**Ladislav Balko, Member**

**“Past Evidence, Current Experience and Future Perspectives”**

**EU Cohesion Policy Conference - Bratislava, 15 September 2016**

Dear Mr Chairman, Dear fellow panellists, Ladies and Gentlemen,

I am honoured to take part in this first panel discussion on the performance and result orientation of the European Structural and Investment Funds. I will be drawing on my experience as a Member of the European Court of Auditors (the Court) where I currently deal mainly with the EU spending on Cohesion.

The Court is the EU’s independent external auditor, checking that EU funds are correctly accounted for, raised and spent in accordance with the rules and achieve value for money in accordance with the principles of economy, effectiveness and efficiency, or – taken together – sound financial management. In view of our increased focus on performance, since the financial year 2010, our Annual Report includes besides information on regularity and compliance also a chapter on performance. Also expenditure which is legal and regular may bring little or no value due to its failure to achieve the intended objectives. Objectives must be defined in a way that allows measuring their achievement, using SMAR T criteria, i.e. Specific, Measurable, Achievable, Relevant and Timed. ‘Achievability’ needs to strike the right balance between ambition and realism, i.e. the criteria need to be sufficiently challenging.

In 2014 and 2015 – the first two years of the Multiannual Financial Framework 2014-2020 – the vast majority of the EU Cohesion spending were interim payments to Operational Programmes of the 2007-2013 programme period. Therefore, despite the greater focus on results and performance under the Cohesion policy regulations for the current 2014-2020 programme period, which is also acknowledged in the background paper of the Slovak Presidency for this conference, the Court is not yet in possession of information as to whether the various modifications, as being actually implemented, indeed help reduce error rates or improve performance. Nevertheless, I will share with you some of the Court’s findings concerning performance which are of relevance also for the EU Cohesion spending.

Already in the performance chapter of the 2012 Annual Report, the Court concluded that for many areas the EU legislative framework was complex and there was lack of focus on performance. We also noted that the legislative proposals for the new 2014-2020 programme period risked remaining fundamentally input-based (and thus expenditure oriented) and therefore focused on compliance rather than performance. In the 2013 Annual Report, the Court pointed to the problem that, for Member States, the ‘use it or lose it’ syndrome means that spending the available EU funds can become of overriding importance when they select projects for funding. In the 2014 Annual Report, we found that there was a weak focus on results in the five partnership agreements we examined: while all five did identify results, in three of them over half of the expected results were vague.

In the performance chapters of both the 2013 and 2014 Annual Reports we dealt extensively also with the mandatory performance reserve which is the main incentive for Member States to focus on performance in 2014-2020. The Court points to the risks or design flaws of the performance reserve: if programme priorities fail to reach the relevant milestones, the funding represented by the reserve is not lost to the Member State but can be reallocated to other priorities that have reached their milestones, which weakens the incentive effect. Moreover, the financial sanctions open to the Commission — suspension of payments or financial corrections — cannot be based on result indicators. The Court’s Special Reports have generally not revealed significant problems with outputs (i.e. the deliverables of a programme). Difficulties occur at the level of results (i.e. the immediate effects of a programme on direct addressees) and impacts (long-term changes in society that are, at least partly, attributable to the EU’s action). Furthermore, the Commission’s ability to impose financial corrections where targets have not been achieved is limited by a number of conditions and exceptions. The impact of the introduction of the performance reserve is therefore likely to be marginal as there are still no real financial incentives or sanctions in the 2014-2020 framework relating to the results achieved with the EU funding, and despite the introduction of the reserve there is a risk of a reversion to the focus from performance to absorption.

Further related concepts important in terms of securing the best performance from the EU funds are ‘EU added value’ and ‘deadweight’. In our Briefing paper: Mid-term review of the MFF 2014-2020 we stated that making funds available does not add per se EU added value, and that the latter entails three main conditions: need of public intervention, cost-effectiveness of budgetary measures compared to non-budgetary measures and demonstration that EU level spending can secure better results than national budgets alone. The Court’s audits found that genuine EU added value was often difficult to identify, particularly in the context of shared management where most of the budget is spent. The risk is that EU funding is used as a substitute for national funds, thereby releasing national resources for use elsewhere. A linked concept, negatively affecting EU added value, is deadweight, which refers to the extent to which a beneficiary would have undertaken the project even in the absence of the EU support. Our audits noted projects which were authorised, or even completed, before the EU funding had been approved; this is a strong indication of deadweight. We found examples of deadweight in our Special Reports on the SME Guarantee Facility, on the 7th Framework Programme for Research, on the Marco Polo programme to shift freight traffic off the road and on Cohesion policy funds support to renewable energy generation.

Further relevant issues are needs assessment and proper project selection. We reported poor project selection in our Special Report on EU-funded airport infrastructure. Additionally, our audit on Seaport infrastructures found several completely empty ports in 2011, as well as ports which were not connected to their hinterlands, highlighting that there was no need for some of the projects funded and an urge to spend money so as not to lose it.

Finally, in a new product – the Landscape review on the risks to the financial management of the EU budget from November 2014, we stated that lack of information on what had actually been achieved by funding can be one of the reasons behind poor value for money.

Ladies and Gentlemen, next to the horizontal performance chapter, our Annual Report 2014 for the first time contained performance related information also in two vertical spending chapters, namely Chapter 6 on “Economic, social and territorial cohesion” and Chapter 7 on “Natural Resources”, in the form of a pilot exercise assessing performance of projects completed by year end. In Chapter 6, our pilot review has shown that performance-based funding arrangements are an exception rather than the rule: in most cases, failure to achieve project objectives agreed in grant agreements had no impact on the level of EU funding received. In Chapter 7 on “Natural resources”, we also tested whether there was a focus on job creation in Rural Development projects.

We repeated this performance review in these two chapters also in the 2015 Annual Report which will be published soon – on 13 October. Our analysis was broader than in 2014 because we did not focus only on outputs of projects but also on whether indicators have been set at project level for results with a view to measuring their contribution to the objective of the respective OPs. Given that for the current 2014-2020 programme period there is no legal requirement in the Common Provisions Regulation for Member States to define result indicators at project level, the possibility and opportunity for establishing such a legal requirement could be one of the options to explore when designing the post-2020 framework.

I would also like to draw your attention to an interesting article in this month’s issue of the Court’s Journal, available on our website, which outlines further ways of possible improvements of the value for money implemented through the EU budget. One of them is the suggestion for an increased use of repayable instruments (e.g. loans and guarantees), with fewer grants which are often perceived by the beneficiaries as ‘free money’. The article concludes that as long as EU budget disbursements remain largely disconnected from results and no active efforts are made to implement real incentives for effective spending and sanctions based on negative performance (such as empty and unused infrastructures), positive results will remain just a ‘noble aim’ of the EU budget.

Mr Chair, Ladies and Gentlemen, I would conclude that, in order to ensure achievement of real benefits of EU funding for citizens, we must further enhance the performance focus and culture at all levels of management.

Thank you very much for your attention.