



Criteria for a differentiation in shared management of European Structural and Cohesion Funds:

Briefing paper to the Federal Chancellery Austria

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1. INTRODUCTION

A differentiated approach to the management and implementation of Cohesion policy will be a key issue in the post-2020 reform of the policy. Linked to the intense debate on simplification, there is increasing recognition, including by Commissioner Crețu, of the need for a fundamental change to the management system for Cohesion policy that goes beyond simplification of rules and recognises differences in scale of funding, institutional and administrative structures and capacities across Member States.¹

The Cohesion policy Conference² and Directors-General Meeting³ organised by the Slovak EU Presidency in Autumn 2016 both highlighted the growing concern of the Member States about administrative complexity (especially where the ESIF part of funding is relatively small) and the need for differentiated approaches to be considered. The recent GAC conclusions⁴ confirmed this with a commitment to simplification in general but beyond that with a ‘careful exploration’ of “the introduction of differentiation into the implementation of the ESI Funds programmes based on objective criteria and positive incentives for programmes”.

The case for differentiation of rules across Member States is not yet universally accepted, and the above meetings also noted the importance of governance reforms being regarded as fair by all Member States and the need to ensure that the Commission can discharge its responsibility with respect to the budget. However, it is appreciated that some Member States regard the uniform treatment of Member States despite fundamentally different framework conditions as unfair and may be unwilling to continue participating in Cohesion policy unless a more differentiated approach and thereby a sustainable cost-benefit relationship for their participation in Cohesion policy is introduced.

The challenge is how to engineer a system that makes a real difference to target setting and administration. At the programming stage, a minimum requirement would be to ensure coherence with overall Cohesion policy objectives, agreement on performance indicators and a commitment to the principles of partnership. During implementation, however, responsibility for spending and control would be completely devolved, while providing evidence for the milestones and results achieved to the Commission for disbursement of funds. The fundamental requirement would be less onerous administrative requirements based on the key criteria of relevance and risk: Member States where the EU Funds’ contribution to national policies in the field is very limited and represent low risk for the EU budget could be subject to differentiation.

A central question is which indicators and thresholds could be used to determine the Member States that would be subject to different regulatory requirements. Ultimately, this is a political decision – as with other such decisions on indicators and thresholds for the allocation of EU funding – but it will need to be supported by reasoned justification. It will need to deliver an outcome that, on the one hand, provides a sustainable cost-benefit relationship for those Member States for which this is a *sine qua*

¹ Bachtler J, Mendez C and Wishlade F (2016) *Evolution or revolution? Exploring New Ideas for Cohesion Policy 2020+*, EoRPA Paper 16/4, European Policies Research Centre, University of Strathclyde, Glasgow.

² SK PRES (2016) *Conference Conclusions - EU Cohesion Policy Conference: Past Evidence, Current Experience and Future Perspectives*, 15-16 September 2016, Bratislava.

³ SK PRES (2016) *Summary Report - Meeting of Directors General responsible for EU Cohesion Policy*, 2-3 October 2016, Bratislava.

⁴ Council of the EU (2016) *Council conclusions on results and new elements of cohesion policy and the European structural and investment funds*, 16.11.16

non, and, on the other hand, is acceptable to those countries that will retain a simplified but uniform shared management system.

In assessing possible indicators, there are several criteria that could be used:

- **Rationality:** does the indicator have a justifiable rationale in terms of applying lighter regulatory obligations?
- **Transparency:** is it an indicator that is easily comprehensible not just to ESIF administrators but also to politicians, stakeholders and citizens? Is it easily measurable with accepted data?
- **Applicability:** how easily can the indicator be applied? Is there a clear break-point that divides one group of Member States from another?
- **Regularity:** does the application of the indicator safeguard EU financial management and control interests i.e. ensuring that the risk of lighter controls is justifiable?

This paper examines possible indicators that could be used for differentiation purposes, using the above criteria to understand their strengths and weaknesses. In each case, it also presents a graph of the data for the indicator, and how the application of different thresholds could be used to differentiate between groups of Member States.

Four groups of indicators are reviewed in the following sections:

1. Scale and proportion of EU funding
 - National funding allocation, 2014-2020
 - National funding allocation per capita, 2014-2020
 - National co-financing rates, 2014-2020
2. EU funding in relation to investment / GDP
 - EU funding as percentage of public investment (Gross Fixed Capital Formation) 2007-13
 - EU funding as percentage of public investment (COFOG General public services) 2007-13
 - EU funding as percentage of GDP, 2007-2013
3. Performance in using EU funding
 - Cohesion policy funds absorption rate – EU28
 - Cohesion policy funds absorption rate – EU25
 - Validated error rates, EU28, 2015
 - Outputs/results (based on 2007-2013 OP targets vs achievements data)
4. Quality of governance
 - Quality of Governance: European Quality of Government Index, 2013
 - Quality of Governance: Worldwide Governance Indicators 2015 Government Effectiveness
 - Quality of Governance: Corruption Perception Index (CPI), 2015

The final sections draw together the results to emerge and the implications for their combined application for determining Member States that could use a differentiated approach.

2. SCALE / PROPORTION OF EU FUNDING

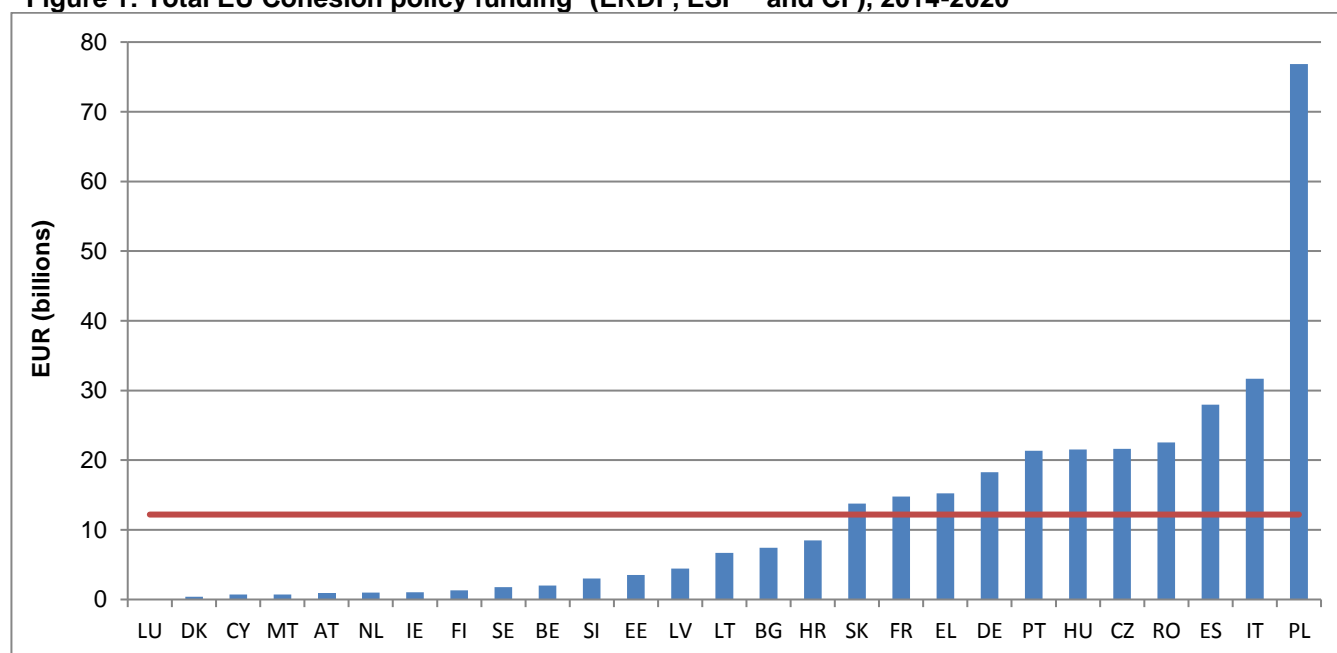
2.1 Indicator 1: National funding allocation, 2014-20

The national allocation of EU funding is uncomplicated, easily measured, transparent and has a clear rationale. The main challenge is applicability: there is a sliding scale of Member State allocations with no obvious breaks between countries with 'low' and 'high' funding. Some countries with smaller allocations would not necessarily justify lighter regulatory controls given their administrative capacity.

Criteria	Strength	Comments
Rationale	High	The main EU concerns are (a) regularity of EU spending – larger allocations / programmes are associated with greater risk to EU financial interests; and (b) performance – the impact of policy depends more on larger recipients. It is justifiable for regulatory requirements to be greater for larger allocations and vice versa.
Transparency	High	Indicator has a standard and accepted measure of volume of funding (€ bn)
Applicability	Medium/low	No clear cut-off point between 'low' and 'high' scale of funding. Low-funding Member States include CY, MT, SI and EE whereas high-funding countries include DE.
Regularity	Medium/low	Scale of funding is not necessarily related to quality of administrative capacity. Member States with low volumes may still require greater regulatory control because domestic policies are not designed in line with EU rules.
Variants	<i>Could be applied at programme level but different regulatory regimes in the same MS.</i>	

Threshold	Differentiation	Standard regulation
€ 2.5 bn	LU, DK, CY, MT, AT, NL, IE, FI, SE, BE	SI, EE, LV, LT, HR, SK, FR, EL, DE, PT, HU, CZ, RO, ES, IT, PL
€ 5.0 bn	LU, DK, CY, MT, AT, NL, IE, FI, SE, BE, SI, EE, LV	LT, HR, SK, FR, EL, DE, PT, HU, CZ, RO, ES, IT, PL

Figure 1: Total EU Cohesion policy funding* (ERDF, ESF** and CF), 2014-2020



*Not including national co-financing

**Including YEI

Average of EU27 in red

Source: European Commission ESIF Finance Data via Infoview (last updated 9 August 2016)

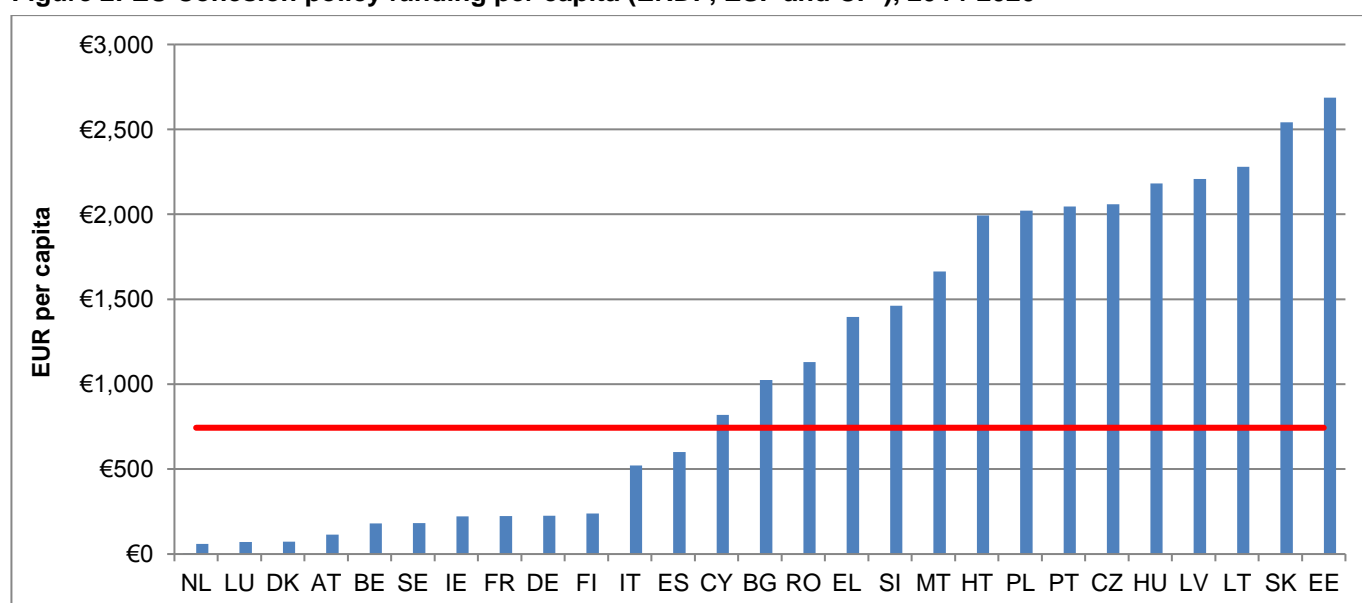
2.2 Indicator 2 - National funding allocation per capita, 2014-2020

Funding per head is also a straightforward indicator, again easily measured and transparent. It has a clear rationale and has the strength of weighting by population to indicate intensity of funding. As such, it provides a better indication of the implementation challenge; higher intensity funding being arguably more administratively demanding. There is a convenient threshold (break-point) in the scale of Member States at €400 per head dividing all of the obvious countries for differentiated regulation from others.

Criteria	Strength	Comments
Rationale	High	The main EU concerns are (a) regularity of EU spending – larger allocations / programmes are associated with greater risk to EU financial interests; and (b) performance – the impact of policy depends more on larger recipients. It is justifiable for regulatory requirements to be greater for higher intensity funding and vice versa.
Transparency	High	Indicator has a standard and accepted measure of volume of funding divided by population.
Applicability	High	Clear cut-off point between low intensity and high-intensity Member States at €250 per head. Secondary threshold at €600 to include 2 further countries.
Regularity	Medium	Intensity of funding is not necessarily related to quality of administrative capacity. Member States with low intensity may still require greater regulatory control because domestic policies are not designed in line with EU rules.
Variants		<i>Could be applied at programme level, but would mean different regulatory regimes in the same Member State.</i>

Threshold	Differentiation	Standard regulation
€250 per head	NL, LU, DK, AT, BE, SE, IE, FR, DE, FI	IT, ES, CY, BG, RO, GR, SI, MT, HR, PL, PT, CZ, HU, LV, LT, SK, EE
€600 per head	NL, LU, DK, AT, BE, SE, IE, FR, DE, FI, IT, ES	CY, BG, RO, GR, SI, MT, HR, PL, PT, CZ, HU, LV, LT, SK, EE

Figure 2: EU Cohesion policy funding per capita (ERDF, ESF and CF*), 2014-2020



*Not including national co-financing

**Including YEI

Average of EU27 in red

Source: European Commission ESIF Finance Data via Infoview (last updated 9 August 2016) and Eurostat population data 2014 (last updated 15 November 2016)

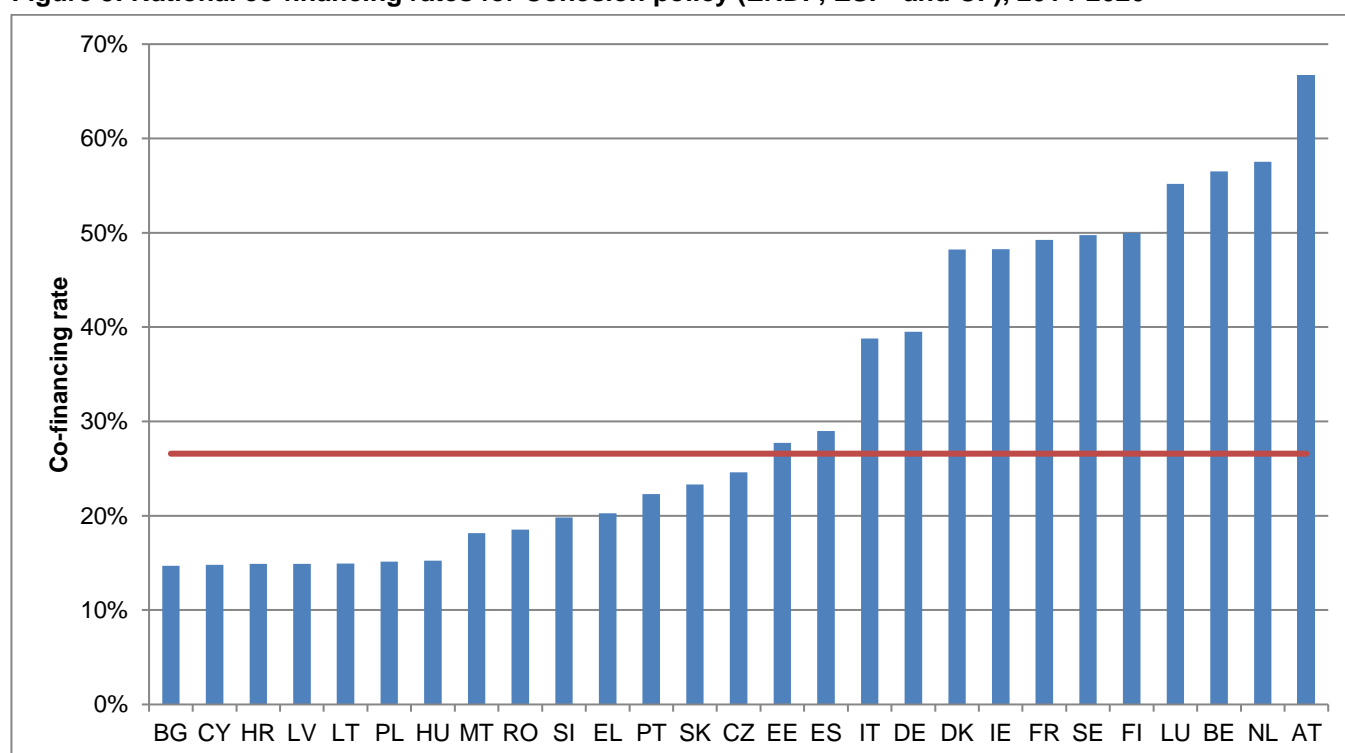
2.3 Indicator 3: National co-financing rates, 2014-2020

The national co-funding rate is essentially a measure of EU versus national contributions to the funding of Cohesion policy programmes in individual countries. As such it is a measure of risk. The rationale underpinning the co-financing principle is that Member States investing larger proportions of their own money to match EU funding are likely to be more committed to the additionality of funding, achievement of results and sound financial and administrative management. The indicator is transparent, measurable and has clear thresholds.

Criteria	Strength	Comments
Rationale	High	The higher the national co-financing rate, the lower is the risk for the EU budget and vice versa.
Transparency	High	Indicator has a standard and accepted measure - national percentage of financing.
Applicability	High	Clear cut-off point between 'high' and 'low' national co-financing at 30%. Secondary threshold at 40% to include two further countries.
Regularity	Medium	National co-financing is not necessarily related to administrative capacity. Member States with high national co-financing may still require greater regulatory control because domestic policies are not designed in line with EU rules.

Threshold	Differentiation	Standard regulation
40%	AT, NL, BE, LU, FI, SE, FR, IE, DK,	DE, IT, ES, EE, CZ, SK, PT, GR, SI, RO, MT, HU, PL, LT, LV, HR, CY, BG
30%	AT, NL, BE, LU, FI, SE, FR, IE, DK, DE, IT	ES, EE, CZ, SK, PT, GR, SI, RO, MT, HU, PL, LT, LV, HR, CY, BG

Figure 3: National co-financing rates for Cohesion policy (ERDF, ESF* and CF), 2014-2020



*Including YEI

Average of EU27 in red

Source: European Commission ESIF Finance Data (last updated 9 August 2016)

3. EU FUNDING AS PERCENTAGE OF INVESTMENT / GDP

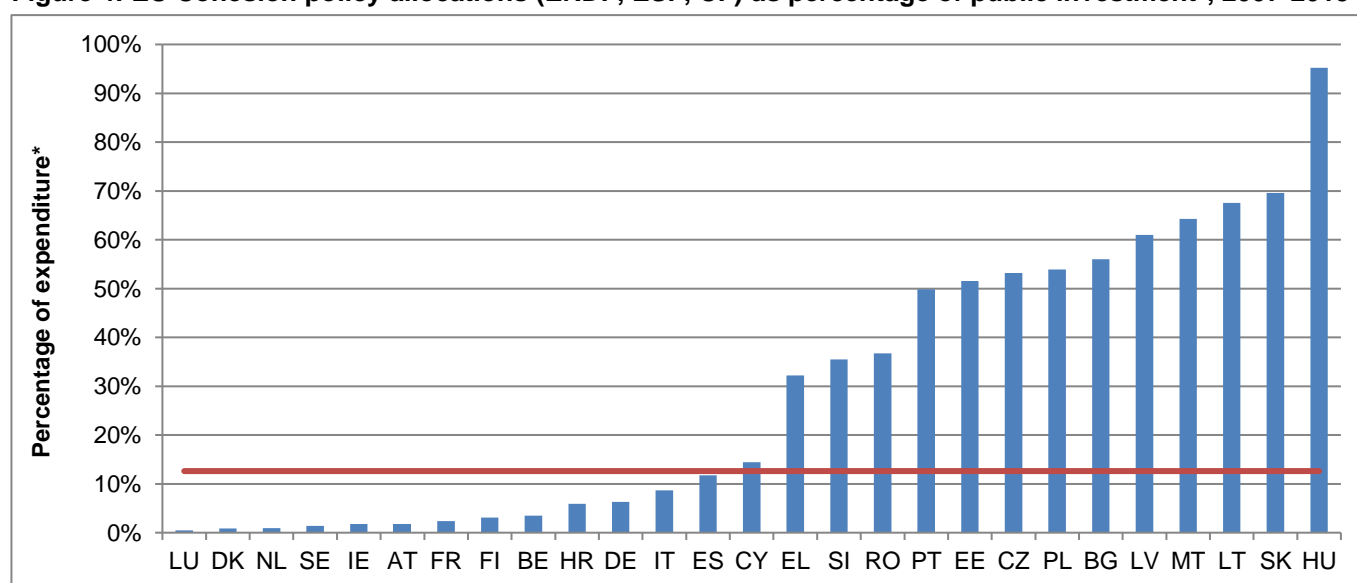
3.1 Indicator 4 - Gross fixed capital formation, 2007-2013

EU funding as a percentage of public investment is directly related to the target of EU spending. Small allocations relative to investment have limited potential to achieve significant change but also are associated with less risk. High shares of public investment will be covering a broad range of themes/sectors with greater administrative complication and thus potential risk. The indicator is transparent, measurable and has clear thresholds.

Criteria	Strength	Comments
Rationale	High	The share of public investment financed by Cohesion policy is related to performance and risk; larger shares of investment have more potential to contribute to the performance of the policy and the risks of failure are higher.
Transparency	High	Indicator has a standard and accepted measure of GFCF and publicly understood when framed as percentage of public investment.
Applicability	High	Clear cut-off point at 5% of public investment. Secondary cut-off points at 10% (three further countries) and 15% (a further two countries).
Regularity	Medium	Share of investment is not necessarily related to quality of administrative capacity. Member States with low investment share may still require greater regulatory control because domestic policies are not designed in line with EU rules.

Threshold	Differentiation	Standard regulation
5%	LU, DK, NL, SE, IE, AT, FR, FI, BE	HR, DE, IT, ES, CY, GR, SI, RO, PT, EE, CZ, PL, BG, LV, MT, LT, SK, HU
10%	LU, DK, NL, SE, IE, AT, FR, FI, BE, HR, DE, IT	ES, CY, GR, SI, RO, PT, EE, CZ, PL, BG, LV, MT, LT, SK, HU
15%	LU, DK, NL, SE, IE, AT, FR, FI, BE, HR, DE, IT, ES, CY	GR, SI, RO, PT, EE, CZ, PL, BG, LV, MT, LT, SK, HU

Figure 4: EU Cohesion policy allocations (ERDF, ESF, CF) as percentage of public investment*, 2007-2013



*Gross Fixed Capital Formation (GFCF) under the General government sector
Average of EU27 in red

Source: Eurostat - Government revenue, expenditure and main aggregates [gov_10a_main] (last updated 14 November 2016)

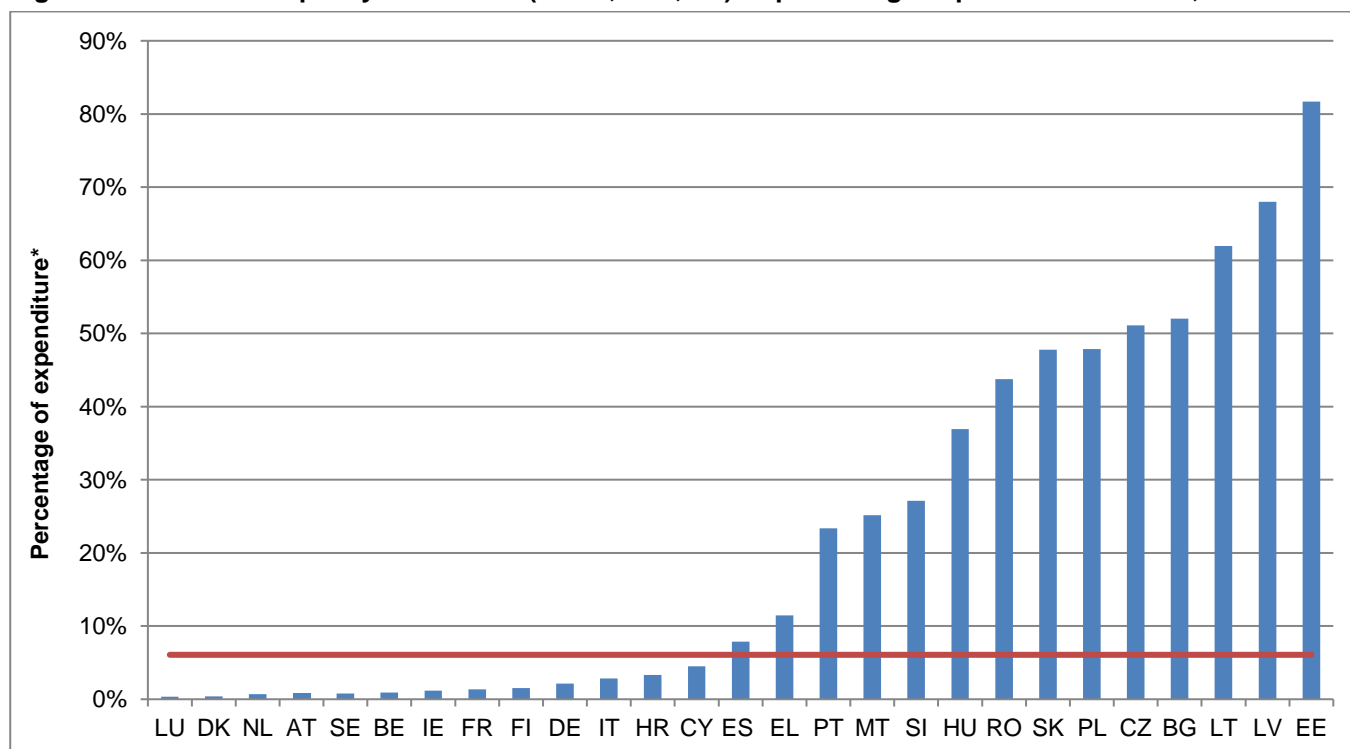
3.2 Indicator 5 - General public expenditure (COFOG), 2007-2013

An alternative measure of EU funding as a share of public investment uses general public expenditure on general public services. The rank order of Member States is, though, much the same – although with some exceptions such as Spain. The rationale, transparency and regularity are the same as for GFCF but with different thresholds of between two and five percent.

Criteria	Strength	Comments
Rationale	High	The share of public investment financed by Cohesion policy is related to performance and risk; larger shares of investment have more potential to contribute to the performance of the policy and the risks of failure are higher.
Transparency	High	Indicator has a standard and accepted measure of COFOG and publicly understood when framed as percentage of public investment.
Applicability	High	Clear cut-off point at 5% of public investment. Secondary cut-off points at 10% (three further countries) and 15% (a further two countries).
Regularity	Medium	Share of investment is not necessarily related to quality of administrative capacity. Member States with low investment share may still require greater regulatory control because domestic policies are not designed in line with EU rules.

Threshold	Differentiation	Standard regulation
2%	LU, DK, NL, AT, SE, BE, IE, FR, FI	DE, IT, HR, CY, EE, GR, PT, MT, SI, HU, RO, SK, PL, CZ, BG, LT, LV, EE
3%	LU, DK, NL, AT, SE, BE, IE, FR, FI, DE, IT	HR, CY, EE, GR, PT, MT, SI, HU, RO, SK, PL, CZ, BG, LT, LV, EE
5%	LU, DK, NL, AT, SE, BE, IE, FR, FI, DE, IT, HR, CY	ES, GR, PT, MT, SI, HU, RO, SK, PL, CZ, BG, LT, LV, EE

Figure 5: EU Cohesion policy allocations (ERDF, ESF, CF) as percentage of public investment*, 2007-2013



*Total general government expenditure on "General public services" (COFOG ESA95)

Average of EU27 in red. HR had a short programme period 2012-13.

Source: Eurostat - General government expenditure by function (COFOG) (last updated 19 November 2016)

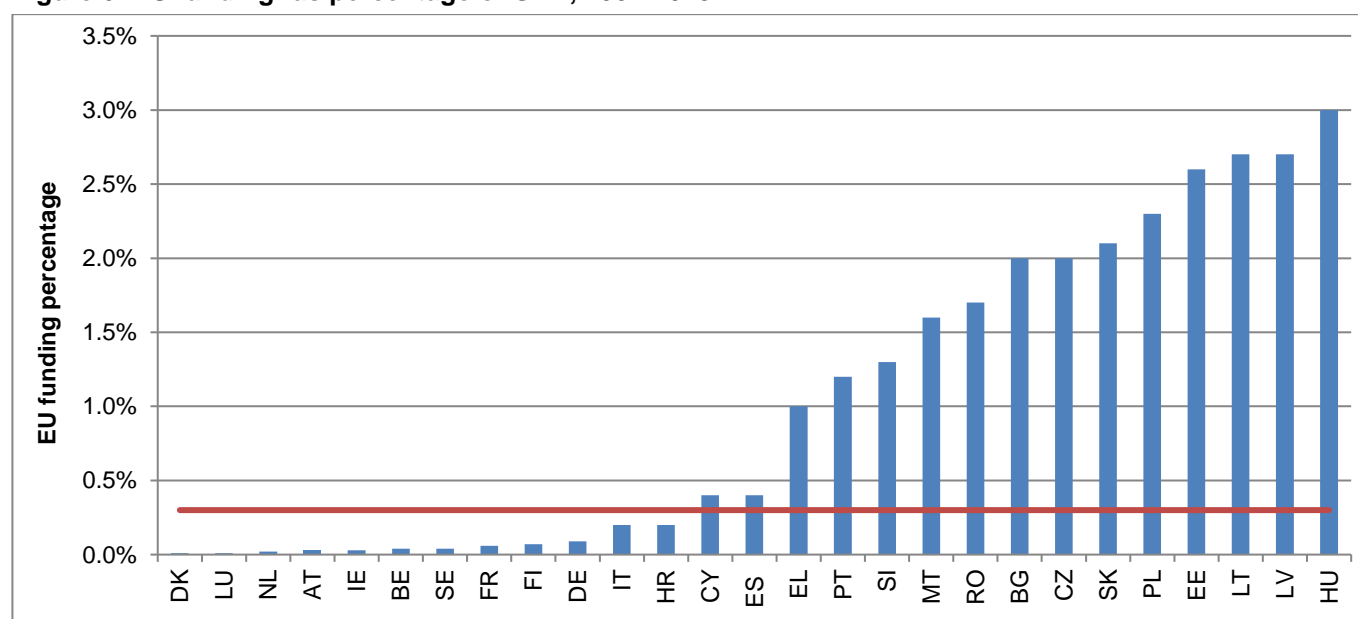
3.3 Indicator 6 - EU funding as percentage of GDP, 2007-2013

EU funding as a share of GDP is again a standard measure, indicating the importance of EU funding in a national context. Smaller percentages indicate lower potential performance and also potentially lower risk to the EU budget overall. Smaller percentages may also indicate disproportionate administrative costs. The rank order of Member States is similar to the measures of public investment. The rationale, transparency and regularity are the same as for GFCF and COFOG but with different thresholds of between 0.1% and 0.5% of GDP.

Criteria	Strength	Comments
Rationale	High	EU funding as a share of GDP indicates the relative importance of Cohesion policy is related to performance and risk; larger shares of investment have more potential to contribute to the performance of the policy and the risks of failure are higher.
Transparency	High	Indicator has a standard and accepted measure of GDP.
Applicability	High	Clear cut-off point at 0.1% of GDP. Secondary cut-off points at 0.3% (2 further countries) and 0.5% (a further two countries).
Regularity	Medium	Share of GDP is not necessarily related to quality of administrative capacity. Member States with low EU funding as % of GDP may still require greater regulatory control. There may be more misfit between EU rules and domestic rules in countries with low levels of EU funding relative to GDP.

Threshold	Differentiation	Standard regulation
0.1%	DK, LU, NL, AT, IE, BE, SE, FR, FI, DE	IT, HR, CY, ES, GR, PT, SI, MT, RO, BG, CZ, SK, PL, EE, LT, LV, HU
0.3%	DK, LU, NL, AT, IE, BE, SE, FR, FI, DE, IT, HR	CY, ES, GR, PT, SI, MT, RO, BG, CZ, SK, PL, EE, LT, LV, HU
0.5%	DK, LU, NL, AT, IE, BE, SE, FR, FI, DE, IT, HR, CY, ES	GR, PT, SI, MT, RO, BG, CZ, SK, PL, EE, LT, LV, HU

Figure 6: EU funding* as percentage of GDP, 2007-2013



*ERDF + CF only (ESF not included)

Average of EU27 in red. Note HR had short programme period, 2012-13.

Source: WP1: Synthesis report; Ex post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF)

4. PERFORMANCE IN USING EU FUNDING

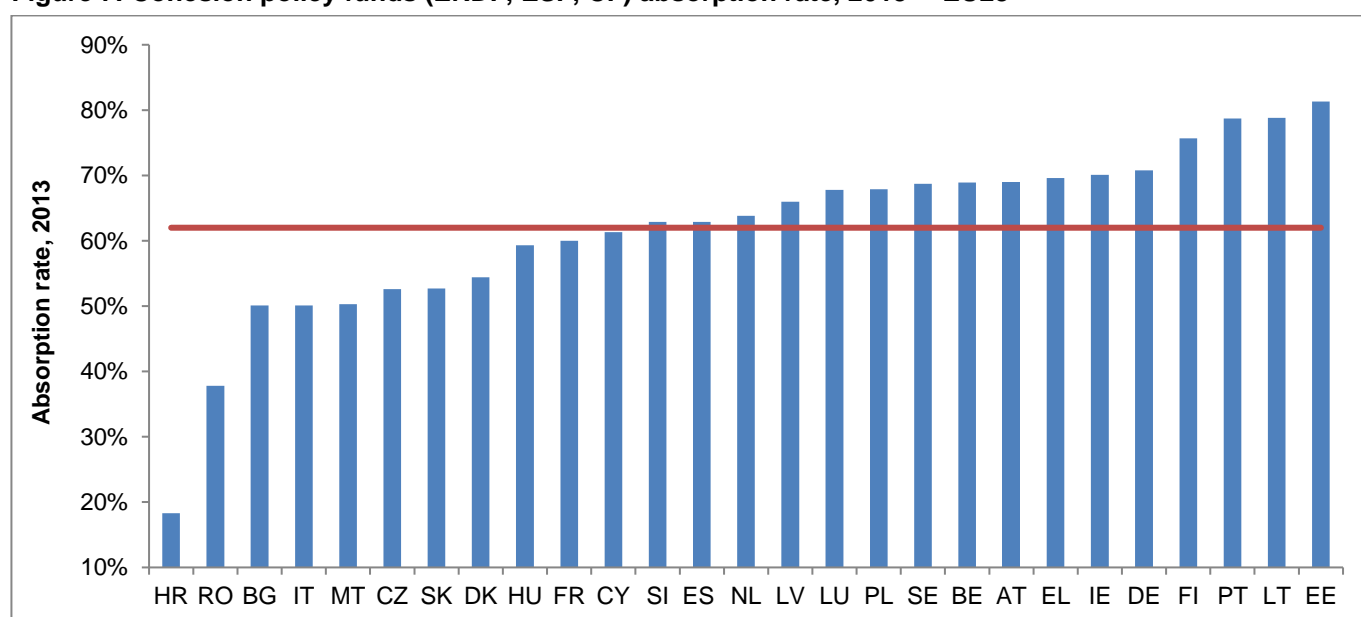
4.1 Indicator 7 - Absorption rate of EU funding, 2013

In principle, performance measures would seem to be a good basis for differentiation but in practice they do not provide a sound rationale. The absorption rate is commonly used to assess the performance of Cohesion policy (as one of the few measures available at national and programme levels) but is only valid for comparative purposes within countries because of the differences in financial profile and administrative system. Transparency is not high and applicability would be problematic.

Criteria	Strength	Comments
Rationale	Medium	Member States or programmes that have shown they can spend money on time have better and more reliable administrative systems, requiring less control.
Transparency	Medium	There are different measures of absorption – level of commitment (awarded or contracted), level of payment (national) and level of payment (EU), and the year or time period used could have significant effects on values.
Applicability	Low	Problematic in determining which measures and thresholds to use. Absorption varies across countries/programmes and Funds depending not only on administrative capacity but the TOs, mix of projects and delivery system.
Regularity	Medium/low	Absorption is not necessarily an indicator of good management or level of risk – merely the ability to spend.

Threshold	Differentiation	Standard regulation
70%	EE, LT, PT, FI, DE, IE	GR, AT, BE, SE, PL, LU, LV, NL, ES, SI, CY, FR, HU, DK, SK, CZ, MT, IT, BG, RO, HR
65%	EE, LT, PT, FI, DE, IE, GR, AT, BE, SE, PL, LU, LV	NL, ES, SI, CY, FR, HU, DK, SK, CZ, MT, IT, BG, RO, HR
60%	EE, LT, PT, FI, DE, IE, GR, AT, BE, SE, PL, LU, LV, NL, ES, SI, CY, FR	HU, DK, SK, CZ, MT, IT, BG, RO, HR

Figure 7: Cohesion policy funds (ERDF, ESF, CF) absorption rate, 2013* - EU28



*Figures include interim payments and pre-financing (which increases the rate for Member States with very high pre-financing) Average of EU27 in red. HR had short programme period 2012-13.

Source: European Commission ESIF data via Infoview (last updated 22 November 2016)

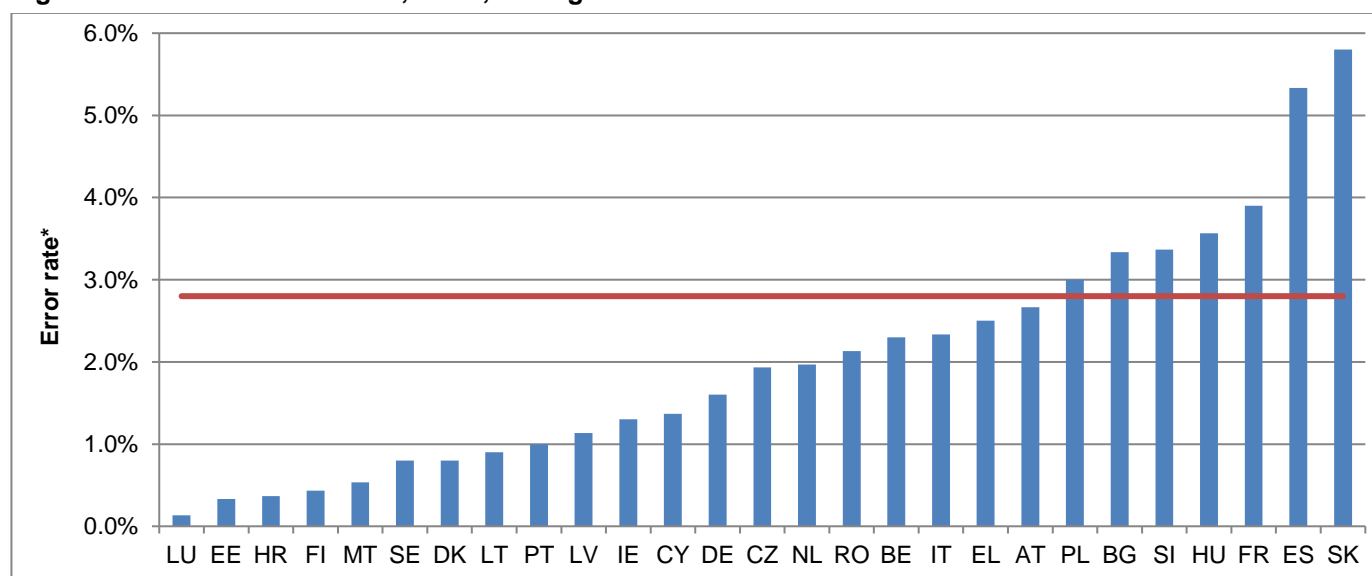
4.2 Indicator 8 - Validated error rates, EU28, average of 2013-2015

The error rate, or level of irregularities, would in principle be a strong indicator. Where funding is being spent with fewer regularities would theoretically indicate stronger administrative capacity, requiring less control. In practice, however, there are problems. Some of the more developed MS have a poor record on irregularities – attributable partly to the lower level of administrative resources deployed to implement Cohesion policy as well as the influence of differences between national and EU rules and administrative systems. The level of irregularities in a programme, region or Member State is partly a function of the effectiveness and independence of the audit authorities; a high level of errors may reflect good detection. Errors also depend on the level of risk incurred; innovative projects that potentially contribute more to programme objectives may be associated with more errors

Criteria	Strength	Comments
Rationale	Medium	MS or programmes that have shown they can spend money with few irregularities have better and more reliable administrative systems, requiring less control.
Transparency	High	As an indicator, the error rate is widely known, although not always correctly interpreted. At EU level, it is determined through a standard methodology but does represent only an estimate of overall risk based on sampling and reporting.
Applicability	Low	Problematic in determining which measure of the error rate to use and which time period because of variation from year to year.
Regularity	Medium	The error rate is a measure of risk in implementing EU funds. The level of errors depends on the reliability of detection systems at national level in picking up irregularities.

Threshold	Differentiation	Standard regulation
1.5%	LU, EE, HR, FI, MT, SE, DK, LT, PT, LV, IE, CY	DE, CZ, NL, RO, BE, IT, EL, AT, PL, BG, SI, HU, FE, ES, SK
2.0%	LU, EE, HR, FI, MT, SE, DK, LT, PT, LV, IE, CY, DE, CZ, NL	RO, BE, IT, EL, AT, PL, BG, SI, HU, FE, ES, SK
3.0%	LU, EE, HR, FI, MT, SE, DK, LT, PT, LV, IE, CY, DE, CZ, NL, RO, BE, IT, EL, AT, PL	BG, SI, HU, FE, ES, SK

Figure 8: Validated error rates*, EU28, average of 2013-2015



*Best estimate of the error rates following Commission adjustments per MS (validated error rates)

Average of EU28 in red

Source: DG Regio (2015) 2015 Annual Activity Report, Annexes, p.67

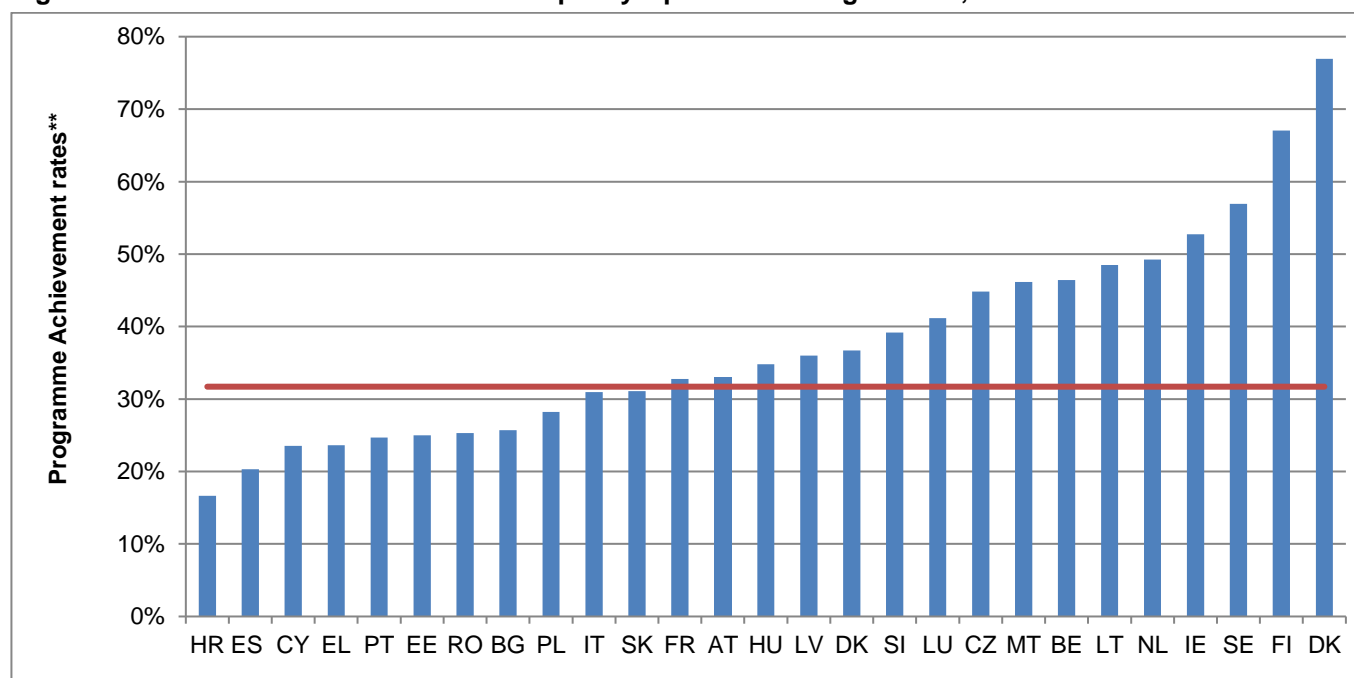
4.3 Indicator 9 - Outputs/results, 2007-2013 (OP target vs achievement data)

This indicator is the most problematic of the performance measures. Although the Commission has made progress in defining core indicators and common methodologies for definition and measurement in the 2007-13 period, it was only in the programmes for 2014-20 that greater consistency was achieved. The ex post evaluation for 2007-13 states that there are 'several limitations' on the use of outcome data.

Criteria	Strength	Comments
Rationale	High	Member State or programmes that have shown that they can implement programmes to achieve in line with targets have better and more reliable administrative systems, requiring less control.
Transparency	Low	There is no single recognised valid measure (or set of measures) of the outputs or results of EU funding across Member States (for the 2007-13 period).
Applicability	Low	The lack of recognised validity of outcome indicators would make application very problematic, especially given the differences in quality of methods and data across Member States. The setting of targets is highly subjective. Good achievement may reflect undemanding targets and vice versa. The accuracy of outputs and results achieved may also be difficult to verify.
Regularity	Low	Outcome / results data are a poor measure or risk. High-performing programmes in terms of outcomes may have poor administrative systems for financial control.

Threshold	Differentiation	Standard regulation
40%	DK, FI, SE, IE, NL, LT, BE, MT, CZ, LU	HR, ES, CY, GR, PT, EE, RO, BG, PL, IT, SK, FR, AT, HU, LV, DE, SI
35%	DK, FI, SE, IE, NL, LT, BE, MT, CZ, LU, SI, DE, LV	HR, ES, CY, GR, PT, EE, RO, BG, PL, IT, SK, FR, AT, HU

Figure 9: Achievement rates* for Cohesion policy Operational Programmes, 2007-2013



* Achievement rates comparing achievements against targets, based on DG Regio WP0 ex post evaluation data

** Excluding European Territorial Cooperation Programme data

Average of EU27 in red. HR had a short programme period 2012-13.

Source: DG Regio (2015) Data collection and quality assessment - Final Report - Work Package 0 Ex post evaluation of Cohesion Policy programmes 2007-2013, for European Regional Development Fund (ERDF) and Cohesion Fund (CF)

5. QUALITY OF GOVERNMENT

5.1 Indicator 10 - European Quality of Government Index (EQI*) 2013

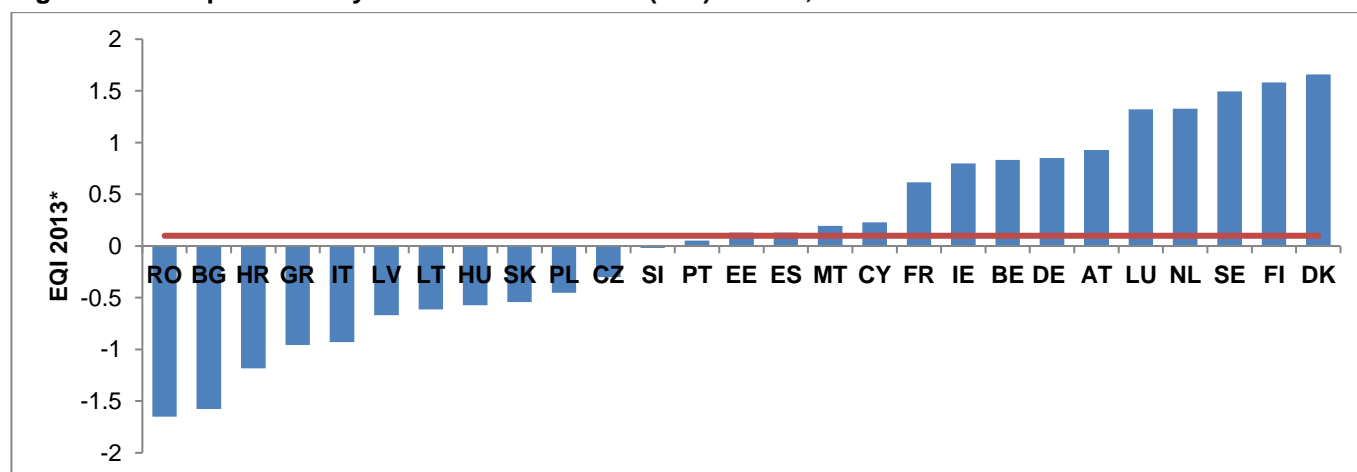
Quality of government (QoG) has been increasingly recognised as key factor explaining the variable performance of Cohesion policy across the EU. In principle, it should have string validity for assessing scope for differentiation. However, the administrative capacity for Cohesion policy may differ from the wider QoG in a region or country due to the stronger supervisory and control regime for ESIF. There are, for example, administrative 'islands of excellence' for managing Cohesion policy in countries with low QoG scores (e.g. Central and Eastern Europe), where the capacity for ESIF is significantly better than the capacity for domestic policies. And vice versa in developed countries.

The 2013 EQI index was based on a survey of 85,000 individuals across 206 European regions. The index is built using an aggregation method, based on the 16 questions in the survey. These question cover three 'pillars': quality; impartiality; and corruption.

Criteria	Strength	Comments
Rationale	High	Administrative capacity – especially for major projects, public procurement, State aids, financial management etc – is determined by QoG for which independent measures exist e.g. Transparency International, World Bank, Gothenburg.
Transparency	Medium	There is no single, agreed measure for QoG, with each indicator comprising different sub-indicators derived through varying combinations of quantitative and qualitative assessment.
Applicability	Medium	As a new indicator in Cohesion policy, its definition and application would be contested, although there is some consistency across Member States. There is a clear threshold.
Regularity	Medium	Overall scores for QoG do not necessarily reflect the quality of administrative capacity for managing ESIF and thus risk.

Threshold	Differentiation	Standard regulation
0.5	DK, FI, SE, NL, LU, AT, DE, BE, IE, FR	RO, BG, HR, GR, IT, LV, LT, HU, SK, PL, CZ, SI, PT, EE, ES, MT, CY
0.2	DK, FI, SE, NL, LU, AT, DE, BE, IE, FR, CY	RO, BG, HR, GR, IT, LV, LT, HU, SK, PL, CZ, SI, PT, MT, ES, EE

Figure 10: European Quality of Government Index (EQI) scores, 2013



* EQI final is the standardised final score from WGI adjusted score

Average of EU27 in red

Source: Charron, Nicholas, Lewis Dijkstra and Victor Lapuente (2015) 'Mapping the Regional Divide in Europe: A Measure for Assessing Quality of Government in 206 European Regions'. Social Indicators Research. 122 (2): 315-346

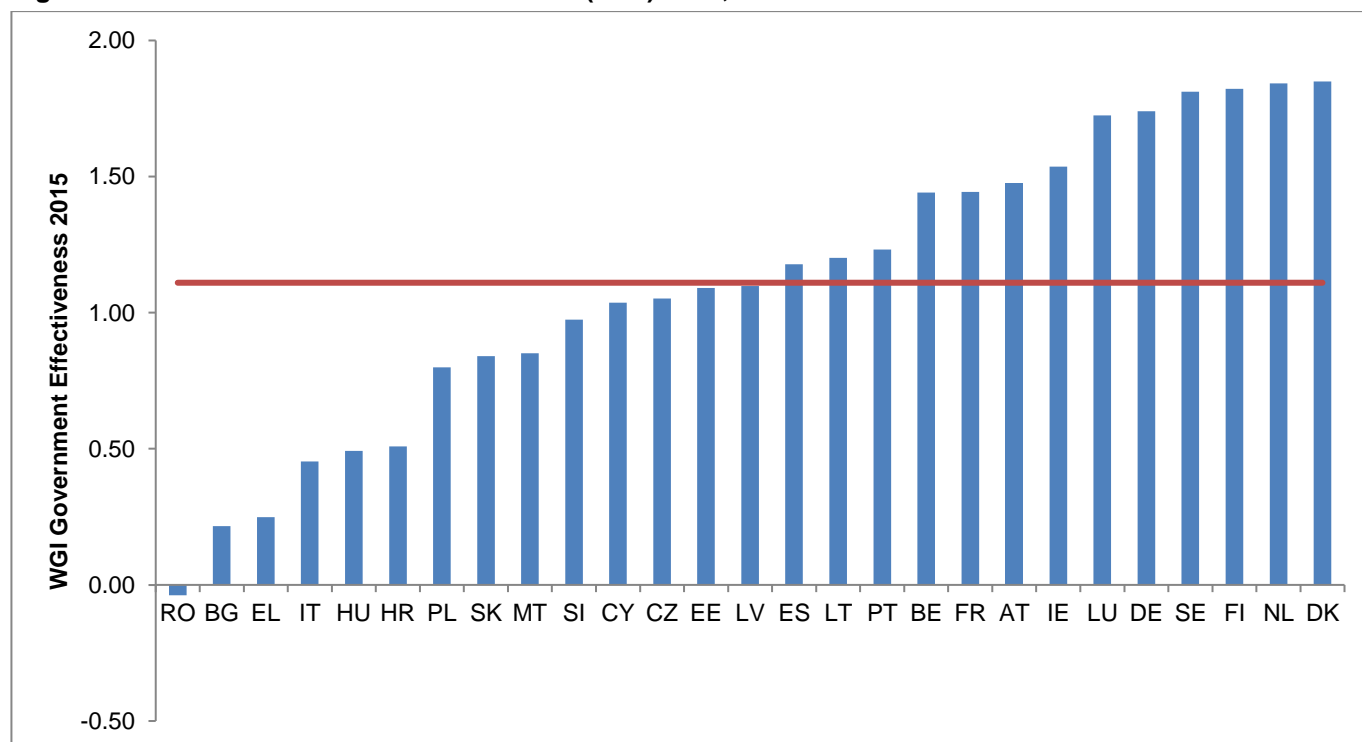
5.2 Indicator 11 - Worldwide Governance Indicators (WGI) 2015; Government Effectiveness

The Worldwide Governance Indicators (WGI) 2015 cover six different indicators. ‘Government Effectiveness’ is the indicator examined here. It is an aggregate indicator which brings together a range of proxies including measures of quality of bureaucracy, satisfaction with infrastructure, and policy instability, among others.

Criteria	Strength	Comments
Rationale	High	Administrative capacity – especially for major projects, public procurement, State aids, financial management etc – is determined by QoG for which independent measures exist e.g. Transparency International, World Bank, Gothenburg.
Transparency	Medium	There is no single, agreed measure for QoG, with each indicator comprising different sub-indicators derived through varying combinations of quantitative and qualitative assessment.
Applicability	Medium	As a new indicator in Cohesion policy, its definition and application would be contested, although there is some consistency across Member States
Regularity	Medium	Overall scores for QoG do not necessarily reflect the quality of administrative capacity for managing ESIF and thus risk.

Threshold	Differentiation	Standard regulation
1.5	IE, LU, DE, SE, FI, NL, DK	RO, BG, GR, IT, HU, HR, PL, SK, MT, SI, CY, CZ, EE, LV, ES, LT, PT, BE, FR, AT
1.4	BE, FR, AT, IE, LU, DE, SE, FI, NL, DK	RO, BG, GR, IT, HU, HR, PL, SK, MT, SI, CY, CZ, EE, LV, ES, LT, PT
1.2	LT, PT, BE, FR, AT, IE, LU, DE, SE, FI, NL, DK	RO, BG, GR, IT, HU, HR, PL, SK, MT, SI, CY, CZ, EE, LV, ES

Figure 11: Worldwide Governance Indicators (WGI) 2015, for the EU28



Average of EU27 in red

Source: Charron, Nicholas, Lewis Dijkstra and Victor Lapuente. 2015. ‘Mapping the Regional Divide in Europe: A Measure for Assessing Quality of Government in 206 European Regions’. Social Indicators Research. vol 122 (2): 315-346

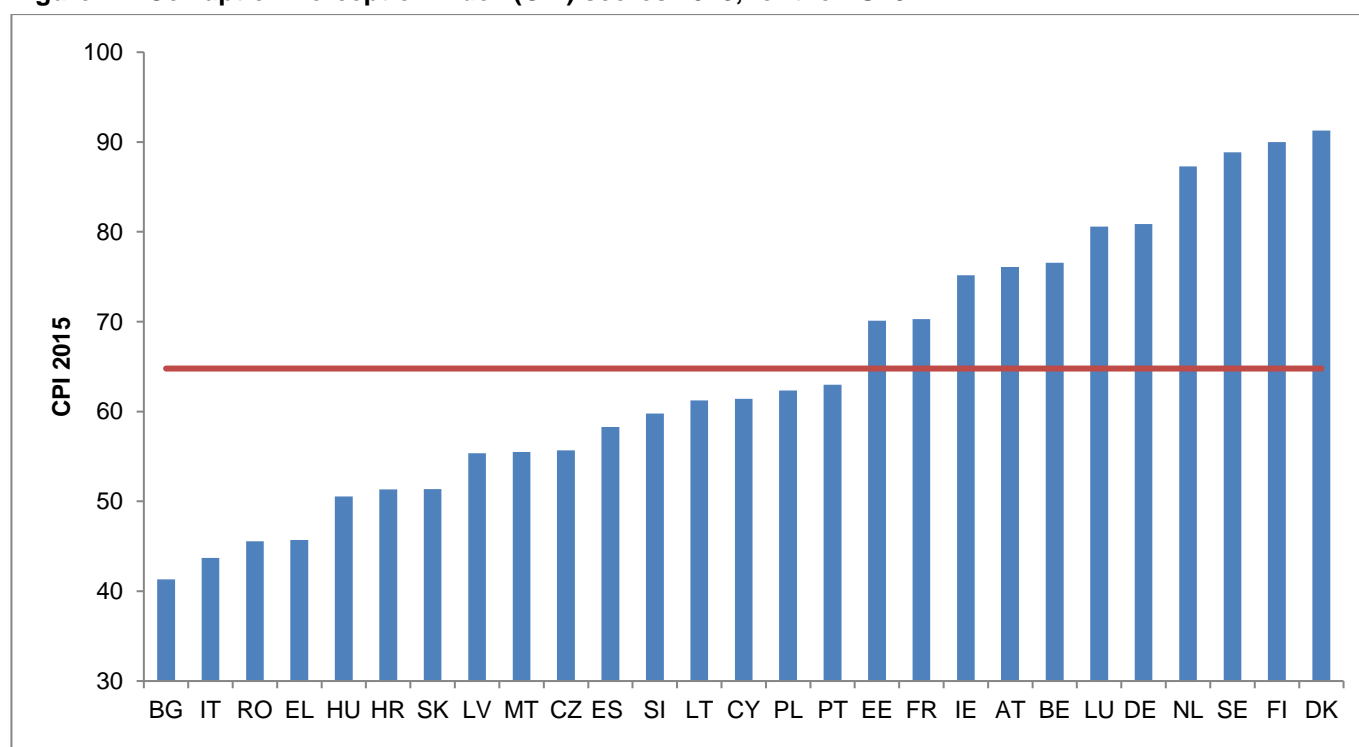
5.3 Indicator 12 - Corruption Perception Index (CPI) 2015

The Corruption Perceptions Index aggregates data from a number of different sources that provide perceptions of business people and country experts of the level of corruption in the public sector. Given the importance of the quality of public procurement, project selection and financial management free from politicisation or fraud, this is an important factor influencing administrative capacity for ESIF.

Criteria	Strength	Comments
Rationale	High	Administrative capacity – especially for major projects, public procurement, State aids, financial management etc – is determined by QoG for which independent measures exist e.g. Transparency International, World Bank, Gothenburg.
Transparency	Medium	There is no single, agreed measure for QoG, with each indicator comprising different sub-indicators derived through varying combinations of quantitative and qualitative assessment.
Applicability	Medium	As a new indicator in Cohesion policy, its definition and application would be contested, although there is some consistency across Member States
Regularity	Medium	Overall scores for QoG do not necessarily reflect the quality of administrative capacity for managing ESIF and thus risk.

Threshold	Differentiation	Standard regulation
75	IE, AT, BE, LU, DE, NL, SE, FI, DK	BG, IT, RO, GR, HU, HR, SK, LV, MT, CZ, ES, SI, LT, CY, PL, PT, EE, FR
70	EE, FR, IE, AT, BE, LU, DE, NL, SE, FI, DK	BG, IT, RO, GR, HU, HR, SK, LV, MT, CZ, ES, SI, LT, CY, PL, PT
65.36 (EU28 average)	EE, FR, IE, AT, BE, LU, DE, NL, SE, FI, DK	BG, IT, RO, GR, HU, HR, SK, LV, MT, CZ, ES, SI, LT, CY, PL, PT

Figure 12: Corruption Perception Index (CPI) scores 2015, for the EU28



Average of EU27 in red

Source: Transparency International (2016) Corruption Perceptions Index 2015

5.4 Comparison of QoG indicator rankings by Member State

As noted above, there is a high degree of consistency between the three measures of QoG (see Table 1). This applies in particular to the groups of Member States ranked as having high QoG and those at the other end of the scale ranked as low. The main differences are in the middle group (notably PL, LV, MT, LT and CY) where the variation in rank position is significant. However, the QoG measures individually could enable a threshold to be applied for ten Member States without contestation.

Table 1: Member State rankings by Quality of Governance indicators, and mean rank values

Member State	Quality of Government (QoG) - EQI 2013	Quality of Governance - WGI 2015	Quality of Governance – Corruption – Perception Index (CPI) 2015	Average rank value	Maximum rank difference*
DK	1	1	1	1.0	0
FI	2	3	2	2.3	1
SE	3	4	3	3.3	1
NL	4	2	4	3.3	2
LU	5	6	6	5.7	1
DE	7	5	5	5.7	2
AT	6	8	8	7.3	2
BE	8	10	7	8.3	3
IE	9	7	9	8.3	2
FR	10	9	10	9.7	1
PT	15	11	12	12.7	4
EE	14	15	11	13.3	4
CY	11	17	14	14.0	6
ES	13	13	17	14.3	4
LT	21	12	15	16.0	9
MT	12	19	19	16.7	7
SI	16	18	16	16.7	2
CZ	17	16	18	17.0	2
PL	18	21	13	17.3	8
LV	22	14	20	18.7	8
SK	19	20	21	20.0	2
HU	20	23	23	22.0	3
HR	25	22	22	23.0	3
IT	23	24	26	24.3	3
EL	24	25	24	24.3	1
BG	26	26	27	26.3	1
RO	27	27	25	26.3	2

6. COMPARISON OF MEMBER STATE RANKINGS

To provide a summary picture, Table 2 draws together the rank order of Member States according to the different indicators, explained further in Table 3 (and Figure 13) which provides a starting point for assessing the value of having single or composite scores. It also shows clearly the degree to which individual performance values are out of line with other indicators.

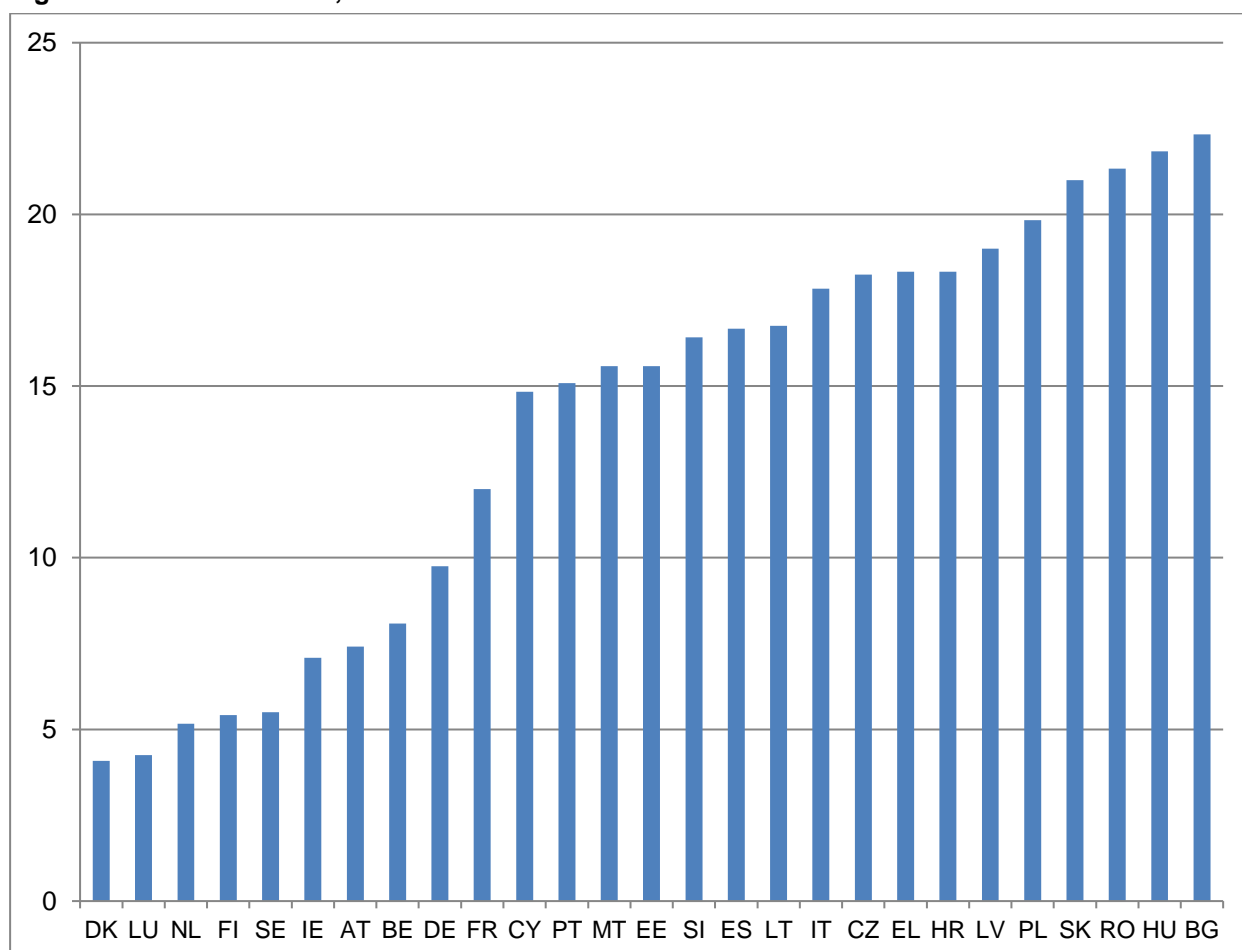
Table 2: Member State rankings by indicator, and mean rank values

Member State	Scale of funding			Funding as proportion of investment / GDP			Performance			Quality of Government			Mean rank value
	Scale of EU funding, 2014-2020	Scale of EU funding per capita, 2014-2020	National co-financing rate	EU funding as % of public investment - using Gross Fixed Capital Formation	EU funding as % of public investment - using COFOG "General public services"	EU funding as percentage of GDP, 2007-2013*	Cohesion policy funds absorption rate	Regularity - error rate, average of 2013-2015	Outputs/results – achievement rate	Quality of Government (QoG) - EQI 2013	Quality of Government - WGI 2015	Quality of Government - Corruption Perception Index (CPI) 2015	
DK	2	3	9	2	2	1	20	6	1	1	1	1	4
LU	1	2	4	1	1	2	12	1	10	5	6	6	4
NL	6	1	2	3	3	3	14	15	5	4	2	4	5
FI	8	10	5	8	9	9	4	3	2	2	3	2	5
SE	9	6	6	4	5	7	10	6	3	3	4	3	6
IE	7	7	8	5	7	5	6	11	4	9	7	9	7
AT	5	4	1	6	4	4	8	20	15	6	8	8	7
BE	10	5	3	9	6	6	9	17	7	8	10	7	8
DE	20	9	10	11	10	10	5	13	12	7	5	5	10
FR	18	8	7	7	8	8	18	25	16	10	9	10	12
CY	3	13	26	14	13	13	17	12	25	11	17	14	15
PT	21	21	16	18	16	16	3	9	23	15	11	12	15
MT	4	18	20	24	17	18	23	5	8	12	19	19	16
EE	12	27	13	19	27	24	1	2	22	14	15	11	16
SI	11	17	18	16	18	17	16	23	11	16	18	16	16
ES	25	12	12	13	14	14	15	26	26	13	13	17	17
LT	14	25	23	25	25	25	2	8	6	21	12	15	17
IT	26	11	11	12	11	11	24	17	18	23	24	26	18
CZ	23	22	14	20	23	21	22	14	9	17	16	18	18
EL	19	16	17	15	15	15	7	19	24	24	25	24	18
HR	16	19	25	10	12	12	27	3	27	25	22	22	18
LV	13	24	24	23	26	26	13	10	13	22	14	20	19
PL	27	20	22	21	22	23	11	21	19	18	21	13	20
SK	17	26	15	26	21	22	21	27	17	19	20	21	21
RO	24	15	19	17	20	19	26	16	21	27	27	25	21
HU	22	23	21	27	19	27	19	24	14	20	23	23	22
BG	15	14	27	22	24	20	25	22	20	26	26	27	22

Table 3: Approach to ranking

Indicator	Ranking logic
Scale of EU funding, 2014-2020	Less funding = lower rank
Scale of EU funding, 2007-2013	Less funding = lower rank
Scale of EU funding per capita, 2014-2020	Less funding = lower rank
Scale of EU funding per capita, 2007-2013	Less funding = lower rank
National co-financing rate	Higher co-financing rate = lower rank
EU funding as % of public investment - using Gross Fixed Capital Formation	Lower % = lower rank
EU funding as % of public investment - using COFOG "General public services"	Lower % = lower rank
Cohesion policy funds absorption rate	Higher absorption rate = lower rank
Regularity - error rate, average of 2013-2015	Lower error rate = lower rank
Outputs/results – achievement rate	Higher achievement rate = lower rank
Quality of Government (QoG) - EQI 2013	Higher score = lower rank
Quality of Governance - WGI 2015	Higher score = lower rank
Quality of Governance - Corruption Perception Index (CPI) 2015*	Higher score = lower rank

Figure 13: Member States, mean rank value across all indicators



7. FUNDING ALLOCATIONS AND ADMINISTRATIVE CAPACITY

One of the major concerns of the Commission is that any differentiated approach will provide some guarantees with respect to regularity in Cohesion policy spending and the Commission's responsibility for the budget. As such, it is worth noting that there is a relationship between two of the key indicators for differentiation on the basis of funding and quality of government (see Figure 14 and Figure 15). Although QoG is not a direct measure of administrative capacity for Cohesion policy, it is nevertheless important as an indication of the scope for a Member State to ensure sound financial management.

Figure 14: Funding allocation per capita (2014-2020) vs EQI 2013

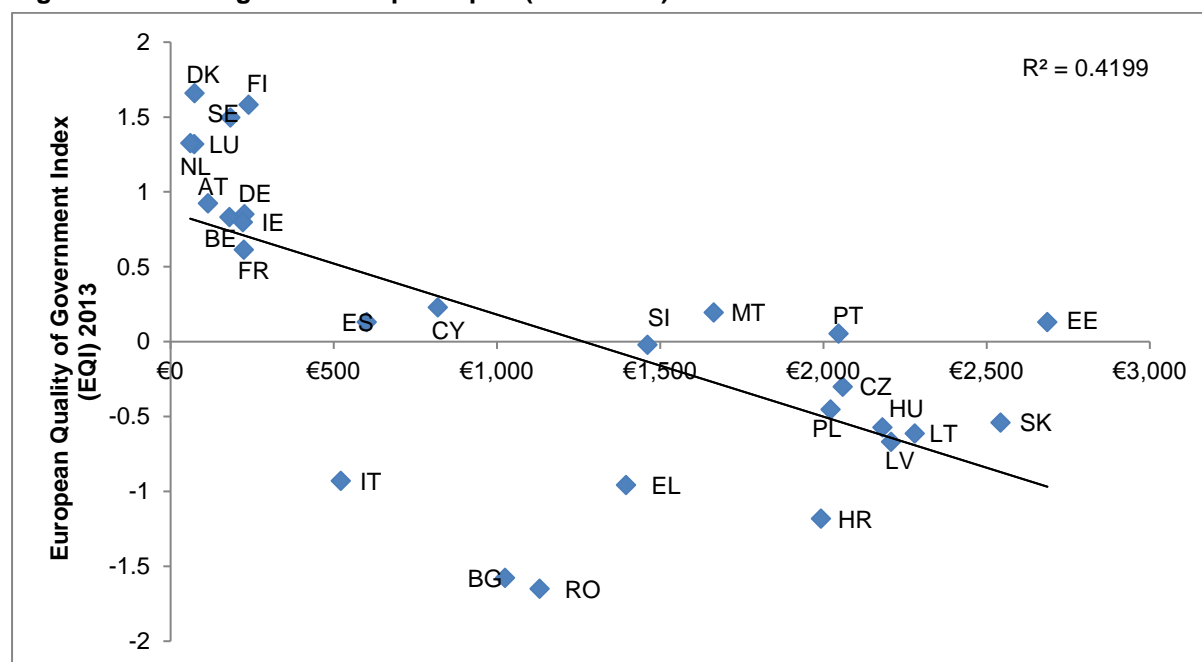
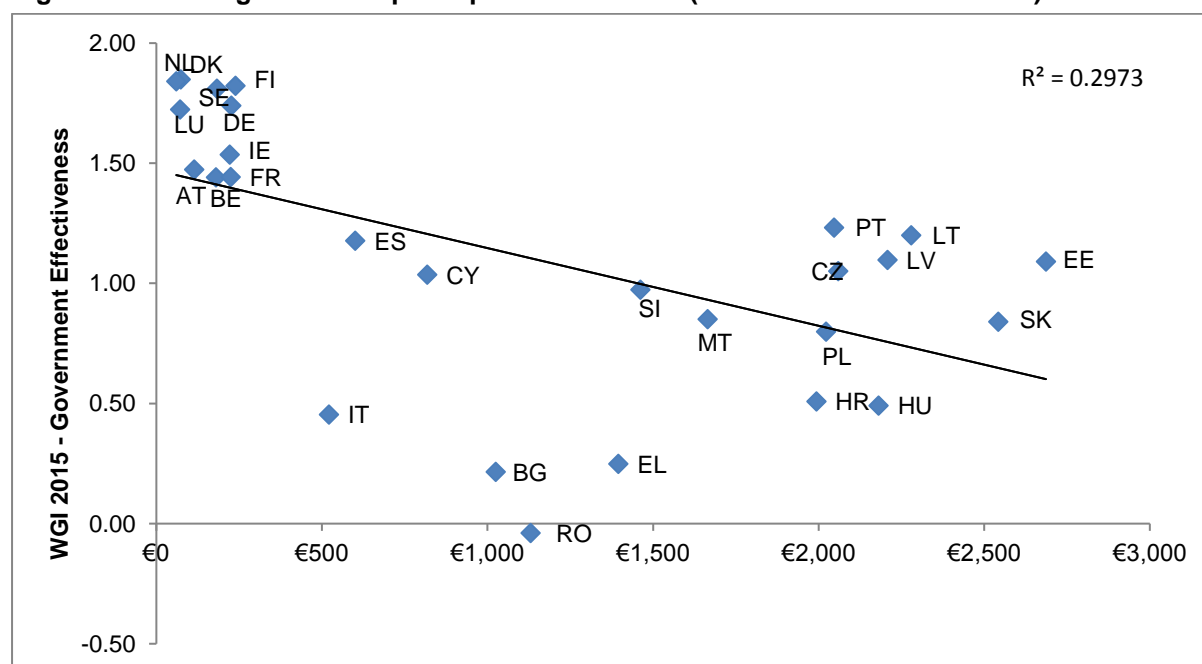


Figure 15: Funding allocation per capita vs WGI 2015 (Government Effectiveness)



8. CONCLUSIONS

Those Member States for which differentiation is arguably most important are the ten countries shown in Table 4 – Luxembourg, Denmark, Netherlands, Sweden, Finland, Ireland, Austria, Belgium, Germany and France. The table indicates that there are several indicators which could provide a basis for achieving an outcome that justified differentiation. Three of these relate to the scale of funding, one to funding relative to investment and two to quality of government.

The use of quality of government is potentially important given that it addresses one of the concerns about regularity noted in the preceding section, suggesting that these countries not only have a small amount of funding in absolute, per capita or investment terms but they also have the QoG to ensure good management and financial control.

Table 4: Ranking of selected Member States for key indicators

Member State	Scale of funding		Funding relative to investment	Quality of Government	
	Scale of EU funding per capita, 2014-2020	National co-financing rate	EU funding as % of public investment - using COFOG "General public services"	Quality of Government (QoG) - EQI 2013	Quality of Governance - WGI 2015
LU	2	4	1	5	6
DK	3	9	2	1	1
NL	1	2	3	4	2
SE	6	6	5	3	4
FI	10	5	9	2	3
IE	7	8	7	9	7
AT	4	1	4	6	8
BE	5	3	6	8	10
DE	9	10	10	7	5
FR	8	7	8	10	9

9. ANNEX: DATA SOURCES

All data apply to ERDF, ESF and CF, except for Indicator 6 which excludes ESF.

EU funds 2014-20 (Indicators 1-3)	<p>Based on ESIF 2014-2020 FINANCE DETAILS</p> <p>This dataset provides information on planned (planned) financing under the different ESI Funds (2014-2020). The data is taken from the adopted financial tables (as at July 2016) and is broken down by fund, programme, priority axis, thematic objective and category of region (more developed, less developed, etc. where available). NB. This dataset excludes ETC, because figures for ESIF allocation and national co-financing in ETC OPs is not split between participating MS</p> <p>Data downloaded from: https://cohesiondata.ec.europa.eu/dataset/ESIF-2014-2020-FINANCE-DETAILS/e4v6-qrrq</p>
EU funding as % of public investment (Indicators 4-5)	<p>Note: it is difficult, and somewhat subjective, to define exactly which areas of spending should be included within the definition of 'public investment'. Therefore there are two charts (6 and 7) based on two separate datasets:</p> <p>1) Gross Fixed Capital Formation (GFCF) under the General government sector, sourced via Eurostat data on "Government revenue, expenditure and main aggregates" [gov_10a_main]. GFCF captures resident producers' investments, deducting disposals, in fixed assets during a given period. It also includes certain additions to the value of non-produced assets realized by producers or institutional units. Fixed assets are tangible or intangible assets produced as outputs from production processes that are used repeatedly, or continuously, for more than one year - see http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Gross_fixed_capital_formation_(GFCF). Note that COM has previously used GFCF. See for example page 4 of http://ec.europa.eu/contracts_grants/pdf/esif/invest-progr-investing-job-growth-report_en.pdf. The chart in this report included expenditure in agriculture and fisheries as part of the public investment undertaken by the national Governments - these have not been included here.</p> <p>2) An alternative source is the Eurostat COFOG (Classification of the Functions of Government) dataset. This divides government objectives into 10 divisions, one of which is "General public services" - see http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Classification_of_the_functions_of_government_(COFOG). Detailed definitions of each of the functions are available at http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4&Lg=1. Chart 7 uses the COFOG dataset, specifically, Total general government expenditure on "General public services" (COFOG ESA95)</p>
EU funding as percentage of GDP, 2007-2013 (Indicator 6)	<p>Shows the total decided amounts of funding for the 2007-2013 period as at 14 April 2016. This is then related to aggregate GDP and government capital expenditure over the years 2007-2013.</p> <p>Source: WP1: Synthesis report; Ex post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF)</p>
2007-2013 Funds absorption rate (Indicator 7)	<p>EU Cohesion Policy (European Regional Development Fund + Cohesion Fund + European Social Fund) including European Territorial Cooperation. Percentage of funds paid (including interim payments and pre-financing) compared to total available budget. NB. The dataset does not allow the filtering out of ETC, so ETC is included.</p> <p>Data downloaded from: https://cohesiondata.ec.europa.eu/dataset/2007-2013-Funds-Absorption-Rate/kk86-ceun/data</p>
Error rates (Indicator 8)	<p>Error rate is the best estimate expressed as a percentage of the value of the interim payments made in the reporting year of expenditure which is not in full conformity with contractual or regulatory provisions.</p>

Source: DG Regio (2015) 2015 Annual Activity Report, Annexes, p.67
[http://ec.europa.eu/atwork/synthesis/aar/doc/regio_aar_2015_annexe.pdf]

Outputs & results data (Indicator 9)	Data is drawn from Work package 0 - Data collection and quality assessment, of DG Regio's ex post evaluations of Cohesion policy in the 2007-13 period, specifically: WP0 Database 2 - full database including all core indicators and programme specific indicators Data sourced from: http://ec.europa.eu/regional_policy/en/policy/evaluations/ec/2007-2013/#1
EQI data 2013 (Indicator 10)	Charron, Nicholas, Lewis Dijkstra and Victor Lapuente. 2015. 'Mapping the Regional Divide in Europe: A Measure for Assessing Quality of Government in 206 European Regions'. Social Indicators Research. vol 122 (2): 315-346 Data downloaded from: https://nicholascharron.wordpress.com/european-quality-of-government-index-eqi/
WGI data 2015 (Indicator 11)	The Worldwide Governance Indicators (WGI) are a research dataset summarising the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The Government Effectiveness indicator reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. A detailed description of the methodology used to develop the 'Government Effectiveness' indicator can be downloaded from http://info.worldbank.org/governance/wgi/ge.pdf Downloaded via: http://info.worldbank.org/governance/wgi/index.aspx#home
CPI data 2013-2015 (Indicator 12)	The Corruption Perceptions Index aggregates data from a number of different sources that provide perceptions of business people and country experts of the level of corruption in the public sector. For full details on methodology, see http://files.transparency.org/content/download/1950/12812/file/2015_CPI_DataMethodologyZIP.zip Data sourced from: http://www.transparency.org/cpi2015#downloads
