

# RECOMMENDATIONS

FROM MEMBERS OF THE TEP SA NETWORK  
TO THE INCOMING

# HUNGARIAN PRESIDENCY

OF THE COUNCIL OF THE EUROPEAN UNION

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**TEPSA**

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# ABBREVIATIONS

<b>EU</b>	European Union
<b>MFF</b>	Multiannual Financial Framework
<b>RRF</b>	Recovery and Resilience Facility

# A Politically Charged Presidency



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Hungary's presidency of the Council of the European Union (EU) between July and December 2024 will be a challenging one. The Member State that has been most openly confrontational towards many EU policies, positions and new cooperation proposals, will take over the presidential baton just as the Union moves into a new legislative cycle. In the early stages of the Hungarian presidency there will be relatively few legislative proposals left on the agenda as the current term reaches its end. The European Council will have adopted the Strategic Agenda 2024-2029 in June, just prior to Hungary beginning its six-month presidency. Political negotiations will be starting in the wake of the June elections to the European Parliament. In this political interregnum, the focus will be on **setting priorities for the incoming Commission** and **preparing the ground for the next Multiannual Financial Framework (MFF)**.

The Hungarian government has identified a number of long-term structural challenges as priorities for its presidency. In the contributions that follow, our experts offer reflections on three of these, assessing debates around performance-linked funding under the next MFF, the redesign of EU cohesion funds and demographic-migration challenges.

However, the six-month presidency will also be conditioned by more immediate and political events – these will overlap with presidency functions even if they extend beyond its areas of most direct agenda-setting competences. And, given the **rocky relationship** between the Hungarian government and the EU in recent years, it is at this level that the presidency could prove most unsettling.

Disconcertingly, EU elections – a continent-wide exercise in democratic legitimation – will be held just before the Council presidency of a state that this year the [V-Dem institute](#) classifies as an “electoral autocracy”, the [Economist Intelligence Unit](#) as a “flawed democracy” and Freedom House as only “partly free”. It is likely that the summer and autumn in EU politics will be dominated by the inter-party negotiations that will follow the June elections. These will focus on the question of **coalition-building around the political centre**, against the array of far-right or radical-right parties expected to do well in the elections – just when a government of one these parties, Fidesz, will be holding the presidency.

This could make for a bumpy ride. Hungary's presidency will surely try to deflect some Member States' current efforts to improve the EU's approach to rule of law and democratic backsliding in Member States. A spirit of pragmatism from both Hungary and other Member States, and also from the Commission, might help smooth the presidency, but this will require quite **a number of major differences to be set aside** for the period.

The **external environment** is also likely to amplify fragmentation under the Hungarian presidency. Divergence between Hungary and the rest of the EU on crucial external challenges will clearly not help create a context of harmonious consensus building on foreign policy matters – and even if some of these do not fall directly under the competences of the rotating presidency, the general effect on other policy dossiers could be disruptive. Hungary's lukewarm support for Ukraine risks further weakening EU political and material aid in the face of mounting Russian aggression. Moreover, the Hungarian presidency will run in parallel with a heated electoral campaign in the United States, which will have a huge impact on the EU. Prime Minister Viktor Orbán's public backing of Donald Trump will not make it easy for the European leadership to respond to the elections in a consensual spirit.

Given all this, it seems reasonable to predict a turbulent six-month period of turnover in EU political leadership, with the Union's least club-minded state at its helm, whose government's goal is to rein in the union's supranational character.

This might be seen as a test of whether the institution of the Presidency can indeed wield its much-vaunted **moderating impact**. If the Hungarian presidency can make a constructive contribution to some files, largely stick to the rules, facilitate consensus building and hold the union together through this period of change, then perhaps this presidency might even have some wider positive value on integration dynamics.

In turn, the impact on Hungary will be of significance. Meeting other Member States' concerns during its Presidency is important for a country's standing and influence within the EU. The Presidency has the role of an 'honest broker' and of facilitating compromise solutions; it also needs to be responsive to all salient issues affecting the Union, including security developments. Having recently held out against other Member States on several key issues – including funding to Ukraine and the mid-term revision of the MFF –, Hungary would need to **adapt its current diplomacy dramatically** to play these standard roles successfully.

If Hungary insists on pushing engagement with China or Russia or on favouring certain accession candidates whose governments are close to Prime Minister Orbán, then debates could become sharper and more acrimonious in the Council. More broadly, Hungary's prosperity depends on a well-functioning single market and on the EU's standing in the world. An erosion of Ukraine's defence and a strengthening of Russia would lead to a destabilisation of the entire Central-Eastern Europe region, with negative knock-on effects on Hungary in economic and security terms. As the rotating Council presidency, Hungary will have an opportunity to contribute to Europe's strength and unity at a very important time. The political charged question is whether it takes this opportunity or chooses to intensify its **confrontational stance** towards the EU during its presidency.

# Budgetary conditionality: be careful what you wish for



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An extension of budgetary conditionality is likely to be part of the future EU's long-term budget. However, there is not yet sufficient evidence that the 'cash-for-reforms' model is effective in guaranteeing long-term change. Moreover, the instruments suffer from some **democratic shortcomings**, for example related to lack of transparency and clarity of procedures. Since budgetary conditionality has far-reaching consequences, there should, at the bare minimum, be consensus on which European public goods are prioritised and on the necessary conditionalities to deliver these.

Applying **budgetary conditionality is not new**. After the financial crisis, macro-economic conditionality was introduced for EU Structural Funds, meaning that their allocation is made conditional on fiscal compliance with the Stability and Growth Pact. Since 2020, two instruments for rule of law conditionality were introduced. First, with the Conditionality Regulation, by which countries can be withheld from (any) EU funds *ex post* in case of rule of law breaches that affect the financial interests of the Union. Second, with the Common Provisions Regulation, by which the reception of Structural Funds was made *ex ante* conditional on the so-called 'horizontal enabling conditions', including the adherence to the EU Charter of Fundamental Rights.

Conditionality was brought to another level as EU instrument in the Recovery and Resilience Facility (RRF) to help countries overcome the (socio-)economic challenges induced by the COVID-19 pandemic. Under the RRF, funds were made conditional on an extensive list of country-specific targets related to the rule of law, socio-economic performance, and the green and digital transitions. The conditions for spending are now up for debate, as Member States argue that **the rules generate too much red tape**, resulting in funds not being spent.

For the future EU budget (post-2027), the current Commission considers making more use of **performance-based financing**, meaning that the allocation of funds will become increasingly based on pre-defined conditions. This would apply for instance to the EU's Structural Funds, but perhaps also for other funds. In its [ninth report](#) on Cohesion Policy, the Commission explicates its intention to draw lessons from the "cash-for-reforms" model that underpins the RRF, and stresses that "there is broad support for performance-based funding instruments at EU level".

However, despite the enthusiasm by the Commission and some Member States that conditionality might be a mechanism for enforcing policy and rule and law reforms, it is still too early to tell whether it is really effective. There is **uncertainty as to whether budgetary conditionality has been effective in enforcing rule of law reforms** since the instruments are simply too short-lived to assess whether they led to structural reforms in targeted countries or whether they merely induced box-ticking exercises.

When it comes to enforcing reforms to deliver on European public goods, it can be argued that 'sticks' – meaning withholding funds in case of non-performance – are not overly effective. After all, countries will likely not (be able to) deliver on them without the necessary funds to do so. 'Carrots' – implying (more) money in return for performance – might work, but the experience with this at EU level is too novel to account for properly.

Although the Commission itself positively assesses the RRF in its mid-term evaluation, progress is slow: halfway through **nearly 20% of the milestones and targets are fulfilled and less than a third of the total amount available has been disbursed** to Member States. The Commission expects that progress is made with a faster pace during the second half of the RRF's lifetime. With just over two years left, time will tell whether the model has been effective in pursuing structural reforms and did not just create more regulatory burden.

Moreover, we do not know whether the reforms that are being implemented really achieve the desired result, because this is not measured. As stressed in the RRF's [mid-term evaluation by the European Court of Auditors](#), **the RRF is not truly performance-based**, since its monitoring framework measures progress rather than overall performance and the quality of the data is undermined by weaknesses in reporting on the basis of common indicators.

On top of these questions regarding effectiveness, there are also some **democratic concerns** related to the use of budgetary conditionality. To a large degree, budgetary conditionality centralises power in the hands of the Commission, also in fields on which it has only limited competences, be they socio-economic policy, the organisation of the national judiciaries and democratic polity, or – possibly in the future – defence. This might in turn have consequences for intra-EU relations and challenges the institutional balance. Such tensions risk to undermine mutual trust and solidarity between Member States.

Recommendations to the Hungarian Presidency:

- ▶ Halfway through the term of the MFF (and the RRF) it is important to take stock and start the conversation about the next MFF and the **desirability of performance-based financing**. Improvement of evaluations of the various instruments for budgetary conditionality should be high on the agenda of such conversations.
- ▶ We also recommend **facilitating discussions on the (geo-)political priorities** that the next MFF should deliver and on how to do so. If performance-based financing is perceived as an effective way to deliver these, then there should be

– at the bare minimum – consensus between Member States on common goals and priorities (and possible trade-offs) at the front-end in order to prevent non-compliance at the later stage. This is crucial since conditionality implies a means of enforcement that **deviates from the traditional principles of EU governance** – based on compliance to EU law and court proceedings in case of non-compliance. This requires more sensitivity to diverse national political contexts and greater (and continuous) involvement of national parliaments in order to guarantee public support.

- ▶ Finally, it is recommended to urge the Commission to **provide more clarity and transparency of procedures in place in applying budgetary conditionality**. This prevents ambiguous use of the instruments and allows for parliamentary scrutiny.

# The future of Cohesion Policy: what needs to be taken into account?



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With almost four decades of experience supporting territorial development, Cohesion Policy represents a valuable asset for the EU. Based on the lessons learned from the previous implementation and taking into account the new global realities, it is necessary to continue its work on **recognising and supporting the potential of regions and taking advantage of opportunities for inclusive and sustainable growth**. However, this requires adequate resources. Being an investment policy, the impact of Cohesion Policy on the ground is primarily related to the amount of funds available for investment, making the MFF debate a crucial moment for its post-2027 perspective.

Regional inequalities in the EU have been substantially reduced in the last two decades and this great achievement is largely due to the impact of Cohesion Policy. Nevertheless, **existing differences in the standard of living are still unacceptably high** and far from the harmonious territorial development that the EU strives for. Furthermore, economic growth was absent in many regions over the past 20 years, leading to a **strong sense of discontent and marginalisation**. In the last two decades, a new "geography of discontent" has emerged, including in some previously prosperous places. Therefore, future discussion on the territorial focus of its interventions should consider both the level and dynamics of development.

Even though boosting economic growth remains a central objective, there is also a need to promote interventions that address quality of life and access to opportunities for all people in the EU. As the recently published report on the future of Cohesion Policy states: "[...] this involves aligning growth-oriented objectives with equality and equal opportunities, bridging economic gaps and ensuring that prosperity reaches everyone in the EU." **Unfavourable demographic development** is becoming a serious threat for growth, requiring more attention when talking about future political priorities. Remote and rural regions are especially at risk of losing their talent and jeopardising their future growth.

While keeping its core objectives at the fore, Cohesion Policy must also constantly adapt to the range of **complex and evolving political, security, climate and economic challenges facing the EU**. In many cases, they involve different territorial



effects, prompting the need for specific territorial responses to address them. Cohesion Policy is undoubtedly the main address for the preparation of those answers, which has already been recognised through the establishment of the Just Transition Fund.

Despite being a long-term policy, Cohesion Policy has already demonstrated a capacity to act as a **crisis instrument** to help the EU mitigate and overcome the effects of recent global crises. Given its substantial delivery capacity, particularly at the regional and local level, its crisis response capacity should also be preserved for the future. However, this should not come at the expense of its long-term goals, meaning the EU must develop genuine crisis-mitigation budgetary instruments further.

Success of Cohesion Policy is most evident in the case of Central and Eastern European regions. Conversely, for many regions in Southern Europe, the generous support from Cohesion Policy funds was insufficient to change their development trajectory, prompting a debate about the **limitations and mistakes of the policy**. Cohesion Policy's ability to change economic reality is often constrained by shortcomings in domestic economic governance. Addressing these gaps through a combination of reforms and investments in a way that the RRF currently does could provide the right policy mix for the future. In doing so, keeping the territorial dimension in mind, and ensuring the strong involvement of regional and local actors in preparation and implementation of the interventions is crucial in order to preserve the essence of the Cohesion Policy.

Despite many efforts to simplify it, the policy still involves a **considerable administrative burden for authorities and beneficiaries**, making further work on simplification necessary. On the other hand, complex control mechanisms were not sufficient to keep the level of errors in spending below the target threshold of 2%. However, existing differences between various Member States and regions in their ability to ensure a low level of error in the management of EU funds are significant. This opens the possibility to consider allowing lighter control rules for those Member States and regions that continuously excel in sound financial management.

**EU enlargement poses substantial challenges for the future territorial development of the EU**, primarily due to the sheer size of Ukraine in terms of population and territory. At the same time, and just as in earlier enlargements, Cohesion Policy has the potential to increase the competitiveness of each candidate country and to facilitate its economic and social integration with rest of EU. However, to achieve this it is necessary to secure additional funding from the EU budget and be aware of the consequences for existing EU regions that might lose significant financial support from Cohesion Policy due to enlargement.

Finally, while post-2027 Cohesion Policy needs to be responsive to the changing and unstable global environment, it is also important not to forget that **stability and predictability** are necessary ingredients of sound policy-making. Therefore, any future changes in its design should be implemented with great care and sensitivity to the effects of the changes on those expected to deliver the policy on the ground.

The main recommendations for the upcoming Hungarian Presidency on the future Cohesion Policy can be summarised as follows:

- ▶ Ensure **adequate financial resources** for Cohesion Policy objectives in post-2027 period given the size of the territorial challenges the EU is faced with.
- ▶ Adjust the **territorial and thematic focus** of future Cohesion Policy.
- ▶ Exploit the potential of Cohesion Policy to improve the capacity of regions to tackle the **digital, green, and demographic transition challenges**.
- ▶ Strengthen the link between Cohesion Policy and structural reforms but **avoid centralisation tendencies** that could harm cohesion.
- ▶ Further **simplify** Cohesion Policy.
- ▶ Use Cohesion Policy to **support efficient integration of future Member States into the EU**, but in a way that is not harmful for current EU regions facing economic and social difficulties.

# Europe should focus on building genuine migration partnerships



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After many failed attempts, in April this year EU lawmakers agreed to an overhaul of the Union's migration rules – the New Pact on Migration and Asylum. However, the Pact on its own is unlikely to make EU migration policy more humane or more effective, as it does not address the external dimension of migration. **The EU needs to rethink its approach towards external partners**, shifting from a focus on migration control to forging genuine partnerships.

The Pact introduces new asylum procedures at the EU border to speed up the processing of asylum claims. Asylum seekers will undergo a mandatory 'screening' procedure. Those from countries with a high protection recognition rate will be channelled into a standard asylum procedure, while people coming from countries with a low recognition rate will undergo a rapid procedure.

The Pact maintains the existing principle that countries along the EU's external border are responsible for processing nearly all asylum applications, and introduces new systems to collect and share biometric data that will make it easier to prevent movements of migrants away from their country of first entry into the EU. In parallel, the Pact introduces some **solidarity measures**, which countries along the EU's external borders had long been asking for. If some Member States are under intense migratory pressure, others have to show them solidarity. However, the form of solidarity is flexible: for example, Member States can provide operational support, take in some migrants from border countries, or contribute financially to some of the costs borne by border countries.

Implementing the Pact will be challenging. Member States will need to build up their capacity, including human resources and facilities in which to carry out border procedures. That will be particularly demanding for states along the external border who will need to process more applications more quickly. If a Member State is under pressure and receives many protection applications there are likely to be delays in processing times, and there is a **high risk that migrants will be held in sub-standard conditions**.

Even if the EU managed to set up a system that was able to process asylum

applications and issue return orders to individuals that do not qualify for protection much more quickly, it will not be possible to return individuals whose applications have been rejected without the co-operation of other countries – often a migrant's home country. This is administratively complex as it requires cooperation from the other side, and can often be unpopular as many countries are unwilling to appear as migration enforcers on Europe's behalf. As a result, Member States struggle to carry out returns; according to Eurostat, in 2022, 422 400 non-EU citizens were ordered to leave, but only 77 530 did so. This **low rate of return contributes to many European citizens' negative perception of migration.**

The difficulty in processing returns, combined with the additional burdens of the Pact, means that **countries along the EU external border will have incentives to keep their borders near-shut**, preventing people from lodging asylum applications in the first place; or to engage in pushbacks. If that happened, the EU would be betraying its values.

- ▶ The Pact is not enough to address the EU's migration challenges. Forging **new partnerships with third countries** is essential to build a more humane and effective migration policy.

To date, the EU's dealings with third countries have focused on **migration control**. For example, the EU has provided funding to partner countries such as Tunisia, Morocco, Lebanon, and Turkey so they could strengthen their border controls, reducing the number of migrants who arrive in Europe, and to encourage them to take back their own nationals. While this has been effective in reducing the number of arrivals, it comes at a high human cost. **It also gives partner countries an incentive to constantly raise the price of cooperation, as their main interest is in EU funds.** In the case of countries of origin, the EU has often tried to secure greater cooperation on returns through a mix of carrots and sticks. But the former are used much more often than the latter as there are few instances where the EU is willing and able to align all its Member States' interests and use its collective leverage to pursue migration-related goals, as that could jeopardise some Member States' bilateral relations and objectives, create instability or undermine other EU policy aims.

The Union's partners want financial assistance, greater market access to Europe, economic investment, technical know-how, and migration and education opportunities for their citizens. For its part, Europe has a range of objectives other than cooperation on irregular migration, including securing energy supplies, critical raw materials, trading links and political co-operation. Crucially, Europe also needs millions of migrants to make up for an ageing population and maintain its social model. However, **migration needs to be managed and orderly to be politically accepted by European citizens.** All this creates an **opportunity for a package deal** that can blend together each sides' interests.

- ▶ The EU should weave together the **different political and economic interests** of its Member States and of third countries into one coherent package going beyond migration.

To date, the EU's efforts in this field have been half-hearted and have had little success. The key challenge is lining up all Member States and EU institutions to be

able to present a 'whole of EU' offer to partners encompassing legal migration routes, enhanced access to the EU market, and greater investment and technical assistance. Such a package would help **create a sense that migration is a phenomenon which the EU and its partners should manage jointly**, and that in any case it is only one part of a bigger relationship.

**A revamped partnership package would be the best guarantee of a better functioning and more humane migration system.** But it would have other benefits too. At a time when Europeans fret about losing influence in much of the so-called "Global South", revamped partnerships would also serve to **increase their influence** there. Finally, by injecting a greater degree of control and predictability into migration flows, such partnerships would help convince European citizens that migration can be a well-governed phenomenon, making it **less politically controversial** and helping secure Europe's economic future.

All the opinions expressed in this publication are the sole view of the contributors, and do not represent the position of their Institutes nor of the Trans European Policy Studies Association (TEPSA).

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