Permanent revolution in Cohesion policy: restarting the reform debate

Highlights

- Over the past year, all of the Partnership Agreements for the 2014-2020 European Structural and Investment (ESI) Funds and the vast majority of operational programmes have been finalised and adopted by the Commission.
- While the priority is now firmly on the launch and implementation of the new round of 2014-20 OPs, the attention of EU and national policymakers is increasingly looking to the long-term.
- The European Commission, European Parliament and Committee of the Regions have all begun, in different ways, the process of taking stock of lessons, which will contribute to defining the agenda for post 2020. Member States have also started some organisational planning and brainstorming on the options for post-2020.
- The context for reform is shaped by the continuing effects of the financial and economic crisis, questions of future economic governance and increasingly the challenge of migration.
- The paper examines the implications for Cohesion policy of these broader EU strategic developments and debates and issues for Cohesion policy post-2020 with respect to the policy's objectives and new challenges, spatial coverage, instruments, governance and strategic coherence

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EXECUTIVE SUMMARY

Over the past year, all of the Partnership Agreements for the 2014- 2020 European Structural and Investment (ESI) Funds and the vast majority of operational programmes have been finalised and adopted by the Commission. While the priority is now firmly on the launch and implementation of the new round of 2014-20 OPs, there remains substantial funding to spend under the 2007-13 OPs in some countries and programme closure still has to be achieved. However, the attention of EU and national policymakers is increasingly looking to the long-term.

The context for reform is shaped by the continuing effects of the financial and economic crisis, questions of future economic governance and (increasingly) the challenge of migration. Slow and uneven recovery has prompted the Commission President to launch an Investment Plan for Europe, including a European Fund for Strategic Investments to stimulate investment in infrastructure and firms. The destabilising threat from a Greek exit from the euro has been contained through a third bailout, and a long-term vision for completing EMU has been tabled by the Presidents of the EU institutions, including proposals for a stabilisation function. In the short-term, there are reviews of the EU's budget and Europe 2020 strategy underway, all of which have implications for discussions on the future shape of EU Cohesion policy post-2020.

The European Commission, European Parliament and Committee of the Regions have all begun, in different ways, the process of taking stock of lessons from 2007-13 and the first experiences from implementing the recent reforms in the 2014-2020 period, which will contribute to defining the agenda for post 2020. Member States have also started some organisational planning and brainstorming on the options for post-2020.

- Objectives and challenges – the contribution and added value of Cohesion policy for competitiveness and cohesion; and its role in addressing new or growing challenges (such as, for instance, energy security or migration); and optimal policy approaches for low-income and low-growth region;
- Policy architecture and financial allocations – the role of Cohesion policy especially its continuation in richer regions;
- Financial instruments – the forms of support best suited for stimulating investment in Europe;
- Thematic and geographical focus – the balance between contributing to overarching European priorities and territorial development challenges and needs
- Urban dimension – the role of the policy in urban areas;
- Governance and simplification – the role of the policy in supporting better governance; the scope for simplification; and the future of the shared management model;
- Economic governance and structural reform - the contribution / integration of cohesion policy to the EU's economic governance and structural reform agenda.

Based on a review of these themes in the paper, the proposed focus for discussion at the EoRPA meetings are the key issues for EoRPA partners regarding the post-2020 reform of Cohesion policy. Specific questions are as follows.

1. Thematic concentration – should the policy continue to be the delivery agent for EU objectives (such as Europe 2020 currently)? Or should it allow more scope for Member States or regions to specify their own objectives – and if so, how?

2. Spatial coverage – should we continue with an all-region policy or return to spatial targeting? Should cohesion policy continue to invest in richer regions? Do we need a greater focus on lagging regions?

3. Shared management – is the current shared management model of governance still appropriate? What alternatives could there be (e.g. EU budget transfer mechanism)?

4. Performance framework and results orientation – have we got the approach right in seeking to improve the achievements of the policy? If not, what needs to change?

5. Strategic coherence – how can the coherence, complementarity and coordination of ESIF and with other policies be improved? How should Cohesion policy to contribute to the EU's economic governance and structural reform agenda?

1. INTRODUCTION

Over the past year, all of the Partnership Agreements for the 2014- 2020 European Structural and Investment (ESI) Funds and the vast majority of operational programmes have been finalised and adopted by the Commission. The Commission's preliminary analysis of the PA and OP negotiations shows that there has been a significant reorientation of the policy towards Europe 2020 objectives through greater thematic concentration and closer linkages with country-specific recommendations. A stronger results orientation is evident through clearer and improved intervention logics, specific objectives and indicators. The fulfilment of ex-ante conditionalities varies and has been challenging under some thematic objectives for some Member States. The uptake and experience with new territorial instruments is mixed, partly due to capacity challenges; and the use of financial instruments has increased substantially.

While the priority is now firmly on the launch and implementation of the new round of 2014-20 OPs, there remains substantial funding to spend under the 2007-13 OPs in some countries and programme closure still has to be achieved. However, the attention of EU and national policymakers is increasingly looking to the long-term. Commission proposals on the post-2020 Cohesion policy are not expected until the 7th Cohesion Report in 2017 followed by legislative proposals in 2018, but the Commissioner for Regional and Urban Policy Corina Creţu has set out a number of key questions to stimulate post-2020 reflections concerning the policy's challenges and objectives, territorial targeting, architecture, instruments and governance. At the same time, a High-Level Group on Simplification is being set up, and major policy evaluations and studies are underway to feed into the debate and impact assessments of the post-2020 design of Cohesion policy. This phase of reform is also seeing a more pro-active stance on the part of the Committee of the Regions and European Parliament, which are developing their own ideas rather than responding to Commission initiatives as in the past.

Adding momentum to the debate on Cohesion policy reform are the forthcoming reviews of the Europe 2020 strategy and the EU budget. The Commission's review of the Europe 2020 strategy is due at the end of 2015 and could have implications for the thematic orientation of Cohesion policy along with its governance and coordination relationships with other EU policies. The review of the 2014-20 Multi-annual Financial Framework (MFF) will take place in 2016, mainly to assess whether there is flexibility to address emerging EU challenges as well as taking stock of the delivery of existing budgetary policies and instruments. Major reorientations of EU spending are not expected, but the review could play an important role in setting the reform agenda given that the Commission's formal proposals on the post-2020 MFF are due the following year in 2017.

At the same time, the Commission's economic narrative is placing a greater emphasis on boosting investment alongside structural reforms and fiscal responsibility. An Investment Plan was tabled by the Commission in November 2014 leading to the establishment of a new investment fund - the European Fund for Strategic Investment (EFSI) - to stimulate infrastructure and business investment through financial instruments managed by the European Investment Bank. EU institutions have also proposed the establishment of a fiscal stabilisation mechanism at EU level, modelled on the EFSI, to complete economic and monetary union, with potentially important implications for the future governance and sustainability of Cohesion policy.

The aim of this paper is to examine the implications for Cohesion policy of these broader EU strategic developments (e.g. the Investment Plan for Europe, and the mid-term review of the Europe 2020 Strategy), as well as debates and issues for Cohesion policy post-2020.[1]

The paper is based on secondary source research and fieldwork interviews in the EoRPA countries, and is structured in two main parts. The first part reviews EU strategic, policy and budgetary developments, including the Investment Plan for Europe, economic governance and the review of the MFF. The second part focuses on the reform of EU Cohesion policy after 2020 beginning with the preparations being made by the EU institutions and the discussing reform options with respect to objectives, policy architecture, financial instruments, thematic focus, the urban dimension, governance and simplification, and economic governance and structural reform. The final section of the paper identifies some questions for discussion at the EoRPA meeting.

[1] The paper is part of a series of EoRPA annual reports reviewing developments in Cohesion policy. Recent reports include: Mendez and Bachtler (2014) Prospects for Cohesion policy in 2014-20 and Beyond: Progress with Programming and Reflections on the Future, *EoRPA Paper* 14/4, European Policies Research Centre, University of Strathclyde, Glasgow. Mendez C, Bachtler J and Wishlade F (2013) A new dawn for Cohesion policy? The emerging budgetary and policy directions for 2014-20, *EoRPA Paper* 13/4, European Policies Research Centre, University of Strathclyde, Glasgow.

2. EU STRATEGIC, POLICY & BUDGETARY DEVELOPMENTS

The EU has been in a virtually permanent state of crisis in recent years dealing with economic, financial and, most recently, migration challenges that have exposed divisions across Member States and prompted new EU initiatives with potential consequences for Cohesion policy in the future. The slow and uneven recovery led the Commission President to launch an Investment Plan for Europe, including a European Fund for Strategic Investments to stimulate investment in infrastructure and firms. The destabilising threat from a Greek exit from the euro has been contained through a third bailout, and a long-term vision for completing EMU has been tabled by the Presidents of the EU institutions, including proposals for a stabilisation function. In the short-term, there are reviews of the EU's budget and Europe 2020 strategy underway, all of which have implications for discussions on the future shape of EU Cohesion policy post-2020.

2.1 The Investment Plan for Europe

The European Commission President Jean-Claude Juncker tabled an Investment Plan for Europe in November 2014.[2] The stated rationale for the plan is the need to address the major fall in public and private investment since the peak of the crisis – by around 15 percent on average or around €230-370 billion per year below long-term trends - despite the existence of sufficient liquidity for investment in many part of the EU. In response to this gap, the plan proposed the creation of a new European Fund for Strategic Investments aiming to mobilise €315 billion in public and private investment, the establishment of a project pipeline and technical assistance facility as well as a roadmap of structural reforms to improve the investment environment (Box 1).

The main implication of the investment plan for Cohesion policy is a commitment to a "more strategic use of the European Structural and Investment Funds" though an overall doubling of the use of financial instruments. Further, the Member States are recommended to allocate a specific percentage to each of the following investment areas through financial instruments:

- 50% in SME support;
- 20% in CO2 reduction measures;
- 10% in information and communication technology;
- 10% in sustainable transport;
- 5% in research, development and innovation; and
- 5% in environmental and resource efficiency.

[2] European Commission (2014) *An Investment Plan for Europe*, Commission Communication, COM/2014/0903 final, 26.11.14, European Commission, Brussels.

Box 1: Key features of the Investment Plan for Europe

The Investment Plan for Europe is based on three mutually reinforcing strands:

1. The creation of a new European Fund for Strategic Investments (EFSI) to mobilise at least 315 billion euro of additional investment over the next three years (2015 - 2017)
2. Making sure that investment reaches the needs of the real economy by establishing a project pipeline coupled with a technical assistance programme to channel investments where they are most needed
3. Improving the investment environment a roadmap to make Europe more attractive for investment and remove regulatory bottlenecks.

Mobilising at least EUR 315 billion additional finance for investment at EU level

- A new European Fund for Strategic Investments will be set up, in close partnership with the EIB, to support strategic investments of European significance and risk finance for SMEs and mid-cap companies across Europe.
- The European Structural and Investment Funds will be fully exploited. This means making sure EU funds remaining in the 2007-2013 programming period are used to best effect. This also means increasing the leverage of the 2014-2020 EU funds by overall doubling the share of innovative financial instruments and maximising the use of private co-financing.

Making finance reach the real economy

- A transparent pipeline of projects ripe for investment will be established at EU level, based on the December 2014 report of a Task Force of the Commission, the EIB and the Member States.
- Sources of expertise and technical assistance will be brought together into a single investment advisory "Hub" for project promoters, investors and managing authorities.
- The Commission and the EIB, together with national and regional authorities, will engage with project promoters, investors and institutional stakeholders to facilitate key investment projects.

Improving the investment environment

- Measures to improve the regulatory framework, at national as well as European level, to make it clear and predictable, and to incentivise investment.
- Measures to develop new and alternative sources of long-term financing for the economy and to move towards a Capital Markets Union.
- Measures to complete the single market in key sectors such as energy, transport and the digital economy.

Source: European Commission (2015) *Annual Growth Survey*, Brussels. pp8-9.

2.1.1 The European Fund for Strategic Investments

The centrepiece of the Investment Plan is the EFSI. A regulatory proposal for the EFSI was tabled by the Commission in January 2015 and, following a fast-tracked procedure and inter-institutional negotiations, was approved by the European Parliament and Council in June 2015.[3]

(i) Objectives

The stated purpose of the EFSI is “to help resolve the difficulties in financing and implementing strategic, transformative and productive investments with high economic, environmental and societal

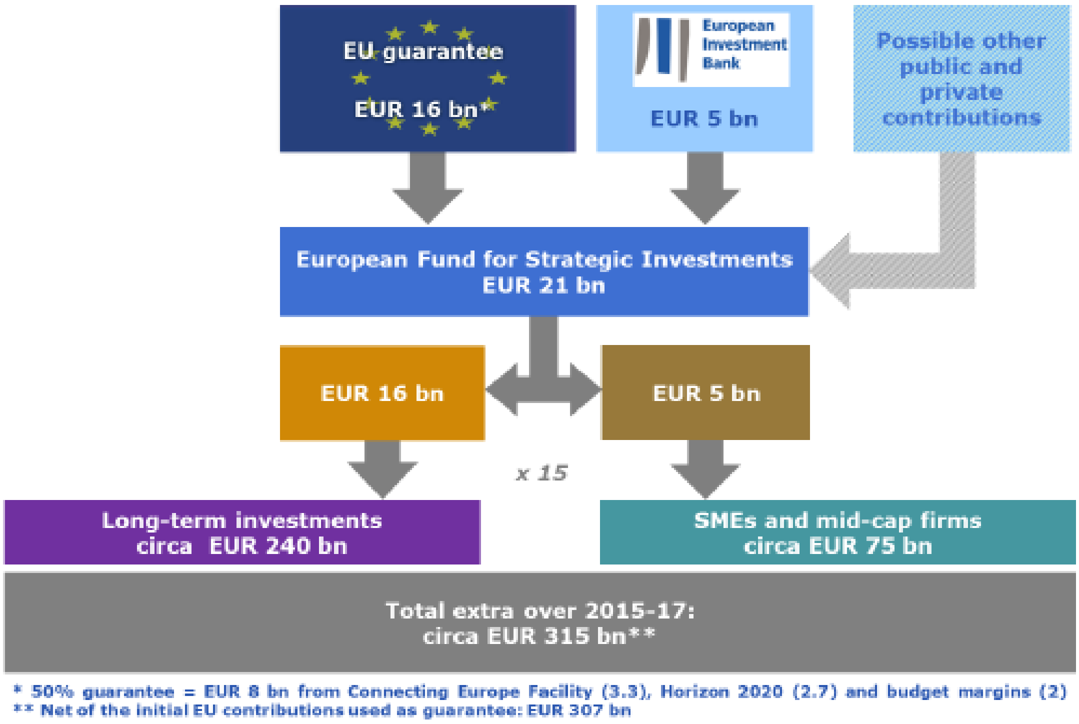
[3] Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 — the European Fund for Strategic Investments OJ L 169, 1.7.2015, p.1–38.

added value contributing to achieving Union objectives". The EFSI is established within the EIB to enhance risk-bearing capacity for investment projects to address objectives in a range of policy domains including transport, energy and broadband infrastructure, environment and resource efficiency, education, health, research, ICT and risk finance for SMEs and small mid-cap companies.

The EU financial contribution is €21 billion comprising a guarantee of €16 billion from the EU Budget and a €5 billion contribution from the EIB (see Figure 1). The EU budget contribution is made up of a transfer of €5 billion from the Horizon 2020 and Connecting Europe Facility headings (€1 billion less than the €6 billion proposed by the Commission initially) and €3 billion from budget margins (€1 billion more than initially proposed). A guarantee fund will be established so as to gradually reach €8 billion (i.e. 50% of total EU guarantee obligations) by 2020.

The fund will allow the EIB to have enhanced risk-bearing capacity. By taking on part of the risk of new projects through a first-loss liability, the fund aims to attract private investors who would join under more favourable conditions. The expected leverage of additional investment is €315 billion (€307 billion without the EU guarantee) over 2015-2017, which equates to a multiplier of 1:15 (for every €1 in public funds allocated, €15 in private money would be attracted).

Figure 1: Financial allocations to the European Fund for Strategic Investments



Source: Appel S (2015) The Investment Plan and ESIF, Atlantic Strategy working group, 23.6.15, Brussels

Member States can contribute to EFSI at Fund level with cash or guarantees to top-up €16 billion risk bearing capacity on a voluntary basis, and the ESI Funds and other EU instruments can be used to co-finance EFSI projects.

(ii) Governance

A two-tier governance structure comprises a steering board and an investment committee. The Steering Board will set the overall strategy, investment policy and risk profile of the fund. It will comprise four members, three appointed by the EIB and one by the Commission, and decisions will be taken by consensus. An Investment Committee will select projects to receive EFSI support. Accountable to the Steering Board, the committee will consist of a managing director and eight independent experts. Decisions will be taken by a simple majority.

The project selection criteria will be based on four pillars:[4]

- contribution to EFSI policy objectives: fit with key policy areas and Europe 2020 objectives;
- quality and soundness of the project: in terms of economic rate of return, promoter capabilities, environmental sustainability and employment;
- technical and financial contribution: improving funding terms, facilitating funding, EIB contribution and advice;
- complementary indicators: additionality, macroeconomic environment, multiplier effect, cooperation with national promotional banks, co-financing with ESIF and other EU instruments and, for relevant projects, energy efficiency and climate action contribution.

The EFSI regulation also establishes a European Investment Advisory Hub (EIAH) providing technical support for project development and preparation, building on the expertise of the Commission, the EIB, national promotional banks or institutions and the managing authorities of the European Structural and Investment Funds; and a European Investment Project Portal (EIPP) to ensure that information on investment projects is publicly available and transparent for investors.

(iii) Implementation and review

The EIAH has been operational since June 2015 and the EFSI should be fully operational from September 2015 after the managing staff and experts have been appointed. In the meantime, the EIB pre-approved ten projects in eight Member States (by the end of June 2015) to ensure a quick launch of the EFSI.[5]

The Commission is required to submit an independent evaluation of the EFSI before the end of the initial investment period in 2017, which will assess whether the EFSI has achieved its objectives. Based on the conclusions of the report, the Commission will present a proposal to either set a new investment period and appropriate funding or to terminate the EFSI.

(iv) Assessment

Much of the debate and especially criticism of the EFSI has centred on issues surrounding the EFSI's funding, impact and governance arrangements. First, additional public money has not been provided to fund the EFSI as it is funded through reallocations from pre-existing EU budget lines and EIB

[4] According to the draft Delegated Regulation on the EFSI: Annex to the Commission Delegated Regulation supplementing Regulation (EU) 2015/1017 of the European Parliament and Council by the establishment of a scoreboard of indicators for the application of the EU guarantee, 21 August 2015.

[5] EIB (2015) *EIB welcomes final approval by Parliament and Council of EFSI Regulation*, EIB press release, 25.6.15.

funds. While Member States can contribute additional resources at Fund level to increase the overall pot, the commitments made by Member States to date indicate that national contributions will only be made to co-finance projects through National Promotional Banks rather than direct capital contributions into the fund.

Second, there is an opportunity cost from transferring funds from high value-added headings of the EU budget - the Connecting Europe Facility (CEF) and Horizon 2020 - to the EFSI.[6] It is worth recalling that during the negotiations over the 2014-20 Multiannual Financial Framework the Member States eligible for the Cohesion Fund (CF) were required to transfer a share of their Cohesion Fund allocation to the CEF (€11 in total) to increase its critical mass, yet this has now been reduced. The CEF also has similar objectives in terms of mobilising private financing sources and financial instruments, such as guarantees and project bonds, to gain maximum leverage.

Third, the expected leverage effect on investment (of €315 billion) has been dismissed as unrealistic,[7] particularly in a macroeconomic environment with a contractionary fiscal stance.[8] More fundamentally, the leverage effect rests on questionable additionality assumptions about genuinely new projects being supported that would not have been funded through other means.[9]

Lastly, governance deficiencies in the accountability of the EFSI to European institutions have been noted. The Parliament has argued for a role in the appointment of the experts to the Investment Committee and for stronger reporting arrangements on the effectiveness of the fund[10], while the Court of Auditors has raised concerns about the lack of alignment with the EU Financial Regulation and tensions with the budgetary discharge procedure.[11]

2.1.2 Implications of the EFSI for the ESIF: A complementary or conflictual relationship?

There are a number of similarities and differences between the EFSI and ESIF (Table 1), which indicate potential for both complementarities and tensions between the two policy frameworks. The Commission has emphasised the complementary nature of the two instruments stating that there is no overlap because they:

> *"have different purposes and are implemented with different financial instruments. While the EFSI focuses on attracting private investors in economically viable projects, the bulk of the*

[6] European Parliament (2015) *Report on the proposal for a regulation of the European Parliament and of the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013*, Committee on Budgets and Committee on Economic and Monetary Affairs, A8-0139/2015, 22.4.15.

[7] Claeys G, Sapir A and Guntram W.B (2014) *Juncker's investment plan: No risk – no return,* Bruegel blog post, 28 November 2014; Claeys G (2015) *"Juncker plan": the EIB in the driver's seat*, Bruegel blog post, 30 June 2015

[8] Munchau W (2014) The Juncker fund will not revive the Eurozone, 30 November 2014, *Financial Times.*

[9] Claeys G et al (2014) *op. cit.*

[10] This was one of the main criticisms of the European Parliament. See: European Parliament (2015) *op.cit.*

[11] European Court of Auditors (2015) *Opinion No 11/2015 (pursuant to Article 287(4) of the Treaty on the Functioning of the European Union (TFEU)) concerning the proposal for a Regulation of the European Parliament and of the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 12912013 and (EU) No 1316/201*3.

European Structural and Investment Funds (ESIF) consists of grants while Member States are encouraged to at least double the use of innovative financial instruments in the future."[12]

Table 1: Similarities and differences between the EFSI and ESIF

	EFSI	ESIF
Objectives	• To resolve difficulties in financing and implementing strategic, transformative and productive investments with high economic, environmental and societal added value contributing to achieving EU objectives	• Strengthening economic, social and territorial cohesion, particularly reducing disparities and backwardness of less-developed regions • Contributing to Europe 2020 objectives
Funding	• €21 billion (including €8 guarantee from the EU budget)	• €351.8 billion (dedicated EU budget heading)
Geographical targeting	• No geographical targeting / pre-allocations	• Concentration on less-developed countries/regions through pre-allocated envelopes
Thematic targeting	• No thematic pre-allocations/ring-fencing, although €5 bn (out of €21 bn) reserved for SMEs • Strategic infrastructure (including digital, transport and energy, education, research, development and innovation, renewable energy and resource efficiency) and support for smaller businesses and midcap companies	• Ring-fencing of allocations to thematic objectives and investment priorities • 11 thematic objectives (RTDI, ICT, SMEs, low-carbon economy, climate change, environment and energy, transport, social inclusion, education, training, employment, public administration efficiency)
Financial instruments	• Loans, guarantees, equity and venture capital	• Non-reimbursable grants mainly (>75%) • Financial instruments (guarantees, loans, equity, venture capital) to represent €23bn of funding in 2014-20
Forms of assistance	• Projects (of high risk nature)	• National and regional programmes • Major projects (> €50m, funded by ERDF/CF and subject to EC decision)
Management	• Centralised management by EIB with steering board including EIB and Commission representation • Project selection by EU-level Investment Committee of experts	• Shared management between Commission, Member States and regions • Programme management and project selection by national and regional managing authorities and implementing bodies
Time-frame	• 3 years (2015-2017) with option for extension	• 7 years (2014-2020)

Source: own elaboration.

Notwithstanding the Commission's positive assertion, a number of tensions can be identified between the goals, financing and governance of the EFSI and ESIF. First and most fundamentally, there is a conflict between the goals of the two sets of Funds. The EFSI has an efficiency (rather than equity) rationale insofar as it provides funding for projects addressing market failures with high economic returns on the basis of a competitive selection procedure. While the preamble to the EFSI regulation states that the EFSI should seek to contribute to cohesion, and acknowledges that the investment deficit in the EU is most acute in countries suffering most from the crisis, the EFSI does not have geographical targets or pre-allocations to support the less-developed Member States (and regions) or

[12] European Commission (2015) *The European Fund for Strategic Investment: Questions and Answers*, Fact Sheet, MEMO/15/3223, 13 January 2015, Strasbourg.

those with the greatest investment gaps. Accordingly, it is possible that EFSI-supported projects will be concentrated in the more-developed parts of the EU - where there is greater public and private sector capacity for preparing projects, established investment banks, platforms and financial instruments – and contribute to exacerbating territorial disparities across the EU.

Second and related, there are concerns that programmed ESIF funding and interventions could be crowded out or reallocated if Member States decide to redeploy ESIF as a co-financing tool to access EFSI funds. The EFSI project selection criteria encourage ESIF co-funding of the new fund, although most EoRPA partners are not considering using this option. There is also an incentive to divert national funding for economic development (including ESIF co-finance) to the EFSI because of provisions that allow national contributions to the EFSI to be excluded from Stability and Growth Pact calculations of public debt (unlike national and regional co-financing of cohesion policy programmes) and owing to lighter state aid requirements.

Third, another potential challenge arising from the eligibility of EFSI projects for ESIF co-financing is greater complexity and compliance risk for Cohesion policy managers. As argued by the Court of Auditors, combining assistance for the same projects by the ESIF and EFSI could create a conflict of applicable rules due to their different legal frameworks.[13] The Commission has announced that it is working on concrete technical solutions to combine EFSI financing with ESIF and information on how the ESI Funds and ESIF interact will be included the Commission's communication on the outcome of the negotiations of the 2014-20 PAs and OPs at the end of 2015. The main approaches envisaged are:

- EFSI providing support to financial instruments established at national/regional level in addition to support by ESIF; or
- ESIF directly co-funding EFSI projects; or ESIF programmes contributing through a financial instrument to an Investment Platform (with resources managed together but covering distinct compartments to comply with ESIF rules).

Looking forward, if the EFSI is deemed to be a success in the 2017 review of the fund it could be institutionalised as a permanent policy and compete with the ESIF for resources in future budget negotiations. There are already proposals for a fiscal stabilisation mechanism under EMU based on the EFSI model (discussed in the next section). Critics of Cohesion policy could even use the EFSI as a political instrument to call into question the current Cohesion policy model altogether, and to promote in its place a centralised policy with direct allocations to projects involving less bureaucracy.

2.2 Completing Economic and Monetary Union

The EU has agreed and implemented various measures to strengthen economic and monetary union since the crisis, and EU Cohesion policy has been more closely linked to economic governance and the European Semester under the 2013 reform. Looking forward, a range of proposals for creating a genuine economic and monetary union were set out in the Four Presidents Report of 2012, including proposals for a fiscal capacity with potentially important consequences for the governance and

[13] European Court of Auditors (2015) Opinion No 11/2015 (pursuant to Article 287(4) of the Treaty on the Functioning of the European Union (TFEU)) concerning the proposal for a Regulation of the European Parliament and of the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 12912013 and (EU) No 1316/2013.

funding of Cohesion policy.[14] Since then, the focus has been mainly on implementing an integrated budgetary framework, particularly a Banking Union. More recently, the Five President's Report "Completing Europe's Economic and Monetary Union", published in June 2015, outlined the vision of the Presidents of the Commission, European Central Bank, European Council, Eurogroup and the European Parliament for the future of EMU, including a three-stage roadmap consisting of:

- **Stage 1:** small steps between July 2015 and June 2017, building on existing instruments and treaties;
- **Stage 2:** more fundamental changes supported by a Commission White Paper to be published in 2017, including the establishment of binding convergence targets and a euro area treasury with a fiscal stabilisation function; and
- **Stage 3:** a final stage by 2025 where the vision would be completed.

As in the earlier Four President's report published in 2012, structural reform and economic convergence of Eurozone Member States remains a key priority to underpin the functioning of EMU. However, previous proposals for an EU fiscal capacity with binding contracts or partnerships have been replaced with vaguer proposals for a 'fiscal stabilisation mechanism'. This macroeconomic stabilisation function is presented as a long-term initiative requiring "as a pre-condition, a significant degree of economic convergence, financial integration and further coordination and pooling of decision making on national budgets." The report notes that the design of a stabilisation function could build on the European Fund for Strategic Investments (discussed above), by identifying a pool of financing sources and investment projects specific to the euro area to be tapped into according to the business cycle and that various additional sources of financing could be considered. The report highlights four principles to underpin the design of a stabilisation function:

- the primary aim would be to improve the overall economic resilience of EMU and individual euro area countries, and it should not be used as an instrument for crisis management (which is the role of the European Stability Mechanism);
- it should not lead to permanent transfers between countries or to transfers in one direction only, nor should it be used equalise incomes between Member States;
- to avoid moral hazard, it should be tightly linked to compliance with the EU governance framework and to progress in converging towards the common standards; and
- it should be consistent with the existing EU fiscal framework and with procedures for the coordination of economic policies

The establishment of a dedicated fiscal capacity or stabilisation function at EU level is likely to be politically contentious among the Member States. Divergent views are already apparent between France and Germany. France has been a keen advocate for a stronger economic government at the heart of the Eurozone for some time. Recently, the French economy minister Emmanuel Macron called for a "full fiscal union" including the appointment of a powerful "Euro Commissioner" to head a single economic government for the Eurozone with its own investment budget to support financial

[14] Mendez C and Bachtler J (2015) Prospects for Cohesion Policy in 2014-20 and Beyond: Progress with Programming and Reflections on the Future, *European Policy Research Paper*, No. 88, European Policies Research Centre, University of Strathclyde, Glasgow. Begg I, Bachtler J, Macchiarelli C, Mendez C and Wishlade F (2014) *European Economic Governance and Cohesion Policy,* Report to the European Parliament Committee on Regional Development, European Parliament, *Brussels.*

transfers if a country is in crisis or to push through structural reforms.[15] By contrast, and in response to the French minister, the German Vice Chancellor Sigmar Gabriel expressed strong opposition to a new Eurogroup budget funded through taxes.[16]

2.2.1 Implications for Cohesion policy: macro-governance and financing pressure

The implications of the emerging EMU architecture for Cohesion policy are not clear at this stage and are more likely to materialise in the long-term once there are specific proposals for fiscal capacity instruments and if an agreement can be achieved. Nevertheless, two potential impacts can be expected on the governance and funding of Cohesion policy. [17]

- **Conditionality.** By reinforcing the role of EU institutions in economic and structural reform policies, EMU developments could lead to more pressure to reinforce macro-economic governance conditionalities on Cohesion policy as was already the case under the 2013 reform of the ESI Funds.
- **Funding.** A related channel of influence is through the creation of new budgetary capacities to stabilise economic shocks and support structural reform, which could lead to competing demands on the EU budget and therefore downward pressure on funding for Cohesion policy.

2.3 The mid-term review of the Europe 2020 Strategy

The launch of a mid-term review of the Europe 2020 strategy for growth and jobs started in 2014 and a public consultation was completed on 31 October 2014. The results of the consultation have been published in a Commission communication, summarised as follows.[18]

- Europe 2020 is seen as a relevant overarching framework to promote jobs and growth at EU and national level. Its objectives and priorities are meaningful in the light of current and future challenges.
- The five headline targets represent key catalysts for jobs and growth and help to keep the strategy focused.
- Most of the flagship initiatives have served their purpose, yet their visibility has remained weak.
- There is scope and a need to improve the delivery of the strategy through enhanced ownership and involvement on the ground.

Implications for Cohesion policy were not identified in the Commission's summary of the consultation responses, although some Member State responses did raise relevant linkages and issues (outlined in the next section). The Commission will present proposals for the review of the Europe 2020 strategy before the end of 2015. It remains to be seen what the implications will be for Cohesion policy.

[15] EurActiv.com (2015) *France's economy minister calls for fiscal transfers in Eurozone*, 31 August 2015: http://www.euractiv.com/sections/euro-finance/frances-economy-minister-calls-fiscal-transfers-eurozone-317170

[16] EurActiv.com (2015) *Berlin puts brakes on French push for eurozone fiscal transfers*, 2 September 2015: http://www.euractiv.com/sections/euro-finance/berlin-puts-brakes-french-push-eurozone-fiscal-transfers-317251

[17] See also: Mendez C and Bachtler J (2015) *op. cit.*

[18] European Commission (2015) *Results of the public consultation on the Europe 2020 strategy for smart, sustainable and inclusive growth*, Commission Communication, COM(2015) 100 final, 2.3.201, Brussels.

2.3.1 Implications for Cohesion policy: Chasing a moving target

EU Cohesion policy has been fully aligned with the Europe 2020 strategy under the 2013 reform for the 2014-20 period. The Europe 2020 strategy provided a reference framework for the design and programming of the new cycle of European Structural and Investment Funds PAs and OPs for 2014-2020, particularly through thematic concentration and alignment with CSRs. In this context, key questions for Cohesion policymakers are whether the Europe 2020 review will entail changes in priorities and whether such changes will impact on the strategic planning architecture for Cohesion policy in 2014-20 – the Common Strategic Framework, Partnership Agreements and Operational Programmes – as well as the debate on the post-2020 reform. At this stage, it remains unclear what the implications will be for Cohesion policy. It is worth recalling that the precursor Lisbon strategy was reformed (into the Europe 2020 strategy) mid-way through the 2007-13 cycle of Cohesion policy, but had limited impact on the implementation of the programmes. Further, because the Common Strategic Framework is annexed to the Common Provisions Regulation (rather than in the form of a Delegated Act as the Commission initially proposed) it is less straightforward to modify unilaterally by the Commission.

Commission thinking is likely to become clearer at the end of 2015 in a Communication reviewing the PA/OP negotiation outcomes, which will take into account the challenges of aligning Cohesion policy with more recent Commission priorities that were not in place at the programming stage. That said, in reflecting on the key issues for the post-2020 design of Cohesion policy, the Commissioner for Cohesion policy has raised the question of how Cohesion policy could address new or growing challenges (highlighting energy security and migration in particular) in reflections on the post-2020 agenda.

Member State views are likely to become known following discussions of the above communication and the Europe 2020 review. National responses to the Europe 2020 consultation did not consider in detail the implications of the review for Cohesion policy, although some relevant issues were raised concerning the territorial dimension of the Europe 2020 strategy and interactions between the ESI funds and economic policy coordination. An indicative list of the issues being considered is as follows.

- **Territorial cohesion (BE).** More attention should be paid to territorial cohesion, as it can have positive effects on several parts of the Europe 2020 strategy.
- **Formulation of country-specific recommendations (CZ).** The Member States should be more fully involved in the preparation of the CSRs to make sure that national specificities are better taken into account and because of the possible impact on Cohesion Policy. Earlier publication of the commission working paper (accompanying the CSRs proposal) and bilateral discussions at technical level could be beneficial in this respect.
- **Improved economic policy coordination (DE). I**mproved integration of the requirements of economic policy coordination with the programming of ESIF could improve their effectiveness. Alongside the EU budget, the strengthened European Investment Bank is also in a position to promote sustainable growth and employment with a broad range of support.
- **Linking the effectiveness of ESIF to sound economic governance (DE, PL).** Germany argued for strict implementation of the new economic governance provisions, both in terms of the Commission's right to propose re-allocations of ESIF to support the implementation of country-specific recommendations and in terms of suspensions of payments. Furthermore, the idea of directing ESIF towards the most effective reforms should be considered. While

Poland agrees that the new provisions should be implemented ambitiously, it also argued that reprogramming proposals by the Commission should take account of the need for predictability of fund management and the credibility of the adopted PAs and OPs.

- **Linking the performance reserve to structural reforms (DK).** The Danish response invited the Commission to put forward a proposal which links a part, say one third, of the performance reserve to reward implementation of structural reforms with a view to creating peer pressure for reform and providing easier communication of the strategy to the public.
- **More debate in the Council on the contribution of Cohesion policy (IT).** Given the important role of Cohesion policy in delivering Europe 2020 objectives, Italy called for the establishment of formal and regular sessions in the General Affairs Council dedicated to the contribution of Cohesion policy to the Europe 2020 strategy.
- **Gender balance/female participation in labour market through ESIF (DE).** Germany considered that Europe should factor into its strategy the particular growth potential offered by increasing the participation of women in the labour market. It should also consider the use of funding from ESIF for this purpose.
- **Need for additional public investment support (PL, IT).** Cohesion policy is crucial for pro-growth investment but additional EU investment stimulus is necessary, including a new EU investment fund (PL). Italy's submission highlighted the need for flexibility in the EU's investment clause to facilitate the co-financing of ESIF.
- **Simplification (MT).** Malta's contribution noted the crucial role of ESIF in supporting Europe 2020 objectives (such as skills and entrepreneurship, R&I, renewable energy, sustainable tourism, social inclusion) and argued for a reduction in the bureaucracy of managing the funds, particularly the social fund.

For its part, the European Parliament's Regional Development (REGI) Committee has recently drafted a report calling for stability in the scope of the Europe 2020 review and to avoid destabilising impacts on the (re)programming of Cohesion policy programmes, while drawing attention to future inter-institutional challenges in the timing of the legislative negotiations on the post-2020 Cohesion policy.[19] The key elements of the EP report are as follows.

- **Timing of the review and impact on ESIF programming.** The Commission's proposed review of Europe 2020 would be undertaken after the launch of the new cycle of Cohesion programmes, when the implementation process will be well under way. Early reprogramming of Cohesion policy in response to the Europe 2020 review would be counterproductive for the long-term strategic planning of Cohesion policy.
- **Scope of the review.** The review should be limited in scope and focus on deepening, widening, adjusting and better interlinking the strategy's five objectives and its flagship initiatives and on identifying methods as to how they could be better carried forward and evaluated without creating additional layers of complexity and excessive administrative burden.
- **Post-2020 Cohesion policy.** The review of the Europe 2020 strategy should provide an indication of trends for future Cohesion policy post-2020, but the Parliamen, stressing the importance of a continued strategic approach and the added value of an EU-wide Cohesion

[19] European Parliament (2015) *Draft Report on Cohesion policy and the review of the Europe 2020 strategy*, (2014/2246(INI)), Committee on Regional Development, 29.5.15. See also the underpinning study: Hasse D (2015) *The Cohesion Policy dimension of the implementation of the Europe 2020 Strateg*y, Report to European Parliament, Committee on Regional Development, European Parliament, Brussels.

policy. As the future Cohesion policy will be designed at the end of the current EP mandate, imposing significant time constraints on co-legislator negotiations, the Commission should take this into consideration and develop a coherent approach as regards the future EU long-term growth and jobs strategy, the EU budget and the various policy instruments.

2.4 The review of the Multiannual Financial Framework

A 'revision clause' in the 2014-20 MFF requires the Commission to present a review of the functioning of the MFF towards the end of 2016, taking full account of the economic situation at that time. The review of the MFF will be the first formal opportunity to reassess EU spending priorities for the remainder of the 2014-20 period. As recently stated by the Commission's Budget Commissioner,[20] the priority will be to assess whether the ceilings imposed on the budget by the MFF are sufficient to meet the objectives of the years ahead and particularly whether there is room for manoeuvre for new initiatives to respond to new or ongoing challenges (notably relating to investment, competitiveness and the migration/humanitarian crisis).

Cohesion policy allocations under the 2014-20 MFF will be reviewed in 2016 to take account of the most recent data and reallocate funding from the existing cohesion budget to those countries that have suffered most from the crisis, as set out in the review clause of the political agreement on the 2014-20 MFF and the Common Provisions Regulation (Article 92). This will apply when total allocations diverge by more than +/-5 percent of the existing allocations with a reallocation limit of €4 billion to be spread over the years 2017-2020. Analysis of changes in eligibility status by the CPMR suggests that Greece, Spain and to a lesser extent Italy, Cyprus and the UK could receive increased allocations as a result of the review while Poland in particular, as well as Hungary and Romania, would lose out.[21]

More generally, the review will take stock of the delivery of the programming and implementation phase of the 2014-20 MFF. In this context, the first of a series of annual conferences on an "EU Budget Focused on Results" will take place on 22 September 2015, providing an opportunity for high-level representatives from EU institutions, the Member States, international organisations and academics to exchange views and share experiences.

The resourcing of the EU budget is currently being reviewed by a high-level group set up in February 2014 to review the own resources system and provide recommendations to the Commission. The HLG on Own Resources produced a 'First Assessment' in November 2014,[22] reviewing the current system, previous reforms and identifying guidelines for the forthcoming work, notably the criteria and broader issues to be examined further to create the conditions for reform. The report acknowledges the major obstacles to reforming the current system and aims at finding practical solutions, in particular by enlarging the debate to "a comprehensive analysis of the problem, comprising economic, budgetary, institutional and political aspects". A final report with recommendations will be delivered in 2016 to feed into the Commission's legislative initiatives on the post-2020 budget.

[20] Commissioner Kristalina Georgieva speech to Berlin Conference on "The Future of the EU Multiannual Financial Framework", 15 June 2015.

[21] CPMR (2015) What do the recent regional GDP statistics tell us about Cohesion? Analysis from the CPMR Secretariat, July 2015.

[22] *First Assessment Report*, High Level Group on Own Resources, 17 December 2014, Brussels.

3. THE POST-2020 COHESION POLICY

3.1 European Commission preparations

As in previous reform periods, The Commission's preparations of the proposals for the post-2020 EU Cohesion policy will be a lengthy process. The first step was the launch in 2014 of studies on the 2014-20 period, which will feed into the impact assessment of the post-2020 reform proposals, along with the ex-post evaluations of the 2007-13 period. The Commission will outline reforms proposals in the Seventh Cohesion Report in 2017 and launch a public consultation.[23] The tabling of formal legislative proposals to the Council and Parliament on the post-2020 Cohesion policy is likely to take place in 2018, after the Commission has published proposals on the next MFF by the end of 2017, which will determine the budgetary parameters for the reform of Cohesion policy (Table 2).

Table 2: EU budget and Cohesion policy post-2020 reform milestones and timeline

<table>
<tr><th></th><th>EU Cohesion policy</th><th>EU budget</th></tr>
<tr><td>2014</td><td>• Launch of ex-post evaluations and studies
• High Level Group on Implementation set up</td><td>• High level Group on Own resources set up
• HLG First Assessment Report</td></tr>
<tr><td>2015</td><td>• High Level Group on Simplification set up
• Interim results/discussions on ex-post evaluations of ESIF
• Commission report on the outcome of the 2014-20 PA and OP negotiations</td><td>• First annual conference on EU budget focused on results on 22 September 2015</td></tr>
<tr><td>2016</td><td>• Ex-post evaluations published in early 2016
• ESIF Summary Report by Commission based on AIRs and synthesis of evaluation findings (annually thereafter)</td><td>• Own resource report by HLG
• Mid-term review of EU Budget</td></tr>
<tr><td>2017</td><td>• MS Progress Report to Commission on PA implementation (31 August)
• Commission Strategic Report on ESIF
• Seventh Cohesion Report to set out reform proposals and launch public consultation</td><td>• Commission post-2020 MFF proposals by end of 2017</td></tr>
<tr><td rowspan="2">2018</td><td>• Commission's legislative proposals on post-2020 ESIF</td><td rowspan="3">• EU institutional negotiations on post-2020 MFF</td></tr>
<tr><td rowspan="2">• EU institutional negotiations on post-2020 ESIF Regulations
• MS Progress Report to Commission on PA implementation (31 August)
• Performance reserve review
• Commission Strategic Report on ESIF</td></tr>
<tr><td>2019</td></tr>
</table>

Source: own elaboration

The ex-post evaluation of the 2007-13 programmes is a major exercise and is expected to provide evidence on both the achievements of the programmes and lessons for the future, while supporting the preparation of internal discussions papers to develop thinking inside the Commission. It is being conducted earlier and faster than before but will only be completed in early 2016, although interim results will become available in 2015.

[23] Creţu C (2015) Speech at the 55th Congress of the European Regional Science Association in Lisbon, Portugal, 28 August 2015.

Box 2: Ex-post Evaluation Work Packages of Cohesion policy 2007-13

The ex-post evaluation consists of a set of 15 working packages mainly covering different thematic areas of support, delivery and macro-economic modelling.

- **WP0 - Data collection and quality assessment:** gathered and assessed physical data reported in AIRs, major projects in the annual reports and the feasibility of gathering financial data broken down by priority theme to the NUTS2 and 3 levels.
- **WP1 – Synthesis:** will produce the synthesis report for the whole ex post evaluation after the other work packages and also assess the effect of the economic and financial crisis on the 2007-2013 programmes.
- **WP2 - SMEs, innovation, ICT:** assesses the contribution of the ERDF to the development and innovation in SMEs, covering 50 OPs and focusing specifically on 8. The evaluation establishes the main policy instruments funded, their rationale and effectiveness and carries out 3 theory based impact evaluation to assess in depth the effect on SMEs innovation and growth of some of these policy instruments.
- **WP3 - Financial Instruments for Enterprises:** assesses the rationale, implementation and early evidence of effectiveness of equity/venture capital, loans and guarantees. A key policy question is how the costs (including set up) and benefits (increased investment, production, productivity and jobs) compare between the different financial instruments and with alternative enterprise support instruments such as grants.
- **WP4 - Large enterprises:** assesses the rationale, implementation and evidence of effectiveness of Cohesion Policy support in 8 countries. The evaluation will compare direct effects and wider benefits as well as export-led, FDI-based strategies and development of the indigenous large enterprise base.
- **WP5 – Transport:** assesses the main achievements of the Cohesion Policy in all areas of transport related infrastructure, as well the extent to which EU support contributed to the creation of comprehensive transport networks. It will also explore directions this policy should take in the future.
- **WP6 – Environment**: analyses the progress and achievements of Cohesion Policy for environment related infrastructure focusing on the areas of drinking water, wastewater treatment and solid waste management.
- **WP7 - Modelling the effects of transport projects.** Study to be launched
- **WP8 - Energy efficiency:** The evaluation will assess the rationale for types of interventions and early evidence of effectiveness of investments in energy efficiency in public and residential buildings.
- **WP9 - Tourism and Culture:** The evaluation will establish the nature of co-financed investments in the sector of tourism and culture and explore the rationale that guides their potential and actual contribution to deliver growth and jobs.
- **WP10 - Urban development and Social infrastructure:** The evaluation will establish the nature and objectives of co-financed investments in the fields of urban development and social infrastructures and assess the extent to which they were delivered through integrated strategies or not.
- **WP11 - European territorial Cooperation:** assesses the results achieved through co-operation programmes, with particular focus on the fields of research, technology and innovation, environmental protection and enhancement, and capacity building.
- **WP12 - Delivery System:** analyses the effectiveness and efficiency of implementation during and identifies underlying success factors and areas in need of development covering ERDF, ESF and Cohesion Fund.
- **WP13 - Geography of expenditures:** The study will collect and map data on the regional breakdown of the ERDF and CF, identifying cumulative allocations to projects and expenditure at NUTS3 level (where available) broken down by the 86 priority themes.
- **WP14 - Effect on macroeconomic aggregates.** Study to be launched.

The first lessons from the 2014-20 programming exercise have been summarised in a Commission non-paper[24] that will be developed into a more detailed report to the Council and Parliament on the outcome of the negotiations of Partnership Agreements and programmes by the end of 2015. This report will draw on several studies commissioned in 2014 assessing the take-up and effectiveness of specific aspects of the new policy (ex-ante conditionalities, performance framework, partnership, other new elements of the policy).

Further analytical inputs that will feed into the post-2020 reflections include:

- **Commission-sponsored studies** on the economic challenges of lagging regions, the uptake of financial instruments, the coordination of ESIF funds and other EU instruments, synergies between Cohesion policy and the European semester, among others;
- **academic and policymaker seminars** to identify the key issues related to the preparation of the post 2020 period;
- **reviews of evaluation findings** including a new evaluation helpdesk set up by DG REGIO to collect and synthesise evaluation findings; and
- **performance monitoring and reporting** exercises, such as the ESIF Summary Report by the Commission (in 2016, annually thereafter) and the Commission Strategic Reports on the ESIF (in 2017 and 2019).

The task forces on implementation and simplification set up in 2014 and 2015 respectively will provide another source of ideas to support the Commission's post-2020 reform reflections.

- **The Task Force for Better Implementation** was set up in late 2014 to support spending in Member States with low absorption rates (Bulgaria, Croatia, Czech Republic, Hungary, Italy, Romania, Slovakia, Slovenia) and will refocus its work on the implementation of the 2014-2020 programmes through supporting administrative capacity and drawing implementation lessons.

- **The High Level Group on Simplification** is a more recent initiative (set up in July 2015) to provide the Commission with advice on simplification measures and the reduction of administrative burden for beneficiaries. Chaired by the Former Commission Vice-President Siim Kallas, the group will comprise a maximum of twelve members and representatives from the ESIF DGs. The indicative programme envisages eight meetings between October 2015 and February 2018 addressing different themes (e-cohesion, simplified costs, SME access to funding, gold-plating), a study of simplification and the post 2020 agenda.

[24] European Commission (2015) *Effectiveness and Added Value of Cohesion Policy*, Non-paper assessing the implementation of the reform in the programming for cohesion policy 2014-2020, May 2015.

3.2 European Parliament and Committee of the Regions initiatives

The core focus of the European Parliament's work on Cohesion policy over the past year has been the scrutiny of the 2014-20 regulatory framework's implementing legislation, notably the delegated and implementing acts as well as guidance on macroeconomic conditionality. The Parliament's regional development and employment committees have also adopted or are working on various reports with implications for the implementation of Cohesion policy in 2014-20 and beyond, notably on the Europe 2020 review, the urban dimension and rising social inequality.

A more proactive approach has been taken by the Committee of the Regions (CoR), which has launched a project on the "Future of Cohesion Policy beyond 2020" involving the commissioning of analysis and the organisation of seminars with representatives of other EU institutions, experts and stakeholders. The project aims to address a number of fundamental questions and issues related to the future of Cohesion policy, bringing a strong regional and CoR perspective into the discussion so that it can contribute to the reform agenda at an early stage.

3.3 Member State preparations

Formal preparations and discussions on the post-2020 agenda have not started in the vast majority of Member States. For many Member States, the main priority is the launch of the 2014-20 OPs and closure of the previous OPs. Among those countries that have begun preparations, the main developments have been setting up working groups and planning as well as informal brainstorming seminars.

- **Organisational planning.** In Sweden, informal discussions on the post-2020 Cohesion policy have been held in the form of a team workshop. The aim of the team workshop was to formulate a platform for future discussions before the development of a formal position. The Czech Republic's Ministry of Regional Development is preparing a strategy for the post-2020 period and a new working group has established. In Poland, discussions and coordination of positions among ministries and departments have been informal and mainly relating to EU budget issues including the potential re-emergence of convergence-related objectives and the CAP.
- **Brainstorming seminars.** The UK government has begun its reflection process through the organisation of a seminar with academics to exchange ideas on post-2020 reform issues, notably on the simplification agenda. At the sub-national level, the Dutch Provinces held a brainstorming session on the future of Cohesion policy on 27 May 2015 in Brussels to discuss post -2020 preparations.

At the EU level, formal Member State discussions in the Council have mainly focused on the 2014-20 period rather than the future reform agenda. Under the Latvian Presidency, the Council examined the implementation challenges for Cohesion policy in 2014-20 drawing on the Commission's analysis of the programming negotiations and adopted conclusions largely endorsing the key principles of the 2013 reform.[25] However, both the Dutch and Slovak Presidencies in 2016 anticipate significant debate on key reform issues.

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

3.4 Post-2020 reform options

The Commissioner for Regional and Urban Policy Corina Creţu has recently set out some key questions to stimulate post-2020 reflections concerning the policy's challenges and objectives, territorial targeting, architecture, instruments and governance (Box 3). The following sections reviews these key questions and considers potential reform options and proposals, drawing on previous and current experiences of Cohesion policy reform and implementation and interviews with Member State officials about their views on the future reform of Cohesion policy.

Box 3: Commissioner Creţu 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, financial instruments, or their combination? Should the share of financial instruments 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: Creţu C (2015) Speech at the 55th Congress of the European Regional Science Association in Lisbon, Portugal, 28 August 2015.

3.4.1 Objectives and challenges

The first question posed by Commissioner Creţu is how should Cohesion policy contribute to its two complementary objectives of competitiveness and cohesion and what is the added value of cohesion policy in this context. These issues are closely connected to a second set of questions about the realignment of Cohesion policy with wider EU objectives and how the policy should respond to emerging EU challenges.

EU Cohesion policy objectives have always focused on reducing regional disparities but have evolved to address wider EU goals. Historically, the core Treaty objective has been and remains to promote balanced and harmonious development of Member States and regions and to reduce regional disparities between the levels of regional development and the backwardness of the least favoured regions. Supplementing these regional objectives, the last two reforms have aligned the policy with the EU's objectives for growth and jobs through various regulatory provisions to ensure linkages with the Europe 2020 strategy and its precursor strategy, the Lisbon agenda. The Commission is also increasingly identifying good governance as an overarching objective of Cohesion policy[26] - and improving institutional capacity is an explicit thematic objective in less-developed countries for 2014-20 – reflecting the importance of high-quality public administration for competitiveness and well-being as well as for the effective use of the funds.

The main value that Cohesion policy is commonly considered to bring to these objectives from a financial perspective is the provision of additional funding to support or refocus national/regional investments on the drivers of development and competitiveness in line with cohesion objectives and EU priorities. Cohesion policy is also regarded as adding value to the governance of these objectives through a multi-level and multi-annual model of implementation that encourages greater ownership of EU objectives at different territorial levels, and through an integrated policy framework that promotes synergies across different policy domains. This is, however, disputed as the last reform debate showed, where the added value Cohesion policy was criticised, although at least some of the issues have been addressed in the 2013 reform.[27]

For the post-2020 period, changes to Cohesion policy objectives and how they are addressed will need to consider trends in regional disparities and the review of the Europe 2020 strategy. In terms of the former regional development rationale, the major challenge facing Cohesion policy – as highlighted in the Sixth Cohesion Report - is the widening regional inequality since the crisis and the poor resilience and performance of some regions. In this context, the Commissioner has expressed particular concern about the challenges facing lagging regions and the ability of Cohesion policy to support them. The focus is specifically on two defined categories of regions (see Figure 2).

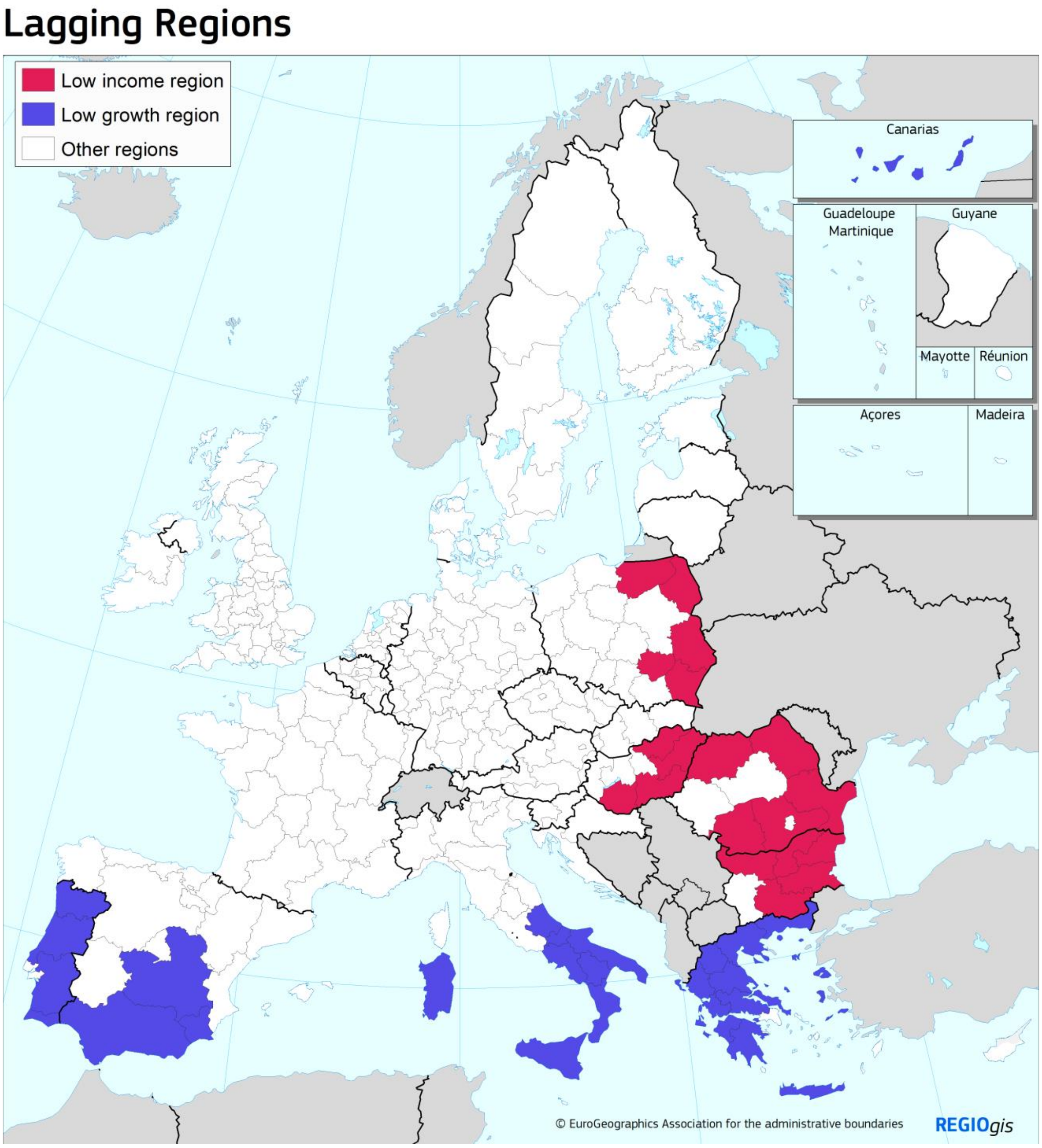
a) 'Low growth regions' are defined as LDR and TR that did not converge to the EU average between 2000 and 2013 in Member States with a GDP per head (PPS) below the EU average in 2013. This includes almost all LDR and TR in Greece, Italy, Spain and Portugal.
b) Low income regions includes several LDR regions of Bulgaria, Hungary, Poland and Romania.

[26] See chapter 5 of the Sixth Cohesion Report European Commission (2014)

[27] ECORYS, CPB and IFO (2008) A Study on EU Spending, final report to DG Budget, European Commission: Brussels; Barca, F (2009) An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations, independent report prepared at the request of the European Commissioner for Regional Policy, Danuta Hübner, European Commission: Brussels; Begg, I (2009) The Future of Cohesion Policy in Richer Regions, DG Regional Policy Working Paper, 03/2009, European Commission: Brussels; Santos, I. (2009) EU cohesion policy: some fundamental questions, Bruegel Policy Contribution 2009/07, Bruegel: Brussels; Swidlicki, P, Ruparel, R, Persson, M and Howarth, C (2012) Off target: the case for bringing regional policy back home, Open Europe: London.

DG Regio has launched a project to analyse how fiscal policies, debt levels and macroeconomic imbalances impact on the economic development of the two types of lagging regions. It will also examine whether and how structural reform needs and the quality of governance have an impact on growth and investment and the effectiveness of ESIF investment in these regions. [28]

Figure 2: Low income and low growth regions in the EU



Source: DG Regio

As noted above, the effectiveness of ESIF in many of these countries is also the focus of the Task Force on Better Implementation which was established in late 2014 to ensure that funding for 2007-13 was absorbed insofar as possible and invested strategically in order to generate the best returns in terms of growth and job creation. The Task Force is developing action plans for eight Member States

[28] DG Regio (2015) *Discussion Paper for the 'Lagging Regions Seminar'*, Brussels, 22-23 June 2015.

(Bulgaria, Croatia, Czech Republic, Hungary, Italy, Romania, Slovakia, Slovenia) and is helping to build administrative capacity to support implementation in the 2014-20 period also.

The question that arises is what can be done to better counter rising inequality and the problem of persistent underdevelopment in lagging regions. The complex and long-term nature of regional development precludes easy solutions, but potential options that could feature in the post-2020 reform debate are likely to include:

- increased funding for lagging regions;
- a refocusing of the investment strategies of lagging regions to better target growth and jobs; and
- performance-oriented changes to governance arrangements, including a reinforcement of conditionalities to ensure that underlying structural, strategic and regulatory frameworks are more conducive to growth and jobs in lagging regions.

In terms of Cohesion policy's wider Europe 2020 remit, a review of the strategy by the Commission is due by the end of 2015, and it remains to be seen whether any changes will be made to Europe 2020 priorities and how Cohesion policymakers will respond. However, as recognised by Commissioner Creţu, the main new challenges for the EU with potential relevance for EU Cohesion policy are energy security and migration.

The themes of migration and energy have already received increased priority in Cohesion policy over successive periods. In the energy domain, thematic concentration obligations for 2014-20 required the allocation of a minimum share of the ERDF to the low-carbon economy objective (including investments in energy efficiency, renewable energy, smart distribution grids and sustainable urban mobility). The thresholds range from 20 percent of national ERDF in More Developed Regions to 15 percent in Transition Regions and 12 percent in Less Developed Regions. The Commission's analysis shows that these thresholds have been surpassed and that the low-carbon economy objective has become the third most important objective in financial terms (after RTDI and SME support), representing around 18 percent of the ERDF and a doubling in the allocation compared to 2007-13.[29] In terms of migration, the integration of migrants and ethnic minorities into labour markets has similarly received increasing attention and support through the European Social Fund over successive periods through the social inclusion agenda.[30] In 2014-20, a minimum of 20 percent of the ESF resources must be invested by each Member State in the thematic objective "Promoting social inclusion, combating poverty and any discrimination", which has been exceeded in many Member States.

There are advantages and drawbacks from aligning Cohesion policy with emerging EU objectives. On the positive side, if Cohesion policy can serve wider EU objectives (or demonstrate that it is already doing so) it is less likely to face pressure for cutbacks and a downgrading in future reform

[29] European Commission (2014) *How EU Cohesion policy is helping to tackle the challenges of climate change and energy security*, A paper by the European Commission's Directorate-General for Regional and Urban Policy http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/cp_investments_energy2014_2020.pdf; See also: European Commission (2015) *Effectiveness and Added Value of Cohesion Policy*, Non-paper assessing the implementation of the reform in the programming for cohesion policy 2014-2020, May 2015.

[30] CSES (2011) *Evaluation of ESF Support for Enhancing Access to the Labour Market and the Social Inclusion of Migrants and Ethnic Minorities*, Report to European Commission. See also: European Commission (2010) *The European Social Fund: Migrants and minorities,* european Commission, Brussels.

negotiations. On the other hand, the expansion of Cohesion policy's remit to address new Europe 2020 challenges could give rise to further goal congestion, additional ring-fencing targets/thresholds and administrative complexity. It may also reinforce redistributive perceptions of the policy being a mere pot of funding that can be redirected to serve any EU objective or even to be used as a sanctioning device to address unrelated objectives. For instance, in recent debates on the EU's response to the humanitarian/migration crisis, the Austrian Chancellor Werner Faymann called for a reduction in EU structural funding to countries refusing mandatory migration quotas,[31] a position that was subsequently reiterated by Germany's interior minister Thomas de Maizière.[32]

3.4.2 Policy architecture and financial allocations

A second set of questions by Commissioner Creţu concerns the definition of the policy architecture and financial allocations model, notably whether Cohesion policy should continue to invest in the More Developed Regions and whether the allocation of Cohesion policy funds should continue to be based on GDP per head.

As reviewed in previous research,[33] for much of the 25-year history of Cohesion policy the eligibility for ERDF was restricted to designated areas. The most consistent aspect of spatial coverage has been the designation of lagging regions, with GDP per head lower than 75 percent of the EU average, and variously termed Objective 1, Convergence and (now) Less-Developed Regions. These regions have accounted for just over a quarter of the EU population, on average, but ranging from 21.7 percent in the 1989-93 period to a high of 34.5 percent in 2004-06 following the accession of 10 mostly poorer countries.[34]

It is notable, however, that the proportion of funding allocated to the lagging regions is now at an historic low. In 1989-93, 73.2 percent of commitment appropriations under the Structural Funds were allocated to Objective 1 regions, a figure that fell to 59 percent in 2007-13 and most recently 53.5 percent for 2014-20.[35] Until the 2000-06 period, other regions were only designated if they were experiencing problems of industrial restructuring or rural development; from 2007 onwards, all regions became eligible for Structural Funds, making funding available to even the most prosperous parts of the EU. This has continued into 2014-20, but combined with a major increase in the proportion of the budget allocated to Transition Regions – including those in Belgium, France and the United Kingdom which had never previously been designated as less-developed. Together these shifts from the mid-2000s onwards indicate that regional disadvantage is playing a diminishing role in the spatial coverage of Cohesion policy.

[31] Der Spiegel (2015) Österreichs Kanzler Faymann vergleicht Orbáns Flüchtlingspolitik mit Holocaust, *Der Spiegel*,12.9.15.

[32] FT (2015) Germany seeks EU refugee summit as Hungary declares emergency, *Financial Times,* 15.9.15.

[33] Mendez C and Bachtler J (2014) *op.cit.*

[34] Bachtler J, Mendez C and Wishlade F (2013) *EU Cohesion Policy and European Integration: The Dynamics of EU Budget and Regional Policy Reform*, Ashgate, Aldershot. Mendez C, Wishlade F and Bachtler (2013) A new dawn for Cohesion policy? The emerging budgetary and policy directions for 2014-20, *EoRPA Paper* 13/4, European Policies Research Centre, University of Strathclyde, Glasgow. Bachtler J, Wishlade F and Mendez C (2006) New Budget, New Regulations, New Strategies: The Reform of EU Cohesion Policy *EoRPA Paper* 06/3, European Policies Research Centre, University of Strathclyde, Glasgow.

[35] *Ibid.*

Looking forward, the question is how Cohesion policy funding shuld be allocated after 2020. The main alternatives that have featured in the past two reform debates are the ‘regional concentration’ and ‘national cohesion’ models.

1. **Regional concentration model.** Structural Funds are wholly or mainly concentrated on regions with a GDP her head of less than 75 percent of the EU average. This model was advocated by Germany between 2002 and 2004, envisaging that non-Objective 1 spending would be limited to 5-10 percent of the Structural Funds budget and used only for territorial cooperation programmes or other special measures. An informal contribution from Sweden during this period also suggested the possibility of integrating a smaller level of Objective 2 funding into INTERREG programmes.
2. **National cohesion model.** Structural Funds are wholly or mainly concentrated on poorer countries. This was promoted actively by the Netherlands, Sweden and the United Kingdom in the 2004-5 reform debate and again in the 2011-13 debate, with some support at different times from the Czech Republic, Estonia and Romania. A specific version of this approach was the German *Nettofondsmodell* (net funds model) which would involve a form of financial equalisation: among the net payer countries, a figure equivalent to the ‘net difference’ between their payments to and receipts from the Cohesion policy budget (n=p-r) would be allocated to the poorer Member States, while the remainder of the ‘payment’ (p-n) would be used for national regional policy.This was advocated by Germany in the early 2000s and revived in the submissions of some German interests in the late 2000s.

These models are mainly associated with the debate on the EU budget. Proponents are predominantly net payers seeking to reduce the overall size of the EU budget or the proportion of the budget allocated to Cohesion policy relative to other policies. Opponents are largely net recipients, concerned at the policy becoming a ‘welfare policy’ and with fewer resources available.

Further questions relate to the definitions of ‘lagging’ or ‘underdevelopment’and whether alternative indicators to GDP (such as human capital, poverty, well-being) should be used or factored into the eligibility and financial allocation methodology. The problem is that there are statistical limitations and political acceptability challenges in getting Member States to agree, especially if it implies signsiifcant changes in their financial allocations.

3.4.3 Financial instruments

Another block of questions raised by Commissioner Creţu concerns the relative efficiency of different forms of support (grants, financial instruments, or their combination) and whether the share allocated to financial instruments should be increased in the future.

There has been an increasing trend in the EU to encourage spending EU budget resources through financial instruments, most recently under the Investment Plan. In Cohesion policy, the use of financial instruments has increased over time especially in 2014-20. Commission estimates suggest that around €24 billion will be allocated to financial instruments, which represents almost double the allocation in the previous 2007-13 period (€9.6 billion) and 20 times the allocation in 2000-06 (€1.2 billion).

In the post-2020 period, financial instruments are bound to play a more prominent role given the momentum that has gathered in recent years and the sound rationale for their inclusion in terms of efficient and sustainable use of public funding. Binding targets for the different funds or thematic objectives provide one mechanism through which the EU could further increase the use of financial instruments. Based on the experiences of negotiating the current thematic concentration requirements, Member States would undoubtedly object to the introduction of yet another set of funding targets and would prefer a voluntary or flexible approach reflecting domestic needs and preferences.

The danger in focusing excessively on financial instruments is that the value of grant-based support is overlooked or downgraded without a robust evidence base. There are also limits in the capacity of programmes to incorporate financial instruments. The administrative complexities associated with EU co-financed financial instruments are a major concern for managing authorities.[36] Given the administrative burden (and expertise) involved in setting up structures for managing such instruments, they are perceived to less useful in small programmes and in sparsely-populated areas where there are both few SMEs and a less well-developed capital market. In addition, the impact of the current economic crisis suggests that the capacity of financial instruments to leverage in private sector funding or to incentivise SME investment may be limited. More fundamentally, there is no evidence that financial instruments lead to improved programme performance (in terms of growth, productivity, jobs) compared to grants.

Recent Council conclusions on the implementation of the 2013 reform have underlined the important role of grants as well as the need for better guidance and stable rules on financial instruments to address implementation challenges:[37]

- **Grants remain important on their own and combined with financial instruments.** While recognising the effectiveness of using financial instruments to increase the impact and leverage of ESI Funds, the Council notes that “grants within cohesion policy are an effective form of support for many types of projects and programmes on their own and in combination with financial instruments”.
- **Clear and stable rules.** The council highlights the need for stable, consistent and clear rules throughout the whole implementation period as a pre-requisite to attract private investors. This is in response to the challenges in 2007-13 when successive legislative amendments and guidance notes were issued to clarify rules.
- **Timely and practical guidance and advice.** The Council called on the Commission to provide guidance on the use of financial instruments and on the synergies between different instruments in a timely manner without going beyond the scope of the regulations by creating additional obligations. Guidance on combining the use of the ESI Funds and EFSI is requested along with practical and timely solutions to implementation challenges by the Commission and through the new “fi-compass” platform.

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

[37] Council of the EU (2015) *op.cit.*

3.4.4 Thematic focus

Closely connected to the questions on policy objectives and EU challenges is how to ensure that Cohesion policy contributes to overarching European priorities while keeping its territorial focus. The main mechanism to align and track the contribution of Cohesion policy to overarching European priorities in 2014-20 is thematic concentration through the obligation to allocate a minimum share of funding to Europe 2020 objectives. According to the Commission's latest assessment (see Figure 3 and Figure 4),[38] this has led to a redirection of cohesion policy resources to Europe 2020 priorities in 2014-20 through increased allocations to R&I, SME support, ICT and the low-carbon economy and away from transport infrastructure (under the ERDF/CF) as well as to employment, social inclusion, education and administrative capacity building (under the ESF). The analysis also highlights substantial variations across Member States with some exceeding considerably the regulatory requirements for thematic concentration.

There is widespread support for thematic concentration among Member States. The main perceived benefits are that it has provided a framework to accommodate key development priorities with EU objectives, to set high-level, long-term goals across various policy areas and facilitation of the identification of implementing instruments. Along with other requirements on the intervention logic and alignment with national reform programmes, thematic concentration has also facilitated a stronger focus on economic efficiency.

The Member States have also raised criticisms. First, concentration requirements have altered the logic of the programming process adding more complexity to programming and negotiations. Second, the approach is top-down reducing the scope for Member States to define their own goals and address specific needs thereby weakening the territorial dimension. Related, thematic concentration requirements have allowed the Commission to push Member States and regions towards investment decisions that may not always make sense from a domestic perspective. Third, some Member States argue that concentration has not been realised yet in practice. Funding remains rather dispersed in countries with large allocations. Conversely, in Denmark, there is less concentration than previously when there was only one priority under the ERDF and two priorities under ESF (compared to four in 2014-20). Lastly, thematic concentration requirements have also brought more restrictive delivery conditions at the implementation stage. For instance, if a priority includes more than one thematic objective, modifications between them are subject to approval from the Commission.

For these reasons, a greater degree of flexibility for Member States to set their own objectives and priorities would be welcomed. One way forward could entail more scope for Member States to choose more freely amongst the different thematic objectives. For countries receiving limited funding and targeting a small number of objectives (such as Denmark), an option to merge thematic objectives could provide added flexibility.

[38] European Commission (2015) *Effectiveness and Added Value of Cohesion Policy*, Non-paper assessing the implementation of the reform in the programming for cohesion policy 2014-2020, May 2015.

Figure 3: Thematic concentration - % of ERDF allocated to objectives TO 1-4

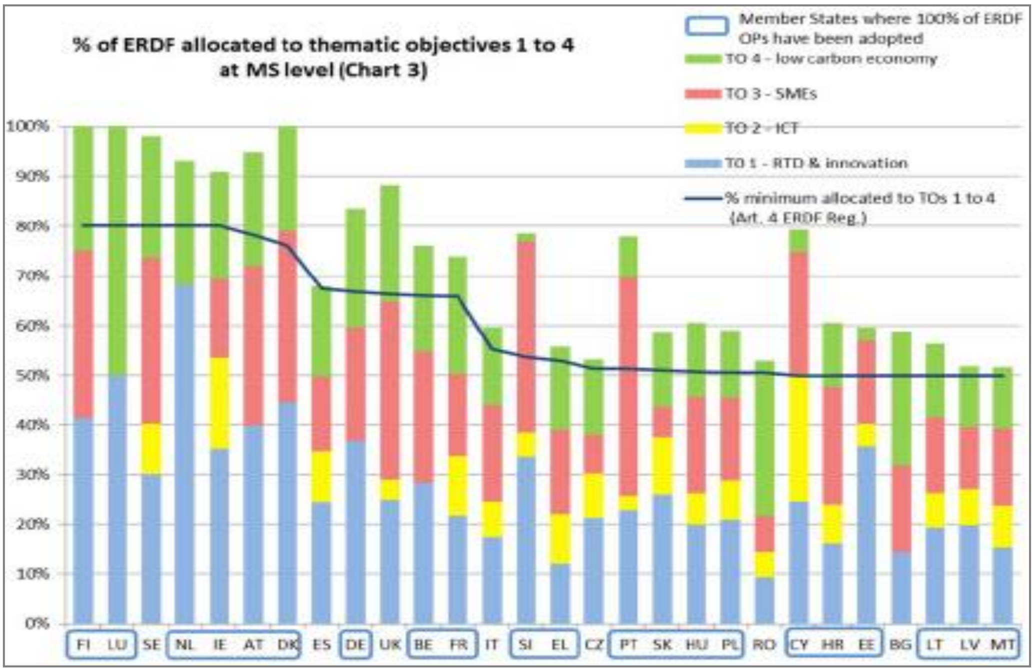
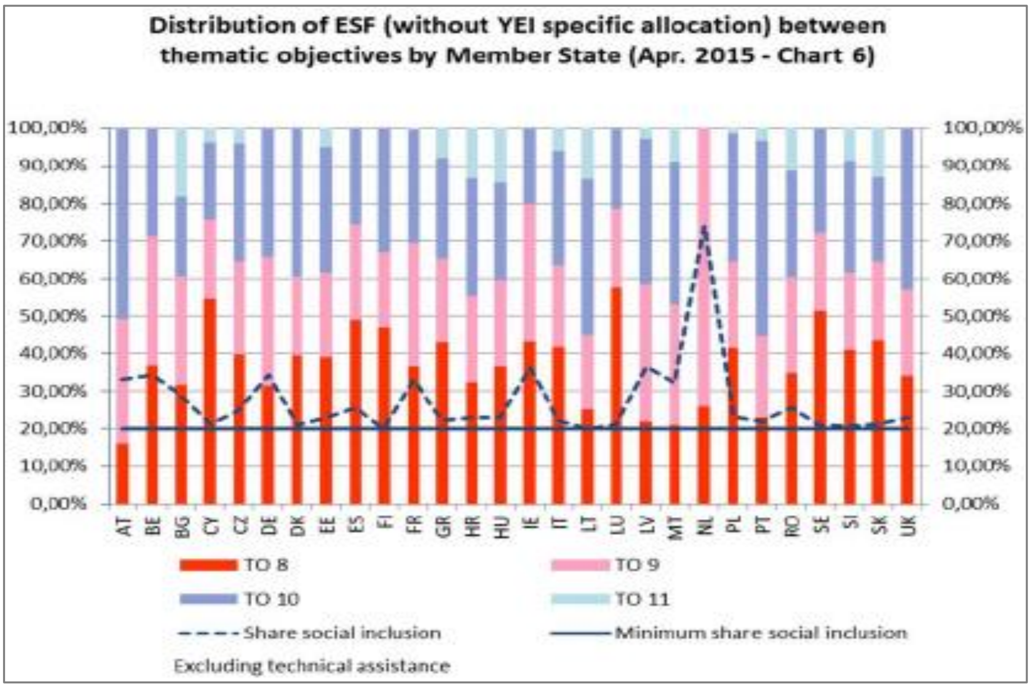


Figure 4: Thematic concentration - % of ESF allocated to objectives TO 8-11



Source: European Commission (2015)

3.4.5 The urban dimension

The role of the urban dimension in Cohesion policy and how to maximise the added value provided by the ESI Funds is a another topic highlighted by Commissioner Creţu. There is also interest in how Cohesion policy can better support growth, jobs and innovation outside heavily populated areas.

The urban dimension has been considerably strengthened in the 2014-20 period through an obligation to allocate a minimum share (five percent) of the national ERDF resources to integrated urban development actions underpinned by urban development strategies and with decision-making devolved to local authorities. The Commission's analysis shows that all Member States will meet or exceed the five-percent target, with most of the funding contributing to three thematic objectives:

- the low-carbon economy (especially investment in energy efficiency and sustainable urban mobility);
- the preservation and protection of the environment (especially investment for the protection of natural and cultural heritage, and the improvement of the urban environment); and
- the promotion of social inclusion (especially investment for the regeneration of deprived communities).

However, the Commission draws attention to a lower than expected commitment to involving the local level in decision-making (beyond project selection, which is obligatory) and the limited use of multiple Funds (other than the ERDF) to reinforce the integrated approach. Interviews with national policymakers suggests that there also concerns about the value of the approach to sustainable urban development because of complex implementation requirements or in comparison to domestic initiatives, as well as concerns about local-level capacities to absorb and administer the funding for sustainable urban development.[39]

Notwithstanding these challenges, a stronger urban dimension is likely to be proposed for the post-2020 period because of the increasing momentum provided by the emerging urban agenda in the EU more generally, which is being coordinated by DG REGIO (Box 1) and has been endorsed by the Member States through the Riga declaration under the Latvian Presidency.

[39] Kah S, Mendez C, Bachtler J and Miller S (20215) *Strategic Coherence of Cohesion Policy: Comparison of the 2007-13 and the 2014-20 Programming Periods,* Report to European Parliament, Committee on Regional Development, European Parliament, Brussels. van der Zwet A, Miller S and Gross F (2014) A First Stock Take: Integrated Territorial Approaches in Cohesion Policy 2014-20 (available July 2015), *IQ-Net Thematic Paper*, 35(2) , European Policies Research Centre, University of Strathclyde, Glasgow.

Box 4: Commission Communication on the key features of an EU Urban agenda

In July 2014, the Commission published a Communication on 'The urban dimension of EU policies — key features of an EU urban agenda' outlining a range of options for developing an EU urban agenda, including:

- a role for the EU institutions as a facilitator of urban development;
- further integration of sectoral policies so that these are better adapted to urban realities;
- an instrument to involve cities and their political leaders in EU policymaking and policy implementation;
- a tool to integrate the goals of the Europe 2020 strategy with cities' own strategies.

The communication was used to launch a public consultation on the urban agenda, the results of which were published in a Commission working paper and presented at the second CITIES forum held in June 2015. The main messages were that an EU urban agenda should involve:

- Focus on a limited number of priorities
- A flexible framework that respect subsidiarity and avoids new regulation
- Urban proofing of EU legislation and policy design
- Better coherence of EU policies with impact on cities
- Improving urban intelligence, benchmarking and monitoring

Looking forwards, the Commission suggests continuing the dialogue and to work on improving the coordination of existing instruments including:

- identifying critical urban related issues (within the three identified areas) for which EU action is needed and provides a significant value added
- mapping out and assessing the urban related Commission initiatives in the three areas to to identify gaps, overlaps and synergies;
- identifying the main actors, networks and platforms, including the relevant Member States level initiatives and platforms, with a view to streamlining cooperation and exchange of good practice.

In this context, the Commission has highlighted three priorities where the EU could add value to the urban development agenda based on its political priorities, the responses to a consultation on the urban agenda and ESIF programming in 2014-20:[40]

1. **Smart cities**: an upgraded and more holistic Smart Cities and Communities agenda as a tool to better integrate and connect energy, transport, water, waste and a broader ICT dimension (encompassing skills, sectors and technologies), anchored in a wider urban development context and integrating new innovative solutions that contribute to its objective.
2. **Green Cities**: the urban dimension of the 7th environmental action plan focusing on the potential of green infrastructure and nature-based solutions to the climate and environmental related challenges of urban development.
3. **Inclusive cities**: supporting urban physical and economic regeneration to fight urban poverty and build equitable cities for all regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation, as well as addressing the challenges of migration, affordable housing and the socio-economic integration of marginalised communities.

[40] European Commission (2015) *Results of the public consultation on the key features of an EU urban agenda*, Commission Staff Working Document, SWD(2015) 109 final/2, Brussels, 27.5.2015.

The need to improve coherence and coordination of EU policies with an impact on cities and to align existing EU instruments with priority areas is also highlighted by the Commission, including three main recommendations on the role of the ESI Funds in promoting the urban agenda.

- **Scaling-up pilot EU urban initiatives through the ESIF.** First, the Commission services will examine how pilot initiatives in different policy areas can be up-scaled within the ESIF programmes.
- **Urban Development Networking.** The new urban development network supported by the ESIF in 2014-20 could play an important role in linking EU sectorial initiatives and ESIF support to integrated actions based on sustainable urban development strategies, which could be used by the cities to translate EU level actions and objectives to their local contexts.
- **Easier access to funding.** There is recognition of the need to ensure that cities – including smaller and medium cities - have easier access to European funding, and to maximise the impact of different EU funding instruments addressing urban issues.

The Latvian Presidency's Riga declaration sets out a series of principles and elements of the future EU urban agenda consolidating the discussions of Member States, the European Commission and other institutions.[41] One of the main contributions was to place **greater priority on small- and medium-sized urban areas (SMUAs)** within the urban agenda in order to go beyond the focus on larger metropolitan areas. This could feed into post-2020 discussions on Cohesion policy, namely through new support mechanisms for SMUAs or a greater prominence for these areas within the new territorial instruments (SUD, ITIs, CLLD).

For its part, the European Parliament has recently adopted a resolution on the EU's urban agenda with a number of relevant points for integrating the urban dimension more firmly into Cohesion policy.

- **Urban indicators.** The need for Member States and the Commission to draw up a coherent set of appropriate indicators to better assess the urban dimension of the implemented operations and initiatives funded by European Structural and Investment Funds;
- **Macro-regional strategies.** Calls on the Commission to integrate the urban agenda within EU macro-regional strategies which represent a model for planning and multi-level governance;
- **Partnership principle.** Calls on the Commission and the Member States to ensure the application of the partnership principle with particular attention being given to the involvement of cities, towns and functional urban areas in the preparation, management and governance of the programmes, including at cross-border level;
- **Urban pilot projects.** Calls on the Commission to test the implementation of the urban agenda in selected thematic fields through urban pilot projects, in particular by ensuring the cross-sectoral coordination of different EU policies, removing existing overlaps and applying the multi-level governance model and conducting territorial impact assessments.

[41] Latvian Presidency of the Council of the EU (2015) *Informal Meeting of EU Ministers Responsible for Territorial Cohesion and Urban Matters Declaration of Ministers towards the EU Urban Agenda*, Riga, 10 June 2015

3.4.6 Governance

There are several governance themes that will dominate the post-2020 reform, notably concerning the simplification agenda, the shared management model and improving the quality of governance.

(i) Simplification

There is widespread consensus that simplification should be pursued more vigorously in the post-2020 period with a view to reducing the administrative burden of management. There were already efforts to simplify and align the ESI Funds under the 2013 reform (e.g. through thematic concentration, alignment of rules across funds, simplified costs options and e-cohesion etc.). Yet, the perception among officials in many Member States is that the regulations and accompanying acts and guidelines have become more complex and that the administrative workload and cost in managing the funds is greater. The Commission have previously acknowledged that the priority of the reform was to simplify administration for the beneficiaries (especially through measures on simplified costs, document retention, or e-cohesion) rather than for Managing Authorities and Intermediate Bodies – which in the view of many Member States are facing more complex administrative tasks.

The establishment of a new High-Level Group on Simplification signals Commission recognition of the need for further simplification. The remit of the Group is to assess the uptake and implementation of current simplification opportunities by Member States, to identify good practice in matters concerning the reduction of administrative burden on beneficiaries; and to make recommendations to improve the uptake of simplification measures for 2014-2020, in particular in view of its mid-term review in 2016, and on the way forward for the post-2020 regulatory framework for ESI Funds. However, research for this paper suggests that Member States authorities are sceptical that this will lead to significant change given past experiences.

Aside from simplifying the rules and obligations, there are frequent calls for greater proportionality involving more reliance on domestic systems when they are trusted to work and where funding is relatively low.

(ii) Shared management

The simplification agenda is closely connected to debates about the effectiveness and efficiency of the shared management model, which delegates implementation responsibility to the Member States while granting the Commission overall responsibility to account for the use of the funds to EU institutions through a range of monitoring, audit and control functions. The principle of shared management is widely considered to be appropriate and involves a relatively clear division of responsibilities. However, the policy is subject to a high error rate and complex administrative procedures that are frequently criticised. Many Member States complain that the model is too top-down and has engendered a checklist and compliance culture that hampers a focus on the quality of implementation and performance. Countries receiving relatively limited allocations are critical of the one-size-fits-all approach with similar obligations irrespective of the scale of funding, although they also insist on strong monitoring by the Commission to ensure that their contributions to the EU budget as net payers are well managed.

In refining the existing shared management model for the post-2020 period, the model would need to ensure sound financial management while at the same time improving the nature of the relationship between the Commission and Member States. Among the main priorities for EoRPA Member States are:

- more trust in Member State systems;
- a preventive (rather than punitive) approach to audit;
- a stronger Commission focus on implementation (rather than control) including a decisionamking (rather than advisory) role in monitoring committees; and
- generalised flexibility and simplification of rules.

More radical alternatives to the shared management model currently used in Cohesion policy are centralised management by the Commission or direct budget support to Member States.

1. ***Centralised management.*** Under this model, the Commission is responsible for managing directly or indirectly (through its agencies) EU funding including the selection of projects (such as the Connecting Europe Facility or Horizon 2020). However, the Commission would not have the capacity to directly manage large sums of funding involved in Cohesion policy involving hundreds of thousands of projects. Indeed, this is the reason why the project-based approach initially used under the ERDF until the late 1980s was abandoned in favour of the programme model.[42] Nevertheless, there may be opportunities for cross-fertilisation of lessons from directly-managed programmes, where strict control procedures are used but work well without the same level of bureaucracy and detriment to the quality of implementation.
2. ***Direct budget support.*** *S*imilar to the model used by the Commission under EU Development aid policy, this model would involve a budget support mechanism based on conditionalities which – when fulfilled – would trigger a release of EU resources to national budgets to implement national development strategies. Budget transfers could be made after the agreed conditions for payment have been respected, which could be based the existing thematic and general ex-ante conditionalities, the achievement of thematic objectives and/or structural reforms. The administrative complexity of managing Cohesion programmes would be reduced as Partnership Agreements and programmes would be abandoned in favour of reinforcing national policies managed by the Member State in accordance with their own financial management rules and systems. The Commission’s audits would be limited to ensuring that the conditions have been met and that resources have been transferred.

A variant of the latter option is for the EU to have stronger role in the development and coordination of national regional development policies. As previously discussed,[43] and mirroring other areas of EU policymaking, such as research or employment policies, Cohesion policy could be governed by the ‘open method of coordination’, involving the setting of joint objectives at EU level, periodic monitoring and sharing of national regional policy experiences with a view to improving the design and implementation of *national* policies and strategies, the development of coordinated or joint initiatives on issues of transnational interest, and the identification of areas where Community initiatives could

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

[43] Begg, I. (2003) Complementing EMU: rethinking cohesion policy, Oxford Review of Economic Policy, 19 (1), pp. 161-79.

reinforce national actions. It would involve developing some of the 'experimentalist governance' features of the existing programming method:[44]

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

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

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

The feasibility and political interest in radical shifts in the management model is doubtful especially as the existing programming approach is considered to provide added value. However, DG REGIO is undertaking a study on results-based disbursement methods including the efficiency of alternative delivery modes to the programme approach such as: budget support (cost-benefit analysis of direct budget support to specific structural reforms in contrast to grants), conditional payments, stronger integration of the ESI Funds and a single delivery mechanism for all shared management Funds. Complementing this, a feasibility study on performance-based budget support will examine the feasibility and practicalities of the delivery of Cohesion policy through budget support looking at different methods, the lessons learnt from development policies, the nature of a budget support delivery system for Cohesion policy (including the need to provide assurance on legality, regularity and performance).

(iii) Institutional and administrative capacity

Many types of intervention in some Member States and regions are affected by problems of governance and administrative capacity. In this context, Commissioner Creţu has posed the question of whether there should be any formal conditionality on the quality of institutions.

Cohesion policy is already credited with having strengthened administrative structures and cultures across Europe over successive periods through its programming requirements, and the focus on institutional capacity building was reinforced in 2014-20 by making it a thematic objective with dedicated funding. Italy has gone further by accepting the additional conditionality of establishing Plans for Administrative Reinforcement (*Piani di Rafforzamento Amministrativo*) for each 2014-20 programme to strengthen the institutional capacity related to implementation of the ERDF as well as more stringent monitoring procedures jointly agreed with Commission.

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

The introduction of a formal conditionality on the quality of institutions generally – or relating to the capacity to implement the ERDF specifically, in line with the Italian approach – would undoubtedly be met with resistance by Member States. In developed countries and regions it may not be necessary, while in countries with weak institutions such a conditionality could be perceived to be an intrusion into domestic competences and there would be concerns about the increased administrative burden associated with designing, implementing and monitoring administrative reform plans.

A more promising path of least resistance for Commission intervention in institutional capacity building could be to consolidate and develop further the training and technical assistance opportunities currently available on a voluntary basis such as the new "REGIO PEER to PEER" tool for exchanges among managing, certifying and audit authorities in Member States.

3.4.7 Economic governance and structural reform

A final issue that will be prominent in the reflections on the post-2020 reform agenda is the contribution and integration of Cohesion policy within the EU's economic governance and structural reform agenda. The legislative framework for 2014-20 has formalised the linkages between the ESI funds and the European semester and economic governance through several mechanisms. At the programming stage, Partnership Agreements and programmes are required to take into account relevant country-specific recommendations (CSRs). During implementation, reprogramming requests can be made by the Commission to support the implementation of the CSRs. Macroeconomic conditionality aims to ensure follow-up of the CSRs and compliance with the Excessive Deficit / Imbalance Procedure through suspensions of funding in cases of non-compliance. In addition, Cohesion policy provides resources to undertake structural reforms, including administrative capacity building, linked to country specific recommendations.

Views among EU institutions remain deeply divided on the benefits of these linkages. Both the European Parliament and Committee of the Regions disagreed with the introduction of the provisions on sound economic governance in the CPR and recently issued critical reports on the Commission's guidelines on these provisions.[45] In particular, they argue that suspensions of payments would weaken economic recovery and that Commission-led reprogramming to address new CSRs would destabilise the long-term and stable planning framework that Cohesion policy brings to public investment as well as entailing significant administrative costs and burden for programme managers.

By contrast, according to discussions with Commission officials, there is interest in parts of the Commission in strengthening the relationship between Cohesion policy and structural reforms further. A recent study by the Commission's DG for Economic and Financial Affairs shows that the implementation of structural reforms could significantly increase the economic performance of EU Member States. Because the effects are largest in the less-developed countries with the largest potential for reform, it is possible that Cohesion policy could be seen as an important lever to facilitate the implementation of structural reforms identified in the CSRs. As noted, DG REGIO has commissioned a study on lagging regions including analysis of the structural reforms that are most

[45] European Parliament (2015) *Draft Report on the European Structural and Investment Funds and sound economic governance: guidelines for the implementation of Article 23 of the Common Provisions Regulation* Committee on Regional Development, 2015/2052(INI) 21.4.2015, Brussels; Committee of the Regions (2015) *CoR Opinion on Guidelines on the application of the measures linking the effectiveness of the European Structural and Investment Funds (ESIF) to sound economic governance*, COTER-V-053 110th plenary session, 11-13 February 2015, Brussels.

needed to maximise growth and jobs in these regions, which could provide support for a stronger link between Cohesion policy and structural reforms in the future.[46]

The question is how this would be achieved. Structural reform conditionality provides one option, as has already been introduced for the macro-economic dimension in 2014-20 by linking stability and growth pact compliance to commitments and payments of the ESI Funds. This was already proposed by the Commission in the run-up to the 2013 reform. In a conditionality task force, the Commission raised the possibility of introducing a combination of positive incentives (such as a higher co-financing rate, increased advance payments and flexibility in the application of the de-commitment rule) and/or negative incentives (suspensions of commitments and payments) linked to structural reforms through the annual cycle of the European semester. However, the Member State experts in the task force rejected the idea because it would breach the principle of subsidiarity concerning Member State competences over structural reform, lack of alignment between the scope and timing of the structural reform and cohesion policy processes and other negative consequences such as administrative burden. However, more recently, the German Finance Minister argued that the Cohesion (and agricultural) policy budget should be used to support the implementation of the CSRs, making this a precondition for EU financing of national projects.[47] This is unlikely to receive support from less-developed Member States, although some parts of the Commission may be receptive to the idea.

[46] Varga J. and J. in 't Veld (2014) 'The potential growth impact of structural reforms in the EU. A benchmarking exercise', *European Economy*, Economic Paper no. 541.

[47] Keynote speech by Dr Wolfgang Schäuble, Federal Minister of Finance At the event "EU Budget Focused on Results" organised by European Commission Vice-President Kristalina Georgieva.

4. QUESTIONS FOR DISCUSSION

Drawing on recent experiences in the programming, negotiation and launch of the 2014-20 programmes, the focus for discussion at the EoRPA meeting is on the key issues for post-2020 reform of Cohesion policy.

1. Thematic concentration – should the policy continue to be the delivery agent for EU objectives (such as Europe 2020 currently)? Or should it allow more scope for Member States or regions to specify their own objectives – and if so, how?

2. Spatial coverage – should we continue with an all-region policy or return to spatial targeting? Should cohesion policy continue to invest in richer regions? Do we need a greater focus on lagging regions?

3. Shared management – is the current shared management model of governance still appropriate? What alternatives could there be (e.g. EU budget transfer mechanism)?

4. Performance framework and results orientation – have we got the approach right in seeking to improve the achievements of the policy? If not, what needs to change?

5. Strategic coherence – how can the coherence, complementarity and coordination of ESIF and with other policies be improved? How should Cohesion policy to contribute to the EU's economic governance and structural reform agenda?

EoRPA RESEARCH

This report was prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. Over the past year, EoRPA members have comprised the following partners:

Austria
- Bundeskanzleramt (Federal Chancellery), Vienna

Finland
- Työ- ja elinkeinoministeriö (Ministry of Employment and the Economy), Helsinki

France
- Commissariat Général à l'Egalité des territoires (General Commissariat for Territorial Equality, CGET, previously DATAR), Paris

Germany
- Bundesministerium für Wirtschaft und Energie (Federal Ministry for Economic Affairs and Energy), Berlin
- Ministerium für Wissenschaft und Wirtschaft (Ministry of Science and Economic Affairs), Sachsen-Anhalt

Italy
- Dipartimento per lo Sviluppo e la Coesione economica (Department for Development and Economic Cohesion), Agenzia per la coesione territoriale (Agency for Territorial Cohesion), Rome

Netherlands
- Ministerie van Economische Zaken (Ministry of Economic Affairs), The Hague

Norway
- Kommunal- og moderniseringsdepartementet (Ministry of Local Government and Modernisation), Oslo

Poland
- Ministerstwo Infrastruktury i Rozwoju (Ministry of Infrastructure and Development), Warsaw

Sweden
- Näringsdepartementet (Ministry of Enterprise and Innovation), Stockholm

Switzerland
- Staatssekretariat für Wirtschaft (SECO, State Secretariat for Economic Affairs), Bern

United Kingdom
- Department for Business, Innovation and Skills, London
- Scottish Government, Glasgow

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