EPRC

EUROPEAN POLICIES RESEARCH CENTRE

University of Strathclyde Glasgow

Ideas and Options for Cohesion Policy Post-2020

IQ-Net Thematic Paper 38(2)

John Bachtler, Carlos Mendez and Laura Polverari

May 2016

European Policies Research Centre
University of Strathclyde
40 George Street
Glasgow G1 1QE
United Kingdom

Tel: +44 (0) 141 548 3672
Fax: +44 (0) 141 548 4898

Email: eprc@strath.ac.uk

The place of useful learning
The University of Strathclyde is a charitable body, registered in Scotland, number SC015263

The IQ-Net Network promotes exchange of experience on the management and implementation of Structural Funds programmes among managing authorities and intermediate bodies. The network is managed by the European Policies Research Centre (University of Strathclyde, Glasgow) under the direction of Professor John Bachtler, Stefan Kah and Dr Laura Polverari. The research for this paper was undertaken by EPRC in preparation for the 40th IQ-Net meeting held in Prague, Czech Republic on 9-11 May 2016. The paper was written by Professor John Bachtler, Dr Carlos Mendez and Dr Laura Polverari.

The paper is the product of desk research and fieldwork visits during Spring 2016 to national and regional authorities in EU Member States (notably partners in the IQ-Net Consortium). The field research team comprised:

- Stefan Kah (Austria, Slovenia)
- Dr Arno van der Zwet (Belgium)
- Dr Vinko Muģtra (Croatia)
- Dr Marie Feŝrov§, Dr Lucie Jungwiertová (Czech Republic)
- Lise Smed Olsen (Denmark)
- Heidi Vironen (Finland, Sweden)
- Timothée Lehuraux (France)
- Dr Sara Davies (Germany)
- Dr Eleftherios Antonopoulos (Greece)
- Dr Laura Polverari (Italy)
- Dr Martin Ferry (Poland)
- Dr Carlos Mendez (Portugal, Spain)
- Viktoriya Dozhdeva (Portugal)
- Dr Martin Pleģivļ §k (Slovakia)
- Rona Michie (United Kingdom)

EPRC thanks all those respondents from national and regional authorities and other organisations who participated in the research. EPRC also gratefully acknowledges the financial support provided by participating Member States and regions, whose contributions are co-financed by Technical Assistance from the Structural Funds. The report is, however, the responsibility of the authors alone.

The partners in the IQ-Net network are as follows:

Austria

- ÖROK (Austrian Spatial Planning Conference) Secretariat

Belgium

- Enterprise Agency Flanders

Croatia

- Ministry of Regional Development & EU Funds

Czech Republic

- Ministry of Regional Development

Denmark

- Danish Business Authority

Finland

- South and West Finland (Etelä- ja Länsi-Suomi)

France

¶ Commissariat Général à l'Égalité des Territoires (CGET)

Germany

¶ Nordrhein-Westfalen (North Rhine-Westphalia), Ministry for Business, Energy, Industry, SMEs and the Craft Sector, EU Affairs Unit

Greece

¶ Management Organisation Unit of Development Programmes S.A.

Poland

¶ Marshal Office of the Pomorskie Region

Portugal

¶ Agency for Development and Cohesion (ADC)

Spain

¶ País Vasco (Basque Country), Provincial Council of Bizkaia, Department of Economy and Finance

Slovakia

¶ Central Coordination Body, Government Office of the Slovak Republic

Slovenia

¶ Government Office for Development and European Cohesion Policy

Sweden

¶ Swedish Agency for Economic and Regional Growth (Tillväxtverket)

United Kingdom

¶ Department of Communities and Local Government
¶ Scottish Government
¶ Welsh European Funding Office

For further information about IQ-Net, and access to the full series of IQ-Net Papers, please visit the IQ-Net website at: http://www.eprc.strath.ac.uk/iqnet/

To cite this paper, please use the following: Bachtler J, Mendez C and Polverari L (2016) 'Ideas and Options for Cohesion Policy Post-2020' *IQ-Net Thematic Paper* 38(2), European Policies Research Centre, University of Strathclyde, Glasgow.

Disclaimer

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.

Ideas and Options for Cohesion Policy Post-2020

TABLE OF CONTENTS

INTRODUCTION **3**

1. THE CONTEXT FOR THE REFORM DEBATE **5**

1.1 Short-term issues for the 2017-20 period 5

1.2 Post-2020 MFF reform issues 6

1.3 The evolving debate on the MFF 7

1.4 The debate on reforming Cohesion policy 10

2. THE BASELINE FOR REFORMING COHESION POLICY: ASSESSMENT OF THE 2013 REFORM **13**

2.1 Strategic coherence 13

2.2 Thematic concentration 17

2.3 Results-orientation 20

2.4 Performance framework 22

2.5 Ex-ante conditionalities 24

2.6 Financial instruments 28

2.7 Integrated territorial development 32

2.8 The Connecting Europe Facility and European Fund for Strategic Investments (EFSI) 36

2.9 Summary 38

3. IDEAS AND OPTIONS FOR REFORMING COHESION POLICY AFTER 2020 ..... **41**

3.1 Strategic directions: the role of Cohesion policy 41

3.2 Governance and management of Cohesion policy 43

3.3 Improving performance 53

3.4 Financial Instruments and territorial cooperation 54

3.5 Enhancing quality of governance and administrative capacity through further conditionalities 58

3.6 Flexibility to respond to changing needs 59

4. CONCLUSIONS AND SUMMARY OF DISCUSSIONS **63**

4.1 Main messages 63

4.2 Strategic issues 63

4.3 Governance issues 65

4.4 Implementation issues 66

REFERENCES **69**

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 ómixedô the new provisions are frequently seen as being ógoodôin 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 ï 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 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 ôprogramming logicô 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 policyôs 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 Creşu 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 ó windowô 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 ó More Developedô, ó Less Developedô 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 ï strategic coherence, thematic concentration, results-orientation, performance framework, ex-ante conditionalities (EACs), financial instruments (FIs) and integrated territorial development ï 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 Commissioners 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 Commissionôs 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 Commissionôs 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 EUôs 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 ôCommission Communication and Proposal for a Council Regulation on the Mid-Term Review of the MFF 2014-2020ô* 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 ógreeningô 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 ï 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. 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 ôFuture of the EU Multiannual Financial Frameworkô organised by the Federal German Foreign Office (June 2015) and the 1st Annual Conference ôEU Budget Focused on Resultsô organised by the European Commission (September 2015).[6] Also worth noting is the Brussels symposium ôThe Future of EU Financesôin 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 ówobsession with net balancesôand its impact on expenditure quality and distribution, the need for the EU to have genuine ówn resourcesô, 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** ï interpreted partly as aligning the EU budget with the EUôs political aims (Juncker), and potentially aligning spending to Country-specific Recommendations

[4] Schäuble W (2015) *EU Budget Focused on Results*, speech at Conference ôEU Budget for Resultsô, 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 ï 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-tpresidency-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 ï critical view on the outcome of the MFF negotiations*, Speech to the Conference ôFuture of the EU Multiannual Financial Framework; Lehner S (2015) *Implementation of ôBetter Spendingô*, Speech to the Conference ôFuture of the EU Multiannual Financial Frameworkô

(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 EUôs 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 EUôs 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 Creşu 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 Creşu 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: Creşu 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 Creţu 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] Creţu 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 ôThe future of Cohesion policy beyond 2020 Final conferenceõ, 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 Commissionôs 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,ö[2] compared to 2007-13, supported by the

[11] European Commission (2015c) *Investing in jobs and growth ï 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

Commissionôs 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 ï 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) ôPreparing for 2014-20: Programming, Concentration and Performanceô, *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

[14] Pucher J, Naylon I and Tödtling-Schönhofer H (2015) *Research for REGI Committee ï 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

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

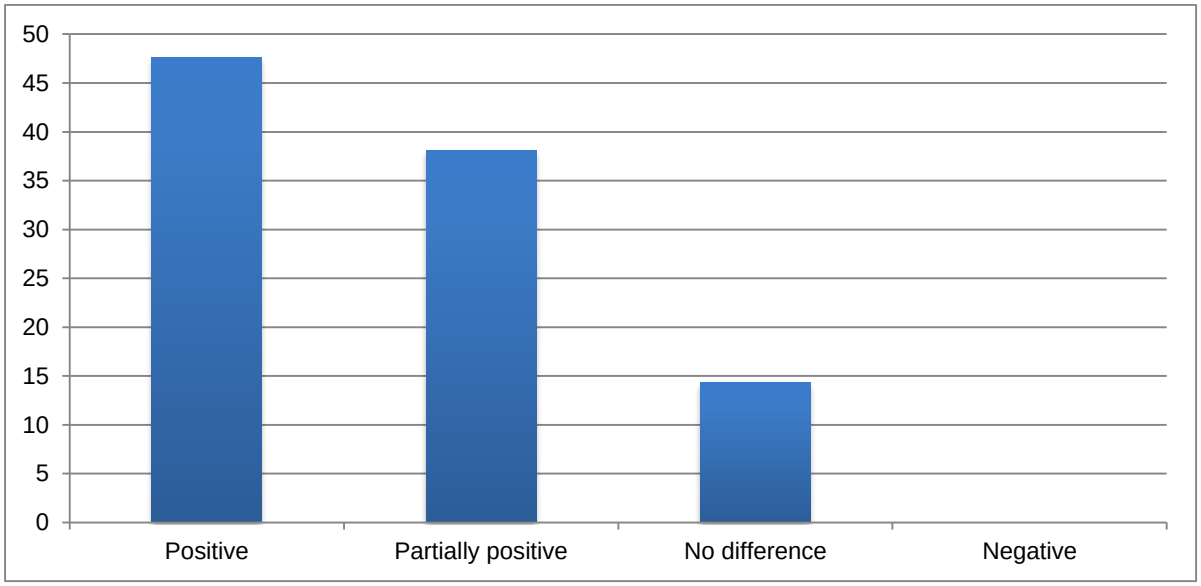
[16] Petzold W (2015) *What if regions and cities governed EU regional and urban policy?*, Paper presented at the conference ôChallenges for the New Cohesion Policy 2014-2020ô, Riga, 2-4 February 2016, p. 6.

[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 frameworkôs 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 ï 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 ôthe 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 possibleô[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 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 developmen at the conference ôThe future of cohesion policyô, 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/iqnet/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 ó*had a major impact on funding allocations in most Member States*ô 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 ó*excessively rigid*ô[24] Further, Member States have expressed concerns with absorption and effectiveness, as ó*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 ó*arbitrary*ô ceilings, and (with respect to regional differentiation) the administrative complexity created.[25] And lastly, major concerns were expressed by some Member States and the EPôs Regional Development Committee about the shift implicit in the new approach towards making Cohesion policy a ó*delivery agent*ô 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.

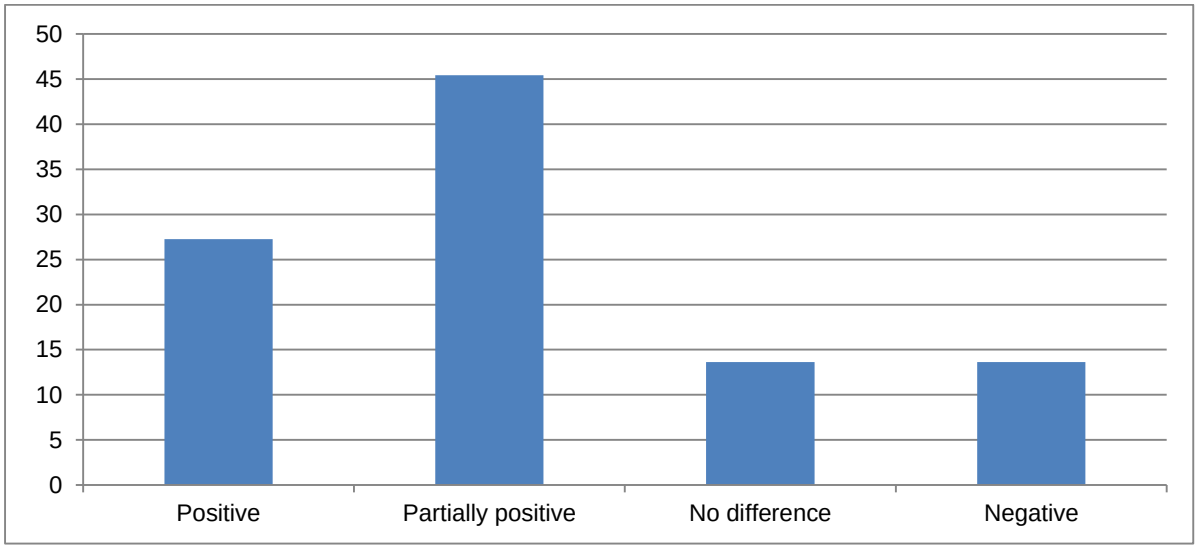
[23] Kah S *et al.* (2015) *op. cit*., p. 51.

[24] *Ibid.*, p. 65. This is contradicted by Pucher *et al* (2015) who concluded that there ó*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.*ô(p. 18).

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

[26] *Ibid.*

Figure 2: Thematic concentration ï 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 ósteering toolsôand 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 regionôs 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 ó**Guildford Reviewôï ó Investing in Growth and Jobs: An Independent Review of Arrangements for Implementation of European Structural Funds Programmes 2014-2020ô** 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 ólive ôdocument 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 óinfrastructureô 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 ï Denmark ï 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 ï thematic concentration does not appear to suit all Funds in the same way (resulting in too many indicators and targets becoming a ócounting exerciseô);

[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, ǒ[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 é this makes it possible to have transparent reporting and evaluate progress towards programme objectivesô[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 programmesôintervention logic and on monitoring activities (greater emphasis on indicators and their quality during programming);

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

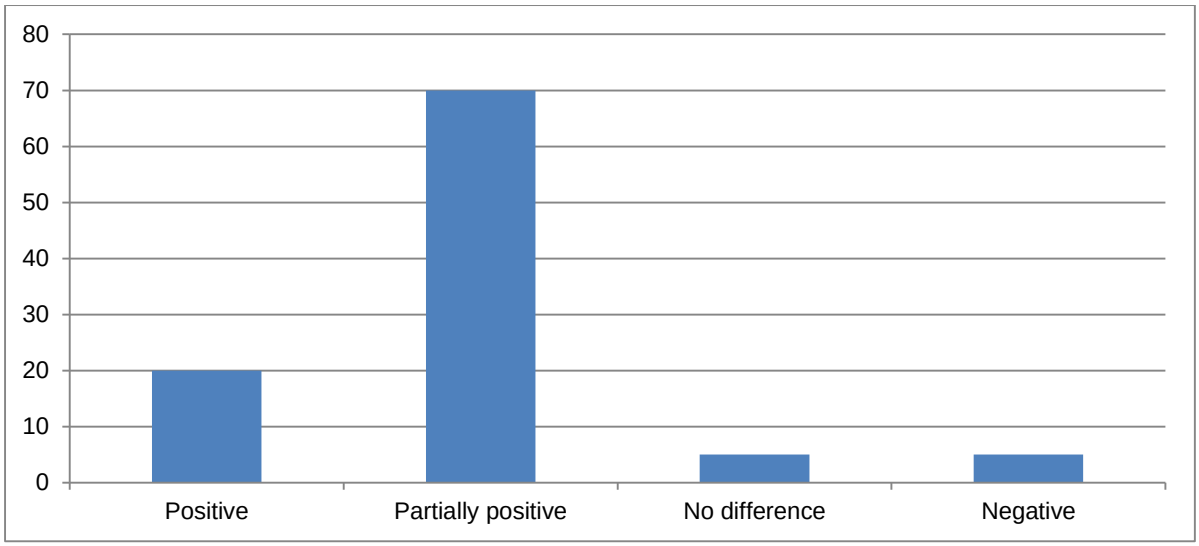
[29] *Ibid.*

- 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 ólast minute shifts of resourcesô 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 ï 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 ónother extra layer of complicationô

- 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.

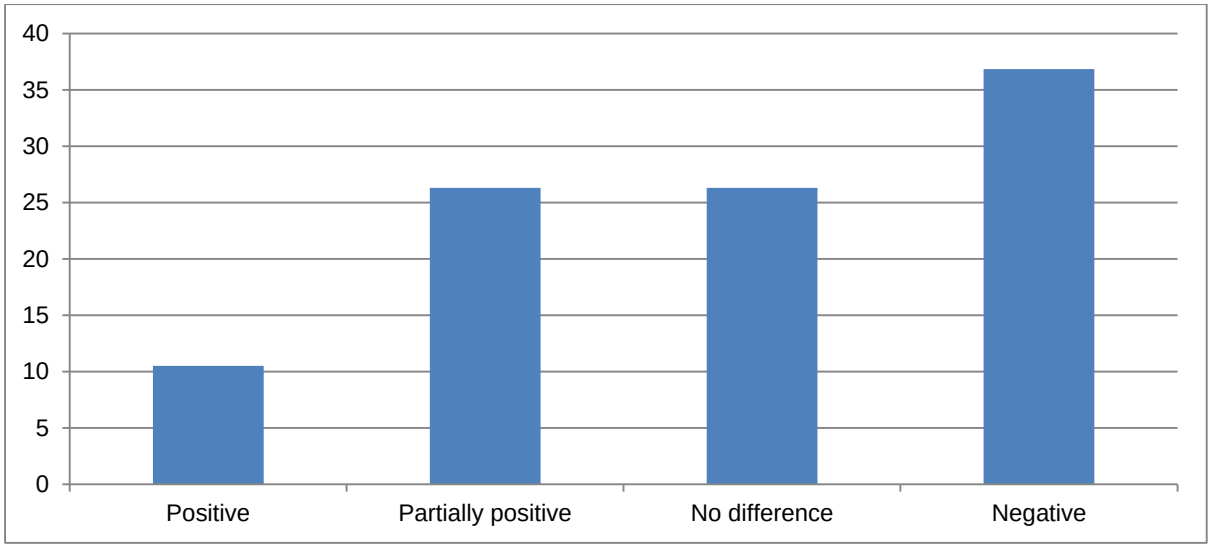
There is scepticism among some IQ-Net partners relating to the strong pressure that MAs, secretariats and project applicants alike will face during implementation on ósshowing the numbersôbut **what really matters is a change of mind-set to project implementation ï which is not yet evident**.

2.4 Performance framework

The 2014-20 programme period has seen the introduction of a new óperformance frameworkô, 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 ï 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 resultsô achievement, others (e.g. Slovenia) see the new requirements as constraining ambition in favour of a ósafe approachô 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 ólikely to failô with the mid-term review showing that targets are not met (partly because of the delayed start of programmes and partly because ópunitiveô 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 ï in 2000-06 ï 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 ópot of moneyôset aside to deal with changing circumstances in the programme context in an ad hoc way, rather than a órewardôfor 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) óConditionalities and the Performance of European Structural Funds: A Principal-Agent Analysis of Control Mechanisms in European Union Cohesion Policyô, *Regional Studies*, 49 (8), 1258-73.

ómeasuring too early or the wrong thingô 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 ó 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 priorityô (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 (ó thematicô EACs) or wider, horizontal issues such as compliance with State aids, public procurement or non-discrimination laws and principles (ó generalô 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 ó general conditionalitiesô

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 ó [t]he newer the Member States to the Union, the fewer general EACs appear to be fulfilledô[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

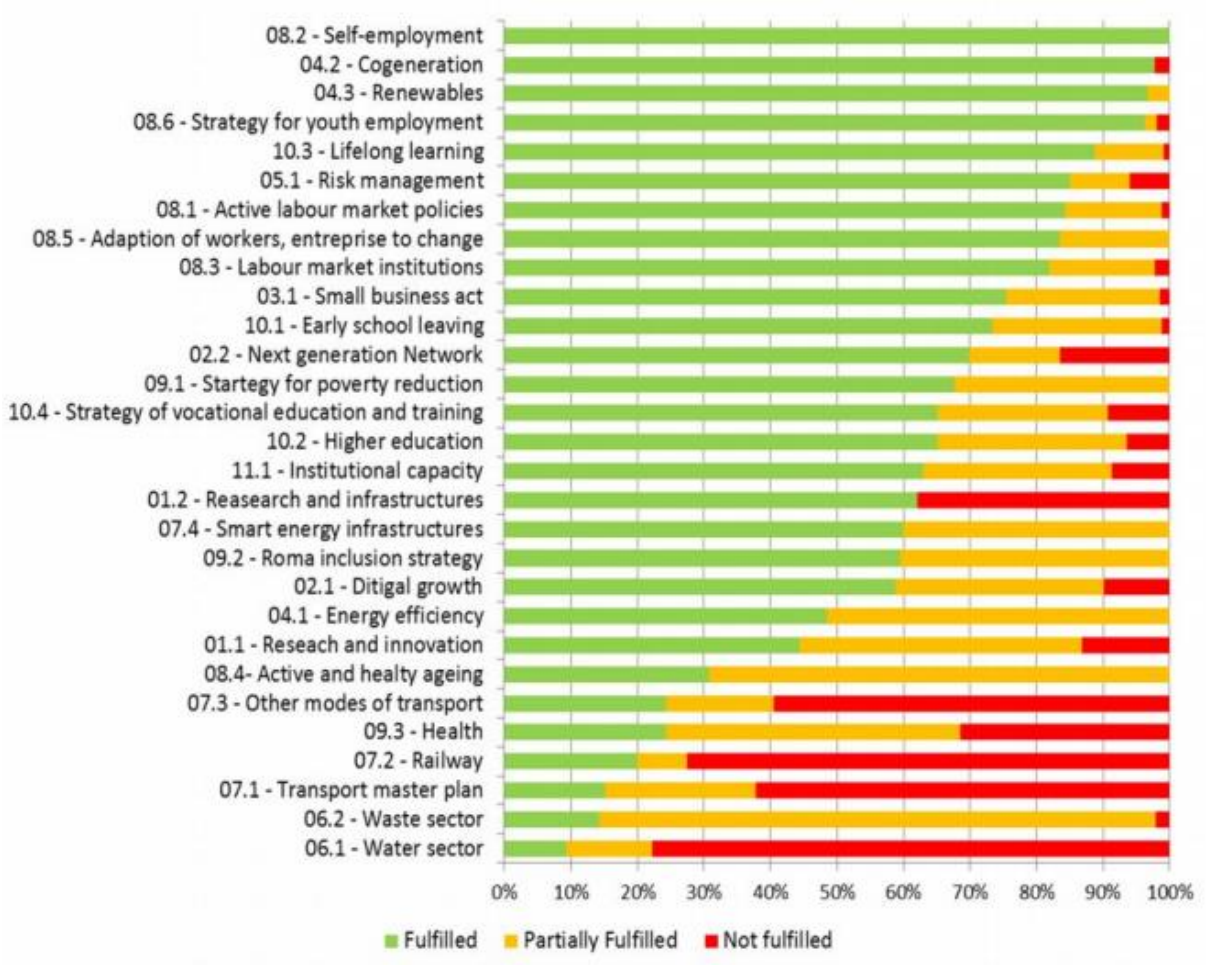
[31] Also the EAFRD and EMFF have thematic conditionalities, though for these Funds the EACs are detailed in the Fundsô regulations and not in the CPR.

[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/implementationeffectivenescp_/implementationeffectivenescp_en.pdf, p. 11.

The Commission attached considerable importance to EACs, asserting that:

> ϕ[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 administrationsô[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]

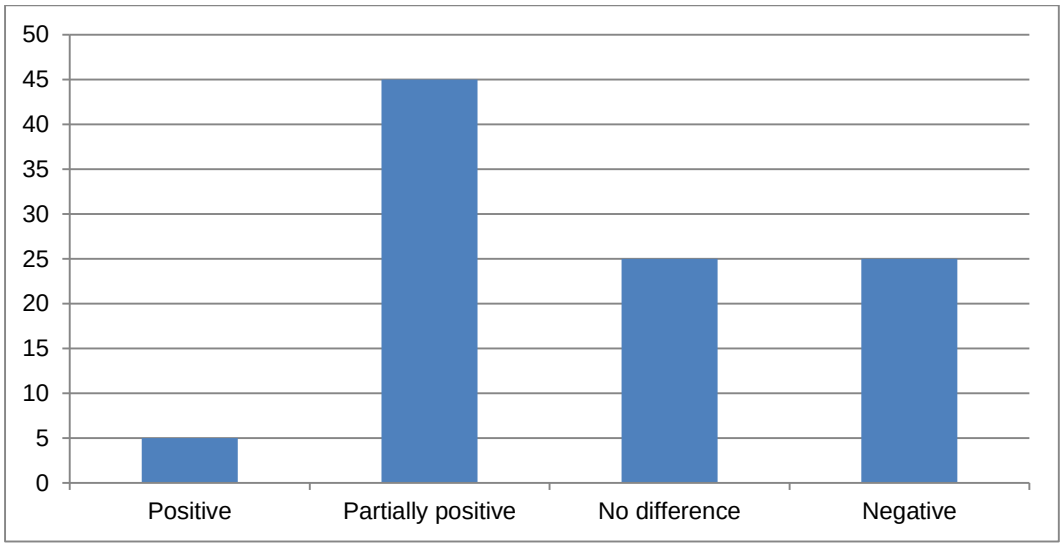
[34] European Commission (2015c) *op. cit.*, p. 16.

[35] Heinen N (2013) *Not quite fit for purpose. Conditionality under the EUôs 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 ï 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 ócourageous choices that would otherwise not have been madeôfor 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 óAdministrative Strengthening Plansô, whereby Cohesion policy was assumed to be able to determine a change in the entire public administration. The result ended up being a ótick-box

https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000303656/Not+quite+fit+for+purpose%3A+Conditionality+under+th.pdf (accessed 27 April 2016).

approachô 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 ópen black boxesôand 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 ótick-box approachô(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 ówent beyond the regulationsô(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

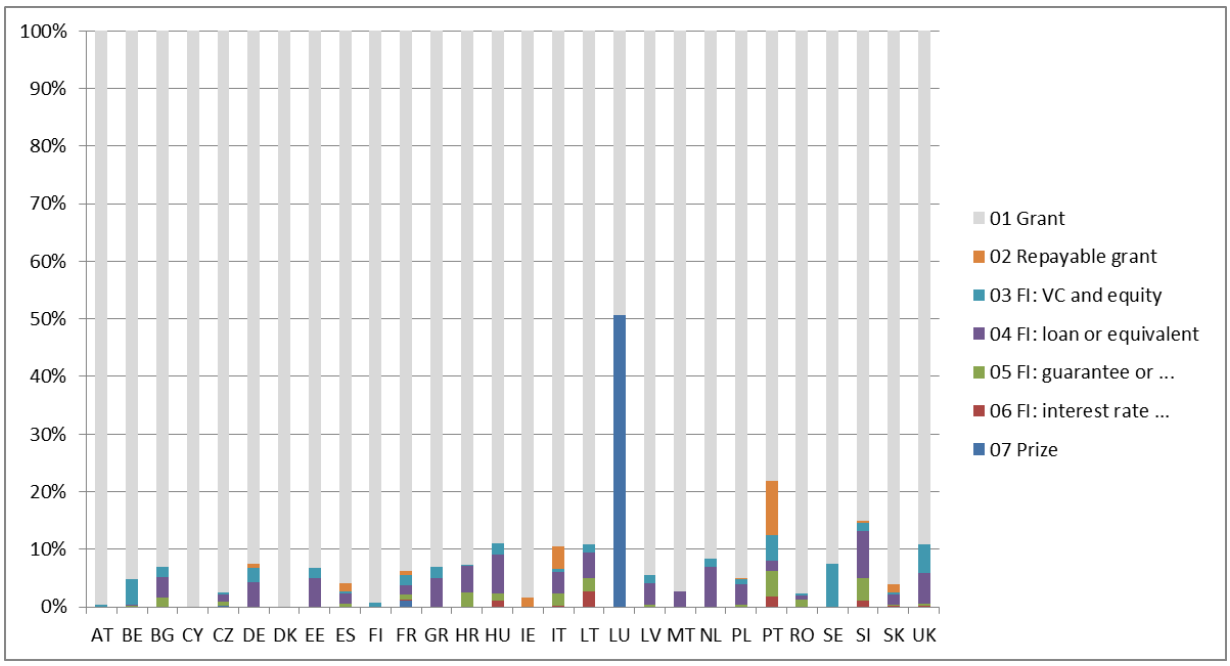
Continuing a trend from previous programme periods, the Commission is supporting an increased use of FIs by Member States in 2014-20. This is not only through the use of FIs within ESIF programmes but also through the Juncker Plan and EFSI and the Council recommendations on the broad economic policy guidelines.[36] Within Cohesion policy, the aim is to promote loans, guarantees, equities and other risk-bearing instruments as a way to do ómore with lessô, delivering monies to beneficiaries and financial recipients in a ófast, efficient, simple and smart wayô[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] ChorÑÛy P (2016) *Financial instruments in EU-legislation and para-legislation*, Presentation to the High Level Group on Simplification, 9 February 2016.

[37] *Ibid*.

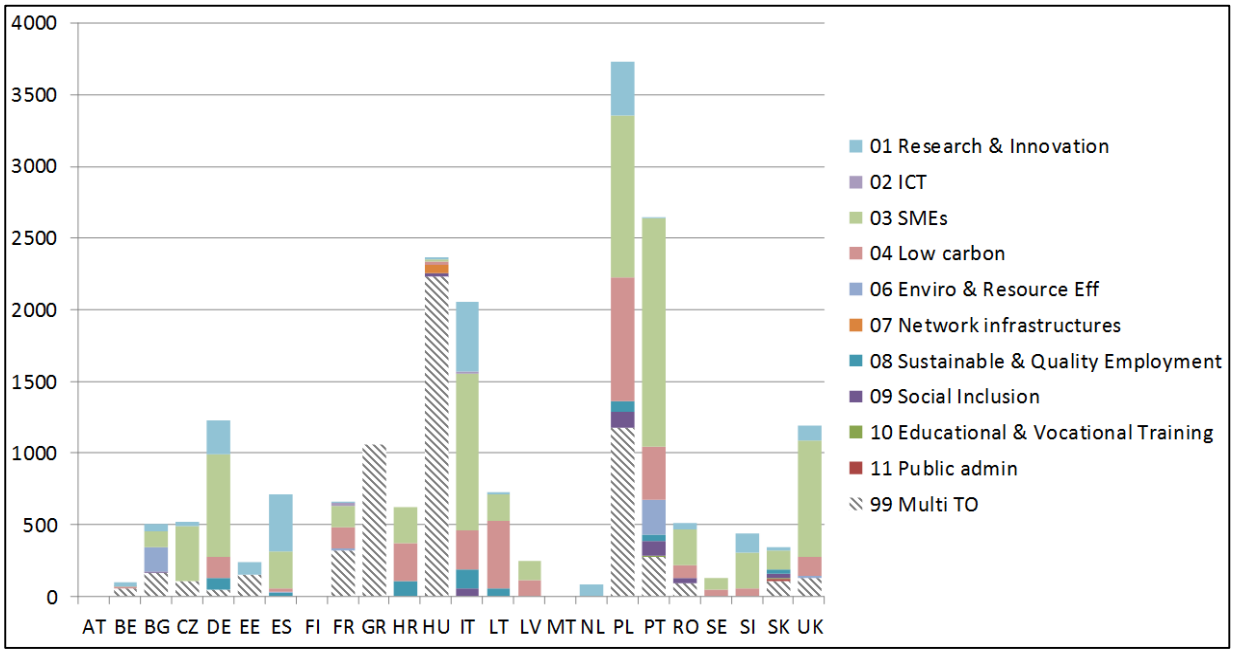
with FIs utilised particularly to support for SMEs in Portugal, Italy, Poland (alongside with low-carbon schemes), Germany and the United Kingdom.

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



Source: Wishlade F and Michie R (2016) ôFI and EU Cohesion policy: a ósnapshotôof 2007-13 outturns and 2014-20 plansô, *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 ï 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.

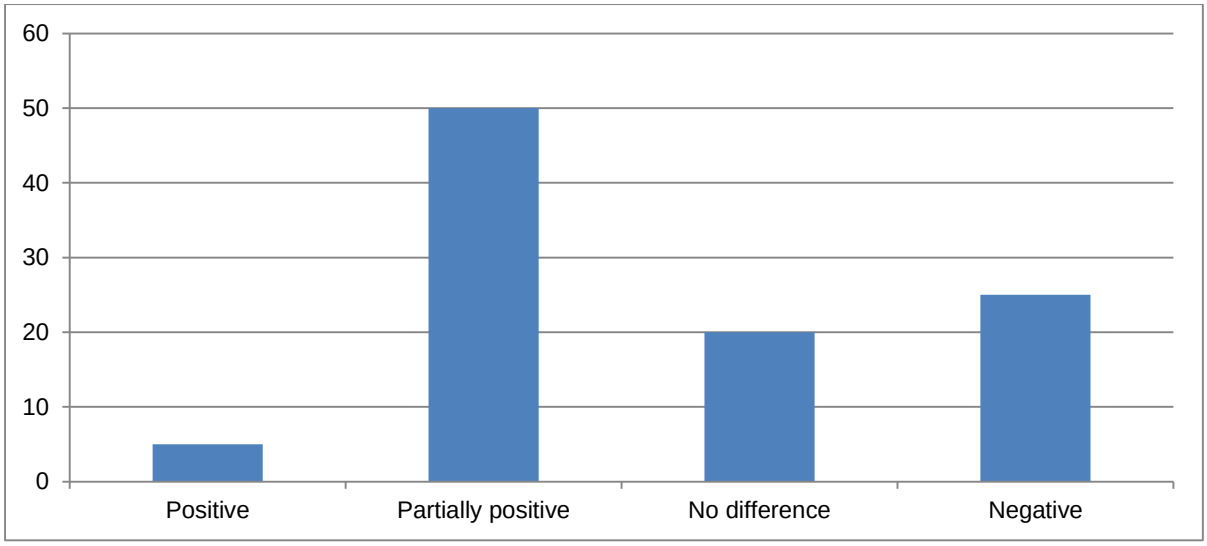
[38] Ferry M (2015) ôNew OPs, new instruments: progress with the 2014-20 programmesõ *IQ-Net Review Paper* 37(1), European Policies Research Centre, University of Strathclyde, p. 25.

[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] ChorŃŰy P (2016) *op. cit.*

Figure 9: FIs ï 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 ótick-box exerciseô);
- a perception that FIs have moved from being óunder-regulatedôto being óover-regulatedô, with consequences for the timing of implementation (e.g. delays caused by meeting regulations, on the selection of intermediate bodies; óoverly complexôguidance);
- 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 óone size fits allôapproach; 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 ópolace-based policyô, as advocated by the 2009 óBarca reportô,[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 ú7 billion of ERDF funding across the EU, against c. ú6.6 billion of resources earmarked for SUD within mainstream OPs and c. ú0.7 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 ú3 billion ERDF), followed by Italy, Romania and the Czech Republic, all of which assign more than ú1 million ERDF to SUD. Of the countries which are implementing a dedicated OP for urban development ï Italy, Czech Republic, Belgium and Sweden ï Italy assigns to this programme by far the largest financial allocation (the NOP ôMetroô entails circa ú445 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 ï Poland, Greece, Slovakia, the United Kingdom, Croatia, Latvia, Lithuania, the Netherlands and Finland ï 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) óA first stock take: Integrated Territorial Approaches in Cohesion policy 2014-20ô, *IQ-Net Thematic Paper* 35 (2), European Policies Research Centre, University of Strathclyde, Glasgow: http://www.eprc.strath.ac.uk/iqnet/downloads/IQ-Net_Reports(Public)/ThematicPaper35(2).pdf

[44]