Record of Discussion in Sofia on Third Semester Reports of the Balance of Competences Review – EU Budget, Agriculture, Cohesion and Competition - 19 December 2013

Setting The Budget

1. In terms of the length of the EU budget, participants felt that the increased administrative burden associated with a shorter budget period would be undesirable. Not least since they considered the administrative costs involved already to be high (particularly when the costs of domestic authorities were also taken into account) and were keen to see further reductions in these overheads. Whilst seven years was therefore felt to be about right, there was nevertheless a desire for more flexibility from one year to another to aid project implementation for example.

Spending The Budget

2. Achieving consensus on the priorities for the budget was critical, but once agreed at the strategic level, participants felt there was also a case for some flexibility on how this was then spent at national level to take better account of the specific requirements of Member States. The example was given of the EU approving infrastructure spend that prioritised railways, which would not be in Bulgaria's best interests since there was a greater need to improve the road rather than railway network in the country. The Bulgarian Chamber of Commerce and Industry (BCCI) thought that one of the problems in EU fund management in Bulgaria was the inconsistency between some of the stated priorities and allocation of resources. The major problem being that vast resources were being spent, both from the national and EU budget, without delivering real results. The most painful example of this was the lack of e-government.

3. There was also doubt over whether the budget was being spent on the most valuable areas. For example, IME had undertaken analysis of the **Common Agricultural Policy (CAP)** that concluded EU subsidies had damaged the Bulgarian agricultural sector, particularly areas such as cattle and fruit farming which tended to be over-looked in favour of supporting cereal crops. This had led to desolation of some rural areas with implications for the labour market too. IME therefore believed that in the long term it would be in Bulgaria's interests if CAP was removed, but welcomed the recent budget agreement in this area as a step in the right direction. In the meantime they had suggested to the Bulgarian Government that it should consider using the flexibility available to disburse subsidies against more competitive principles, with an increased focus on development programmes. Currently the subsidies went to large producers which undermined the objective of supporting income since they already tended to be well-off, and also impacted on competition. The BCCI believed that the unequal treatment of Bulgarian farmers compared to wider EU farmers had also done further harm to Bulgarian agriculture. Whilst EU subsidies for agriculture could be gradually reduced and removed, they believed this should not happen all at once.

4. There was agreement that **encouraging growth and competitiveness were important priorities for the EU**, but concern that interventions were not being implemented in the right way. An excessive focus on process/ paperwork at the expense of the results on the ground was a key complaint that could undermine these efforts. A survey of Small and Medium Enterprises (SMEs) conducted by the BCCI showed that they universally found the levels of paperwork burdensome and

also difficult to digest. In some cases SMEs said they would be deterred from applying for future EU funding as a result. This was particularly true in relation to funding directed at improving competitiveness. The long delays between submitting a bid and actually receiving approval from the competition fund had a negative impact on businesses and on their ability to take forward innovative proposals, which were not necessarily cutting edge by the time funding was received. Delays in innovation projects could sometimes be up to two years which had a critical impact on their viability, since it could undermine their realisation depending on the nature of the innovation, their dynamics and rapidly changing technologies involved.

5. BCCI identified the high threshold for required turnover set as a condition for participating in projects as another significant obstacle for Bulgarian SMEs. Whilst this simplified the activity of administration by resulting in the assessment of fewer projects, in reality it meant the access of SMEs to EU projects was restricted, with newly established SMEs largely denied the opportunity to apply at all. Ultimately this had the effect of reducing their competitiveness and leading to an overall deterioration of the competitive environment. BCCI suggested that a potential solution to this problem could be the greater involvement of NGOs in the process, based on a public-private partnership model, which would help avoid additional costs for the administration. They believed that this would result in improved efficiency of the management and implementation of projects. Similarly that co-operation between the Bulgarian government and the NGO sector was particularly important for successful communication campaigns, since the lack of information was another issue for SMEs besides the other problems already identified.

6. The risk that Bulgaria was overly focused on receiving EU funds at the expense of promoting domestic revenue generation was discussed, in the context of revenue from EU funds accounting for around 9% of all domestic revenues, but with approximately 60% of Bulgaria's state capital expenditure being financed by EU funds. Whilst this might plug short-term holes in the domestic spending, in the long term it was considered likely to aggravate the problem. It was important to build Bulgarian's institutions (eg. a focus on the rule of law and justice system) in parallel as otherwise society would not benefit. Participants stated that the competitive programme was the only intervention aimed directly at business in Bulgaria, but that this was considered to be a failed project due to the flaws in its design, which took little account of business needs and interests. The remainder of EU funds in Bulgaria essentially went towards the general business of government.

6. In relation to **Cohesion** spending, there was some support for the idea of conditionality to provide a mix of 'the carrot and the stick'. This should extend further than just producing a strategy since the performance of Member States (such as Bulgaria) in actually successfully implementing these strategies was mixed. Hence conditionality should also be tied to specific indicators and benchmarks. Participants recognised the potential tension between advocating this approach and earlier comments about the need to reduce excessive bureaucracy, but felt that a more targeted approach tied to specific outputs would enable a reduction in paperwork in other areas that added less value (for example, pointless photocopying of multiple documents). More meaningful targets at the strategic level could help reduce the excessive requirements at the micro level. Countries should then feel the consequences of failing to meet agreed conditions / benchmarks in terms of funding as this would help incentive performance.

7. Participants highlighted that since situations change over time, it was desirable that there was the flexibility to take account of this within an agreed envelope when spending the budget. This was particularly true in regard to absorption rates, where it would be useful to re-allocate under-spend in some areas towards key projects (eg. infrastructure builds) to allow them to continue rather than having to freeze / delay progress due to a lack of funds. This might also avoid the problem of programmes spending on interventions that are not actually needed or are unlikely to deliver high returns just to ensure that money is being spent within the correct timeframe. An example was given of some human development programmes where spending at the micro level was ineffective.

Running the Budget

7. On the question of fraud, the fact that comparatively only very small levels were uncovered in EU programmes meant that the attendees did not believe this was a significant issue. The perception was that financial management systems must therefore be fairly robust.

8. There was no support for introducing differentiated systems between the Euro area and non-Euro area Member States on the basis that this would introduce further complexity into an already technical area. Such a proposal would therefore be likely to introduce more administration and hence greater costs, where the focus needed to be on reducing administrative overheads.

Participants

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[NB. This note also incorporates some material and views subsequently discussed with participants as part of agreeing the record.]