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Research Briefing
European integration

Not quite fit for purpose

Conditionality under the EU's financial framework for 2014 to 2020

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The distribution of funding under the European Union (EU) financial framework for the period 2014 to 2020 has been approved by European heads of government and heads of state. However, the European Parliament has yet to approve the necessary instruments by adopting the pertinent regulations.

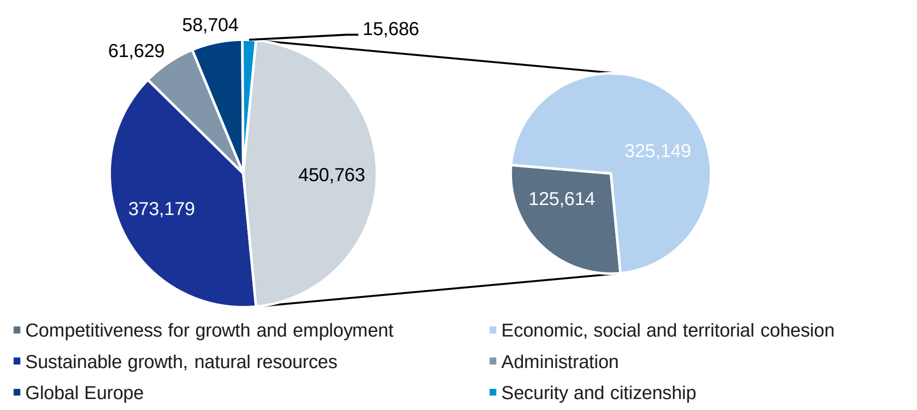
The Common Strategic Framework (CSF) is intended to guarantee conditionality in the allocation of funds. However, the three instruments used – ex-ante conditionality, macroeconomic conditionality and the performance reserve – are less than convincing as effective incentives because they involve considerable time lags and offer little potential for sanctions.

As it is currently constituted, conditionality under the CSF is only partially fit for purpose as a means of creating the right conditions for growth. It would be better to leverage CSF conditionality by linking it to the European Stability Mechanism (ESM), the Fiscal Compact, and future instruments of economic policy coordination. Not only the disbursement of CSF funds but also a degree of leeway as to how this funding is used could create additional incentives in the form of positive conditionality.

The European Parliament's role during the current legislative process should not merely be to discuss amounts and timetables but also to strengthen aspects of conditionality. However, conditionality mechanisms can only ever be as good as the policies that are imposing them. The Commission and the member states are still responsible for ensuring that these policies are effective.

Multiannual Financial Framework for the period 2014-2020

EUR m



Sources: European Council, DB Research

Conditionality under the EU's financial framework for 2014 to 2020

What's what? 1

Commitment appropriations impose a ceiling on the obligations entered into by the European Union in respect of potential payments. However, these undertakings are not fully utilised because not all projects are completed within the Multiannual Financial Framework.

Payment appropriations are the funds that are actually disbursed. They are covered by the decision on the EU's own resources.

On February 8 the heads of government and heads of state of the 27 EU members states agreed on a common Multiannual Financial Framework (MFF) for the period 2014 to 2020. This financial framework

— sets an upper limit (ceiling) within which funds are disbursed under seven annual European budgets,

— places ceilings on individual budget items and specifies the way in which funding is distributed over the seven budget years.

In conjunction with the decision on the EU's own resources – which was negotiated in parallel for a period of seven years – the MFF provides the basis for the multiannual spending programmes in respect of funds from the EU's budget.

The expenditure ceiling amounts to EUR 959,988 m for so-called 'commitment appropriations' and EUR 908,400 m for actual disbursements ('payment appropriations'). Only the payments themselves are actually covered by the decision on the EU's own resources. The total amount of the financial framework is lower than the figure proposed by the Commission last autumn. The table below shows that although the budget item 'Competitiveness for growth and employment' (1a) has increased compared with the financial framework for 2007 to 2013 (with the *Connecting Europe* facility, which is intended to fund infrastructure projects, being especially important), the item 'Economic, social and territorial cohesion' (1b) has been cut by around 10%; consequently, these two items together – which have been aggregated as the item 'Smart and inclusive growth' – have not gained in importance overall.[1]

Multiannual Financial Framework for 2014 to 2020: Only minor changes 2

	MFF 2007-2013 (EUR m)	Commission proposal, July 2012 (EUR m)	van Rompuy proposal, November 2012 (EUR m)	European Council compromise (EUR m)	Difference between MFF 2007-2013 and compromise (%)	Difference between van Rompuy and compromise (%)
1a: Competitiveness for growth and employment	91,495	164,068	139,543	125,614	38	-11
1b: Economic, social and territorial cohesion	354	338,994	320,148	325,149	-10	-1.5
2: Sustainable growth: natural resources	420,682	389,972	372,229	373,179	-12	1
3: Security and citizenship	12,366	18,809	16,685	15,686	27	-6
4: Global Europe	58,362	72,450	60,667	58,704	0	-4
5: Administration	56,508	63,165	62,629	61,629	10	-2

Source: Euractiv

The allocation of funding under the MFF for the period 2014 to 2020, which has been approved by the European Council, will not bring about any major changes compared with previous financial frameworks. Agricultural and cohesion policy are still the largest spending items. The EU has missed an opportunity to totally recast its remit and spending priorities in a way that improves efficiency. This is partly because all member states regard the EU budget primarily as a means of redistributing resources and defending vested interests and, consequently, allow no more than incremental progress to be made in other areas – for example in terms of the quality of instruments used or the application of funds under the various expenditure categories.

The allocation of these funds is not expected to produce significant growth stimulus. Those concerned are therefore pinning their hopes on the relevant funding instruments being developed and refined in such a way that they can use conditionality to create the right political conditions for growth. These

[1] A meeting last autumn chaired by Council President Herman van Rompuy proposed a draft budget that would include an even larger increase in the item 'Competitiveness for growth and employment'. However, this key funding proposal was rejected by the European Council during its negotiations on the MFF.

MFF legislative package 2014-2020 3

The overall legislative package consists of

— the MFF regulation, which specifies the expenditure ceilings for each budget item;
— regulations concerning the decision on the EU's own resources;
— and 70 other sector-specific regulations that specify expenditure policy in individual political spheres, including
  — a common provisions regulation, which is intended to improve coordination of the EU's various funds;
  — three separate regulations for the ERDF, the ESF and the Cohesion Fund;
  — two regulations concerning the objective of 'European territorial cooperation' and the European Grouping of Territorial Cooperation;
— two regulations concerning the European Globalisation Adjustment Fund (EGF) and the Programme for Social Change and Innovation (PSCI);
— a communication concerning the European Union Solidarity Fund (EUSF).

An example of ex-ante conditionality 4

The first of eleven thematic objectives under the CSF is to strengthen research, technological development and innovation. This priority is operationalised for the purposes of ex-ante conditionality by the application of objectives, conditions and performance criteria.

Objective: strengthen research, technological development and innovation.

Condition: mobilise private and public expenditure on research and innovation by pursuing national and regional innovation strategies.

Performance criteria: implement an innovation strategy that includes a control system and focuses resources on a number of priorities aimed at promoting research and innovation. Coordinate the allocation of funding with other EU projects.

instruments are specified in the accompanying legislative package (see Box 3), which will be adopted by the end of this year in parallel with the political negotiations. It is by no means certain that the European Parliament will give its approval. A new feature is the *Common Strategic Framework* (CSF), a common provisions regulation that is intended to coordinate the activities of the structural and cohesion funds, thereby reaping funding synergies. The following questions are especially pertinent in this connection:

— Do the CSF instruments have the potential to create the right conditions for economic growth?
— How could we further develop instruments that would create the right conditions for economic growth?

This Research Briefing aims to answer these two questions. Cohesion policy, in particular, needs to be measured against these criteria because there is no evidence that a large proportion of these measures have a growth-enhancing effect. This is not merely the fault of the poor quality of data available;[2] it is also because the impact of the structural and cohesion funds cannot be viewed in isolation. It is difficult to determine, for example, to what extent higher growth rates in less advanced regions can be attributed to their higher marginal productivity of capital and what effect resources from structural and cohesion funds have. This is even more the case given the change in economic conditions arising from the financial and economic crisis.

What can be assessed, however, is the extent to which appropriate regulatory and institutional parameters can enhance the impact of the allocated funds, thereby creating the right conditions for growth. Conditionality can achieve this.

Profile of the Common Strategic Framework

The European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) will coordinate their disbursement of funds for the first time under the next MFF. Consequently, the pertinent legislative package does not merely comprise regulations on individual budget items. In addition, a common provisions regulation will act as a single programme planning instrument for all structural funds to ensure that the Cohesion Fund's interventions are sectorally and territorially coordinated with other policy areas.[3] The aim is for funding programmes and capital expenditures to be better coordinated under a *Common Strategic Framework* (CSF) based on eleven economic policy objectives.[4]

There is no shortage of ideas as to how conditions for growth could be created. They are defined in the Europe 2020 agenda, which largely focuses on supply-side factors and is operationalised through the mechanisms of economic policy

[2] See, for example, Heinemann, F and F. Misch (2012). *Growth Enhancing Expenditure in EU Cohesion Spending from 2007 to 2013*. Mannheim: Centre for European Economic Research (ZEW), and Marzinotto, B. (2012). *The Growth Effects of EU Cohesion Policy*. Bruegel. Brussels.
[3] The legislative process is still ongoing and the pertinent regulations have yet to be adopted.
[4] The eleven thematic objectives specified in the draft CSF regulation are: (1) Strengthening research, technological development and innovation; (2) Enhancing access to, and use and quality of, information and communication technologies; (3) Enhancing the competitiveness of SMEs, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF); (4) Supporting the shift towards a low-carbon economy in all sectors; (5) Promoting climate change adaptation and risk prevention and management; (6) Protecting the environment and promoting resource efficiency; (7) Promoting sustainable transport and removing bottlenecks in key network infrastructures; (8) Promoting employment and supporting labour mobility; (9) Promoting social inclusion and combating poverty; (10) Investing in education, skills and lifelong learning; (11) Enhancing institutional capacity and ensuring an efficient public administration.

Conditionality possible since 2006 5

It is already possible to make the payment of financial resources from the EU's structural and cohesion funds conditional on a country's willingness to meet the targets specified in the Stability and Growth Pact. Article 4 of Regulation (EC) 1084/2006 of July 11, 2006 states that the Council of Ministers may, at the Commission's recommendation, suspend some or all of the payments made to a member state from the Cohesion Fund if

— this country is subject to an excessive deficit procedure
— and has failed to take any effective action in response to the Council's recommendations under Article 126 (7) of the Treaty on the Functioning of the European Union (TFEU) in order to reduce its excessive deficit by the specified deadline.
— The Council can then adopt a resolution on the basis of Article 126 (8) TFEU. This is an example of ex-post conditionality.

This instrument has never been used.

Partnership contracts 6

Partnership contracts will enable national and regional authorities – in consultation with the Commission – to choose the capital spending priorities that they wish to set with their EU funding programmes. These contracts will be based on the objectives of the Europe 2020 agenda. They will be signed for the entire period of the seven-year financial framework and will cover all the financial resources and support provided by the CSF funds.

coordination. The key question will be to what extent the CSF can be used to strengthen the mechanisms that are already in place but are not being properly applied.

At the heart of the CSF are so-called partnership contracts, which will be launched for the first time under the Multiannual Financial Framework (see Box 6). Partnership contracts will concentrate all structural-policy financial resources on a smaller number of objectives from the CSF's list of priorities, these objectives being closely linked to the Europa 2020 agenda.

These partnership contracts allow three types of conditionality:

1. Ex-ante conditionality
2. Macroeconomic conditionality
3. Performance reserve

Ex-ante conditionality[5]

The pertinent regulations define ex-ante conditionalities in the form of lists of economic policy measures for each of the funds available under the CSF. These lists of measures are based on the eleven priorities (see footnote 4) that the CSF is looking to promote collectively. These eleven priorities are operationalised for the purposes of ex-ante conditionality by the application of objectives, performance conditions and specific (although not quantitative) performance criteria. The member states themselves will assess whether they meet these goals.[6] This process will take place in two stages:

— 2013: Member states will check whether they are meeting the conditionalities relating to the eleven objectives under the CSF. These conditionalities are specified in the pertinent regulations. If the member states come to the conclusion that they are not meeting these conditions, they will supplement their partnership contracts to include a timetable for additional measures that they will take to ensure that they meet these objectives.
— 2016 to 2022: Member states will report on the progress that has been achieved by June 30, 2017 or June 30, 2019. If certain measures have not been fully implemented within the agreed timetable, the Commission can request further information and, in the event of a negative assessment, decide to suspend some or all of the interim payments made to the programme in question until measures have been taken to comply with any ex-ante conditionality.

From a subsidiarity perspective there are arguments in favour of allowing member states to decide not only on measures but also on objectives. Ex-ante conditionality is also no doubt likely to ensure to a certain degree that politicians commit themselves to the task in hand and that political projects are pursued more consistently regardless of electoral cycles. However, there are three reasons why ex-ante conditionality on its own is unlikely to be sufficiently effective:

— Proper documentation of the implementation process requires a comprehensive reporting system, which – as past experience has shown – cannot be equally provided by all member states, thereby causing

[5] Although the European Council's conclusions do not mention *ex-ante* conditionality, it is specified in September's draft regulation.
[6] This will not apply to the objective of European territorial cooperation specified in the ERDF. The pertinent legislative process is still ongoing.

inaccuracies. It is not yet sufficiently clear what will happen if member states are unwilling to supply the necessary information.

— Reform processes involve considerable time lags. Although the lengthy periods between the preparation of reports, the assessments carried out by the Commission, and any decisions to withhold funding provide ample room for manoeuvre, they are unlikely to put much pressure on those concerned to take action. It is equally debatable whether projects that were already well advanced by the time that the Commission conducted its assessments would ever actually be suspended, or whether political opportunism would ensure that they were completed anyway.

— Conditionality is so vaguely worded that it might be sufficient for member states to implement measures in isolation without integrating them into a national growth agenda – purely in order to meet the relevant criteria.

Macroeconomic conditionality

The aim of macroeconomic conditionality is to align the funding allocated from the CSF funds with the monitoring of economic policy in the EU and the euro zone. To this end, the Commission can ask a member state to revise its partnership contract in order to support other economic policy coordination measures.

Comfortable ceilings 7

Maximum caps on the suspension of cohesion funds, EUR bn

BE	1.94
DE	13.49
EE	0.09
IE	0.83
GR	0.91
ES	5.26
FR	10.31
IT	7.88
CY	0.09
LU	0.23
MT	0.04
NL	3.04
AT	1.60
PT	0.82
SI	0.18
SK	0.37
FI	0.99
Total	48.06

Source: European Commission

Commitment appropriations and payment appropriations can be suspended by way of sanctions if a member state has failed to take adequate action in respect of (1) excessive deficit procedures or macroeconomic imbalance procedures including the *two-pack* (when adopted), (2) balance-of-payments assistance, (3) the European Financial Stabilisation Mechanism (EFSM) or (4) the European Stability Mechanism (ESM).[7] The sanctions procedure is similar to that of the reformed Stability and Growth Pact: if a member state repeatedly breaches the rules, the Commission can propose sanctions, although these can be blocked by a qualified majority on the Council of Ministers.[8]

However, there are several reasons why it is questionable whether macroeconomic conditionality can really bring about changes in behaviour:

— Sanctions can always be blocked by a qualified majority vote on the Council of Ministers. If it was expecting such a vote, the Commission might decide not to propose the imposition of sanctions – partly so that it did not lay itself open to the political charge that it was depriving low-growth countries of additional growth opportunities. A similar phenomenon can already be observed in ongoing excessive deficit procedures where the European Commission has not proposed the imposition of sanctions despite the fact that the relevant deficits have been revised upwards several times.

— Another factor is that only commitment appropriations are initially suspended, whereas payment appropriations are not.

— In addition, there is a double cap on the amount of commitment appropriations that can be suspended. No more than 50% of CSF funds can be suspended in the first excessive deficit procedure, while a maximum of 25 per cent of CSF funds can be suspended for the first macroeconomic imbalance procedure. These figures may double in the event of repeated breaches. There is a maximum cap of 0.5% of nominal GDP for excessive deficit procedures (0.25% of nominal GDP for macroeconomic imbalance procedures). The table on the left shows that these sanctions are likely to

[7] No sanctions are imposed in respect of economic policy fundamentals or employment policy recommendations.
[8] 55% of members, representing at least 65 per cent of the population.

Ex-ante evaluation 8

In addition to ex-ante conditionality there is so-called ex-ante evaluation. The Commission examines projects that incur fundable costs of more than EUR 50 m (EUR 75 m in the case of transport projects) to ensure that they comply with the pertinent partnership contracts and that these contracts are consistent with the objectives of the relevant funding programme.

have only a limited impact on countries that are subject to excessive deficit procedures.

These considerations lead us to conclude that macroeconomic conditionality is also a fairly ineffective instrument.

Performance reserve

The third type of conditionality is the performance reserve. A national performance reserve is set aside for the EU's cohesion policy objective of *investing in growth and jobs* and for the EAFRD and the EMFF. This reserve amounts to 7% of the total allocated funds. From 2017 to 2019 the Commission will examine whether the member states – in pursuing their programmes – are meeting the obligations specified in their respective partnership contracts. If in 2017 the Commission finds that in 2016 a country has not achieved previously agreed interim objectives, it will make recommendations to the member state concerned. In 2019 the Commission will then identify the programmes and priorities for which the interim objectives for 2016 have been achieved (possibly because the member state concerned has followed the Commission's recommendations). The member states then select the programmes and priorities for which the performance reserve funds are to be disbursed. Alternatively, the programmes can be amended. If it becomes clear that interim objectives have been neither achieved nor adjusted, the Commission can withhold funds unless the member state concerned has already requested that the relevant programmes be amended.

However, this third instrument of conditionality is also likely to have a modest impact at best:

— The performance criteria that member states have to meet in order to receive funding could hardly be easier as long as funds are only withheld if programmes are not properly amended.

— The draft regulation does not specify what happens if a country fails to successfully complete or achieve any of the agreed programmes and priorities. Rather than actually proposing that funding be withheld, the Commission is much more likely to look for other ways of allocating these funds.

— Even if a country only meets the minimum requirements for one of its programmes, it could simply reallocate to other items the performance reserve funds disbursed for this programme.

In summary, therefore, we would argue that although the CSF prescribes conditionality, the instruments that it uses are still ineffective.

Conditionality as a means of economic policy coordination can only ever be as credible as the coordination mechanisms used. Even allowing for the exceptional circumstances surrounding the severe financial and sovereign debt crises, we have seen in recent years that the member states – through their voting record on the Ecofin Council – and the European Commission – in anticipating how the member states are likely to vote – never propose sanctions. This assessment applies even more so to issues around the MFF, which from the outset has been conceived as an instrument of redistribution.[9]

[9] The academic advisory council of Germany's finance ministry has raised a key objection in this context. It sees the argument that it is more beneficial to provide certain public goods at European level than through the member states as being partly undermined by (1) the vested interests of the institutions concerned and (2) the fact that cohesion policy objectives are anyway set as part of a consensus reached by the member states. It argues that the Commission could not provide these public goods itself even if it wanted to and that it is therefore dependent on the

By taking the key policy decision that it did in February, the European Council has postponed the issue of any fundamental reform of the MFF until after 2020. It has already been decided how the relevant funding is to be distributed. Given that this is the case, the remaining legislative process – which initiates the pertinent regulations – should be taken as an opportunity to consider what sort of measures within the existing financial framework could potentially be used to stimulate growth through the MFF.

This issue can usefully be analysed on two levels:

— Distribution: to which projects is funding being allocated?

— Instruments: how might conditionality be further developed and refined?

The options in terms of distribution are limited

One of the distribution options that might be feasible would be to use structural and cohesion funds to compensate those who lose out as a result of further liberalisation. For such measures to be successful, however, financial transfers would need to be time-limited by sunset clauses so that additional payments did not delay adjustment processes. Funding could be used, for example, to provide broad-based continuing education and training for workers and young unemployed people. Although this type of approach is already starting to be pursued by the European youth guarantee scheme, the funding of such continuing education and training would need to be accompanied by comprehensive labour market deregulation across Europe to ensure that young people looking for work would be able to benefit from the additional qualifications that they had acquired.[10]

A further alternative being discussed is to fund ancillary wage costs in selected regions and sectors.[11] However, the success of this approach would be difficult to evaluate. Countries that are extremely uncompetitive in terms of their prices could well benefit from such a solution, which would negate the originally intended effects of conditionality. Furthermore, the financing of ancillary wage costs might lead to a situation where those involved in the collective pay bargaining process soon began to take this support for granted and factored it into their negotiating position as a welcome subsidy. Since this approach would not kick-start any reforms, it would be politically much more difficult to eventually reduce this funding because it would only delay rather than preventing the intended structural changes.

One final suggestion would be to make funding available to member states with the aim of improving local institutions in terms of their administrative functions. However, the lack of success in trying to support local administrative organisations in Greece leads us to doubt whether outside assistance would really be desirable and have the intended effect.

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member states, whose cooperation is often only forthcoming in return for financial transfers. The academic advisory council is of the view that the budgeting of funds is especially vulnerable to tactical behaviour if the member states can rely on the fact that they will eventually receive their estimated funding in any case. One pertinent example that it gives is that in the past, at any rate, the recipient countries' funding contributions have often been reduced – occasionally from the officially budgeted level of 50 per cent to as little as 15%. Given the significant delays in the disbursement of funding, the council is not totally convinced by the argument that the higher level of disbursements produces an anti-cyclical effect. See Federal Ministry of Finance (2012). *Ein Haushalt für Europa.* Study by the Academic Advisory Council of the Federal Ministry of Finance. Berlin.

10 See also Vetter, S. (2013). *EU-Jobgarantie für Jugendliche – Auf die Umsetzung kommt es an*. Deutsche Bank Research. Aktueller Kommentar. Frankfurt am Main.

11 See Marzinotto, B. (2012). *The Growth Effects of EU Cohesion Policy*. Bruegel. Brussels.

An interesting alternative, on the other hand, is the idea of setting up a European growth fund[12] that would possess its own financial resources and could tap the capital markets to raise additional funds which it could distribute without being constrained by the funding priorities set by the Council of Ministers. This funding could then support selected initiatives and, above all, provide a down payment for planned reforms. Although the idea of an independent 'reform funding agency' may seem fairly compelling at first glance, finance ministers, heads of government and heads of state will not be keen to relinquish control over funds to which they would otherwise have direct access and whose distribution they have been actively seeking to influence for decades. Nor would this alternative solve the aforementioned problem of the considerable time lags between identifying the relevant requirements, taking the necessary decisions, and allocating the funding accordingly. The sort of comprehensive reporting system required by intergovernmental redistribution mechanisms might further exacerbate this situation. And, last but not least, there is little evidence to suggest that centralised agencies are better at identifying sources of growth and quicker to correct adverse trends than decentralised national agencies.

Opportunity: Expand conditionality and integrate it better

A more productive approach would therefore be to focus the debate on the question of how aspects of conditionality might be strengthened within existing instruments. This could involve three recently introduced mechanisms that the current CSF regulation does not yet mention as instruments:

Euro rescue fund: The CSF regulation already permits financial assistance from the CSF funds to be withheld (negative conditionality) if the European Stability Mechanism (ESM) decides to withhold funding from tranches of aid because reform targets have not been met. This approach could be expanded to include positive aspects of conditionality. In future it would be possible, for instance, to tie payments received from the cohesion funds to disbursements from tranches of aid for programme countries. This might make it possible, e.g. to allocate more funding as a form of positive conditionality if the Troika's demands are met. Alternatively, a more flexible use of funding might be permitted if countries are particularly successful at meeting their reform obligations. In addition, it would be possible to reward a country's exit from an assistance programme with additional funding – similarly to what has already been planned in respect of the performance reserve.

Fiscal Compact: The Fiscal Compact could also present a number of opportunities. One possible option might be to make the disbursement of financial assistance from the CSF funds conditional on the introduction and consistent application of debt ceilings. As an intergovernmental reform treaty, the Fiscal Compact would allow the sort of flexibility that the CSF regulations cannot offer because of the seven-year period that they cover.

Economic partnership programmes: Last but not least, the CSF regulation could already provide anchor points that would make it possible to ensure that future coordination mechanisms in the euro zone offer additional incentives. These are the economic partnership programmes planned under the Fiscal Compact and the reform programmes that commit member states to undertake additional reforms within their budgeted fiscal capacity. Here, again, it might be a good idea to allow member states greater freedom in their use of funding the more successful they are at meeting their reform obligations.

[12] See Marzinotto, B. (2012). *The long-term EU budget: Size or Flexibility?* Bruegel. Brussels.

However, conditionality itself can only ever be as good as the policies behind it. The key factor is the necessary political will

— on the part of the European Parliament, which should further develop and refine the relevant instruments during the current legislative process
— and on the part of the Commission, which should demonstrate more courage in applying these instruments
— so that national governments take aspects of conditionality more seriously than they have to date.

Outlook

The European Parliament adopted a resolution on the medium-term financial framework on March 13, in which it rejected the February 8 Council conclusion in their current form and demands more flexibility and efficiency concerning the budget. The resolution determines the negotiating position for the subsequent trialogue between the Irish Council presidency and the Commission. Taking a tough stance the Parliament rejects the MFF in its current form as it did not reflect its priorities and concerns. The Parliament referred to its will to “exercise fully its legislative prerogatives” the Parliament prioritised, inter alia, the following issues:

— Less of a time lag between commitment appropriations and payment appropriations in order to avoid deficits and subsequent funding rounds; unpaid payment claims for 2012 should be covered by an amending budget for 2013 in order to prevent accumulation and rollover of outstanding payment claims.
— Investments in innovation, research and development, infrastructure and youth should be substantially increased.
— The flexibility to shift funding from one budget year or budget item to another by means of qualified majority voting on the Council of Ministers.
— Reviews of the medium-term financial framework after the European elections in 2014 and the option of amending it by means of qualified majority voting on the Council of Ministers.
— The EU budget should be financed by genuine own resources in order to reduce GNI-based contributions to a maximum of 40%.

This list of demands illustrates that the trialogue over the coming months is set to involve tough negotiations. It also suggests that an agreement is by no means certain. What is clear, however, is that the Parliament will ensure that the accompanying regulations – including the CSF regulation – will again be revised. The demands mentioned above confirm concerns that the European Parliament's demands focus strongly on funding ceilings. What's more, the urgent need to strengthen conditionality might become a political football during negotiations and eventually be watered down. This negative scenario is also made more likely by the fact that certain aspects of conditionality have never exactly been popular with the European Parliament. Thus, it is not surprising that strengthening conditionality was not part of the adopted framework.

Since the EU has already missed one opportunity to reorganise its allocation of funding so that it stimulates growth, it seems like it will also miss the second opportunity to restructure parts of the MFF in order to maximise its growth-enhancing effects by strengthening conditionality.

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