

Ideas and Options for Cohesion Policy Post-2020



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Greece

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Poland

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Portugal

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Sweden

- Swedish Agency for Economic and Regional Growth (Tillväxtverket)

United Kingdom

- Department of Communities and Local Government
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It should be noted that the content and conclusions of this paper do not necessarily represent the views of individual members of the IQ-Net Consortium.

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EXECUTIVE SUMMARY

With the 2013 reform of Cohesion policy only just being implemented through the 2014-20 programmes, discussion is already turning to the future of Cohesion policy after 2020. In this context, the aim of this paper is to contribute to the debate on the future of Cohesion policy after 2020, focusing on the management and implementation of the policy.

Central to the debate on the future of Cohesion policy is the wider reform of the Multiannual Financial Framework (MFF), which will determine spending priorities for the EU, linkages with wider EU objectives and mechanisms to enhance performance. The mid-term review of the MFF is due in 2016 and is expected to provide some changes to the remainder of the MFF in 2017-20 as well as indications of how the MFF might evolve after 2020.

The starting point for considering the future direction of Cohesion policy is to take stock of the most recent reform. The 2013 regulatory changes introduced important innovations to the management and implementation of Cohesion policy programmes, but views vary considerably both across IQ-Net partner authorities and across the aspects of the reforms. Appraisals of individual regulatory provisions are often 'mixed': the new provisions are frequently seen as being 'good' in principle, but problematic in practice or their positive effects are counter-balanced by negative ones, whether due to a contradictory nature of the rules themselves or to the domestic contexts in which they are implemented. The new strategic framework is viewed as the main positive development. At the other end of the spectrum, the new performance framework, ex-ante conditionalities and financial instruments are the innovations that attracted most criticism from an implementation perspective. The results-orientation is the single most controversial issue, on which views are divided, as they do on thematic concentration and the new territorial instruments.

Looking to post-2020, the main message is that, while the regulatory reforms for 2014-20 have addressed important deficiencies to improve Cohesion policy, the potential benefits at programme level are still emerging – and have often been obscured or constrained by the complexity of administrative procedures and workload associated with implementation. Further efforts are clearly needed to achieve real simplification for MAs and IBs, enhance the functioning of subsidiarity and improve further the intended results-orientation.

Improved strategic coherence is the aspect of the 2013 reform most valued among IQ-Net authorities at the programming stage, but there are several practical problems that may hinder a more strategic approach to implementation. There are also concerns at the policy becoming (increasingly) used for achieving other EU objectives (Europe 2020, economic governance) and that there is insufficient flexibility to adapt the policy to national or development needs, challenges and policy priorities.

In the context of the wider MFF debate about the added value and performance of EU spending, IQ-Net authorities are strongly in favour of reaffirming the role of Cohesion policy as a policy focused on long-term regional development. A place-based approach to policymaking needs to be reinforced in the post-2020 period.

Cohesion policy is governed by shared management between the European Commission and the Member States. Despite the acknowledgement of practical constraints of the shared management model, there is widespread recognition among IQ-Net partners that moving away from this model

as the underlying principle of Cohesion policy implementation would be difficult. However, there is a clear need to resolve the distortions and unintended effects of the model, differentiating responsibilities between different actors more clearly and allowing more autonomy to domestic authorities and managing authorities (MAs).

More fundamentally, there is a need to explore the question of whether a broader differentiation of management arrangements is feasible and desirable in ways that are viewed as equitable and ensure accountability. This view is strongly held by partners with smaller ESI Funds allocations and programmes in particular

Simplification and performance are two key issues for the 2014-20 period and beyond. With respect to simplification, the general perception of IQ-Net partner authorities is that real simplification and proportionality are still far from being achieved and that the administrative burden has increased over successive programme periods. The focus of post-2020 simplification needs to be on managing authorities and intermediate bodies. Key issues are: (a) shifting the emphasis of the regulatory framework and role of the Commission away from control to support; (b) providing more flexibility and less prescriptive detail in the regulations, increasing the implementation room for manoeuvre of programme authorities; and (c) improving legal certainty with regard to audit and avoiding retroactive decisions on eligibility issues.

Regarding performance, the results-orientation has improved the starting position of programmes but it is proving difficult to embed the new 'programming logic' mentality among implementing bodies and within project applicants, and there are concerns about the rigidity of the approach taken by the Commission. Many IQ-Net partners consider that the major changes introduced in the 2013 reforms should be allowed time to be fully operationalised, with further change informed by the evidence from practice. However, there are areas where initial experience indicated a need for modifications to the performance framework and results orientation; they include reviewing the system of core indicators, specifically the relevance and costs/benefits of a prescribed system of core indicators, and reconsidering the outcomes expected for smaller programmes.

Ex-ante conditionalities (EACs) have been used to improve the policy's effectiveness, but not all are considered to be useful, some are unlikely to be met, and others are outside the control of MAs. There is consensus among IQ-Net partners on the importance of institutional and administrative capacity as a key factor for the sound management of ESIF programmes. However, the viability of strengthening this with enhanced conditionalities is not viewed favourably or seen as necessary. A more constructive approach, for some authorities, would be to reflect on how the EU can *help* regional and local actors improve the quality of the design and implementation of projects through a better and/or enhanced use of Technical Assistance resources and options such as peer-to-peer mechanisms.

Finally, there is the question of how to provide more flexibility for the policy to react to new challenges. Shorter programme periods are not favoured; reserves held at national or regional levels, or mid-term reviews have potential, but only if they were available as an option and not obligatory. An EU reserve to allow the ESIF to respond to sudden or new crises is viewed more favourably, although a widespread concern is to avoid top-down prescription and diversion of programme funding away from long-term objectives.

INTRODUCTION

With the 2013 reform of Cohesion policy only just being put into practice with implementation of the 2014-20 programmes, discussion is already turning to the future of Cohesion policy after 2020. Over the past year, a series of conferences and debates have begun to consider the shape and priorities of the next Multiannual Financial Framework, focusing particularly on the importance of performance and added value in EU spending. With respect to Cohesion policy, the reform debate was launched by Commissioner Crețu in August 2015 with ten questions on the future of the policy, many of which are being actively considered by the EU institutions, national and regional authorities, networks and think tanks.

The 2013 reform was arguably the most significant set of changes to the policy since the landmark reform of the Structural Funds in 1988. While the impact of some of these changes is already evident, the implications of many of the new regulatory provisions will only become clear in the course of the 2014-20 period. It is, therefore, important to take stock of what we know so far, where the changes appear to be successful and where the evidence is still uncertain.

At the same time, the calendar of the reform process means that proposals for post-2020 changes will be out forward in the course of 2017-18. There is currently a relatively short 'window' for proposing new ideas and options that can influence debates at EU and national levels.

In this context, the aim of this paper is to contribute to the debate on the future of Cohesion policy after 2020, focusing on the management and implementation of the policy. It draws on the experience of the members of the IQ-Net network, based on a mix of desk research and interviews (conducted in Spring 2016) with national and regional government officials in MAs and intermediate bodies working on the implementation of Cohesion policy programmes in the 17 Member States, encompassing a mix of 'More Developed', 'Less Developed' and Transition Regions. Interview surveys are supported by desk-based research of EU-level and programme documents, evaluations and independent studies.

The paper is structured in four parts.

- The first section begins with an overview of current Commission and Member State thinking, and the state of play of intergovernmental debate.
- Section 2 takes stock of experience and the assessment of IQ-Net partner authorities of the 2013 regulatory reforms highlighting for each main theme of the reform – strategic coherence, thematic concentration, results-orientation, performance framework, ex-ante conditionalities (EACs), financial instruments (FIs) and integrated territorial development – the rationale and content of the new rules, the state of play with their implementation, and the views of IQ-Net partners.
- Section 3 presents ideas on the changes for the post-2020 period.
- The final section concludes by summarising the main issues to emerge from the study and draws together the results of plenary and workshop discussions on three sets of questions at the IQ-Net meeting held in Prague in 9-11 May 2016.

1. THE CONTEXT FOR THE REFORM DEBATE

Central to the debate on the future of Cohesion policy is the wider reform of the MFF, which will determine spending priorities for the EU, linkages with wider EU objectives and mechanisms to enhance performance. The mid-term review of the MFF is due in 2016 and is expected to provide some changes to the remainder of the MFF in 2017-20 as well as indications of how the MFF might evolve after 2020. While the Commission has not yet published its proposals on the review, key issues have been highlighted by the Commission in its roadmap on the MFF review and various speeches by the Commissioner's responsible for the budget and other spending areas.

1.1 Short-term issues for the 2017-20 period

The key short-term issues to be addressed by the review according to the Commission's roadmap concern financial management issues; performance-enhancement measures including responding to new challenges; the use of FIs; sound economic governance; and simplification.¹

- **Financial management.** The review will have to assess the functioning of the MFF in the new economic situation paying attention to the sufficiency of payment ceilings as well as to the functioning of the flexibility instruments and the ability to address new internal and external challenges, notably migration.
- **Performance refocussing and responding to new challenges.** The Commission's mid-term review roadmap states that the review will be an opportunity to orient the EU budget further towards jobs, growth and competitiveness and, as noted, to respond to new challenges that the Union will be facing. With jobs, growth and competitiveness being the EU's prime objectives, the review will need to identify margins for manoeuvre for possible new initiatives.
- **FIs.** The use of FIs and their interplay with grants will be a key issue in the mid-term review, especially given the significant increase foreseen under the competitiveness, cohesion agricultural and external policies headings of the MFF. Fundamental questions include the extent to which FIs deliver the results regarding the EU's political objectives and how additionality can be measured. An update on the implementation of the new European Fund for Strategic Investments (EFSI) will be provided and could even provide a model for future spending post-2020.
- **Economic governance.** Measures linking the effectiveness of Cohesion policy to sound economic governance (macro-economic conditionality) were a controversial element of the previous reform and the review will provide an opportunity to examine the impact on the ground.
- **Simplification.** The Commission will assess how efforts to simplify the delivery of EU funds are working out in practice and whether further proposals can be tabled in the context of the mid-term review. According to the mid-term review roadmap, simplification in the areas of agriculture, research, and the Structural Funds are priorities. As discussed further below, the

¹ European Commission (2015a) *Roadmap on 'Commission Communication and Proposal for a Council Regulation on the Mid-Term Review of the MFF 2014-2020'*: http://ec.europa.eu/smart-regulation/roadmaps/docs/2016_sg_003_mff_2014-2020_en.pdf

ESIF simplification group is examining various options to support the take-up of existing simplification measures.

1.2 Post-2020 MFF reform issues

Looking beyond the remainder of the current MFF period to the post-2020 MFF, more radical reform options are likely to be considered in relation to the financing of the budget, its duration, spending priorities and linkages with economic governance.

A first issue is the need to move towards a **genuine system of own resources**. This has been a long-term objective for the Commission and the European Parliament (EP) but has been resisted by the Council, notably by Member States that would lose out from radical changes to the system. To facilitate the development of reform options, a high-level group (HLG) set up in February 2014 is due to provide recommendations to the Commission in 2016. Based on previous debates, a Financial Transactions Tax (FTT) has been one of the most often cited potential sources of new revenue for the EU budget. Various other options for own resource include a reformed VAT, reformed EU Emissions Trading System and Carbon taxation, transport taxation, EU wide corporate taxation, digital taxation.

The duration and flexibility of the MFF is a second key issue. In response to the demands of the EP, the mid-term review must examine the most suitable duration for the subsequent MFF in a view to striking the right balance between the 5-year duration of the term of office of the EP and the Commission and the need for long-term stability for programming cycles and investment predictability. The EP preference is for a five-year cycle or a ten-year period with a major mid-term review after 5 years (5+5).²

Third, the need to **improve the performance of the EU budget** will be a dominant theme in the debate on the post-2020 MFF. As in the past, key issues and reform priorities will include targeting funds on areas with high EU added value; the potential for expanding the use of EU FIs; and introducing performance-based budgeting mechanisms. More fundamental issues concern the development of centralised spending capacity as well as thematic and territorial targeting in the key shared management areas:³

- **Centralised spending.** Whether a larger part of the funding should be centralised at EU level to ensure that money is spent according to (EU) priorities, which has implications for the interplay between such funds (e.g. EFSI, if continued beyond 2020) and Cohesion policy.
- **Shared management spending.** For the Common Agricultural Policy, a key issue is the effectiveness of 'greening', while in Cohesion policy there are questions about the appropriateness of the geographical balance of funding, which currently favours the more-developed EU15 over the newer and less-developed EU13 countries.

² EPRS (2016) *Mid-Term Revision of MFF 2014-2020: Background Note – Duration of the Next MFF*, European Parliamentary Research Service, 20 January 2016, Brussels: [http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/572675/IPOL_BRI\(2016\)572675_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/572675/IPOL_BRI(2016)572675_EN.pdf). See also previous 2007-13 MFF review: European Commission (2010) *The EU Budget Review*, Commission Communication, COM(2010)700 final: http://ec.europa.eu/archives/commission_2010-2014/president/pdf/eu_budget_review_en.pdf

³ Georgieva K (2016) Speech at the EU Presidency Conference on the Multiannual Financial Framework, 28 January 2016, Amsterdam: https://ec.europa.eu/commission/2014-2019/georgieva/announcements/speech-vice-president-kristalina-georgieva-eu-presidency-conference-multiannual-financial-framework_en

Finally, optimising the **relationship between the budget and the European Semester and economic governance** will be a key priority given the importance placed on structural reform and compliance with fiscal rules in the aftermath of the crisis and the evolving debate on the future shape of economic and monetary union. A first key question is whether and how the EU budget should be utilised to finance the implementation of political priorities agreed in the European Semester, notably the Country-specific Recommendations (CSRs).⁴ Longer-term questions concern the development of the Eurozone, notably whether the Eurozone needs its own budget and (if so) for which purpose, and how such a budget would relate to what is done under Cohesion policy.

1.3 The evolving debate on the MFF

The above issues have been developed at several major conferences on the future of the EU budget over the past year.⁵ These include a conference on the ‘Future of the EU Multiannual Financial Framework’ organised by the Federal German Foreign Office (June 2015) and the 1st Annual Conference ‘EU Budget Focused on Results’ organised by the European Commission (September 2015).⁶ Also worth noting is the Brussels symposium ‘The Future of EU Finances’ in January 2016 to present a major study sponsored by the German Federal Ministry of Finance.⁷ In addition, the Dutch EU Council Presidency organised a major conference on the post-2020 MFF in January 2016 with the aims of kick-starting the discussions at EU level and brainstorming ideas with around 200 high-level participants.⁸

These discussions rehearsed many of the long-standing problems of the EU budget, in terms of process and structure. They include the ‘obsession with net balances’ and its impact on expenditure quality and distribution, the need for the EU to have genuine ‘own resources’, and the limited ability of the EU to react in a crisis;⁹ there was also a recognition that the structure of the budget has shifted significantly towards EU priorities such as research and the low-carbon economy, the application of performance reserves, the increased use of FIs, and the introduction of ex-ante and macro-economic conditionalities.

Among these debates, EU and national politicians advocated several common principles for the future of the MFF, although often interpreted differently:

- **European added value** – interpreted partly as aligning the EU budget with the EU’s political aims (Juncker), and potentially aligning spending to Country-specific Recommendations

⁴ Schäuble W (2015) *EU Budget Focused on Results*, speech at Conference ‘EU Budget for Results’, 22 September 2015, Brussels: <http://www.bundesfinanzministerium.de/Content/EN/Reden/2015/2015-09-28-keynote-eu-budget-focused-on-results.html>

⁵ Bachtler J and Mendez M (2016) Exploring New Ideas for Cohesion Policy 2020+, *EoRPA Briefing Paper 16/1*, European Regional Policy Research Consortium, European Policies Research Centre, University of Strathclyde, Glasgow.

⁶ European Commission (2015b) *EU Budget Focused on Results – Conference Summary*, 22 September 2015: <http://ec.europa.eu/budget/budget4results>

⁷ Buettner T and Thöne M (2016) *The Future of EU-Finances*, Working Papers for the Brussels Symposium on 14 January 2016, FiFo Institute for Public Economics, University of Cologne.

⁸ Dutch Ministry of Foreign Affairs (2016) *Report of the Presidency Conference on the Multiannual Financial Framework (MFF)*, 28 January 2016, Amsterdam: <http://english.eu2016.nl/binaries/eu2016-en/documents/publications/2016/02/26/report-of-the-presidency-conference-on-the-multiannual-financial-framework-mff/report-of-the-presidency-conference-on-the-multiannual-financial-framework-mff.pdf>

⁹ Ferrer J N (2015) *Interim Assessment of the current MFF – critical view on the outcome of the MFF negotiations*, Speech to the Conference ‘Future of the EU Multiannual Financial Framework; Lehner S (2015) *Implementation of ‘Better Spending’*, Speech to the Conference ‘Future of the EU Multiannual Financial Framework’.

(Thyssen, Schäuble); the possibility of merging existing investment programmes into a single, EU investment fund to foster economic growth (Koenders);

- **Improving performance** – rebalancing measures of performance, away from the primary concentration on absorption and compliance to the results of spending (Georgieva); increasing effectiveness by using EU funds to stimulate more private sector investment, using funding to achieve multiple objectives, and greater accountability (Juncker); and greater application of performance-informed budgeting (Robinson) and more use of conditionalities;
- **Transparency** – the need for greater transparency towards EU's citizens to ensure greater visibility for EU spending, demonstration of the relevance of EU spending, and more understanding of the EU role (Georgieva, Thyssen);
- **Simplification** – simplifying rules by orienting controls towards the risk profile (e.g. lower risk, simpler controls and vice versa (Georgieva);
- **Flexibility** – the need for more flexibility to cope with unforeseen purpose and new challenges, such as the refugee crisis or future economic shocks (Georgieva, Schäuble); the possibility of creating a substantial general (crisis) margin with clear rules on how it can be accessed.

The European added value of the MFF and Cohesion policy were also the foci of a ministerial debate of EU28 Ministers for Cohesion policy, organised by the Polish Government on 13-14 April 2016. The issue paper prepared for the meeting reviewed the concept of European added value and argued that it was necessary to distinguish the concept of added value in relation to the EU budget in general and its application to specific EU policies in order to provide a framework for comparison and assessing the relative value of different policies (Box 1).

Box 1: European Added Value in the MFF and Cohesion policy: Cracow Issue Paper

The issue paper proposes a two-step process for developing the concept of European added value. The first step focusses on the MFF as a whole by identifying common reference points and criteria for the majority of EU spending policies. Based on current EU debates, the core building blocks would include:

- **Subsidiarity.** Actions with a clear European added value, namely where EU action is needed to achieve EU goals, to address problems with a clear European dimension and which cannot be achieved by a Member State acting alone.
- **Efficiency.** Actions that create growth prospects, encourage private financing, address themes in which EU businesses must become more competitive, that are economically viable, that establish a financial critical mass and that can achieve significant results across the whole EU.
- **Performance.** Result-oriented planning and budgeting including clear and measurable targets and result indicators directly linked to the EU objectives and with a justified intervention logic. There is also a need to improve and spread mechanisms to review outcomes (e.g. performance reserves).

A second step would involve applying the concept to individual policy areas and identifying additional policy-specific aspects of added value. In the case of Cohesion policy, the following elements are highlighted:

- **Subsidiarity.** Cohesion policy addresses all of the above subsidiarity elements. The paper also stressed the particular European added value from cross-border, transnational and interregional projects which bring benefits that are not possible to be achieved by acting alone, and also strengthen the EU single market
- **European public goods.** Contributes to the European innovation system, the EU internal market, clean air, implementation of the EU law, the trans-European transport, energy and ICT networks with a territorial/place-based approach that is not used in other instruments.
- **Delivery of wider EU goals.** Incentive to timely implementation of other EU policies, strengthening governance and ownership at national and regional levels through EACs and multi-level governance.
- **Efficiency.** Supports actions which create growth prospects, encourage private financing, pass ex-ante tests of economic viability, establish a financial critical mass and provide a substantial financial leverage effect.
- **Performance.** Subject to ex-ante checks, mid-term reviews and ex-post evaluations, with clear and measurable targets and result indicators linked to the EU objectives (Europe 2020, CSR and NRP, EACs) and performance reviews and incentives (the performance framework and reserve).
- **Administrative.** Contributes to the administrative convergence across the EU through institutional and policies reforms.

Source: Issue Paper for the meeting of EU 28 Ministers for Cohesion Policy on 13-14 April 2016 in Cracow.

The reform of the EU's own resources and the work of the HLG will be discussed in an interinstitutional conference with national parliaments organized by HLG Own Resources on 13-14 June 2016 at the EP in Brussels.

1.4 The debate on reforming Cohesion policy

The Commission has not provided formal policy orientations for post-2020 as yet, but some thinking on the key issues is evident from various interventions on the post-2020 debate. In August 2015, Commissioner Crețu set out ten questions to stimulate post-2020 reflections concerning the policy's challenges and objectives, territorial targeting, architecture, instruments and governance (Box 2).

Box 2: Commissioner Crețu questions to guide the post-2020 Cohesion policy reflections

Objectives

1. How EU Cohesion policy can best contribute to its two complementary objectives, the two sides of its coin: competitiveness and cohesion. In your opinion, what is the added value of cohesion policy in this context?

Less Developed Regions

2. What is the best way to support the lagging regions, especially those which in spite of decades of EU and national support, did not converge towards the EU average?

Policy architecture

3. How should the architecture of the policy be defined? Should Cohesion policy continue to invest in the advanced regions, especially in the metropolitan ones, which are not only richer, but also privileged by private investors?

Financial instruments

4. What is the best use of Cohesion policy funds to stimulate investment in Europe? Which form of support is most efficient: grants, repayable assistance, FIs, or their combination? Should the share of FIs in EU funds be further increased?

Thematic and territorial balance

5. How can Cohesion policy investment best contribute to overarching European priorities, while keeping its territorial focus? Should we pay a more specific attention to certain geographical areas?

Challenges

6. How could Cohesion policy address new or growing challenges (such as, for instance, energy security or migration)?

Urban dimension

7. What should be the role of urban dimension in cohesion policy? Where can EU action bring most added value? On the contrary, how can Cohesion policy better support growth, jobs and innovation outside heavily populated areas?

Governance

8. How can we further simplify the implementation of the policy for beneficiaries? How can Cohesion policy stimulate better national and regional governance? Should the shared management model be revised? Should there be any kind of conditionality regarding quality of institutions?

Financial allocations

9. Should the allocation of Cohesion policy funds continue to be based on GDP per head, or rather on other indicators capturing social progress?

Economic governance and structural reform

10. What form should take the contribution / integration of cohesion policy to the EU's economic governance and structural reform agenda?

Source: Crețu C (2015) Speech at the 55th Congress of the European Regional Science Association in Lisbon, Portugal, 28 August 2015.

By contrast, more recent speeches in 2016 by Commissioner Crețu and her Head of Cabinet Nicola De Michelis have focussed on four key challenges for Cohesion policy in the post-2020 period:¹⁰

- i) **Flexibility.** The refugee crisis has demonstrated that Cohesion policy is not flexible enough to respond swiftly to new challenges/priorities. Flexibility must accordingly be a core principle for the future so that Cohesion policy can react to new events. While this may imply losing a degree of stability/predictability in investment planning, the alternative could be to create flexibility outside of the cohesion heading in the MFF compensated through a reduction in Cohesion policy funding.
- ii) **Economic Governance.** The links between Cohesion policy and wider economic governance have been strengthened in terms of alignment with CSRs and macro-economic conditionality. The challenge now is to demonstrate that Cohesion policy is contributing to Europe 2020 targets and the delivery of key structural reforms (e.g. health and education systems). The focus should be on optimising the functioning of the links between Cohesion policy and economic governance. A radical alternative is to convert Cohesion policy into financial incentive for the implementation of structural reform/CSRs, as suggested by the German Finance Minister.
- iii) **Performance.** An increased performance orientation has been a cornerstone of the 2013 reform through requirements for thematic concentration, a clearer intervention logic with targets and result indicators, and a performance reserve. The challenge is to provide credible evidence of performance in 2014-20 and making the performance framework an effective instrument for measuring and reporting on progress and results in the post-2020 period.
- iv) **Simplification.** The complexity of administration is an ongoing challenge particularly in the area of audit and control. The HLG on Simplification will focus on improving simplification in 2014-20 but will not entail major changes to the policy framework. A more fundamental and systemic simplification for the future would require a rethink of budgetary discharge requirements and responsibilities.

¹⁰ Crețu C (2016) Opening speech at the Ministerial meeting of the Visegrad Group Countries (Czech Republic, Hungary, Poland, Slovakia), Bulgaria, Croatia, Romania and Slovenia, 26 January 2016: https://ec.europa.eu/commission/2014-2019/cretu/announcements/opening-speech-ministerial-meeting-visegrad-group-countries-czech-republic-hungary-poland-slovakia_en; De Michelis N (2016) Speech at the conference 'The future of Cohesion policy beyond 2020 Final conference', 3 March 2016, Committee of the Regions, Brussels.

2. THE BASELINE FOR REFORMING COHESION POLICY: ASSESSMENT OF THE 2013 REFORM

As a starting point for assessing the future directions of Cohesion policy, it is useful to take stock of the major reforms introduced in 2013 and only now being implemented, identifying the perceived strengths and weaknesses.

The 2013 Common Provisions Regulation (CPR) introduced important innovations to the management and implementation of Cohesion policy programmes. These changes were intended to:

- enhance the strategic coherence of Cohesion policy programmes through multi-Fund programmes and a common overarching strategic and regulatory framework for all European Structural and Investment Funds (ESI Funds), including the rural and maritime Funds;
- increase thematic concentration, through alignment with the Europe 2020 strategy and compulsory investment thresholds for pre-selected Thematic Objectives (TOs);
- promote better performance and achievements (results-orientation, EACs and a performance reserve linked to the achievement of interim milestones and final targets);
- improve the leverage of the ESI Funds through increased use of FIs; and
- encourage integrated, localised, bottom-up development through new instruments (Integrated Territorial Instruments (ITIs), Community-led Local Development (CLLD) and Sustainable Urban Development strategies (SUD)).

These changes have significantly influenced the programming process, although their impact on programme management and the outcomes of intervention will not become clear until later in the period. Some preliminary indication on the progress of the reforms is, however, available from the European Commission's Article 16 report,¹¹ as well as the views of programme authorities.

This first section of this report takes stock of the main regulatory innovations. It reviews in turn each of the reforms, the available evidence from secondary sources for their implications, and the views of IQ-Net programme authorities.

2.1 Strategic coherence

There are four principal elements to the regulatory changes seeking greater strategic coherence of ESI Funds spending:

- a) a Common Strategic Framework (CSF) at EU level and the requirement for Member States to produce Partnership Agreements (PAs) as a framework for Operational Programmes (OPs), providing more strategic direction for programming,¹² compared to 2007-13, supported by the

¹¹ European Commission (2015c) *Investing in jobs and growth – maximising the contribution of European Structural and Investment Funds*, Communication from the Commission, COM(2015) 639 final, Brussels, 14.12.2015.

¹² Kah S, Mendez C, Bachtler J and Miller S (2015) *Strategic Coherence of Cohesion policy: Comparison of the 2007-13 and the 2014-20 Programming Periods*, Study for the Directorate General for Internal Policies, Policy Department B: Structural and Cohesion Policies, European Parliament, 2015: [http://www.europarl.europa.eu/RegData/etudes/STUD/2015/540354/IPOL_STU\(2015\)540354_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2015/540354/IPOL_STU(2015)540354_EN.pdf)

Commission's initiative to produce country-specific Position Papers to guide and inform the preparation of the PAs;¹³

- b) a single regulatory framework for the renamed ESI Funds, now including not only the ERDF, ESF and Cohesion Fund, but also the EAFRD and EMFF;
- c) re-introduction of the possibility to implement multi-Fund programmes; and
- d) consistency with the applicable CSRs and National Reform Programmes.

Past research has shown that the new approach has been welcomed by MAs across Europe. It has provided a clearer understanding of EU objectives and priorities among Member State authorities, and giving them a better appreciation of what to expect from the Commission during negotiations

At the same time, not all Member State authorities have exploited the opportunity of multi-Fund OPs. Across the EU, 20 Member States are implementing multi-Fund programmes (the exceptions being Austria, Belgium, Denmark, Ireland, the Netherlands, Spain and the United Kingdom).¹⁴ Multi-Fund OPs are the dominant programme type in France (27 of 39 OPs in total), Poland (16 of 22) and Portugal (8 of 12).¹⁵ Overall, however, there are only 95 ERDF-ESF OPs, less than a quarter of the total 393 programmes in place.¹⁶

Two factors have played a role in this limited take-up of the multi-Fund option. One is the persistence of **inconsistencies in the rules for the different funds**, which complicates integrated programming – both within OPs and within territorial instruments (discussed in Section 2.7). Although the CPR cover all ESI Funds, the harmonisation of rules within the CPR is most prevalent only for ERDF and ESF. There are still important differences between rules applicable to different Funds, and it is difficult to trace which provisions apply to which Funds. Some parts of the CPR cover five, others four and others only three Funds, and the fact each Fund retains its own Fund-specific regulations makes each quite distinct (the regulation for rural development is particularly different). Further, financial data need to be separated by fund, entailing challenges with regard to audit, monitoring, performance reserve and Programme Monitoring Committee competences.¹⁷

A second factor limiting multi-Fund OPs has been the **domestic attribution of policy competences along separate ministerial (and often political) lines**, which has deterred programme authorities from pursuing a more integrated approach.¹⁸

Nevertheless, among the IQ-Net programme authorities, the new strategic coherence requirements are widely regarded as a beneficial element of the new CPR and programming framework. Indeed, in some cases, they recommended a similar strategy to be put in place for the post-2020 period also.

¹³ Mendez C, Kah S and Bachtler J (2013) 'Preparing for 2014-20: Programming, Concentration and Performance', *IQ-Net Thematic Paper 32(2)*, European Policies Research Centre, University of Strathclyde, Glasgow: [http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net_Reports\(Public\)/Thematic%20Paper_32\(2\).pdf](http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net_Reports(Public)/Thematic%20Paper_32(2).pdf)

¹⁴ Pucher J, Naylor I and Tödting-Schönhofer H (2015) *Research for REGI Committee – Review of the Adopted Partnership Agreement*, Study for the Directorate General for Internal Policies, Policy Department B: Structural and Cohesion Policies, European Parliament, 2015: [http://www.europarl.europa.eu/RegData/etudes/STUD/2015/563393/IPOL_STU\(2015\)563393_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2015/563393/IPOL_STU(2015)563393_EN.pdf)

¹⁵ Kah S *et al* (2015) *op. cit.*, p. 73.

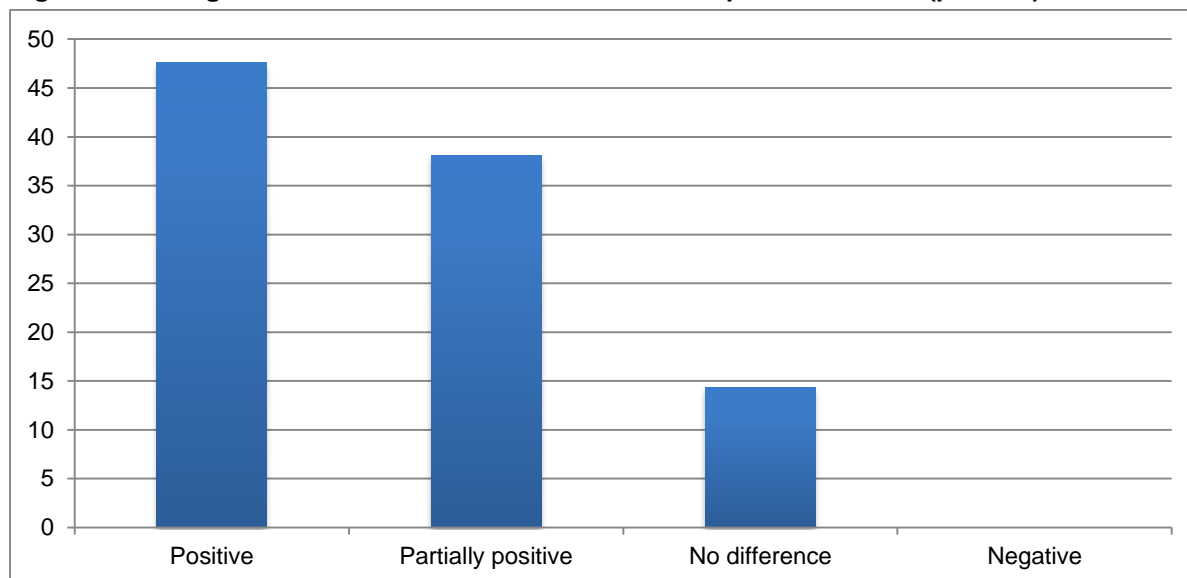
¹⁶ Petzold W (2015) *What if regions and cities governed EU regional and urban policy?*, Paper presented at the conference 'Challenges for the New Cohesion Policy 2014-2020', Riga, 2-4 February 2016, p. 6.

¹⁷ Kah S *et al.* (2015) *op. cit.*, p. 71.

¹⁸ Pucher J *et al.* (2015) *op. cit.*

Figure 1 below provides an overview of the assessments of IQ-Net partners of the new strategic framework's impact on the design and implementation of 2014-20 programmes. By and large, IQ-Net programme authorities consider the new strategic framework positively and, although IQ-Net authorities are critical of some aspects of the new rules, only a few authorities consider the impact of the new regulations to have made no difference.

Figure 1: Strategic coherence – IQ-Net assessment of impact of reforms (percent)



Source: EPRC interviews with Member State authorities.

However, many IQ-Net programme authorities are cautious about the impact of the strategic coherence framework beyond the programme design stage, linked to the difficulty of bridging the rules of the various Funds. In this respect, the experiences of IQ-Net programmes reflect concerns recently expressed by the Council of European Municipalities and Regions (CEMR), who observed that ‘the multi-Fund approach is difficult to implement as there are different rules and different approaches to the different funds. The EU should move towards a single process for application, performance management, reporting, and audit across all funds, with common processes and procedures wherever possible’.¹⁹

In the view of IQ-Net authorities, there are several perceived weaknesses or concerns regarding efforts to achieve more strategic coherence.

- A fundamental question is whether the improved coordination achieved in the *design* of PAs and programmes (of particular importance in countries such as Greece, Slovakia) will **translate into implementation in practice**. The different logics that inform the regulations of individual funds complicate the implementation of certain types of operations (e.g. multi-Fund projects or multi-thematic operations). In some cases, the strategic coherence with the rural and maritime Funds (EAFRD and EMFF) has improved, whilst synergy between ERDF and ESF continues to leave much to be desired; in others, it is the other way around. Overall, coordination between different Funds is still regarded as sub-optimal.

¹⁹ Gunnarsson C (2016) Speech by the Mayor of Sala (Sweden) and CEMR spokesperson on territorial development at the conference ‘The future of cohesion policy’, Committee of the Regions, 3 March 2016: file:///C:/Users/hls03103/Downloads/CEMR_Speech_future%20cohesion_EN.pdf

- The new framework is not improving the **coherence between Cohesion policy and other EU policies**, particularly between Cohesion policy and EU Competition and Single Market policies.²⁰ The relationship between Cohesion policy and EU economic governance is also regarded as problematic, particularly the insufficient consideration of the territorial dimension in economic governance thinking and policy measures.
- The approach to strategic coherence has not been appropriate in Member States where there is **no over-arching national strategy or policy approach** (e.g. United Kingdom). The ‘forced link’ between the PA and OPs is not regarded as successful in the United Kingdom context (delaying the launch of programmes); some United Kingdom programme authorities argued that PA focusing more on coordination and partnership working, rather than on the programmes’ financial and output details would have been more appropriate in the devolved United Kingdom.
- Effective strategic coherence is constrained by a **lack of flexibility in implementation**.

Lastly, it should be noted that several countries are making their own efforts to improve strategic coordination, for example enhancing inter-ministerial coordination (Finland), reforming domestic governance (Sweden) or reorganising internal administrative procedures to improve cross-ministerial cooperation (Wales) – see Box 3 below.

Box 3: Domestic initiatives to enhance strategic coherence during implementation

In **Finland**, national ministries cooperated during the programme design stages, and ongoing discussions are seeking to increase coordination and cooperation between the business aids of the Ministry of Employment and the Economy (under the Growth and Employment Programme) and the measures promoting businesses provided by the Ministry of Agriculture and Forestry (under the Rural Development Programme which has now significantly more funding available than in the past).

In **Sweden**, synergy and cooperation between ERDF and ESF has been made easier by the co-location of the MAs in the regions. The MAs have continued this cooperation by carrying out joint activities, such as joint information events for the respective staff.

In **Wales**, the coordination across Funds encouraged by the PA is being pursued through a joint programme monitoring committee (since 2000) and a new ‘cross-Fund portfolio group’ within the MA: the Welsh MA runs an internal cross-Fund portfolio management group made up of people managing different parts of different Funds who meet quarterly to talk about portfolios and common areas of interest, ‘create space to make links’, and actively search for projects that can come into that ‘joined-up space’.

²⁰ Davies S (2015) ‘Is simplification simply a fiction?’, *IQ-Net Thematic paper 37(2)*, European Policies Research Centre, University of Strathclyde, Glasgow: [http://www.eprc.strath.ac.uk/ignet/downloads/IQ-Net_Reports\(Public\)/ThematicPaper37\(2\).pdf](http://www.eprc.strath.ac.uk/ignet/downloads/IQ-Net_Reports(Public)/ThematicPaper37(2).pdf)

2.2 Thematic concentration

Thematic concentration in 2014-20 is based on structuring intervention under the Funds around 11 TOs and setting minimum proportions of programme expenditure under ERDF and ESF that need to be allocated to key objectives (varying by category of region), as well as setting minimum thresholds of spending for ESF and urban development.

Research undertaken for the EP in 2015 has highlighted the varied impact of these new requirements. In some Member States, they have led to a significant increase in thematic concentration (e.g. Germany, Spain, Finland, Poland and Bulgaria). The impact has been less in countries where thematic concentration was already high in 2007-13 (e.g. Austria, France, United Kingdom).²¹ While most countries included all TOs in their PAs,²² thematic concentration requirements 'had a major impact on funding allocations in most Member States' and was vital in driving a substantial increase in the ERDF/Cohesion Fund allocations to the TOs 1 to 4.²³

At the same time, some Member State authorities have been critical of the (in)flexibility of the new requirements for matching domestic priorities. This is particularly because the range of themes is considered too restrictive, because there are inconsistencies with domestic geographies, and because the approach taken by the Commission in the negotiations is regarded (by some) as 'excessively rigid'.²⁴ Further, Member States have expressed concerns with absorption and effectiveness, as 'it is not clear whether allocations to specific objectives advocated by the Commission will be absorbed or whether they represent the most effective use of the Funds in individual countries and regions. Member States are divided on the special ring-fencing rules (five percent for urban development, minimum shares for ESF, regional differentiation); while some regard them positively, there is substantial critical opinion on their added value, the 'arbitrary' ceilings, and (with respect to regional differentiation) the administrative complexity created.²⁵ And lastly, major concerns were expressed by some Member States and the EP's Regional Development Committee about the shift implicit in the new approach towards making Cohesion policy a 'delivery agent' for other EU policies.²⁶

The views of IQ-Net programme authorities on thematic concentration are equally varied (see Figure 2). Almost one third of authorities consider the impact is - or will be - positive (27 percent) and a further 45 percent consider it be partly so, with the remainder taking a negative or neutral view. A positive view does not necessarily imply major impact: several authorities noted that domestic priorities were already aligned with the themes of the Europe 2020 strategy and so the actual impact of the thematic concentration requirements were limited (e.g. Austria, Belgium (Vlaanderen), Portugal, Spain (Bizkaia)).

²¹ Kah S *et al.* (2015) *op. cit.*, p. 64.

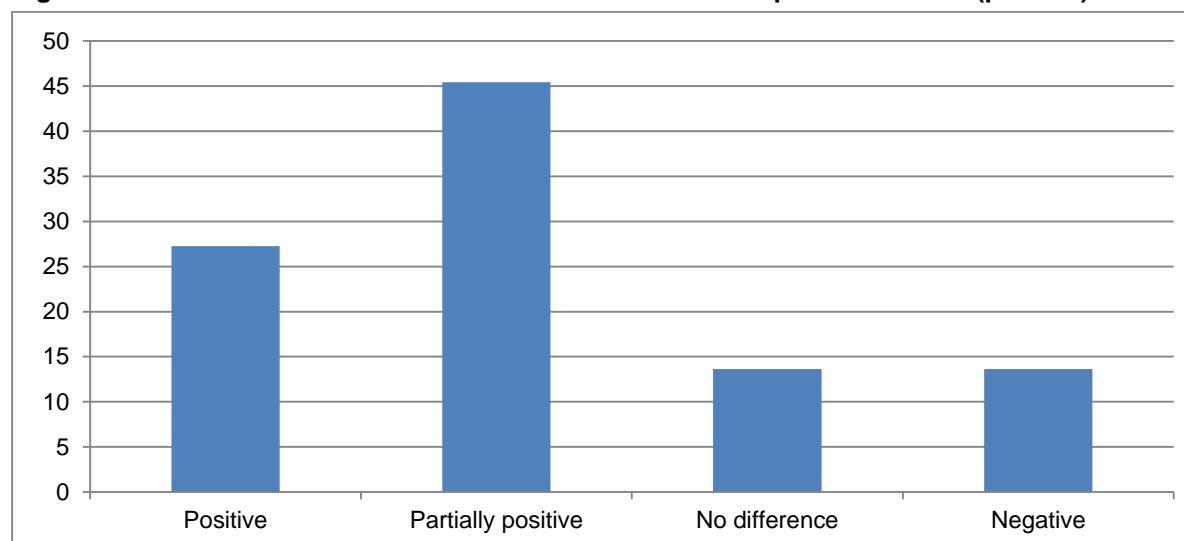
²² Pucher J *et al.* (2015) *op. cit.*, p. 10.

²³ Kah S *et al.* (2015) *op. cit.*, p. 51.

²⁴ *Ibid.*, p. 65. This is contradicted by Pucher *et al.* (2015) who concluded that there 'appear to be no major hurdles to establishing coherence between national needs as defined in national development programmes and the CSRs on the one hand, and the requirements of thematic concentration and the Europe 2020 targets on the other hand.' (p. 18).

²⁵ Kah S *et al.* (2015) *op. cit.*, p. 83.

²⁶ *Ibid.*

Figure 2: Thematic concentration – IQ-Net assessment of impact of reforms (percent)

Source: EPRC interviews with Member State authorities.

Among the positive elements of the new provisions of thematic concentration, IQ-Net authorities noted the following:

- the utility of investment thresholds as ‘steering tools’ and as means through which a critical mass of investment in selected themes could be secured;
- the usefulness of investment thresholds as mechanisms for justifying policy choices and resisting wider ranging domestic demands for EU funding;
- the improved clarity of rules which are more readily applicable and easy to interpret, including the detailed break-down of TOs in Investment Priorities (IPs), and the greater stringency of the new framework compared to 2007-13;
- the innovation of implementing EU energy policy through Cohesion policy, viewed as a key policy field by a number of IQ-Net partners; and
- the benefit of being able to focus public debate on key themes, and publicly legitimise funding allocations.

On the other hand, negative features of the thematic concentration include:

- increased complexity of programme preparation and (expected) increased complexity with regard to monitoring during implementation;
- increased prescription and reduced subsidiarity, especially less potential to address specific national/regional needs that are not in line with Europe 2020 priorities;
- lack of flexibility to respond to territorial conditions, with less scope for a place-based approach;
- less scope for strategic management, with a need to adapt spending plans to meet thematic quotas which are set outside of the programme (see Box 4);

Box 4: Strategic influences of compulsory thematic thresholds

In **Poland**, the Pomorskie regional OP MA had to allocate at least 20 percent of OP funds to social inclusion measures, despite the fact that the region's own strategic analysis indicated that more investment in education would be more beneficial. Thus, minimum thresholds, although logical in theory to ensure the concentration of investments, have in practice proven contrary to the pursuit of place-specific territorial agendas. This is considered to be disempowerment of the regional MAs, whose role has become that of managing flows of funding, rather than steering development.

In **Wales**, there was a contradiction between the requirements of thematic concentration and investment needs identified through economic analysis. During the programming phase, the MA (Welsh European Funding Office, WEFO) commissioned an independent review of the arrangements for implementation of the Structural Funds programmes 2014-20. The **'Guildford Review' – 'Investing in Growth and Jobs: An Independent Review of Arrangements for Implementation of European Structural Funds Programmes 2014-2020'** involved a stock-take of the arrangements for accessing Structural Funds for the next period. The evaluator assessed how these arrangements have worked in the current and previous programme periods and identified lessons learned in order to support continuous improvement. The report recommends the use of an Economic Prioritisation Framework (EPF) to help plan and direct project selection on key areas of the economy and achieve greater synergy with Welsh Government strategies and Europe 2020.

The EPF, which is considered a 'live' document that can be changed during implementation, identifies ten key economic opportunities in Wales. These opportunities are both thematic (relating to a specific business sector) and regional (relating to a specific region of Wales), and they are aligned with Welsh government policy priorities. The EPF recommended that the MA focuses Structural Funds support on large and strategic projects (Backbone projects), which make a significant contribution to the areas of backbone activity outlined in the EPF, i.e. areas of activity which have significant potential to deliver against many of the economic opportunities in the EPF and to deliver a significant proportion of the outputs and outcomes set out in the OPs. The economic opportunities identified in the EPF include many areas which would be considered 'infrastructure' by the Commission.²⁷

- absorption challenges in relation to some of the themes (e.g. RTDI or energy) and MA concerns that the requirement to reach the thresholds agreed at programme design stage will translate into low selectivity during implementation in fields where there is insufficient demand and (consequently) a detrimental impact on programme effectiveness;
- a range of selected objectives and priorities that is considered still too wide to ensure proper concentration of spending (and in at least one case – Denmark – has resulted in an allocation profile less concentrated compared to 2007-13);
- insufficient flexibility in the current framework to deal with new challenges (e.g. migration);
- unclear implications for different Funds – thematic concentration does not appear to suit all Funds in the same way (resulting in too many indicators and targets becoming a 'counting exercise');

²⁷ See WEFO (no date) *The Economic Prioritisation Framework (EPF) Briefing Paper*: <http://gov.wales/docs/wefo/publications/141216epfbriefingpaperen.pdf> (accessed 1 May 2016), and WEFO (2015) *The Economic Prioritisation Framework for Welsh European Funds: A Guidance Document providing an Investment Context for the Implementation of EU Programmes in Wales*: <http://gov.wales/docs/wefo/publications/150615theeconomicprioritisationframeworkv3.pdf> (accessed 1 May 2016).

- the inconsistency in the regulations in describing the actions of intervention under each theme, which are detailed in some cases but less precise in others;
- a lack of recognition that thematic concentration does not necessarily provide the best solution to address the most pressing problems; where programmes further were previously largely investing in infrastructure, the shift away from this and the related reduction of project size may increase the administrative and monitoring workload at implementation stage; and
- the more focused nature of programmes (fewer specific objectives) can make it more difficult to join up interventions.

There are clear contradictions in some of these views. In some cases, what is viewed as a positive innovation by some IQ-Net programmes is viewed as a negative change by others. This applies, for example, to the abandonment of themes previously supported by the Structural Funds (e.g. tourism, cultural heritage) which is viewed negatively by some authorities among the largest Cohesion policy recipients, but positively by other IQ-Net authorities in More Developed Regions.

2.3 Results-orientation

The reformed Cohesion policy has sought to shift the focus of programming and programme management from financial absorption to the achievement of results. EACs have been negotiated with the Commission to ensure that the necessary conditions for successful programme delivery are in place before programmes are launched or established through action plans soon after programme adoption. The regulations and Commission guidance have required programme authorities to design programmes with an intervention logic, identifying the results to be achieved, combined with more emphasis placed on monitoring, reporting and evaluation during and after programme implementation.

Recent analysis by the European Commission of the programming process concludes that, '[t]he improvements introduced for the 2014-20 period ensure that programmes have more robust results-orientation, with investment need linked to specific objectives and priorities with corresponding indicators and targets for output and results ... this makes it possible to have transparent reporting and evaluate progress towards programme objectives'.²⁸ The fact that the PAs and programmes indicate in detail not only the allocation of resources to Priority Axes and specific interventions, but also the results and output indicators associated with these, for the first time allowed the European Commission to build an overview of the expected achievements of the policy.²⁹ This, in turn, is a powerful effectiveness and accountability tool, which (it is argued) will spur programme authorities and beneficiaries to deliver what they promised. It is also a significant support for implementation insofar as the tracking of outputs and results during the programme period, allows programme managers and those responsible for individual operations to gain a better understanding of whether these are on track or indeed corrective measures need to be taken.

These changes to the programming approach are generally considered to be a welcome addition to the regulatory framework by IQ-Net authorities on the following grounds:

- they have, as anticipated, **increased the emphasis on producing results** and on evaluation, with a positive effect on programmes' intervention logic and on monitoring activities (greater emphasis on indicators and their quality during programming);

²⁸ European Commission (2015c) *op. cit.*, p. 6.

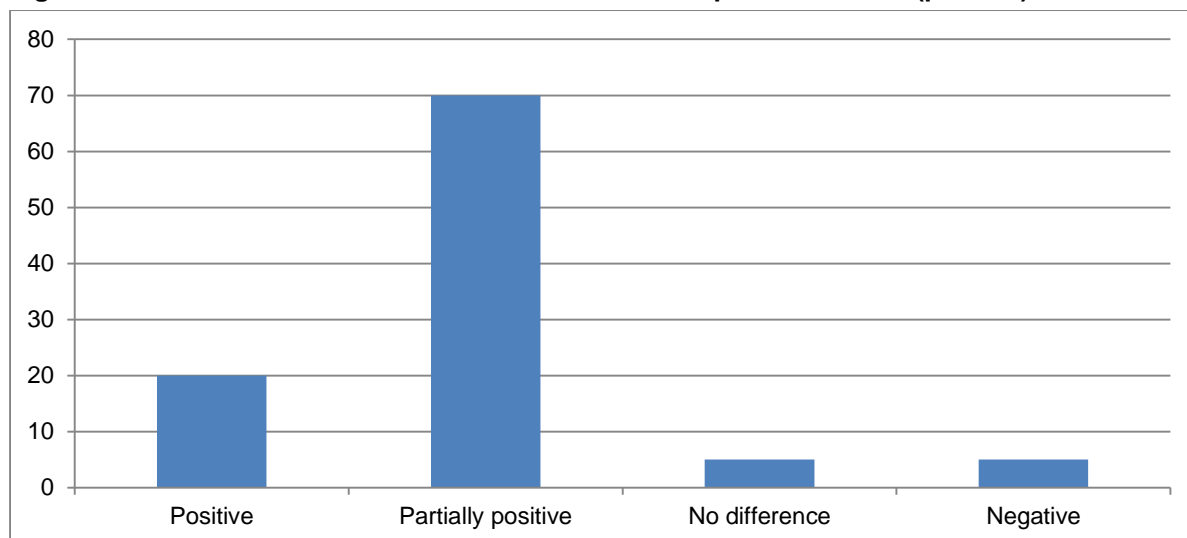
²⁹ *Ibid.*

- the approach has been helpful in **focusing thinking about the target groups of interventions** are and what change the programmes are trying to effect; and
- the requirements have **strengthened the position of MAs** in dealing with partners and beneficiaries, not just at programming stage but also during project generation and selection, enabling them to challenge applications on the basis of the anticipated results and realism of targets.

On the whole, the starting position of programmes is considered to be more positive than in previous periods. The clearer intervention logic in the design of OPs is expected to deliver benefits to the visibility of the programmes and to prevent ‘last minute shifts of resources’ to reach spending targets. Improvements are also expected in the timeliness and accuracy of the drafting of calls for projects, in order to ensure that they lead to the anticipated results.

However, the new approach is also characterised by concerns among programme authorities. Figure 3 summarises the views of IQ-Net partners; interview research found that (more so than with some other aspects of the reform) that there is ambivalence about the benefits of the results-orientation.

Figure 3: Results-orientation – IQ-Net assessment of impact of reforms (percent)



Source: EPRC interviews with Member State authorities.

The perceived shortcomings highlighted by IQ-Net programme authorities are as follows.

- The increased emphasis on results was expected to be accompanied by a reduction in the management and control compliance requirements, which has not materialised (e.g. the MA designation process). On the contrary, the results-orientation has **created a greater administrative workload**, as it did not replace any of the pre-existing obligations (e.g. a shift away from financial absorption and compliance), turning into ‘another extra layer of complication’.
- Indicators and targets had to be set for every aspect of the programme, regardless of their utility. **Some result indicators are not considered useful**, notably where ERDF funding is small relative to the national/regional economy. In such cases proxies were unavoidable, and

there is real concern that evaluation will ultimately find that some of the result indicators were impractical from the start.

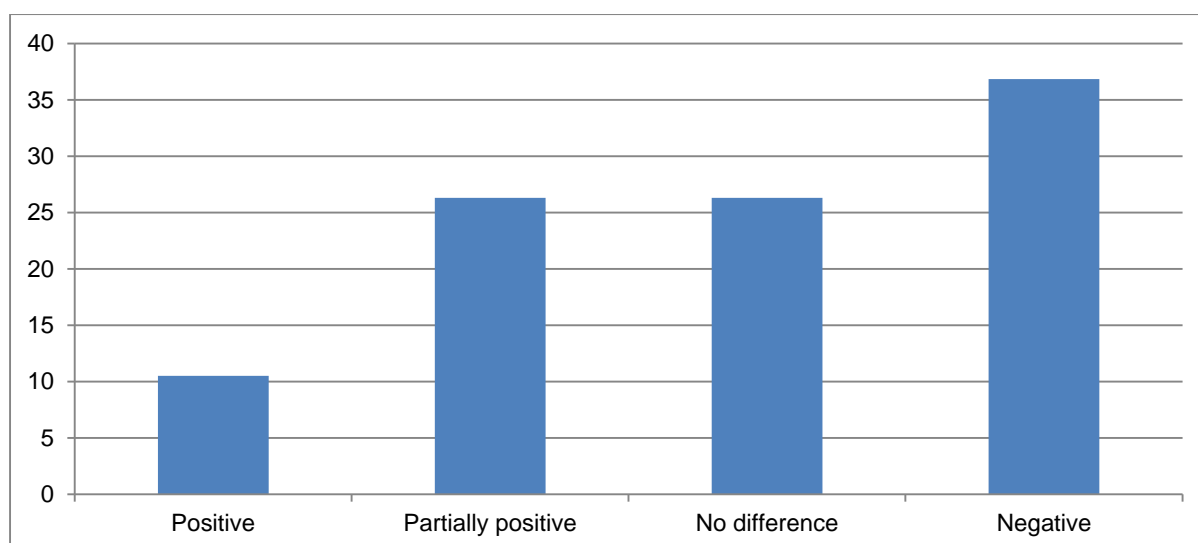
- There have been difficulties in operationalising the results-orientation, **making OP preparation more complicated and time-consuming** than in the past, especially where the principle was not well-established domestically (e.g. in Croatia).
- Although programme authorities have tried to build the results-orientation approach into the application forms for projects and into project reports, the interest of beneficiaries in practice is very much on the eligibility of costs and on the day-to-day running of projects. **Many beneficiaries have not internalised the new logic** in the project implementation stage, as yet.
- **Work to embed the results-orientation will need to be ongoing**, e.g. in the work of monitoring committees and reprogramming exercises, which will not be easy when set against the challenges of absorption. Further, while the availability of result indicators during implementation should allow MAs to adapt the OPs based on the results, it is not yet clear whether MAs will be able to exploit this potential.
- There is a **tension between the need to demonstrate results in the short-term and the long-term nature of actual results** (which can take 10 years or more to materialise).
- **Indicators and targets were not always set based on a theoretical framework and intervention logic**. For instance, in Tampere Region (Finland), the targets of the programme would be met if funding were to be given to all the businesses in the region. However, this is not the intention of the programme, which aims instead to change the operating conditions of businesses in order to improve competitiveness. It would have been necessary to formalise the theoretical arguments of the programme logic before setting out indicators.

There is scepticism among some IQ-Net partners relating to the strong pressure that MAs, secretariats and project applicants alike will face during implementation on 'showing the numbers' but **what really matters is a change of mind-set to project implementation – which is not yet evident**.

2.4 Performance framework

The 2014-20 programme period has seen the introduction of a new 'performance framework', whereby programmes are required to establish measurable milestones (to be achieved by 2018) and targets (to be achieved by the end of the programme period, in 2023). The achievement of milestones and targets is linked to the allocation of a performance reserve of 5-7 percent of each priority within a programme (except Technical Assistance), for a total amount equivalent to six percent of each ESI Fund and category of region. Milestones and targets can relate to financial indicators, output indicators and, where appropriate, result indicators which are closely linked to the supported policy interventions.

Views among IQ-Net partner authorities diverge significantly on the performance framework (Figure 4). A relatively small proportion have a positive opinion; many hold negative views and a significant number consider that it will have minimal effect.

Figure 4: Performance framework – IQ-Net assessment of impact of reforms (percent)

Source: EPRC interviews with Member State authorities.

Whilst some (e.g. Croatia) consider that the performance framework has contributed to a greater focus on performance and results' achievement, others (e.g. Slovenia) see the new requirements as constraining ambition in favour of a 'safe approach'. Several authorities (e.g. Austria, Nordrhein-Westfalen, Scotland) view the performance framework as an additional administrative burden that provides no visible advantages and that is 'likely to fail', with the mid-term review showing that targets are not met (partly because of the delayed start of programmes and partly because 'punitive' approaches do not work). Concerns were expressed about the fact that a similar performance reserve was in place already in 2000-06 and had not worked, and that there was no lesson-drawing from this.³⁰

In Poland, authorities observed that while the arguments for the performance framework may be well founded in theory, in practice deciding the most efficient framework relies on sufficient capacity in both the Commission and Member States, especially to understand the nuances and needs of specific programme areas. Based on past experience – in 2000-06 – both Polish and Scottish authorities expect that the use of a reserve is likely to encourage opportunistic behaviour by MAs, leading to an emphasis on financial absorption and chasing outputs, not necessarily related to strategic impact, thus counteracting the results-orientation efforts. Views were expressed that a more useful reserve would be a 'pot of money' set aside to deal with changing circumstances in the programme context in an ad hoc way, rather than a 'reward' for achieving certain targets.

On the whole, most IQ-Net partners consider that performance framework provisions have (so far) not led to any major changes in the way programmes are implemented and that it is possible (likely even) that expectations will not be fulfilled. The achievement of 2018 targets may be particularly difficult, not least in the light of the long lead-in time (2-3 years) required to implement/certify expenditure and of the delays with programme launch. One IQ-Net partner observed that the performance framework is

³⁰ See also: Bachtler J and Ferry M (2015) 'Conditionality and the Performance of European Structural Funds: A Principal-Agent Analysis of Control Mechanisms in European Union Cohesion Policy', *Regional Studies*, 49 (8), 1258-73.

'measuring too early or the wrong thing'. Requirements to provide precise detail by year and Priority make reporting difficult also.

Lastly, there were divergent views on the type of indicators to be used for the performance framework. While the Council of Ministers rejected the obligatory use of result indicators during the negotiations of the regulations and focussed on output indicators instead, in Italy, a view expressed was that one could have gone beyond these, since they are far from the actual ambitions of the programme.

2.5 Ex-ante conditionalities

The new CPR introduced a number of EACs, defined as 'concrete and precisely pre-defined critical factor[s], which [are] a prerequisite for and ha[ve] a direct and genuine link to, and direct impact on, the effective and efficient achievement of a specific objective for an investment priority or a Union priority' (art. 2(33)). In practice, EACs are lists of measures applicable to the three Structural and Cohesion Funds,³¹ that programme or national authorities have to fulfil, and which are linked to either the 11 TOs of the CSF ('thematic' EACs) or wider, horizontal issues such as compliance with State aids, public procurement or non-discrimination laws and principles ('general' EACs). For example: the existence of a national or regional Smart Specialisation Strategy is one of the thematic EACs associated with TO1, while the presence of the necessary human resources and legal requisites for the fulfilment of EU legislation on anti-discrimination, public procurement and State aid are examples of 'general conditionalities'.

Member States have been required to show the fulfilment of these conditions in their PAs or to adopt Action Plans to ensure that they would be met, reporting subsequently on progress (in June 2017 and 2019). If the Commission is not satisfied with the progress made or with the evidence produced to demonstrate it, it can suspend payments until compliance is achieved.

At the time of PA approval, most EACs had been fulfilled in the EU15 Member States, while '[t]he newer the Member States to the Union, the fewer general EACs appear to be fulfilled'.³² Thematic EACs had been fully fulfilled in Austria, Denmark, Ireland, Poland, Portugal, Sweden and the United Kingdom, with nine Member States having a share of more than 50 percent of the EACs partly or fully unfulfilled (Bulgaria, Cyprus, Estonia, Greece, Croatia, Hungary, Malta, Romania and Slovakia). In total, the PAs reported 549 applicable EACs, of which 47 percent fully fulfilled, 26 percent partly fulfilled and 18 percent not fulfilled (with a further nine percent for which no information was provided in the PAs).³³

An assessment by the Commission, based on the programmes approved by March 2015, concluded that:

- around two thirds of the thematic EACs (i.e. those that relate to a particular sector or policy, such as R&I or social inclusion) applicable at programme level and around three quarters of the general conditionalities assessed at Member States level were considered fulfilled at the time of programmes adoption;
- there are major variations in the degree of fulfilment of EACs among Member States; and

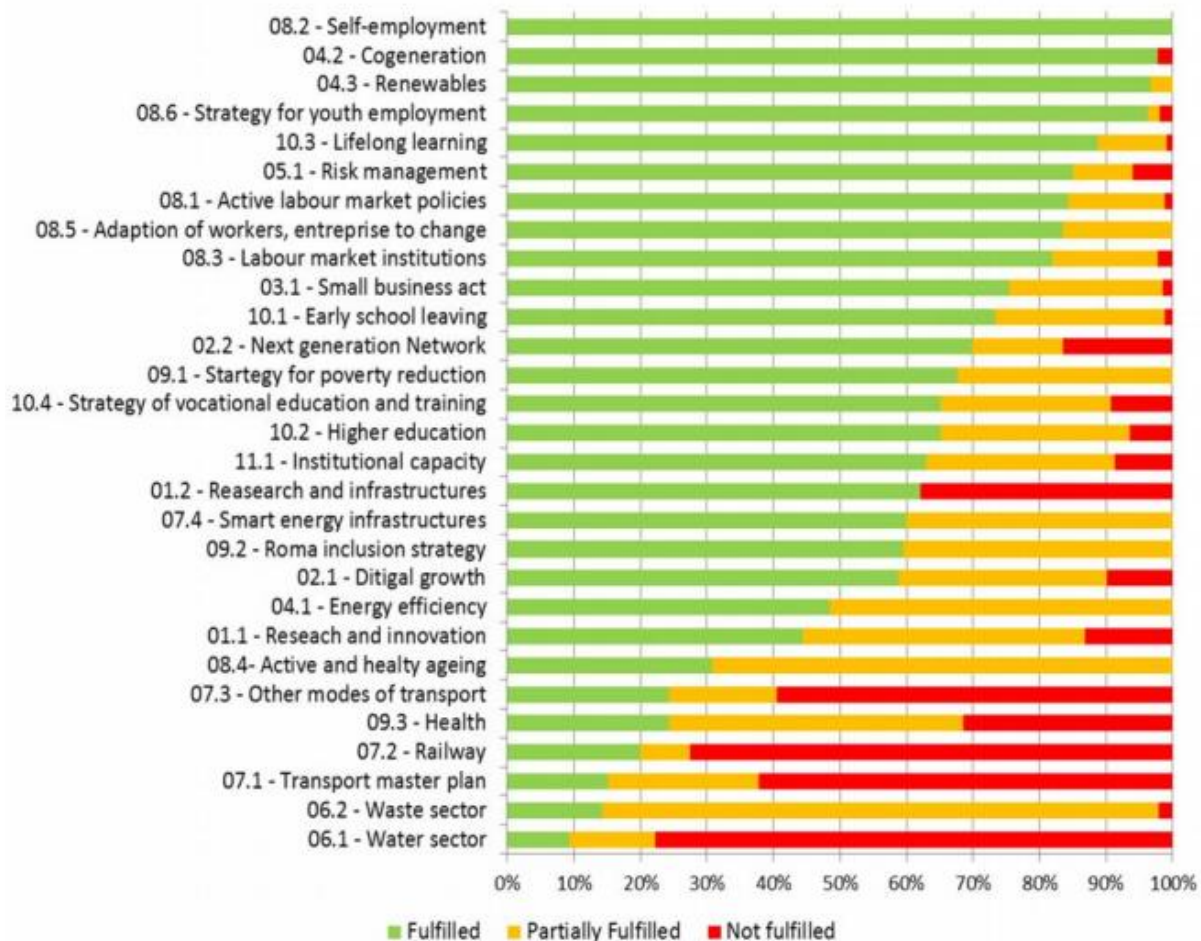
³¹ Also the EAFRD and EMFF have thematic conditionalities, though for these Funds the EACs are detailed in the Funds' regulations and not in the CPR.

³² Pucher J *et al.* (2015) *op. cit.*, p. 19.

³³ *Ibid.*, p. 33.

- some areas were particularly critical (see Figure 5), mainly in relation to transport, social and environmental infrastructures and TOs 6 and 7.

Figure 5: Assessment of thematic EACs at EU level (against the total number of applicable thematic EACs in adopted OPs at the time of their adoption)



Source: European Commission (no date) *Effectiveness and Added Value of Cohesion Policy. Non-paper assessing the implementation of the reform in the programming for cohesion policy 2014-2020*, http://www.europarl.europa.eu/meetdocs/2014_2019/documents/regi/dv/implementationeffectivenesscp/_implementationeffectivenesscp_en.pdf, p. 11.

The Commission attached considerable importance to EACs, asserting that:

‘[t]he ways in which the reformed ESIFs contribute to EU growth go well beyond just funding. The *ex ante* conditionalities support and provide incentives for structural reforms, and help create a better investment climate for private and public investment alike. Furthermore, the increased focus on good governance and administrative capacity across the public sector will ensure modernised and efficient public administrations’.³⁴

Some policy analysts have expressed more cautious views, however, noting that the framework of rules established lacks the necessary cogency to ensure that it is implemented effectively, specifically:³⁵

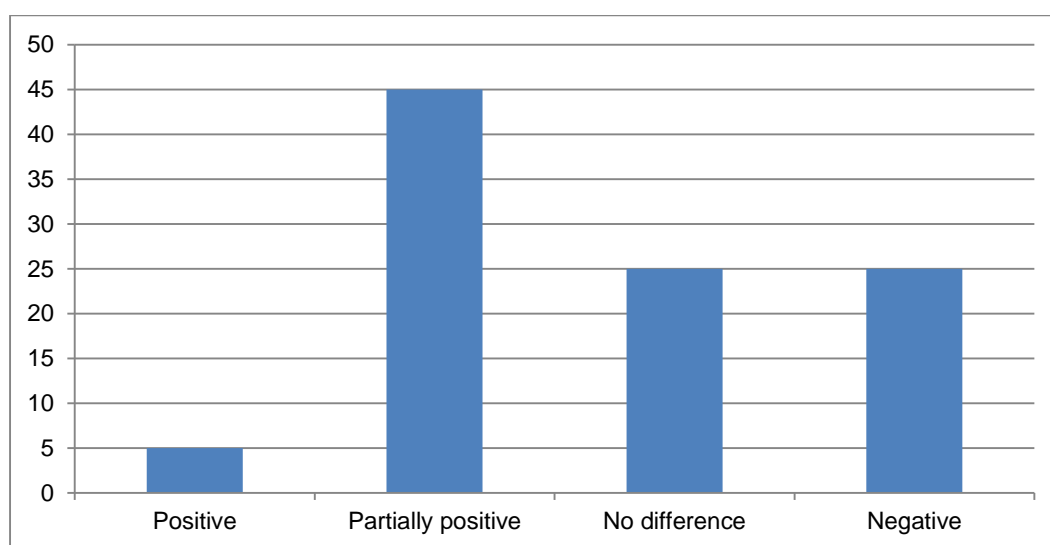
³⁴ European Commission (2015c) *op. cit.*, p. 16.

³⁵ Heinen N (2013) *Not quite fit for purpose. Conditionality under the EU’s financial framework for 2014-2020*, Research Briefing, March 28/2013, Deutsche Bank AG, DB Research:

- the legislation is not sufficiently clear about what happens if Member States are unwilling to supply the information or reporting is poor;
- the improbability, for political and pragmatic reasons, that a possible suspension would be applied to projects that are already well advanced and performing well by the time the Commission has undertaken its assessment and reached a suspension decision; and
- the possibility for Member State authorities to pay lip service to the principle, since conditionalities are often vaguely worded.

Figure 6 shows little sign of conviction among IQ-Net partners that the use of EACs is a wholly positive step. While a significant proportion of authorities are ambivalent or see mix of advantages and disadvantages, there is a sizable set of authorities that have negative or neutral views.

Figure 6: EACs – IQ-Net assessment of impact of reforms (percent)



Source: EPRC interviews with Member State authorities.

Assessments of the utility and expected impact of EACs are mixed, in the sense that some of the conditionalities are considered to have been useful and to have worked quite well at programme design stages, while others proved more problematic. As an example, in Italy, the EACs had a positive effect on the design and realisation of a database on aid schemes covering all aid schemes (not just the ones administered via *de minimis*). This had been discussed for some years, but the EACs stimulated the actual realisation of this useful tool: legislation was passed, a regulation issued and work is ongoing on the IT aspects of the database (the conditionality was partially met at programme start, so an action plan was set-up). This innovation was well received by the regional authorities also, and the database is finally being implemented. For this programme, EACs also allowed ‘courageous choices that would otherwise not have been made’ for example in terms of limiting aids to SMEs. On the other hand, the EAC on administrative capacity was felt to be too taxing, resulting in an overly-ambitious design, embodied by new ‘Administrative Strengthening Plans’, whereby Cohesion policy was assumed to be able to determine a change in the entire public administration. The result ended up being a ‘tick-box

https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000303656/Not+quite+fit+for+purpose%3A+Conditionality+under+th.pdf (accessed 27 April 2016).

approach' with limited actual impact, and this is the fear expressed by Italian stakeholders on this particular conditionality.

The diversity of views among IQ-Net partners also applies to specific conditionalities. For example, the conditionality related to the requirement to design Smart Specialisation Strategies (S3) was considered to have been useful in Austria and Slovenia, because it often helped bring all innovation actors together, but it was viewed as having an unclear added value in Vlaanderen (Belgium) and as being particularly onerous in Finland.

To the extent that a general assessment can be made, it is fair to say that views are more negative than positive. On the plus side, some partners noted that the conditionalities forced domestic administrations to 'open black boxes' and to tackle issues that had historically proven intractable. The more negative views are attributable to:

- conditionalities generating a large workload (not always considered useful), delaying the start date of programmes;
- doubts about the likelihood of success in certain areas and assessments that they resulted in a 'tick-box approach' (with specific exceptions, Smart Specialisation being one according to some IQ-Net partners);
- concerns about several conditionalities that are not directly related to the management and implementation of the programmes and whose fulfilment is outside the control of the MAs (for example, delays at ministerial level in developing a national health strategy as EAC have impeded the implementation of some OP interventions); and
- Commission guidance perceived to be excessive and too detailed, and Commission enforcement that 'went beyond the regulations' (for example, in Spain, in some cases the Commission asked for the timing of domestic strategies to be realigned to fit the 2014-20 programme period, which was resisted).

On the latter point, the Commission is considered by some authorities to have been too inflexible, leading to the necessity to adapt and amend domestic strategies even in contexts where Cohesion policy represents a small proportion of funding. Greek and German authorities expressed particularly negative views. The Greek authorities regard the Commission as broadly re-interpreting the Regulations on the issue by: (i) attaching a wider number of conditions, (ii) imposing suspensions in an arbitrary manner, and (iii) using the threat of not lifting suspensions to obtain results that went beyond the remit of the conditionalities (examples in Box 5 below). German authorities criticize the excessive bureaucracy and the excessive level of detail on requirements (e.g. in terms of the types of committees and monitoring required for the regional innovation strategies).

Box 5: Problems related to EACs in Greece

The Greek authorities regard the Commission as broadly re-interpreting the Regulations by attaching a wider number of conditions, imposing suspensions arbitrarily manner, and using the threat of not lifting suspensions to obtain results that go beyond the remit of the conditionalities. For example, while the conditionality on the S3 strategy has been met and the Competitiveness, entrepreneurship and innovation programme has lagged behind only in terms of the conditionality related to research infrastructure, the Commission insisted on applying a suspension that effectively reflects both. Further, it imposed a set of 12 criteria based for the drafting of the national research infrastructure strategy. In addition, the Commission is said to have been unwilling to take account of any adjustment suggested by the Greek authorities on those criteria, consequently the research infrastructure plan had to be reassessed.

Greek authorities also consider that different Member States have not been treated in the same way, and that with the Greek programmes, the Commission have been particularly demanding. They noted that some EU15 programmes have not been burdened with as many suspensions or pending suspensions. Additional concerns and sources of delay in Greece have been the action plan on public procurement and the lack of coherence and coordination between the timeframe for the conditionalities under Cohesion policy and those under the financial assistance programme for Greece. On the first issue, the Greek authorities were subjected to pressures from the Commission to include various points in the public procurement action plan in order to get the programmes approved.

After the approval of the PA, there was a distinctive stance from DG Grow that led to extensive to extensive negotiations and a detailed action plan included some actions which the Greek authorities opposed.

Many issues regarding conditionalities on public procurement are related to the memorandum on financial assistance as well. Whilst the conditionalities associated with the memorandum and those of the ESI Funds should be coordinated, in reality inter-institutional coordination issues frequently arise, because of the different interpretation of what conditionalities should entail and lack of coordination between the different DGs within the Commission that are responsible for these.

2.6 Financial instruments

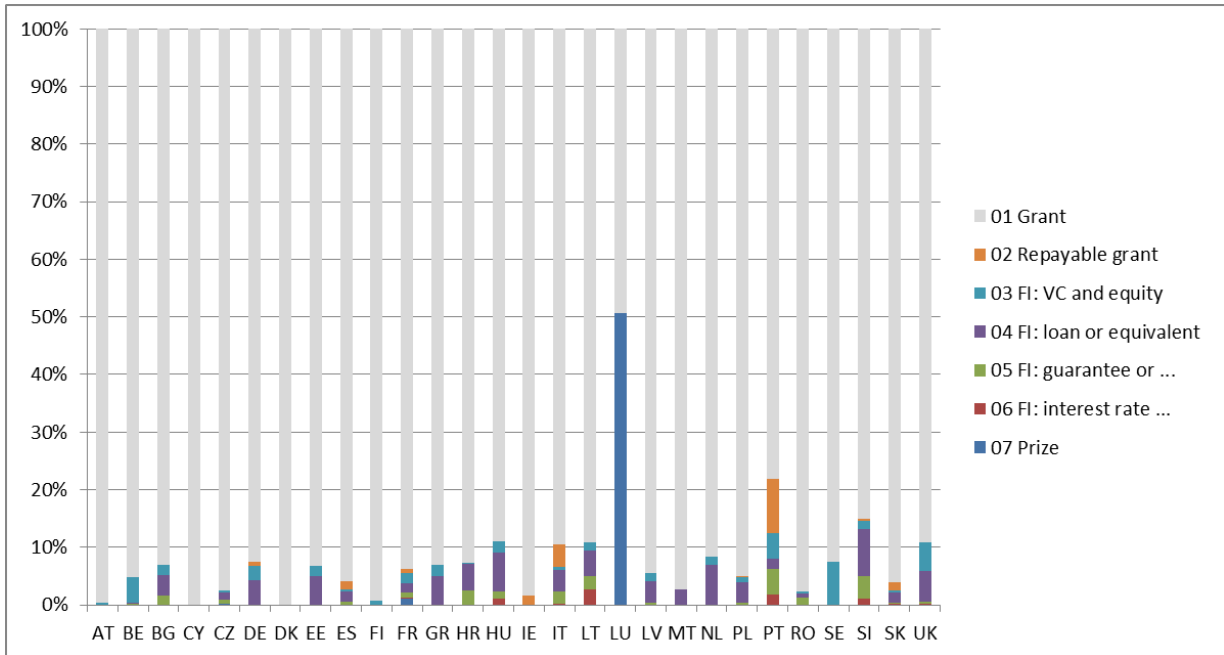
Continuing a trend from previous programme periods, the Commission is supporting an increased use of FIs by Member States in 2014-20. This is not only through the use of FIs within ESIF programmes but also through the Juncker Plan and EFSI and the Council recommendations on the broad economic policy guidelines.³⁶ Within Cohesion policy, the aim is to promote loans, guarantees, equities and other risk-bearing instruments as a way to do 'more with less', delivering monies to beneficiaries and financial recipients in a 'fast, efficient, simple and smart way'.³⁷ An overview of the total amount of planned allocations to FIs in the 2014-20 Cohesion policy programmes by Member State and TOs in each Member State is provided in Figure 7 and Figure 8. According to these data, Denmark and Ireland are the only two countries that make no use of FIs in their current Cohesion policy programmes (as yet), while Croatia and Portugal are the countries that make the most use of these instruments. Take-up varies widely across Member States also in relation to the type of FIs chosen and fields of intervention,

³⁶ Choraży P (2016) *Financial instruments in EU-legislation and para-legislation*, Presentation to the High Level Group on Simplification, 9 February 2016.

³⁷ *Ibid.*

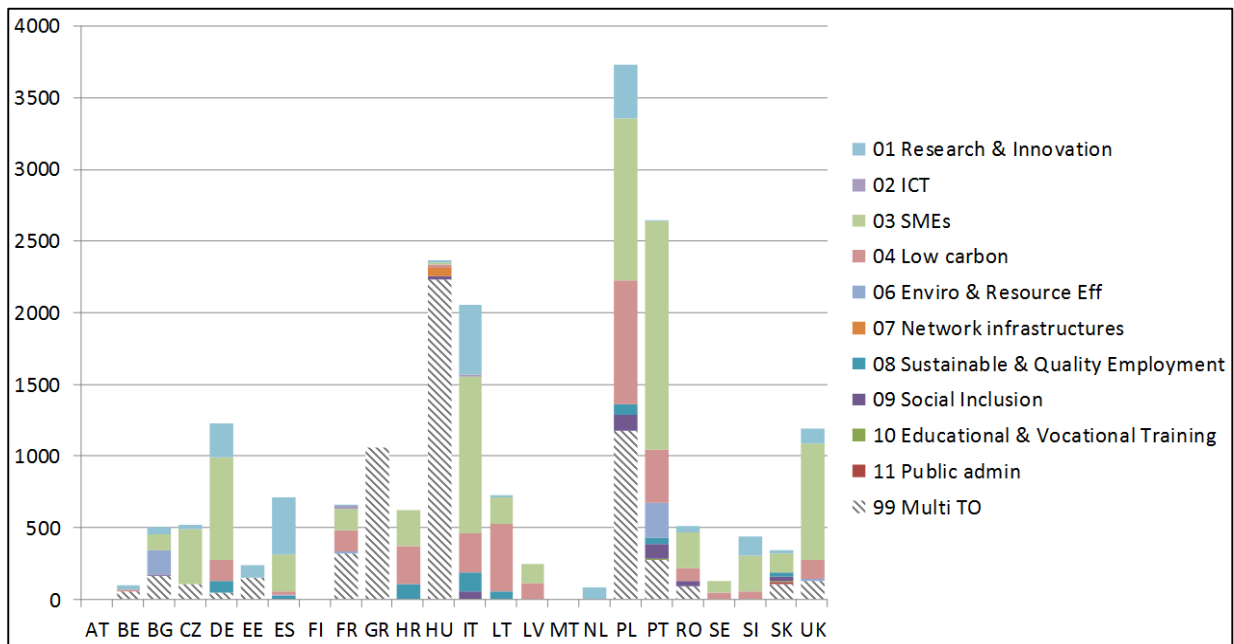
with FIs utilised particularly to support for SMEs in Portugal, Italy, Poland (alongside with low-carbon schemes), Germany and the United Kingdom.

Figure 7: FIs as percentage of total EU Funds (excluding national co-financing)



Source: Wishlade F and Michie R (2016) 'FI and EU Cohesion policy: a 'snapshot' of 2007-13 outturns and 2014-20 plans', *EPRC Briefing to 6th FINE Meeting*, London, 4 March 2016.

Figure 8: FIs by Member State and TO (EU Funds, national co-financing excluded)



Source: Wishlade F and Michie R (2016) *op. cit.*

The use of FIs was not straightforward in 2007-13. The design and set-up of the instruments often took considerable time – two years on average.³⁸ With specific regard to FIs for SMEs, the European Court of Auditors highlighted important shortcomings including deficiencies in the financing gap assessments which were often conducted in isolation from the programming process. Further weaknesses concerned: inadequate legal clarity; significant delays before the funds reached the intended recipients (SMEs); poor leverage of private investments (except for guarantees); monitoring provisions inadequate to allow establishing whether the funds were being soundly managed; fragmentation in too many funds, which hindered the achievement of critical mass; and management cost leakages.³⁹

The regulations for the 2014-20 period sought to address these shortcomings. However, they were not able to satisfactorily address the main problems: the set-up of instruments is still time-consuming,⁴⁰ and there continues to be legal uncertainty; inadequate procedures for the selection of the bodies implementing FIs (generally done through public procurement); and the level of guidance provided by the Commission complicates implementation.⁴¹

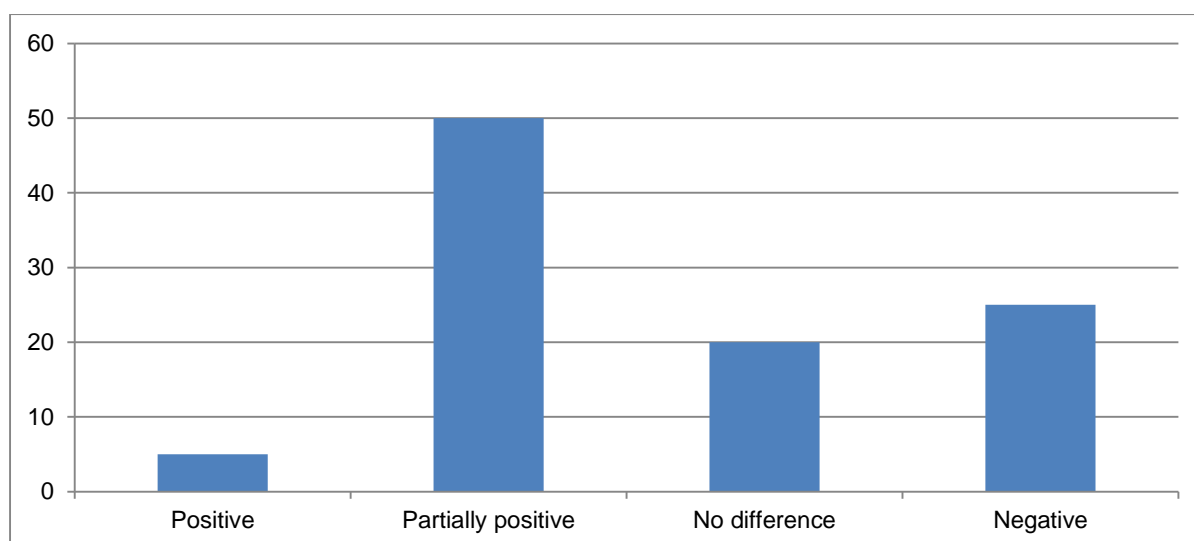
As far as the regulatory changes are concerned, IQ-Net partner authorities generally support the ambition and rationale for a greater use of FIs, in principle. However, as Figure 9 shows there are considerable doubts about the approach in practice, mostly related to the new regulatory requirements and the administrative workload involved; indeed, almost one third of IQ-Net authorities have a negative view. While some value FIs and see considerable scope for exploiting them further in future, others believe that FIs are over-emphasised by the Commission, not least in the light of current market conditions and user demand.

³⁸ Ferry M (2015) 'New OPs, new instruments: progress with the 2014-20 programmes', *IQ-Net Review Paper 37(1)*, European Policies Research Centre, University of Strathclyde, p. 25.

³⁹ European Court of Auditors (2012) *Financial Instruments for SMEs Co-Financed by the European Regional Development Fund*, Special Report No. 2 / 2012, p. 20:
http://www.eca.europa.eu/Lists/ECADocuments/SR12_02/SR12_02_EN.PDF (accessed 27 April 2016).

⁴⁰ Ferry M (2015) *op. cit.*

⁴¹ Chorąży P (2016) *op. cit.*

Figure 9: FIs – IQ-Net assessment of impact of reforms (percent)


Source: EPRC interviews with Member State authorities.

The main criticisms of IQ-Net partners relate to:

- the delays caused by the need for programmes to comply with the new ex-ante assessment requirement, viewed as redundant given the changes in the rules on certification (making ex-ante assessment of the schemes a likely ‘tick-box exercise’);
- a perception that FIs have moved from being ‘under-regulated’ to being ‘over-regulated’, with consequences for the timing of implementation (e.g. delays caused by meeting regulations, on the selection of intermediate bodies; ‘overly complex’ guidance);
- the extensive list of steps/requirements that programme authorities have to follow in order to implement FIs;
- persistent legal uncertainty, causing friction between managing and audit authorities in some cases;
- a perceived lack of an understanding, by DG Regio geographical units, about what is suited to different contexts and tendency towards a ‘one size fits all’ approach; and
- incompatibility or lack of alignment of domestic and EU regulations (e.g. in Sweden).

More fundamental criticisms of the FIs were made by authorities in Austria, Germany and the Czech Republic. In Austria, use of FIs within Cohesion policy has always been rather limited and the perception is that Cohesion policy should focus mostly on grants, and in doing so fill a gap in support instruments as other (domestic) instruments move increasingly towards loans. The German and Czech authorities, on the other hand, have concerns about the need for this type of instrument. Nordrhein-Westfalen, in particular, considers that the potential to use FIs in Germany has been highly overestimated, given that loans and other forms of repayable financial support to firms are currently available at very low interest rates from private sector actors and thus the demand from firms for public FI support is low. Further, the ERDF OP aims to target innovative or risky projects, where grant funding is needed, rather than repayable funding. There are also concerns that, if the public sector makes too much use of FIs, there is a risk of displacing private sector lending and venture capital. Similar concerns about absorption were raised by Czech authorities: given the availability of private lending at relatively favourable conditions,

FIs are not considered competitive in the light of the administrative, legal and technical constraints that they impose.

2.7 Integrated territorial development

In line with the understanding of Cohesion policy as a ‘place-based policy’, as advocated by the 2009 ‘Barca report’,⁴² the CPR provides increased scope for different forms of localised integrated territorial development strategies aimed at urban areas and at other functional areas or areas needing to tackle specific challenges. As discussed in previous IQ-Net research,⁴³ integrated territorial approaches in Cohesion policy can be realised in different ways. Article 7 of the ERDF Regulation requires five percent of ESI Funds to be allocated to Sustainable Urban Development (SUD) and allows national and programme authorities the flexibility to achieve this in a number of ways: through integration of urban development strategies in the mainstream OPs, through dedicated OPs, through dedicated Priority Axes within mainstream OPs, and through new territorial development instruments, ITIs and CLLD.

The take-up of the integrated territorial tools and the approaches chosen to deliver integrated sustainable urban development strategies varies across Member States. In total, 114 OPs include SUD allocations, with a total ERDF financial allocation to SUD that is 50 percent higher than the five percent threshold required by the ERDF Regulation. ITIs for urban development account for over €7 billion of ERDF funding across the EU, against c. €6.6 billion of resources earmarked for SUD within mainstream OPs and c. €0.7 billion allocated through urban development strategies in dedicated OPs (Figure 10).

With respect to the weight of SUD allocations across Member States, Poland stands out as the country with the highest allocations (by far, with more than €3 billion ERDF), followed by Italy, Romania and the Czech Republic, all of which assign more than €1 million ERDF to SUD. Of the countries which are implementing a dedicated OP for urban development – Italy, Czech Republic, Belgium and Sweden – Italy assigns to this programme by far the largest financial allocation (the NOP ‘Metro’ entails circa €445 million of ERDF funding, representing about one third of the entirety of ERDF resources devoted to Article 7 interventions in Italy).

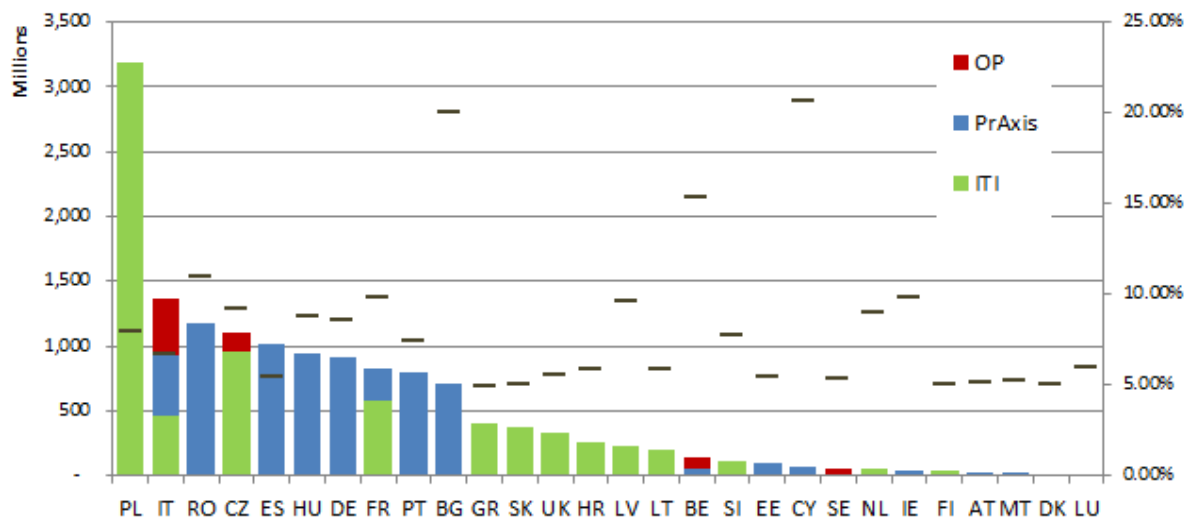
A number of countries – Poland, Greece, Slovakia, the United Kingdom, Croatia, Latvia, Lithuania, the Netherlands and Finland – implement SUD actions wholly through ITIs.⁴⁴ The pace of implementation also varies. While some countries, largely thanks to their previous experience with similar instruments, have already launched ITI calls (already four rounds in Finland for example), there are others where calls have been launched only in some regions (e.g. Germany, Italy), and others still in the process of negotiating with the MAs the financial or operational conditions (e.g. Czech Republic, Romania).⁴⁵

⁴² Barca F (2009) *An Agenda for a Reformed Cohesion Policy, A Place-Based Approach to Meeting European Union Challenges and Expectations*, DG Regio, European Commission, Brussels.

⁴³ Van der Zwet A, Miller S and Gross F (2014) ‘A first stock take: Integrated Territorial Approaches in Cohesion policy 2014-20’, *IQ-Net Thematic Paper 35 (2)*, European Policies Research Centre, University of Strathclyde, Glasgow: [http://www.eprc.strath.ac.uk/ignet/downloads/IQ-Net_Reports\(Public\)/ThematicPaper35\(2\).pdf](http://www.eprc.strath.ac.uk/ignet/downloads/IQ-Net_Reports(Public)/ThematicPaper35(2).pdf)

⁴⁴ Matkó M (2016) *Sustainable urban development in cohesion policy programmes 2014-2020. A brief overview*, Presentation at the Urban Development Network, Brussels 18 February 2016: http://ec.europa.eu/regional_policy/sources/conferences/udn_nov2015/implementation_art7.pdf (accessed 28 April 2016).

⁴⁵ CEMR (2015) *Cohesion Policy. The Implementation of the Integrated Territorial Investments (ITIs) by Member States*, CEMR Overview, October 2015.

Figure 10: ISUD delivery mode – OP, Priority Axis or ITI


Source: Matkó M (2016) *Sustainable urban development in cohesion policy programmes 2014-2020. A brief overview*, Presentation at the Urban Development Network, Brussels 18 February 2016, http://ec.europa.eu/regional_policy/sources/conferences/udn_nov2015/implementation_art7.pdf (accessed 28 April 2016).

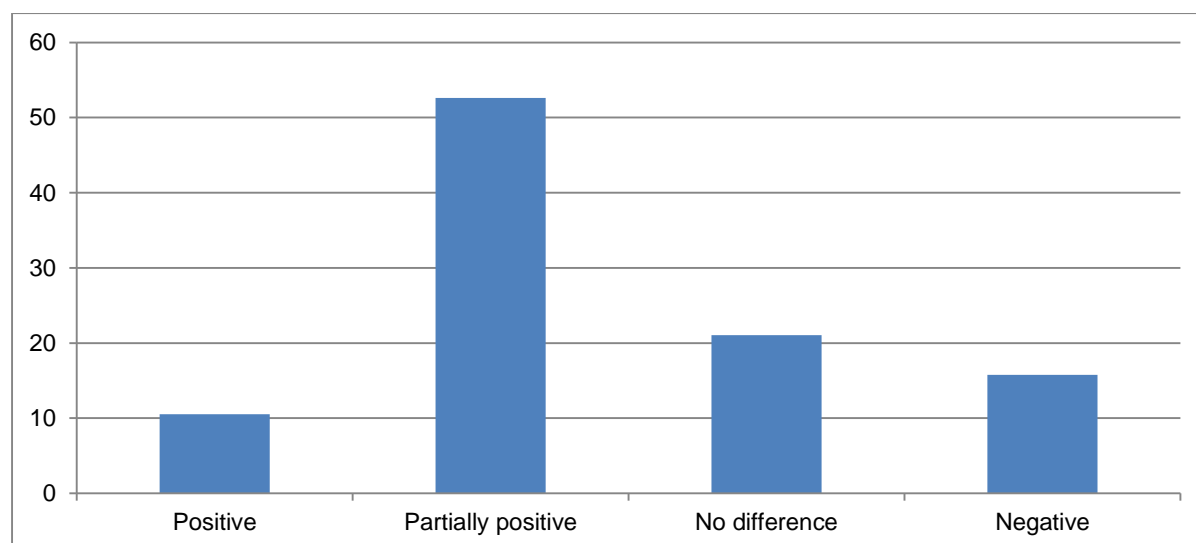
Although it is too early to appraise the utility of the new integrated territorial instruments, the programming stage has already highlighted some weaknesses of the new CPR provisions. The value of an integrated approach seems largely uncontested, because ‘experience shows that cohesion policy has greater and longer-lasting impacts when economic, social and environmental measures are combined. Integrated development is the way to ensure smarter spending for a maximum impact’.⁴⁶ However, the lack of integration between funds, reluctance of national and regional authorities to delegate powers and resources, and the complexity of the method underpinning the new instruments, are hindering the real potential of delivery of integrated multi-Fund strategies.⁴⁷

Once again, views amongst IQ-Net partner authorities are mixed as far as the new territorial instruments are concerned. They include authorities considering the instruments to be a good idea in principle, but too complex to be an attractive option, and others which view them as overly complex without added value. Figure 11 below illustrates the views of IQ-Net programme authorities’ on the effect of new regulatory provisions on integrated territorial development. About one fifth of IQ-Net authorities view the new rules as not having any impact, and about 15 percent as having a negative effect. More than half consider that the new instruments are having both negative and positive effects. Incidentally, this is the only theme in which regional authorities tend to have a more positive view than national authorities.

⁴⁶ Boni A L (2016) *Intervention of Anna Lisa Boni, Secretary General of Eurocities at the Final Conference on ‘The Future of Cohesion Policy beyond 2020’*, Committee of the Regions, 3 March 2016: <http://cor.europa.eu/en/events/Documents/Future%20of%20cohesion%20policy/FoCP%20Conference%203%20March%20%E2%80%93%20BONI%20Anna%20Lisa%2c%20Eurocities.pdf> (accessed 28 April 2016).

⁴⁷ Boni A L (2016) *op. cit.* and Tosics I (2015) *Integrated Territorial Investments – A missed opportunity?*, Paper presented at the Second EU Cohesion Policy conference ‘Challenges for the new cohesion policy in 2014-2020: an academic and policy debate’, Riga, 4-6 February 2015.

Figure 11: Integrated territorial development – IQ-Net assessment of impact of reforms (percent)



Source: EPRC interviews with Member State authorities.

Positive views on ITIs and CLLD were found particularly in Poland, Finland, Spain and Scotland.

- In Finland, ERDF funding is generally focussed on SMEs, but the cities participating in the ITIs have wanted to use the instrument also for other types of investments (e.g. to help nursery provision etc.). Thus whilst the general approach in the ERDF programmes is one that sees ERDF focussed on SMEs and growth and employment-oriented innovation, the ITIs have allowed programmes to also support the development of public services. For the Helsinki-Uusimaa Region (Finland), moreover, ITIs have been particularly important in allowing a good level of resources to flow to the region, as without the earmarked ITI funding the overall ESI funding would have been very minimal in the region.
- In Spain, these instruments are considered by national-level authorities as useful to facilitate and increase the priority and visibility of challenges faced by specific territories (e.g. an ITI for the Cadiz Province was recently launched). Overall, the Spanish government are content with the voluntary and flexible nature of the approach to integrated territorial development. At the same time, CLLD is not used in the context of the ERDF (whilst they are within the EAFRD) and it is acknowledged that ITI governance involves a degree of duplication as governance structures have to be set up at ITI level that are already present at OP level.

Criticisms of the new territorial tools vary and relate to strategic, governance and implementation aspects of delivery.

From a **strategic perspective**, it has been observed that the new instruments do not seem to provide clear added value. The fact that it is the strategies of the instruments which provide the main reference point for project selection rather than the programme strategy makes it difficult to ensure a contribution to programme objectives (in principle both should be taken as reference points).

In terms of **governance**, ITIs involve a degree of duplication with existing OP structures where the same regions have simultaneously ITIs and OPs, and the new territorial instruments do not always align well with domestic legal systems and/or multi-level governance arrangements, for example in Sweden and Germany (see Box 6 below).

With respect to the **implementation aspects** of the new instruments,

- the complex nature of the operational procedures attached to these instruments is slowing down implementation, which is detrimental for meeting N+3 and financial absorption targets linked to the performance framework (if applicable);
- extensive interpretation of implementation rules by the Commission is hampering the design and implementation of these instruments in some cases (see Box 6 below);
- the negotiation and implementation phases are associated with increased rigidity, which complicates implementation;
- the quality of territorial actors, which in some countries is very heterogeneous, determines the success or failure of the instruments, and this has not been taken into account sufficiently in the regulations;
- integrating different Funds within territorial strategies is proving difficult in some cases; and
- the complexities of these instruments are not worth in cases where regions have their own focus on territorial development, such as in Wales with 'regional proofing' of projects.

Box 6: Implementation of territorial instruments in Nordrhein-Westfalen (Germany) and enhancing territorial focus through 'regional proofing' in Wales (United Kingdom)

Nordrhein-Westfalen is using integrated SUD because ITIs were seen as too complicated – but SUD are also proving complicated and difficult to implement. One issue is that, according to the German federal constitution, there is no hierarchical relationship between the federal, *Land* and local authority levels. It is not possible in German law for a local authority to be an intermediate body (i.e. subordinate) to a *Land*-level MA, or to have a contractual relationship with the *Land*, or be subject to *Land*-level financial controls. The Nordrhein-Westfalen *Land* and local authorities are complying with the EU rules on ISUD in a pragmatic way but neither the *Land* nor local authorities are happy with the situation. The other major difficulty with the ISUD is that the Commission is insisting that each ISUD must cover two TOs (in Nordrhein-Westfalen: TO6 and TO9) – even though this is not stated in the EU regulation. The difficulty is that some local authorities have ecological problems and others have social problems – but rarely is it the case that local authorities need funding for both themes.

Four Regional Engagement Teams have been set up in Wales in 2014-20 to help improve the way the MA delivers and manages the OPs. Working with a range of partnerships, including the City Regions Boards, North Wales Economic Ambition Board and Regional Skills Partnerships, they will help potential sponsors to develop EU funding proposals in line with existing and future opportunities and investments at regional levels.

Even where the implementation difficulties and rigidities of the new instruments are acknowledged, this does not always act as a deterrent or hinder a general view overall. Polish authorities, in particular, are supportive of the territorial dimension in Cohesion policy. They have implemented ITIs in a comprehensive way and, despite implementation challenges that have had a negative effect, authorities are hopeful of added value in the future as it provides an incentive and framework for sub-regional

actors to come together to think strategically. The territorial approach embodied by the new territorial development instruments stops Cohesion policy from becoming too general and sectoral.

2.8 The Connecting Europe Facility and European Fund for Strategic Investments (EFSI)

The Connecting Europe Facility (CEF) is the key EU policy for infrastructure investments in the fields of energy, transport and telecommunications. EFSI is the recent initiative launched by the European Commission, the EIB and the EIF to help overcome Europe's current investment gap by mobilising private financing for strategic investments. It is one of the three pillars of the Investment Plan for Europe ('Juncker Plan'). By and large these two funds are not viewed as presenting particular tensions for the ESI Funds programmes by IQ-Net programme authorities. In many cases the two funds and the ESI Funds are proceeding on separate tracks, although there are exceptions (e.g. Poland). However, there are fears that, as these alternative sources of funding become more readily available to Member States, this may lead to higher expectations on Cohesion policy in terms of demonstration of EU added value and that net payer Member States, in particular, may eventually favour these new, non-territorial, EU programmes in the next EU negotiations on the MFF.

2.8.1 The Connecting Europe Facility

The CEF and ESI Funds are mostly viewed as separate instruments and CEF is considered to be a useful source of funding for investments in the three areas it supports. In Slovenia and Portugal, for example, CEF is seen as a good source of funding that compensates for a gap between investment needs and funding. In Portugal, it is particularly used in the transport field and the approach taken is to include the 'best' transport projects in the CEF. This can induce implementation delays for Cohesion policy transport projects insofar as the most mature projects are being funded through an alternative funding stream.

Some criticism in relation to the insufficient integration, and sometimes even rivalry, between the two sets of Funds – CEF, on the one side, and ESI Funds, on the other – was raised in Pomorskie (Poland). CEF has a more positive image among beneficiaries because it is seen as simpler, faster and more transparent. Generally, under CEF it takes around six months between an initial application and a final decision. Approval is based on a single decision by DG Move with no additional national administration or input and no conditions attached. On the positive side, Polish policy-makers view the substantially increased funding available for the CEF from the Cohesion Fund in Cohesion countries as a major development and the improvement in coordinating framework derived by the EACs introduced by the CPR as a significant improvement compared to the past. Cohesion countries now have a larger national funding envelope and thus greater scope for CEF activities. Moreover, previously there was no strategic planning framework for coordinating planning, whereas now there are measures that ensure that this is the case (through EACs).

2.8.2 The European Fund for Strategic Investments (EFSI)

The EFSI is not considered an attractive opportunity for some IQ-Net partner authorities, nor is it viewed as a Fund that can be used in synergy with the ESI Funds (for example Finland, France, Germany, Greece). In Finland, for example, in the Helsinki-Uusimaa region efforts have been made to market the EFSI, but many municipalities do not see the need for EFSI as they can access loans domestically at

very low interest rates. In France too, the Association of French regions noted that French regions have low interest in EFSI which is not considered as in line with the mission of French regional authorities or the ESI Funds priorities (territorial development vs. attraction of private funding due to leverage effect). The types of projects implemented under the two types of funds are not the same – EFSI supports much riskier projects than the ESI Funds and very large infrastructure projects that are not eligible under the ESI Funds: this makes the integration between the two sets of funds unlikely. Concerns were also expressed about the extent to which the EFSI resources are genuinely additional. Expectations are minor also in Greece. The major problem obstructing the implementation of the EFSI in Greece is the state of the banking sector which lacks liquidity despite capitalisation (for instance, a major issue with non-serviceable loans is one of the issues that concern the ongoing review of the financial assistance programme to Greece). There is a demand for funding, e.g. in the area of waste water treatment infrastructure, which the Greek government lacks the resources to construct (thus hindering the fulfilment of its obligations under the *acquis*). However, it would be difficult for Greece to repay the EIB: even though the EFSI was created as a response to the investment gap generated by the crisis, the perception amongst Greek policy-makers is that the EFSI approach is not suited for a country in financial crisis such as Greece.

More positive views with regard to EFSI were found in Poland, Portugal, Slovenia and the United Kingdom. However, in these cases too there is recognition that the potential for synergies between EFSI and the ESI Funds or indeed the risks of a displacement effect for the ESI Funds are extremely limited:

- In Poland, the responsibility for the coordination of EFSI lies with the Ministry of Development. The main difficulty for synergies between EFSI and the ESI Funds relates to timing: by the time EFSI plans became clear, ESI Funds programming was in its final stages. There is scope for rivalry or competition between both types of Funds: both are directed towards similar beneficiaries and the Commission guidance gives no scope for integration. An important issue is that the ESI Funds cannot be used to co-finance EFSI.
- In Portugal, the EFSI is viewed as a useful source of funding for more profitable transport investment projects (e.g. ports) and SME projects (e.g. with private banking). However, as far as synergies are concerned, Portuguese authorities consider that there is some uncertainty about how to combine EFSI with the use of other related instruments (such as ERDF, the ECB liquidity mechanism etc.).
- For Slovenia, as with the CEF, the EFSI is viewed as a useful source of extra funding, given that there is currently a funding gap for investments.
- Lastly, in the United Kingdom, the EFSI is viewed as a useful source of funding which entails no displacement risk for the ESI Funds. In Wales, the market gap is felt to be so large that EFSI access to finance initiatives will not affect the need for ESI Funds FIs. Similarly in Scotland, the area addressed by EFSI is seen as different (more support for public/private partnerships) and there are in any case not enough ESI Funds to address the gap. In England too, EFSI projects are not associated with ERDF areas of intervention. EFSI is considered to fund investments with a larger scale than the ESI Funds, so areas of overlap or indeed synergy are not anticipated.

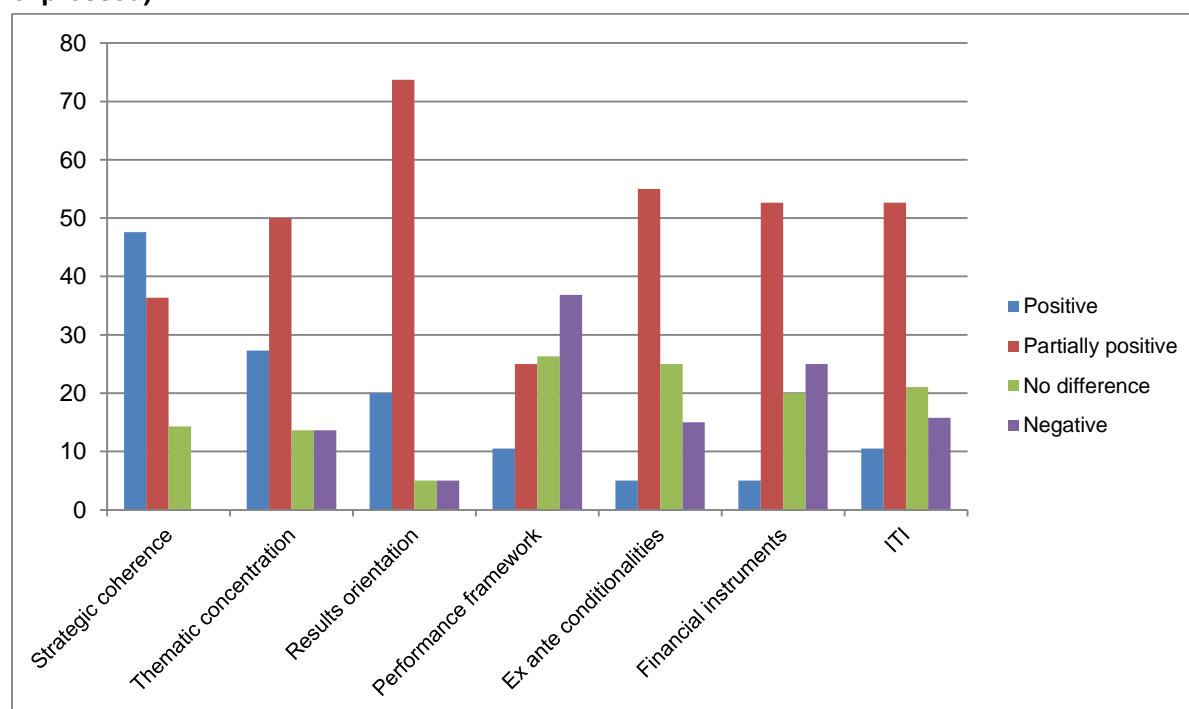
2.9 Summary

According to the Commission, the reformed, 2014-20, Cohesion policy represents not only ‘a boost for investments in the EU’ according to the priorities set out by the Treaty and the European strategy Europe 2020, but also much ‘more than money’, in the sense that

‘The ways in which the reformed ESIFs contribute to EU growth go well beyond just funding. The ex-ante conditionalities support and provide incentives for structural reforms, and help create a better investment climate for private and public investment alike. Furthermore, the increased focus on good governance and administrative capacity across the public sector will ensure modernised and efficient public administrations (including by addressing market failures and the provision of public goods). Furthermore, INTERREG programs and macro-regional strategies bring citizens of different Member States together and improve their social and economic living conditions through trans-border cooperation’.⁴⁸

As the previous sections have highlighted, however, a number of the aspects of the new regulations which are good in principle present shortcomings in practice. Figure 12 below provides an overview of IQ-Net authorities’ opinions on the regulatory innovations discussed above.

Figure 12: Regulatory changes assessments – IQ-Net partner assessments (percent of views expressed)



Source: EPRC interviews with Member State authorities.

As the figure shows, views vary considerably both across IQ-Net partners and across the aspects of the reforms. As could be expected, appraisals of individual regulatory provisions are often ‘mixed’: the new provisions are frequently seen as being ‘good’ in principle, but problematic in practice or their positive effects are counter-balanced by negative ones, whether due to a contradictory nature of the

⁴⁸ European Commission (2015c) *op. cit.*, p. 16.

rules themselves or to the domestic contexts in which they are inevitably implemented. On only one element there is a certain degree of consensus, namely that the CSF has been a positive development (almost half of the views expressed). At the other end of the spectrum, the new performance framework, EACs and FIs are the innovations that attracted most criticism. On the other hand, the results-orientation is the single most controversial issue, on which views are divided. Views also diverge on thematic concentration and the new territorial instruments.

3. IDEAS AND OPTIONS FOR REFORMING COHESION POLICY AFTER 2020

Having assessed the progress of existing reforms, this section turns to discussing ideas and options for Cohesion policy after 2020, drawing on the views of IQ-Net partner authorities. It should be noted that, as yet, there are no official positions on the reform, and the views expressed by interviewees during the survey research conducted for this paper are mostly personal and do not represent formal opinions.

The following begins by considering perspectives on the future strategic direction of the policy, before turning to governance and management issues, performance, FIs and territorial cooperation, administrative capacity and options for improving flexibility.

3.1 Strategic directions: the role of Cohesion policy

There are three inter-related issues concerning the strategic direction of Cohesion policy – concerns about goal dispersion, thematic focus of the policy, and the scope for place-based policymaking.

3.1.1 Concerns about goal dispersion – retain a strong focus on long-term regional development

In the context of the wider MFF debate about the added value and performance of EU spending, there is strong sense among IQ-Net authorities that the principal post-2020 role of Cohesion policy needs to be reaffirmed: **it should be a policy focused on long-term regional development.**

Many IQ-Net partners expressed concerns that Cohesion policy resources are increasingly being used to support wider EU strategies (through the CSF) and domestic reform agendas (through the EACs) and even to provide prompt EU responses to new challenges and emergencies. There is a valid justification for Cohesion policy to be linked to overarching EU objectives (currently Europe 2020), and evaluation evidence shows the need for policy and institutional pre-conditions to be put in place for Cohesion policy interventions to be effective. However, without a strong articulation of the central purpose of the policy – and especially its distinctive territorial focus – there is a danger of goal congestion and diffusion of purpose.

This also applies to EU reactions to short-term policy challenges. In the context of the migration crisis, for example, there is clearly a need for the EU to respond to the massive humanitarian challenge of Balkan and Mediterranean migration. While there is scope for ESIF to play a role – in particular to deal with the economic and social integration of migrant groups⁴⁹ – there is a danger of Cohesion policy being used to substitute for EU or national emergency aid. IQ-Net partners note that the 2014-20 programmes have been based on a framework of EU rules and are the result of extensive negotiations with the Commission; they aim to address regional and local needs in terms of poverty, social exclusion, deprivation and unemployment and essential public investment. Shifting Cohesion policy funding to the refugee emergency would constitute a departure from policy objectives and put domestic vulnerable groups and recovery at risk. There is an increasing perception among IQ-Net authorities that Cohesion policy has become a 'funding pot' which can be used for different purposes and when new challenges

⁴⁹ European Commission (2015d) *Contribution of the European Structural and Investment Funds to the 10 Commission priorities: Migration*, December 2015: http://ec.europa.eu/regional_policy/sources/policy/what/investment-policy/esif-contribution/migration.pdf (accessed 24 March 2016).

arise. This is viewed unfavourably by numerous IQ-Net authorities and needs to be countered by a reaffirmation of the policy's central goals.

3.1.2 *Divided views on the thematic focus of the policy – sectoralisation or smart specialisation?*

The above concerns are also reflected in the more specific question of thematic concentration in post-2020 Cohesion policy. As noted earlier in the paper (Section 2.2), there are mixed views on thematic concentration in 2014-20: support in principle for ensuring critical mass, avoiding fragmentation of interventions and supporting EU-wide priorities, but concern about regulatory inflexibility and the difficulty of adapting programme priorities to national and regional development needs.

Among some authorities, especially those in richer countries and More Developed Regions, the focus on thematic concentration fits well with the direction of domestic regional economic development policies. There is an expectation that Cohesion policy should evolve further after 2020 towards promoting growth and competitiveness, through innovation and support targeted at sectors such as the bio-economy and technologies such as clean-tech, digitalisation, and assistance for immaterial investments. There is also a broader acknowledgement of the value of the concept of smart specialisation in challenging embedded thinking about economic development and vested interests – although this kind of strategic work should start much earlier in preparing for post-2020.

Equally, there are strong concerns among authorities (especially in Transition and Less Developed Regions) that the perceived 'sectoralisation' of Cohesion policy has been at the expense of the core policy goals of economic, social and territorial cohesion and regional convergence. This line of argument considers that post-2020 policy needs to be more flexible to facilitate a stronger focus on national/regional development needs (even where these do not accord with EU-wide priorities) and ensure that the place-based approach is reinforced (see also Section 3.1.3 below). The example from Greece in Box 7 is a practical illustration of the challenge.

Under this heading, there is also a perceived need to strengthen the focus of some programmes, particularly smaller ones, to avoid unhelpful 'atomisation' of funding. Some partners would welcome more freedom in the selection of TOs on which to concentrate efforts, including the possibility of taking a very targeted and very specific approach e.g. focusing on innovation or high level skills, and allowing domestic resources to pick up other areas. Particularly for smaller programmes, an 'atomisation' of small amount of funding across a wide range of TOs is seen as inefficient. More flexibility for national/programme authorities in this respect would also allow them to avoid allocating resources towards objectives that are not particularly meaningful to the given context. Spreading a relatively small budget over several priorities does not constitute concentration.

Box 7: Facilitating flexibility to respond to national/regional development needs

One of the priorities for the Greek IQ-Net authorities is to reconsider the emphasis given to tourism and culture after 2020. These are important areas for the growth model of the country and the attractiveness of the capital as a city break destination, but which are not included as a TO in the Europe 2020 strategy (but only covered indirectly by TO6 and TO9).

The restrictions on funding projects in the area of tourism and culture in 2014-20 are considered arbitrary and hampering the exploitation of the endogenous potential of the country. Specifically, they constrain the scope to improve attractiveness based on big cultural projects as happened in Bilbao, Newcastle or Barcelona. The impact of current rules would be channelling resources to small and financially unsustainable projects such as small museums with low visitor numbers that could be scattered in many areas. An extension of a good practice of the past, the network of museums established in collaboration with the Cultural Foundation of Piraeus bank will also be discontinued as a result. For the Greek authorities it is essential that this type of policy limitation is addressed for the next programme period.

3.1.3 Place-based policymaking – addressing the needs of areas with specific territorial challenges

A central theme of the Barca report, and OECD research on regional development policy, is the importance of a place-based approach to policy intervention, allowing responses to be tailored to the needs of different places in a coordinated and integrated manner. The 2013 reform specifically addresses this issue through the provisions for integrated territorial development. As noted in Section 2.7, the approach is welcomed in principle – and has considerable potential, especially in countries where 15-20 percent of funding is being channelled through dedicated OPs and Priority Axes or where the ITI approach is being piloted for the first time in specific urban areas. However, as discussed earlier, there are a number of important strategic, governance and implementation problems that are making these instruments complicated and difficult to apply, with the risk of undermining the concept in some countries and regions.

Some IQ-Net partners would like the overall concept of place-based policymaking to be more central to future thinking about Cohesion policy post-2020, specifically to strengthen the urban dimension or to address specific territorial challenges (e.g. the Arctic areas in Finland). In part, this requires a strategic policy commitment at EU level to the place-based concept, but it also needs an early review of how an integrated, place-based approach can be promoted – with much less bureaucratic complexity – in ways that can be adapted to different national institutional contexts.

3.2 Governance and management of Cohesion policy

The future governance and management of Cohesion policy is clearly a central issue for IQ-Net MAs and Intermediate Bodies. Three overarching themes to emerge from the interview research are the need to rethinking the shared management model, the need for introducing more differentiation and the need for real simplification. These three topics are discussed in some detail in the following three sections, followed by a review of other topics of concern.

3.2.1 Reviewing the model of shared management

Multi-level governance is one of the defining characteristics of Cohesion policy and has established itself as a model for policy governance in other policy domains at EU and national levels. A collaborative approach between the European Commission and Member State authorities in the design and implementation of programmes, and the involvement of different stakeholders in vertical and horizontal partnership arrangements, have long been part of the perceived added value of the policy.⁵⁰ However, the multi-level governance approach – or the shared management model between the Commission and national/regional authorities – has increasingly come under strain, and the question is whether it needs to be reconsidered.

Shared management is one of several approaches used to delivery other EU-funded policies, including centralised management by the Commission, direct budget support to Member States, and the Open Method of Coordination. In reviewing the management model for Cohesion policy, each of these approaches is worth considering (see Box 8).

The feasibility and political interest in radical shifts in the management model is doubtful, especially as the existing programming approach is considered to provide added value and linked to the principle of subsidiarity which is an essential component of any place-based policy. Nevertheless, DG Regio is undertaking a study on results-based disbursement methods including the efficiency of alternative delivery modes to the programme approach such as: budget support (cost-benefit analysis of direct budget support to specific structural reforms in contrast to grants), conditional payments, stronger integration of the ESI Funds and a single delivery mechanism for all shared management Funds.

Complementing this, a feasibility study on performance-based budget support will examine the feasibility and practicalities of the delivery of Cohesion policy through budget support looking at different methods, the lessons learnt from development policies, the nature of a budget support delivery system for Cohesion policy including the need to provide assurance on legality, regularity and performance.⁵¹

⁵⁰ Bachtler *et al.* (2013) *op. cit.*

⁵¹ Mendez C and Bachtler J (2015) *op. cit.*

Box 8: Alternatives to the Shared Management Model

Centralised management. Under this model, the Commission is responsible for managing directly or indirectly (through its agencies) EU funding including the selection of projects (such as the CEF or Horizon 2020). However, the Commission would not have the capacity to directly manage large sums of funding involved in Cohesion policy involving hundreds of thousands of projects. Indeed, this is the reason why the project-based approach initially used under the ERDF until the late 1980s was abandoned in favour of the programme model.⁵² Nevertheless, there may be opportunities for cross-fertilisation of lessons from directly-managed programmes, where strict control procedures are used but work well without the same level of bureaucracy and detriment to the quality of implementation.

Direct budget support. Similar to the model used by the Commission under EU Development aid policy, this model would involve a budget support mechanism based on conditionalities which – when fulfilled – would trigger a release of EU resources to national budgets to implement national development strategies. Budget transfers could be made after the agreed conditions for payment have been respected, which could be based on the existing thematic and general EACs, the achievement of TOs and/or structural reforms. The administrative complexity of managing Cohesion programmes would be reduced as PA and programmes would be abandoned in favour of reinforcing national policies managed by the Member State in accordance with their own financial management rules and systems. The Commission's audits would be limited to ensuring that the conditions have been met and that resources have been transferred.

Open Method of Coordination. A variant of the latter option is for the EU to have a stronger role in the development and coordination of national regional development policies. Mirroring other areas of EU policy-making, such as research or employment policies, Cohesion policy could be governed by the 'open method of coordination', involving the setting of joint objectives at EU level, periodic monitoring and sharing of national regional policy experiences with a view to improving the design and implementation of **national** policies and strategies, the development of coordinated or joint initiatives on issues of transnational interest, and the identification of areas where Community initiatives could reinforce national actions. It would involve developing some of the 'experimentalist governance' features of the existing programming method:⁵³

- agreeing objectives, guidelines and timetables for achieving EU cohesion and wider Europe 2020 objectives;
- establishing quantitative and qualitative indicators and benchmarks, tailored to the needs of Member States and regions;
- translating European guidelines into national and regional policies, but at the initiative of the Member States without binding regulation at EU level; and
- periodic monitoring and peer review of the progress at EU level to stimulate mutual learning processes across Member States, both through formal institutional channels (e.g. Council of Ministers meetings) and through more informal networking initiatives (e.g. the Open Days).

Such an approach could be part of a spectrum of EU management involvement tailored according to the scale of financial transfers and the strength of administrative capacity e.g.

- Centralised management: large transfers and weak administrative capacity
- Shared management: large transfers and strong administrative capacity
- Direct budget support/coordination: small transfers and strong administrative capacity

Source: Mendez C and Bachtler J (2015) Permanent Revolution in Cohesion Policy: Restarting the Reform Debate, *European Policy Research Paper* No. 93, European Policies Research Centre, University of Strathclyde, Glasgow.

⁵² Bachtler J, Mendez C and Wishlade F (2013) *EU Cohesion Policy and European Integration: The Dynamics of EU Budget and Regional Policy Reform*. Ashgate Publishing, Ltd.

⁵³ Mendez C (2011) 'The Lisbonization of EU Cohesion Policy: A Successful Case of Experimentalist Governance?', *European Planning Studies*, 19 (3), pp. 519-37 and Mendez and Bachtler (2014) *op. cit.*

Among IQ-Net authorities, there are no clear-cut alternatives to the current model. Interview research indicates that views divide between:

- those who consider that the shared management model is broadly appropriate and should remain unchanged or requires relatively **minor adjustment** in several areas; and
- those who consider that the shared management model requires **radical change**.

Among the first group, authorities argue that despite the practical constraints of the shared management model, a system based on partnership and subsidiarity is a 'natural approach' for the management of Cohesion policy, due to its place-based nature. Thus, moving away from this model as the underlying principle of Cohesion policy implementation would not be desirable. At issue is more the question of how the distortions and unintended effects of the model can be resolved, rather than abandoning or replacing it.

In the view of many IQ-Net partners, the key requirement is the need for responsibilities/competences to be specified or differentiated more clearly and to allow more autonomy to Member State authorities and MAs.

- **Shared management allows blame for inefficiencies and mistakes to be apportioned to other levels of government or other actors within the system.** Currently, the attribution of competences within Cohesion policy is sufficiently diffuse or unclear to allow this to happen.
- **Complexity is increased by gold-plating**, whereby national authorities add further requirements in their domestic legislation, guidance notes and procedures that go beyond EU requirements, ultimately affecting negatively the policy's ability to reach its goals with unnecessary bureaucracy and enhanced risk of errors.⁵⁴ It has been argued that gold-plating is often likely to be 'armour plating' as Member State authorities seek to ensure that implementation by national and sub-national authorities does not contravene audit rules, but is in itself a potential source of more errors.
- The relationship between different levels of control results in a **highly bureaucratic delivery system, dominated by 'fear'**. According to some interviewees, this is compounded by the fact that regulations are designed in accordance with the needs of supervision and oversight associated with the 'weakest country', which makes the system unnecessarily onerous.
- There are **concerns with perceived 'dysfunction' in the principle of subsidiarity** where higher level authorities – both European and national – interfere in decisions that are better taken at lower governmental levels. More careful consideration is needed to determine and specify which issues should be regulated and decided at EU level and which can be dealt with

⁵⁴ The European Parliament, REGI Committee, recently issued a tender on gold-plating in the context of the ESI Funds. A study on this topic in the context of the EAFRD was already undertaken in 2014: Bocci M, De Vet J M and Pauer A in collaboration with Blomeyer R, Zanz A and Saraceno E (2014) 'Gold-plating in the EAFRD. To what extent do national rules unnecessarily add to complexity and, as a result, increase the risk of errors?', Study for the European Parliament, Directorate General for Internal Policies, Policy Department D: Budgetary Affairs: [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2014/490684/IPOL-JOIN_ET\(2014\)490684_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2014/490684/IPOL-JOIN_ET(2014)490684_EN.pdf) (accessed 1 May 2016). The study concluded, amongst others, that 'A main conclusion is that gold-plating (as well as related errors) can be addressed by capacity building, coordination and cooperation between all actors involved ... More structural gold-plating issues can be addressed by strengthening existing knowledge-sharing platforms amongst MAs and PAs across the EU', p. 11.

at the national or sub-national levels. Of particular importance is what competences should fall to the European Commission, e.g. should it focus on rules enforcement or on a genuine dialogue with Member States on where the priorities of programme intervention should lie?

3.2.2 More radical change – differentiated management models?

Among those advocating more radical change, several IQ-Net partner authorities emphasised the need to enhance the differentiation and proportionality of the policy, a view that is strongly held by partners with smaller ESI Funds allocations and programmes in particular. Such differentiation could be based on one criteria such as: domestic administrative structures; national Cohesion policy receipts as a share of public investments; GDP/size of public capital expenditure; programme size; type of regions; or past levels of assurance or performance.

For example, actors in Vlaanderen and Scotland would be in favour of a differentiated model of management applied to smaller programmes. The main concern here is the audit burden, the associated lack of legal certainty and the level of detail associated with administering relatively small amounts of resources. The regulatory framework sets out rules according to the lowest common denominator (i.e. those Member States where there are most challenges) and applies this to all. This increases the burden on those programmes that have a long history of successful implementation disproportionately.

Authorities in Austria, Denmark and Finland supported the possibility of adjusting the delivery and audit requirements in line with allocated funding or past performance, with a lighter management model in countries which receive less funding and have demonstrated ability to deliver. The formal position of the Finnish Government, for example, is that there needs to be differentiated regulations and controls in line with the funding allocations from the EU budget. Possible criteria for this could include net payer status, but also earlier performance in the administration of the funds, including any problems in the fulfilment of the CPR's EACs and the track record in relation to the successful implementation of EU legislation in other fields (e.g. compliance with EU Directives). Where applicable, Member States could use the allocated funding in line with their own administrative procedures and their national legislation and simply report on these to the Commission in a manner agreed separately in the EU legislation (see example in Box 9 below).

Box 9: Example of a possible approach to differentiation

A solution suggested by IQ-Net partners of how a simplified approach could work in practice in countries with small Cohesion policy receipts is as follows:

(a) Member States negotiate one programme with the European Commission – this programme would include the specification of the output indicators to be achieved;

(b) implementation is fully devolved to the Member State which is in charge of all aspects of delivery including financial control; and

(c) the European Commission intervenes only at the end of the cycle of implementation, undertaking an assessment of the achievements realised.

In this way, the European Commission would retain only a strategic role, at the beginning of the period (programming stage) and at the end (post implementation). Potentially, the dialogue at the programming stage could be facilitated by experts – from the country and from the Commission (or appointed by it) – who could provide both an internal and external view to the process. Independent appraisal could also be an option.

The need for differentiation was not only expressed by programme authorities with smaller allocations of funding. At the other end of the spectrum, it was noted that major recipients of Cohesion policy which also have less experienced administrative capacity (e.g. Croatia) need more flexibility in adapting to regulatory requirements as well as more support in management and capacity building.

Differentiation is, though, a difficult issue. Some authorities acknowledged that whilst differentiated management may be a good idea in principle, it is not politically acceptable or viable. Further, they indicated that small steps have already been taken in the direction of differentiated management in the 2013 CPR. For example, programmes under €250 million are allowed to have an audit authority that is part of the same body who acts as MA, and the reports on the management system for such programmes are not required to be submitted to the Commission. A ‘lighter’ model of designation of the MA for programmes that maintained the same management setup as previously was also referred to in the regulation. However, in practice this has proved not to be a lighter model due to the additional new elements associated with the management setup and the changes that are naturally introduced from one programme period to another. Albeit appealing in principle, increasing the level of differentiation further would be difficult to achieve while maintaining the necessary equal treatment between Member States. And indeed, some of the views gathered through the interview research are strongly opposed to a differentiation of implementation arrangements as it would institutionalise the ‘unequal treatment’ of Member States which would inevitably spill over also onto other policies.

A more nuanced view is that there should be acknowledgement that proportionality does not automatically refer to the size of funding. It is arguable that smaller programmes may require simpler implementation arrangements to administer limited funding. However, it is equally arguable that programmes with large amounts of funding need to focus on simplification in order to avoid becoming unwieldy and inefficient. Flexibility should apply across all MAs in all Member States, whether big or small, depending on specific circumstances, on a case by case basis. One suggestion is that it may be helpful to more closely differentiate between types of proportionality and flexibility (e.g. related to

strategic steering, audit, financial management etc.) according to the specific needs and potentials of different national contexts. Lastly, the advocacy of proportionality based on previous levels of assurance is also viewed with caution by some, as it could potentially lead to complacency and be detrimental in the longer term.

3.2.3 Introducing real simplification⁵⁵

Despite the rhetoric and the numerous reforms introduced from the 1999 regulatory reform onwards, there is a general perception, based on experience, that real simplification and real proportionality are still far from being achieved and that, actually, the administrative burden has increased over the past periods (see Box 10). This would entail not only a differentiated management model (as outlined above) but also reflection on the key targets/beneficiaries of simplification measures introduced.⁵⁶ According to programme managers, simplification is currently being regarded from the perspective of final recipients: this is important, but simplification for programme managers is also urgently required and needs to be a priority for the post-2020 debate. For example, further work on simplified costs would be considered as helpful in this light.

One of the objectives of greater regulatory simplification should be **to improve legal clarity and reduce the compliance mentality**. According to some interviewees, the MA designation procedure is a clear example of a rule that has not functioned as desired: the fact that only 50 programmes have been designated two years into the programme period is testament to something having gone wrong. Many problems are considered to relate back to the Financial Regulation, e.g. simplified costs are a good idea but having them agreed has been very difficult. Various IQ-Net partners have indicated that there would be merit in reducing the number of rules, possibly also the number of regulations, for example introducing a single regulation with derogations for specific funds but no fund-specific regulations. Barring this, a number of elements should be removed from the current Regulations to make them less prescriptive and reduce the tension between the results focus and the compliance focus.

A second objective of post-2020 simplification is the need for **more flexibility and less prescriptive detail in the regulatory framework**. A suggestion by IQ-Net partners is to do a 'regulatory audit' and strip the regulations back to what is essential to the new results-oriented focus. As things stand, those involved in ESI Funds management and implementation at national and sub-national levels tend to take all Commission input (regulations, guidance, advice etc.) as 'hard' law. This approach is often based on concerns over future EU audits but it creates a complex, unwieldy implementation system.

⁵⁵ Simplification was the theme of a dedicated recent thematic IQ-Net paper: Davies S (2015) *op. cit.*

⁵⁶ See also Polverari L (2016) Speech at the 'Future of Cohesion Policy Beyond 2020 Final Conference', Committee of the Regions, Brussels, 3 March 2016: <http://cor.europa.eu/en/events/Documents/Future%20of%20cohesion%20policy/Speech%20by%20Laura%20Polverari%20-%20European%20Policies%20Research%20Centre.pdf>.

Box 10: Main simplification concerns amongst IQ-Net partners

The regulations for 2014-20 include various measures intended to simplify the delivery of Cohesion policy:

- harmonisation of rules between Cohesion policy and other ESI Funds;
- more flexibility (e.g. options: for multi-Fund OPs and monitoring committees; to merge managing and certifying authorities; to adjust the financial allocation by up to 3 percent between categories of regions; for ITI and CLLD; and for more varied FIs);
- increased proportionality (e.g. risk-based methods of sampling for controls; smaller projects audited only once before closure; scope to reduce controls and audit intensity);
- legal certainty through clearer rules (e.g. flat rates for revenue generating projects);
- more efficient delivery and lighter reporting (e.g. for annual reports, and for additionality);
- reducing the administrative burden for beneficiaries (e.g. increased use of simplified costs; mandatory annual closure of operations in the annual clearance of accounts);
- a move towards results-based management: the Joint Action Plan;
- e-Cohesion; and
- simplification of European Territorial Cooperation, and of the ESF.

However, due to concerns over legal certainty, the 2014-20 regulations are accompanied by a plethora of delegated acts, implementing acts, and guidance notes, which lead to some new EU initiatives on simplification in 2014-15:

- a discussion at the European Council meeting of June 2015;
- the creation of a high level group of independent experts on monitoring simplification for beneficiaries of the ESI Funds;
- national/regional position papers, including a non-paper to the Commission, initiated by the French authorities and signed by 25 Member States in July 2015.

IQ-Net partners welcome some of the simplification measures introduced in 2014-20 but also voice serious concerns over the administrative burden associated with Cohesion policy, querying whether there has been genuine simplification if the whole package of regulations, acts and guidelines is taken into account, and arguing that simplification has benefited beneficiaries but not OP authorities.

The main concerns of IQ-Net partners relate to:

- the lack of legal certainty on key issues;
- the heavy administrative burden for OP authorities and beneficiaries; and
- flexibility measures – which are welcome but often do not lead to simplification.

Two specific fields generating major worries for partners are:

- the need for more coordination and proportionality in financial control and audit; and
- simplified cost options, which bring benefits but are seen as burdensome to implement and are associated with concerns over legal certainty and audit.

Moreover, simplification measures are seen to have been outweighed by other new elements in 2014-20, which has led to an overall increase in complexity, notably:

- the process of designating managing and certifying authorities;
- the range of measures associated with impact and results (including EACs, TOs/concentration, evaluation, indicators, and the performance framework).

Source: Davies S (2015) *op. cit.*

As an example, ITIs are a case where strong basic regulations, accompanied by a more flexible regulatory framework for implementation would have been beneficial. Under the current approach, MAs are constrained in steering the programme strategically by the regulatory framework. Sometimes it is the national legislation that adds further limitations to MAs and there are several examples where it is the national administration that ‘gold-plates’ or increases and complicates the regulatory framework to strengthen control. In Poland, for example, the Polish government has strengthened Commission regulations on project funding to protect beneficiaries: once a project is agreed, its terms cannot be changed. In the past, MAs had flexibility to amend the terms of the agreement in dialogue with beneficiaries to meet changing circumstances. This is no longer possible, which creates problems for implementation. MAs should be trusted with a bigger role in interpreting and implementing Commission regulations in their own contexts. This is not just a problem for the MAs but for the Commission itself which does not have the capacity to coordinate and control this increasingly complex regulatory and implementation framework.

A practical option for significantly simplifying management and administration, suggested by IQ-Net partners is shown in Box 11.

Box 11: A hypothesis for radical reform for more flexibility

A reform which would lead to a radical simplification and costs reduction for the administration and management of Cohesion policy, and for the audit and control activities would entail:

1. **Reduction of funds to only one Fund** – so as to have ‘one’ budget.
2. **Changes to the SMM** – there are too many managerial layers, which do not understand needs of each other – a simplification of the architecture of strategic documents (and thus of implementation) – could be achieved by eliminating the OPs and keeping only one coherent national strategic document. There would thus be the abolishment of MAs and intermediate bodies, replaced by the introduction of budget support.
3. **Change in the direction of funds:** a part could remain as ‘national envelope’ – this would consist of (i) national budget support based on fulfilment of EACs (similarly as a development aid works) and (ii) national programming financing but only in spheres in which there would be major EU added value; further, a part of the current Cohesion policy budget might be shifted to EU-level programmes.

3.2.4 Other priorities for change in the delivery of Cohesion policy programmes

Alongside the discussion of differentiation and simplification, additional priorities for change among IQ-Net partners are the following.

- **Rebalancing the emphasis between ‘control’ and ‘support’.** Some authorities expressed concern with the ‘punitive’ approach that seems to inform the financial management, control and audit procedures. What would be more useful, it is argued, would be fostering a more supportive environment, through more Technical Assistance resources devoted to capacity building activities, a refinement of implementation tools, dissemination of good practice and similar.

- **Simplifying the structure of programmes to strengthen the thematic concentration within individual programmes.** Some IQ-Net partners expressed the view that programmes still have a large number of specific objectives and that the introduction of new instruments (e.g. ITI and SUD) have actually had the unintended effect of hindering thematic concentration. Regarding streamlining programmes, if programmes were simplified, the Commission would be quicker to approve changes.
- **Streamlining application procedures so as to remove the barriers between different funds** – for example, applicants could send an application to one platform/organisation and then the decision is taken by the administration about which fund would be the most appropriate.
- **Devolving more power to MAs/programme monitoring committees (PMCs).** This could entail delegating more power to MAs or PMCs to make changes or move money within the programme (within more generous limits than at present) and also allowing the PMC to amend results targets within certain bounds. The PMC making more decisions would improve not only efficiency and effectiveness, but also enhance ownership and strengthen the partnership principle.
- **Retaining the use of grant-based instruments** also in the developed regions, alongside, and not substituted by FIs, in light of the considerations already illustrated in Section 2.6 of this paper.
- **Increasing legal certainty with regards to audit.** It has been observed that the audit authority and the Commission can retrospectively decide that expenses or projects that have been approved by the MA and certifying authority are to be declared as ineligible. The balance of power lies with the audit authority and it is very difficult for the MA to highlight the reasons for its decisions. A clearer distribution of responsibilities and clearer-cut rules would help overcome this problem.
- **Increasing the implementation room for manoeuvre of programme authorities,** through higher error rate thresholds.
- **Simplifying cross-border cooperation.** This could be done along the lines of the Vanguard initiative in which several IQ-Net partners are involved (see Box 12). Under this initiative, it is up to the region to decide whether they want to join the network, and decisions are made in the regions (rather than at the centralised secretariat), which in turn allows a flexible use of the funding.

Box 12: The Vanguard Initiative

The Vanguard Initiative is a network of 27 EU regions, which are politically committed to revitalising European industrial growth by leading by example in boosting growth, competitiveness and innovation in their regions. This is delivered by aligning regional areas of strength and enabling co-investment, on the basis of regional smart specialisation strategies. The political leaders in every partner region have signed a joint declaration, the Milan Declaration, which sets out how this will be accomplished.

The initiative is organised on three levels; the political leaders of the member regions, regional representatives in Brussels coordinating the activities of the network and operational experts engaged in the development of interregional joint demonstration cases and task groups.

The Vanguard Initiative brings together regions engaged in the renaissance of the European industry and seeks to transform regional clusters into world-class clusters, thriving to deliver new growth.

Source: Vanguard Initiative, Annual Report 2015.

3.3 Improving performance

Given the focus of the MFF reform debate on the performance of EU spending, it is likely that the performance of Cohesion policy will again be under scrutiny, although it has been acknowledged that Cohesion policy is a leader in its results focus among Cohesion policy. Among IQ-Net partners, there is a strong sense that the major changes introduced in the 2013 reforms should be given an opportunity to be put into practice, and for further change to be driven by evidence. However, the initial views and experience of IQ-Net partner authorities (discussed in Sections 2.3 and 2.4) provide some indication of where modifications are needed.

- There would be merit in ‘taking a step back’, i.e. **measuring outputs and not results**, at least in countries where Cohesion policy support is minor and where it is impossible to demonstrate that Cohesion policy programmes with their limited resources have been able to induce a ‘change’. Cohesion policy in these cases can at best ‘contribute’ to results and one could argue that making efforts to ensure that outputs are designed and tracked would be more fruitful than attempting to gauge the scale of the contribution with sophisticated but also not necessary conclusive evaluation studies. The focus should move away from results and the Commission should focus on two issues instead: (a) outputs and (b) plausibility of the planned interventions.
- **Simplifying the indicators system** is needed, reflecting more closely on the quality of indicators. The indicators within ERDF are confusing and difficult to interpret. Similarly, targets have been either over- or underestimated. Indicators such as the ‘number of innovation platforms’ have been understood differently by project actors. In an extreme example, an IT-equipped classroom has been counted as one innovation platform. Due to the difficulty with the indicators, it will also be difficult to assess the performance of programmes (and even more so the performance of the policy at EU/ cross-country level, given that Member States interpret indicators very differently). Indicators should be developed jointly at the EU level for all the Member States, but in a manner that ensures applicability to different national contexts which is currently not the case.

- **Strengthening the intervention logic underpinning programmes.** In the view of IQ-Net authorities, more needs to be done regarding the intervention logic of Cohesion policy (i.e. to understand what it is that the policy ought to achieve). For instance, when a target of 10,000 new jobs is set, more thinking needs to be done as to why this particular target and why not an alternative figure. For instance, in some programmes it has been difficult to internalise the new logic of chains of effects in the project application and implementation stages. In spite of efforts to communicate the new results-orientation requirements – e.g. through training initiatives – this continues to be challenging. More work needs to be done in this area.
- **Acknowledging that there can be different types of results and that also negative results can have a value.** For instance, the failure of a project can be a source for lesson-drawing, as it may show that a certain type of activity is not feasible in a given contest. The emphasis on delivering results can lead to perverse effects and more attention should be paid to ensuring that the desire to achieve results does not lead to not taking risks or unnecessary caution with programming and implementation choices.
- **Reward performance, not punish failure.** Related to the above point, as a general principle, favouring more approaches that reward performance as opposed to sanctions for failure.
- **Earmarked resources for the Commission.** Assigning the Commission a budget for directly implemented innovative measures which have demonstration value (in line with practice for innovative urban actions). This would increase the visibility of the Commission and the reputation attached to being selected by the Commission could also be attractive for potential beneficiaries.

3.4 Financial Instruments and territorial cooperation

3.4.1 *Little support for greater use of Financial Instruments*

In her speech at the 55th Congress of the European Regional Science Association in Lisbon, in August 2015, Commissioner Crețu asked for feedback on the possible extension of the use of FIs, framed as part of a wider question regarding the relative efficiency of different forms of support (grants, FIs, or their combination).⁵⁷

As already noted, there has been an increasing trend in the EU to encourage spending EU budget resources through FIs, most recently under the Juncker Plan. Commission estimates suggest that around €24 billion will be allocated to FIs in 2014-20, which represents almost double the allocation in the previous 2007-13 period (€9.6 billion) and 20 times the allocation in 2000-06 (€1.2 billion). In the post-2020 period, FIs are likely to play a more prominent role given the momentum gathered in recent years and the rationale for their inclusion in terms of the revolving, and thus sustainable, use of public funding. This is not just related to developments in Cohesion policy; the debate on the future of EU economic governance may require some form of stabiliser, potentially involving an expanded use of EFSI.

⁵⁷ Crețu C (2015) *op. cit.*

Binding targets for the different Funds or TOs provide one mechanism through which the EU could further increase the use of FIs. Based on the experiences of negotiating the current thematic concentration requirements, Member States would undoubtedly object to the introduction of yet another set of funding targets and would prefer a voluntary or flexible approach reflecting domestic needs and preferences.⁵⁸

Further, the danger in focusing excessively on FIs is that the value of grant-based support is overlooked or downgraded without a robust evidence base. There are also limits in the capacity of programmes to incorporate FIs. The administrative complexities associated with EU co-financed FIs are a major concern for MAs.⁵⁹ Given the administrative burden (and expertise) involved in setting up structures for managing such instruments, they are perceived to be less useful in small programmes and in sparsely populated areas where there are both few SMEs and a less well-developed capital market. In addition, the impact of the current economic crisis suggests that the capacity of FIs to leverage in private sector funding or to incentivise SME investment may be limited. More fundamentally, there is no evidence that FIs lead to improved programme performance (in terms of growth, productivity, jobs) compared to grants.⁶⁰

Most IQ-Net authorities surveyed for this paper expressed a negative opinion on a further extension of the use of FIs. This is predominantly based on the following considerations:

- **Grants will continue to be needed.** A first point is that grants remain necessary to support firms (a view recently raised by the Council too, see Box 13).⁶¹ This is particularly so in the context of less developed or less populated regions (e.g. in the East and North of Finland), for risky projects that may not meet the necessary conditions for support under FI schemes, for projects that do not generate immediate returns (e.g. projects in the fields of research, social projects, some infrastructure investments, active labour market policy). There are areas where the use of FIs increases the scope to pursue projects and interventions that otherwise would not be financially viable, particularly in policy areas that are close to the market (e.g. energy, SME support, urban development). However, there are ESIF interventions that are just best served by grant-based models. Thus, FIs should be part of a mix of instruments offered, whose balance should be decided based on needs not on a priori thresholds. This means that any further extension of the use of FIs should be voluntary: programme authorities may prefer to opt for a reduction of FIs compared to grants rather than an increase.

⁵⁸ Mendez C and Bachtler J (2015) *op. cit.*

⁵⁹ Michie R and Wishlade F (2011) 'Between Scylla and Charybdis: Navigating financial engineering instruments through Structural Fund and State aid requirements', *IQ-Net Thematic Paper 29(2)*, European Policies Research Centre, University of Strathclyde, Glasgow.

⁶⁰ Mendez C and Bachtler J (2015) *op. cit.*

⁶¹ Council of the EU (2015) *Outcome of the Council Meeting, 3401st Council meeting, General Affairs*, Luxembourg, 23 June 2015.

Box 13: Use of grants versus FIs – Luxembourg 2015 Council Conclusions

Grants remain important on their own and combined with FIs. While recognising the effectiveness of using FIs to increase the impact and leverage of ESI Funds, the Council notes that ‘grants within cohesion policy are an effective form of support for many types of projects and programmes on their own and in combination with financial instruments’.

Clear and stable rules. The Council highlights the need for stable, consistent and clear rules throughout the whole implementation period as a pre-requisite to attract private investors. This is in response to the challenges in 2007-13 when successive legislative amendments and guidance notes were issued to clarify rules on FIs, ultimately generating confusion and legal uncertainty.

Timely and practical guidance and advice. The Council called on the Commission to provide guidance on the use of FIs and on the synergies between different instruments in a timely manner without going beyond the scope of the regulations by creating additional obligations. Guidance on combining the use of the ESI Funds and EFSI is requested along with practical and timely solutions to implementation challenges by the Commission and through the new ‘fi-compass’ platform.

Source: Mendez C and Bachtler J (2015) *op. cit.*

- **Insufficient evidence that FIs are more effective.** Authorities are concerned that there is currently not enough evidence to demonstrate that FIs are more effective than grants, whether in general or in specific contexts/for specific policy goals. Some IQ-Net partners consider that the ‘leverage’ argument is over-emphasised and used to ‘push an agenda’ without sufficiently robust justification. Any decision to increase the use of FIs should be based on the assessment of the results of the implementation of FIs in the 2014-20 programme period. In Poland, for example, the future use of FIs will be decided after an ex-ante evaluation of needs.
- **Duplication and overlap with domestic policies.** In some cases (e.g. Vlaanderen), FIs are already offered by domestic policies and it would be therefore more helpful to allow the ESI Funds to focus on grants. In such contexts it is considered that finding elements of added value in the FIs offered through the ESI Funds which, by nature, are more complex and narrow in scope, would be difficult. A separation of competences, whereby the ESI Funds offer grants and domestic actors FIs would represent a more rational response.
- **Too much complexity.** FIs increase the complexity of the programme implementation. The current push towards an increased use of FIs from the EU has gone hand in hand with implementation difficulties on the ground. The list of steps that MAs and IBs need to follow in order to implement FIs is extensive and characterised by legal uncertainty (e.g. beneficiaries for specific instruments had to be identified before Commission guidance was available). There has been a mismatch in the current period between the EU-led push for an increased use of FIs and the absence of a clear framework. There is consensus that a simpler means of implementation will be needed and that, up to now, guidance from the Commission has been insufficient. The use of FIs could simply programme implementation, providing that the regulatory framework allows this. If FIs were simplified, they may become more attractive. However, based on past simplification efforts, there are doubts about the scope for introducing real simplification.

- **Appeal of FIs dependent on domestic conditions.** The success of ESI-funded FIs is highly dependent on the supply of other public financial tools, on levels of capacities amongst administrations and recipients, and on the maturity of financial markets in any given national context – sometimes referred to as the eco-system for FIs.⁶² In some countries, ESI-funded FIs are not competitive in comparison to other financial products available on the market therefore their extension would not be a viable option. Ultimately, the modality through which financial support is provided is secondary to and descends from the policy objectives pursued. FIs can be useful in some cases, but cannot be a policy solution that fits all contexts and their extension should not be a goal in itself.

Lastly, one question raised in recent debates about the future Cohesion policy is whether there should be a Cohesion policy model where funding in richer countries or regions ESI Funds support was channelled exclusively through FIs. Unsurprisingly given the above summarised arguments, this option is unanimously opposed. More traditional, grant-based instruments continue to be relevant in richer countries and regions too, where project holders may not be able to pay back loans just as in the less developed countries/regions, and where the benefits from investments in some fields may be hard to recover just as in less developed countries/regions (e.g. investment to improve the living environment which may increase the value of properties in the area without translating in a financial gain for the public purse). Grants will continue to be needed in richer countries and regions alike. The tabling of this issue is viewed as a sign of the intention to further reduce the scope and financial scale of Cohesion policy support in More Developed Regions and viewed with skepticism as it could contribute to erode the support base for the policy in the wealthier Member States. Ultimately, the use or not of FIs should be based on what is really needed in a particular domestic context, in line with the subsidiarity principle, and not on whether a Member State or region is more or less developed. It could well be that there may be a greater need for publicly-funded FIs in weaker Member States and regions, where private sector financial markets are likely to be weaker and thus not able to offer the low-cost support that they already offer in countries like Germany for example.

3.4.2 Greater scope for linking territorial cooperation to Integrated Growth & Jobs programmes?

A theme that has gained prominence over subsequent rounds of Cohesion policy reforms has been that of territorial cooperation. Once again, the issue of how to strengthen territorial cooperation, whether it should be strengthened, and whether the linkages between mainstream programmes and INTERREG programmes should be reinforced and how to do so are likely to resurface in the debate about post-2020 Cohesion policy. Among the issues floated for the post-2020 period is whether there should be a Cohesion policy model where funding in richer regions is only provided through INTERREG.

By and large, IQ-Net authorities view the pursuit of linkages between mainstream programmes and INTERREG as important, and especially possible where both types of programmes are managed by the same body. However, they also consider that this increased search for synergies should, again, be voluntary and dictated by the policy needs rather than by a priori, top-down decisions. In Denmark, for example, the view is that linkages and synergies between mainstream and INTERREG programmes are already good and not requiring further improvement. Beyond this, for other observers, the current

⁶² Wishlade F and Michie R (2016) *op. cit.*

regulatory framework provides sufficient room for manoeuvre to allow for greater synergies; a view not unanimously held, however. Some interviewees expressed the concern that despite contacts between MAs to try and link the different OPs more closely and formally, achieving this is difficult: partly, this is due to the intrinsically different goals and types of activities funded by the two types of programmes and, partly, because EU-level rules are differentiated which then makes it difficult for Member States to introduce coordination at national/regional level. Mostly, the view that further synergies should be pursued on a voluntary basis is justified with past experience, which has shown that there are constraints for costs eligibility (e.g. for foreign partners in territorial cooperation projects, due to national fiscal legislation) and that attempts to coordinate mainstream and INTERREG programmes/projects can result in practical challenges and higher error rates. Thus if, from a EU-wide perspective, increased synergies may lead to higher project quality and EU added value, the benefits domestically may be less visible. Achieving synergies is viewed as particularly challenging by small recipient countries/programmes.

An example of a concrete attempt towards achieving this can be found in Wales with the introduction of a cross-fund portfolio management group, as discussed earlier, comprising officials managing different parts of different funds who meet quarterly to talk about portfolios and common areas of interest. The group allows innovation and experimentation from LEADER and INTERREG to be aired and to open up routes to introduce these factors into mainstream projects. The hope is to start with 1-2 projects that could be trialled on a bigger scale through the mainstream ESI Funds programmes: this 'scaling up' might help with one of the biggest challenges with INTERREG projects which is the demonstration of performance and impact.

The option of limiting funding in richer Member States and regions to INTERREG is not viewed with favour although some of the authorities queried stressed that a strengthening of INTERREG allocations would be certainly needed if mainstream funding was reduced (or, worse, discontinued altogether). A key concern with this scenario, already discussed in the previous section, would be the erosion of political support for Cohesion policy in richer countries if they were excluded from mainstream Cohesion policy support. The shift in focus towards economic growth that the policy has undergone in the past years makes it important for both richer and poorer Member States. Not only it retaining mainstream funding viewed as important, but also that the funding of mainstream programmes in richer regions/countries should reach a minimum critical mass to make programme administration worthwhile (for instance, Vlaanderen has currently an allocation of €170 million: if this were further reduced it may not be worthwhile to implement a regional programme any longer).

3.5 Enhancing quality of governance and administrative capacity through further conditionalities

While there is consensus on the importance of institutional and administrative capacity as a key factor for the sound management of ESIF programmes, the viability of strengthening this with enhanced conditionalities is not viewed favourably or seen as necessary. Concerns relate to the number of conditionalities already in place (viewed as too numerous in both small recipient and major recipient countries and programmes); the associated risk of turning EACs in a purely bureaucratic exercise; and the view that EACs are not an effective way to enhance capacities because they are perceived as punitive and vexatious and because of their perverse effects, whereby in practice whereby it is difficult for a country or region to comply with conditionalities that are too far removed from its starting position and that it had not been subject before to. A more constructive approach, for some authorities, would

be to reflect on how the EU can *help* regional and local actors improve the quality of the design and implementation of projects through a better use of Technical Assistance resources (and more resources dedicated to this potentially).

Some authorities, on the other hand, see scope for introducing a differentiation between Member States and regions, with strengthened EACs only in countries/regions where there is evidence that the level of institutional and administrative capacity is not adequate. This could be done along the lines of the European Neighbourhood Policy and Enlargement Negotiations and the support provided by IPA to build up the capacities of the countries throughout the accession process, whereby the responsibilities of the Commission and the candidate country are proportionally allocated depending on the level of progress. A similar approach could be hypothesised also within the context of EU Member States where the implementation of the EU regulations remains more difficult.

On the whole, to the extent that a summary view can be elaborated, it is that pressures to improve institutional and administrative capacity are considered legitimate, but this does not necessarily have to take the form of increased conditionalities. Further, any conditionality would have to be realistic: lessons should be learned from the past, when instead of setting an ambitious goal that led to positive results, the result was non-implementation, delays and excessive bureaucracy.

3.6 Flexibility to respond to changing needs

A further question in the debate on post-2020 Cohesion policy is whether more flexibility is needed to allow the EU (and individual countries/regions) to respond to changing needs and challenges more quickly than at present, potentially requiring budgetary allocations or programme priorities to be changed during the programme period or via a shorter programme period.

The earlier discussion (Section 2.2) provided a stock-take of the current positions on thematic concentration, highlighting a desire amongst a number of IQ-Net authorities for more flexibility in interpreting the regulatory provisions relating to TOs. However, there is caution about other forms of flexibility being institutionalised.

There is acknowledgement that while a degree of flexibility would be useful, programme authorities need a long-term perspective and strategic stability, and that there must be a balance, i.e. that urgent political imperatives should not be addressed at the expense of the long term (Cohesion policy is viewed as a structural policy and thus long-term in its ambitions). As noted earlier, Cohesion policy should not become so flexible that it becomes the EU policy that can be mobilised to tackle sudden problems or crises. There are or should be other EU tools which can react to these emergencies. For many IQ-Net authorities, Cohesion policy should retain its original purpose and aims, and have stable strategies.

Several IQ-Net authorities are also hesitant about provisions for greater flexibility in programme implementation. Beyond the needs for major adjustments, represented by events such as the economic crisis or the migration emergency, there may be some need for increased room for manoeuvre but most other changes in the context in which programmes operate can be accommodated as there are already possibilities to make adjustments. What is needed arguably is a simpler process of making adjustments to the OPs. For example, to allow prompter adjustment of indicators (e.g. in Vlaanderen there are concerns that not all are appropriate or as thought out as they could have been), it would be helpful if these can be adjusted in the programme period).

3.6.1 Shorter programme periods?

The introduction of shorter programme period is not viewed with any enthusiasm by IQ-Net authorities. Only in one case was the possibility of five-year periods considered as potentially useful, in order to align the budgetary periods with Commission mandates and thus strengthen both direction and accountability. The majority of IQ-Net authorities noted the practical constraints of a shorter programme period linked to the length of time needed to agree the new budget and launch new regulations – perhaps shorter periods could work as long as there was continuity in the regulatory framework – and to the administrative efforts that are required in order to agree programmes with the Commission. A major concern is that, even with a seven-year budget, actual implementation only starts 2-3 years after the start of the programme period. This is seen as a systemic problem across the EU requiring reconsideration and potentially earlier preparation and planning time.

Overall, the seven-year programme period is considered to be an appropriate time-frame and, indeed, for some, these ‘long’ programme periods are viewed as one of the key strengths of the ESI Funds. Other, shorter programme periods were regarded as options that could have even negative influence on programming and the effectiveness of the policy: the design of medium to long-term development strategies is based on projects that take time to be planned, mature and be implemented, and shorter periods may prove detrimental to the implementation of integrated or innovative interventions and major projects. There are concerns that a shortened programme period would inevitably limit the types of interventions funded under the policy to those types of actions that can be delivered in a tight timescale.

3.6.2 Mid-term review?

Mid-term reviews linked to mid-term evaluations have been carried out in previous periods (and indeed in the current period within the performance reserve framework), and they were not found to add value, because of the premature nature of the exercise. It was not possible at such an early stage of programme implementation to assess the impact of the programmes. Despite the low added value, mid-term reviews were time and resource (financial, human) consuming.

On the whole, there is consensus that reviews cannot be ‘date’ driven, but rather ‘needs’ driven. In principle, it is a good idea but in practice there needs to be variability to suit programme circumstances. It might be useful to have a point at which the Commission is geared up to having a discussion with the regions, for example, this could be done during the Annual Implementation Report meetings, but beyond this mid-term reviews should be an option for programme managers, e.g. where there are reasons to believe that reprogramming may be needed, and not an obligation.

3.6.3 Domestic reserves?

Reserves at national and regional levels are considered challenging on a number of levels. They could: politicise funding allocations; lead to changes being introduced not for strategic (changing need) but practical (absorption) reasons; lead to uses of ESI Funds allocations for purposes not strictly linked with the goals of regional development and catching-up; and require additional resources and time to be set aside for this task. There have been past examples of domestic reserves, e.g. in Italy, which have not been entirely successful, making it difficult to justify this kind of approach as a way forward. There are also fears that creating a national/regional reserve would create uncertainty, leading to underspend at

the end of the programme period. In a sense, if programmes themselves are not flexible enough to respond to changing regional needs, it could be argued that they have not been designed properly.

These negative views were not unanimous. In Finland, for example, authorities considered that a national reserve of 10-20 percent was considered as a possible option to allow a response to changing regional needs or react quickly to sudden crises. Given that there have been situations in the past where (for instance) the East and North Finland have not met their payment targets, the national-level reserve would ensure that this money would not be allocated to projects elsewhere in the country. Relatively positive views were also voiced in Scotland, where a national or regional reserve is viewed as an option as long as its function was clear and its operation not left vague.

3.6.4 EU reserve for crises?

Among IQ-Net authorities there was somewhat more openness to the idea of a possible EU-level reserve, to be potentially allocated to those areas or programmes affected by new crises. For example, a 90:10 split between core priorities which are fixed (90 percent) and flexible funding for ad hoc measures (10 percent) would be viewed with favour by some authorities, acknowledging that the current crises around security, migration and climate were not foreseen several years ago. Part of the utility of the tool, however, would depend on the overall volume of the ESIF budget. There is also acknowledgement that agreeing at EU level how exactly the resources should be used could lead to of cumbersome negotiations and loss of time.

For a number of authorities, however, the limitations already noted with regard to a national or regional reserve would also apply to a EU-wide reserve. For example, the reserve would require a renegotiation of the distribution of funds between the countries, then a re-programming, where also the programme partnerships would need to become involved. If such a reserve would be managed top-down and not involve the partnership, Cohesion policy might be said to have lost part of its purpose; further it could take a lot of time to reach agreement on and operationalise a reserve.

Consequently, the majority of IQ-Net authorities do not view the introduction of a EU-reserve with favour and, indeed, there are in some cases very strong feelings that it should not be taken forward, because it would unduly strengthen the role of the Commission in dictating how funding should be spent beyond the agreed strategies and because it could encourage the above-mentioned goal-displacement and to the pursuit of short-term goals.

3.6.5 Other suggestions for greater flexibility

IQ-Net partners made some other suggestions of ways through which to increase the flexibility of programming in order to respond to new crises or changing needs. This includes: using TA resources in a more flexible way; leaving room for a freer approach to thematic concentration; introducing thresholds of funding below which programme authorities can re-shuffle financial allocations across priorities without need for Commission approval; joining-up the negotiation of PAs and OPs so as to come to a quicker launch of programmes; accompanied by a further renegotiation at some point in the period (if and as needed).

4. CONCLUSIONS AND SUMMARY OF DISCUSSIONS

4.1 Main messages

The debate on the future of Cohesion policy after 2020 was launched by Commissioner Crețu in August 2015. With the Commission beginning to consider its proposals for reform in the 7th Cohesion Report, this is an opportune moment to discuss options and ideas for reform and to make an informative contribution to the debate. The aim of this paper is to facilitate a discussion on the future evolution of the management and implementation of Cohesion policy based on the views and experiences of IQ-Net partners, representing MAs and Intermediate Bodies from 16 Member States.

In the context of evolving intergovernmental debates at EU and national levels, this paper has taken stock of the implications of the 2013 reform, focusing on the main objectives relating to strategic coherence, thematic concentration, results-orientation, performance framework, EACs, FIs and integrated territorial development. This has been used as a basis for a reflection on possible options and ideas for post-2020 reform, drawing on desk research and interviews with IQ-Net partner authorities.

The main message from the report is that, while the regulatory reforms for 2014-20 have addressed important deficiencies to improve Cohesion policy, the potential benefits at programme level are still emerging – and have often been obscured or constrained by the complexity of administrative procedures and workload associated with implementation. Further efforts are clearly needed to achieve real simplification for MAs and IBs, enhance the functioning of subsidiarity and improve further the intended results-orientation.

There is a degree of consensus among IQ-Net authorities on the main principles that should underpin the policy – for instance its role in addressing long-term, structural regional development problems, the imperative of avoiding goal congestion, the importance of subsidiarity. However, views on specific reform priorities vary, and there are sometimes divergent opinions on potential reforms to thematic concentration, the model of shared management, and differentiation of implementation systems.

This final section draws together some of the main points to emerge from the paper and questions for discussion at the IQ-Net Conference in Prague.

4.2 Strategic issues

Improved strategic coherence is the aspect of the 2013 reform most valued among IQ-Net authorities at the programming stage, but there are several practical problems that may hinder a more strategic approach to implementation. There are also concerns at the policy becoming (increasingly) used for achieving other EU objectives (Europe 2020, economic governance) and that there is insufficient flexibility to adapt the policy to national or development needs, challenges and policy priorities. A place-based approach to policymaking needs to be reinforced in the post-2020 period.

4.2.1 Questions

- *What should be the principal objectives and role of Cohesion policy after 2020?*
- *What is an appropriate balance between aligning Cohesion policy with wider EU objectives and ensuring a territorial focus?*

- *How can the principle of thematic concentration be applied better in practice? How might more flexibility be introduced without leading to fragmentation of interventions?*

4.2.2 Discussion summary

Should Cohesion policy be a ‘do everything’ policy, which covers a wide range of sectoral areas, or a policy focusing on solving problems of regional disparities? There is a **tension between sectoral policies and the horizontal approach of regional policy**, which can lend itself to politicisation as (sectoral) actors want to use the funding for their own means. While there are positive elements to the principle of thematic concentration, the earmarking of TOs is too inflexible and it should be recognised that Member States and regions are best suited to define the most appropriate themes – there should be more flexibility to define activities within TOs and investment priorities, providing an ‘offer’ of TOs.

The content of OPs could be defined during the negotiation process, with the **EU level discussion providing the ‘what?’, or the broad direction for the EU, while the Member States and regions determine ‘how?’**, which may vary between countries and regions. The Member States could prepare their own position paper based on a clear intervention logic before the negotiations (and before the next regulatory changes), to be discussed at an early stage in a proactive way, rather than having to react to the CSRs. The Commission should recognise that Cohesion policy represents very different proportions of available development funding in different Member States.

The **different sectoral scope of the Commission DGs** exacerbates the issues – the current separation of Funds is part of the problem. It is difficult to combine Funds, e.g. within multi-Fund OPs. One single Fund might be a possible solution, solving demarcation problems.

Thematic concentration is felt to be good in principle, but flexibility, bottom-up elements and sensitivity to territorial aspects are need. Under Cohesion policy, the scope of regions to define their problems and programmes should be increased, and there should be space for Member States to define their own priorities. For instance, the earmarking around sustainable urban development has been problematic, particularly decisions around what constitutes the required minimum allocation of five percent.

There was also discussion of how to enhance the **territorial focus of Cohesion policy**. The 2007-13 period was seen as having focused on the competitiveness agenda, and helping all regions, rather than addressing disparities. An **improved categorisation of regions** could help, the current categorisation into more developed/transition/less developed regions is found to be too rigid, and to have complicated implementation – there is a need recognised for different approaches for different categories of region.

The **added value** of Cohesion policy lies in its capacity to fostering interconnection/cooperation between Member States, regions, businesses other actors. But there are issues posed by **competition from other EU funding** sources– these other sources do not face the same restrictions and performance requirements as Cohesion policy (e.g. State aid and public procurement rules). Rather than offering opportunities for synergies, there seems to be competition, which can result in beneficiaries preferring other, easier funding sources than Cohesion policy.

4.3 Governance issues

Cohesion policy is governed by shared management between the European Commission and the Member States. Despite the acknowledgement of practical constraints of the shared management model, there is widespread recognition among IQ-Net partners that moving away from this model as the underlying principle of Cohesion policy implementation would be difficult. There is a need to resolve the distortions and unintended effects of the model, differentiating responsibilities between different actors more clearly and allowing more autonomy to the domestic authorities and MAs. More fundamentally, there is the question of whether a broader differentiation of management arrangements is feasible and desirable in ways that are viewed as equitable and ensure accountability.

4.3.1 Questions

- *Which aspects of the current attribution of responsibilities between the Commission and the Member States should be modified to ensure a more clear-cut and effective separation of tasks and responsibilities?*
- *What differentiated management and implementation arrangements could be introduced to take account of the different institutional contexts, administrative requirements and scale of funding?*
- *To what extent would a full devolution of programme design and implementation to Member States, leaving the Commission to negotiate, monitor and evaluate only a national level strategy, be acceptable and feasible?*

4.3.2 Discussion summary

Finding the **correct balance between 'negotiation' and 'imposition'**, and application of the partnership principle at Commission level has been found to be problematic. The negotiation process for 2014-20 led to some significant concessions in OPs, there were examples where interventions were added to OPs at the Commission's insistence. The MA is then responsible for the intervention which they did not want in the first place. If the responsible Desk Officer moves on, there is then no-one who knows the rationale for the item's inclusion in the OP.

There cannot be any 'one-size-fits-all' solution, not least as domestic governance systems are very different and established, well-working structures should be respected. There is a need for **differentiation/more proportionate arrangements** (e.g. by size, track record), but drawbacks of the possible approaches were recognised. Different management models could be considered, including the example of development aid (direct management) which works even in countries with weak institutions.

There is a **lack of inter-institutional trust** that leads actors to focus more on compliance with technical issues rather than on strategic thinking and project quality. The system of **shared management** does not seem to mean shared responsibilities and shared risks. The climate of distrust needs to be changed and the single audit principle, i.e. relying on and trusting national systems, needs to be promoted. Levels of trust could also be enhanced by shifting from an audit-based management system to a stronger result-oriented management.

A possible solution could be the **use of contracts with the Commission for results**, with programme design being devolved and the responsibility of the Member State or region (although existing examples of this type of approach with the Commission, e.g. the Joint Action Plans have been problematic).

Administrative capacity is an issue – within the Commission, where there is seen to be a lack of institutional memory, a lack of contextual knowledge and an undue focus on procedure. Capacity is also an issue within **Audit Authorities**, who are being swamped by work related to Structural Funds programmes and who are inhibiting the adoption of innovative approaches (e.g. financial instruments) due to fears that audit will not accept them – there is a culture of ‘audit imperialism’ with systems being built to be proof even for auditors with insufficient knowledge.

4.4 Implementation issues

Simplification and performance are two key issues for the 2014-20 period and beyond. With respect to simplification, the general perception of IQ-Net partner authorities is that real simplification and proportionality are still far from being achieved and that, actually, the administrative burden has increased over successive programme periods. Regarding performance, the results-orientation has improved the starting position of programmes but it is proving difficult to embed the new ‘programming logic’ mentality among implementing bodies and within project applicants, and there are concerns about the rigidity of the approach taken by the Commission. EACs have been used to improve the policy’s effectiveness, but not all are considered to be useful, some are unlikely to be met, and others are outside the control of MAs.

4.4.1 Questions

- *What are the priorities for improving legal certainty, flexibility and less prescription in ESIF rules after 2020?*
- *What changes need to be made to the performance framework and results-orientation to make them more efficient and effective to manage in practice?*
- *What are the lessons from the use of EACs that should influence decisions on their use after 2020?*
- *What further steps are needed to improve administrative capacity, especially in countries/regions with weaker or less-experienced administrative resources?*

4.4.2 Discussion summary

Results-orientation is a good principle as it promotes strategic thinking, including in administrative environment where this is less prominent, but its effects are undermined by the intensity of financial control, Commission's inclination to want to define orientations too precisely, and the consequent lack of flexibility of its implementation.

While the **performance framework** is supposed to help achieve accountability and results, programme managers met technical issues that undermine its utility and applicability such as the issue of indicators and the definition of targets. In addition, timing for showing results is not adapted to the reality of implementation (too soon). Indicators should be more flexible in order to better reflect the change in external conditions, or pre-existing local conditions. It is felt that the performance framework is used for control rather than results-oriented purposes.

There are mixed views about **EACs**, although partners welcome their introduction in principle. Most partners thought they promoted strategic planning and create a suitable framework for investments, but often EACs become a tick box exercise and in others their fulfilment is outside the MA's area of responsibility. For some EACs, the requirements were deemed too specific, e.g. in the case of RIS3.

The easiest solution for **administrative capacity issues** would be to simplify the implementation framework. MAs have too many administrative burdens and need more time to think strategically, apply the results of evaluations etc. However, simplification so far has often lessened the burden on beneficiaries (and the Commission) but increased it for MAs. It is important to build on the current approach rather than introduce a new system. Common processes, common eligibility rules, and harmonisation of Funds would improve implementation. Simplified cost options, for instance, have been very time-consuming to introduce, but should save time in the long run.

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