and lack focus on what the programme is really trying to achieve. The level of funding could be increased through higher co-funding rates. The Report notes that EU funding is fragmented between the TEN-T programme, the Cohesion and the Structural Funds and that greater coordination between the two would be beneficial for the future. The Report also stresses that future TEN-T policy should be oriented toward reducing the climate impacts of transport and should contribute effectively to realising low carbon transport services.

In a special report released in 2010, the European Court of Auditors found that through co-financing the development of rail infrastructure, the EU has contributed to providing new possibilities for trans-European rail transport[79]. The Priority Projects are the main mechanism for co-ordinating and concentrating financial resources. The targeting of EU infrastructure investments under TEN-T is important. The EU co-financed infrastructure projects delivered the planned infrastructure to specification, and, once completed, have created new and improved rail transport possibilities on key sections of the Priority Projects. Measurable improvements have been achieved on lines dedicated to high-speed passenger services that are operating fully as planned.

In the area of ICT funding, the mid-term evaluation of the Risk Sharing Finance Facility, completed in 2010[80], stressed the positive impact of the facility in expanding private financing and considered it as a highly efficient and effective instrument. Less positive is the evaluation of the performance of Structural funds in supporting ICT measures. The 2010 Strategic Report on Cohesion policy[81]

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[78] COM(2010)203 and SEC(2010)505

[79] European Court of Auditors, Special Report No 8/2010: "Improving transport performance on trans-European rail axes: have EU rail infrastructure investments been effective?"

[80] Available at http://ec.europa.eu/research/evaluations/index_en.cfm?pg=rsff

[81] COM(2010)110 of 31.03.2010. Available at http://ec.europa.eu/regional_policy/policy/reporting/cs_reports_en.htm

highlighted a low absorption rate and pointed to a lack of administrative capacity for project preparation and implementation, compliance with state aid rules and inadequate assessment of possible future needs as problematic aspects.

Stakeholders' views

Throughout various consultation exercises, stakeholders' have consistently pleaded for a step change in the way the EU funds infrastructure projects. In the energy sector, the public consultation carried out in 2008/2009 for the Second Strategic Energy Review revealed a strong request to align better the energy network policies of the EU and the EU energy and climate targets and for a fundamental review of the TEN-E framework, expanding its scope to transport infrastructure for carbon dioxide capture and storage (CCS). Replies were more hesitant on oil transport networks. Broad consensus existed on the relevance of energy networks for EU external energy relations. Moreover, long and uncertain permitting procedures have been indicated by industry as one of the main reasons for delays in the implementation of infrastructure projects, notably in electricity.

Both the European Council of 4 February 2011 and the 28 February 2011 Energy Council adopted conclusions supporting the main infrastructure policy directions outlined in the Energy Infrastructure Communication of 2010. The Commission was specifically requested to report by June 2011 to the Council on figures on the investments likely to be needed, on suggestions on how to respond to financing requirements and on how to address possible obstacles to infrastructure investment.

Further specific consultations were launched in the first part of 2011 to support the preparation of an MFF-related proposal on energy infrastructure financing, including one focusing on permit granting. A high level conference was organised under the Hungarian EU Presidency on 16-17 May 2011, where Member States' administrations, network operators, regulators, energy companies and other stakeholders discussed the main issues relating to the development of the energy infrastructure, and the possible directions to follow. A general consensus emerged on the importance of addressing the infrastructure investments needed to deliver on the Europe 2020 objectives, create an energy single market and ensure security of supply.

With regard to transport infrastructure financing, two rounds of consultation were carried out in the preparation of the TEN-T policy review. The first was triggered by the Green Paper on the TEN-T policy review[82], which prompted responses from more than 300 stakeholders and institutional actors. The results of the second round of consultation are summarised in the Commission Staff Working Document on "The New Trans-European Transport Network Policy. Planning and implementation issues" adopted in January 2011[83]. It was demonstrated that many respondents clearly support the approach towards the identification of infrastructural needs (removal of bottlenecks and missing links, efficient infrastructure management) from a genuinely European perspective. The majority of contributors, especially at Member State and regional level, supported better coordination between different financial instruments that fund TEN-T at Community level, namely Cohesion and Structural Funds (CSF), research funding, the TEN-T programme and the EIB's interventions.

In the ICT sector, stakeholders had an opportunity to express their views on different aspects of future funding of broadband infrastructure through the public consultation on the Europe 2020 project bond initiative, which ran from 28 February to 2 May 2010, bilateral meetings organised between the Commission and EIB with financial institutions and a workshop organised by the Commission with Member States on 23 March. In all these occasions, the importance of using the EU budget to leverage investment in broadband was acknowledged.

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[82] COM (2009) 44.
[83] SEC (2011)101.

Challenges ahead

Past experience in infrastructure financing through TEN frameworks, the EERP and cohesion policy shows that the EU can bring a value added in this sector. A consensus exists among stakeholders that in a "business as usual" scenario, Europe might not be able to mobilise in time the investments needed to modernise its infrastructure networks and plug missing links. A more proactive role of the EU would be beneficial to overcome a number of regulatory and financial obstacles to infrastructure development.

In the wake of the financial crisis, Member States' public budgets are struggling with the necessary fiscal consolidation. Capital expenditure has often suffered substantial cuts, with spending for infrastructure investment projects suspended or delayed. At the same time, the prospects for stepping up investments from private sources are uncertain. The financing capacities of companies involved in infrastructure projects, such as transmission system operators in the case of energy, are overstretched. In many cases, companies are unable to raise substantial volumes of additional debt capital because they have reached borrowing ceilings or their investment grade is no longer adequate. Given the pressure on households' budgets, the capacity of users to absorb further significant increases in tariffs and fees is also limited. In other cases, it is the nature of the projects themselves that discourage private sector involvement in the absence of a back up from EU or national public funds. Some of the projects have higher regional than national expected benefits and therefore are not commercially viable or a priority for national funding. This is, for instance, the case of a gas storage or LNG terminal serving the needs of several Member States or of interconnection projects where costs are allocated asymmetrically between participating countries. In some other cases, projects are highly risky because they involve innovative technologies or are subject to implementation risks and uncertainties for which appropriate risk mitigation or financing instruments do no exist yet. In other cases, projects are characterised by externalities that cannot be reflected by market demand. Projects necessary to give the energy network the flexibility necessary to ensure the security of energy supply or that allow better integration of national markets and increased competition fall in this category.

In addition to financing constraints, regulatory obstacles also delay or impede the implementation of needed infrastructure projects. As indicated in the Energy Infrastructure Package, the length of authorisation and permit-granting procedures in some countries is a significant element of uncertainty for the success of investments. The Commission estimates that infrastructure projects worth €40 billion and more, mainly in the field of electricity, risk being delayed for reasons related to permit granting and administrative burden. Effective and participatory mechanisms for consulting the local communities concerned by the infrastructure construction are also a challenge.

Against this background, the current EU framework for infrastructure funding does not seem adequate to provide an effective response. Funding is fragmented among too many programmes. This prevents the full exploitation of synergies between programmes and sectors. ICT, energy and transport infrastructure all contribute to shaping smart networks, such as intelligent grids ensuring uninterrupted flexible availability of gas and electricity for consumers or smart transport networks based on sensors to manage congestion. A multi-sector and multi-country approach would also reduce risks. The budget available to individual programmes is often not sizeable enough to meet the projected needs. Blending between EU funds and EIB loans have produced some results but could be further improved. There is also scope for expanding the use of risk sharing and project financing techniques through appropriate new rules and mechanisms, notably the equity and debt platforms foreseen in the general approach to the use of innovative financial instruments.

Some of the described challenges are of a regulatory and policy nature, but some others call into question the way in which the EU organises infrastructure funding. Any future EU action in infrastructure financing should thus, as a general objective, enhance support for infrastructure projects with high European value added and clear links with Europe 2020 and the Single Market, which the market alone would not deliver, by ensuring an appropriate mix of direct funding and market-based instruments that reduce the commercial risks for private investors.

In particular, in re-designing its funding tool-box for infrastructure, the EU should pursue the following objectives:

- Ensure cost-effective and timely implementation of key priority network infrastructure in the energy, transport and ICT sectors, as identified in the Energy Infrastructure Package, the White Paper for Competitive and Sustainable Transport[84] and the Digital Agenda for Europe.
- Maximise synergies between the energy, transport and ICT programmes, so that funding responds to a coherent policy strategy and projects are selected according to clear harmonised criteria.
- Enhance the EU funds' ability to leverage other public or private funds so that the aggregate volume of resources mobilised is adequate to meet the projected investment needs to 2020;
- Ensure optimal project selection, follow up and monitoring so that EU funding is well targeted, delivers the highest impact and is spent in the most effective way.

Policy choices

Three options can be explored for re-designing EU financing for infrastructure:

Option 1: Absorb sector-specific funding for energy, transport and broadband infrastructure into Cohesion and Structural Funds assistance.

Option 2: Separate funding instruments for energy, transport and broadband, ensuring coordination through a single programming framework guiding both TEN-T/TEN-E instruments and Cohesion and Structural Funds.

Option 3: Establish a dedicated "Connecting Europe facility" covering energy, transport and broadband investments.

Assessment of available options

Option 1 would consist of terminating the current TEN-E and TEN-T specific funding instruments and leaving to the Structural and Cohesion Funds the task of financing investments in physical infrastructure for energy, transport and broadband. A wider use of project financing and risk sharing techniques, for instance through project bonds, could be used to leverage additional private capital participation.

Under option 2, the task of infrastructure funding would be assigned to instruments set up along the lines of the current TEN-T and TEN-E programmes. Its geographical coverage could be limited to those Member States that do not have access to cohesion and structural funds, i.e. the competitiveness regions. It would finance infrastructure projects with high EU added value and governance structures to realise the Core Network (transport) and the priority corridors (energy). Funding would target projects with high European value added, because of their cross-border nature, or the deployment of EU-wide systems.

At the same time, Cohesion and Structural Funds would continue to supply complementary funding for TEN-T and TEN-E Core and Comprehensive Networks (transport) and priority corridors (energy) in convergence regions. However, projects in the Comprehensive Network of TEN-T in competitiveness regions could have access to innovative financial instruments.

The coordination and harmonisation would be introduced at strategic planning level. Single programming would be ensured through the policy alignment between the revised TEN-T and TEN-E guidelines and the cohesion policy's Common Strategic Framework. Common investment plans would be drafted, linking funding priorities of the infrastructure instrument with the Member States' investment plans. Similarly, cohesion policy partnership contracts would be negotiated with Member

[84] COM(2011)144

States for cohesion and structural fund expenditure, consistent with TEN-T and TEN-E priorities. To ensure that EU-level objectives were implemented, concrete lists of projects in the Core Network / priority corridors would be agreed with Member States.

The use of innovative financial instruments, including EU project bonds, in order to attract private debt and equity capital, would allow for the pooling of assets to improve the risk profile and lower the costs of financing for future infrastructure portfolios.

Under option 3, the common infrastructure facility would finance infrastructure projects with high EU added value, not only 'hard' infrastructure, but also 'soft and smart' infrastructure and governance structures to realise the transport "Core Network", the energy "priority corridors" as well as digital infrastructure. The facility would target projects with high European value added, such as cross-border interconnections or the deployment of EU-wide systems, which must be implemented by 2020. Specific mechanisms would ensure that expenditure for each of the sectors would be ring-fenced, while preserving the necessary flexibility and performance orientation. At the same time, funding would continue for the Comprehensive Network through the Cohesion and Structural Funds (CSF), which would target projects of a national and/or regional interest. In order to maximise impact, appropriate provisions would ensure the combination of market based instruments and EU direct support, in order to encourage the participation of specialised infrastructure investors. The Commission would remain responsible for the overall planning and project selection, with the support of an executive agency, while project promoters would ensure physical implementation on the ground.

8. EMPLOYMENT AND SOCIAL INCLUSION

The European Union faces considerable challenges in the employment and social fields. Almost 23 million people are today unemployed and over 113 million are estimated to be living at risk of poverty or exclusion. Globalisation, technological change, demographic ageing and the transition towards a low-carbon economy are transforming Europe's societies. EU employment and social policy aims at helping the Members States to adjust swiftly and effectively to these structural challenges to ensure that everyone can contribute to and benefit from economic growth in an effective, fair and sustainable way.

While employment and social policy as a whole relies very much on national and even regional institutional arrangements, not the least structured by cultural and social traditions, there is also a role to play for a European coordination and a European employment and social policy. The EU creates a level playing-field and guarantees a common level of EU legal protection for all in the fields of health and safety at work and labour law. It provides a Europe-wide platform for policy exchange and mutual learning processes to trigger new policy developments and encourage national reforms while strengthening partnerships with social partners, civil society organisations and other stakeholders. Financial tools annually support several million people to improve their skills and job prospects, encourage self-employment, entrepreneurship and intra-EU labour mobility.

These actions are concrete manifestations of the common employment and social policy ambitions formulated in the Treaties (Article 151 TFEU): “the promotion of employment, improved living and working conditions, so as to make possible their harmonisation while the improvement is being maintained, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combating of exclusion”.

The Europe 2020 strategy for smart, sustainable and inclusive growth embraces a balanced vision of economic growth and social progress. Inclusive growth is high on the Commission’s agenda: in addition to labour markets, it contains ambitious targets for education and for poverty reduction. Three out of seven flagship initiatives contains a coherent set of proposals for action at the EU and national level in the employment and social field.

European financial support can help to develop and introduce active labour market policies, effective lifelong learning, instruments to promote labour mobility, and adequate social security systems.

Current system of funding

The current set-up of financial instruments comprises the following main instruments:

- The European Social Fund (ESF) invests in employment, education, social inclusion and institutional capacity in the Member States. Annually, it supports 10 million people (including young unemployed and migrants) through active labour market measures, including training, counselling, and self-employment and entrepreneurship support. Every year, two million unemployed people find a new job as a result of an ESF-supported measure. In addition, it provides support to education and training systems as well as institutional capacity and reform in a wider sense. The ESF is part of cohesion policy and implemented under shared management with a strong focus on subsidiarity.
- The European Globalisation and Adjustment Fund (EGF) and the European PROGRESS Micro-Finance Facility both complement this approach. The EGF provides support to workers made redundant as a result of changes in world trade patterns or the financial and economic crisis (as part of the EU recovery plan); the Micro-Finance Facility promotes employment and social inclusion by increasing the availability and accessibility of microfinance for vulnerable groups, micro-enterprises and the social economy.

- The PROGRESS programme (EU Programme for Employment and Social Solidarity) provides an EU-wide platform for exchange and mutual learning (through the Open Method of Coordination), supports the development of a solid evidence base to develop, assess and monitor European employment and social policies, and promotes the involvement of the relevant stakeholders (including social partners and civil society organisations) in the policy-making process.
- EURES supports the European Employment Strategy and contributes to strengthening the European Single market by providing information, advice and assistance for placement and recruitment along with matching CVs and vacancies.

In addition to the above, there is also a series of autonomous budget lines covering expenditure related to the European social dialogue, free movement of workers and analysis of the social situation. They are implemented directly by the Commission by virtue of the powers conferred to it by the Treaty.

The Instrument for Pre-Accession (IPA) is composed of five separately managed components, including Component IV dealing with Human Resources Development. This component focuses on preparing the pre-accession countries through building up management structures for the (future) implementation of the Structural Funds upon accession.

Instrument	**Budget (million Euro)***	**Budget heading**
ESF	76 266	1B
EGF		
Progress programme (EU Programme for Employment and Social Solidarity)	680	1A
European Progress Micro-Finance Facility	100	1A
EURES	149	1A
Autonomous budget lines		1A
• Social Dialogue	304	
• Free movement of workers, coordination of social security systems	38	
• Analysis of social situation, demographics and the family	32	
IPA – component IV	640	4

*Current prices (January 2011)

Lessons learned for implementation of the current system

Evaluations and academic research offer some insights to assess the current implementation system.

Effects in terms of role: The ESF is helping to drive innovation in labour activation and social policies at national level. Focusing on European policy objectives means that even in richer Member States or regions, a relatively small amount of ESF funding may become very significant. The PROGRESS programme provides a European dimension and comparison when gathering evidence, developing statistical tools and methods and common indicators to ensure that EU policies and legislation are based on robust evidence and are relevant to the needs of and challenges faced by the Member States. The EU is also uniquely placed to finance measures, through PROGRESS, aimed at improving compliance with EU rules on the protection of workers' and citizens' rights as well as providing systematic review of the EU legislation application across the Member States. EURES, aiming at a truly European labour market, has established an innovative infrastructure which facilitates labour mobility. EGF and the Progress microfinance have enlarged the labour market policy tool-box in several MS. Access to finance is among the main obstacles for people wishing to start their own business, be it as self-employed or as micro-entrepreneur. The PROGRESS microfinance extends the outreach of microfinance to particular at-risk groups and supports the development of entrepreneurship, the social economy and micro-enterprises. Its management at EU level facilitates best practice exchange and a more-effective capacity building in general.

Effects in terms of volume (doing more): Union funds correspond to approximately one fifth of total Active Labour Market Policy expenditures in Member States ranging from 2 % in countries falling mainly in the "competiveness" objective to over 100% in some "convergence" countries where the ESF is extensively used for other policies as well. During the period 2000-2006, one third of all persons having benefitted from ALMP measures in the Member States were supported by the ESF. Thus, the redistributive character of the ESF as a cohesion instrument, which channels most of the money to the disadvantaged parts of the EU and to the most disadvantaged people, reduces the negative impact of income disparities on the capacity of the individual countries and regions to invest in human capital, which is in turn an essential condition for a sustainable catching up process. An analysis based on the data available from the European Restructuring Monitor indicate that, for the period 2009 – 2010, the EGF has been able to show solidarity at EU level vis-à-vis about 10 % of all dismissed workers in the EU. For the microfinance facility, the effects in terms of volume are evident in that a single EU-wide facility is able to concentrate leverage from international financial institutions. This can be witnessed by the current PROGRESS Microfinance instrument, where the EU contribution of € 100 million is matched with another € 100 million from the EIB and will generate an expected total loan volume of € 500 million.

Effects in terms of scope: The ESF 'broadens' the scope of existing action to groups or policy areas that would not otherwise receive support, even in the richer regions or Member States. In addition, the programmatic multiannual character of ESF spending helps to channel financing in areas of social investment which would otherwise be neglected. This can be due to economic externalities, reducing the propensity of Member States to take action on their own, or because, in an increasingly tight fiscal environment, support for these groups or policies – with sometimes longer-term return on investment - is difficult to obtain at the national level. The PROGRESS programme supports the capacity-building of key European networks to promote and further develop the Union social policy goals. Furthermore, it promotes cooperation with international organisations and non-member industrialised countries to make sure that the Union's voice is heard on key European employment and social concepts. Evidence gathered so far suggests that the EGF has provided redundant workers with personalised active labour market policy measures, quality and volume of support, as well as measures beyond what they would have been able to get through the standard support measures at Member State level.

Moreover, the instruments are accompanied by specific delivery mechanisms that have a strong added value: how things are done and how actors get involved notably through the application of the partnership principle, the long-term perspective, and the flexibility of the instrument. The ESF acts as a catalyst for cooperation between governmental bodies between themselves and with external actors such as social partners, civil society organisations. Its nature of an EU instrument with a role for the European Commission and other EU institutions facilitates mutual learning.

Stakeholders' views

Stakeholders agree that the European Social Fund contributes to European Union policy objectives in the fields of employment and social inclusion, to the European Employment Strategy and to the Open Method of Coordination in the fields of social protection and inclusion. They recognise its role as the main financial instrument the EU has at its disposal to substantiate its employment and social inclusion policies, particularly in the convergence regions. Moreover, the ESF is an important tool galvanising policy change and agenda setting, mutual learning, innovation, development of partnerships, and strategic and long term planning.

The ESF, as the European Fund that directly targets people, has a particularly important role to play in the economic crisis.

Managing authorities and project promoters stress the need for legal security at the beginning of the next programmes and call for further simplifications. The existing spending rules, i.e. reimbursement based on incurred costs, lead to unnecessary administrative burdens on the final beneficiaries and on Managing Authorities. The future implementing rules should be more focused on the effectiveness of projects.

Rules and procedures are deemed overly complex and should be simplified significantly. The different funds in shared management should to the extent possible have common rules. Nevertheless, these common rules should not fully preclude specific rules needed flowing from the specificities of each Fund in terms of the type of actions financed and the needs of stakeholders and beneficiaries. Reporting, monitoring and evaluation are seen as weaknesses, in spite of the fact that most stakeholders agree that more is needed properly to report and communicate results. Currently, it is difficult to present a consolidated picture of the ESF achievements at the level of the EU. A limited set of common indicators might be useful.

While most stakeholders argue that the ESF post-2013 should have a broad scope of interventions fully aligned with the Europe 2020 Strategy, others think that a broad scope would make it more difficult to resist demands on the fund and therefore increase the risks of a scattering of resources. Trade Unions, for instance, argue that the vocation of the ESF is to focus on employment and mobility issues.

There is also disagreement on how far the partnership principle should be strengthened and detailed in the design and implementation of the ESF operational programmes. This principle is generally seen as a source of significant added value and many stakeholders, especially local and regional authorities, social partners and NGOs, have called for a clearer definition and enforcement of the partnership principle. However, some representatives of the ESF Managing Authorities have also argued that there are decreasing returns to the further involvement of numerous partners at national, regional and local level, due to a more difficult decision making process and often also the limited actual capacity to deliver results.

Discussions on the EGF showed an overwhelming support for a crisis intervention instrument that demonstrates solidarity at EU level in case of large scale redundancies and offers tailor made solutions to reintegrate redundant workers into employment. Nevertheless, the complexity of the application procedure and the slowness of the current decision making process were severely criticised by all stakeholders.

The PROGRESS Key Stakeholder Working Group made a strong case for continuing the programme activities under the new MFF and considered that the successor instrument would bring added value in the context of the Europe 2020 governance, notably in terms of:

– supporting the Open Method of Coordination, in particular the development of indicators and policy exchanges and mutual learning processes between and within the Member States in the employment and social area;
– promoting the development and maintenance of a robust evidence base in order to develop, assess and monitor European employment and social policies and legislation, as well as social innovation;
– strengthening the involvement of social partners, civil society organisations and other relevant stakeholders in the policymaking process to enhance ownership of the Europe 2020 Strategy's objectives.

The Group also recommended strengthening synergies with other EU financial instruments, in particular the European Social Fund.

Challenges ahead

Preparing the next MFF provides an opportunity fully to align the current set of instruments with the Europe 2020 objectives in order to deliver on specific priorities and initiatives, ensure complementarity and synergies, and simplify and mainstream activities in order to maximise the impact of the funding and its EU added value. The Union needs smart, integrated, simplified and flexible instruments in order to be able to contribute to the objectives of the Europe 2020 Strategy for smart, sustainable and inclusive growth. To this end, the Commission has analysed all possible options for simplifying and rationalising the current financial tools and budget lines, taking into account their intervention logic (policy objectives and types of activities), target groups, management and implementation methods, legal constraints as well as efficiency and cost-effectiveness of delivery.

The specific objectives are:

1) ***The financial instruments make a measurable contribution towards achieving the Europe 2020 targets***;

   This is about effectiveness. The Europe 2020 targets directly relevant for the financial instruments are to increase the employment rate of 20 - 64 year olds to 75%, to reduce school drop-out rates to below 10%, to increase the proportion of 30-34 year old having completed tertiary education to at least 40% and to lift 20 million people out of the risk of poverty before 2020.

   In the area of employment, the strategic needs at the European level are defined in the context of the European Employment Strategy (EES) as part of the EU economic governance process. Thus, ensuring consistency of the financial instruments with the EES is the best way to target the needs and challenges in this policy area.

   Following the commitments in the European Platform against Poverty and Social Exclusion, the EU should provide financial support to test, disseminate, upscale and institutionalise innovative approaches in order to help modernise the Members States' employment and social policies. Very often, government programmes in the field of social policy suffer from a lack of robust evidence of what does and does not work. A new initiative for evidence based social innovation, particularly in the form of "social experimentation”[85], can be a powerful tool to guide the structural reforms that will be needed to implement the Europe 2020 vision for smart, sustainable and inclusive growth.

   The financial instruments in employment and social policy also contribute to the climate change and energy related targets and to the R&D and competitiveness targets but in a more indirect manner, e.g. by improving the knowledge base of an economy – for example by the provision of digital skills - the growth potential will also increase, while providing training on ecologically sound technologies helps to foster sustainable employment and also the achievement of climate change targets.

[85] Social experimentation refers to small scale projects designed to test policy innovations (or reforms) before adopting them more widely. The impact of the innovation on the sample population is assessed against the situation of a ‘control group’ with similar socio-economic characteristics that remains under the dominant policy regimes. Social experiments can be applied to a large spectrum of social interventions, such as welfare-to-work programmes, provision of health services, technologies to facilitate independent living, addressing homelessness, education, early child development, access public utilities, active retirement, etc. Social experimentation requires a thorough preparation and selection. The programmes should be of sufficient size to make them politically relevant and should focus on fields where evidence suggests that a policy change is needed. To be conclusive, the program must be subject to well-defined evaluation standards, to ensure that its results are transferable to another context.

2) ***Overall, the financial instruments are consistent and mutually reinforcing***

The change in policy context, growing pressure on public finance and overall economic and social circumstances require maximising the performance, the consistency and synergies of the various financial instruments and avoiding gaps in strategically important areas.

A number of changes are necessary to make sure that past weaknesses are overcome and the links between employment and social inclusion policy instruments and the Europe 2020 strategy are exploited to the full. Thus, the operational policy objectives are the following:

- Ensure that resources are concentrated on thematic areas corresponding to the Europe 2020 priorities;
- Simplify access and use of funds for the beneficiaries, so that the administrative hurdles are reduced to minimum and implementation becomes faster and easier.

In addition, implementation of the ESF will focus on combining a stronger result-based approach with simplification for beneficiaries. More use will be made of simplified cost options, in particular for small projects, thereby reducing administrative burden on Member States and regions and facilitating access to funding for local initiatives.

Policy choices

The options being considered represent a range which has been shaped by dialogue with stakeholders and recommendations derived from research in the area. They cover different dimensions, namely:

(1) The scope of the ESF interventions;

(2) Focusing ESF (and structural funds) Operational Programmes on key issues;

(3) The relationship between the EGF and the ESF;

(4) The links between direct management instruments and the ESF.

The first two dimensions directly address the issue of the content of ESF support, including the question of how to focus the expenditure in a way which produces a significant impact. Further aspects which make a significant contribution to the effective implementation of the ESF, namely questions relating to complementarity with other funds, performance orientation or increased transparency through a better monitoring system, are discussed under cohesion policy.

The latter two dimensions focus on the overall architecture of employment and social policy-related financial instruments at the European level into direct and shared management instruments.

It is proposed to keep the autonomous budget lines separate from the other instruments. The future enlargement instrument is not discussed here.

Assessment of available options

1. The scope of the ESF

The options examined represent a progression from a very narrow scope to a very broad one.

Option 1 – an ESF would narrowly focus on policies and actions leading directly to employment (including support to education, but only tertiary education and vocational education), ensuring a concentration on its core tasks. One could expect that the ESF becomes more focused and it might become easier to communicate its scope. However, its limited scope might not necessarily allow adaptation to global challenges and the specific local situations. It would also constitute an important caesura between the current programming period and the next one.

Under ***Option 2,*** the ESF would cover policies and actions leading directly or indirectly to employment. The advantage is that it would allow supporting poverty reduction interventions to a certain extent. However, the scope would still be too limited to address effectively a range of social and educational challenges in the light of the Europe 2020 poverty and early school-leaving targets.

Option 3, a broad scope for ESF with interventions covering policies and actions supporting directly or indirectly employment or social inclusion. This option would allow for greatest flexibility. Intervention could be focussed on those activities likely to be most beneficial in the local contexts and which could be expected to be managed most effectively. Such a broad scope would have to go hand in hand with mechanisms ensuring adequate focussing of expenditure on key challenges in order to achieve critical mass.

Option 4 would be a broad scope for ESF also including passive (income support) measures. However, spending by Member States and regional authorities on passive measures is currently of a completely different order of magnitude, compared to the funds potentially available for the ESF. Supporting passive measures might lead to a reduced focus on core tasks and even be in contradiction with the Treaty provisions.

A broad scope for the ESF combined with the possibility to fund passive measures (***option 4***) would be very unlikely to maximise European Added Value. An ESF focused on employment (***scope options 1 and 2***), would not contribute towards the achievement of any Europe 2020 goal in terms of social inclusion. The **preferred option is option 3** as it ensures the right focus on Europe 2020.

2. Focussing ESF Operational Programmes

Under ***option 1***, the no policy change, operational programmes and their structure in terms of priority axes are the result of negotiations. This would allow for tailor-made programmes, adapted to the logic of the themes covered and national or regional specificities. However, concentration of ESF interventions on EU policy objectives would be dependent on the final outcome of bilateral negotiations and hence unpredictable.

Option 2 would conciliate concentration and flexibility via the choice of a limited number of investment priorities defined in the ESF regulation. This would facilitate the consolidation of outputs and results at European level and also ensure a clearer link with the EES and the Integrated Guidelines. However, the complete list of predefined investment priorities would have to be sufficiently broad to ensure that specific needs can still be covered and taken into account.

Option 3, the standardisation of ESF programmes across the Union, would require a relatively high level of details in the regulation. Standardised OPs might prove inflexible to adjust to changes in the labour market and not be adapted to local needs. They would not necessarily lead to an increased concentration of the Fund if the priority axes were defined broadly.

Regarding the focus of actual ESF Operational Programmes, keeping in mind the necessity to achieve critical mass, ***option 2 is the preferred option*** because, in combination with a broad scope for the ESF, it still guarantees concentration. Option 1 may achieve the same results, or even better, given its flexibility. Option 3 ensures concentration only in the case of a narrow ESF scope. Moreover, a reduced flexibility in the design of OP increases the risks of over-investment in interventions that are not of local importance.

3. Relation between the EGF and the ESF

Under ***Option 1,*** which corresponds to the ***no policy change,*** the role of the EGF as a rapid crisis intervention instrument would be seriously hampered by a complex set of intervention criteria and administrative process, resulting in a slow decision making process. The long time lag between application and payment would continue to prevent the EGF from acting as a fully-fledged emergency instrument.

Under ***Option 2***, the EGF actions would be ***incorporated into the ESF***. The EGF would become an EU-level strand within the ESF. This would increase coherence and ensure genuine complementarity between preventative and curative measures. While the solidarity aspects of the instrument would be fully preserved, the visibility of EU support to displaced workers might be somewhat reduced.

Option 3, an EGF as a ***stand-alone fund with its own budgetary envelope,*** would maintain a certain degree of overlap with the ESF. Moreover, it would not address the need to improve the synergies between instruments rather than risking competition and overlaps, whereas the Budget Review (p.13) calls for beneficiaries of EU support to "be offered a consistent set of programmes complementing each other and allowing for 'smart specialisation' rather than being confronted with a multitude of partially overlapping schemes and different rules".

Regarding the EGF, the no-policy change is not a preferred option. The cumbersome decision making procedure is turning the EGF from a curative into a refinancing instrument. There is already a tendency in some Member States to use the ESF instead. The comparative advantages and disadvantages of options 2 and 3 are essentially a function of political expediency.

4. Links between the ESF and other employment and social inclusion instruments

Under the ***no policy change option,*** the PROGRESS programme, EURES and the European Microfinance Facility would continue to exist as distinct instruments. However, without the gender equality and anti-discrimination strands, the new PROGRESS programme would be smaller and as such would not have the critical mass needed to achieve its policy objectives.

Under ***option 2, a new integrated programme (direct management) for employment and social inclusion*** would be set up. Bringing together PROGRESS, EURES and the European Microfinance Facility, it would include:

- Actions to support the development of indicators, policy exchanges and mutual learning between and within the Member States, and strengthening the involvement of social partners, civil society organisations and other relevant stakeholders in the policymaking process to enhance ownership of the Europe 2020 Strategy's objectives in the areas of 'employment', 'social inclusion' and 'working conditions', building on the experience with the current Progress programme;

- A new initiative to promote evidence-based social innovation, building on the European Platform against Poverty and Social exclusion. It would provide for analytical and mutual learning activities as well as financial support for projects to test and disseminate innovative approaches to address employment and social policy challenges (including through the ESF, where social innovation should receive stronger attention);

- Actions promoting intra-EU labour mobility and enhancing access to employment opportunities building on the EURES scheme and including in particular the "Your First EURES Job" scheme, which aims to promote youth employment, and the EURES vacancy and CV portal with linked training, communication and mutual learning actions.

- A successor of the European Progress Microfinance Facility promoting entrepreneurship and self-employment as a means to create jobs and combat exclusion by increasing the availability and accessibility of microfinance for vulnerable groups, micro-enterprises and the social economy. Attempts would be made to integrate EU level schemes with national, regional and local initiatives.

The integrated programme would focus on projects with a sufficient critical mass to carry clear EU added value and to reduce administrative burden. Harmonised and simplified rules and procedures would be put in place to facilitate access to the programme for potential beneficiaries.

The advantage of this option is a high degree of rationalisation of employment and social policy financial tools (direct management) and streamlining of their implementation rules.

Option 3 corresponds to the establishment of a single instrument for employment and social affairs under the banner of the European Social Fund. It would have two components: one for direct management (PROGRESS, EURES and the European Microfinance Facility) and the other for shared management. This option could generate further synergies and complementarity of all employment and social policy instruments. However, simplification gains would be difficult to measure as the single instrument would be comprised of separate components and their implementation would essentially be done under different management rules (i.e. shared, direct and joint management).

Option 2 is the preferred option as it would bring about considerable streamlining compared to option 1 (current situation). In comparison to option 3, it would also avoid an excessively complicated ESF Regulation and any delays this could cause for the cohesion policy process.

9. AGRICULTURE

The Treaties set out clear objectives for the common agricultural policy: increasing agricultural productivity; ensuring a fair standard of living for the agricultural community; stabilising markets; ensuring the availability of supplies and ensuring that supplies reach consumers at a reasonable price. These objectives have remained unchanged over time and were confirmed by the Treaty of Lisbon.

The current financing of the CAP results from the reform introduced in 2003 and further refined with the Health Check in 2008. Its main elements are the dismantling of production support replaced by de-coupled payments to farmers, the reduction of market price support measures to safety-net levels and the reinforcement of the rural development dimension. These are based on two complementary pillars.

Current system of funding

Pillar I, with a budget of €281.8 billion for 2007-2013, is focused on income support and market measures. It provides a layer of support to all farmers with a view to promoting sustainable farming throughout Europe. Member States are obliged to implement measures under this pillar. There is no co-financing: this ensures the application of a common policy throughout the single market and an integrated administration and control system.

Pillar II of the CAP, with a budget of €89.9 billion for 2007-2013 from the EU budget, consists of targeted measures to deliver specific environmental public goods, improve the competitiveness of the agriculture and forestry sectors and promote the diversification of economic activity and quality of life in rural areas. These measures are largely voluntary and contractual. Member States have a high degree of flexibility in the design of the measures, based on specific national/regional needs but reflecting EU priorities. Measures in Pillar 2 are co-financed by Member States (and in some cases also attract private funding). This provides an additional incentive to ensure that the underlying objectives are accomplished and reinforces the leverage effect of rural development policy. Through higher co-financing rates for 'convergence' regions, Pillar II also contributes to the cohesion objectives of the EU.

Lessons learned from implementation of the current system

Pillar I

External evaluations of existing CAP instruments show that these are generally effective, efficient and pertinent to their objectives, although there is a need for better targeting, the central issue being the distribution of support. For example, the recent evaluation of the effects of the direct support schemes on the income of farmers indicates that the efficiency of direct payments is rather high at macro level, yet very uneven at farm level. Thus, the main challenge stemming from the evaluation of Pillar I is the need to ensure that support is distributed in a more equitable manner, both among and within Member States.

In addition, the European Court of Auditors, in a Special report published in 2011, found that the SPS positively contributed to the objectives of the CAP, notably by encouraging farmers to respond better to market demand and by supporting the income of the agricultural sector as a whole[86]. With regard to the food aid programme for deprived persons, the European Court of Auditors recognised in a Special

[86] European Court of Auditors, Special Report No 5/2011: "Single payment scheme (SPS): issues to be addressed to improve its sound financial management”

Report published in 2009[87], that the programme provides between 30 and 70% of the total food distributed in the EU to the most deprived people, depending on the charities and the MS. On the information and promotion of agricultural products, the European Court of Auditors has concluded that management and control of the expenditure linked to this strand of the policy has improved over time[88].

Pillar II

The current Rural Development policy framework for 2007-2013 has undergone ex-ante and mid-term assessments, which show the positive impact of the strategic approach introduced for the current period. Member States made considerable efforts to develop strategies on the basis of an analysis of strengths, weaknesses, opportunities and threats (SWOT) so as to tailor their intervention to policy objectives. However, there have been also some difficulties experienced by certain relevant areas and groups in making their case for receiving funding. While Member States have generally been successful in setting demarcation lines and ensuring coordination between rural development and other policies, synergies have not always been fully exploited to allow the different policies to work together towards common objectives. The Leader programme has successfully brought local actors together and allowed for the development of local governance capacities.

Investment measures generally helped to increase farms' overall performance in various ways (including in an environmental sense), but reports have suggested some instances of deadweight effects in the case of large productive farms undertaking "traditional" investments. Agri-environmental measures overall have unquestionably delivered a wide range of strong environmental benefits. However, in limited cases, the commitments proposed were only marginally above the baseline of legal obligations, or demanding commitments were not matched by an appropriate payment rate (discouraging take-up). Finally, linking more complex agri-environment measures to support for relevant training for farmers and land managers was at times found to be difficult. Among measures targeting economic diversification and the quality of life in rural areas, support for the creation and development of micro-enterprises – as an example – is seen as highly relevant to the economic fabric of rural areas, and has been actively targeted. Its limitation to micro-enterprises has been questioned.

Stakeholders' views

The EU institutions share the view that a strong, common agricultural policy is needed to address the future economic, territorial and environmental challenges and that it will play an important role in meeting the Europe 2020 objectives. The conclusions of the Presidency on the Commission's Communication on the CAP towards 2020[89] called for a strong CAP based on two pillars with financial resources that are commensurate with its objectives. The Council recognised the need for more equitable distribution of payments in a way that does not cause major disruptions, endorsed the concept of greening of the CAP and agreed that robust rural development policy and well-functioning market instruments are important features of the future CAP.

The agricultural ministries of France and Germany drew up bilaterally a common position on the future of the CAP in September 2010, which emphasised a need for a strong CAP, more legitimacy of direct payments and efficient and sustainable rural development policy. Another declaration was signed by the Ministers of Agriculture of six Member States90 in November 2010 with main points of

[87] European Court of Auditors, Special Report No 6/2009: "European Union food aid for deprived persons: an assessment of the objectives, the means and the methods employed"

[88] European Court of Auditors, Special Report No 10/2009 of the ECA: "Information and promotion of agricultural products"

[89] Adopted at the AGRIFISH Council of 17 March 2011 with the support of 20 Member States.

[90] Slovakia, Poland, Hungary, Czech Republic, Bulgaria and Romania

interest in the equitable distribution for direct payments and the prolongation of SAPS with additional payments for more flexibility.

The European Parliament's 2010 report on the future of the CAP after 2013[91] (rapporteur G. Lyon) also emphasised the need for a strong, common CAP based on a two pillar structure, as well as for greening direct payments in the form of a simple contract financed as a top-up for the delivery of services focused on the environment and the combating of climate change. The Committee on Budgets (COBU) pointed out in its opinion the necessity to prevent a re-nationalisation of the CAP while ensuring adequate funding for the policy under the new MFF, so that the policy may be able to respond better to the challenges ahead. The Dess report on the CAP towards 2020[92] largely endorsed the approach set out in the Communication on the CAP towards 2020 and called for maintaining the CAP budget at least at the same level as the budget in 2013 (as does the SURE committee's report in recognition of the multifunctional role of the CAP). More specifically, the Dess report expressed support for a greater convergence in direct payments, greening in the 1st pillar, better targeted direct payments, including through capping and active farmers, market measures as a safety net and improved functioning of the food chain, support to young farmers and LFAs, as well as the need for simplification.

As regards the stakeholders, a series of public consultations and debates brought the following recommendations:

- A strategic approach to CAP reform should be taken: total, not partial, solutions, taking account of CAP challenges should be proposed, while ensuring coherence between the CAP and other internal and external EU policies, such as environmental, health, trade, development;

- Stakeholders see the need for a strong Common Agricultural Policy based on a two-pillar-structure in order to address the challenges ahead. However, stakeholders have strong and diverse opinions concerning the targeting of support, redistribution of both Pillar I and Pillar II payments between and within Member States, capping and targeting payments towards groups of farmers.

- There is agreement that both pillars can play an important role in providing public goods for the benefit of EU society. Whereas many farmers believe that this already takes place today, the broader public argues that Pillar I payments can be more efficiently used to step up climate action and increase environmental performance.

- The CAP should play a role in stabilizing markets and prices.

- The stakeholders want all parts of the EU, including less favoured areas, to be part of future growth and development.

- Innovation, development of competitive businesses and provision of public goods to the EU citizens are seen as ways to align the CAP with the Europe 2020 strategy.

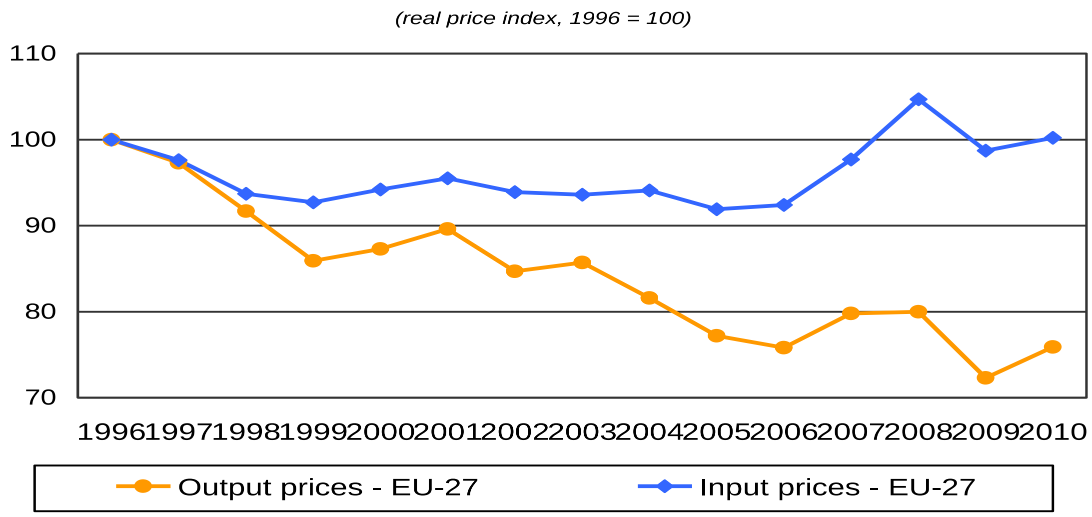
[91] (2009/2236(INI)).
[92] (2011/2051(INI)).

Challenges ahead

The context in which the common agricultural policy pursues these objectives has evolved, as its economic and policy environment has become more complex and broader. New demands and expectations are being placed on agriculture, which is meant to contribute to addressing environmental and public health concerns, ensure territorial cohesion and be consistent with the global and development agenda of the EU.

EU agriculture faces a global deterioration in its terms of trade and its productivity. During the 2004-10 period, the *average* level of world agricultural prices increased by 50% from its corresponding level of the 1996-2003 period. At the same time energy prices and fertiliser prices increased significantly and were subject to high volatility.

Figure X: EU-27 developments in agricultural input and output prices (1996=100)



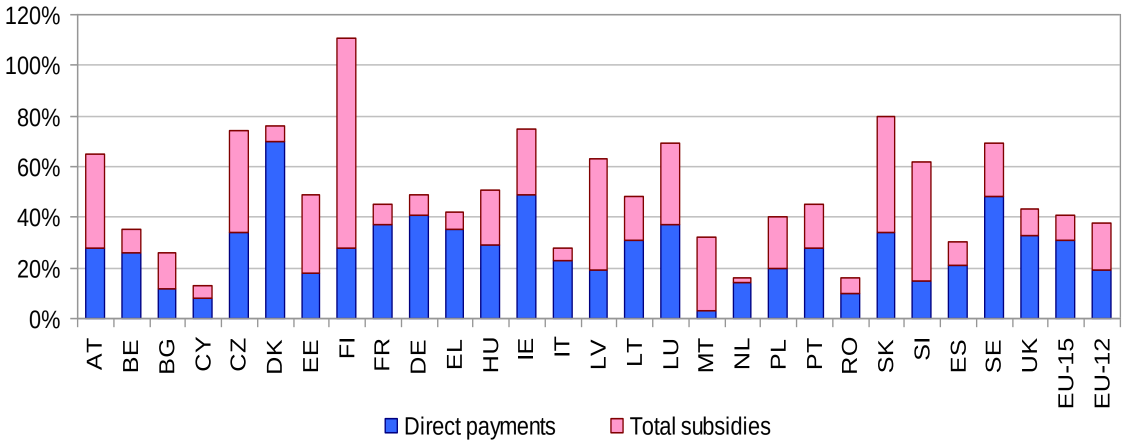
Source: Eurostat

This 'margin squeeze' for producers has had an impact on EU farm income: even if between 2005 and 2010, EU 27 real agricultural income per worker is estimated to have increased by 10%, it equals today roughly 60% of the average wage in the EU-27.

The causes are multiple, from the economics and the structural characteristics of the sector to the uneven and asymmetric transmission of price changes and distribution of value added along the food chain. Moreover, farmers today experience increased exposure to income risks due to factors that are external to the farm sector, such as increased volatility on non-agricultural commodity markets, stronger linkages with the world market (due to trade liberalisation, policy changes and global economic developments) and climate change.

Direct payments currently account for about 30% of sector income in EU15 and 20% in EU12, with total subsidies accounting for about 40% of sector income (although the situation is very different throughout the EU – see Figure X below).

Figure X: Share of direct payments and total operating subsidies in agricultural sector income (avg. 2007-2009)

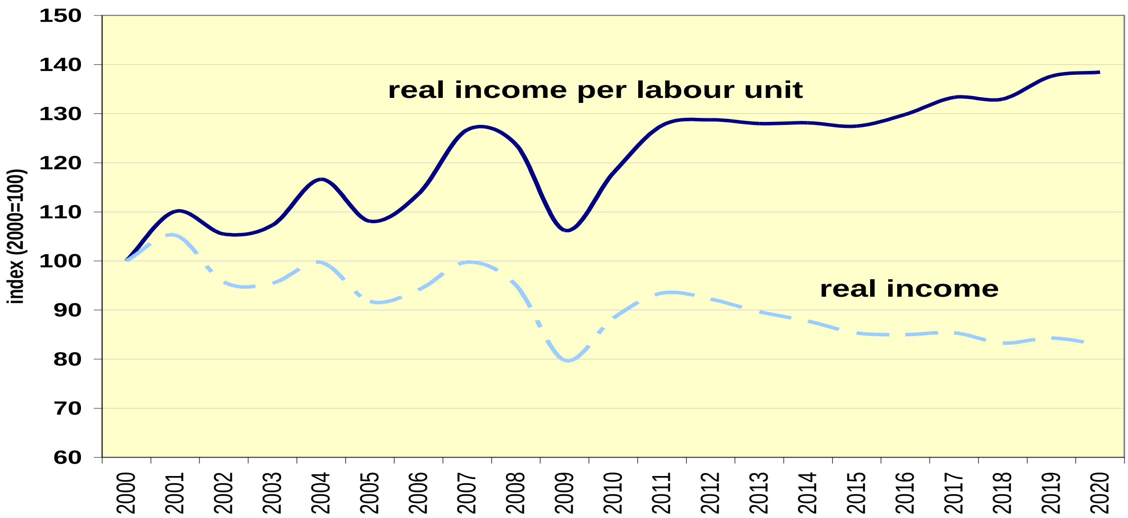


Source: DG AGRI

Although agricultural prices are set to remain high, this is not so much related to more dynamic demand growth (which is projected to increase, but at lower rates than in previous decades) or an improved share of the value added along the supply chain, but rather to the increasing costs of production, maintaining the deterioration of the agricultural terms of trade. As a consequence, agricultural income (in real terms per labour unit) is expected to display a modest growth over the coming decade.[93]

[93] For a detailed description of the recent trends and projections of agricultural income see DG AGRI publication "Situation and prospects for EU agriculture and rural areas" http://ec.europa.eu/agriculture/publi/situation-and-prospects/2010_en.pdf.

Figure X: Prospects for EU-27 agricultural income



Source: DG AGRI

At the same time, markets do not always fully reflect the environmental externalities, both negative, such as pollution from transport and positive such as eco-system services. Agriculture and forests cover about 77% of the EU territory (about 47% for agriculture and 37% for forests, not including "other wooded land"), and both their impact on the environment and dependency on it is strong. In addition, agriculture has a role in providing other products and uses, such as biomass for energy (as a source of green energy) and biomaterials (as a way of reducing dependency on fossil materials), thus contributing to fighting climate change and providing more sustainable energy supply. Equally, agriculture and forestry often play a key role in producing public goods, notably environmental such as landscapes, farmland biodiversity, climate stability and greater resilience to natural disasters such as flooding, drought and fire.

Both economic and environmental trends suggest that resource scarcity will be the main feature of future agricultural production, as outlined in a series of foresight studies prepared for the European Commission – Standing Committee on Agricultural Research[5]. A transition towards more sustainable production systems requires both appropriate technologies and governance to create efficient agricultural knowledge and innovation systems, including extension services. These are currently fragmented and insufficiently responsive to evolving needs, which hampers the implementation of research and uptake of innovation by the agriculture and food sectors.

Agriculture is also closely linked with the development of rural areas. Of the EU-27 territory, 54% is predominantly rural, representing 19% of the EU population. In predominantly rural areas, the primary sector represents 4.9% of value added and 15.7% of employment. There are also rural regions particularly affected by low GDP per capita, high unemployment, low educational attainment, an ageing population, negative migration flows, and resulting low social capital. There the role of agriculture can be particularly important, and an increase in agricultural output can contribute to improving the situation, through boosting food processing, hotels and catering and trade.

These future challenges can be summarised as follows:

Ensuring viable food production – will require addressing slowdown in productivity of food production, adjusting value added in the food production chain, increasing innovation and preparing the sector for increased global competition and for volatility of prices of both output and production inputs.

Sustainable management of natural resources and climate action – will require reducing impact on the environment, including carbon emission more efficient use of resources, while at the same time adapting to changing climate.

Balanced territorial development – will require ensuring a greater fairness and efficiency in the allocation of public support to farmers, both within and among Member States, so that direct support is more equitably distributed, benefits only active farmers and takes into account the specific situation of small farmers and farmers operating in the least favoured areas.

In addition there is a need to further simplify the regulatory and administrative framework for the agricultural activities, so that farmers and business can operate in an environment as simple as possible with clear and accessible market instruments and fewer administrative obligations.

Available policy choices

The main policy choices were clearly outlined in the public debate on the future of CAP. They can be summarised as follows:

(1) Horizontal issues:

– Size of CAP budget / share of agriculture in overall budget

– Structure of the system (two-pillars/one, etc) and the budget allocation between the pillars

– Degree of simplification and flexibility to be left to the MS

– Factoring in international trade agreements

(2) Direct payments

– Structure of direct payments and better targeting (including potential capping and limiting to active farmers)

– Distribution across the EU MS

– Degree of greening direct payments beyond existing cross-compliance obligations

(3) Market support

– Adapting specific market measures schemes to safety-net character

– Helping farmers increase value added through collective actions

(4) Rural development

– Scope of policy (future objectives and priorities)

– Degree of co-ordination with other EU funds under shared management, e.g. through EU-level Common Strategic Framework and Partnership Contracts at national level

– Management / delivery mechanisms of rural development policy

Discarded options

In the course of the process certain options which were assessed in the analysis were not included in the options. The reason for this is that they were judged to be less relevant to the objectives of the CAP, not complying with the general direction of CAP reform or politically unfeasible.

The most important of these rejected elements are:

- Linking intervention prices for main commodities to the development of production costs in Europe. As the situation relating to operating costs and receipts varies widely across sectors and Member States, and production cost developments are available with a time lag, such a proposal would face practical difficulties in its implementation. More importantly, it could lead to reintroducing distortions on EU markets, putting at risk the effective functioning of the Single Market in the agri-food sector. It would also generate inefficiencies by preventing productivity gains to be properly reflected in the level of competitiveness of agricultural holdings, generating the risks of sub-optimal allocation of resources and overproduction in some regions.

- Introducing a counter-cyclical payment that would link direct support back to agricultural prices. Proponents of this idea argue that high prices for agricultural products would make direct support less necessary and should therefore result in its reduction. However, recently input prices increased to a much greater extent than agricultural prices, and are expected to remain at high level over the medium term so that high agricultural prices do not necessarily mean high income as the gradual deterioration of the term of trade of the agricultural sector has significantly squeezed farmers' income margins.

More fundamentally still, the proposal would reverse the market orientation of EU agriculture put in place over the last two decades as it would distort farmers' production decisions by blurring the transmission of market signals. Finally, direct payments linked to price developments could not be classified in the 'green box' of the WTO, thus undermining the EU's trade negotiating position at the WTO.

Assessment of available alternatives

Out of the different policy options, three alternative policy scenarios were constructed to show the potential paths of CAP reforms. While the presented scenarios are consistent and credible in their design they do not represent the only possibilities of combining measures to address the CAP objectives. They are presented on the basis of the three main lines of policy intervention, namely market measures (Council Regulation (EC) No 1234/2007), direct payments (Council Regulation (EC) No 73/2009) and rural development policy (Council Regulation (EC) No 1698/2005).

Scenario 1

This scenario assumes the continuation of the policy provisions along current lines, however introducing further gradual changes in order to address the most important shortcomings of the current policy framework. Existing market instruments would be simplified as regard implementation, but maintained at current support levels. The redistribution of direct payments towards greater effectiveness and more equity between Member States and farmers could be done through various approaches: by moving to the same level of direct aid per hectare for all farmers in the EU ("flat rate"); by a pragmatic approach that ensures that all Member States get at least a share of the EU average (e.g. 80% or 85%); by the use of objective economic and environmental criteria to determine the distribution between Member States; and by a combination of the "pragmatic" and "objective criteria" approaches outlined above. Cross compliance would be strengthened. Rural development policy would follow the Health Check model of a moderate increase in the rural development budget for certain priorities (innovation and competitiveness, or innovation and environmental priorities) within a constant CAP budget, while the distribution of funds between Member States and management systems would remain the same as in the current period.

Impacts

Under this scenario, farmers, prompted by market signals, are expected to make better use of available policy instruments to increase their competitiveness. At the same time, the redistributed direct payments will shield them from excessive income fluctuations in a more effective and equitable manner throughout the EU. Redistribution would allow higher support for more environmentally beneficial agricultural areas and limit land abandonment, but increased economic pressures would likely drive towards intensification production in the most fertile regions. Rural development measures would continue to address wider rural issues.

Both granting a uniform flat rate direct payment across the whole EU and basing the distribution of support on a set of criteria reflecting the dual role of the instrument (income support and environmental public goods), would lead to a significant redistribution of funds between Member States. The extent of this distribution would also depend on choice of criteria. The resulting impacts on incomes could be substantial. The use of a set of criteria would not bridge the gap between EU15 and EU12 (with the exception of the Baltic States) thus failing to bring about more equity between Member States. The effect on income could be mitigated by opting for a minimum level of convergence (e.g. that all Member States get at least a certain % of the EU average) or by combining this pragmatic approach with the use of objective criteria in redistributing direct payment between Member States. The move towards a regional model for distribution within a Member State would rebalance support between farm types, especially in Member States currently using a historical model, mostly towards more extensive production systems thus also producing environmental benefits in the form of support for permanent grassland and land under threat of land abandonment. Grazing livestock, wine and horticulture would benefit, while field crops, mixed and milk farms would lose from such redistribution.

A moderate increase in the rural development budget should lead to a small overall positive impact on competitiveness owing to investments in human and physical capital that increase productivity. However, the availability of rural development measures may fall short of the demand for innovative actions, especially in the context of deteriorating terms of trade and increasing environmental challenges. The lack of encouraging environment for collaborative action and innovation will hamper productivity growth.

The main environmental benefit is expected to come from the redistribution of funds towards less intensive production types and increased RD funding for environmental measures and redistribution of support to more extensive farming. There are, however, serious doubts as to whether it can adequately address the important climate and environmental challenges in the future.

The effects of this scenario on consumers are expected to be limited, as agricultural prices and the transmission of price changes along the food production chain will not change significantly when compared to the status quo.

Scenario 2

This scenario proposes a significantly revised policy framework, which addresses the objectives of the CAP in a more balanced way, reinforcing their complementarities. In addition to streamlining of market instruments, measures for encouraging collective actions between farmers would be enhanced. With respect to direct payments, there would be a redistribution of the envelopes between Member States as described under the first scenario, but with the introduction of different components of direct payments:

- a basic income support in the form of a national/regional flat rate based on entitlements
- an area-based payment for naturally handicapped areas;
- a green payment across the whole EU territory, composed of simple, generalized, annual and non-contractual environmental measures going beyond baseline standards of cross compliance (concerning permanent grassland, green cover, ecological focus areas, crop diversification and a Natura 2000 specific support) in order to enhance the environmental and climate action performance of the Pillar I (organic farming would qualify automatically for this component due to its environmental benefits);

- a voluntary coupled support component for specific sectors.

Other elements of this scenario would include the capping of payments (except the "greening component"), for instance by factors such as salaried labour, and targeting of support to active farmers, as well as a specific regime for small farmers (defined either as small beneficiaries or according to the physical size of farms), who would receive a fixed lump sum replacing all the other components of direct payments. With respect to rural development policy, support would be distributed between Member States on the basis of policy objectives better aligned with the Europe 2020 strategy, which would explicitly reflect innovation, climate change (including the sustainable production of renewable energy), as well as the environment in general as cross-cutting guiding themes. Co-ordination and complementarity with other EU funds would be reinforced (in particular, within an EU-level Common Strategic Framework). The current toolkit of around 40 measures would be streamlined into approximately 20 measures. Member States and regions would be free to use measures in combination to meet objectives and priorities, liberated from the current constraints of the axis system. Measures fostering innovation in agriculture would be adapted and strengthened in view of supporting innovative approaches in EU agriculture.

Impacts

This scenario takes the need to green the CAP a step further with the "greening" component of direct payments. The table below presents examples of environmental impacts of the measures that could be applied.

Green cover - a temporary plant cover of arable land that would otherwise remain bare at certain times in the year	Benefits for water quality (esp. reduction of nitrate leaching); soil quality and reduction of erosion; climate change mitigation (increase in soil organic matter and reduction in chemical fertilizers) and adaptation; flood prevention
Crop rotation/diversification - planned and ordered succession of different crops on the same field (usually lasting 3-5 years)	Benefits for soil organic matter and structure; reduction of soil erosion and nitrate leaching; nutrients management and input reduction; benefits for disease control; water quality and quantity; climate change mitigation and adaptation; improved habitats and landscape diversity
Permanent grassland - that has not been in arable rotation for at least 5 years, thus ranging from High Nature Value to semi-natural to cultivated grassland	Benefits for climate change mitigation (esp. peatlands[94]) and adaptation, biodiversity, soil, water management, flood prevention and landscape amenities
Ecological Focus Areas - land left fallow (not in production) for environmental purposes	Benefits for biodiversity; soil and water quality; climate change mitigation and adaptation; pest control; landscapes
Natura 2000 - the EU wide network of Special Areas of Conservation under the Habitats Directive and Special Protection Areas under the Birds Directive	Benefits for biodiversity, water quality and climate change mitigation, that largely depend on conservation measures put in place in each Member State

94 The most important way in which peatlands can be beneficial in terms of mitigation is either leaving them water-logged (i.e. no drainage and no conversion to arable, grass, forestry) or bringing them back to water-logged conditions.

The challenge is how to design such greening so as to reap considerable environmental benefits and assure a sustainable use of natural resources that does not undermine the fundamentals of the long-term competitiveness of the farming sector throughout the EU territory and territorial balance and does not impose prohibitive costs on farmers, unduly complicating the management of direct payments (or rural development policy). The resulting negative impact on income would remain moderate on average and be partly compensated by the economic benefits (such as improved soil quality and fertility, a reduced risk of desertification, better pollination services, a reduced need for fertiliser and plant protection product inputs, improved resilience to climate change, better water retention etc.) that greening would have in most cases in a medium- to long-term time horizon, although these would vary significantly across regions and farming systems.

The greening component would also free up funds in rural development that could be deployed towards more sophisticated or demanding agri-environment measures. The combined effect of environmental and LFA measures in both pillars would have the potential of significantly enhancing the contribution of the policy to the provision of public goods. Better targeting of support by means of the different components of direct payments (in particular capping, the small farmer scheme and the better definition of "active farmers") can help achieve more effectiveness in terms of targeting income support and provision of environmental public goods.

Under this scenario, agricultural prices in Europe may increase slightly due to the additional costs of greening. However, the overall impact on food prices in expected to be low. At the same time, the choice and quality of products are expected to increase. These developments would be strengthened by the focus on innovation while the support to small farmers could reinforce the local, short supply chains.

Scenario 3

This scenario assumes the gradual re-focus of support solely around ensuring the environmental and climate change objectives through the rural development policy strategic framework and targeted measures. It assumes that production capacity can be maintained without support through reliance on market signals to allocate resources. The objective of contributing to the vitality of rural areas and territorial balance would be achieved by cohesion policy. All existing market instruments, with the exception of disturbance clauses that could be activated in times of severe crises, would be abolished. Direct payments would be progressively phased out between 2013 and 2020 to allow a smoother adjustment of the sector towards a situation without direct support. Rural development policy would focus on climate change and environment aspects with certain temporary measures to support the phasing-out of direct payments. Funding would be increased significantly and redistributed between Member States while the management system would be simplified.

Impacts

This scenario places the lowest demands on the EU budget since direct payments would be phased out. The priority is placed on market orientation, and thus on the acceleration of structural adjustment in the sector towards greater profitability and competitiveness of enterprises. Those farms which would continue to be economically viable in the new environment would be larger, more open to innovation, leading to cost optimisation and productivity growth, and less labour-intensive. The decrease in land values should also attract new entrants. However, it would also expose the sector to greater risks in terms of market stability in the absence of appropriate safety nets and risk management tools, as well as the risk of decreased spending on innovation due to the pressure on farm income.

At the same time, the end of direct support would result in strong structural changes. Structural adjustment would come at a significant social cost. Income would fall by 25% and production would concentrate in the most profitable areas and sectors. The lack of regional production in many areas could have negative consequences for local markets and products, and could negatively affect certain up- and downstream enterprises with possible negative repercussions on territorial cohesion. Since the phasing out would take place gradually, these changes would be mitigated over time.

The main environmental impacts would be caused by changing the territorial distribution of agricultural activity. Both the concentration of production in particularly productive areas and the abandonment of production and land in more marginal regions would have far reaching consequences for the environmental balance in these areas with, for example, loss of biodiversity and loss of possibilities to contribute to the mitigation of climate change, reduced adaptation or even increased vulnerability (for example, to fires). While there might be benefits from the establishment of 'wilderness' areas in certain situations, overall such developments would result in increased environmental pressures and the deterioration of valuable agricultural habitats with serious economic and social consequences, including an irreversible deterioration of European agricultural production capacity. Doubling spending on better targeted environmental measures would not guarantee sustainable land management across the EU, as the policy would lose the leverage of direct payments coupled with the cross compliance requirements.

The concentration of production and processing in the most productive regions and the intensification of production could impact negatively consumer choices, lead to an increased reliance on long supply chains, and address the ecological concerns of consumers with regard to food production in a more limited fashion.

The broader socio-economic impact on rural areas would also depend on the extent to which other EU policies stepped into the gap left by rural development policy in terms of funding economic diversification and quality of life in rural areas. If other EU policies did not take on board these duties, the socio-economic development of some rural areas would be seriously damaged.

Comparison of scenarios

All three scenarios aim at a more competitive and sustainable agriculture in vibrant rural areas, and thus seek better to align the CAP to the Europe 2020 strategy, notably in terms of resource efficiency.

The first scenario would best allow for policy continuity, with the convergence towards a flatter rate for direct payments bringing about better targeting as well as environmental benefits, but would probably not go far enough in addressing the important climate and environmental challenges of the future.

The second scenario would rely on a combination of broad brush and more targeted measures better to meet the objectives of long term economic and environmental sustainability, while maintaining territorial balance. The challenge would be to find ways to keep additional costs for the farming sector reasonable and management as simple as possible.

The third scenario would boost competitiveness and market orientation and place the lowest demands on the EU budget. However, it could leave the agricultural sector exposed to greater risks, while the phasing out of direct payments would also come with important social and environmental costs.

The second scenario is therefore preferred as scenarios 1 and 3 would not necessarily guarantee economic and environmental sustainability and territorial balance throughout the EU.

10. FISHERIES AND MARITIME AFFAIRS

The Green Paper on Common Fisheries Policy (CFP) reform concluded that the CFP had failed to achieve its objectives, i.e. to ensure a sustainable exploitation of fish resources on its three dimensions: environmental, economic and social. The stocks are overfished, the economic situation of most of the fleets is poor despite high levels of subsidies, the jobs offered by the sector are of low quality, whilst the situation of a large number of coastal communities depending on fishing is precarious. The goal of the current reform of the CFP, which coincides with the expiry of the current CFP financial instruments, is to address these failings and change fundamentally the way fisheries are managed.

Current system of funding

The European Fisheries Fund (EFF) is the major financial pillar of the CFP with a total budget of €4.304 billion for the period 2007-13. The EFF consists of five priority axes: adaptation of the EU fishing fleet; aquaculture and inland fishing, processing and marketing; measures of common interest; territorial development of fisheries areas, and technical assistance.

The Second Financial Instrument[95] is the other major funding instrument for the CFP which provides support for a series of actions not covered by the EFF:

(1) Control and enforcement: support is provided to national fisheries control programmes which enable Member States to fulfil their role in relation to control and enforcement of the CFP. The total budget is €317 million for 2007-2013. In addition, the European Fisheries Control Agency (EFCA) has an annual budget of €8-9 million;

(2) Data collection and scientific advice: Funds are used to support the establishment of complete data by the Member States and used for the evaluation of fisheries resources and decision making. The total budget is €360 million for 2007-2013;

(3) Governance of the CFP: providing funding for consultative/advisory bodies, Advisory Committee on Fisheries and Aquaculture (ACFA), the Regional Advisory Councils (RACs), and for communication and dialogue with stakeholders and the public. Expenditure for 2007-2013 is €45 million;

(4) International relations: contributions to international organisations (voluntary and compulsory contributions to Regional Fisheries Management Organisations (RFMOs) and UN bodies dealing with fisheries and law of the sea amounted to €9.8 million in 2010. €11 million is programmed for 2013. Although Fisheries Partnerships Agreements (FPAs) are mentioned in the Second Financial Instrument, it does not constitute the basic act for such expenditure. Each FPA is covered by a specific Council Regulation. The budget allocated for the implementation of FPAs is €150 million per year on average in commitments, resulting in overall commitments of over €1 billion for the 2007-2013 MFF.

Integrated Maritime Policy was financed on the basis of Article 49 (6) (a) and (b) of the Financial Regulation funding pilot projects and preparatory actions. The total volume for 2008-2010 was €20.4 million. A financial regulation has been proposed by the Commission to finance the development of IMP between 2011 and 2013 with a budget of €50 million.

[95] Council Regulation (EC) No 861/2006 of 22 May 2006 establishing Community financial measures for the implementation of the common fisheries policy and in the area of the Law of the Sea.

The European Agriculture Guarantee Fund (EAGF) finances market intervention and compensation for production and marketing planning in the Common Market Organisation for fisheries and aquaculture products. A part of the scheme (about €15 million per year on average), finances interventions in fisheries products and is managed by the Commission. The EAGF also supports the scheme to compensate for the additional costs incurred in the marketing of certain fishery products from the outermost regions. The total amount of compensation is around €15 million per year.

Fisheries Partnership Agreements (FPAs) are bilateral agreements between the EU and individual third countries. They enable EU vessels to fish in the exclusive economic zones (EEZs) of non-EU countries which are not in a position to exploit fully their fish stocks. FPAs also support the development of third countries' fisheries sector and policy. There are currently 15 FPAs with corresponding protocols (which determine the specifics of fishing opportunities and financial contribution) in force. The number of FPAs to be concluded by the Union is also subject to some flexibility since it may vary according to political priories and/or the available budget. The EU's financial contribution to third countries under these agreements includes access costs for EU vessels to third countries' EEZs (a small part being paid by EU ship-owners), as well as a component for sectoral support, i.e. budgetary transfers earmarked for the development and regulation of the fisheries sector in the countries concerned. FPAs are negotiated by the Commission on behalf of the EU for a period between 3 and 6 years (renewable), with some protocols exceptionally covering shorter periods. The budget for 2011 for FPAs is €144 million.

Lessons learned from implementation of the current system

1. Ex-post evaluation of FIFG and interim evaluation of EFF

(1) There is a lack of strategic approach to funding that would ensure critical mass of investment focused on the spending priorities. This is also favoured by a very wide catalogue of available measures lacking prioritisation;

(2) Most of the spending is concentrated on "simple" productive investment which limits the impacts of the funding in terms of environmental sustainability or innovation;

(3) The impact of FIFG support to aquaculture was mitigated in terms of production volumes, but it favoured the improvement of sanitary and environmental conditions and also had a positive impact on employment and improving EU competitiveness;

(4) Funding is allocated to Member States predominantly on the basis of cohesion criteria. As these do not coincide with the size of the fisheries sector, there is a large discrepancy between the needs and available means;

(5) Monitoring is based on diverse indicators which vary between Member States. This renders it impossible to obtain an overall evaluation of progress in the achievement of EFF.

2. Interim evaluation of the Second financial instrument

Control and enforcement: (i) The number and efficiency of inspections across Member States should be increased (ii) Funding for training of inspectors and further development of new technologies such as data cross-checking should be a high priority (iii) Investigate further the relationships / causality between infringement rates and inspection rates, to see whether they have value in setting benchmark inspection rates for achieving an effective implementation of the CFP.

Data collection and scientific advice: The improvement in data delivery and format needs to be continued, in particular concerning specific catch / effort data.

Governance: (i) the possibility of increasing the maximum amount of the EU grant per RAC/year should be explored (ii) overlapping of ACFA with RACs should be avoided, the internal structure of ACFA should be simplified and/or replaced by another body.

International dimension: support to RFMOs should focus on improving actual compliance.

3. Impact assessment work to accompany the CFP reform

Regarding problems, the CFP impact assessment finds that public financial support has not contributed to the CFP objectives. In particular, it has not resolved the overcapacity problem, it has not improved the economic situation of the sector and it has not halted the reduction of employment and the decline of coastal communities dependent on fisheries. Furthermore, there are shortcomings in scientific advice and data necessary for policy making and a lack of integration of CFP and IMP.

Regarding objectives, the CFP impact assessment points to the need for better focus of financial support on the objectives of the reform. To this aim, the integration of CFP funding into a single financial instrument is also recommended.

Regarding reform options, the impact assessment concluded that the fleet subsidies in general contribute to the persistence of overcapacity and thus prevent the transition to economically sustainable fisheries. Moreover, the effects of scrapping on the removal of overcapacity, notwithstanding high budgetary costs, are offset by the technological progress which increases fishing capacity. Therefore, under the preferred reform options, most fleet subsidies should be discontinued. In particular, temporary cessation and scrapping should be replaced by a market mechanism based on individual transferable quotas, which adjusts fishing capacity to fishing opportunities and thereby fosters the transition to an economically viable fleet.

4. The Integrated Maritime Policy

(1) The IMP should support sustainable growth, employment and innovation in the maritime economy and in coastal regions;

(2) Cross-cutting policy tools are crucial for enhancing economic development, environmental monitoring, safety, security and law enforcement on Europe’s oceans and seas;

(3) Integrated maritime governance must be further enhanced;

(4) The implementation of the Marine Strategy Framework Directive is a key objective of the IMP;

(5) Sea-basin strategies are key to a successful implementation of the IMP so as to adapt policy priorities and tools to the specific geographic, economic and political contexts of each maritime region;

(6) The EU must take a leading role in improving international maritime governance.

5. Framework Partnership Agreements

A global evaluation study produced in 2009 estimates that the total added value generated by EU fleets operating under agreements averaged €534 million per year during the period 2004-2007 (of which €282 million per year was generated in industries downstream such as marketing and processing). The same study also shows a positive impact on employment with an average of 2,250 full-time jobs for EU nationals and 4,830 nationals of third countries employed over the period 2005-2008. Ex-post evaluations are carried out on each individual FPA when its protocol comes up for renegotiation. Evaluations sometimes show less-than-complete utilisation of negotiated fishing opportunities by EU vessels, as well as difficulties by some third countries fully to absorb sectoral-support funds. In some countries, sectoral-support funds are too limited in absolute terms to make a significant difference. For agreements which include species other than tuna (currently four FPAs), there is sometimes also a lack of reliable scientific data on the state of stocks, and/or the total fishing effort targeted at these stock remains unknown due to missing information about third countries' agreements with other (non-EU) long-distance fishing fleets. Nor have current FPAs always allowed consideration of governance issues satisfactorily, for example in case of human rights violations. Finally, the share of access costs which is paid out of the EU budget has been questioned.

The problems can be summarised as follows:

Problems in the field of environmental sustainability

(1) Public financial support has not eliminated the problem of overcapacity, which is a key driver of overfishing;

(2) The uptake of EFF measures that are linked to environmental objectives is low;

(3) Insufficient scientific advice and data does not allow for a fully fledged knowledge based policy;

(4) High environmental impact of fishing: discards, greenhouse gases emissions, impacts on sea bottom;

(5) Insufficient compliance;

(6) Lack of common tools to regulate spatial deployment of economic activities at sea and their impact on the environment, including a delayed implementation of the Habitats Directive, particularly Natura 2000 network sites;

(7) Lack of integration of policies at EU and national level towards sustainable, cross-border management of European sea basins.

Problems in the field of economic sustainability

(1) Public support (including the Common Market Organisation) has been ineffective in improving the economic performance and resilience of the catching sector;

(2) Stalled aquaculture production;

(3) Untapped growth potential in maritime sectors.

Problems in the field of social sustainability

(1) Public financial support has not halted the decline of coastal regions dependent on fishing and has not made fisheries a source of attractive jobs;

(2) There is a lack of employment mobility between maritime sectors and a lack of qualification and training supporting such mobility;

(3) Low attractiveness of employment in the fisheries sector results in low interest in fishing and a widening generation gap.

Problems in the field of governance

(1) The fragmentation of financial support results in overlaps and unexploited synergies between financial instruments and increases administrative burden;

(2) The effectiveness of control is improving but further efforts are required. Fisheries control expenditure is under severe pressure in many MS implementing budgetary cuts. Insufficient control will seriously jeopardise the effective resource management;

(3) There is a lack of fully integrated maritime governance and decision making processes (including at sea basin level) of the policies affecting the seas, with insufficient involvement of stakeholders in cross-sectoral IMP elements;

(4) Current composition of advisory bodies does not allow the CFP to take sufficiently into account the knowledge and opinions of all stakeholders and society at large. The current set up including both ACFA and RACs results in overlaps and high administrative burden;

(5) Fishermen have insufficient capacity to co-manage or self manage fisheries resources, taking over more responsibility.

Stakeholders' views

The main **stakeholders** in the financial support of the CFP and the IMP and their primary interests have been identified as follows.

	Stakeholder		*Key interest*
Beneficiaries	*Catching sector in the EU*	EC fishing vessel owners, operators and crew.	Viability of businesses. Greater resilience to economic shocks, long term business planning. New skills, better marketing and promotion. Sustainable fishing with less discards.
	Aquaculture sector in the EU	Owners, operators and staff of aquaculture businesses	Viability of businesses. Increased market incentives for sustainable/extensive aquaculture, including in NATURA 2000 sites. Meeting costs of environmental requirements. New skills, better marketing and promotion.
	Fisheries *dependent* *communities*	Communities dependent upon fisheries or aquaculture for their livelihoods	Viable coastal and inland communities dependent on fishing.
	Processing sector	Those processing raw material both imported and caught within EC waters	Increased competitiveness and value added, stable supplies of quality products, including of species not present or abundant in EU waters.
	Research sector	Scientific research bodies and scientific community providing CFP and marine data.	Supply of timely, high quality, robust and extensive data on fisheries; allowing for knowledge based policy. Increase in marine knowledge, data integration.
	Administrations & bodies	National, regional and local bodies involved in collecting data, ensuring enforcement and control of the CFP RACs, RFMOs	Support to more efficient, effective and practical implementation of their tasks
		National, regional and local bodies protecting the coast, monitoring the marine environment, ensuring border control and maritime safety.	Support to more efficient, effective and practical implementation of their tasks. Increased visibility for the concerns and financial needs of coastal regions, including a better coordination and a more strategic use of EU funds.

Others	*Maritime Sectors in the EU*	Operators engaged in coastal or offshore economic activities (commercial fleet, tourism, ports etc)	Improved security and safety Reduced administrative burden in maritime areas via stable and integrated maritime governance structures (including spatial planning). Increased communication between maritime industries (maritime clusters in sea basins)
	Consumers	Those consuming fisheries and aquaculture products	Availability of high quality fisheries and aquaculture products with high nutritional values.
	Third countries	Fishing sector in competition with EU fleets Aquaculture producers, exporters to the EU. Administration.	Access to the EU market. Macroeconomic contribution through access to EU's non-earmarked budgetary support under FPAs. Development of sectoral capacity through the access to EU's earmarked financial support under FPAs.
	NGOs, the civil society and EU citizens	Environmental NGOs. The wider public with an interest in and concern for IMP and fisheries sectors, the marine environment	Sustainable management of seas and coastal areas, including the maintenance of fish populations, marine biodiversity, and the amenity value of oceans, rivers and lakes. Development of joint responsibility for environmental sustainability across sectors.

The main consultation was undertaken in the framework of the **reform of the CFP**, which started with the adoption of the Green Paper in April 2009. **The results can be summarised as follows:**

- Many contributions express a need for continuation of public funding for the fishery sector, although a few Member States and many NGOs insisted on the elimination or phasing out of subsidies – in their view they preserve unviable structures, contribute to overcapacity and maintain industry dependence on public support;

- There is agreement that any future support should accompany the transition under the reform process and ease adjustment of the industry, aiming at long-term economic and social sustainability, or to alleviate consequences of major policy developments;

- EU support should be better defined and targeted, focusing on research and innovation, enhancing marine protection, and supporting fishermen’s organisations and local development;

- The link to the Integrated Maritime Policy is considered important: maritime policies can no longer act in isolation and the coherence of the CFP with the overall approach of the IMP (and thus other maritime policies) needs to be catered for;

- More conditionality between EU financing and reaching CFP objectives received broad support. Some believe compliance with rules/targets should have a bearing on fund availability;

- A more sectoral approach not based on convergence criteria is strongly supported by a group of MS while the EP opposes this. A limited number of contributions advocate phasing out of national support (including tax exemption and state aid regimes, e.g. *de minimis*);

- An overwhelming majority of both industry and MS consider that common services (such as control and data collection) should continue to be supported under future EU funding.

In addition, in the framework of public consultation on Marine Knowledge in 2009, stakeholders expressed great dissatisfaction with the current marine data infrastructure. 70% of them strongly agreed and 90% in total agreed with the principles of sustainable EU support in this area.

With regard to Framework Partnership Agreements, the contributions to the Green Paper on the reform of the CFP indicate that a large number of industry stakeholders would prefer to maintain the current way of funding FPAs, while another significant number state that FPAs should be financed privately or by public-private partnership. NGOs insist on payment for access to third country waters by the industry, which should prove compliance with sustainability criteria[96].

Challenges ahead

In line with the Europe 2020 strategy, the general objectives of the future funding instrument will be to support the objectives of the reformed Common Fisheries Policy and to support the further development of the Integrated Maritime Policy.

Dimension	**Specific challenges**
Environmental sustainability of maritime and fisheries sectors	Reduce environmental impact of fisheries and aquaculture through the transition to sustainable fishing and aquaculture.
	Improve the scientific base of CFP and IMP
	Assure compliance of fishing operators with CFP rules, thus preserving the fishing resources.
	Promote an integration of policies that enables sustainable and cross-border/ecosystem-based management of European sea basins
Economic sustainability of maritime and fisheries sectors	Promote and support sustainable growth and employment through the sustainable use of marine and coastal resources
	Improve the competitiveness of the fisheries and maritime sectors and the value-added of fisheries and aquaculture products
Social sustainability of maritime and fisheries sectors	Support the development of viable communities in areas dependent on fisheries, including reconversion to other sectors
	Improve attractiveness of jobs, including gender equality and support mobility between maritime sectors

96 For more information, see report on the results of the consultation on the CFP Green Paper (http://ec.europa.eu/fisheries/reform/sec(2010)0428_en.pdf), section 3.8.

Dimension	Specific challenges
Better governance of the maritime and fisheries sectors	Promote integrated governance of maritime and coastal affairs
	Develop cross-sector instruments for better policy-making (Maritime Spatial Planning, Integrated Maritime Surveillance, Marine Knowledge)
External dimension	Ensure long-term resource conservation in third-country waters through systematic use of scientific advice, including RFMOs scientific findings, independent scientific auditing of mixed (multi-species) agreements to assess the biology of all stocks, and making full information on the total fishing effort in partner countries' waters available for scientific auditing
	Improve and strengthening the FPA governance framework
	Increasing the relative contribution of ship-owners to the costs of access to third-country waters
	Better reflect the actual needs of the fisheries sector in the given partner country, while taking its absorption capacity into account

Policy choices

The options that have been retained are those that result from the CFP impact assessment. The scope of the funding has been fully aligned with the preferred option of this impact assessment, including, in particular, abandoning key fleet subsidies, the focus on green, smart fisheries and aquaculture and increased weight given to local development pillar. Therefore, the focus here is on the delivery mechanism, with a view of ensuring the concentration of the investment on CFP objectives.

The other key element for constructing the options relates to the other CFP impact assessment recommendation – the need for a better integration of a variety of CFP financial instruments and the need for better integration of CFP into IMP.

Option 0, "status quo" amounts to the continuation of the EFF and other financial instruments in the current form beyond 2013. This option serves as a baseline scenario for comparing the impacts of the other options and is equivalent to the Status Quo Option in the CFP reform impact assessment.

Option 1, "EFF+" introduces substantial changes into the post-EFF strand of the future fund, in line with CFP reform. It corresponds to the preferred options of the CFP reform impact assessment. It includes also changes implied by the ex-post evaluation of the FIFG and the intermediate evaluation of the EFF. Under this option, different CFP financial instruments are not integrated into a single framework, although an effort is made for better coordination of their scope and objectives. As for the coordination with other funds under shared management, only the post-EFF strand is included in the Common Strategic Framework.

Option 2, "EMFF", in addition to the changes introduced into EFF in Option 1, this option integrates the post-EFF strand, the Second Financial Instrument, the elements of the markets policy currently under EAGF and IMP financial support into a single financial instrument. These different strands continue to be managed under the same budgetary modalities as is currently the case. Only the post-EFF strand is included in the Common Strategic Framework.

Option 3 "**EMFF+**" is the same as Option 2 but it extends shared management to the Second Financial Instrument (data collection and control) and to the markets policy currently under EAGF. It also fosters further integration of CFP into IMP by making some IMP related actions eligible for funding under the sustainable and inclusive territorial development pillar. Under this option, one single OP would cover post-EFF strand, data collection and control and the elements of the markets policy currently under EAGF. As for the coordination with other funds, all the shared management part of the single fund would be covered by the scope of Common Strategic Framework.

In addition to these three options, changes to some other elements in the current delivery system are considered: (i) change of the allocation criteria – moving away from the current approach which is predominantly based on the convergence criteria to criteria linked to the size and potential of the fishing sector (including aquaculture) (ii) reinforced strategic programming, allowing focus on CFP priorities (iii) stronger co-ordination with other EU funds (iv) better focus on results and performance.

In addition, several options can be considered with regard to Fisheries Partnership Agreements:

– Option 0: Status quo: no change of policy but "naturally" occurring gradual reduction of vessels fishing under FPAs;

– Option 1: Continuation of agreements with a progressively higher proportion of the cost of access being borne by EU ship-owners;

– Option 2: Phasing-out of all bilateral fishing agreements;

– Option 3: As Option 1 but with transformation of multi-species agreements into pure tuna and/or pelagic agreements.

Assessment of available alternatives

The comparison of the three options(EFF+, EMFF and EMFF+) shows that, in all cases, the impacts in terms of environmental, economic and social sustainability are largely positive.

For environmental sustainability, the impact on the reduction of discards can be best quantified. It is estimated that the potential reduction of discards will amount to 44%, mostly due to the financing supporting the change of gears in demersal trawlers.

For economic sustainability of fisheries, between 2012-2022[97] the Gross Value Added (GVA)/income ratio is expected to increase by 50% while the GVA/employee ratio should increase by 140%, contributing to bridging the competitiveness deficit in the catching sector, estimated at 40% for the whole fleet and 60% for the small scale fleet. This change is due to expected impacts of innovation and marketing related funding on two components of GVA – (i) improved average fish price obtained from diversification strategies of producers (products and markets) and improved coordination in the supply-chain (public and private certifications, support to Producers Organisations, quality schemes, labels); (ii) reduced operating costs by 23%, resulting from energy savings due to measures linked to innovation and a rationalisation of fishing activities (through the support to the setting up of Individual Transferable shaves systems and increased support to marketing and production plans implemented by Producers Organisations).

[97] 2022 is used in order to make the comparisons consistent with the scenarios tested in the Impact Assessment of the CFP reform.

Strengthened support to environmental technologies, the development of low energy consumption techniques and product and market innovation will also contribute to an increase in GVA, productivity in aquaculture, as well as to reduction of production costs and an increase in income.

In terms of social sustainability, the territorial pillar (current EFF Axis 4) focusing on developing new activities in areas dependent on fisheries (pesca tourism, processing and marketing, ancillary industry) and on creating alternative job opportunities plays the greatest role. In many fisheries dependent communities, the decline in fishing opportunities is accompanied by the emergence of new jobs in the maritime economy which are suitable for fishermen (such as maintenance and servicing of renewable energy facilities at sea) [98]. It is estimated that the territorial pillar of the size between €1 and 1.2 billion and with about 300 local partnerships can create around 12,500 new jobs. An additional 4,500 jobs could be created in the aquaculture, marketing and processing sectors from the measures under green smart fisheries and aquaculture pillars. This would compensate for the loss of employment in fishing forecast for the years 2012-2022.

EMFF+ performs better than the other two options due to the synergies offered by integration of financial instruments, but these gains are difficult to quantify. Combining the different strands of support to innovation (environment, process, product, market…) into coherent strategies at each level (in coastal territories, in supply-chains, at ecosystems level) is likely to maximize additional effects, which would not be possible with instruments operating separately.

EMFF+ performs also significantly better than the two other options in terms of simplification and reduction of administrative burden.

Under EFF+, management costs would remain similar to the costs of managing the current EFF 2007-2013. According to the interim evaluation, the average number of Full Time Equivalent per million euro of EFF budget across the programme is 0.43, which is similar to the estimation for the management of Cohesion Policy. At EU level, the administrative costs would also remain unchanged, after the 2007 simplification of programming structure (26 programmes to manage instead of 60), which reduced the administrative burden.

Under Option 2 (EMFF+), the merging of the EFF with other financial instruments in the fisheries sector might lead to a slight reduction of administrative costs. However, under this option, each instrument would continue to be managed as in the current regime: data collection, control and CMO measures would still be management centrally, whilst EFF measures would be managed by Member States (shared management). The grouping of these instruments might allow some synergies and reduce overlaps in the workloads of the staff in charge of managing the funds at EU level, but the gains would not be significant.

Under Option 3, methods of implementation would be radically modified as the data collection, control and market measures and the scheme for the outermost regions would be managed together with EFF measures under shared management. IMP would be merged into the fund as a separate pillar under direct management. In the mid–term, this approach should significantly reduce the administrative burden due to the unified approach in terms of management and control, including reporting, monitoring and evaluation.

The analysis of the other elements of the delivery systems demonstrates that:

- Change of the allocation criteria reduces significantly the disparities in access to funding that exist between Member States – the difference, in terms of aid intensity per one employee, is reduced by 5 times. In addition, new criteria remove the current distinction between

[98] See in particular "Regional social and economic impacts of change in fisheries-dependent communities". Study published by DG MARE 15/03/2011, http://ec.europa.eu/fisheries/documentation/studies/regional_social_economic_impacts/index_en.htm

convergence and non-convergence budgetary lines, thus reducing the administrative burden and facilitating absorption;

- Strategic programming, allowing focus on CFP priorities, can be best achieved through integrated programming mechanisms, based on the Common Strategic Framework and the Development and Investment Partnership Contracts.

With regard to **FPAs**, *Option 0* (Status quo with a naturally declining number of vessels) would not address systematically the weaknesses identified. As a consequence of the declining size of the fleet, the EU's financial contribution would decrease across the board. The continued coupling of sectoral-support funds to payments for access rights would not address implementation issues associated with the former. Improving governance in the sector in third countries and reinforcing conservation and its scientific base would not be adequately addressed.

Under *Option 2*, as a result of the termination of FPAs, no more fisheries-specific support would be available for third countries to implement management and conservation measures. Third countries may decide to replace the EU fleet currently under agreements by other third countries' fleets but it is rather unlikely that revenues obtained from those countries would be earmarked for sectoral support. Furthermore, without FPAs, those parts of the EU fleet which continue to exploit third-country waters would be operating outside a regulatory framework which – despite its shortcomings – is currently regarded as an example for most non-EU fleets. Parts of the EU fleet would have to move elsewhere or risk being driven out of business altogether.

Therefore, *Option 1* currently appears as the preferred option. By separating sectoral support from payments for access rights, and by better matching the former to third countries' needs and capacities, this option should support the sustainability of partner countries' fishing activities. The uncoupling of sectoral support from access costs would also enable the former to be aligned more closely with other EU development instruments, as regards the conditions and delivery modes attached to it. The EU would thus be able to react more promptly to weaknesses in the implementation of support. By introducing a human rights clause, coherence between fisheries agreements and EU Development policy is strengthened. At the same time, by gradually increasing the ship-owners' contribution to the costs of access, the likelihood of "over-paying" for fishing opportunities which are only partially used would be reduced. Without security of support from the EU budget, fisheries agreements are unlikely to be attractive for the industry and third countries. Instead they may conclude private arrangements and the scenario set out under Option 2 would apply.

11. ENVIRONMENT AND CLIMATE ACTION

Under the Lisbon Treaty and the Europe 2020 Strategy, high standards of environmental quality and climate protection are necessary for the long-term and sustainable competitiveness of the EU economy. The Europe 2020 Strategy has set the framework for smart, sustainable and inclusive growth and puts greener, sustainable growth at the heart of Europe's economic strategy. In addition, climate and energy targets are placed among the Europe 2020 Strategy's 5 headline targets. Investments in environmental protection, climate change mitigation and adaptation and resource efficiency are investments in modernisation of our economies and societies. They are key to transforming Europe into a knowledge-based, resource-efficient economy and underpin the EU's future competitiveness as well as the health of the environment in Europe.

The 2010 assessment of Europe's environment[99] as well as the 2009 Environment Policy Review[100] show that, although considerable progress has been made in single thematic areas, halting the loss of biodiversity and improving resource efficiency along with climate change and environment and health related concerns remain key challenges for the EU on its path to prosper in a low-carbon, resources constrained world while preventing environmental degradation, biodiversity loss and unsustainable use of resources. The EU is not yet successful in decoupling economic growth from the use of natural resources.

In addition, there are new and emerging threats and challenges posed by changes to the economic and technological landscape. Similarly, changes to economic structures and demography in the future will change the type and magnitude of pressures placed on the environment. This in turn generates an increasing need for new approaches.

The EU is also contributing to environmental pressures in other regions of the world and, at the same time, the impacts of activities elsewhere are increasingly affecting the EU. Examples include over-fishing, persistent organic pollutants (POPs) and climate change. In some cases, for action to be effective within the EU, investment outside the EU may be required, for example on migratory species, international river basins, the marine environment, and climate mitigation and adaptation.

The total environmental and climate change costs in the EU, based on an assessment of 'non action', would be in the order of €650 billion per year – about 5-6% of the EU's GDP[101]. The financial needs for achieving the environmental and climate objectives and for environmental protection requirements and climate actions identified throughout the EU are significant. For example, the costs of managing and restoring the Natura 2000 network are estimated by Member States at €5.8 billion per year; the implementation of the Water Framework Directive requires around €30 billion per year; soil action needs €4.5 billion; and waste water treatment €6.5 billion a year[102]. Over the next 40 years, additional annual private and public investment equivalent to 1.5% of the EU's GDP, or around €270 billion[103], would be needed on top of current annual investment to make EU economies energy-efficient and climate-friendly.

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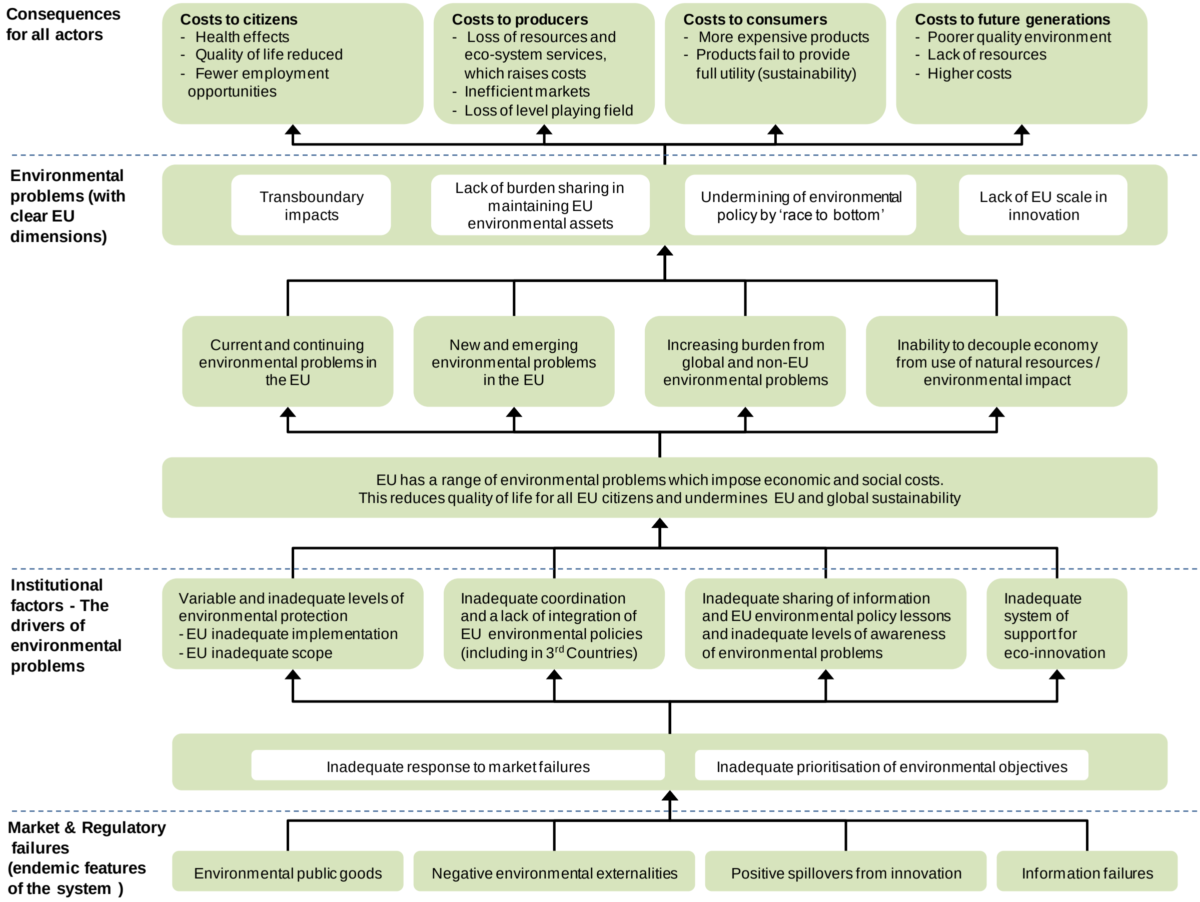
99 EEA, The European Environment State and outlook 2010 available at http://www.eea.europa.eu/soer.
100 SEC (2010) 975 final.
101 GHK et. al., Combined Impact Assessment/Ex-ante evaluation for a successor of LIFE+.
102 Estimates based on the results of studies carried out recently for DG Environment and internal calculations.
103 COM(2011)112.

International financial needs are also significant. For instance, the funding needs for global biodiversity and ecosystems are estimated at €4-40 billion a year. Out of this amount, some €500 million needs to be allocated, reflecting the pledges made by the EU in the Nagoya Biodiversity Summit in 2010. In the context of international climate negotiations, developed countries have committed themselves to a goal of mobilising US$ 100 billion a year by 2020 to address the needs of developing countries.

The chart below illustrates the main drivers and underlying causes of environment and climate problems:



Current system of funding

Under the current multiannual financial framework, environmental and climate action related investments are ensured through a combination of mainstreaming of environment and climate concerns into other policy areas and their respective funds, such as cohesion, agriculture, research or external action instruments, and a dedicated instrument (LIFE+). In addition, environment and climate action investments can be triggered through conditionality in the use of other funds and through mechanisms such as cross-compliance in agricultural policy. Environmental and climate proofing, which ensures that the effects of the programmes and projects on environment are assessed and avoided, mitigated or compensated, is applied in the form of Strategic Environmental Assessment (for programmes) and Environmental Impact Assessment (for projects).

Mainstreaming of environment and climate related actions

Environment-related actions within the current Multiannual Financial Framework represent some 9% of the EU budget.

The most significant financing, some €12-13 billion a year, results from the integration of environmental financing into other major funding programmes. This includes:

- some €6.5 billion per year for environmental infrastructure from the Structural/Cohesion Funds, focusing on waste water, water supply and waste;

- some €5 billion per year for environmental measures in agriculture and forestry from the European Agricultural Fund for Rural Development (EAFRD);

- some €0.4 billion per year for innovation and research, from 7th Research Programme and the Competitiveness and Innovation Programme (CIP);

Spending on climate-related actions within the current Multiannual Financial Framework has been approximated to amount annually to around 5% of the EU budget. This represents approx. €7 bn a year in the period 2007-2013. The most substantial sources come from cohesion policy (€4.1 bn per year), the 7th Research Framework Programme (€0.9 billion per year), CAP (€1.5 billion per year).

In addition, some €1 billion per year is spent on external environment and climate actions as a result of a mix of mainstreaming in the Instrument for Pre-Accession Assistance (IPA), the European Neighbourhood Programming Instrument (ENPI), the geographical programme in the Development Cooperation Instrument (DCI) and 10th European Development Fond (EDF), as well as from the thematic programme for Environment and Sustainable Management of Natural Resources including Energy (ENRTP).

Specific funding of environment and climate related actions

EU funds allocated directly to environment and climate programmes are limited under the 2007-2013 multiannual financial framework. Title 07 – Environment and Climate Action provides €450 million a year, of which €300 million a year covers the LIFE+ programme (total of €2.2 billion 2007-2013). Within the LIFE programme, climate action expenditure represents around 14% of the budget. The allocation for LIFE+ represents 0.2% of the EU budget.

Lessons learned from implementation of the current system

An ex-post evaluation of **cohesion policy funds**[104] has concluded that cohesion policy intervention in the field of environment has brought substantial environmental benefits. For instance, 20 million more people have been connected to wastewater collection and treatment in the period 2000-2006 thanks to EU funds. Without EU funding, compliance with the acquis in waste water, water and waste would have been even more difficult. EU funds represented 38% of funding of environmental infrastructure in the cohesion countries (Spain, Portugal, Greece and Ireland)) in 2000-2006, and 30% in the new Member States.

ADE consortium, Ex post Evaluation of Cohesion Policy Programmes 2000-2006 co-Financed by the European Fund for Regional Development (Objectives 1 and 2) – Work Package 5b: Environment and Climate Change, October 2009.

EU rural development (RD) funds[105] can reward farmers for the delivery of public goods. Member States have implemented many well-targeted, science-based and effective schemes with clear environmental and climate objectives. Agri-environmental payments support nearly three million farms in the current programming period (out of 7.5 million farms existing in the EU-27). These results are supported by the recent reshuffling of RD funds to respond to the CAP Health Check's new priorities using additional resources under the EU Recovery plan from 2010 onwards. The majority of the additional €5 billion will support biodiversity (€1.5 billion), water management (€1.3 billion) climate change (€0.7 billion) and renewable energy re-enforcement (€0.3 billion).

The **Competitiveness and Innovation Programme** (CIP) supports eco-innovation that furthers its uptake through market replication projects. It also successfully generates leverage (financial instruments allowing for co-investment in Venture Capital funds). Some 70 % of participants in eco-innovation market replication projects are SMEs in sectors such as recycling, food and drink, or new business methods.

As regards **international instruments**, the Commission's Annual Aid Reports show a total of €1.6 billion committed to environment, climate, water and sanitation for 2007 to 2009 out of total commitments of €26.4 billion under the 4 geographic instruments, including the European Development Fund. Environment including climate represented 3% of the total and water and sanitation represented 3.1%. Most of the spending was through the geographic programmes, but significant results were also achieved via the Thematic Programme ENRTP, which had its resources substantially increased by 37% to address international climate issues.

At the same time, evaluation results[106] show that the uptake of resources for environment and climate has been low compared to funds originally allocated, leading in some cases to later re-allocations to other sectors.

In addition, some projects or activities financed may have negative environmental and climate impacts or consolidate unsustainable practices. Examples are the funding of new airports under cohesion funds and the support of excessive irrigation and land fragmentation under Rural Development Programmes.

The evaluation results recommend a broader application of green public procurement, expenditure tracking; and the consistent application of life-cycle analysis and waste hierarchy.

LIFE evaluations[107] confirm that the LIFE Programme is a successful EU instrument crucial for the implementation of EU environmental policy, has a significant EU added value, an adequate level of performance, and has made a significant contribution to the implementation of EU environmental policy and legislation.

- Action grants (representing 78 % of appropriations, i.e. an amount of €300 million in 2013) have played a major role in the implementation of the Habitats and Birds Directives and in testing new approaches and technologies, and demonstrated a capacity to act as a catalyst for the implementation of some of the most demanding Directives, preparing the ground for continued management through other funds. LIFE has also increased awareness of environmental and climate concerns and citizens' access to relevant information, and created collaborative platforms and partnerships to exchange best practices. Operating grants for NGOs have facilitated their

BirdLife International, Could do better: How is EU Rural Development policy delivering for biodiversity?, May 2009.

106 COM(2011) 17 Communication "Regional policy contributing to sustainable growth in Europe 2020"

107 http://ec.europa.eu/environment/life/publications/lifepublications/evaluation/index.htm

involvement in developing and implementing EU environmental and climate policy and legislation, as required by the Aarhus Convention.

The mid-term evaluation of LIFE+[108] also concluded that the changes introduced in the LIFE+ Regulation (consolidation of three types of interventions into one legal base, enlargement of the nature component to include wider biodiversity issues, enlargement of the environment component to align with the priorities of the 6th Environmental Action Plan and a new component called Information and Communication) have increased the capacity of the Programme to provide EU added value and the link to EU policy objectives.

The evaluations also found areas where LIFE should be improved to deploy all its EU added value potential:

- Better focus and prioritisation: the bottom up approach and the broad scope of eligible areas of action provide little opportunity for the Commission to stimulate demand in high priority areas, especially in the LIFE Environment and Governance component (both strands also cover climate action);

- Better utilisation of projects' results and transfer of know-how: while communication and networking activities are mandatory in LIFE projects, sharing of best practices and capacity building for the implementation of EU acquis should be reinforced;

- Stronger synergies with other EU funds: while many agri-environmental measures were tested in LIFE and afterwards incorporated into the Member States' rural development programmes, there is a room for improvement;

- Lifting constraints regarding funding activities outside the EU: they have reduced the effectiveness of the Programme to achieve some EU environmental objectives.

The European Court of Auditors, in a Special report published in 2009, concluded that LIFE is a well-managed programme, with constant improvements made over the years[109].

The above elements of success and recommendations for improvement have been taken on board by the Commission services to improve the current LIFE+ programme (until 2013), and to design an improved successor to LIFE for the post-2013 period.

Stakeholders' views

The Council[110] and the European Parliament[111] have already indicated their support for the continuation of the LIFE Programme. The Council highlighted the importance of LIFE+ and the need to keep all its components. The European Parliament's resolution on the SURE committee's report report on investing in the future: a new Multiannual Financial Framework for a competitive, sustainable and inclusive Europe underlines that LIFE has been successfully implemented and has proven its importance in safeguarding biodiversity and protecting the environment and emphasises the

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108 http://ec.europa.eu/environment/life/publications/lifepublications/evaluation/index.htm

109 European Court of Auditors, Special Report No 11/2009: "The sustainability and the Commission's management of the LIFE-Nature projects"

110 Council Conclusions "Improving Environmental Policy Instruments", 17 January 2011.

111 ENVI Committee Opinion for the Special committee on the policy challenges and budgetary resources for a sustainable European Union after 2013.

need for continuing the programme.[112] It also underlines the need for a horizontal approach, combining measures to combat climate change and to reduce greenhouse gas emissions - in particular energy saving measures - in all relevant policy areas, including external policies.

The EESC opinion on the mid-term evaluation of LIFE+[113] and the draft opinion by the Committee of the Regions also show strong support to the continuation and enhancement of LIFE in view of addressing the EU's environmental and climate objectives.

According to the Eurobarometer survey published in May 2011[114], an overwhelming majority of 89% of EU citizens agree that more EU funding should be allocated to support environmentally friendly activities and developments.

In the course of the stakeholder consultations on the budget review, many stakeholders agreed that climate change is a challenge, and therefore climate activities across the EU budget, including LIFE+, would need to be reinforced to reflect this. In the specific consultations on the LIFE programme, there was general agreement that the most important problem faced is the lack of implementation of EU environmental legislation and inadequate integration of the environment and climate action into other policies. Stakeholders emphasised the need for a specific instrument to catalyse and leverage change. More specifically, the results of the public consultation carried out from 30 November 2010 to 15 February 2011[115], indicated that:

– 85.7% of all respondents consider there is a need for a specific financial instrument for the environment and climate action, only 10% supporting discontinuation;

– 87.7% respondents support action grants, 65.7% support operating grants for NGOs and 74.9% procurement. 82% of respondents support the role of LIFE in boosting innovation for environmental protection and 80% in allowing EU-wide exchange of information and awareness raising on environmental topics.

– Stakeholders support a more focused instrument (main priorities mentioned were biodiversity, adaptation to climate change, resource use and waste, water and climate mitigation) but they are opposed to having an instrument that only focuses on a few environmental areas. Stakeholders felt that priorities should be non-exclusive.

– 67.5% of respondents support carrying out **activities outside the EU**.

– 54.6% of respondents indicated that the **current budget is too low** to achieve the Programme's objectives, with the exception of farmers associations, which considered the current budget adequate. Only one Member State proposed the possibility of considering a lower a budget.

– 68.1% of respondents supported current **central direct management** by the Commission. 20% of respondents showed a preference for other management mode, of which shared management was preferred to an executive agency.

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112 European Parliament resolution on Investing in the future: a new Multiannual Financial Framework for a competitive, sustainable and inclusive Europe -A7-0193/2011

113 NAT/488 - CESE 533/2011: Opinion of the European Economic and Social Committee on the Communication from the Commission to the European Parliament and the Council on the Mid-term review of the LIFE+ Regulation COM(2010) 516 final.

114 Eurobarometer "Attitudes of European citizens towards the environment", European Commission, fieldwork 13/04 - 08/05/2011, interviews of 26825 people in EU27.
Available at http://ec.europa.eu/public_opinion/archives/eb_special_379_360_en.htm#365

115 A conference was also organised on 31 May 2010 to discuss the future of the LIFE Nature and Biodiversity component. The results of that conference informed the Commission's proposals for integrated projects and the new features proposed (e.g., enlarged territorial scope).

– There was strong opposition, especially among Member States, to the elimination of the traditional LIFE **smaller bottom-up projects**.

Challenges ahead

The drivers of the problems encountered by LIFE+ and environmental and climate action expenditure are not only market failures, but they also concern institutional weaknesses and their underlying causes.

Due to the scale and complexity of the environment and climate challenges, the "mainstreaming approach" remains a necessary approach to contribute towards the achievement of the EU's environment and the 2020 climate and energy headline targets. However, evidence (for example, see the 5th Cohesion report) suggests that this approach has reached some limits. As a consequence, effective integration remains a challenge. Therefore the mainstreaming approach needs to be reinforced.

In addition, implementation of environment and climate legislation remains uneven and inadequate across the EU which leads to the consolidation of many environmental and climate problems. New and more efficient ways of implementing legislation, and development and dissemination of best practices across the EU are required to ensure Member States and stakeholders learn from each other.

There is therefore a clear need to have a dedicated environment and climate instrument, a successor to LIFE+, in the next multiannual financial framework. By playing the important and complementary specific role of a platform for experience sharing, a catalyst, and a "leader" for mobilising other funding in the field of environment and climate action, this instrument would contribute to addressing the identified institutional barriers. Secondly, it would ensure the necessary political visibility for EU action in favour of the environment, much supported by EU citizens.

Policy choices

The available policy choices can be summed up as:

(1) Creating ***large-scale, dedicated funds*** devoted to delivering investments in areas such as resource efficiency, biodiversity, climate change, energy security/efficiency, as considered in the Budget Review;

(2) ***Further mainstreaming environment and climate action*** by better integration of the environment and climate into the major spending programmes[116], including the external action instruments;

(3) ***Building upon the existing LIFE+ instrument*** and developing it further in a future LIFE+ instrument with an increased focus on EU policy priorities, including climate action.

Integration also implies ensuring that other spending on all EU funds is fully consistent with Article 11 of the TFEU (with regard to 'greening'): making sure that their design and implementation practices contribute to sustainable growth and achieving environmental objectives.

Assessment of available options

1. Creating large scale dedicated funds devoted to specific themes such as climate action and biodiversity

Creating large scale separate funds and instruments to deliver EU support in specific areas such as biodiversity or climate action would risk overlapping with existing policy instruments such as the CAP or Cohesion Policy.

Instead, the same action can and should pursue different objectives at once. Mainstreaming would therefore promote synergies in the use of funds for various priorities (for example, sustainable and smart growth) and result in increased consistency and cost-efficiency in spending. A number of possible synergies exist between tackling climate and environmental challenges, for instance between adaptation and water or between greenhouse gas emission reductions and actions on forests. There is a risk that these synergies would be lost under this option.

This option would increase the administrative costs and increase the administrative burden for recipients of funds, if they were required to make applications for funding to separate funding instruments. Separate funds would result in parallel funding programmes with similar types of interventions (e.g. action grants, operating grants and public procurement) and it would multiply the number of funding instruments, thereby not delivering on the simplification objective to reduce the number of separate programmes and instruments.

In the light of the above assessment, this option can be discarded.

2. Further mainstreaming of environment and climate policies

Tackling the challenge of resource efficiency, climate change, and of delivering energy security and efficiency, is one of the core objectives of the Europe 2020 strategy. This not only means gearing up the economy to deliver the agreed goals, but also kick-starting investment in greener technologies and greener services recognised as having some of the greatest potential for future exports and future jobs as an industry which already employs 3.5 million Europeans. To secure this goal, all the instruments at the EU's disposal, including innovative financial instruments and sources, need to be harnessed effectively.

Mainstreaming these priorities into the different programmes can be an effective approach, recognising that the same action can and should pursue different objectives at once. In order to ensure the mainstreaming delivers actual results, proper tracking and monitoring of the expenditures and outputs is critical.

Integration also implies ensuring that other spending on all EU funds is fully consistent with Article 11 of the TFEU (with regard to 'greening'), making sure that their design and implementation practices contribute to sustainable growth and achieve environmental objectives.

An assessment of the mainstreaming elements in the relevant policy areas will be included in the individual impact assessments of the various legal instruments that will be adopted in the second part of 2011.

3. A reinforced LIFE+ instrument with a stronger focus on EU policy priorities including climate action

As shown above, environment and climate related actions can be carried out within a variety of instruments under policies such as cohesion, agriculture, research and innovation. Nevertheless, the scale of these instruments, as well as their overall objectives which are prioritised in line with the respective policy, cannot fully achieve the level of specificity needed for developing appropriate environment and climate measures.

A shared legal basis for environment and climate with some earmarked funds for each policy area would be more flexible and able to finance projects that could not be financed through other funds. This instrument would also contribute to the simplification objective to reduce the number of separate programmes and instruments, as multiple environmental and climate policy objectives would be attained within the one legal base.

A future LIFE+ instrument would also have the ability to make a contribution to strengthening the integration of environment and climate concerns into all other relevant policies at EU as well as Member State and sub-national levels of government. However, the future LIFE+ instrument would not take the form of a large scale dedicated fund. Rather, it would complement other larger EU funding instruments by covering issues, projects and stakeholders that they do not cover and by developing solutions for future mainstreaming.

Finally, the European Parliament, the Member States, and the stakeholder consultation have shown a strong support for continuing the LIFE+ instrument. The Mid Term Review confirmed the strong demand for the instrument.

The preferred policy choice: Combining the mainstreaming into all relevant policies with a LIFE+ instrument with a stronger focus on EU policy priorities including climate action.

It will be necessary to combine the two approaches of mainstreaming and a future LIFE+ instrument (policy choices 2 and 3) to be able to have a significant impact in view of the identified needs.

To make the mainstreaming approach effective, it must be accompanied with a clear cross-cutting obligation to identify where programmes have promoted such policies through a sound tracking procedure and monitoring of results. By doing so, the EU would be able to set out clearly what resources were contributing to policies like tackling climate change or supporting biodiversity or resource efficiency, irrespective of the instruments through which these policies are delivered.

At the same time, certain environment and climate needs can only be effectively addressed through a dedicated instrument. LIFE+ offers the possibility to package in a single project all measures that are needed to achieve a particular environmental or climate objective allowing for a synchronised and coordinated, and thus more effective, intervention (rather than compartmentalising the project to finance individual measures through different other instruments).

A future LIFE+ instrument with a stronger focus on EU policy priorities, including climate action, would have the ability to make such a contribution to strengthening the integration of environment and climate concerns into all other relevant policies at EU as well as Member State and sub-national levels of government, thereby **complementing the mainstreaming approach**. A future LIFE+ instrument can help Member States and stakeholders to accelerate and improve the implementation for EU legislation by creating synergies across different EU funds and national funds (for example, by financing integrated projects) and multipliers, while leveraging additional national and private sector funds to ensure the continuation of activities financed under LIFE+ or expanding their results.

Combining the mainstreaming approach with a future LIFE+ instrument would furthermore **increase the coherence and the added-value of the EU intervention** as the climate and environment relevant funding through other EU policies would be combined with a dedicated environmental and climate action instrument that allows the Commission better to shape priorities, directly monitor implementation and ensure that resources available are effectively used for environmental and climate protection, selecting the best projects across the EU. More homogenous implementation of EU legislation would also be achieved thanks to the dissemination of best practices (for example, methodologies that have been developed and are now widely applied, management plans, etc). Finally, the LIFE+ instrument would be more flexible than other policies and able to finance projects that could not be financed through other funds.

12. HOME AFFAIRS

Home Affairs policies have been growing steadily in recent years, with the aim of creating an area where people may enter, move, live and work freely, confident that their rights are fully respected and their security provided. Cooperation and solidarity at EU level have already enabled substantial progress towards a more open and secure Europe. However, efforts need to be pursued beyond the current programming period (2007-2013).

Over the coming decades, the EU will continue to face important challenges, not least in the context of demographic ageing and a decreasing labour force. A forward-looking legal immigration and integration policy is crucial to enhance the competitiveness of the EU, ensure social stability, enrich our societies and create opportunities for all. However, for any legal migration policy to be credible, the EU must also address irregular migration, and fight against trafficking in human beings and other forms of modern slavery. At the same time, the EU must continue to show solidarity with those in need of international protection. The completion of a more protective and efficient Common European Asylum System which reflects the EU's values remains a priority.

Ensuring a lawful and secure environment is necessary and beneficial to the economic, cultural and social growth of the EU. Whether it is by addressing the threats of serious and organised crime, cybercrime and terrorism, by ensuring the management of EU's external borders or by responding swiftly to emerging crises caused by man-made or natural disasters, the EU has a decisive role to play. In the era of globalisation, where threats are growing and increasingly have a transnational dimension, no single Member State is able to respond on its own. A coherent and comprehensive European answer is needed to ensure that law enforcement authorities can work effectively across borders and jurisdictions.

In all these areas, the EU promotes dialogue and cooperation between EU Member States and with non-EU partners jointly to address common challenges and make benefits more tangible.

To continue to do so, the EU budget should provide adequate financial support. The principles of solidarity and responsibility-sharing must be reflected in assisting Member States' efforts in the Home Affairs area. For example, border control can be seen as essentially a "public service" carried out by some Member States in the interest of and on behalf of the EU. It should therefore be supported by the EU budget systematically. Similarly, those Member States which, due to their geographic situation, carry disproportionate costs as a result of migration flows should receive appropriate financial support through the EU budget.

The efficiency of spending, the added value and the complementarities between the EU budget and national budgets need priority attention. EU funding should also be available to promote the pooling of resources and to reinforce transnational practical cooperation between Member States, and between Member States and third countries. This is particularly relevant in the area of internal security, where financial support for joint operations such as Joint Investigation Teams is essential to enhance cooperation between police, customs, border guards and judicial authorities.

In addition to support for the internal aspects of Home Affairs policies, sufficient EU funding should also be available to reinforce the external dimension of Home Affairs policy areas in full coherence with EU external action. This can be done by providing support for implementing readmission agreements and Mobility Partnerships, by helping third countries to develop their border surveillance capabilities or by increasing funding for the fight against international criminal networks, trafficking in human beings and the smuggling of weapons and drugs.

Current system of funding

The share of funding for Home Affairs in the EU budget is relatively small but has been growing steadily. The budget for Home Affairs policies in the period 2007-2013 amounts to €6.4 billion. Home Affairs policies are considered internal policies and are funded under Heading 3a "Freedom, Security and Justice" of the EU budget, representing 0.77% of the total EU budget for the period 2007-2013 (ceilings of the current financial framework). These figures cover not only Home Affairs financial programmes, but also funding for large-scale IT systems (VIS, SIS, Eurodac) and agencies.

The external dimension of Home Affairs policies is currently covered primarily through geographic and thematic external instruments under budget heading 4 "EU as global player". Funding to support third countries in Home Affairs policy areas is channelled mainly through the Thematic Programme "Cooperation with Third Countries in the Area of Migration and Asylum" (€55 million annually).

General Programme "Solidarity and management of migration flows"

With an amount of €4 billion for the period 2007-2013, the main instrument in support of Home Affairs activities is the general programme "Solidarity and management of migration flows" which comprises four funds, each with its own legal basis (External Borders Fund, European Return Fund, European Refugee Fund, European Fund for the Integration of Third Country Nationals).

General Programme "Security and Safeguarding Liberties"

In the area of internal security, the general programme "Security and Safeguarding Liberties" is the main instrument for funding. The budget for this programme in the 2007-2013 period is €749.5 million. The programme consists of 2 smaller specific programmes: ISEC (Prevention of and the fight against Crime) and CIPS (Prevention, Preparedness and consequence management of Terrorism and other Security-related risks).

Home Affairs agencies including large scale IT-systems

Various regulatory agencies have been created in the Home Affairs policy area (Europol, Frontex, EASO, CEPOL, EMCDDA and the IT Agency, whose legal basis is currently being negotiated). These agencies represent approximately 18% of the budget and play an important role in fostering practical cooperation between the Member States. They could be used to implement programmes decided at EU level (for example, common standards for managing external borders, joint investigation teams, resettlement programmes, common training of law enforcement authorities), thereby shifting from an entirely subsidy-based approach towards one that also encompasses programme funding.

Large-scale IT systems account for a reasonably large share of the Home Affairs budget (approximately 7%). Although these systems are currently being managed by the Commission, their management will be gradually transferred to the future IT-Agency, which will begin operations in 2012. The IT-Agency will also be responsible for developing and managing future IT systems such as the Entry/Exit System and the Registered Traveller Programme.

Lessons learned from implementation of the current system

Mid-term review of the General Programme "Security and Safeguarding Liberties"

In the area of internal security, the mid-term review of the general programme "Security and Safeguarding Liberties" provides valuable information on the implementation of the two specific programmes ISEC and CIPS. First conclusions show that the specific programmes achieve their objectives and should be continued.

The mid-term review also identifies areas for improvement. In particular, the programmes are considered to cover too wide a range of activities and need to focus more on political priorities. At the same time, important policy aspects such as the increasingly important external dimension of the EU's internal security policy and emergency and crisis situations are not covered. In addition, more efforts should be made to streamline procedures (better timing of calls for proposals, amending the budget review exercise to increase efficiency, discontinuing the use of operating grants (ISEC), implementing a project monitoring system, enhancing the framework partnership concept) and stepping-up simplification efforts (use of flat-rates, lump sums, etc.) in order to reduce the administrative burden.

Mid-term review of the funds under the general programme "Solidarity and management of migration flows"

Due to the timing imposed by the legal bases of the funds under the general programme "Solidarity and Management of Migration Flows", the results of the midterm reviews of the **European Fund for the Integration of third-country nationals, the External Borders Fund** and the **Return Fund** are not yet available. However, the national evaluation reports from the Member States on the implementation of actions co-financed by these funds are already available and serve as basis for formulating preliminary conclusions on the qualitative and quantitative aspects of the management and implementation of these three funds.

According to these reports, the **European Fund for the Integration of Third-Country Nationals (EIF)** is perceived in all but two Member States as having a genuine added value that could not have been obtained through national programmes, policies, budgets and other EU financial instruments in the area of integration. The fund enabled several Member States to set up, for the first time, a comprehensive policy framework for the integration of third-country nationals encompassing all of the Common Basic Principles. In more experienced Member States, the fund was targeted in particular at specific or vulnerable groups, which were difficult or even impossible to reach with other funding instruments. It brought about substantial effects in areas such as the improvement of linguistic skills, promoting meaningful contact and constructive dialogue between third-country nationals and the receiving society, and addressing health problems.

In relation to the **External Borders Fund**, most Member States gave a positive overall assessment of the results achieved through actions co-financed by the fund, classifying the possibilities under the fund for projects as effective and useful. In the 2007-2009 period, Member States put noticeable emphasis on actions aimed at improvement of border infrastructure and equipment as well as investments related to the implementation of the necessary IT systems such as VIS and SIS II. According to the approved programmes, between 70-75% is allocated to these two priorities, with support for visa policy amounting to 15-20%. In terms of results, Member States have flagged the following achievements: significant technical improvements in border infrastructure, reduction of time needed for passenger checks, possibility of implementing innovative projects, strengthening and modernisation of the systems of surveillance of the external maritime borders, increase in the effectiveness and mobility of services, increase in the capacity and efficiency of the IT systems and improvements in the visa issuing process.

Under the **European Return Fund**, the most significant budgets for the period 2008-2009 were allocated to concrete return operations with a focus on assisted voluntary return, addressing the specific situation of vulnerable groups as well as support for specific innovative tools for return management such as tailor-made pre-departure counselling and reintegration projects, with the goal of improving sustainability of returns. Numerous smaller projects are also implemented with the aim of supporting Community standards and best practices. On the basis of the reporting for the mid-term review, most Member States gave a (partly) positive overall assessment of the results achieved through actions co-financed by the fund. However, nearly all Member States also highlighted specific challenges encountered during the implementation, such as administrative burden and the narrow selection of potential project beneficiaries. As most actions of the first annual programmes were still on-going during the reporting exercise for the mid-term review, few Member States have reported impacts. Nevertheless, preliminary results observed included the launch of voluntary assisted return programmes and the development of some more projects on reintegration support to returnees.

No mid-term evaluation was required for the **European Refugee Fund (ERF)** (2008-2013) because the ex-post evaluation of the implementation of the fund during the previous programming period (2005-2007) was on-going and has since become available. The final evaluation indicates that during 2005-2007, the ERF directly benefitted more than 350,000 persons (asylum seekers, refugees and persons enjoying other forms or protection). In addition, more than 6,500 persons belonging to the project implementing organisations received support from the fund, in particular for training or as a result of additional recruitment. The ERF II provided substantial support to the Member States who joined the European Union from 2004 in order quickly and effectively to upgrade their asylum facilities and procedures to EU standards. This was a major contribution to their compliance with the EU *acquis* of the Common European Asylum System. In the other Member States, the fund supplemented national resources to support operations with genuine added-value, often innovative operations, to improve the reception conditions of asylum seekers and the integration of refugees over and above the minimal conditions. Of particular interest is also the development of voluntary return schemes for asylum seekers whose application was rejected. 26,200 persons returned to their country of origin under these schemes. The fund's assessment is positive in all Member States. Overall, these achievements can be considered remarkable, given the ERF's relatively limited resources (€50 million per annum for the 2005-2007 programming period).

A **report on the application of the criteria for allocating to the Member States the resources available under the 4 funds** indicates that the systems set up for the collection of the data on the basis of which funding is distributed are adequate. However, the amount and the complexity of the data to be collected and verified each year imposes a significant recurring burden on the Member States and the Commission. There may therefore be more cost-effective distribution keys to express the principle of solidarity at the heart of the funds.

Other evaluation results and stocktaking

A synthesis report on the European Migration Network's study on programmes and strategies in the EU Member States fostering assisted return to and reintegration in third countries concludes that assisted return is increasingly seen by Member States as a valid and often preferable alternative to forced return. As a result, Member States are taking steps to make this a credible and feasible return option, including by measures to overcome the various obstacles persons who wish to return may face during the different phases of return (i.e. pre-return, transportation and post-return). Furthermore, in several Member States, the focus has also shifted from organising assisted return measures (solely) regarding the pre-return and transportation phases, to the post-return phase.

In the framework of the mid-term review of the Thematic Programme for Cooperation with Third Countries in the Areas of Migration and Asylum, an external evaluation was conducted in 2009/2010. Its assessment was overall positive and highlighted the high quality of the technical assistance and capacity building provided through the projects. However, the evaluators highlighted the fact that the thematic programme did not manage effectively to involve governments from third countries as active stakeholders and therefore did not succeed in stimulating broad policy dialogue with third countries, which obviously limits considerably its impact. The over-dispersion of the programme's rather limited resources is also a problem that should be tackled in the future if the programme is to become a real strategic tool in EU cooperation with third countries on migration and asylum. As a programme under the Development Cooperation Instrument, the external evaluation also recommended to take more into consideration migration flows between developing countries and to destinations other than the EU. It was also recommended to better coordinate between the thematic programme and the geographical instruments, to provide more support to local civil society organisations and local authorities, to strengthen the programme's mainstreaming of human rights and democratic principles and to ensure that third country governments are fully informed at the highest level of the projects being implemented in the country, so as to increase the Programme's visibility and facilitate the political dialogue.

An external evaluation of pilot Regional Protection Programmes (RPP) was conducted in 2009, and concluded that the concept of RPP constitutes a first successful step towards establishing a mechanism for an increase of the capacity of areas which are close to regions of origin, or which are areas of transit, to protect refugees through the three durable solutions: repatriation, local integration and /or resettlement. The evaluation also noted that the fact that RPP were not funded through a dedicated funding stream but through several funding programmes with a more general, broader outlook, resulted in the diminution of the possible achievements of RPP, in particular in terms of visibility and understanding of the overall RPP concept and RPP awareness in the beneficiary countries. It recommends an earlier involvement of third country authorities, a higher degree of involvement of Member States and the integration in a more comprehensive way of a resettlement component in RPP by developing a participatory approach involving both Member States and third country authorities. The evaluation also recommends that the selection of RPP regions should continue to be based primarily on the assessment of the particular refugee situation in third countries, in particular the needs analyses undertaken by UNHCR, and that adequate funding should be allocated to ensure that a truly regional intervention can be carried out and that the regional character is ensured, thus enhancing the effectiveness of the intervention.

Stakeholders' views

Stakeholders' views were gathered during a public consultation from 5 January to 20 March 2011 and during the dedicated conference "The future of EU funding for Home Affairs policies: A fresh look" on 8 April 2011. The views expressed on these occasions are summarised below:

- In order to **add value**, EU spending should reflect EU level priorities and policy commitments and should support the implementation of the EU Home Affairs *acquis*. Representatives from NGOs and international organisations (UNHCR, ECRE) consider that EU funding should not be seen as substituting national funding, i.e. Member States remain responsible for ensuring that sufficient national funding is available to support Home Affairs policies and for immigration and asylum policies in particular. EU value added was judged to be greatest by respondents in areas of prevention and fight against terrorism and organised crime, law enforcement, legal migration and integration of third country nationals, and in building a Common European Asylum System (CEAS), reflecting the added value to be gained in the newer areas of the EU's competency.

- In terms of the **size of the future budget**, a number of stakeholders (Member States, NGOs, Committee of the Regions, European Economic and Social Committee) expressed the view that more funding should be available for Home Affairs, although others (UK and Sweden especially) warned that in the current climate there could be no question of an increase in the EU budget. Instead, increased demands would have to be met through internal redeployment.

- In the area of **immigration and asylum**, future needs are found to be greatest in capacity building for asylum systems and integration of refugees, integration policies and best practice, and in the prevention and control of irregular migration and related criminal activities. Stakeholders confirm the important contribution made by the European Refugee Fund and the European Fund for the Integration of Third Country Nationals to supporting asylum and integration measures but call for the scope of these funds to be improved by covering some target groups more comprehensively (e.g. integration measures also targeting refugees, asylum seekers and persons benefitting from other forms of international protection) and ensuring greater cohesion with other EU funds (ESF, etc). There is strong support for the EU funding of integration measures from NGOs, public authorities and other EU institutions (CoR and EESC). In relation to return, NGOs favour voluntary return whereas Member States also want forced return activities to be supported. There is general agreement that sufficient funding should be available, in particular for voluntary return and readmission procedures, the fight against smuggling and trafficking in human beings, and for unaccompanied minors. The IOM favours promoting enhanced coordination between Member States, cooperation with third countries and capacity building, including developments in the field of new legislation at national level.

- In the area of **internal security and borders**, stakeholders (Member States in particular) consider that the broad thematic priorities have already been decided (Stockholm Programme, Internal Security Strategy, etc). Crisis management, training (and lifelong learning) of law enforcement officials, and the interoperability of information systems were highlighted as areas where EU added value is highest. Stakeholders also stress the importance of supporting practical cooperation between national agencies and the exchange of best practices in order to ensure effective cooperation between Member States as well as with neighbouring countries, thereby also contributing to the strengthening of mutual confidence. Stakeholders also consider that the future fund(s) in support of internal security policies should be defined comprehensively, comprising law enforcement, border guards and customs communities. Funding should also be available for crime/terrorism prevention policies and more should be done to explore and support innovative methods, especially in the field of cyber security and security research in order to allow for validating and testing of newly developed security solutions. The need to support crime prevention was also highlighted (European Forum for Urban Safety), as was the contribution local and regional authorities can make in the area of security (EESC).

- Stakeholders broadly agree that the **external dimension** of Home Affairs policies is extremely important and that more funding should be made available to support it. Although some needs are covered through existing external aid instruments, EU interests in the areas of migration and security (readmission agreements, police cooperation, etc.) are not adequately met. Although there is agreement that these needs should be covered by EU instruments under the next MFF, there is no consensus on how this should be done. Whereas some stakeholders (Member States, IOM) support the idea of incorporating funding for the external dimension in the future Home Affairs Funds whilst maintaining development-oriented assistance under the external aid instruments, other stakeholders (UNHCR, ECRE) oppose such a move, preferring to increase funding under the external aid instruments, in particular the geographic and thematic programmes. Stakeholders do, however, agree that funding for the external dimension in the area of migration should be built around the 3 pillars of the Global Approach to Migration. In the area of security, focus should be on transnational cooperation in order to fight cross-border organised crime (drugs and human trafficking, etc.), combat terrorism and enhance the protection of transnational critical infrastructures.

- Stakeholders are positive about the role of the **Home Affairs agencies** and consider that sufficient funding should be made available for the Home Affairs agencies, in particular those that are involved in the establishment of common EU policies, such as EASO in the Common European Asylum System, but also agencies that promote practical cooperation between Member States such as Europol and Frontex. Greater scope for programme-based financing and more synergies between agencies and the Commission was highlighted as an important need in the future.

- There is broad agreement among stakeholders on the need for an **improved flexible emergency response mechanism** to allow the EU to respond quickly and effectively to emergencies and unforeseen situations in the Home Affairs area. Stakeholders consider that crises such as a terrorist attack, the sudden arrival of asylum seekers or irregular migrants in large numbers at the borders of the EU are representative situations and, therefore, an emergency response could be triggered.

- All stakeholders stress the need for **simplification and streamlining.** The idea of reducing the number of funds to a 2-pillar structure is generally welcomed but only if this actually leads to simplification and if efforts are also made to simplify and streamline the administrative implementation of actions (eligibility rules, reporting and control obligations, payment procedures, etc.). Shared management is generally seen as the appropriate mode for the future Home Affairs funds although stakeholders stress the need to move to multi-annual planning, focus on objectives and results and find appropriate distribution keys, especially for security. NGOs and international organisations (IOM, UNHCR) are of the opinion that direct management should be continued and want to be involved not only in the programming but also in the selection and monitoring of projects. Some smaller NGOs consider it unfair to have to compete with "big players" for funding.

Challenges ahead

Although the current generation of financial instruments provide general support to most Home Affairs policies, a number of important policy needs are not (fully) covered:

A number of activities cannot currently be funded or not with sufficient flexibility. A number of examples are given below for each of the four funds under the general programme "Solidarity and Management of Migration Flows" and for the general programme "Security and Safeguarding Liberties":

– European Integration Fund: cannot co-finance specific needs of Member States, in particular in relation to different target groups such as third-country nationals who have acquired citizenship of a Member State. It is also problematic to cover the totality of the large population of unaccompanied minors.

– European Refugee Fund: does not foresee any additional financial incentive for the intra-EU transfer of beneficiaries of international protection ("relocation"). Such operations have therefore been financed so far with the support of European Refugee Fund Community Actions (centralised direct management).

– Return Fund: does not support pre-removal reception/detention conditions or more general measures to reduce irregular migration.

– External Borders Fund: cannot provide support for measures aimed at migration control which are not carried out at or close to the external borders, nor can it provide support for measures aiming at preventing irregular immigration (such as co-operation and data exchange with law enforcement agents) or actions relating to trafficking, false documents and document management. It cannot support inter agency co-operation and the building of connections across the different law enforcement authorities, including those working inside the territory (police, border guards, customs).

– General Programme Security and Safeguarding Liberties: it is difficult to fund the activities of joint investigation teams or newer policies such as crisis management where flexibility is essential. In addition, emergency situations and activities in third-countries, even if having a direct impact on EU internal security, are not covered.

Moreover, the existing external aid programmes are not designed to support the external dimension of Home Affairs policies but cater primarily for other policy objectives, in particular, enlargement, development and neighbourhood policy. At present, 95% of EU funding qualifies as Official Development Assistance (ODA) and must therefore by definition target development objectives in favour of the recipient country and, accordingly, needs assessment and identification of priorities is mostly jointly agreed with beneficiary countries. While this is very important and migration-related development financing should be kept, **there is a manifest lack of EU leverage to allow the Union**

to pursue and achieve its own policy priorities and cater for the EU interest, such as the management of migratory flows and security.

Policy choices

The following options are currently under consideration:

Option 1: **zero option (no funding):** the financial programmes would be cancelled / discontinued and the Commission would assume a strategic policy formulation role only. There would be a minimal to no budget in support of policy, with operational arrangements reduced to the management of existing commitments which cannot be terminated (legal obligations), in particular in relation to agencies and large-scale IT systems.

Option 2: **reduction option**: maintaining the average level of funding of the period 2007-2013. Because of heavy back-loading under the current MFF, this results in a decrease in funding in real terms. The Commission would assume a strategic policy formulation and funding role. Funding for existing commitments would need to continue and as a result, spending on programmes would need to be reduced for all policies. In addition, funding would be refocused on a limited number of priority areas where EU added value is highest, such as support for solidarity and responsibility-sharing in the areas of asylum and the management of the EU's external borders. In order to achieve this, more marked cuts would need to be made in other areas.

Option 3: **status quo option**: continuation of the current instruments by maintaining the level of funding reached in 2013 ("maturity level") for the whole period (i.e. an increase of 60% in real terms) without any significant changes in priorities.

Option 4: **Status quo "plus" option with external dimension component (preferred option)**: continuation of level of funding reached in 2013 ("maturity level") for the whole period, resulting in an increase in funding of 60% in real terms and inclusion of new activities in relation to the external dimension of internal policies in order better to tackle the root causes of migratory pressures and security threats.

Assessment of available options

Option 1: **zero option (no funding):**

This option envisages the discontinuation of Home Affairs programmes but the continuation of existing commitments which cannot be terminated. The Home Affairs agencies would need to become the main instruments to execute and implement Home Affairs policies. It would, however, be difficult if not impossible to give concrete expression to the principles of solidarity and responsibility-sharing in the areas of migration, asylum and borders and to give impulse to the development of law enforcement cooperation and a common culture to strengthen internal security in the EU.

Without EU funding, the creation of a ‘Europe of Asylum’ with common standards would be difficult to achieve and Member States' asylum systems would be unlikely to be able to cope adequately with migration flows. Some Member States would have to bear disproportionate costs for refugees and asylum seekers. In the area of integration, the absence of EU funding to support the integration of third-country nationals would have a negative impact on European society as a whole as well as on employment opportunities for the migrant population. Equally, those skilled migrant workers attracted to the EU may find adapting to a new life more difficult, resulting in some leaving the EU. Within local regions and communities, a lack of integration can result in a breakdown of social cohesion and an increase in poverty. Although some activities (integration measures, assistance to asylum seekers and refugees) may still be developed by non-governmental and international organisations, this is likely to be limited since many such organisations benefit from EU funding for these activities.

Without EU support for the return of irregular migrants and the pooling of resources at EU level for return operations, the cost of these operations is likely to increase for Member States. The number of returns is therefore likely to decrease across Europe, resulting in an increased number of irregular migrants remaining in the EU. The absence of EU funding for measures to control irregular migration flows would probably lead Member States to cooperate bilaterally with countries encountering similar challenges or with third countries directly, to have some leverage over future migrant numbers. Although Member States acting in their own interest may reduce migrant flows to their own country, they may increase flows to other Member States who may have less leverage or weaker border controls. Overall, the number of irregular migrants entering the EU could therefore be expected to increase as efforts at prevention and return would be less effective when Member States act alone.

Discontinuing EU funding to support border control is likely to intensify the disproportionate burden carried by some Member States for securing the EU's external borders in the interest of the whole of the EU. As a result, some Member States simply may not have the resources adequately to contain the irregular migrant and security pressures placed on their border services. The EU and its borders would therefore be less secure in relation to irregular migration, organised crime and terrorism. Reduced efficiency at the EU's borders could also be an impediment to free movement of goods and persons within the EU and those migrants legally entering the EU, the economic consequences of which are difficult to quantify, but likely to be substantial.

Although the discontinuation of EU funding for the prevention of and fight against organised crime is not likely to have a direct major impact on the overall number of crimes perpetrated in the EU, the absence of EU funding is likely to weaken EU's and Member States' capacity for practical cross-border cooperation and the exchange of information. The exchange of best practices also would not take place as systematically as at present. This may well constitute a "missed opportunity" to prevent crime from taking place and undermine EU's economy and society. A similar impact is expected on the prevention of and fight against terrorism, where, despite the continuing work of Europol as well as ongoing and, potentially, new legislation on terrorist funding, the absence of EU funding for the implementation of numerous action plans (e.g. CBRN, explosives, EPCIP) and practical cooperation between Member States and between Member States and third countries would seriously affect the capacity of the EU to prevent terrorist events and manage the consequences of such events.

Under this option, no funding would be available to support actions related to the external dimension of Home Affairs policies. The EU would therefore not be able to increase its leverage with third countries to encourage them to engage with the EU on issues of relevance to the EU and the Member States and which might not be priority issues for the third countries themselves (readmission, fighting irregular migration, reinforcing border management, etc.). In the absence of an emergency response mechanism, the EU would also not be able to respond quickly and effectively to home affairs related crises when they arise.

In view of the above, this option clearly does not address the needs identified at EU level in the area of Home Affairs.

Option 2: **Reduction option**:

Under this option, the Home Affairs agencies would be the main EU instruments in support of Home Affairs policies. Contrary to option 1, however, limited funding would also be available through financial programmes which would provide financial support for priority policies with high EU added value.

Although EU funding for the common asylum policy would be continued, the decrease in available funding means that funding would be unlikely to be sufficient fully to address the strain on Member States' asylum systems and would leave little scope for additional support for those Member States who have to cope with particular pressures on their asylum systems other than through increased support from EASO. There would be insufficient funding to cover the external dimension of asylum policy, in particular through additional support for resettlement or Regional Protection Programmes.

Overall, this option would therefore lead to an improvement in standards and hence further progress towards the CEAS but it is likely to fall short of meeting all the needs in this area.

Reduced levels of funding for borders and visa will necessitate a shift away from overall capacity building efforts towards specific projects such as the implementation of Eurosur and/or the development of new IT systems (Registered Travellers Programme, Entry/Exit System). In combination with an enhanced role for Frontex, this support from the EU budget would allow some new developments and probably maintain current levels of border security, but would be insufficient to support the notion of border control as a "public service" carried out by Member States on behalf of and in the interest of the EU as a whole.

Under this option, funding would be reduced for all policies but cuts would be more significant for a number of policies such as Member States' efforts in relation to the integration of third-country nationals and return operations. The impacts of reduced funding for these policies would be similar to the impacts described under option 1 but could be mitigated to some extent, for example by the continued exchange of information and best practices through the European Migration Network or through increased support from Frontex for return activities.

Funding for the prevention of and fight against organised crime and terrorism would be reduced by focussing on a smaller number of transnational projects which foster practical cooperation between law enforcement authorities or which focus on a limited number of priorities. Europol would be strengthened as a key player in the area of internal security.

As under option 1, no funding would be available for the external dimension. A key aspect of Home Affairs policies would therefore remain unaddressed. Emergency response would be limited to the area of asylum where the existing mechanism would be continued (and improved), thus giving the EU a basic capacity to deal with crises in this area. However, given the limited funding that would be available, the situation is not likely to improve greatly. The EU's ability to respond to emergencies also would not cover crises in the area of internal security such as terrorist or cyber attacks.

Although option 2 is an improvement on option 1, it would not allow the EU fully to address the needs and challenges it will face after 2013 in the Home Affairs area.

Option 3: **status quo option**

Under this option, the current instruments would be continued without significant changes in priorities and maintaining the level of funding reached in 2013 ("maturity level") for the whole period (i.e. an increase of 60% in real terms).

Compared to policy options 1 and 2, Member States would be expected to balance disproportionate pressures on their respective asylum systems better, as EU funding would continue to support activities existing under the current financial instrument into the next financing period. However, it would not be possible to provide support for an EU resettlement scheme and the Member States would still have no additional financial incentive for the intra-EU transfer of beneficiaries of international protection ("relocation"). Solidarity and responsibility-sharing would therefore not be optimised.

The continuation of funding for integration measures would allow Member States to continue setting-up national/regional strategies for the integration of third-country nationals or to strengthen the national/regional strategies already in place. In comparison with options 1 and 2, there would be better support for the integration of third-country nationals although the added value of funding for capacity building is likely to diminish as Member States progress in the implementation of their strategies.

Similarly, in the area of return, EU funding would continue to be made available to Member States to build sufficient return management capacity. Although in comparison with options 1 and 2, Member States would be better equipped to return the numbers of irregular migrants they are currently confronted with, the added value of capacity building is likely to diminish over time. However, without a change in the current instrument, it would not be possible to support the improvement of detention conditions in the Member States.

Maintaining current levels of funding for border control would significantly contribute to an efficient border control and surveillance system. However, without a change in the current instrument, it would not be possible to support more systematically the border control activities Member States carry out in the interest of the whole of the EU ("public service").

Although current levels of funding could suffice to achieve the main priorities in the area of internal security and would certainly improve the security of the EU compared to options 1 and 2, it would remain difficult to fund the activities of joint investigation teams or newer policies such as crisis management where flexibility is essential. Despite an enhanced role for Europol, practical cooperation between Member States and between Member States and neighbouring countries would not be optimised.

As under options 1 and 2, the external dimension of home affairs policies would not be addressed and the EU ability to respond to emergencies, albeit improved, would remain inadequate and limited to the area of asylum.

Overall, this policy option would achieve the key policy priorities in the Home Affairs area and constitutes a significant improvement on options 1 and 2. However, the impact produced by the funding available would not be optimal or fully exploit the lessons of the current home affairs MFF, particularly in relation to emergency response and the external dimension.

Option 4: **Status quo "plus" option with external dimension component (preferred option)**:

Under this option, the status quo would be improved through the inclusion of new activities in relation to the external dimension of internal policies in order better to tackle the root causes of migratory pressures and security threats.

In the area of asylum, increased focus would be given to resettlement and Regional Protection Programmes, i.e. aimed at keeping refugees and displaced persons in their region, rather than seeking to transit to the EU. Support would also be possible for the joint processing of requests for international protection in the regions of origin via an EU resettlement programme. This would enable a more effective system of burden sharing for receiving and processing asylum seekers among EU Member States. The operational efficiency gains delivered by this would complement this effectiveness by taking account of Member States' reception capacity in allocating persons in need of international protection. Hence, benefits would be found in the reduction of the disproportionate flows of refugees in some Member States and a more equal sharing of the responsibility and burden sharing among Member States.

In the area of integration, the promotion and generalisation of Mobility Partnerships coupled with strengthened collaboration and cooperation of the EU with international organisations would maximise the operational synergies between EU institutions, the Member States, and international organisations (i.e. UNHCR). This would also lead to a greater effectiveness of funding in this area.

Substantial funding for readmission agreements would facilitate the swift return of irregular migrants and would therefore contribute significantly to fighting irregular migration. The cumulative impacts of the EU resettlement scheme, Regional Protection Programmes, Mobility Partnerships and readmission agreements could reduce the need for emergency funding needed to cater for sudden migratory pressures, reduce the need for asylum and international protection in the country of origins, reduce irregular migration to the EU and reduce the need for funding voluntary and forced returns.

In the area of border control, EU funding to support third countries to develop their border surveillance capabilities and to link those third countries' systems and infrastructures to those of the EU in order to allow for the regular exchange of information could increase the detection rates of irregular migrants or prevent their entry into the EU and would therefore enhance the security of the EU's external borders. The efforts of those Member States who carry our border control tasks on behalf of and in the interest the whole of the EU would therefore continue to be supported from the EU budget and would lead to efficient and effective border controls.

Funding for the external dimension of internal security policies, notably the prevention of and fight against serious and organised crime (trafficking, drugs, international criminal networks, etc.) and the prevention, preparedness and consequence management of terrorism and other security related risks would lead to an increased understanding of the security threats originating in third countries. Coupled with cooperation in other domains such as migration management, this would increase the effectiveness of interventions aimed at preventing and detecting potential terrorists and organised crime threats.

In order to increase support for the external dimension, adjustments need to be made in the funding allocated to some policies. More specifically, funding levels would be reduced for integration measures and move away from capacity building towards integration measures directly benefiting legal migrants at local and regional level. Levels of funding would also be reduced for return operations but would refocus on assisted voluntary return, reintegration measures and improving the detention capacity of Member States. Frontex would continue to complement current return activities by increasing co-ordination of border control activities through joint operations and increasing the coordination of joint returns.

The emergency response capacity would be extended to include emergencies in the area of internal security and would be designed to allow the EU to act quickly and effectively to unforeseen events and crises in this area.

13. JUSTICE

With the new impetus provided by the Lisbon Treaty, the European Commission wants to build an EU-wide area of law, rights and justice. The aim is to improve people's everyday lives and to benefit businesses. In particular, the Lisbon Treaty offers new opportunities for judicial cooperation in criminal and civil matters and sets the objective of facilitating access to justice across the EU. The Commission's proposals in the justice area seek to offer practical solutions to cross-border problems for both citizens and business: for citizens to feel at ease about living, travelling and working in another Member State and trust that their rights are protected no matter where in the EU they happen to be; and for businesses to make full use of the opportunities provided by the Single Market.

In order to achieve the goals set out in the Lisbon Treaty, the Council adopted the Stockholm Programme affirming the political priorities for the period 2010-2014. Most of these priorities will continue to be relevant beyond this timeframe. Justice policies can also contribute to achieving the objectives set out in the Europe 2020 strategy and may help the EU to overcome the economic crisis and achieve smart, sustainable and inclusive growth.

Current system of funding

Under the ongoing 2007-2013 multiannual financial framework, six funding programmes are being implemented under centralised direct management. The following five specific programmes are included in the Framework Programme on Fundamental Rights and Justice: Fundamental Rights and Citizenship (FRC), Civil Justice (JCIV), Criminal Justice (JPEN), Daphne III (DAP) and Drug Prevention and Information Programme (DPIP). In addition, two sections of the Community Programme for Employment and Social Solidarity (Progress) cover this policy area - the antidiscrimination and diversity section and the gender equality section.

The Framework Programme aims to promote the development of a European society based on European Union citizenship and which is respectful of fundamental rights, fighting anti-semitism, racism and xenophobia and strengthening civil society. The programme contributes to the setting-up of an area of freedom, security and justice by combating violence and by providing information on and preventing the use of drugs. Moreover, it promotes judicial cooperation with the aim of contributing to the creation of a genuine European area of justice in civil and commercial matters, as well as in criminal matters.

The Framework Programme represents an envelope of €550,18 million for 2007-2013 (after amendments) distributed over the above-mentioned five specific funding programmes, each with their own legal basis: JPEN, €199,3 million; JCIV, €109,7 million; DAP, €121,43 million; FRC, €97,4 million and DPIP, €22,35 million.

Each one of the five legal bases foresees two types of financing instruments. Firstly, the Commission has the possibility to finance its own "specific actions" with a view to better deliver its policies through studies, research, opinion polls, surveys, seminars, conferences and expert meetings or specific IT projects to develop and implement computerized systems of exchange of information. Those actions are implemented through procurement, mainly using framework contracts.

Secondly, grants are awarded to projects of civil society organisations or public bodies, in particular to "specific transnational projects" involving applicants from at least two Member States (action grants), and to activities of NGOs or other organisations pursuing an aim of general European interest (operating grants). On average, 13 calls for proposal are launched per year under the five programmes leading to the award of +/- 130 action grants and +/- 30 operating grants. Grants account for the biggest part of the programme budgets (on average, about 80%).

Finally, five institutional partners and networks are directly financed on an annual basis without a competitive procedure, as foreseen in the corresponding legal bases. They are: the Conference of the European Constitutional Courts (which never requested any funding); the Association of the Council of State and Supreme Administrative Jurisdictions of the EU; the European Judicial Training Network; the European Network of Councils for the Judiciary and the Network for the Presidents of the Supreme Judicial Court of the European Union.

The Antidiscrimination and Diversity section of the Progress programme supports the effective implementation of the principle of non-discrimination and promotes its mainstreaming in all EU policies. The Gender Equality section supports the effective implementation of the principle of gender equality and promotes gender mainstreaming in all EU policies. The following actions are funded for the implementation of these objectives: analytical activities for the development and dissemination of policy tools, mutual learning, awareness and dissemination activities and support for main actors. These two sections of the Progress programme represent 35% of its overall budget (€20,66 million and €12,8 million in 2011 and a total envelope of €241,52 million (after amendments) for 2007-2013). They are mainly implemented through Commission initiatives, framework partnership agreements with institutional beneficiaries and to a lesser extent through calls for proposals addressed to Member States (one or two per year).

In addition, the budget supports three traditional agencies: the Fundamental Rights Agency (FRA), the European Union's Judicial Cooperation Unit (EUROJUST) and the European Institute for Gender Equality (EIGE), which together account for €365 million or 31% of the overall budget over the period 2007-2013.

Lessons learned from implementation of the current system

<u>Specific Programmes under the Framework Programme Fundamental Rights and Justice (JPEN, JCIV, DAP, FRC, DPIP)</u>

All programmes are directly relevant to the problems they were designed to address. However, during the implementation of the programmes a number of problems were identified.

Overlaps and fragmentations in the scope of the programmes

Funding in the area of justice and fundamental rights can be obtained through six different programmes. Although each programme has a different legal basis and different objectives, however they all address issues which have common aspects and which are interlinked. Thus there are overlaps and fragmentations in the implementation of the programmes.

The multitude of funding instruments in the area of justice and fundamental rights results in limited flexibility of funding at the time of implementation. Horizontal and cross-cutting issues cannot be addressed or are addressed by a case-by-case approach under each programme. Flexibility in the allocation of funds according to policy developments and changing needs is very limited. From a policy perspective this fragmentation limits the use of funding as a tool in the development of a strong and coherent policy area. From an administrative perspective disproportionate resources are necessary for the management of these programmes (e.g. five committees, five annual work programmes and respective calls for proposals), especially if one takes into consideration the modest budget allocated to these programmes.

Deficiencies in the impact and in the EU added value of the programmes

The interim evaluations of the programmes confirm the EU added value of all programmes, as well as their considerable impact in their areas of intervention. However, a number of deficiencies are noted in these areas:

A dispersion of funds (*'saupoudrage'*) has been found in all programmes: in general, funds are granted to a high number of rather small projects. This diffusion of funds allows only for limited impact at a confined level (e.g. projects covering only some Member States, projects developing only a limited set of activities). These projects develop their activities in parallel and overlaps and duplication cannot be excluded.

As a result, the Member States are neither equally represented in the number of submitted applications, nor in the number of selected projects.

An additional factor to be taken into account is the limited budget available for each programme. Especially in the cases of the Fundamental Rights and Citizenship programme and of the Drug Prevention and Information programme, the allocation of the limited available funds to many different small projects under a wide-ranging set of priority areas results in a fragmented use of financing and prevents it from developing its full potential.

More efficient management

Although the introduction of the electronic grant management system has simplified the procedure and freed some Commission resources (especially in terms of administrative tasks related to the physical handling and registering of the applications), significant acceleration of the procedure has not been achieved. The period between the submission of applications and the start of the selected projects is long, due both to the procedural requirements imposed by the basic act (consultation of the Member States and the right of scrutiny of the European Parliament) and the administrative requirements for processing and evaluating a high number of applications and supporting documents. In addition the management of the lengthy administrative process takes away valuable resources from substance-focused monitoring or guidance activities, or the dissemination of results and the use of outputs.

Within this context all five interim evaluations underline the need to reconsider the effectiveness of operating grants as a delivery mechanism, given the high administrative cost of this form of funding, its limited/short-term duration and impact and the difficulty for NGOs to achieve a European dimension.

Although instruments in the area of justice account for only a small share of the EU budget (approximately 0.1% of the overall budget), the Commission devotes significant resources to its management. The cost necessary to implement the current five programmes of grants is disproportionate.

Progress

The draft interim report for the mid-term evaluation of the Progress programme confirms that the objectives supported by Progress in these fields are very relevant and have resulted in positive outcomes. The EU added value of this programme relies on better application of EU law; improvement of understanding of the current context through the development of data, indicators and experts networks; improvement of the partnership with EU-level NGO networks and the Member States, with particular reference to equality mainstreaming.

To increase the impact it is recommended to improve the dissemination of Progress supported activities, ensuring knowledge and ideas are shared with a wider audience.

Stakeholders' views

The preliminary results of the public consultation on the future funding activities in the area of Justice, Fundamental Rights and Equality for the period after 2013 show that the majority of the stakeholders agree that funding activities should be simplified and improved. They are favourable to measures such as the simplification of selection procedures, the simplification of reporting obligations and the wider use of IT tools and they also have positive views regarding the reduction of the number of programmes run. Time-consuming and bureaucratic procedures are one of the main concerns expressed by stakeholders.

The stakeholders identify EU added value in funding activities to improve the knowledge of the population on their rights and obligations, to fight discrimination, to promote fundamental rights, equality and EU citizenship, to protect vulnerable persons, to improve access to justice, as well as to eliminate obstacles and reduce costs of cross-border judicial proceedings and consumer transactions and to reduce drug use and drug related crime.

The stakeholders are favourable to funding activities such as exchange of good practices, training of professionals, information and awareness raising activities, support to networks and studies.

Challenges ahead

A range of issues need to be addressed:

– Obstacles remain to trans-border judicial proceedings and access to justice;

– Inconsistent application of EU law in the area of justice and fundamental rights;

– Insufficient exchange of information between Member States about common issues in the area of justice and fundamental rights, possible solutions/best practices, etc;

– Insufficient knowledge of the EU citizens on their rights;

– Although significant progress has been made over the last decade, inequalities between men and women and discrimination on the grounds of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation still exist in the EU;

– Member States are unable to tackle sustainably the cross border drugs problem on their own.

Most of the problems in this policy area are not new. The existing financial instruments have already tried to address them and some progress has already been achieved. However, funding should continue under the new post-2013 financial framework. On one hand, this is a relatively young area, where legislation and policy are expanding rapidly and have to be accompanied by appropriate funding measures in order to produce the full spectrum of their effects. On the other hand, the promotion of fundamental rights, equality and non-discrimination is a long-term objective, which requires long-term and persistent efforts.

Available policy choices

Four options have been envisaged when assessing future financial needs and the structure of future programme(s) in the area of justice.

1. **No programme dedicated to the area of justice:** integrate the funding priorities in the area of Justice into other bigger, more visible funds.

2a. **Keep the status quo (six programmes)** and streamline only at the level of programme management.

2b. **Minor streamlining/merging of some the programmes** (e.g. merge JPEN and JCIV or DAP, FRC and Gender equality section of the PROGRESS programme). Additional improvements to be addressed at the level of programme management.

3. **Aim for the maximum possible streamlining and reduce the number of programmes to a minimum.**

Assessment of available options

The first option would diminish the administrative burden at Commission level (management of fewer programmes). However, within more general programmes, the policy priorities would be integrated with priorities in other policy areas, potentially leading to a loss of focus, visibility and funding. As a result, the current challenges would not be properly addressed.

The policy priorities and challenges would be addressed more efficiently by options 2a, 2b, 3.

In options 2a and 2b, a clear and separate funding instrument would be available for each major policy area. However, these options lack flexibility in funding allocation and prevent the modest budget from being adjusted and streamlined according to developments and policy needs. Funding under 2a and 2b would be allocated according to sectoral priorities reflecting the different policies in the area of justice. Horizontal issues would be addressed only partially by each programme. Thus, these options are much less efficient than option 3 in addressing horizontal issues, such as training for judges. Additional efforts and streamlining at management level would be necessary.

Option 3 is the most appropriate in order to avoid duplications and overlaps and to achieve flexibility in achieving policy objectives.

Different levels of simplification can be achieved by options 2a, 2b and 3. The highest level would be achieved by option 3, which would facilitate planning, allow maximum efficiency gains, both internally (human resources, administrative burden) and for recipients of funds (duration and complication of procedures) and would cater for a more consistent approach while implementing the funding.

Programme management, monitoring and evaluation, uniform and clear rules, streamlined procedures and reduced bureaucracy would all be better achieved by option 3.

Similarly, option 3 would be the most appropriate for increasing the impact of the programme and its EU added value. Measures for ensuring the funding of bigger-scale projects with increased added value and geographical coverage can be integrated also in options 2a and 2b. However, option 3 can better guarantee that the modest funding in the area of justice can be more effectively allocated in achieving greater EU added value.

14. HEALTH POLICY

The National Reform Programmes (NRPs) submitted by Member States on an annual basis demonstrate how the Europe 2020 targets will be achieved. Health is mentioned in relation to the targets on employment, research and development, poverty reduction and budgetary reform with regard to the sustainability of health systems.

Innovation

Health is a highly innovative sector including high technology areas such as medical devices, pharmaceuticals and new technologies such as digital technologies, e.g. e-health. Fostering innovation, in all its forms spanning from technological to social innovation, requires high investment outlays. However, if focused on the most effective and cost-efficient evidence based solutions, these can generate output efficiency gains and increase care personnel productivity. This large scope for innovation and breakthroughs will further strengthen a paradigm shift – whereby growing demand for care is seen as an opportunity and not solely as a cost driver. In recognition of the important role that innovation plays in the health sector, the Commission launched, as part of the Innovation Union Flagship Initiative, the **European Innovation Partnerships on Active and Healthy Ageing** with a view to address the **societal challenge of an ageing** society. The Partnership aims to strengthen linkages between all existing relevant financial instruments fostering synergies and avoiding overlaps. The envisaged "Health for Growth" programme would complement the objectives of the Partnership by focusing on the need enable older people to lead active, independent and healthy lives, including through timely preventive action, while also helping Member States to achieve long-term sustainability of health systems.

Inclusive growth and employment

The health sector will be a major contributor to the **Europe 2020 employment target**. In addition, by delivering better healthcare, health promotion and disease prevention actions, the sector has the potential to boost the overall productivity and employability in the EU by keeping people healthy.

Europe needs to make optimal use of its labour force to face the challenge of the ageing society and the health workforce is crucial in this respect. As part of the **New Skills and New Jobs Flagship Initiative**, an action plan on the health workforce is foreseen.

Reducing inequalities

Inclusive growth also reduces inequalities in health to ensure that everybody can benefit from growth. This requires investment in prevention of disease and promoting health for all, especially among more vulnerable groups. **The European Platform against Poverty** addresses this dual challenge of preventing illness, increasing access to good quality healthcare while at the same time dealing with mounting pressures on the sustainability of health systems. The foreseen "Health for Growth" programme serves to address these challenges.

Current system of funding

Health policy is mainly a national competence with a limited role for the European Union. The current Programme of Community Action in the field of Public Health (2008-2013) has a total budget of €321.5 million. The programme is the financial framework for funding actions supporting the achievement of objectives set by the "Together for Health" EU Health Strategy (2008-2013).

The programme has 3 objectives:

(1) to improve citizens' health security;

(2) to promote health, including the reduction of health inequalities;

(3) to generate and disseminate health information and knowledge.

The list of priorities is given in the annex of the programme decision[117].

It is currently organised around the following themes:

– health threats prevention (chemical, radiological and biological events) and preparedness;

– communicable diseases;

– major, chronic (cancer, etc.) and rare diseases;

– health determinants;

– legislation on products (blood, tissues and cells, tobacco);

– health systems;

– health information and advice;

– communication and dissemination.

In total, 478 actions have been financed since 2008 (grants, conferences, operating grants, joint actions, tenders, others).

Lessons learned from implementation of the current system

1. The **external ex-post evaluation for the 1st Public Health Programme 2003-2007** has concluded on the following points:

(a) The "Health for Growth" programme post-2013 should be re-focused, re-prioritised, concentrate financial support on a fewer number of actions in key priority areas, bringing the biggest EU added value as it was already underlined by the Court of Auditors in its report "The European Union's Public Health Programme (2003-2007): an effective way to improve health?"

(b) The "Health for Growth" programme should better serve and further involve all EU Member States, especially those with a relatively low GDP per capita. Emphasis will be placed on actions in areas where Member States cannot act in a cost effective manner where there are clear cross-border or Internal Market issues or where there are advantages and efficiency gains through collaborative action at European level.

2. **The preliminary results of mid-term evaluation of the 2nd Health Programme 2008-2013** indicate that:

– Even though the Health Programme is relatively small it impacts significantly on public health specialists across the EU and beyond, helping create a stronger community of practitioners at European level;

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117 Decision n° 1350/2007/EC of the European Parliament and the Council of 23 October 2007; OJ L 301, 20.11.2007, p 3.

– Coordination of a significant amount of health data between Member States would not have taken place without the Health Programme;

– Development of programmes for health information might not have been taken up in new Member States, given that this area might not be a priority for these countries with more urgent areas of work in the short term (e.g. economic issues);

– The current Health Programme has put forward important issues on the EU and national political agendas and without it there would be less policy development and implementation at national levels.

Stakeholders' views

In the various consultations that have already taken place, participants strongly supported the existence of a Public Health programme, whether Member States or NGOs. Some Member States added that it should be more focused, cost efficient and based on actions of proven EU added value, while others underlined that it should support the existing objectives and a wide range of actions. National Focal Points mentioned that it could help in the development of national policies by:

(a) providing models, examples to follow for actions taken at national level;

(b) sharing and exchanging operational experience, expertise and knowledge;

(c) giving support to health issues in the national political agenda.

The areas that they wanted to be tackled by the new public health programme are as follows:

– health systems reform and sustainability;

– ageing of population (healthy ageing, dementia);

– health in all policies;

– cancer;

– major, non-communicable diseases and chronic diseases;

– rare diseases;

– communicable diseases;

– prevention / health determinants (alcohol, tobacco);

– mental health;

– health promotion , including promotion of a healthy life, nutrition & obesity;

– e-health;

– other topics mentioned with a lower frequency: Health Technology Assessment, sexual health policy, health indicators.

The Public Health Policy Forum proposed that a strong emphasis should be put on health determinants and that patients should not be forgotten in the new programme. They recommended a human rights approach to support EU Public Health policy and that the programme participates and supports the fight against health inequalities.

Furthermore, stakeholders, Member States as well as NGOs, also mentioned the need to have more Member States participating in the programme, that the programme should be linked with the Treaty, the Europe 2020 strategy, existing legislation and also implement adopted and planned Council conclusions.

Challenges ahead

The problems for the health sector today are mounting and the foreseen "Health for Growth" programme aims to support effectively Member States in addressing the key challenges:

– How to ensure universality, access to good quality care, equity and solidarity in healthcare with **the increasing costs to the health systems due to age related and chronic diseases and new expensive technologies**? This challenge has been heightened due to the austerity measures necessary in view of the financial crisis.

– How to make cost-effective investments in the **prevention of chronic disease** to address the underlying health determinants for many of these diseases? In many cases, the same health determinant e/g nutrition can affect several diseases. Action in one field could therefore deliver multiple savings.

– How better to protect citizens from **cross border health threats** in a globalised world where travel is widespread?

– How to reduce inequalities in health both between and within countries?

– How to ensure that health products respect the rules of the **single market** and provide a level playing field for all actors involved?

These are the challenges faced by Member States and, for the major part, they will have to be tackled directly by Member States. As stated in article 168 of the TFUE, EU action shall complement and, if necessary, lend support to national policies and shall encourage cooperation between Member States and also given the probably limited level of funding available. In this context, the programme would seek:

– to provide policy makers with innovative solutions for improving health systems' quality and sustainability;

– to help Member States in and complement their efforts to increase the number of healthy life years of their citizens;

– and to implement existing and new or revised health legislation that may be adopted.

This would be achieved through supporting and encouraging Member States in:

– developing common tools at EU level to address shortages of resources, both human and financial

– increasing access to medical expertise and information beyond national borders;

– providing standards and guidelines for health care quality and patient safety;

– developing / detecting best practices and demonstrating their value for cost effective prevention measures;

– developing common approaches and demonstrating their value for better preparedness and coordination in health emergencies;

– collecting health evidence, necessary for decision making.

Available policy choices

Regarding policy options, the following options have been explored:

(1) Option 1: activities limited to the needs related to the implementation of the currently existing health legislation and possible new legislation:

(2) Option 2: a programme comparable in size and scope to the current programme;

(3) Option 3: a programme of bigger size and wider scope, compared to the current programme

An option of no programme at all has not been envisaged. Indeed, in this case, the Commission would simply **not be able to fulfil its legal obligations deriving from existing legislation and legislation that is currently being revised** since these are currently supported under the current Public Health programme and the activity "Internal market for goods and sectoral policies" in the EU budget.

For instance, EU pharmaceutical legislation foresees that the Commission adopts decisions for the marketing authorisation of medicinal products for human and veterinary use (Regulation (EC) No 726/2004)[118]. In addition, the transparency requirements of EU pharmaceutical legislation require the establishment and management of the Community register of medicinal products. These decisions are prepared on the basis of the scientific evaluation by the European Medicines Agency and with the use of a database. In 2010, the Commission adopted 1279 decisions in this area. Given the number of decisions and their voluminous scientific annexes, the Commission would not be able to fulfil its obligations without an electronic management system of the decisions, which can only be put in place and operated with the necessary funding.

Assessment of available options

1) Option 1: activities limited to the needs related to the implementation of the currently existing legislation and legislation under preparation

This would allow for the Commission to be able to fulfil its legal obligations for the following sets of legislation (existing or currently being prepared or revised) as well as Council conclusions and recommendations:

– pharmaceutical devices

– medical devices

– substances of human origin (blood, tissues and cells)

– patients' rights in cross-border health care

118 EU pharmaceutical legislation also foresees that the Commission adopts decisions on the subsequent variation of these authorisations (Regulation (EC) No 1234/2008), decisions addressed to the Member States on action to be taken as regards medicinal products for human and veterinary use authorised by the national competent authorities (Directives 2001/82/EC and 2001/83/EC), and regulations on maximum residue limits of veterinary medicines in food of animal origin (Regulation (EC) No 470/2009).

– tobacco control

– Health Security Initiative.

However, with such an option, the role of the Commission would be limited to issuing legislation and overseeing its implementation, which would represent a step backwards compared to its current role, where it brings stakeholders together and supports voluntary cooperation among Member States.

This option means that there would no longer be a public health programme, meaning that no support, through cooperation and sharing of knowledge could be given to the Member States. All the benefits from previous years' investments would be lost. For instance, for cancer, common guidelines have been developed thanks to the programme and are now being used at national level. Their periodic updating would no longer be possible and evolutions would no longer be accessible to all Member States.

In the case of rare diseases, because of the low numbers of patients in individual countries and the isolated centres of expertise (sometimes just three or four across the EU), it is impossible for Member States to individually provide expertise and care to patients with rare diseases alone. Without funding, the pooling of expertise across the Union, which enables much more efficient use of the limited resources in this area, would be abandoned and people with rare diseases would not be provided with proper care if they happen to live in a country where the expertise is not locally available.

Member States are faced with serious challenges that require putting their strengths together to find new solutions, more quickly and at a lower cost. Only with the Commission as a moderator / motivator can they come together to cooperate on given topics.

In addition, the current programme notably funds actions that cannot be undertaken effectively by Member States alone and greatly depends on cooperation funded at EU level. The case of rare diseases has already been mentioned. But also widespread health diseases or pandemics do not stop at political borders. It is important that in such situations, Member States are well prepared and cooperate as much as possible. Without common training and the development of common guidelines to face such situations, there is a risk of lack of preparation in some Member States. Consequently, there is a risk of lack of cooperation or of lack of compatibility between national procedures, which may result in a higher level of human casualties and a disruption of the economy.

2) Option 2: a programme comparable in size and scope to the current programme

The incidence would be the same as for option 1, regarding the implementation of health legislation.

However, in addition, this option would allow the Commission to meet Member States' expectations for specific support and complement their actions in fields not covered by EU legislation. The Commission could support Member States in:

– developing common tools at EU level to address shortages of resources, both human and financial

– increasing access to medical expertise and information beyond national borders;

– providing standards and guidelines for health care quality and patient safety;

– developing / detecting best practices and demonstrating their value for cost effective prevention measures;

– developing common approaches and demonstrating their value for better preparedness and coordination in health emergencies;

– collecting health evidence, necessary for decision making.

This option would allow better support to the objectives of Europe 2020, innovation, inclusive growth and employment, reducing inequalities, as well as the Single Market Act. It is the preferred option.

3) Option 3: a programme of bigger size and wider scope, compared to the current programme

Under this option, tasks that are currently not imposed on the Commission but can bring added-value to the implementation of the legislation could be undertaken and updates could take place earlier.

In addition to the benefits already expected from option 2, this option would allow the Commission to increase its support to Member States, especially in the area of sustainability of health systems by allowing the production of Health Technology Assessments at EU level which would then ensure direct benefits from Member States willing to use the results of the European assessment.

In the area of prevention, in addition to the provision of cost effective best practices, Member States' initiatives could be complemented with specific EU media campaigns in the area of nutrition (i.e. food reformulation activities); in the area of "pro health habits" to reduce chronic diseases among children. In the area of communicable diseases, the establishment of Community Reference Laboratories could be envisaged.

This option would imply a substantial increase in the resources needed to implement the programme.

15. CONSUMER POLICY

The Europe 2020 Strategy calls for "citizens to be empowered to play a full role in the single market", which "requires strengthening their ability and confidence to buy goods and services cross-border, in particular on line".

Informed and empowered consumers are able to make the best choices for their own welfare and for the growth of the economy, by further stimulating competition, innovation and the integration of the Single Market, thus supporting the overarching goal of the Europe 2020 Strategy. Leveraging the vast economic force of consumer expenditure (which represents 56% of EU GDP) can make an important contribution to meeting the EU objective of reigniting growth. The 2011 Annual Growth Survey identifies better consumer conditions as one of the drivers of growth. Consumer policy provides tools that help consumers navigate the extensive choice offered to them thereby promoting businesses which are more efficient and innovative.

Consumer policy provides key contributions to the Digital Agenda flagship initiative (borderless and safe services and digital content markets, access, digital literacy), the issue of social inclusion also taking into account the situation of vulnerable consumers), sustainable growth (key contribution of sustainable consumption) and it underpins the importance of smart regulation (consumer market monitoring and behavioural testing as the basis for designing effective and targeted policies).

Current system of funding

The current Programme of Community Action in the field of consumer policy (2007-2013) has a total budget of €156.8 million (i.e. around €20 million annually).

The main actions financed under the current Programme relate to: product safety (RAPEX network and joint market surveillance actions); market monitoring (Consumer Market Scoreboard and in-depth market studies); consumer information and education; support to consumer organisations (financial support to EU level organisations and capacity-building for national organisations); enforcement of consumer rights (support to the CPC network of national enforcement authorities and co-financing of the network of European Consumer Centres).

The actions are carried out through financial contributions (grants) and procurement (service contracts).

Lessons learned from implementation of the current system

The mid-term evaluation of the 2007-2013 Programme (and Strategy) stresses the added value of the Programme, despite the fact that European consumer policy is a relatively new field and that the level of EU funding under the Programme is relatively small. It highlights that the actions under the Programme contribute to the Europe 2020 objectives of a smart, sustainable and inclusive growth.

– The Programme and the Strategy have been increasingly successful in the integration of consumer policy into relevant EU policies. The report suggests pursuing efforts in this field and to address new emerging challenges such as: issues linked to the digitalisation, moving towards more sustainable patterns of consumption, taking into account the vulnerability of consumers caused by the crisis. It also calls for a clarification vis-à-vis stakeholders of the role of the various Commission services on consumer issues.

– Consumer market monitoring, the Consumer Market Scoreboard and in-depth market studies have played a key role to support consumer policy. It plays an essential role for the proper integration of consumer concerns into relevant EU policies and the design of effective legislation. The report also suggests further developing the understanding of actual consumer behaviour.

– On product safety, coordination has increased between market surveillance authorities. The report recommends a strengthening of surveillance and enforcement through RAPEX, to pursue the efforts aimed at addressing the international dimension of the safety of products and to capitalise on the use of new technologies.

– On consumer rights and redress:

– Under the Strategy and Programmes, cross-border enforcement cooperation has been strengthened through the network of enforcement authorities (CPC Network) and coordinated actions such as "sweeps". The report suggests further increasing the coordination of the CPC Network and enforcement authorities.

– Consumer access to redress remains a problem. The report refers to the need to make progress on this issue and to increase consumer awareness about the means of redress.

– The Strategy and Programmes have provided increasing support to consumers who seek advice on disputes cross-border through the network of European Consumer Centres (ECC-net). However, the report suggests increasing their visibility and hence consumers awareness.

– The support provided through the Programmes to EU level and national consumer organisations has been effective (co-financing of EU-level consumer organisations through grants; capacity-building programmes for national consumer organisations). The role of EU level organisations is seen as crucial for ensuring the representation of consumer interests in EU policy making. The reports suggests also to pursue the training (capacity building) provided to national consumer organisations, and to examine the possibility of localising actions at national level.

– Progress on consumer education has varied, in particular for Dolceta, the online consumer education site, where there is a concern as regards the definition of the target audience. The report notably suggests consolidating the education tools, better defining Dolceta's target audience and its content and examining the possibility to define synergies with national curricula.

The evaluation makes apparent a certain divergence in appreciation on elements of the strategy and the Programme between national authorities and consumer organisations, the former being more positive on the achievements of the Strategy and Programme (overall 88% of national authorities and 82% of consumer organisations believe that the current Strategy has made a large or moderate (medium positive) contribution to EU consumer policy initiatives).

Stakeholders' views

Results of the mid-term evaluation of the current Programme:

Some information on stakeholder opinion (as it emerges from the mid-term evaluation of the current Programme) on the specific actions undertaken under the Programme is presented in the section above on "lessons learned from implementation of the current system". More generally, the mid-term evaluation of the current Programme showed that:

Success in meeting the objectives:

- The current Programme was considered successful in meeting most of its objectives. For 8 out of 10 actions, around 70% of national authorities were positive on the degree to which the Programme 2007-2013 has addressed the need of consumers, with the exception of redress. Consumer organisations believe that the Programme has been moderately to largely successful for 6 out of 10 actions, and of limited success for the 4 others.

Impact:

- 86% of national authorities and 52% of consumer organisations believe that the current Programme has made a positive impact. This result is better than for the previous Programme.

Sustainability:

- 82% of national authorities and 70% of consumer organisations believe that the actions under the Programme will have a long term effect (up to 10 years) on consumer protection, safety, empowerment and education.

Complementarity to national actions:

- 9 national authorities out of 10 believe that the actions undertaken under the current Programme are complementary to their national consumer policy.

Addressing the new social and environmental challenges:

- According to national authorities and consumer organisations, new environmental and social challenges (ageing population, climate change, limited natural resources and social inclusion) are only partly addressed by the current Strategy. Similarly, 50% of consumer organisations (and 32% of national authorities) think that the current Programme should address other or emerging needs.

The European Parliament issued several reports in 2010 including recommendations for the future of consumer policy:

The Grech report calls for a holistic approach putting consumers' interests at the heart of the Single Market. The report highlights inter alia: the importance of evidence base and market monitoring, the issue of product and services safety, the major role played by consumer organisations, improving the capacity of problem solving mechanisms, integrating consumers' interests into relevant EU policies and legislation, consumer protection in financial services, redress and consumer information.

The Hedh report stresses the importance of the evidence base (Scoreboard, studies, complaints) and enforcement of consumer law and product safety (including ADR, sweeps and the need for resources for CPC and ECC). It also highlights the need to include consumer interests into all EU policies and requests the Commission to publish an annual report on this issue, the role of consumer organisations, the need to develop consumer education (including for adults), consumer information (including through web portals, reaching vulnerable consumers), the need to promote sustainable consumption.

In the field of product safety, the Schaldemose report (2011) calls upon the Member States and the Commission to deploy adequate resources for efficient market surveillance activities, emphasising that failing market surveillance could generate a distortion of competition, jeopardise consumers' safety and undermine citizens' trust in the internal market. The report also calls upon the Commission to further fund joint market surveillance actions and to allocate sufficient resources to support financially the creation of a platform and/or an organisation supporting extended coordination between Member States. The report also urges the Commission to establish a public Consumer Product Safety Information Database, including a platform for complaints.

Challenges ahead

The main issues to be addressed through the funding of actions under the new Programme are the following:

i) Differences between Member States in enforcing product safety legislation, the availability of unsafe products to European consumers, risks linked to the globalisation of the production chain and the need for authorities to cooperate better in stopping dangerous products from entering the EU.

ii) Lack of robust and good quality data and analysis on the functioning of the Single Market for consumers to help identify new sources of growth by improving the competitive environment and, in particular, consumer decision-making.

iii) Lack of transparent, comparable, reliable and user-friendly information for consumers, particularly for cross-border cases, as regards price, and quality (including the environmental impact); the poor knowledge and understanding of key consumer rights and protection measures by consumers and retailers alike; the uncertainty about the degree of trustworthiness of "shortcuts" (such as information intermediaries) that are currently developing, in particular in the digital area (such as comparison websites);

iv) Lack of capacity of consumer organisations, including lack of resources and expertise.

v) Problems faced by consumers when trying to get redress, in particular cross-border.

vi) Problems faced by consumers when trying to enforce their rights, especially cross-border.

Available policy choices

The option of taking no action is not realistic since the Commission would not be in a position to achieve the objectives set out in Article 169 and 12 TFEU.

Arguments for the necessity/desirability of specific actions at EU level are provided below.

i) Safety: the operation of the RAPEX system and the support to a network of market surveillance authorities is a legal obligation. Financial support is necessary to strengthen market surveillance cooperation and secure uniform enforcement.

ii) Consumer market monitoring: in order to put consumers at the centre of the Single Market, better data and monitoring of the demand-side need to be developed. Only at EU level can comparable data collection and analysis be undertaken to provide overall analysis of the functioning of the Single Market and peer comparison of national markets' performance.

iii) Support to consumer organisations:

The existence of EU-level consumer organisations is a necessity to ensure that the consumer voice is heard in the preparation of EU initiatives.

BEUC contributes to the promotion of consumer rights (mainly in the field of financial services, energy, health, safety, food, consumer redress, etc). While BEUC has progressively developed alternative sources of revenue (membership fees, earned income), these sources will not be sufficient to meet funding needs in the foreseeable future.

The financial support to ANEC (around 95% of its budget) contributes to consumer stakeholder views being better represented in the standardisation processes and other regulatory affairs concerning product safety and market surveillance, both at European and global level. No viable alternative source of financing has been identified.

Capacity building programmes for national consumer organisations contribute to an increase in expertise and competent policy input. EU support leads to economies of scale by providing training to many national consumer organisations at the same time, fosters transfers of knowledge and experience and best practice sharing between national consumer organisations and helps balance the asymmetry in expertise between national consumer organisations (in particular to the benefit of consumer organisations in the new Member States).

iv) Education and awareness-raising

The objective is to raise the overall level of consumer empowerment across the EU, with a positive effect on the operation of the Single Market, in particular through raising the trust of consumers with regard to cross-border e-commerce. We also aim at exchanging and transferring good practices from one national context to another. A specific evaluation of information and education tools will be completed by July 2011.

iv) Redress

By 2014, Member States should have implemented the legislative initiative on Alternative Dispute Resolutions (ADR) which the Commission is scheduled to adopt by the 4th quarter of 2011. It is essential to raise consumer and business awareness of their rights and means ofresolving disputes and obtaining compensation. In parallel, a centralised platform for an EU-wide on-line dispute resolution scheme for cross-border e-commerce transactions might be established, as foreseen in the Digital Agenda.

v) Enforcement

- CPC (Consumer Protection Cooperation):

The management of the CPC network (network of national enforcement authorities) is a legal obligation. The CPC Regulation also provides for enforcement actions and exchange of officials. The cooperation between Member States' authorities improves the effectiveness and efficiency of market surveillance. The organisation of joint actions between several Member States (co-financed by the Programme and the Member States) is an effective tool in this respect.

- ECC-net (network of European Consumer Centres):

The ECC-Net, co-financed at 50% by the Programme, provides a unique European network informing citizens about their rights when shopping across-borders and supporting them in seeking redress from a trader in another EU Member State (plus Iceland and Norway) when something goes wrong. Governmental structures and national civil associations do not help consumers in cross-border cases. The system works because it covers all Member States (EU dimension).

Available options:

- The first option (baseline scenario) for each of the components broadly corresponds to a reduction of the initiatives and the budget on a number of actions compared to the current programme, the continuation of the other current actions in a revised form, and the launch of new actions with a limited level of ambition. In particular:

  - Safety: maintenance of the current system, but no additional effort on enforcement.

  - Market monitoring: adaptation of frequency and coverage of data collection, but no collection of additional evidence on future consumer trends and challenges.

  - Enforcement of consumer rights: no strengthening of enforcement.

  - Redress: action would be limited to raising consumer and business awareness.

- The second option corresponds to a more ambitious approach in line with Commission priorities (Europe 2020, Single Market Act) with a focus on safety, information and education, rights and redress and enforcement. In particular:

  - Safety: increased coordination at EU level leading to better planning and information sharing between authorities, as well as increased enforcement action. Develop initiatives in the field of services safety.

  - Market monitoring: development of tailor-made approach and better understanding of consumer behaviour to design smarter policies (better up-take by consumers), focused on sectors linked to Europe 2020 and relating to emerging challenges (digital, sustainability, ageing population).

  - Enforcement of consumer rights: better exploiting the potential of the CPC network, increased coordination at EU level (as requested by Member States), greater unity of enforcement, better prioritisation of enforcement cases.

  - Redress: supporting ADR through on-line dispute resolution (ODR), including though the financing of a platform.

- The third option would imply the support of additional actions on some of the components of the current programme, such as: the development of a public consumer product safety database; collective redress: support to cross-border collective redress actions.

Assessment of available options

The first option would not enable the Commission properly to address the issues and challenges for consumer policy highlighted in the mid-term evaluation of the current Strategy and Programme, nor to undertake the actions included in Single Market Act or to be developed in the future.

The second option would increase the impact of EU action in the field of safety, information and education, redress and enforcement (and cover responsibilities in areas such as cosmetics). It would be in line with the findings of the mid-term evaluation of the current Programme, would better support the objectives of Europe 2020 and the Single Market Act. It is the preferred option.

The third option would imply a substantial increase in the resources needed to implement the programme.

16. CREATIVE EUROPE

This chapter covers the policy areas of culture and media.

1. Culture

Article 3(3) of the Treaty on European Union recognises that the internal market and economic growth must be accompanied by respect for the EU's cultural and linguistic diversity. Article 167 of the Treaty on the Functioning of the European Union specifies the EU's competences in the cultural field in greater detail, whereby the EU can support and supplement Member State action. The EU Charter for Fundamental Rights (Article 22) states that the Union shall respect cultural and linguistic diversity. Finally, the Union's mandate is recognised in international law, in the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, which is part of the *acquis communautaire*.

The Council has recently adopted its second work plan for the period 2011-2014 to contribute to implementation of the European Agenda for Culture, with the following priority areas: cultural diversity, intercultural dialogue and accessible and inclusive culture; cultural and creative industries: cultural heritage, including mobility of collections: culture in external relations; and cultural statistics.

Current system of funding

The current Culture Programme is based on Decision No 1855/2006/EC of the European Parliament and of the Council of 12 December 2006 establishing the Culture Programme (2007 to 2013). The current allocated budget is €400 million for the 7 year period for the 27 EU Member States. 9 further European countries take part in the programme, contributing an entry fee. These are the EEA countries (Iceland, Norway, Liechtenstein), Turkey, Serbia, Croatia, Montenegro, Bosnia-Herzegovina and the Former Yugoslav Republic of Macedonia. The programme also supports cooperation with third countries through an annual call. The programme is open to operators from all cultural sectors, except the audiovisual industry, for which the MEDIA programme exists.

Between 2007-2010, more than 1000 grants were awarded, involving over 4400 organisations in transnational cultural cooperation, and enabling an estimated 100,000 artists/cultural professionals to be mobile (as part of projects) and some 2000 books to be translated. The acceptance rate for projects across all strands was low at 31.5% and even lower for the cooperation projects, for which it was 25%. Projects are co-funded, with the vast majority (the cooperation projects) at a maximum rate of 50%, and some other possibilities at 60% and 80%.

Neither the decision establishing the programme nor the Programme Guide set out explicitly what the nature, form and content of supported cultural activities should be. In this respect, the programme's flexibility enables cultural operators to adopt tailored approaches suited to their needs. In addition to the explicit objectives of the programme, projects tend to pursue various other aims, including: the development of sectors/art forms; the development (professionalization) of artists/cultural operators; artists in residence/touring; exploring artistic themes; creating new works, performances and events of high quality; promoting access and participation in culture, especially the disadvantaged; education, training and research; and information, advice and practical support.

Two broad types of activities are typically undertaken: cultural activities (artistic exchanges, joint cultural creation, co-productions, tours and festivals, and exchanges of artefacts); and support activities (exchanges of experience and networking, provision of information and practical support for operators, education, training and research).

The vast majority of grants under the programme are managed through the Executive Agency for Education, Audiovisual and Culture (EACEA) through annual calls for proposals published in a stable Programme Guide. As confirmed by various evaluations this has proved to a cost-effective management mode for the cross-border projects the programme supports (no individual mobility funding). A network of Cultural Contact Points (CCP), one for each country taking part in the programme, provides information on the programme and assistance to applicants (no distribution of funds). The CCP are co-funded at a rate of 50% from the programme with Member States co-funding the rest.

Another relevant initiative is the **European Capitals of Culture (ECOC)** based on Decision No 1622/2006/EC of the European Parliament and of the Council of 24 October 2006. This has a separate legal base, but each city receives a grant of €1.5 million from the Culture Programme.[119]

The spending on the programme is currently subdivided by types of instruments, rather than its objectives. The indications in the legal base, which are followed as far as possible, are:

– Support for cultural actions, cooperation projects, special actions, including literary translation (approximately 77% of the annual budget)

– Support for bodies active at European level in the field of culture/operating grants (approximately 10% of the annual budget)

– Support for analysis, collection and dissemination of information (approximately 5% of the annual budget)

Lessons learned from implementation of the current system

The interim evaluation (by Ecorys UK Limited) covered all of the actions and geographical areas of the culture programme for the period 2007-2009, with the exception of the ECOC, which has been the subject of separate evaluations.

The evaluation finds that the programme plays a unique role in stimulating cross-border cooperation, promoting peer learning and the professionalization of the sector and increasing the access of European citizens to non-national European works. Indirectly it contributes to the development of content which is essential for sustainable growth and jobs. The report also underlines that the programme plays a crucial role in respecting Europe's cultural and linguistic diversity and ensuring the safeguarding and enhancing of the EU's cultural heritage as stipulated in the Treaties. With regard to cooperation projects (in all their forms), which account for the majority of funding under the programme, these are strongly relevant to all three specific objectives. In particular they offer the potential to directly support periods of mobility, as well as activities involving the circulation of works. The transnational requirement for partnerships ensures that a degree of intercultural dialogue is inherent in their activities, as a consequence of bringing together people from different cultural backgrounds. However, although most projects stimulate intercultural dialogue, the type of specific activities required to achieve this objective are not always as evident compared to the other two objectives. Intercultural dialogue is therefore generally (but not always) a by-product of projects rather than their primary aim.

Although the funding for the Capitals currently comes from the Culture Programme, they have a separate legal base due to the different logic and time span involved. More specifically, as they are a major international cultural event, they need long-term forward planning (in the same way as the Olympics) and the selection process begins six years before the event. As there are two Capitals from two different Member States per year, the current rotation period among Member States is 14 years.

91% of respondents indicated that the projects had created strong and enduring partnerships, and 90% that it had improved their capacity to engage in transnational cooperation projects. Some 75% expected activities to continue beyond the life of EU funding.

Literary translations make a very tangible contribution to the transnational circulation objective and indirectly to intercultural dialogue, however this is the area of the programme with the greatest geographical imbalance. English and French are the predominant source languages (more than 4 in 10 translations) and five languages account for over half of translations in terms of the target language (Italian, Hungarian, Slovene, Bulgarian and Greek). There is, therefore, an untapped potential in terms of promoting cultural diversity by increasing translations into pivot languages.

With a view to the future, the evaluation recommends that it would be important to revise the programme's objectives to take into account recent developments, both in terms of EU policies (for example the Europe 2020 Strategy and the European Agenda for Culture), as well as the conditions affecting the cultural sector and its needs over the coming period (such as the impact of globalisation and the digital shift). Other recommendations included: maintaining an interdisciplinary approach in light of the blurring of boundaries between art forms (due largely to technological developments); rethinking the current country focus of the international strand which lacks critical mass, in favour of a more open approach; considering ways to foster more translation into the dominant, pivot languages in the interests of a more effective promotion of linguistic diversity; and further efforts to ensure streamlined and light procedures (despite the progress already made), including in relation to operating grants.

Stakeholders' views

In broad terms the Member States and stakeholders find:

1) *There is a need for a specific EU programme for culture*

93% of the respondents support the need for a specific EU Programme for culture. Almost all respondents acknowledge the problem posed by the economic downturn, and emphasise that a new programme should focus where it really adds value and avoids duplication with other programmes.

2 *The programme should focus on objectives linked to the EU 2020 strategy and EU added value*

There is widespread consensus that the programme should focus on the promotion of trans-national circulation of cultural works and products, including the mobility of artists, performers and cultural professionals. There is also high support for widening access to culture and participation in culture of disadvantaged groups, which is in line with the Europe 2020 Strategy (social inclusion). Professional development and capacity-building of artists or cultural operators in an international context was supported with a score to 'a great extent' by 70% of the respondents.

Most public authorities emphasise that culture plays a role in reaching Europe 2020 objectives and this should be reflected in a new programme, and they underline the importance of the integration of the cultural and creative industries into the formulation of a new culture programme.

There were calls for support for digital projects, however there were also strong feelings that the programme should not focus on the digitisation of existing content, which should be covered by other funding programmes.

There were many calls for small grants that would facilitate the access of creative individuals and very small operators into the programme. This will not, however, be followed up in the new programme, as they would not have a structural impact and would raise the management costs. Similarly, there were many calls to keep a separate funding programme for culture, but this will not be favoured either.

Challenges ahead

The Culture Programme should seek to address **four common challenges** facing the cultural and creative sectors.

The first relates to the **highly fragmented market context** for cultural works stemming largely from Europe's linguistic diversity, which results in these sectors being essentially fragmented along national and linguistic lines and lacking critical mass. This leads to limited and sub-optimal circulation of non-national works and mobility of artists and geographical imbalances. Cultural operators (both non-profit-making and SME) need therefore to operate trans-nationally to establish new contacts, extend the lifespan of tours and performances, to reach new or wider audiences and markets and achieve a reasonable critical mass and economies of scale. Similarly, mobility is often essential to artists' careers, as many are involved in relatively short-term project based work, which is reflected in the high levels of atypical employment in the sector.[120] For some professionals it is literally a permanent feature of their work (circus, or street artists, classical music and opera performers); for others it is a frequent feature of their work (such as freelance professionals, particularly in fields such as dance, experimental art or pop music).[121]

The second challenge relates to the **impact of globalisation and digitisation.** The digital shift is having a massive impact on how cultural goods are made, managed, disseminated, accessed, consumed and monetised. This provides opportunities for European operators to benefit from many different distribution platforms and cheaper distribution. On the other hand it might negatively affect **cultural and linguistic diversity** due to the risk of dominant cultures/languages crowding out less dominant ones.

The third challenge is the **shortage of comparable data** on the cultural sector at European and national levels. This has consequences for European policy coordination, which can be a useful driver for national policy developments.

The fourth challenge is related to the difficulties encountered by small cultural and creative industries (CCI) SMEs **in accessing finance.[122]** While this is a common challenge for SMEs in general, the situation is significantly more difficult for small CCI companies. Firstly this is due to the intangible nature of many of their assets, such as copyright, which are usually not reflected in accounts (unlike patents). As a consequence, financial institutions often fail to understand the risk profile associated with this sector and its specific characteristics. Secondly, unlike other industrial products, CCI products are generally not mass-produced. Every film, book, opera, videogame can be seen as a unique prototype and the companies tend to be project-based, whereas investment often needs to be longer-term to become profitable.[123] There is, therefore, substantial difficulty for these small under-capitalized enterprises to grow and maintain their competitiveness.

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120 Eurostat pocket book on cultural statistics, 2007.

121 "Mobility Matters: Programmes and Schemes to Support the Mobility of Artists and Cultural Professionals in Europe", an ERICarts Institute Study for the European Commission, October 2008.

The study on "The Entrepreneurial Dimension of the Cultural and Creative Industries" carried out for the European Commission (December 2010) estimates that 80% of cultural and creative enterprises are SME with many sole traders or micro SME employing only a handful of people.

For example, regarding the publishing sector, it is estimated that 1 out of 10 books is profitable, 2 or 3 break even and the rest lose money at the time of first publication.

The groups affected by these problems most directly are:

- The users of cultural products (consumers, audience, the general public)
- The developers of creative and cultural works
- The 'exhibitors' of creative and cultural works and organisers of non-commercial cultural events
- Cities and regions across Europe
- Policy-makers

Policy choices

The following 4 options are being considered:

Option 1: "No action":

The current Programme would expire on 31 December 2013 and would not be replaced. Without a funding programme, the Commission would continue its efforts to mainstream cultural concerns throughout EU policies, in line with Article 167(4) of the Treaty. The policy processes such as the open method of coordination (OMC) and structured dialogue could also continue through expert meetings in order to foster exchange of practice, peer learning and policy coordination.

Option 2: "No change" (baseline):

The new Programme would mostly follow the same objectives and include the same action lines as the current Culture Programme.

Option 3: "New stand alone programme":

The programme would be substantially revised to take account of the real needs of the sector and new policy priorities. The objectives would be considerably reformulated and better targeted in order to achieve a greater systemic effect. They would focus clearly on the safeguarding and promotion of European cultural and linguistic diversity and strengthening the competitiveness of the cultural and creative sector (with a view to promoting smart, sustainable and inclusive growth). The operational objectives would:

- support the capacity of operators to work in Europe and beyond,
- promote the transnational circulation of works and artists and reach new audiences both within Europe and beyond, and
- support policy development to foster evidence based policy-making.

The programme would focus on addressing the identified challenges the sector is facing and greater guidance would be given regarding priorities, including support for projects with a strong multiplier effect and likely long-term systemic impact on the organisations, the sector, and a stronger emphasis would be placed on reaching (new) audiences.

There would be a rationalisation of instruments and less effective ones would be discontinued.

Option 4: Seeking synergies

a) **Merging the Culture and MEDIA Programmes** into a single programme to cover the cultural and creative industries as a whole can be envisaged given the potential similarities in terms of goals, and certain types of actions. However, a complete integration is not warranted. The objectives are distinct and most mechanisms have different specific objectives linked to the target groups and expected impact. In addition, there is no real overlap currently of beneficiaries.

b) Another alternative is a common umbrella that would continue operating those programme elements separately but would enable exploitation of synergies and common goals. A **"Creative Europe framework programme"** could be created. The Culture, MEDIA and MEDIA Mundus Programmes would be brought together in a single framework programme with common objectives and similar action lines. A new framework programme for Creative Europe would include strands for Culture, MEDIA and a new financial instrument for the cultural and creative industries.

Assessment of available options

Option 1: "No action"

This would result in a budgetary saving to the EU of €400 million over the 2014-2020 period, as well as a small reduction in the administrative burden related to implementation by the Commission and Agency and reduced costs for cultural operators in terms of unsuccessful applications avoided. However, it would also lead to the loss of the positive impacts highlighted by the recent interim evaluation of the Culture Programme. Furthermore, it would increase the risk of loss of current co-funding to the equivalent of approximately €400 million over the period 2014-2020, which would limit the sector's access to finance in a period in which drastic cuts in public funding for arts and culture are taking place across Europe.

The evaluation of the current programme shows that cost is a barrier to mobility[124] and it may be expected that, without EU funding, the current market fragmentation would not be addressed adequately, access to non-national works would decrease and the capacity of artists and operators to work transnationally would further diminish.

Without a funding programme, the Commission would continue its efforts to mainstream cultural concerns throughout EU policies in line with Article 167(4) of the Treaty. The policy processes such as the OMC and structured dialogue could also continue through expert meetings in order to foster exchange of practice, peer learning and policy coordination. However, the effectiveness of these processes would be limited by the absence of data and content to fuel their work. Furthermore, the OMC and structured dialogue are essentially limited to policy-makers and representative organisations and would not therefore reach cultural operators directly.

Under this option, it is assumed that the current support for culture in other EU programmes would continue to be mainstreamed (for example, through structural funds for cultural heritage restoration and infrastructure investment, external instruments). This option is not preferred for the reasons set out above.

Option 2: "No change" (the baseline)

The current objectives would be maintained. In this event, the programme would continue to help artists with their careers, to strengthen cultural organisations and foster cultural and linguistic diversity. However, its potential to contribute to Treaty or policy aims would not be optimised due to

[124] 84% of the participants in the survey on the current programme reported that cost is a barrier to mobility

the lack of clear, result oriented and measurable objectives. This option is not therefore preferred as it would not address the identified challenges facing the sector.

Option 3: "New stand alone programme"

A new programme would be substantially restructured with regard to the objectives and/or action lines proposed to make it more effective and respond to the global context, digital shift, and new policy challenges and priorities. Policy synergies with the audiovisual sector which faces similar challenges (see the section on challenges above) would not, however, be optimised through maintaining separate programmes and opportunities for some administrative savings would not be taken advantage of. Similarly, potential economies of scale which could be gained from some transversal elements, namely policy support, as well as a combined guarantee fund for the cultural and creative industries, building on the current MEDIA guarantee fund, would not be possible.

Option 4: Seeking synergies

The Culture Programme, MEDIA Programme and MEDIA Mundus could be brought together into a single programme with common objectives and similar action lines. This could take the form of either a full transversal merger, with common calls, or an umbrella approach, introducing a new "framework" programme, comprised of separate strands for Culture and MEDIA (the latter integrating MEDIA Mundus), as well as transversal support for policy and a new financial instrument for the cultural and creative sectors. The strand for culture would be identical to the "New stand alone programme" option presented earlier.

A merger option is the preferred option as it would enable stronger synergies with Europe 2020 goals and flagships. However, the preference is for the "framework" merger, rather than a fully transversal one. The latter would not be appropriate as the value chains in the majority of cultural sub-sectors are different to those in the audiovisual industry, where it is more segmented and distributors have a very predominant role. This means that the beneficiaries have distinctive needs, with those in the audiovisual sector (targeted by the programme) consisting virtually entirely of very small companies, whilst those in the other sectors are comprised of a mixture of small companies (such as publishing houses benefiting from literary translation support) as well as both large and small non-profit-making organisations, reflecting the strong tradition of public funding in these sectors in virtually all Member States. In practical terms, this means that the general and specific objectives would be common to all three strands, but there would be variations in the operational objectives, and separate calls for proposals in order to ensure clear focus and meet the needs of beneficiaries. Economies of scale could be gained by some transversal elements, namely policy support and the financial instrument, which could cover all the cultural and creative sectors, building on the current MEDIA guarantee fund. Some administrative savings would be possible from having only one legal base, for example, by enabling some rationalisation in the number of work programmes and committees.

2. MEDIA

The MEDIA Programme (including international cooperation aspects covered by MEDIA Mundus) contributes to helping the audiovisual industry in Europe to unlock its potential in terms of growth and employment, contributing to the objectives of the Europe 2020 strategy for smart, sustainable and inclusive growth.

In this broader context, MEDIA can help to address some of the key challenges the cultural and creative industries (including the audiovisual) are facing and thus contribute to most of EU-2020 flagship initiatives, in particular the *Agenda for New Skills for Jobs* (by providing high level training to professionals), to *Industrial policy for the globalisation era* (by supporting new business models aiming at improving the business environment – notably for the SMEs of the audiovisual sector), to *Innovation Union* (by supporting pilot projects and stimulating innovation) as well as to the *Digital*

Agenda (by supporting the digitisation of European audiovisual woks and their distribution through digital platforms.

Its international cooperation action (MEDIA Mundus) seeks to foster the development of sustainable networks between European professionals and their counterparts in third countries, thus contributing to transnational cooperation, new business opportunities and opening ways of global circulation for European audiovisual works.

The economic and social role of the audiovisual industry is also important, as it represents approximately 1.2 million jobs in Europe and its annual turnover exceeded, in 2009, €108 billion.

Current system of funding

The current MEDIA 2007 Programme was established by Decision No 1718/2006/EC of the European Parliament and of the Council of 15 November 2006 concerning the implementation of a programme of support for the European audiovisual sector (MEDIA 2007). This programme has a total budget of €755 million over the period 2007-2013 and co-finances training initiatives for audiovisual industry professionals, the development of production projects (feature films, television drama, documentaries, animation and new media), as well as the distribution, exhibition and promotion of European audiovisual works (including support to the Europa cinemas network of art-house cinemas).

Alongside the 27 EU Member States, the EEA countries (Iceland, Norway and Liechtenstein), Switzerland and Croatia also participate in the Programme.

The Programme supports: (a) upstream of audiovisual production: the acquisition and improvement of skills in the audiovisual field and the development of European audiovisual works; (b) downstream of audiovisual production: the distribution and promotion of European audiovisual works; (c) pilot projects to ensure that the programme adjusts to market developments.

The MEDIA 2007 action lines aim at supporting more specifically:

- **Project development:** development support to films projects, which represents at least 20% of available funds, allows production companies to bring 400 competitive projects to the market every year. Two types of support are available: **slate funding** (i.e. support to a portfolio of audiovisual projects) and **single project development** As regards slate funding, this action proved to have a strong structuring effect in a market mainly composed of undercapitalised SMEs and a well established European added value.

- **Skill development**: this activity represents approximately 7% of available funds and concerns in particular specific management skills such as production, project management, marketing and financial engineering. More than **20,000** producers, distributors, scriptwriters have benefited from MEDIA Training and acquired new skills, helping to professionalise the sector.

- **Networking and promotion activities** such as co-production forums, international market and training initiatives: Networks such as EAVE, ACE, Cartoon constitute the backbone of European cinema. The networking effects they produce result in a significant increase of transnational co-productions (from 26% of European films in 1989 to 34% in 2009). These films have a **2.3 times** higher circulation potential than national films.

- The MEDIA support to **Distribution** (representing at least 55% of available funds) is the only support available in Europe, since national support mechanism focus quasi-exclusively on production. 50% of European films released outside of their national territory cross borders thanks to the MEDIA support.

The MEDIA Mundus programme (2011-2013) aims to explore ways of reinforcing cooperation between EU and non-European professionals from the audiovisual industry to their mutual benefit. It was established by Decision No 1041/2009/EC of the European Parliament and of the Council of 21 October 2009 with a budget of €15 million.

Lessons learnt from implementation of the current system

The mid-term evaluation of MEDIA 2007, carried out in 2009-2010, confirmed the positive results of the programme actions in favour of the European audiovisual sector and reaffirmed the relevance of its objectives and the effectiveness of its actions, particularly as regards making the sector more competitive.

Furthermore, the mid-term evaluation confirmed the European added value MEDIA 2007 brings to national interventions in this field. The integrated logic and overall internal coherence of the programme (i.e. covering the entire value chain), its anchorage on the European audiovisual scene, and the fact that it is designed to support change in the sector, enable MEDIA 2007, inter alia, to provide an appropriate response to the needs of the sector.

With regard to specific action lines, the interim evaluation found that support for continuous training, development, distribution and promotion is '*effective on the whole*'. Findings regarding digital cinema distribution, VOD and pilot projects action lines were less conclusive, in part due to the novelty of these action lines.

The i2i support mechanism was found to be effective, but insufficient in size[125], while support for television broadcasting was found to be effective with regard to strengthening producers' rights. The system of positive discrimination set up is suited to achieving the cultural diversity objective but is insufficient to meet the objective of remedying the imbalance between countries with a low and those with a high audiovisual production capacity.

The evaluation results also underlined the importance of developing the demand for European works by the public, cinemas and TV broadcasters that is currently not granted enough importance in comparison with that granted to the audiovisual supply.

Some of the recommendations of the evaluation have already been taken on board by MEDIA 2007, other structural required changes will be considered in the design of the new programme.

MEDIA Mundus is only starting in 2011. First preliminary results from the ex post evaluation MEDIA International are not yet available.

Stakeholders' views

An online consultation on the future of MEDIA Programme was carried out between September and November 2010. 2,586 respondents responded to the Commission's public online consultation. The

[125] The interim evaluation preceded the launch of the MEDIA Production Guarantee Fund that provides access to additional finance.

most numerous respondents were producers, cinema owners, and distributors. They collectively comprise 60% of all respondents.

Some indicative results with regard to specific needs of the audiovisual industry follow:

Respondents were highly supportive of **continuous training for professionals** as well as of initial training for students. More than 90% felt that these training programmes contributed to the competitiveness of the European audiovisual sector. There was also strong support for initiatives to strengthen interaction between film schools and universities and the audiovisual sector.

Just under 80% agreed or strongly agreed with the view that **automatic support** to producers in proportion to admissions, together with requirements to re-invest in co-productions, contribute to European competitiveness, while 56% strongly agreed, and an additional 32% agreed, that **support for cinemas screening a substantial proportion of non-national European works** improves the competitiveness of the European audiovisual sector.

Measures to foster **access to private funding**, and to provide loan guarantees to independent producers, were popular: 84% of respondents strongly agreed or agreed that establishing a European Guarantee Fund to guarantee bank loans to European production companies improves the competitiveness of the European audiovisual sector.

82% agreed or strongly agreed with support to film festivals, as a means to ensure **networking** and **promotion** of European audiovisual works.

Measures to enhance **media literacy**, especially on the part of young people, also received resounding support.

The MEDIA Mundus consultation was open from 13 March to 29 May 2011. There were 367 respondents. The most numerous respondents were producers (34.5%). Continuous training, the support of international co production funds, and events to facilitate market access received highest support. Also the importance of audience building was emphasised.

Challenges ahead

The future MEDIA Programme should seek to address **four common challenges** facing the audiovisual, the cultural and creative sectors.

The first relates to the **highly fragmented market context** for audiovisual works stemming largely from Europe's linguistic diversity, which results in these sectors being essentially fragmented along national and linguistic lines and lacking critical mass. This fragmentation is a key driver for the European rich cinematographic production and heritage which contributes to the unique **European cultural diversity**. However, it has a negative impact on the industry's competitiveness. Indeed, this structural limit to transnational circulation of audiovisual products reduces their potential market and their capacity to generate sufficient revenue to cover production and distribution costs. These structural weaknesses lead to a chronicle circle of under-investment. Moreover, they reduce access to European films for all EU citizens.

EU policy in this sector needs **to accommodate these two aspects** of the audiovisual industry. While it forms a building block of European culture, producing strong spill-over effects on other creative industries and constituting a powerful vehicle to disseminate European cultural values, it operates in a highly competitive market and needs to respond to an industrial and commercial logic.

The European Union produces a large volume of films and television fiction, animation and documentary, but the market share of these works is low compared to non-European works. The European industry struggles with the problem of poor circulation of European films on international markets and of foreign films (other than those produced by Hollywood studios) on European markets. European films, in contrast to those produced by Hollywood studios, are not readily exported. This is evidenced by the low market share of European films on foreign markets (estimated at 4-5%)

This leads to sub-optimal opportunities for audiovisual works, including problems to finance international co productions, limited circulation of non-national works, and limited consumer choice and access to non-national works. Companies from the audiovisual sector need therefore **to operate trans-nationally** to reach new sources of finance, markets and audiences and achieve a reasonable critical mass and economies of scale. The concentration and performance of European audiovisual works solely on their domestic market, also affects their competitiveness on third-country markets. Inter-European and international networking –for establishing new contacts and peer learning **-** is therefore of fundamental importance to them.

The second challenge relates to the **digital shift** which is having a massive impact on how audiovisual works are made, disseminated, accessed, consumed and monetised. This provides interesting opportunities for European operators to benefit from many different distribution platforms and cheaper distribution.

The international audiovisual landscape has changed significantly over the last two decades, notably from the impact of technological developments like multi-channel digital television, digital cinema projection and video on demand. In some foreign markets this has created strong financial growth and promising investments and consequently, a growing demand for more audiovisual content.

In Europe roughly 10% of cinemas are multiplexes, compared to 35% in the USA[126]. Moreover 31% of European screens are in single-screen cinemas. This will slow down the digital rollout as limited levels of activity undermine any profitability of costly digital equipment.

The majority of European cinemas have between 2 and 7 screens. Digital equipment represents a cost that can be borne by cinema chains and multiplexes but that is often out of reach for certain smaller independent (frequently arthouse) cinemas. This could lead to a dual exhibition/distribution market, where only multiplexes and high value commercial films would benefit from the digital cinema revolution. **Cultural diversity** and **renewal of talent** however depend on maintaining Europe's unique network of cinemas.

VOD platforms offer great opportunities for European films to be seen all over the world. Yet, the market potential needs to be developed and for example at this stage on "pure play" VOD services[127], NNE[128] works accounted for between 8% and 26% of content in the five big EU markets in 2008.

The third challenge is the **shortage of comparable data** on the audiovisual sector at European and national levels. Increased transparency and dissemination of information concerning the European audiovisual market can make operators in the sector, and especially SMEs, more competitive and encourage private investors' confidence by improving understanding of the industry's potential. To remedy this situation, the EU has developed close links with the European Audiovisual Observatory

126 In 2007 (source: Media Salles).

127 Services that offer film and television content separately from any linear TV service (e.g. LoveFilm.com).

128 Non-national European

(EAO) by participating in its works. The EAO has a twofold task: to create transparency in the European audiovisual sector and to provide information services for audiovisual experts.

The fourth challenge is **access to financing.** While this is a common challenge for SMEs in general, the situation is significantly more difficult for those operating in the audiovisual sector. Firstly this is due to the intangible nature of many of their assets, such as copyright, which are usually not reflected in accounts (unlike patents). As a consequence financial institutions often fail to understand the risk profile associated with this sector and its specific characteristics. Secondly, unlike other industrial products CCI products are generally not mass-produced. Every film or videogame can be seen as a unique prototype and the companies tend to be project-based, whereas investment often needs to be longer-term to become profitable. Also the banks' lack of expertise in film project evaluation and the difficulty of SMEs to fulfil specific financial requirements of banks and investors limits mutual understanding. There is therefore substantial difficulty for these small under-capitalized enterprises to grow and maintain their competitiveness.

Policy choices

The following 4 options are being considered:

Option 1 – The baseline scenario/No change

The baseline option entails a continuation of the existing MEDIA 2007 and MEDIA Mundus Programmes. The main action lines of MEDIA 2007 would be retained. The baseline also accounts for the flexibility of the programme to respond to change as set out in its current legal basis.

Option 2 – No action taken

The current two MEDIA Programmes expire on 31 December 2013 and are not further renewed or replaced.

Option 3 – New form of MEDIA programmes

The programmes are substantially redesigned with regard to the objectives and/or action lines proposed, to take into account new developments and to respond to new needs in the audiovisual sector. This option contains a number of possible sub-options focusing on different aspects of the problem, their causes, and possible solutions and exploring their potential impact with regard to the objectives of the programme, as follows:

- Increase resources for distribution
- Increase support for high-growth distribution channels
- Increase audience building
- Increase use of financial instruments
- Expand to include video games
- Focus on works from countries of low production capacity

Finally, under this option, another sub-option consists in **increasing support across the value chain**: The application of support at all levels of the value chain may generate effects that are greater than the sum of the parts. This sub-option increases support at all levels of the value chain with the aim of creating complementary effects. The rationale for this option is that the causes of the Problem are complex and interrelated, and that an approach that operates in a balanced way across the value chain is likely to be more effective than approaches that concentrate on only a limited number of links in the value chain.

Option 4 – Seeking synergies with other EU Programmes

This option includes two sub-options:

Sub-option 4a – Creating a merged "umbrella programme" for successors to both the MEDIA and Culture programmes, with a third strand common to both to support financial instruments (and possibly training and entrepreneurship action lines);

Sub-option 4b – Full integration of MEDIA Mundus into the MEDIA component of the future combined programme;

Option 5: Seeking synergies and new form of programme

This option would involve **seeking the synergies** described in option 4 above and operating a new form of the programme in terms of its specific actions as described in the sub-option involving an **increased support across the value chain**, as explained above. This new form of the programme would act across the value chain, incorporating measures to stimulate demand, and would be extended to included standalone video games not linked to narrative works. The aim would be to take an integrated approach addressing the full set of problems and needs of the sector.

Assessment of available options

Option 1 – The baseline scenario/No change

In the baseline scenario, the programme would operate in a changing market environment that may affect the problems on which the programme acts. For example, the mix of distribution channels in relation to audiences is likely to change, with an increasing weight of VOD. The mix of distribution channels in relation to revenues will also change, with an increasing weight for VOD, and possibly an increasing share for cinema distribution owing to decreases in DVD and television broadcasting. These factors might lead to an increase in the scale of the problem of lack of access to private finance for audiovisual producers. In addition, the way that audiences find out about audiovisual content may change, leading to the risk of an increase in the scale of the problem in relation to the demand side; however, in both cases it is also plausible that there might be little or no change.

Any changes would have an effect on the competitiveness of the European audiovisual sector and on the circulation of audiovisual works within the European Union. Any reduction in the availability of finance for audiovisual producers would lead to a decrease in the competitiveness of these companies, and might lead to a lower circulation of European works as these companies would be less able to invest in works with a European dimension. Any increase in the scale of the problem relating to the demand side would lead to lower audiences and revenues for European audiovisual works, which would lead to lower circulation of European works.

These negative effects would probably have greater overall impact on the EU, with its audiovisual markets that are fragmented along linguistic and cultural lines, than on global competitors such as the US.

Option 2 – No action taken

Without a European support programme for the audiovisual industry, the European dimension of the sector would strongly decrease and professionals would withdraw towards their national markets. The diversity of choice on the market would be strongly reduced, correspondingly affecting the global growth of the market. The impact of these effects would be less choice of audiovisual content for consumers, less trade within the internal market with respect to audiovisual works, and lower cultural diversity and pluralism. There would probably also be lower competitiveness of European audiovisual companies (particularly with respect to access to finance and training), and an overall negative impact on the scale of the audiovisual industry in the European Union and on employment within the sector. US films would be the main beneficiaries of this change.

The most significant effects would tend to roughly correlate with the main areas of spending of the MEDIA 2007 programme. Therefore, the largest effects might be expected for cinema distribution and exhibition, and smaller impacts for the circulation of works on VOD services.

Option 3 – New form of MEDIA programmes

The probable effect of all of the sub-options is an overall higher level of circulation of audiovisual works and of competitiveness of the audiovisual sector. The impact relative to the baseline would be more choice of audiovisual works for consumers, more trade within the internal market with respect to audiovisual works, and higher cultural diversity and pluralism. There would probably also be higher competitiveness of European audiovisual companies, and an overall positive impact on the scale of the audiovisual industry in the European Union and on employment within the sector. The scale and balance of these impacts vary between the options.

Option 4 – Seeking synergies with other EU programmes

The main effect of this option relative to the baseline would be to free up additional resources for the programme by exploiting synergies with the Culture programme and MEDIA Mundus. It seeks to improve the efficiency of a future programme through simplification and through reduction of administrative costs. The scale of any additional resources would tend to be small relative to the total programme budget, but would nonetheless enable the programme to have slightly larger effect.

Therefore, the impact of this option relative to the baseline would be slightly more choice of audiovisual works for consumers, the internal market functioning slightly better with respect to audiovisual works, and slightly more cultural diversity and pluralism. There would likely also be slightly higher competitiveness of European audiovisual companies (particularly with respect to access to finance and training), and an overall small positive impact on the scale of the audiovisual industry in the European Union and on employment within the sector.

The availability (at low incremental administrative cost) of instruments that currently exist in both MEDIA programmes, but not in the Culture programme, would probably generate additional benefits relative to certain current and future participants in Culture programme activities; however, these gains are outside the direct scope of this impact assessment. The relevant action lines could include access to financial instruments; training; and support for entrepreneurship.

Option 5: Seeking synergies and new form of programme

This option would have all of the impacts described under option 4. However, the new form of the programme in terms of its specific actions would have additional impacts. Relative to the baseline, the main effects would be likely to be:

- an increase in consumer demand for NNE works, though the scale of this effect is uncertain and effects relating to media literacy may act over long timescales;

- an increase in the access of games developers to finance, promoting production of games to allow the sector to benefit from new growth markets (e.g. internet games).

Overall, it is likely that the balanced approach, providing support across the value chain, would lead to an increase in the circulation of works and an increase in the competitiveness of the audiovisual sector. The impact relative to the baseline would be more choice of audiovisual works for consumers, more trade within the internal market with respect to audiovisual works (particularly games), and more cultural diversity and pluralism. There would likely also be higher competitiveness of European audiovisual companies, and an overall positive impact on the scale of the audiovisual industry in the European Union and on employment within the sector.

17. EDUCATION, TRAINING AND YOUTH

Education and training are at the core of the Europe 2020 Strategy for smart, sustainable and inclusive growth and of the Integrated Guidelines for growth and employment. None of the EU objectives and headline targets will be reached without a strong investment in human capital. Five of the Europe 2020 flagships depend on the modernisation of education and training: Youth on the Move, Agenda for New Skills and Jobs, the Digital Agenda, the Innovation Union and the Platform Against Poverty.

The policy priorities, incentives and monitoring instruments in the field of education and training can be tailored to increase the effectiveness of future EU financial instruments in support of education and training, and in particular:

– **Education, training and youth programmes**. One of the main successes of the current Lifelong Learning Programme (LLP), Erasmus Mundus and Youth in Action programmes is the growth of transnational learning mobility. In the post-2013 MFF, Community programmes for education, training and youth should strengthen this feature, while being more targeted and streamlined, aiming to deliver systemic impact and policy development within Europe 2020, ET 2020 and the Renewed EU Youth Strategy objectives. In the new MFF, the added value of a programme of EU wide-actions, engaging all Member States in similar activities with common objectives, should be fully exploited to steer the policy process.

– **Structural Funds**. For their size and reach into Member States' delivery systems, the funds have the biggest potential to influence national reforms. The structural funds should enhance incentives and concentration on few clearly defined priorities, focusing on targeted investment in national education and training systems, to trigger and monitor reforms at national level, and strengthen territorial cohesion, in line with Europe 2020 and its headline targets.

– **Common Strategic Framework for Research and Innovation**. Supporting the mobility of researchers across sectors and countries will remain essential in order to attract more young people into research careers through the completion of a doctorate, to equip researchers with the right skills for the jobs of tomorrow and attract the best brains to Europe. Besides the Marie Curie programme and the European Institute for Innovation and Technology (EIT), in the new MFF, cooperation could be strengthened in priority setting for projects, policy development and experimentation.

Current system of funding

With an overall budget of €6.9 billion, the Lifelong Learning Programme (LLP) was adopted for 2007-2013 with the aim of ensuring that the EU's education and training policies would in the most effective way contribute to the objectives of the Lisbon strategy for growth and jobs. The LLP supports all levels of the formal education and training as well as informal and non-formal education and training activities. It consists of:

– four sectoral (sub-)programmes for school education (Comenius), higher education (Erasmus), vocational training (Leonardo da Vinci) and adult learning (Grundtvig) respectively;

– the Transversal Programme, which includes four cross-sectoral Key Activities (KA) focused on: KA1 - policy cooperation and innovation in lifelong learning; KA2 – languages; KA3 - development of innovative ICT for education purposes and KA3 - dissemination and exploitation of results;

– the Jean Monnet Programme, which includes three Key Activities aiming at support to teaching, research and reflection on European integration and to the key European institutions and associations.

However, support for education and training in the current MFF is very fragmented and a wide range of other EU programmes and initiatives exist, with different objectives and identities, covering different regions of the world, operating in different ways:

Youth in Action: with a budget of €885 million, the Youth in Action (YiA) Programme was adopted for 2007-2013 with the aim of i) offering non-formal learning opportunities to all young people, with a view to enhancing their skills and competences as well as their active participation in society and ii) offering to youth organisations and youth workers opportunities for training and cooperation, with a view to enhancing the professionalism and the European dimension of the youth work in Europe. It supports various activities (most of which have an international dimension, being open to participants from neighbouring countries of the EU), notably mobility for young people (like youth exchanges or the European Voluntary Service) and training and networking opportunities for youth workers.

The Commission currently manages at least 7 **international higher education cooperation** programmes. The total annual budget of these international higher education cooperation programmes amounts to around €310 million per year, split between Headings 1a and 4.

Erasmus Mundus: supports mobility in higher education to and from third countries and the development of joint degrees. It thus complements the current Erasmus/LLP and new initiative idea by contributing to the accessibility and mobility, convergence of degree structures and attractiveness of European higher education world-wide. Its funding under Heading 1a amounts to €100 million per year.

Bilateral agreements with the US and Canada include annual funding for cooperation projects, including students' and scholars' mobility. These actions are financed under Heading 1a and represent about €10 million per year.

Tempus: it aims to modernise higher education institutions and systems in neighbouring countries, to enhance their quality and attractiveness. It is not focused primarily to the mobility actions (although the small-scale ones are funded as a part of joint projects), but complements the current Erasmus by, for example, helping pre-accession countries preparing for their future participation in the LLP.

Alfa supports institutional cooperation between higher-education institutions of the European Union and Latin America. **Edulink** fosters capacity-building and regional integration in higher education with ACP countries.

Taken together, actions under Heading 4 (Erasmus Mundus, Tempus, Alfa and Edulink) represent about €200 million per year.

Lessons learned from implementation of the current system

The **LLP** has a cumulative impact over time, acting as a catalyst for structural change through policy support, cooperation and mobility. It has made education systems more transparent, comparable, competitive and competing. It supports only trans-national activities. The broad evaluation results are set out below.

Policy

The programme has improved policy making, providing quality tools, analysis and research, best practice and fora for exchange through the Open Method of Coordination (OMC). It has supported evidence based policy making with statistics and research on education (ex: ELLIS index). For example, studies undertaken by CRELL (research institute supported by LLP) showed that there is no direct correlation between the budget for school education and attainment levels, meaning that quality of investments does matter.

It has supported quality assurance or qualifications and credits' transparency and recognition tools for education and training such as the European Qualifications Framework, the European Quality Assurance Reference Framework for Vocational Education and Training (EQAVET), and the European Credit System for Vocational Education and Training (ECVET).

Co-operation

Cooperation activities have supported the development of both networking and openness of education and training institutions throughout Europe, enlarging the national landscapes for best practices and exchanges of experience.

eTwinning, an Internet exchange platform providing pedagogical support for teachers and schools, has prepared the ground for and stimulated innovation in European school cooperation and collaborative learning very cost-effectively. The interim evaluation of LLP recommends the extension of this concept to other sectors.

With the Leonardo da Vinci Transfer of Innovation projects (TOIs), LLP is a laboratory for innovation in the area of Vocational Education and Training (VET), facilitating the dissemination of good practice, experimenting new training curricula and methods and fostering closer cooperation between institutions and the labour market.

The programme has been the model for new national or multilateral exchange initiatives such as Nordplus in the Nordic countries that is largely inspired by LLP. Finland reported that without the European incentives of Erasmus (for Higher education) or Comenius (for schools), very few networks would have been developed with other EU partners, reducing the scope for mobility and exchange of best practices.

Institutional beneficiaries stressed that without the LLP support their trans-national cooperation activities would be fragmented or would not happen at all.

Mobility

Erasmus has paved the way for the Bologna process, the convergence of university curricula, the adoption of 3+2 university path and the adoption of European systems for the recognition of studies abroad based on learning outcomes. Today 90% of higher education institutions in the EU have subscribed voluntarily to the European University Charter, a pre-condition for participation in Erasmus, with obligations for the organisation, structuring and recognition of periods of study abroad.

Mobile individuals consider their experience relevant for fostering employability and competitiveness. A study on the value of Erasmus mobility of students and teachers indicated that a temporary period of study in another European country helped to enhance international competences, facilitated access to the labour market and contributed to placing former Erasmus students in visibly international professional positions. More than half of university leaders expected that Erasmus students obtain a position appropriate to their level of educational attainment more often than non-mobile students, and 25% of them expressed their belief that Erasmus had a more positive impact on employability of graduates than any other type of study abroad. Furthermore, the interim evaluation reported that stronger links between mobility actions and employability could be observed for VET students.

Impact on participating education staff persists for a long time through their professional life since they gain new experience on best practices abroad and thus enhance their competences. An impact study on Comenius mobility actions shows that participation in such mobility significantly improves teachers' pedagogical skills, particularly in languages and innovative use of ICT.

Management

The main part of LLP is delivered through a network of 40 National Agencies that manage around €900 million per year. Available funds are effectively implemented (100%). Extensive use of lump sum grants and of electronic forms is instrumental for both achieving customer satisfaction and cost efficiency. Financial audits of National Agencies also show low error rates (<2%). An absolute majority of 96 % of both institutional and individual beneficiaries was satisfied with the management of the programme.

Architecture of the programmes

An excessive number of objectives set for the Programme have translated in a host of specific actions, raising complexity both for beneficiaries and managers of the programme and reducing transparency.

Some of them lack the critical mass to have a long lasting impact but are rather demonstrative in nature. There are also overlaps between actions (e.g. Comenius and Grundtvig assistantships and Erasmus placement, multilateral projects and networks) that have an important bearing on management costs and confuse potential applicants.

A need was found to make objectives more specific, in order to facilitate measuring the impact of LLP actions.

Reaching individuals and organisations beyond established education circuits is a challenge for an education oriented programme and possible overlaps can be observed with the European Social Fund (e.g. support to the development of innovative teaching methods, training of teachers, short term mobility actions).

Progress towards a lifelong learning approach as opposed to one based on educational sectors is still quite limited and the structure of the programme is not conducive to help achieving this objective.

At the individual level insufficient language knowledge remains an important blocking factor, in particular for teachers/staff commitment.

The inherent complexity of the division in some 6 sub-programmes, 65 actions, 50+ objectives limits the management savings and the possibilities of electronic management tools.

The above elements created the need to carry out a number of successive adjustments after the start-up of the Programme, referring to forms, IT systems, management rules, reporting principles and requirements. It is fair to admit that the positive appreciation by customers in the interim evaluation reflects more the snapshot of 2010 at cruising speed than the average feelings in 2007-2009.

The **Youth in Action** Programme is well-embedded in wider EU policies for youth and addresses the problems identified in this field (notably the unemployment and labour market challenges, the social inequalities, the low participation in society and democratic life and a limited sense of belonging to the EU among young people). Its various actions are considered relevant by young participants as well as youth workers (contribution to the quality of youth work and its recognition) and youth organisations (as a tool to test innovative approaches and to build their capacities).

It complements the Lifelong Learning Programme through its focus on non-formal education and by targeting youth workers. National contexts differ considerably in terms of policies and other programmes available. Some countries have national activities that are comparable to those of YiA. For others, YiA is mainly a complementary instrument (for example through its international focus). In a third group of countries, there are hardly any programmes directed at youth, and YiA compensates for the lack of funding for this target group.

Its added value relates to aspects such as the non-formal learning scope, active participation of youth and the fact that young people with fewer opportunities are a specific target. YiA facilitates international cooperation in the field of youth, which cannot be easily achieved by a programme at national or regional level; the same goes for the mobility supported by the programme. Youth organisations indicate a positive contribution to the development of the quality support systems for youth activities, the capabilities of civil society organisations and the promotion of European cooperation in the youth field. YiA has a sustainable impact on participants and youth workers in terms of participating in events after YiA, follow up work for NGOs and increased subsequent mobility. It has also proved, among others, how a European programme can help develop activities in favour of youth at national level.

A survey on the impact of YiA launched by the Commission in 2010 among a sample of 4 500 beneficiaries notably illustrates the key competences developed through the non-formal learning activities supported by the programme (for example, 93% considered that through their participation in YiA projects they learned better to communicate in another language), but also on how participating in a non-formal learning project can have a positive influence on the way young people envisage their future employment or to resume studying in a formal framework (thanks to the project experience 61% have a clearer idea about their professional career aspirations and goals).

The current **fragmentation of international higher education instruments** makes it difficult for students and universities to access information on Europe's higher education opportunities and for EU higher education to be visible on the world scene. All the programmes have different specific objectives, brand names, cover different regions of the world, have different operational modalities, calendars and do not interact with each other. Responsibility for their management as well as their management modes also diverge, adding to the lack of coherence vis-à-vis stakeholders and beneficiaries.

Furthermore, for most of the programmes under Heading 4, funding is decided on an annual basis. Thus added to the fragmentation, there is a **lack of predictability of available funds**. The stop-go annual funding cycle of these actions make it difficult for universities to engage in long-term concrete cooperation actions.

There is a need to communicate a sense of **coherence and internal consistency** to those who are to be drawn into the programmes, whether students looking for scholarships, academics and institutions seeking to participate in it to fulfil their own internationalisation ambitions or education administrations wishing to engage in peer learning.

Stakeholders' views

The views of stakeholders on the Education-training sector can be summarised as follows:

- **Lifelong learning** is still not a reality: there are few learning opportunities in the workplace and the participation of adults in formal education is still the exception

- **Quality of education** is not sufficient, which partly derives from structural problems in the academic profession (e.g. low attractiveness, bad working conditions, lack of career opportunities).

- **Demographic changes** in Europe are a timely and important topic for lifelong learning to be taken into consideration.

- **Financial difficulties** create inequalities in accessing higher levels of education.

- Difficulties in the **validation** of vocational training and competencies, as well as of prior learning, as the basis for admission to qualifications and to the awarding of credit.

In the opinion of LLP stakeholders, the new programme's objectives should focus on support to professional and personal development and predominantly to prepare young people for their professional career. In this respect, the enhancement of skills for creativity and innovation, entrepreneurship, self-management and multilingualism were identified. The programme should promote further equity and equal opportunities in education and training.

The **mobility of individuals** for learning purposes should still be considered the most important activity in the future programme, with mobility in the tertiary education staying as a priority. The beneficial effects of staff and teacher mobility need to be acknowledged – they can act as multipliers but currently face numerous obstacles. Support was expressed for virtual mobility. However, some respondents argued that there can be no substitution for physical mobility.

The need for **cooperation activities** was stressed by a number of contributions to the consultation process. The future programme should strongly encourage more cooperation activities and partnerships between the world of work and education, but it should also provide a good balance between its focus on the labour market and its focus on social responsibilities. Attention should be put on cooperation with and within regional and local levels and with the world of work.

Concerning the geographical scope of the new programme, according to a number of contributions, cooperation with non-EU countries should be encouraged.

According to the stakeholders generally, the programme should continue with the scope of activities currently included in the LLP keeping the current integrated structure of the LLP, based on different sub-programmes and covering the whole spectrum of 'lifelong learning'. Several respondents suggested that, in order to address the segmentation of the programme, there should be a greater development of transversal actions and a more integrative approach should be adopted.

However, concerning the management of the programme, simplification should be introduced and the system should become stable. Simplification should touch all areas – application processes and monitoring and evaluation of projects. Efficient use of funds should be ensured by simplifying the current verification and monitoring system, which takes up a disproportional amount of personnel and budgetary resources.

The new programme should ensure synergies and streamlining with other EU programmes and cooperate closely with the European Social Fund .Whilst the LLP should focus on innovation, the ESF should have a bigger role in implementation.

Concerning the funding of the new programme, a majority of position papers argued for an increase in the overall budget for the future programme, arguing that it is counter-productive for Member State governments to cut funding for education and training during the financial and economic crisis, as a growing economy is dependent on the supply of highly skilled workers and on the mobilisation of the skills and competences of the unemployed. In order for greater funds to be available for education, stakeholders suggest a radical re-allocation of funds towards the priorities listed in the Europe 2020 strategy.

In the opinion of **YiA stakeholders**, the most important issues to address are: social changes, youth unemployment and changing needs of the labour market, social exclusion of disadvantaged young people and discriminatory, racist, xenophobic behaviours among young people.

They consider that a European Youth Programme can contribute to providing more and better non-formal learning opportunities for young people and that young people with fewer opportunities should remain a primary target group.

Such a Programme can be a laboratory to test new approaches which can inspire practices at other levels, can benefit the local community beyond the actual beneficiaries and is an important tool to support youth policy development at European/ national/ regional/ local level.

Youth Exchanges, the European Voluntary Service and activities for youth workers outside mobility are the three most cited activities deserving to be reinforced. Cooperation with third countries should remain a prominent feature. Possible approaches to support a higher number of projects and participants could consist in developing partnerships (local or regional public bodies) to co-finance the grants, in giving more focus to activities addressing intermediaries (youth workers, youth NGOs...) with multiplier effect or in developing partnerships with the private sector.

The results from the stakeholders' consultation on the future of **Erasmus Mundus** organised at the end of 2010 clearly show that a large majority of external stakeholders are in favour of one overarching programme dealing with international cooperation in higher education, with links to internal actions.

Challenges ahead

The main task of the European education and training systems nowadays is to equip citizens with the competences which will prepare them for a demanding and rapidly changing labour market, as well as for an increasingly diverse and ageing knowledge based society (including basic competences like communication in the mother tongue, mathematical competence and basic competences in science and technology). The systems are, however, confronted with a number of problems and obstacles which hamper the efforts.

Without substantial investment in human capital, education, and in the talent of European citizens, none of the Europe 2020 objectives and headline targets will be met. The current economic climate and increasing global competition for highly skilled people, value-creation and growth require radical and widespread reform of education and training systems focused on competences.

It has been recognised that the capacity of the European Union to succeed as a global knowledge-based society is hindered by an underdevelopment of ‘soft skills’ and by the low mobility needed for their enhancement. In addition, there are labour market inefficiencies as a result of inappropriate availability of professional competences. The social and labour integration of a large number of European citizens is hindered because of low levels of their basic competences.

Another challenge relates to the development of social capital among youth, the empowerment of young people and their ability to participate actively in society, in line with the new Treaty.

Besides formal learning, non-formal learning can contribute to tackling these challenges.

The new initiative should contribute, together with other EU instruments (e.g. the European Social Fund) as well as Member States' efforts, to solving the following problems:

1. Lack of preparedness of EU citizens for the labour market and professional life, which is caused and reflected notably in**:**

- Early school leaving
- Low achievements in basic skills and key competences
- Insufficient participation in higher education and vocational training
- Insufficient provision of non-formal learning opportunities for young people
- Insufficient participation of adults in education and training
- Insufficient opportunities for the training of education staff and youth workers
- Low level of entrepreneurship and creativity among young people

2. Partial and scattered European area for education and training

- The system for recognition and transferability of qualifications and competences, needed for building-up the European area in E&T, is not yet sufficiently developed.
- Participation in E&T programme's mobility actions is not fully linked to the E&T policy priorities - for example to the need to contribute to the adoption of the tools for recognition and transfer of learning outcomes.
- Insufficient link between mobility and the institutional framework e.g. as part of a wider internationalisation effort.
- Remaining obstacles to learning mobility, in particular regarding languages
- Insufficient and unequal recognition of the role of youth workers

3. Potential backsliding of the position of Europe in the global competition for excellence and equity

- The development of transnational curricula for E&T institutions is not well advanced.

- The mobility actions are not fully linked to the need for quality participation as the requirement of the promotion of excellence and attractiveness of the EU E&T institutions and systems.
- Pedagogical innovation and exchange of best practices, including the necessary exploitation of ideas coming from the Research programmes, is not sufficiently promoted and supported
- Business and research are not well linked to the E&T area in order to ensure their mutual contribution to the definition of education policy and tools.

4. Lacking evidence base to support education reform and modernisation, as well as youth work in Europe

- The collection of data and their analysis needed for OMC evidence based policy making and peer learning are insufficient
- A change to respond to the OCDE PISA report is not sufficiently stimulated.
- Provision of tools and best practices needed for a programming of smart investments in the area of education and training is insufficient.

5. Inequality in the provision and access to learning opportunities

- To people with disadvantaged background
- To people with special needs
- Gender inequalities in E&T

6. Low participation in society and democratic life among young people

- Insufficient opportunities for participation and limited awareness of the importance to participate
- Mistrust in the institutions and low interest in politics
- Insufficient youth-targeted information
- Growing disaffection of young citizens for Europe (and the fact that the positive views about the EU tend to be concentrated among those who are better educated and who are also likely to take more advantage of the available opportunities)

Different levels are affected by these problems:

Actors at all levels of education, training and youth policy in the EU are affected by the activities of the E, T &Y programme.

At individual level, students and teachers are the most direct target groups of a programme The socio-economic background, gender, age and citizenship/ migration are, in spite of the progress made over the last decades, still the most serious sources of inequality in education. Young people are a highly vulnerable population confronted with high levels of unemployment. They are the most affected by the quality content and methods of teaching, as well as by mobility experience, which equip them with the necessary basic and social skills and competences needed for their future life. Moreover, they tend not to be sufficiently involved in society and in civic life, as shown by the downward trend in youth participation in society and in the mechanisms of representative democracy. Adult learners are dependent on the availability of the retraining establishments and on the quality of trainers in order to be able to cope with the challenges of changing their professional career. Finally, it is the knowledge management and teacher education which are prerequisites for high-quality and efficient education and training systems. Education staff therefore need to have the possibility of participating in the regular update of their professional competences in order to be able to provide quality teaching content and methods. Similarly, there is a need to develop youth workers' professional skills.

E&T institutions need regular exchange of experience in order to develop and introduce innovative teaching methods and content and make themselves attractive and competitive in the E&T systems. The transnational exchange of practices can equally help professionalise the youth work implemented by youth organisations.

Enterprises and social partners in many sectors are suffering from difficulties to find workers with the skills they need and are affected by the price of them, since the low level of supply of human capital increases its price.

At policy level support activities of the new programme are needed for empowering the education, training and youth policy systems in the EU and to contribute to the further development of quality tools for education and youth work.

Policy choices

The following options are being considered:

- **Policy option 1: 'No action'**

Under this option, the LLP and YiA instruments would no longer exist. Related instruments (such as ESF) and processes (Open Methods of Coordination (OMC) in education and youth policy) would continue. The EU would continue its obligations under Article 165 and Article 166 of the Treaty, which would necessitate some expenditure on the provision of information and analysis and human resources in order to fulfil the mandate. Otherwise, spending on education, training and non-formal learning mobility and transnational cooperation activities would be entirely reliant on non-EU resources (in particular, from the Member States).

- **Policy option 2: Status quo (baseline option)**

The further continuation of the LLP would again focus on the entire scope of lifelong learning. Under this option, the programme would broadly keep objectives, structure and management system, as well as the budget allocations, and their principles at the level of the current LLP. It would be composed of the four sectoral programmes focusing on school education (Comenius), higher education (Erasmus), vocational education and training (Leonardo da Vinci) and adult learning (Grundtvig). It would again have also key activities for policy cooperation, languages, ICT and dissemination and exploitation of results under the Transversal Programme and would support studies and research on European integration under the Jean Monnet Programme.

Geographically, the programme would continue to be open to European countries and also to third countries for participation in cooperation activities with funds earmarked for this cooperation being kept at the current level (up to 1 % of the allocations of the programme).

- **Policy option 3: Refocused programmes**

This option would look into ways of developing new, reinforced programmes better to support the new EU political context relevant for education, training and youth, building on the success of the previous programmes, while simplifying and rationalising the actions supported as well as the delivery mechanism.

Under this option, the future programme for the education and training sector would focus on 3 overarching priorities i.e. increasing the development of soft skills at all levels of education, the availability of professional skills that meet the needs of the labour market and the priority of contribution to the improvement of basic skills. Clearer and more targeted activities would be set for the Programme starting with a reduced number of objectives to focus on where the EU value added is evident and a critical mass can be achieved.

While the current programme is already contributing to the EU overarching Europe 2020 and E&T 2020 goals, there is scope for improving its content and architecture to increase the EU value added and to trigger broader systemic impacts in complementarity with other EU initiatives and MS efforts.

Policy option 4: Single programme integrating the current programmes in education, training and youth, including international cooperation in higher education

This option would entail the integration of the following current programmes:

- The Lifelong Learning Programme
- The Erasmus Mundus programme.
- The Youth in Action Programme.

Assessment of available options

Policy option 1: No policy

This option would not be in line with most of the stakeholder comments. It would also not allow the full potential benefits, as demonstrated by the current programmes, to be achieved. Therefore, it is discarded at this stage.

Policy option 2: Status quo (baseline option)

The programme would thus continue to be very broad, with a large number of current LLP objectives and activities. This would be at the expense of a greater focus on key priorities.

Similarly, keeping the status quo for the Youth in Action Programme and the programmes for international higher education would limit the systemic impact which could stem from a more streamlined approach.

Policy option 3: Refocused programmes

The proposed changes under this policy option would allow for:

- Defining the perimeter where the programme has a competitive advantage compared to other EU initiatives, detecting and exploiting, already in the design phase, opportunities of strong synergy in the complementarity.

- Concentrating on higher value added activities where a critical mass can be mobilized with strong incentives to serve EU political objectives targeting systemic change.

- Reducing dramatically the complexity of the architecture to diminish administrative costs at EU, National Agencies' and beneficiary level and increase user-friendliness.

A first step would be to prune current activities that do not have sufficient link to policy priorities; potentially overlap with other EU financial instruments; have high management costs; and present insufficient EU value added. More specifically:

Improving spending related to mobility would contribute solving the challenges the mobility is facing today, also due to emphasis on multipliers' mobility (staff, teachers) and on traineeships in enterprises to support the transition between education and work. Higher education would be a priority, and a new initiative to support Master studies of EU citizens in an EU or third country could usefully complement the existing tools.

Linking EU related spending on mobility to broader institutional/regional/national context would help to ensure sustainability of the impact, and to consolidate systemic impact on education.

Policy support would not need major overhauls, apart from a partial reorientation towards greater focus on the provision of evidence for decision making and more directly linked to EU/E&T 2020 and AGS priorities. More extensive use of available evidence, including through peer pressure, would help to stimulate change and innovation. Shared conclusions should also form the basis of the programming for education and training structural funds actions.

Support to mutual learning at EU and international level would be based on international excellence, including: peer learning activities, analysis and expert meetings directly linked to the Europe 2020 and AGS priorities, as well as the Bologna and Copenhagen processes; policy exchange between education authorities and other stakeholders on the modernisation agenda; policy dialogue with third countries, focussing on strategic partners; incentives to reward excellence in education for innovation and entrepreneurship.

Support to OMC policy networks with Member States and to the joint testing of innovative policy approaches, e.g. on early school leaving or on the integration of migrants. Development of EU tools for transparency/ transferability/recognition of qualifications.

The emphasis on bottom-up cooperation projects would contribute to developing, transferring and implementing innovative education and training practices through cross border cooperation: between educational institutions (within or across sectors) and between these and other actors such as businesses. Under this policy option the co-operation would respond more closely to a specific priority needs.

More generally, this policy option would provide more flexibility and incentives to promote EU value added, so that budget allocation between actions, beneficiaries and countries can take better account of actual quantitative and qualitative performance. It would also allow for making wider use of research results and transferring mature innovations/best practices that are ready for mainstreaming at lower level programming.

At the same time, embedding in the initial proposals provisions for an efficient financial management of the contributions would increase attractiveness for 'external actors', being complementary national, regional or private funds.

Similarly, this option would lead to a new, reinforced programme in the **Youth sector**. It would provide non-formal learning opportunities for young people with a view to increasing their employability and their active participation in society, as well as training and networking opportunities for youth workers. Building on the successes of the Youth in Action Programme, it would focus on three types of streamlined activities: mobility (to support young people and youth workers in the acquisition of skills, competences and European values through non formal learning opportunities accessible to all), cooperation (to promote quality, innovation, recognition and internationalisation in the area of youth work and non-formal learning for young people) and policy support (to support the framework of European cooperation in the youth field, notably the structured dialogue with young people).

Policy option 4: Single programme integrating the current programmes in education, training and youth, including international cooperation in higher education

This option would allow for building on the successful aspects of the current programmes and would address the current fragmentation between them. It would reflect the results of the public consultation which revealed that there was general support given to the idea of further opening up the programme to non-EU countries. Erasmus Mundus has already developed a strong and successful experience in international cooperation in higher education, and is often seen as the logical extension of the current Erasmus programme. Links between universities in Europe and outside have already been developed and should be used to allow the best European students to gain experience outside Europe. An internationalisation of exchanges already exists in the current Youth in Action (YiA) programme. Therefore, cross sectoral projects could be more easily developed.

Consultation respondents also stressed that the future programme in education and training should invest more into non-formal and informal learning. On the other hand, the current split between existing programmes emphasises the gap between formal and non-formal education and does not allow for the development of flexible pathways that are indispensable to promote real lifelong learning.

This single programme would continue the activities taking place under three current programmes by focusing on learning mobility of individuals, cooperation between institutions and organisations and policy reform at EU level and in cooperation with third countries. It would, however, continue to support a wide range of issues pertaining to lifelong learning, instead of a limited set of priorities as in Policy option 3 (refocused, simplified follow-up of the current LLP).

Regarding the consequences for LLP, the sectoral focus and segmentation of the current LLP would certainly disappear under this option. Eligible institutions would put projects forward in relation to the defined activity (mobility, cooperation or policy development). This, not the sector, would structure participation in the programme and programme management.

This policy option would thus enable to reach a critical mass of beneficiaries and achieve impacts that are in line with the ambitions of stakeholders and policy-makers. Finally, since all three programmes already use the same delivery mechanisms, whether National Agencies and/or the Education, Audiovisual and Culture Executive Agency, integration within a single programme would also allow simplification of processes and rationalisation of reporting.

Given the above-presented pros and cons for each option, it appears that the preferred option for the future programme should therefore consist of a combination of policy options ensuring both simplification and mainstreaming of core activities in the field of education, training and youth, with the integration of the current Lifelong Learning Programme, Erasmus Mundus and Youth in Action programmes (mix of options 3 and 4).

Such a single programme would build on the achievements of the current programmes while adding a huge rationalisation of mobility, cooperation and policy activities. This integration would also reinforce the lifelong learning perspective, covering both formal, informal and non-formal education and training systems, while fostering excellence through reinforced international cooperation in higher education.

The new programme would focus on a limited number of priorities linked to problems identified in this impact assessment in order to contribute to increasing the development of soft skills at all levels of learning, the availability of professional skills meeting labour market requirements and to the improvement of basic skills. Because of its focus, the future programme would emphasise the links between programme activities and the policy agenda, EU priorities and strategies, and would thus increase its relevance and added value while achieving more systemic impact.

The future programme would simplify and integrate the current activities of all three current programmes:

- **Learning mobility of individuals**: in order to improve the quality and potential institutional impact, individuals' mobility should be organisation-based, organised either by the sending or hosting institution. This institutional approach would ensure that mobility activities would be embedded into an organisation's culture. As recommended by the Working Group for Mobility of the LLP Committee, this more holistic approach to mobility would include preparation for mobility, quality assurance, validation of learning outcomes, evaluation and dissemination of results. A greater emphasis would be put on the importance of mobility of multipliers – teachers, trainers, educational leaders/managers, adult educators and youth workers. The future programme would also pay particular attention to addressing problems linked to organising placements (e.g. by building networks of hosting enterprises) and to the reluctance of some employers to participate. Greater focus would also be given to the recognition and validation of competences acquired during the mobility, including within informal and non-formal learning. A single form of Quality Certificate, similar to the current Erasmus University Charter, would be developed through the future programme to promote mobility across all sectors. Since the lack of linguistic skills is one of the main obstacles to the mobiity of both learners and teachers, linguistic training would be developed for them and better use would be made of ICT platforms that would allow more language students to be reached at lower costs.

- **Cooperation activities fostering systemic impacts:** transnational cooperation within the EU and with third countries would aim at developing, transferring and implementing innovative and effective education, training and youth work practices, involving education and training institutions, the world of work and third and public sector organisations. Cooperation projects would focus on developing and implementing new outreach activities and curricula, innovative teaching and learning methods, promotion of professional development of staff and contribution to the delivery of soft, professional and basic competences and innovative approaches in youth work. They would cover activities for a development of strategic partnerships, live cooperation platforms, joint curricula and programmes and innovation-focused cooperation projects.

- **Activities for policy development at EU level and with third countries:** There is a need for a more strategic approach in education and training policy development in order to achieve a more systemic impact and deepen the knowledge transfer between different education and training systems in the EU Member States. Indeed, one of the challenges faced by the current programme has been the connection with other EU programmes such as the ESF, and the OMC. The current situation has made apparent that there is a need to support implementation and reinforce evidence-based policy making, with a focus on thematic priorities as part of the OMC process. Such a focus would facilitate thematic networking activities with the ESF and OMC processes and would provide a pool of innovation projects for each thematic area. Thus, the programme would be able to furnish OMC and ESF decision-makers, social partners and civil society organisations with evidence-based approaches tested at the provider level and on topics of common interest, and would enable policy transfer. This action would support policy networks, the development and testing of EU tools, international policy exchange in support of the modernisation agenda and actions supporting improvements of working methods of the OMC. The exchange would focus on the key priority areas identified and would include the practical development, testing and implementation of EU tools in areas such as the EQV, ECVET or EQARF. This would show the way for bridging the gap between policy development and implementation. Similarly, the programme would support the policy development at EU level and with third countries in the youth field, in line with the Renewed EU Youth Strategy.

18. COMPETITIVENESS AND SMEs

Promoting the competitiveness of EU industry, in particular that of small and medium-sized enterprises (SMEs), and the adjustment of their production processes to the future low carbon resource-efficient economy are key goals of the Europe 2020 Strategy. The flagship initiative "An integrated industrial policy for the globalisation era" aims at improving the business environment, especially for SMEs, and at supporting the development of a strong and diversified industrial base able to compete on a global scale.

A particular effort is needed to promote the interests of small and medium-sized enterprises, which are one of the main sources of economic growth and job creation in the EU.[129] SME policy is referred to in six of the seven Europe 2020 flagship initiatives. The Commission's review of the Small Business Act also underlines the political and economic significance of SMEs and the high level of attention to be paid to them.

European value-added is delivered through mitigating market failures in relation to SMEs' access to finance (such as relatively higher transaction costs, information asymmetry and lack of collateral and alternative sources of finance), improving access to the single market, greening the economy, supporting coherence and consistency in national measures through the exchange of best practices at European level and benchmarking, the demonstration and catalytic effect of EU intervention on measures adopted at the national, regional and local levels, and economies of scale of EU-wide networking.

Current system of funding

Currently, non-innovation related actions supporting competitiveness and SMEs are funded through the Competitiveness and Innovation Programme's (CIP) specific operational programme "Entrepreneurship and Innovation", with a budget of €213 million per year.

In € million p.a.

Financial Instruments for growth	113
Enterprise Europe Network	60
Tourism	5
Activities to improve European competitiveness	12
Entrepreneurship policy and actions for promoting entrepreneurship	13
Developing SME policy and promoting SMEs' competitiveness	7
International industrial cooperation	3

[129] SMEs generate more than 67 % of the private sector jobs and provide more than 58 % of the total EU 27 turnover of some €14.000 billion. With an average annual growth rate for EU-27 of 4.2% between 2002-2008, the SMEs are clearly the growth engine of Europe, as compared to the 3.9 % growth for large firms over the same period.

Lessons learned from implementation of the current system

The evaluations of the EIP and the CIP have shown that the objectives of programmes are relevant and aligned with the strategic aims of key EU policies. Despite a limited budget in relation to the programmes objectives, progress has been visible, in particular concerning the actions that have effectively addressed SMEs. At the same time, given a wide variety of actions, a more detailed framework for monitoring and evaluation would be required.

The evaluation of the current equity instrument has shown that the 12 years of EU presence in the venture capital market has had a stabilising effect and has kept the market going even in difficult times. Since 2007, the European Investment Fund (EIF) has acted as a cornerstone investor in 17 venture capital funds, leveraging €1.3 billion of total investment in growth-oriented SMEs. The EIF acts here as a cornerstone investor, attracting private investors. Over 98% of the first generation of EU venture capital has been paid back, and there are global winners among CIP beneficiaries, such as Skype (voice over IP telephony); Vertaris (paper recycling); Solaire Direct (photovoltaic structures).

The guarantee facility has proven to be an efficient way of responding to challenging market circumstances in SME finance and developing guarantee instruments and markets across Europe. Since 2007, the loan guarantee facility has helped SMEs to borrow over €6 billion for investment, and about 99% of beneficiaries are either micro- or small enterprises. On average, each SME that obtains a guaranteed loan creates 1.2 jobs (360,000 jobs by the end of the programme).

The European Enterprise Network has achieved tangible results by putting emphasis on promoting the internationalisation (in the Internal Market and beyond) of SMEs, their participation in research and support to transnational technology transfer, and by providing information on EU matters as well as the possibility to influence the EU legislation-making process (through SME panels and SME feedback database). About 3,000 experts in 591 partner organisations in 48 countries helped over 2.2 million SMEs in the first three years of operations.

The mid-term evaluation of the pilot project on tourism and the preparatory action on European Destinations of Excellence underlined the scope for continuation of the preparatory action and proposed some technical improvement aspects for future implementation with a view to increasing effectiveness and visibility.

Stakeholders' views

An overwhelming majority of stakeholders agree that there is a need for an EU programme for SMEs, targeting the creation of a favourable business environment, including support for commercialisation of innovative products and services, better access to finance from local sources (venture capital and loans) for start-up and growth of SMEs and innovation. Stakeholders agree that under the current CIP, most measures work well. More specifically:

- Financial instruments: there is clear EU value-added in the development of a European venture capital market, as well as in providing loan facilities and quasi-equity measures (such as "mezzanine" credit) to support highly innovative SMEs. There should also be a place for support to more traditional SMEs and, therefore, there is a need for guarantees;
- Enterprise Europe Network: different views were presented on its possible future focus. On the one hand, concentration on core business was supported, on the other, the need to expand its services, for example to support the internationalisation of SMEs, was highlighted.
- Simplification and flexibility: compared with the research framework programme (FP7), the CIP is perceived as already being relatively simple and flexible.

In the stakeholders' view, a future programme should concentrate on activities with real EU added value and should focus on:

– SME support, in particular their access to finance;

– Creating a favourable business environment, including by support to access the internal market, standardisation, better regulation;

– The financial instruments (both risk capital and guarantees instrument) and the Enterprise Europe Network.

The need to continue the exchange of best practices and general policy support was also raised, as well as support to specific sectors such as eco-innovation, energy efficiency, space, audiovisual, cultural and ICT, through market replication and pilot actions facilitating the users' involvement and the uptake of innovation. There was also much interest in new initiatives in the area of public procurement.

There have also been suggestions on how to improve or develop the current CIP. The objectives should be visibly linked to the EU strategic priorities (e.g. the Europe 2020 strategy and its flagship initiatives), and coordination and coherence with other EU instruments should be increased, in particular the structural funds and the Research Framework Programme.

Specific consultations with tourism stakeholders on the scope of actions potentially needing co-financing showed a strong interest and support of stakeholders and most of the Member States. The public consultation on the future of the CIP also covered the tourism sector. The replies in this context were quite varied and expressed general support in favour of co-financing measures in the tourism sector, especially in terms of transnational cooperation projects, exchange of good practices and the creation of a favourable environment for medium, small and micro businesses.

Challenges ahead

SMEs are the engines of growth and jobs in Europe. The 23 million SMEs in the EU constitute 99.8% of all businesses, produce almost 60% of European value added and provide around 70% of existing jobs. In the past 5 years, 80% of new jobs in Europe were created by SMEs. However, according to the 2009 Eurobarometer survey on Entrepreneurship, only 45% of European citizens would like to be self-employed. In the United States, figures are different - 55% of the population would like to be their own boss (61% in 2007 before the financial and economic crisis), while only 36% believe that dependent employment is the best option. The gap with China is even bigger - 77% of its citizens prefer to be self-employed. To remain internationally competitive and provide enough jobs for its population, Europe needs more entrepreneurs, more new firms and innovation.

At the same time, Europe's average growth rate has been structurally lower than that of its main economic partners. This is mainly due to differences in business structures, such as the relatively higher share of SMEs or differences in business financing (equity vs. debt), combined with, among other things, barriers to market access and a less dynamic business environment. The main problems identified are market and system failures in view of the competitiveness or European enterprises.

Recently established firms typically do not have a credible track record and even well established SMEs are often unable to provide a sufficiently accurate picture of their activities. Under these conditions, recourse to collateralisation becomes imperative and, when collateral is missing or insufficient, access to funding becomes problematic. Hence, there is a need for public intervention to reduce the risk of unwarranted loan rejections. Similar considerations apply in the case of financing of innovation, where information asymmetries and transaction costs are, if anything, magnified by the innovative character of the activity. However, in this case, another powerful justification for public action is provided by the positive externalities generated by any innovative activity, the social returns of which typically exceed the private returns.

Due to limited resources, SMEs can spend less on learning what business partnering and EU funding opportunities can offer, with regard to becoming involved in risky, prospective business activities and investing in innovative products and processes. By contrast, larger companies are structurally better equipped to reap the benefits of cross-border collaboration and trade. This leads to a suboptimal outcome since, left on their own, SMEs are not able to maximise the economic benefits of being part of the EU internal market, and their contribution to the EU economy and employment is hampered.

Some SMEs are increasingly expanding from national to EU and world markets. Many are facing obstacles in their international activities and need information and assistance. The provision of business support services, however, is a complex subject that raises questions about the type of support that is needed and the appropriate "division of labour" between the public and private sectors, on the one hand, and between the European Union and its Member States, on the other. Most concerned are EU SMEs that are capable and willing to expand in markets outside the EU, in particular through trade and foreign direct investment (FDI), and existing service providers to SMEs, such as national commercial support services or national or European chambers of commerce established in the third countries concerned.

At the same time, problems experienced by SMEs sectors vary. For instance, in the tourism sector, particular problems can be identified. There is a lack of comprehensive and reliable information on the impact of tourism activities, including information on tourism demand at EU level. This is compounded by a lack of joint strategies for tourism promotion at European and pan-European level and insufficient visibility for European high-quality and sustainable destinations, especially towards third markets but also within Europe. Tourism enterprises suffer from difficult access to finance and low absorption of (eco)-innovation and information and communication technologies. The EU tourism industry adapts only slowly and insufficiently to changes in the demographic structure, changes in tourist behaviour and expectations and issues such as climate change and tourism seasonality.

These challenges can be summarised as follows:

- Improve access to finance for SMEs
- Increase the competitiveness and sustainability of the EU economy
- Facilitate SMEs' access to markets, both inside and outside the EU
- Promote entrepreneurship

Available policy choices

There are three cross cutting policy choices that can be analysed in relation to each of the four main areas identified above:

(1) Keep the current system unchanged;

(2) Mainstream competitiveness and SME issues into other financial instruments;

(3) Create a dedicated fund or funds.

In addition, a number of choices will need to be made with regard to the specific design of the support measures, such as the use of innovative financial instruments, the use of equity and loan guarantee facilities, targeting specific SMEs and sectors, measures aimed at facilitating SMEs' access to markets, building up entrepreneurial skills and attitudes, in particular among young entrepreneurs, and building up the knowledge base about SMEs in line with the Small Business Act (SBA)

Assessment of available options

Option (1) – no changes to the current system

While the evaluation and feedback from stakeholders are generally positive about the current system, they also include a number of recommendations that need to be taken up. Not changing the current system would be a missed opportunity, and therefore this option is discarded.

Option (2) Further mainstreaming

Given the wide variety of SMEs and the economic sectors they operate in, on the one hand, and the variety of the available financial instruments at EU level (such as the CAP, structural funds, research programmes, etc.) on the other hand, further mainstreaming of competitiveness issues has the potential to deliver optimal policy support. The specific measures, such as support for the agricultural sector, support for eco-innovation, or better alignment of research programmes to the market needs have been discussed in the relevant chapters of this paper.

At the same time, abandoning the specific support for SMEs that is currently available would go against evaluation findings and positive stakeholder appreciation. It would also create some 'sunk costs', for example with regard to the established networks.

Option (3) Creation of dedicated funds

Creating a large number of sector specific funds aimed at boosting competitiveness would risk that financial effort is fragmented and its impact reduced. A small number of focused measures, on the other hand, would have the advantage of addressing specific problems and challenges, such as improving access to finance, improving the competitiveness and sustainability of EU businesses, improving access to markets, promoting entrepreneurship, and ensuring sufficient follow-up to the Small Business Act.

At the same time, removing provisions in implementation of the other relevant EU funds to promote competitiveness would have potentially detrimental effects.

Therefore, a combination of policy option (2) and option (3) is preferred.

19. GLOBAL EUROPE

In the current times of crisis and accelerated changes in the world, the main strategic objective for external action under the new Multiannual Financial Framework will be to demonstrate that, despite the economic crisis and its budgetary consequences, the EU is able to play an active role in promoting democracy, peace, solidarity, stability and prosperity and poverty reduction in our immediate neighbourhood and worldwide, and is increasingly able to speak with one voice. External spending post-2013 should be aligned to the priorities provided for in the Lisbon Treaty, which defines a new institutional framework for external action (including through the creation of the European External Action Service) and sets out the objectives to be pursued by the EU (Art.21 TEU). Also, new Treaty provisions on the relations with neighbouring countries, humanitarian aid and civil protection should be matched with the adequate legal and financial tools. The orientations we want to give to external action focus on making real impacts on key goals.

In light of the above, six strategic objectives have been identified:

1. **Promoting and defending EU values abroad**. Putting human rights, democracy and rule of law at the core, recent events in the Mediterranean call for a review of assistance to transitional and democratic processes and to civil society.

2. **Projecting EU policies in support of the Europe 2020 agenda**. On the one hand, EU leadership in addressing major global challenges and protecting global public goods and resources should be further strengthened. On the other hand, we should develop a proactive agenda of EU and mutual interests with industrialized countries and emerging countries, with a specific focus on strategic partners. Overall, these objectives should be integrated and mainstreamed into all Heading 4 instruments, thematic and geographic programmes.

3. **Increasing the impact of EU development cooperation, with the primary aim of eradicating poverty**. The EU cannot continue to do everything, everywhere with development aid. So we will: concentrate aid on those areas where the EU has comparative advantage; differentiate among partner countries and regions to ensure that aid resources are allocated according to needs, capacities, interests and commitments; improve aid coordination and Policy Coherence for Development; and ensure adequate financing for development.

4. **Investing in the long-term prosperity and stability of the EU's Neighbourhood**. The aim of establishing an area of stability, prosperity and democracy will be pursued on the one hand through preparing (potential) candidate countries for membership and on the other hand through our renewed neighbourhood policy. The ongoing events in the Mediterranean, and their possible effects in the wider region, make it necessary to support better the aspirations of these societies for democratic values and principles and for a more equitable distribution of the benefits of growth, whilst pursuing our goal of a greater political cooperation and deeper economic integration with our Neighbours, both in the South and in the East.

5. **Enhancing European solidarity following natural or man-made disasters**. The EU will uphold the internationally agreed humanitarian principles and upgrade our capacity, in humanitarian aid and civil protection, to anticipate, prepare for and prevent and respond more quickly to disasters and to engage more flexibly development actions to rebuild from crisis and to develop resilience for the future.

6. **Improving crisis prevention and resolution**. A priority should be to increase EU action on crisis prevention and resolution, and to preserve peace and strengthen international security, including enhancing EU capacities for crisis preparedness. Another priority will be to improve the EU ability to coordinate its tools in response to large-scale conflicts and in transition situations, to develop specific

modalities for dealing with fragile and post-crisis situations and to improve our processes so as to adjust to changing circumstances.

In June 2010, the EU strongly reaffirmed its commitment to contribute to the achievement of the Millennium Development Goals (MDGs)[130] and to the target of Official Development Aid reaching 0.7% of GNI commitment by 2015. While much has already been achieved and in some areas the EU is well on-track to meeting the 2015 target levels, there are significant regional differences, and some MDGs – notably child mortality and maternal health – are seriously off-track.

Additional new challenges are complicating an already difficult situation. Developing countries were hard hit by the succession of recent crises (financial and economic crises, food price rises, fuel price volatility). Added to this are issues of climate change and energy, security and fragility, instability and poor resilience to shocks, and food insecurity. Furthermore, in many donor countries, both within the EU and internationally, the legitimacy of aid is increasingly open to challenge, as the general public and politicians question the value of development expenditure at a time when austerity measures at home are beginning to bite. Together, these additional challenges have created a new backdrop for development policy.

Current system of funding

A major reshuffle of instruments providing for rationalisation was already achieved with the current generation of programmes.

These instruments can be grouped under the following categories:

A) Instruments for cooperation with EU external partners based on broad policy priorities (enlargement, neighbourhood, development and cooperation)

Financial Instrument for Pre-accession Assistance (IPA)

This instrument is designed to help candidate countries (Croatia, Iceland, Montenegro, the former Yugoslav Republic of Macedonia and Turkey) and potential candidates (Albania, Bosnia and Herzegovina, Serbia and Kosovo[131]) in their efforts to meet accession criteria; to align with EU policies and standards; to foster socio-economic development and prepare their economies to withstand the competitive pressure in an open market; and to be ready, on the date of accession, to respect in full all legal obligations of a Member State and to manage EU funds under shared management.

European Neighbourhood and Partnership Instrument (ENPI)

This instrument supports the European Neighbourhood Policy, which covers Eastern Europe, Southern Caucasus and Southern Mediterranean countries. 95% of the budget is allocated for national and multi-country programmes and 5% for cross-border cooperation programmes.

The ENPI strategic objectives are: supporting democracy, human rights and good governance; promoting legislative and regulatory approximation with the EU; the transition towards the market economy; the promotion of sustainable development; and policies of common interests.

130 "Council Conclusions on the MDGs for the UN High-Level Plenary Meeting in New York and beyond – Supporting the achievement of the MDGs by 2015" 11080/10, 14 June 2010, and European Council Conclusions of 17 June 2010.

131 Under UNSCR 1244/99

The ENPI finances actions in various sectors, including: institution building; more equitable development; trade related regulatory convergence; support for the private sector; justice and home affairs; energy; transport; information society; environmental sustainability; research and innovation; education and the social sector. In addition, it can provide support in post-crisis situations and assist in disaster preparedness.

Financing instrument for development cooperation (DCI)

This instrument finances measures aimed at supporting geographic cooperation with developing countries. Aid is implemented through geographic and thematic programmes.

- Geographic programmes cover five regions, namely Latin America, Asia, Central Asia, the Middle East and Southern Africa - African, Caribbean and Pacific developing countries are covered by the European Development Fund ("EDF"). EU assistance to these countries focuses on poverty eradication and at the achievement of the Millennium Development Goals (MDGs); it supports actions within the following areas of cooperation: essential needs of the population, in particular primary education and health; promoting social cohesion and employment; promoting governance, democracy, human rights and support for institutional reforms; assisting partner countries and regions in the areas of trade and regional integration; promoting sustainable development through environmental protection and sustainable management of natural resources; supporting sustainable integrated water resource management and fostering greater use of sustainable energy technologies; assistance in post-crisis situations and fragile States.

- Thematic programmes complement geographic programmes. They cover a specific area of activity of interest to a group of partner countries not determined by geography, or cooperation activities focusing on various regions or groups of partner countries, or an international operation that is not geographically specific. Their scope of application is wider than that of geographic cooperation programmes because they encompass not only the countries eligible for geographic cooperation under the DCI but also the countries and regions eligible under the EDF and neighbourhood countries. The five thematic programmes concern: investing in people; environment and sustainable management of natural resources including energy (and climate change); non-state actors and local authorities in development; food security; migration and asylum.

The instrument also provides a programme of accompanying measures in favour of the **18 ACP Sugar Protocol countries**. The aim of these measures is to support their adjustment process as they are faced with new market conditions due to the reform of the Community sugar regime.

Financing instrument for cooperation with industrialised and other high-income countries and territories (ICI/ICI+)

This instrument supports all forms of cooperation with industrialised and other high-income countries and territories for which the EU is competent, whether bilateral, regional or multilateral. The countries concerned are Australia, Bahrain, Brunei, Canada, Chinese Taipei, Hong Kong, Japan, the Republic of Korea, Kuwait, Macao, New Zealand, Oman, Qatar, Saudi Arabia, Singapore, the United Arab Emirates and the United States.

It focuses in particular on economic, financial and technical cooperation. The objective of the instrument is primarily the promotion of cooperation, partnerships and joint undertakings between economic, academic and scientific actors of both parties; the stimulation of bilateral trade, investment flows and economic partnerships; the promotion of dialogues between political, economic and social actors of both parties; the promotion of people-to-people links, education and training programmes;

the promotion of cooperative projects in areas such as research, science and technology, energy, transport and environmental matters and any other matter of mutual interest between the EU and the partner countries; the enhancement of awareness about and understanding of the EU and of its visibility in partner countries.

B) Instrument to promote democracy and human rights globally

Instrument for Democracy and Human Rights (EIDHR)

The EIDHR instrument can grant aid where no established development cooperation exists, and can intervene without the agreement of the governments of third countries. It can support groups or individuals within civil society defending democracy as well as intergovernmental organisations that implement the international mechanisms for the protection of human rights. It also supports electoral observation missions and improvement in electoral processes. Work with, for and through civil society organisations gives to the EIDHR its critical profile. Assistance under EIDHR complements other tools that are used to implement EU policies for democracy and human rights. These range from political dialogue and diplomatic initiatives to various instruments for financial and technical cooperation, including the DCI and ENPI. It also complements the more crisis-related interventions of the Instrument for Stability.

C) Solidarity with and assisting populations confronted by natural and man-made disasters

Humanitarian Aid

The objective of EU humanitarian aid anchored in the Lisbon Treaty (Article 214 TFEU) is to provide a needs-based emergency response aimed at preserving life, preventing and alleviating human suffering and maintinig human dignity. EU humanitarian aid encompasses assistance, relief and protection operations in relation to natural and/or man-made disasters, and is based on the **humanitarian principles of humanity, impartiality, independence and neutrality.** Humanitarian aid is provided in a timely manner to beneficiary populations solely based on the assessment of their humanitarian relief needs. . It is channelled through through **200 EU-funded partners** composed of specialised non-governmental humanitarian organisations, United Nations agencies, other international organisations such as those in the Red Cross family of organisations and some specialised agencies from EU Member States. EU humanitarian aid also encompasses **disaster preparedness** actions in regions prone to natural disasters, to help local communities to react rapidly and efficiently when disaster occurs.

Civil Protection

EU co-operation in the field of civil protection aims to better protect people, their environment, property and cultural heritage in the event of major natural or man-made disasters occurring both inside and outside the EU. There is a long tradition for EU Member States in expressing solidarity by assisting fellow Member States and third countries affected by major disasters. EU coordination of Member States assistance now recognised by the Lisbon Treaty (Art 196), is focused on facilitating co-operation, training and inter-alia the pooling of resources to increase the effectiveness of disaster response. In enhancing its disaster response capacity, the EU has developed two major tools in the field of civil protection, covering assistance for actions both inside ***and outside*** Europe: The Community mechanism for Civil Protection involves the participation of 31 European states (the 27 EU Member States, Norway, Iceland, Lichtenstein and Croatia) cooperating and pooling civil protection resources to aid disaster-struck countries. The Civil Protection Financial Instrument covers: (i) response and preparedness actions covered by the EU's civil protection mechanism; (ii) actions covering prevention activities and preparedness within the EU; and (iii) facilitating the transport of Member State civil protection assets. The EU **Civil Protection Mechanism** is now managed in a single Directorate-General of the Commission together with humanitarian aid (DG ECHO), enhancing the complementarity between the EU's two primary instruments for emergency response to disasters.

D) Instruments for crisis prevention and management

Instrument for Stability (IfS)

The Instrument for Stability is designed to respond to immediate situations of crisis in third countries world-wide and to address security and political challenges. Its crisis response component is a highly complementary EU crisis management tool. It focuses on countries either in crisis or emerging crisis (short-term component) through flexible procedures for quick delivery. The “long-term component” aims, in the context of stable conditions, to build capacity for crisis response preparedness and for specific global and cross-border threats with a security or stability dimension (such as organised crime, terrorism, trafficking, CBRN risk).

Macro-financial Assistance (MFA)

Under this instrument, exceptional financial assistance of a macroeconomic nature is granted to third countries close to the EU that are experiencing short-term balance-of-payments difficulties. MFA complements financing provided by the International Monetary Fund (IMF) in the context of an adjustment and reform programme. Since the launch of the instrument in 1990, a total of 55 MFA decisions benefiting 23 countries have been approved, with total commitments amounting to €7.4 billion. MFA can take the form of loans, for which the Commission borrows the necessary funds in capital markets and on-lends them to the beneficiary country, or grants, financed from the EU budget.

Instrument for Nuclear Safety Cooperation (INSC)

The Nuclear Safety Co-operation Instrument (NSCI) finances measures to support a higher level of nuclear safety, radiation protection and the application of efficient and effective safeguards of nuclear materials in third countries. .

The geographic scope of the instrument includes all third countries. During the first part of the implementation phase (2007-2009), it concentrated mainly on Russia, Ukraine, Armenia and Kazakhstan

The instrument is designed to provide a new strategy dealing with political crises in third countries as well as global and trans-regional threats arising from organised crime, trafficking, and the proliferation of nuclear, biological and chemical agents.

Food Facility for developing countries

This short-term instrument (2009-2011) was established to finance measures aimed at supporting a rapid and direct response to the volatile food prices in developing countries, addressing primarily the period between emergency aid and medium- to long-term development cooperation.

Common Foreign and Security Policy (CFSP)

CFSP operations are not carried out on the basis of Union instruments.

All operations are launched on the basis of a specific legal act adopted by the Council. Decisions are adopted on an ad-hoc basis. CFSP has been systematically used lasting recent years. It is part of the "crisis management and conflict prevention" instruments that the EU has under the EU budget complemented by the IfS, the humanitarian aid, and the macro-financial assistance.

In the current 2007-2013 period, the external action instruments in Heading IV have a budget of €56 billion: €11.6 billion for the Pre-Accession Instrument (IPA); €11.3 billion for the Neighbourhood Instrument (ENPI); €0.175 billion for cooperation with Industrialised countries (ICI); €1.12 billion for Human rights and democracy (EIDHR); €17.9 billion for Development cooperation (DCI); €5.71 billion for Humanitarian Aid (HUMA); €2.08 billion for the Instrument for Stability (IFS), €0.5 billion for Instrument for Nuclear Safety Cooperation (INSC) and other ad-hoc envelopes such as CFSP (€1.98 billion) and loan guarantee (€1.18 billion).€1 billion were devoted to the Food Facility. The €1.7 billion of the Emergency Aid Reserve (EAR) complements Heading IV according to eligible needs on an ad-hoc basis.

In addition to the above instruments, EU external actions are also financed by instruments **outside the EU budget**. Financial assistance to African, Caribbean and Pacific countries is covered by the EDF, a fund established by EU Member States outside the EU budget (and hence outside the MFF) on the basis of an intergovernmental instrument, the Cotonou Agreement. The 10th EDF has a budget of €22.99 billion for the period 2007-2013. The 10th EDF also provide assistance to Overseas Countries and Territories (OCTs) on the basis of Council Decision of 27 November 2001. In addition, while the Common Foreign and Security Policy budget supports actions[132] without military and defence implications, Common Security and Defence Policy supports EU military and defence operations outside the EU budget (common costs covered under the ATHENA instrument).

Lessons learned from implementation of the current system

A recent study[133] covering a large number of instruments (DCI, ENPI, ICI, EIDHR, IfS and INSC) concluded that having a single legal base for each instrument helps to improve the clarity of what is intended in such legal instrument and that the objective to have policy-driven instruments remains relevant and useful.

Some recommendations were however put forward, such as having better-structured list of activities and clearer links between and prioritisation of activities, outputs and their intended impacts. It was suggested that regulations should offer an adequate level of detail allowing clarity of tasks but avoiding overregulation and rigidity; this could be achieved through a better division of tasks between the regulation and the policy documents. It was also recommended to clarify the ODA/non-ODA division in geographic instruments as well as the complementarity between thematic and geographic instruments.

Overall, consulted stakeholders as well as EU Member States consider that the current structure of the instruments, which reflects the main policy priorities on external action as established by the Lisbon Treaty, remains relevant and should be maintained.

Regarding IPA

The mid-term evaluation of the Instrument for Pre-accession Assistance showed that the financial assistance produced good and meaningful results. Overall, outputs/immediate results of assistance are

[132] CFSP actions are implemented through ad-hoc decisions adopted by the Council.
[133] Study of May 2011 on the Legal Instruments and Lessons Learned from the Evaluations managed by the Joint Evaluation Unit within EuropeAid.

expected to be delivered, and effectiveness was found to be strongest in *acquis*-related areas, while some horizontal areas, such as public administration reform, are particularly challenging. The beneficiaries' financial needs, particularly for infrastructure, clearly exceed available IPA (and donors') funding. Therefore, a key challenge for IPA assistance is to use funds efficiently and to play a leverage role for other financing sources. The evaluation reported good examples of using of IPA to leverage financing from donors/IFIs, particularly for infrastructure projects. It was also found that projects were generally well targeted on accession requirements, but focussing technical and institution building assistance on a more limited number of priority sectors could further enhance effectiveness and future impact. The evaluation found that the quality of objectives and indicators in both the strategic documents (so-called Multi-annual Indicative Planning Documents – MIPDs) and, the second level programming documents (in particular the annual National Programmes for technical assistance and institution building) had improved over the 2007-2009 period. Nevertheless, further improvements were recommended by the evaluators.

The evaluation concluded that implementing a multi-annual/Sector Based Approach (SBA) for programming, already introduced for regional, human resources and rural development, across the whole instrument should facilitate prioritisation and sequencing of assistance, facilitate donor coordination and enhance beneficiaries' ownership of assistance.

Regarding ENPI

Five country evaluations and 2 regional evaluations (MEDA II and TACIS) are relevant for this exercise. The current ENPI puts under the same umbrella bilateral and regional cooperation with countries formerly dealt with through two separate regulations (TACIS and MEDA).

The TACIS regional evaluation has demonstrated that this change has had a positive cross fertilisation effect, particularly when it comes to aid delivery mechanisms in support of reforms. While sector budget support was introduced under MEDA, TACIS was mainly focussing on technical assistance and suffered from inadequate delivery mechanisms, focussing on projects rather than programmes[134].

Building on the positive results of experiences under MEDA[135], support to reforms via the budget has significantly increased since the introduction of the ENPI regulation for ENP countries meeting eligibility criteria[136]. The audit has shown that the main advantages of this aid modality are the increased ownership by partner countries, the enhanced alignment of donor support to government policy, and comparatively lower transaction costs. Supporting reforms via the budget has delivered tangible results, promoted reforms and helped strengthen policy dialogue with partner countries[137]. However, the approach should be further refined in the next financial framework to incorporate the increased focus on fundamental values and democratic governance. Efforts should also be made further to associate civil society in the design and monitoring of operations and enhance its visibility.

The core of the financial intervention in the neighbourhood region is delivered through country programmes (about 75%), which foster ownership, allow coherence of EU action country policies and ultimately enhance impact. Greater coherence between these programmes, ENPI regional programmes and thematic interventions under other instruments such as DCI, EIDHR and IfS should be sought[138].

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[134] Cf. introduction of the special report No 2/2006 concerning the performance of projects financed dunder TACIS in the Russian Federation – OJ C 119

[135] Cf. main conclusions of the "Evaluation of the MEDA II Regulation and its implementation (June 2009)

[136] Cf; main conclusions of the Evaluation of the European Commission's Cooperation with Ukraine (December 2010)

[137] As exemplified by the conclusions of the Evaluation of Budget Support operations in Tunisia (November 2010)

[138] As already underlined in the main conclusions of the "Evaluation of the MEDA II Regulation and its implementation (June 2009)

The Special report of the Court of Auditors on the ENPI in the South Caucasus (No 13/2010)[139] underlined a number of challenges. The Report pointed notably to the lengthy programming and design process that did not suit the fast changing environment of South Caucasus, endangering the relevance of the assistance. It noted further that the usefulness of the programming work was reduced by insufficient prioritisation and weak links between the ENP Action Plans and Country Strategy Papers and National Indicative Programmes. It also concluded that the areas selected for assistance did not derive clearly enough from the programming documents and that the use of delivery tools was not selective enough. The key recommendations include: prioritisation further during the programming process, with the guiding objective of offering ENP countries the prospect of an increasingly closer relationship with the EU; rationalizing (merging) the strategic documents; strengthening the links between strategic programming documents and annual action programmes and avoiding successive cycles of approval.

Regarding DCI

A recent study on 57 evaluations of DCI interventions shows that the majority of them have been considered positive. The main concern described would be the need to improve the logic match between the variety number of activities and tools contained in DCI on the one side and the relatively tight vision as to the global impact of the instrument, namely poverty reduction in the context of sustainable development. This gap could be improved through a more adequate prioritisation of activities and outputs. Another element would be to clarify the division between Official Development Assistance (ODA) and non-ODA activities.

The Mid-Term review already led to two legislative proposals[140]: The main issue relates precisely to the financing of activities which might not qualify as ODA in the countries covered by the DCI. As part of the democratic scrutiny of strategy documents (country strategy papers and regional strategy papers), the European Parliament has identified a few projects that it considered ineligible under the DCI geographical programmes as they do not fulfil the criteria for ODA eligibility enshrined in the DCI. These projects dealt with business and scientific exchanges with India and China, and cooperation with middle income group countries in Asia and Latin America. Furthermore, projects on public diplomacy and the Erasmus Mundus External Window Cooperation were concerned in this context. Given the clear need to finance activities going beyond ODA, in particular for emerging countries, the legislative proposal aims to fill this legislative gap within the existing architecture by extending the geographic coverage of the ICI to the DCI countries.

The legislative proposals also address a technical issue: For the DCI, bringing a provision on the payment of “taxes, duties, and charges” into line with the majority of other external spending instruments, allowing for the payment of taxes, duties and charges in exceptional and duly justified cases on a case-by-case basis.

These proposals are still to be adopted, pending an agreement on delegated acts at conciliation stage.

Regarding ICI

The mid-term review recognized that the ICI has provided a valuable and flexible basis to develop cooperation with a wider number of industrialised and high-income territories, and recommended to extend this cooperation to new areas, in particular people-to-people links and education cooperation.

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139 Court of Auditors Special Report N) 13/2010: “Is the new European Neighbourhood and Partnership Instrument successfully launched and achieving results in the Southern Caucasus (Armenia, Azerbaijan and Georgia)?”

140 COM (2009) 197 final 2-2009/0059 (COD) (Corrigendum 30 November 2009, amended 01 December 2009 (entry into force of the Lisbon Treaty)); COM(2009) 194 final – 2009/0060A COD (Corrigendum of 30 November 2009, amended 1 December 2009 (entry into force of the Lisbon Treaty).

In addition to the mid-term review; flagship programmes financed under the ICI instrument (European Executive Programme for Japan Korea and EU Centres) have been subject to external evaluations.

Concerning the EU centres, the evaluation has shown that “[d]espite the differences between mature and newcomer countries and Centres, there is a shared perception that the Centres are adding real value and that the Commission benefits from the Initiative to a great extent. The amount of work conducted by the Centres compensates by far the costs that the Commission incurs on the programme.”

Concerning the ETP programme, the evaluation conducted in 2010 has shown that the ETP presents a unique offering in terms of programme structure (familiarity with Japanese and Korean business culture are invaluable attributes) and target audience (both large and small and medium sized companies value the programme). It provides an opportunity to potential participants from Member States who offer no similar initiative. Moreover, it provides a good visibility for the EU.

The ETP has a positive impact on EU companies committed to establishing /growing their business activities in these two countries in terms of assisting the EU companies to access Japanese /Korean markets, bringing sustained impact to EU's companies' business, rather than short term and temporary effect, and broadening the business possibilities of EU companies in other Asian countries.

Although no amendment to the Regulation was required as regards the implementation of the ICI, an amendment has been proposed in 2009 to extend the ICI geographical scope to the DCI countries in order to solve the issue of the ODA eligibility under the DCI Regulation.

Regarding EIDHR

While limited in financial scope, its flexible tools have worked very well and are essential (e.g. direct support to human rights defenders; working with informal partners; re-granting). A pragmatic combination of targeted projects and calls for proposals, (including global, regional and local actions) has allowed for a comprehensive and coherent implementation involving all actors: civil society (main target) and international and regional organisations. Nevertheless, the objectives foreseen in the Regulation have caused a fragmentation of approaches and a lack of legibility of the Instrument creating risks of duplication and difficulties in the appreciation of its impact. Furthermore, it is necessary to increase the limited part dedicated to flexible tools to enhance its reactivity.

Regarding Humanitarian Aid & Civil Protection

Following up on various evaluations, studies and consultations, the Commission has already developed new proposals for a better, faster, and more efficient EU response to disasters drawing upon a wide range of instruments, notably the use of Member States' civil protection assets through the EU Civil Protection Mechanism and EU humanitarian assistance to victims of natural disasters outside the EU. The added value of such instruments is widely acknowledged. However the increase in the frequency and intensity of major disasters, both natural and man-made, (such as the Haiti earthquake, the Pakistan floods and Russian forest fires and most recently the triple disaster in Japan) requires the strengthening of existing arrangements..

Against this background, the Commission adopted on 26 October 2010 the **Communication "*Towards a stronger European disaster response: the role of civil protection and humanitarian assistance*"**. The Communication sets out ways to strengthen the EU's immediate response to natural and manmade disasters (excluding armed conflicts). The **European Consensus on Humanitarian Aid**, adopted by the Council, the Parliament, and the Commission in 2007 sets out the values, guiding principles and policy scope of EU humanitarian aid, and seeks to strengthen the EU's capacity to help people suffering in crisis zones across the globe. Though confirming good overall progress in implementation of the Consensus Action Plan across the board, the mid-term review of its Action plan carried out at the end of 2010 identified areas requiring further action. The clear policy framework provided by the 'European Consensus on Humanitarian Aid' has been particularly welcomed by some of the newer EU Member States, whose aid approaches have been developing fast in recent years.

There is also a significant body of evaluations of humanitarian aid operations (carried out by the Commission, Member States, partners and an active learning network (ALNAP). The evaluations have in general confirmed the adequacy of EU response to specific crises and make recommendations for specific areas where humanitarian response or humanitarian action could be further strengthened. Most recently, the United Kingdom (DFID) published its *Multilateral Aid Review* in March 2011, including a very good assessment of activities.[141]

Regarding IfS

The mid-term review concluded that the provisions of this new financial instrument were adequate to pursue the objectives. Some technical amendments were proposed along with an amendment to take into account the judgment of the European Court of Justice on small arms and light weapons. The legislative proposal was tabled in 2009, but it is not yet adopted due to the horizontal issue on "delegated acts" for the external action instruments.

Other evaluations and studies present a positive view of this instrument. The public consultation on "Funding for External Actions after 2013" carried out by the Commission showed that "*the Instrument for Stability (IfS) is highly valued and many respondents urge the EU to enhance its potential".* Respondents referred to *"the need to safeguard the key advantages of the Instrument for Stability (IfS), namely the speed of delivery and direct financing*". A comparative review of the Instrument for Stability, the UN Peacebuilding Fund, and the World Bank's Statebuilding and Peacebuilding Fund commissioned by the UK Department for International Development in 2010 concludes that the IfS enables the EU: *"...to contribute in fragile post-conflict transitions, and complement* (its) *broader institutional capacity and engagement in such contexts. The potential of* (the IfS) *to mobilise significant technical and financial resources in support of state-building and peace-building processes and reconstruction efforts, including the strengthening of key institutions and systems, and to link up to longer term development programmes is a clear comparative advantage.* (Its) *governance and decision-making systems appear to be effective and strongly linked to the high-level decision-making processes"*. Finally, specific evaluations of EU interventions have also demonstrated the catalysing effect of the Instrument for Stability, recognising in particular its added-value to prepare and improve the delivering of EU long-term external assistance and CFDP actions. For instance, an independent evaluation carried out in Armenia, point out that the IfS action "*has the potential to transform and improve the manner in which EU external assistance is designed and delivered*".

Regarding MFA

As highlighted by the global financial crisis, dealing effectively with macroeconomic and financial emergency situations requires response instruments that can be deployed quickly and efficiently. This calls for a decision-making process that avoids long procedures and delays. Some of the features of the current decision-making process for MFA reduce the effectiveness and transparency of the instrument. In particular, MFA is currently subject to case-by-case legislative decisions. This has tended to result in significant and unnecessary delays between the request for support by the country and the approval

[141] See: http://www.dfid.gov.uk/About-DFID/Who-we-work-with/Multilateral-agencies/Multilateral-Aid-Review/ - "***ECHO – meeting humanitarian need:*** *ECHO is the humanitarian arm of the European Commission. It is the second biggest humanitarian donor in the world. Its comparative advantage is its huge field presence across the world and in most fragile states, and its size, including the ability to release up to €3m in the 72 hours following an emergency. This makes it a significant contributor to humanitarian outcomes and allows it to focus on 'forgotten crises', filling a gap in the system and supporting a more consistent approach to funding according to need. In 2009, ECHO funded relief for approximately 150 million beneficiaries in more than 70 countries*."

of an MFA operation. This can harm the effectiveness of an instrument meant to address critical balance-of-payments needs that require an expeditious response.

Moreover, since the entry into force of the Lisbon Treaty, the European Parliament has been sharing with the Council the authority to legislate on MFA. Therefore, the rules governing this instrument can no longer be based only on a set of Council conclusions (the Genval criteria). They should be transformed into a formal legal act that is endorsed by both co-legislators.

With these considerations in mind, the Commission is about to adopt a proposal for a Framework Regulation for MFA, which aims to speed up the decision-making for individual MFA operations by aligning it with that of comparable external financial assistance instruments of the EU: MFA would be granted to an eligible third country through an implementing act of the Commission under the supervision of a committee of Member State representatives.

The Framework Regulation will also lay down, in a formal legal act, the key rules governing MFA, reaffirming the Genval criteria, while updating and clarifying some of them.

Regarding INSC

The conclusions of an assessment performed by a team of independent experts gave an overall positive appreciation of the implementation of the INSC so far and do not call for any modification of the current instrument. Attention was drawn, however, on the need to intensify activities in the domain of nuclear safeguards and the development and implementation of strategies for the decommissioning of existing installation and site remediation activities.

Stakeholders' views

The Commission held a public consultation on future funding for EU external action between 26 November 2010 and 31 January 2011. This process was based on an online questionnaire accompanied by a background paper 'What funding for EU external action after 2013?' prepared by Commission and EEAS services involved. The aim of the public consultation was to gather views on specific aspects and options for future EU external action spending from interested persons and stakeholders.

The 220 contributions received to the public consultation reflect a broad and diverse spectrum representing the variety of structures, views and traditions characterising the external action community. Contributions were received from 59 different countries, with 141 contributions (64%) originating in EU countries, and 69 contributions (31%) from third countries representing a wide variety of EU partners in particular in Asia and Latin America, African, Caribbean and Pacific (ACP) countries, European Neighbourhood and Enlargement countries.

A majority of the respondents (around 70%) confirms that EU financial intervention provides a **substantial added value** in the main policy areas supported through EU financial instruments for external action[142]. The criterion of EU added value is put forward by many respondents as the main driver for the future: the EU should exploit its comparative advantage linked to its global field presence, its wide-ranging expertise, its supranational nature, its role as facilitator of coordination, and to the economies of scale. It is underlined that the extent to which the EU will be able to implement its external policies with success will depend on the design and implementation of the next financial instruments.

[142] i.e. peace and security, poverty reduction, humanitarian aid, investing in stability and growth in enlargement and neighbourhood countries, tackling global challenges, promoting EU and international standards and values, and supporting growth and competitiveness abroad

Nearly all respondents (92%) support a **more differentiated approach,** tailored to the situation of the beneficiary country, based on sound criteria and efficient data collection, to be used as a way to increase the impact of EU financial instruments. Regarding the possible criteria for differentiation, the country's level of development and of economic and social progress, political criteria (in particularly commitment to sound public policies and human rights) and the country's degree of vulnerability are supported by a vast majority (over 70% of respondents). The idea that differentiation could be driven by EU's own interests attracts more disagreement (46%) than support (40%).

Regarding **humanitarian assistance**, given the rise of conflicts and disasters, a large majority -76%- of stakeholders support enhancing a EU leading role in the provision of humanitarian assistance. 88% agreed that, in particular this should be pursued through reinforcing coordination with other donors and through facilitating the transition from emergency relief to recovery, reconstruction and longer-term assistance. Responses also noted that humanitarian aid efforts should follow the humanitarian principles formulated in the EU Consensus on Humanitarian Aid, the needs-based approach, and respect to the UN Oslo and MCDA guidelines on the use of military assets to support UN humanitarian operations in response to natural disasters and complex emergencies.

Regarding EU external action on **peace and international security**, strengthening of EU peace-building and crisis preparedness is mentioned as a primary objective for the next Multiannual Financial Framework. The importance of investing in long-term stability, human rights and economic development is also underlined by many respondents. The Instrument for Stability is highly valued and many respondents ask the EU to enhance its potential.

Over two thirds of respondents believe that **EU interests are sufficiently taken into account in its external action**, and that the latter should be based to a larger extent on EU values and principles, and on development objectives of the partner countries. Inversely, a minority considers that EU external action should concentrate more on EU's own interests in the global economy, particularly towards emerging economies. Regarding EU domestic priorities with an important international dimension, 'macro-economic/ financial stability and economic growth' is identified as the most important, followed by 'energy, resource efficiency and climate change' and 'employment and social issues'.

Regarding **simplification of instruments**, as concerns the balance between **geographic and thematic instruments**, opinions are mixed regarding a **review of EU thematic programmes** and a possible reduction in number; many fear that this could imply a decrease in the overall amount available for thematic action, and rather call for a simplification of the rules governing access and implementation of thematic funding. Several thematic issues are highlighted as important such as the reinforcement of the European Instrument for Democracy and Human Rights, climate financing or the current DCI thematic programmes. **Increased flexibility of the geographic limits of EU instruments** is supported by a significant majority of respondents as a way to respond to interregional challenges.

A strong request is also to **simplify procedures for accessing EU funds** regarding the administration of calls for proposals.

A majority of respondents agree that **joint programming and co-financing with Member States** can increase the impact and the coherence of EU external action, simplify the delivery of aid and reduce overall transaction costs. Many respondents stress however that it should not imply heavier administrative requirements. A narrow majority approves the idea of anchoring joint programming and division of labour in a piece of EU legislation.

Co-financing with beneficiary countries is also supported by a majority of respondents (54%) as a way to enhance ownership and responsibility of partners. However, many express their opposition or reservations, depending on the modalities and conditions of co-financing, underlining that this approach should be tailored to the situation in each country, and that such co-financing requirements should not exclude EU development support to some countries. A majority of respondents support **joint cooperation with emerging donors** to exploit the comparative advantages of each partner and raise awareness on international commitments (such as the Millennium Development Goals, the Aid Effectiveness agenda or ODA criteria). However, several note that the scope and nature of triangular cooperation needs to be decided on a case by case basis and that it should not be compulsory.

Cooperation with international organisations and other bilateral assistance is perceived as useful by a vast majority of respondents, to increase legitimacy, quality of aid delivery, economies of scale and effectiveness, and exploit the comparative advantages of each actor. However, several also point to the administrative costs, the lengthy procedures and the lack of transparency that it can imply. The lack of guarantees on accountability on EU funding and of clarity on respective responsibilities is a matter of concern for many contributors.

Regarding **like-mindedness and conditionality**, there is wide support among respondents for exploring conditionality based on the beneficiary country's respect for human rights, minorities, good governance and diversity of cultural expressions (78%), or on the quality of its policies and of its ability and willingness to implement sound policies (63%). However, a majority of respondents is critical towards basing external cooperation on the EU's own interests.

A vast majority of respondents support a stronger focus on **monitoring and evaluations systems** in the future instruments and in projects/programmes implementation. To increase transparency and traceability of EU funds, many stakeholders ask the EU to make information available regarding aid flows/disbursements, and evaluation/impact of the current financial instruments. Rather than creating additional procedures, respondents support strengthening recipients' in-country accountability mechanisms, recognizing internal monitoring and evaluations by implementing partners, and increasing flexibility.

As concerns the means to enhance the **visibility of EU external funding**, a majority of stakeholders support increasing efforts for information and communication activities, in particular in beneficiary countries; however EU visibility appears to be better served by effective policies, strategies and presence in third countries, than by additional spending for communication. Several respondents link visibility to accountability towards EU taxpayers and beneficiaries. The ideas of reinforcing EU's coordinating role among other donors and of ensuring that implementing partners give more visibility to EU funding also obtain a strong support from stakeholders.

A stakeholders' consultation on the **future pre-accession financial instrument** beyond 2013 conducted in early 2011 confirmed support for continuity with the current instrument, but with simplified implementing rules, more flexibility and enhanced strategic orientation in the allocation of assistance and generalised multiannual programming.

The responses to the aforementioned consultation **did not suggest the need for a substantial change in the current structure of the existing instruments**.

Challenges ahead

The main challenge for EU external action policy will be to demonstrate that, despite the economic crisis and its budgetary consequences, the EU is able to play an active role in achieving the aforementioned strategic objectives for the EU external action in our immediate neighbourhood and worldwide, and is increasingly able to speak with one voice. The strategic objectives include promoting democracy, peace, solidarity, stability and prosperity, reducing poverty and supporting the objectives of the Europe 2020 agenda.

To meet that overall challenge, the EU has to **focus on its added value**. In a globalised world, the added value of a joined up EU external action is clearly established in comparison to our 27 member States acting on their own. The EU has a network of international agreements with partners and organizations all over the world, not matched by individual Member States, which gives to all of them influence in almost all fields of international relations. With 27 Member States acting within common policies and strategies, the EU alone has the critical weight to respond to global challenges, such as poverty reduction, climate change, managing migration and stability. The EU as a global player has a credibility and a neutrality which is unmatched by individual Member States when it comes to human rights, electoral observation, governance and crisis resolution, and neutrality and impartiality of the delivery of humanitarian assistance. The EU is also unique with its long term and predictable engagement in development assistance, coupled with a track record in supporting the populations most in need on a global scale. The EU is best placed to assist (potential) candidate countries to prepare for accession and to accompany neighbourhood countries' economies in aligning to EU rules and standards. Support for closer integration with our neighbours helps the EU to achieve its own objectives in a number of areas which are key to its own prosperity and security, as well as to economic recovery and sustainable growth, such as energy and network infrastructures, the protection of the environment and efforts to address climate change.

Secondly, the EU needs to **concentrate on results** and increase efficiency. To do so, there is a need for clear rationalisation of objectives, instruments and activities to achieve the maximum impact of each EU intervention with the available resources. In other words, this implies a more selective and strategic approach of our operational objectives.

As a consequence of the need to focus on value-added and results, EU policy priorities should concentrate on i) poverty reduction, and assistance to populations most in need following disasters, ii) stability and prosperity in our neighbourhood, iii) peace, security and crisis prevention and response, notably in most unstable countries, and iv) EU values (human rights and democracy, multilateral governance system).

Thirdly, there is a need for **improvement in the definition, coordination and flexibility of funding** in this area. A streamlined and flexible combination of Legislation - Coordination – Expenditure should be sought. In this respect, legislation should be enabling rather than prescriptive, funding should be sufficient, predictable and adaptable at the same time, and the main policy areas should be subject to important revisions to make them more effective. In development policy, improved coordination with Member States is one of the main objectives.

The proposed architecture of external spending should therefore be supported by strengthened strategic orientations and coherence of policies, notably: a long term political strategy, including security elements, supported by the newly established European External Action Service; a strengthened development policy framework embedding EU and Member States into shared approaches and processes; a renewed Neighbourhood Policy and a reinforced Enlargement Strategy.

At a time of budgetary restrictions, a more coordinated and integrated approach between the EU and its Member States through joint programming will bring about more added value, increased strength and legitimacy, and more impact and effectiveness.

Available policy choices

It is important to remind that a major rationalisation of the external actions and cooperation instruments already took place in 2006 and led to the drastic reduction of the existing instruments which were reduced from 35 to 10.

In this light, there would be three possible policy choices:

Option 1: **No change**

Under this option, the existing instruments would remain as such without any further rationalisation or introduction of flexibility measures. This option does not respond to the need to fill the legislative gap in dealing with certain countries, and does not respond to the challenges of globalisation. Also, the institutional changes, and its opportunities, brought by the Lisbon Treaty have to be factored in the design of the future instruments.

Option 2: **A major reshuffle of the structure of the existing instruments**

Under this option, the number of instruments would be radically reduced under the new MFF.

The number of instruments could be reduced to e.g. one or two regulations encompassing the different main policies (enlargement, neighbourhood, development, cooperation, humanitarian aid), regardless of their different objectives, principles and activities.

Option 3: Substantial modifications within the existing instruments to face new challenges and achieve the strategic objectives, without significantly changing the current structure, and the introduction of a new instrument (PI).

Under this option, a major reshuffle of instruments is not considered necessary in this area as major rationalisation was already achieved in 2006. Nevertheless, the instruments would be substantially amended based on the following key principles:

- The new instruments should aim for **strengthened conditionality** where appropriate in the allocation and disbursement of funds, which should be linked to progress implementing EU related reforms and effective compliance with commitments and EU values and principles. Respect for and promotion of ***human rights, democratic values and rule of law*** should underpin EU external action under the new instruments. Increased **flexibility** is a major deliverable for external action within the Heading but also inside each of the instruments, without prejudicing the predictability of the funding. There is a need to review the requirement for multi-annual programming in certain cases with flexible procedures (such as in fragile countries).

- **Differentiation** between categories of countries (e.g. emerging economies, low-income countries, etc)**, concentration** of funding to a number of countries (e.g. Sub-Saharan Africa, Neighbourhood countries) **and aid effectiveness** (e.g. ownership, mutual accountability, division of labour) are also proposed as major objectives of the reform. In this context, the legislative gap as regards the issue of ODA and non-ODA activities should be tackled.

- **Simplification** is foreseen by a clearer delineation and a reduction of the overlaps between the instruments, so as to identify them individually with clearly defined policy objectives. This would ensure better coherence and complementarity amongst the different instruments. Simplification of rules and procedures for the delivery of EU assistance should also be proposed, including in the context of the revision of the Financial Regulation.

- The new instruments reform foresees also a significant increase in the use of **innovative financial instruments** under all instruments (in particular through regional investment facilities), which should allow a greater share of grants to be blended with loans and used for equity and risk sharing instruments, so as to mobilise additional funding to cover the investment needs of partner countries.

Assessment of available options

Option 1 is not considered as suitable since it would not take into account the changing environment in the external action field. It would not bring the opportunity to review coherence between instruments, and it would not be either effective and efficient, in particular since seven regulations will expire by the end of 2013.

Option 2 would enhance simplification and harmonisation. However, this would eliminate the advantages of having policy-driven instruments ensuring the adequate mix of objective and principles relevant for each policy. After the reshuffle of 2007, the structure of the current instruments broadly reflects EU priorities as well as the differential treatment of countries according to common characteristics and challenges. These strategies have been confirmed by the Lisbon Treaty. It is therefore considered that overall coherence can be better ensured through an integrated political strategy, building on the existing structure rather than through an integrated instrument.

Moreover, consulted stakeholders and EU Member States consider that the current structure remains relevant and useful.

Option 3 is assessed as the best option. Under this option, the current structure of the instruments would remain largely unchanged. The main innovations for external action post-2013 would be to adapt thoroughly the existing methods of conceiving, programming and delivering external assistance. It appears therefore clearly as the preferred option.

Under option 3, the following structure could be proposed for a new heading on external action, which is organized around the following main chapters:

- A policy-based chapter, aimed primarily at cooperation with partner countries
- Promotion of democracy and human rights globally
- Solidarity with and assisting populations confronted by natural and man-made disasters
- Crisis prevention and management
- External action outside the budget

A. Working with the EU's external partners based on four broad policy priorities in direct application of the Treaty: neighbourhood, enlargement, development, and cooperation for the promotion of EU interests.

Revision of the existing Instrument for Pre-accession Assistance (IPA) to candidate and potential candidate countries

Following the large restructuring of 2006, continuation is needed to consolidate policies and structures put in place in the current financial framework. The aim will be to ensure that candidate countries and potential candidates are fully prepared for eventual accession, including through encouraging them to integrate Europe 2020 objectives into their national priorities. Emphasis will be put on socio-economic development, on regional cooperation, on adopting and implementing the acquis, and on preparing for managing internal policies upon accession.

This **renewed programme for enlargement countries** will be based on the premise that it is preferable to maintain **one single integrated pre-accession instrument** as the financial pillar of the Enlargement Strategy that encompasses all dimensions of internal policies and thematic issues, to be implemented through national/multi-beneficiary programmes agreed with the beneficiaries. With regard to the other external action instruments, thematic issues should be addressed in a comprehensive manner by the new pre-accession instrument and therefore thematic external action instruments would in principle not apply in the enlargement area (except where the nature of the action would warrant a thematic approach, such as or nuclear safety or supplementary actions in the area of human rights). In addition, political and financial crisis-related instruments (Macro Financial Assistance, Instrument for Security), if maintained, would continue to apply to Enlargement countries, when needed.

The instrument will keep a strong focus on meeting the accession criteria, preparing for management of Structural, Cohesion, Agriculture and Rural Development funds after accession, and achieving tangible socio-economic impacts in the beneficiary countries. Support to public investment will help accession countries meet some especially urgent needs, while raising the profile of EU assistance. In addition, more use will be made of innovative financing arrangements set up with the International

Financial Institutions, where IPA funds act as a catalyst for leveraging loans from IFIs for investment in infrastructure in the region. A continuation in funding and focus will be coupled with an attempt to simplify and streamline the instrument to make it more efficient. Efforts will focus on further strengthening the link between the enlargement negotiation framework, speeding up the delivery of assistance and policy based results, and on streamlining the management structure of the instrument. Strategic planning will be further aligned to innovations under the structural and regional development funds, by introducing similar strategic documents per beneficiary as well as a strategic framework for the enlargement assistance. In line with the 'more-for-more' principle, there would be more flexibility in the allocation of the assistance, with the possibility to reward progress with additional funds drawn from a 'performance reserve' constituted at the level of the instrument, and shift allocations among policy objectives in case of insufficient performance, based on pre-defined criteria.

Revision of the existing European Neighbourhood and Partnership Instrument (ENPI)

The Strategic Review of the ENP has established a number of specific objectives in the areas of political dialogue, human rights and good governance; economic integration and sectoral policies; economic, social and territorial cohesion and rural development; mobility and security, civil society; public diplomacy and conflict prevention and resolution. With 29 thematic areas of cooperation, the scope of the current ENPI regulation is broad enough to allow for a wide range of interventions and some degree of customisation per country based on our partners' needs. However, this sometimes leads to a dispersion of efforts and a fragmentation of aid. More prioritisation and streamlining would facilitate better coherence between assistance and political ambitions in key fields.

The new European Neighbourhood Instrument (ENI) will be the financial instrument designed to support these objectives. It will provide the bulk of financial support to partner countries in the Neighbourhood, essentially through bilateral and regional programmes. It should be increasingly policy-driven, focused on jointly agreed priorities in view of deeper economic integration and enhanced political cooperation with the EU, and provide incentives for best performers. The Communication on the ENP Strategic Review has provided further specific orientations. Russia will remain eligible to the cross-border and regional cooperation envelopes of the instrument, while its bilateral actions will fall under the new Partnership Instrument.

Cross-Border Cooperation under the ENI should continue to be co-financed by the new instrument and the European Regional Development Fund (ERDF). It should be strengthened and simplified. Specific components modelled on the EU cohesion and rural development policies should be included. Building on the successful example of the ENPI Cross-Border Cooperation, co-financing actions for the mutual benefit of the EU and neighbours by pooling funding from internal and external headings of the EU budget should be applied more systematically.

Revision of the existing Development Cooperation Instrument (DCI)

Ensuring fight against poverty and reaching the MDGs will be served by the **Development Cooperation Instrument (DCI)**. The objectives of the DCI will be very much aligned with the 11th European Development Fund (EDF) that shall cover the development cooperation with Sub-Sahara African, Caribbean and Pacific countries and that shall continue to be out of the EU budget for the next MFF. There will be a requirement that expenditure under the DCI instrument is classified as ODA, and it will be organized around three strands:

i) the geographic cooperation will focus on poverty reduction and it will cover all developing countries outside those in the Neighbourhood and the ACP. As a matter of policy choice grant aid will no longer be offered to the wealthier developing countries, leaving enhanced resources for those countries which need it most;

ii) a thematic envelope for global public goods and challenges will aim at mainstreaming the projection of EU policies into development cooperation and into our cooperation with neighbouring countries, while increasing flexibility across themes and targeting clearly the main global goods and challenges (notably climate change, energy, human development, food security, migration);

iii) an envelope for non state actors and local authorities will aim at empowering civil society actors to take part in development strategies and processes.

The DCI will also comprise a pan-African financial mechanism foreseen in the Joint Strategy adopted at the EU-Africa summit in Lisbon in 2007.

A new Partnership Instrument (PI) [succeeding the Instrument for Cooperation with Industrialised Countries]

It is proposed to build on the ICI/ICI+ to table **a new Partnership Instrument** with a global reach. This allows for a clear distinction with Development cooperation money and it respects the Commission's approach to bring more coherence and consistency through a major simplification of the instruments.

The primary objective of the **new Partnership Instrument** will be to advance and promote EU and mutual interests on a global reach. This new programme will support cooperation with all third countries (non-developing and developing) with a specific focus on strategic partners/emerging economies. This will allow the EU to initiate actions to support the projection of EU policies abroad, finance public diplomacy activities and networks, and to conduct policy discussions and joint activities with individual partner countries. It would be the main vehicle for new relationships with emerging countries and Russia. There would be no mandatory classification of expenditure as ODA, although this should remain possible. The external projection of internal policies will be fully integrated in the programming of the PI. Coherence and complementarity with the DCI regulation, where necessary, would be tackled through the programming and according to the principles of differentiation and concentration.

B. Promoting Democracy and Human Rights globally

Revision of the existing European Instrument for Democracy and Human Rights (EIDHR)

The European Instrument for Democracy and Human Rights (EIDHR) will be focused on two main strands of action: i) Strengthening the development of thriving civil societies and their specific role in support of human rights protection and the promotion of democracy; this will include a reinforced capacity for the EU to react promptly to human rights urgencies (i.e. support to human rights defenders) as well as the need for speedier, more flexible delivery mechanisms. ii) Funding of EU election observation missions and connected support for improving electoral processes.

C. Solidarity with and assisting populations confronted by natural and man-made disasters

Humanitarian Assistance and Civil Protection will be strengthened and continue to follow a needs and principles-based approach.

Humanitarian Aid

EU **Humanitarian Aid** will be strengthened and will continue to provide an adequate response to natural and man-made disasters, based on the international humanitarian principles, and through use of specialised organizations. Due to the rise in natural and man-made disasters, compounded by population pressures and increased climatic instability, the importance of, and need for, humanitarian assistance for the most vulnerable worldwide will further increase. This requires an adequate allocation of budgetary resources.

The procedures for rapid mobilisation of humanitarian aid will be further streamlined allowing quicker response to sudden onset emergencies. The administrative burden on humanitarian actors will be further eased through the simplification of procedures and controls, as requested by all stakeholders. Humanitarian procedures, already highly standardised, are based on partnership agreements and supported by systems to assure efficient communication between the Commission and its implementing partners. A flat-rate approach is already used to cover indirect cost and this form of financial simplification and by making use of lump sums could, where appropriate, reduce administrative cost and the risk of errors.

Revision of the existing Civil Protection Financial Instrument

As proposed by the Commission Communication of 26 October 2010 and endorsed by the Council on 14 December 2010 the revised **Civil Protection Mechanism** will respond to natural and man-made disasters in third countries through increased coordination of civil protection agencies of EU Member States. The revised financial instrument will further strengthen and enhance the EU's disaster response capacity through a shift to predictable and pre-planned systems to make the EU's disaster response more effective, efficient, coherent and visible. This will be done by a more comprehensive collection of real-time information on disasters, an improved mapping of Member States' Civil protection assets and a coordinated approach in facilitating the rapid deployment staff and material to the disaster area.. A single legal instrument will cover actions within and outside the EU and will be funded through the external action heading and an internal policies heading.

Renewal of the Civil Protection Financial Instrument will take into account the results of the evaluation and proposals of civil protection stakeholders (e.g. national, regional and local civil protection authorities, NGOs active in this area), on how to simplify procedures used under the current Instrument and will aim at simplifying administrative procedures, especially in the area of grants, taking into account the principles of transparency and equal treatment. The options being assessed relate rather to the type of operations to be supported – training, exercises related to emergencies, transport support for Member States in time of an emergency, cooperation projects on prevention and preparedness for disasters

D. Crisis prevention and management

Crisis management and prevention will be focused on political and financial crisis.

Revision of the existing Instrument for Stability (IfS)

The future **Instrument for Stability (IfS)** should be equipped with an enlarged short term capacity to address crisis situations, including major natural disasters - to the extent that an adequate and effective response cannot be provided under "other" instruments -, focusing on conflict prevention, peace building and state building and using highly flexible procedures. It shall allow for a window to finance EU capacity building in crisis preparedness. Consideration will be given to enhancing synergy with EIDHR. Its long term capacity will address global and trans-regional threats such as proliferation of weapons of mass destruction, fight against terrorism and organized crimes, prevention of illicit trafficking, etc.

The respective geographical instruments should be the default instruments to fulfil the bridging role following humanitarian actions of linking relief, rehabilitation and development (LRRD). More flexible provisions should be inserted in these instruments for that purpose. It has been agreed that the main source of funding for these type of actions should come from the geographical development cooperation instruments and IfS should only intervene in this area whenever these instruments cannot be mobilised (EDF, DCI, ENPI, IPA) to provide an efficient response (as it is also the case for IfS interventions on politically motivated crisis).

Provisions have also to be foreseen for long term measures addressing pre and post crisis capacity building to strengthen the capacity of international, regional and sub-regional organisations, state and non-state actors. This relates to promoting early warning, confidence-building, mediation and reconciliation, addressing emerging inter-community tensions, and improving post-conflict and post-disaster recovery.

The Instrument should also enable the EU to properly address the above-mentioned global security threats and risks, for which it is essential to support actions which take place across regions, in any kind of country, i.e., fragile, developing, emerging, in transition, industrialised, candidate or potential candidate country. In addition to this worldwide scope, the instrument should not be bound to ODA-eligibility criteria, which would reduce the EU's ability to effectively tackle the security and development nexus.

Considering that many trans-regional threats and risks are also top EU external security priorities, the instrument would also contribute to the implementation of the European Security Strategy (2003, rev. 2008) and to addressing the "external dimension" of the EU's Internal Security Strategy (2010), which are key EU objectives.

Revision of the existing Macro-Financial Assistance (MFA).

Macro-Financial Assistance (MFA) addresses short term financing needs of countries undergoing stabilization and adjustment programmes. Operation of MFA will be made more effective through the streamlining of the decision-making process, i.e. the replacement of ad hoc legislative decisions by decisions by the Commission under the control of a Member States' committee. To that effect, the Commission will propose a Framework Regulation establishing the new rules for the MFA. This new Framework Regulation will also consolidate in a formal legal instrument the rules guiding MFA operations, defined until now in Council conclusions (the so-called Genval principles).

Revision of the existing Instrument for Nuclear Safety Cooperation (INSC)

The objective is to promote an effective nuclear safety culture at all levels, radiation protection and the application of efficient and effective safeguards of nuclear material in third countries through the **Instrument for Nuclear Safety Cooperation** (INSC). This will be achieved particularly through the establishment of independent and sustainable regulatory bodies and technical support organisations and the reinforcement of the regulatory framework, the safe management of radioactive waste and spent nuclear fuel, the development of strategies for decommissioning and site remediation, the effective implementation of nuclear safeguards and the promotion of international cooperation.

The recent accident in Japan at the Fukushima Daiichi nuclear power plant stressed again the need to reinforce nuclear safety culture also at the operational level through transfer of best practices all around the nuclear operator sector and through the International Atomic Energy Agency (IAEA).

Common Foreign and Security Policy

The **Common Foreign and Security Policy** budget will continue to support actions without military and defence implications.

In pursuit of a comprehensive approach to EU's external action, CFSP operations are closely linked to interventions financed from the Instrument for Stability and other Union instruments addressing the lack of institutional development and poverty as root causes of conflicts.

E. Outside the EU budget

An 11th European Development Fund (EDF) would be proposed, to replace the existing 10th EDF for the period 2014-2020. It would cover assistance to ACP countries as well as OCTs.

20. ANNEX 1 LIST OF PUBLIC CONSULTATIONS

Policy area	Consultation	Date of consultation
Budget	Public consultation paper in view of the 2008/2009 budget review (SEC (2007) 1188)	12 September 2007 - 15 April 2008
Social, Economic and Territorial Cohesion	Public consultation on the Conclusions of the Fifth Report on Economic, Social and Territorial Cohesion (COM (2010) 642)	12 November 2010 – 31 January 2011
Consumer Affairs	Alternative Dispute Resolution as a means to resolve disputes related to commercial transactions and practices in the European Union	18 January 2011 – 15 March 2011
Environment	Consultation on Future EU co-financing of Natura 2000	26 November 2010 – 17 February 2011
Environment / Climate Action	Consultation on a future EU financial instrument for the environment (continuation of LIFE+)	30 November 2010 – 15 February 2011
Agriculture and Rural Development	Consultation for the Impact Assessment on the "Common Agricultural Policy towards 2020" proposals	30 November 2010 – 25 January 2011
Fisheries	Green Paper on the Reform of the Common Fisheries Policy (COM (2009) 163)	22 April 2009 – 31 December 2009
Education	Public Consultation on the future European programme on education and training (Lifelong Learning Programme)	15 September 2010 – 30 November 2010
Youth	Public consultation on the future European youth programme	15 September 2010 – 30 November 2010
Higher Education and Training	Public consultation on the future EU programme for international cooperation in higher education and human capital development	15 September 2010 – 30 November 2010
Audiovisual	Public Consultation on a future European Union MEDIA Programme	24 September 2010 - 30 November 2010
Audiovisual	Consultation on a future EU MEDIA Mundus programme	7 March 2011 – 29 May 2011
Culture	Consultation on a future EU Culture programme	15 September 2010 – 15 December 2010
Development	Green Paper: EU development policy in support of inclusive growth and sustainable development - Increasing the impact of EU development policy (COM (2010) 629)	15 November 2010 – 17 January 2011
Development	Green Paper: The future of EU budget support to third countries (COM (2010) 586)	19 October 2010 - 31 January 2011
External Relations	Public Consultation: What funding for EU external action after 2013?	29 November 2010 – 31 January 2011
Economic and Financial Affairs	Stakeholder consultation on the Europe 2020 Project Bond Initiative	28 February 2011 – 2 May 2011
Enterprise / Innovation	Public consultation on a possible successor to the Competitiveness and Innovation Framework Programme (CIP)	11 November 2010 - 11 February 2011
Research / Innovation	Green Paper: From Challenges to Opportunities: Towards a Common Strategic Framework for EU Research and Innovation funding (COM (2011) 48)	9 February 2011 – 20 May 2011
Employment and social solidarity	Public consultation on a possible successor instrument to the EU programme for employment and social solidarity – Progress 2007-2013	4 April 2011 – 27 May 2011
Energy	The external dimension of the EU energy policy	21 December 2010 – 7 March 2011

Home Affairs	Public consultation on EU funding in the area of home affairs after 2013	5 January 2011 – 20 March 2011
Justice	Public consultation on future funding activities in the area of Justice, Fundamental Rights and Equality for the period after 2013	20 April 2011 – 20 June 2011
Transport	Consultation on the future trans-European transport network (COM (2010) 212)	4 May 2010 – 15 September 2010
Energy	Green Paper: Towards a Secure, Sustainable and Competitive European Energy Network (COM (2008) 782	13 November 2008 – 31 March 2009

21. ANNEX 2 INFORMATION ON EVALUATIONS

The European Commission publishes information on evaluations carried out on a publicly accessible website:

http://ec.europa.eu/dgs/secretariat_general/evaluation/evaluations_reports_2010_en.htm

In addition, the more specific work that has been undertaken by the Commission services can be accessed at:

Research and Innovation

Research

http://ec.europa.eu/research/evaluations/index_en.cfm

Competitiveness and Innovation Framework Programme (CIP)

http://ec.europa.eu/cip/documents/implementation-reports/index_en.htm

ICT

http://ec.europa.eu/dgs/information_society/evaluation/studies/index_en.htm

Cohesion

http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evaluation_en.htm

Infrastructure Facility

Energy

http://ec.europa.eu/energy/evaluations/annual_en.htm

Transport

http://ec.europa.eu/transport/evaluations/research_en.htm

Social Policy

http://ec.europa.eu/social/main.jsp?catId=701&langId=en

Agriculture

http://ec.europa.eu/agriculture/eval/index_en.htm#rep

Fisheries

http://ec.europa.eu/fisheries/documentation/studies/index_en.htm

Environment and Climate Action

http://ec.europa.eu/environment/life/publications/lifepublications/evaluation/index.htm

Home Affairs

http://ec.europa.eu/justice/funding/jpen/funding_jpen_en.htm

Justice

http://ec.europa.eu/justice/funding/jpen/funding_jpen_en.htm

Health Policy

http://ec.europa.eu/dgs/health_consumer/funding/grants_en.htm

Consumer Policy

http://ec.europa.eu/consumers/strategy/index_en.htm#bkg_docs

Culture

http://ec.europa.eu/culture/key-documents/doc539_en.htm

Education and Training

http://ec.europa.eu/education/more-information/moreinformation139_en.htm

Competitiveness / SMEs

http://ec.europa.eu/cip/files/docs/final_report_eip_interim_evaluation_04_2009_en.pdf.

http://ec.europa.eu/cip/files/docs/interim_evaluation_report_march2010_en.pdf.

Global Europe

http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/index_en.htm