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Prospects for Cohesion Policy in 2014-20 and Beyond: Progress with Programming and Reflections on the Future

EoRPA Paper 14/4

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Preface

This report has been 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 the Economy and Energy), Berlin
- Ministerium für Wirtschaft, Bau und Tourismus, Mecklenburg-Vorpommern (Ministry for the Economy, Construction and Tourism, Mecklenburg-Western Pomerania), Schwerin

Italy
- Ministero dello Sviluppo Economico (Ministry of Economic Development), Dipartimento per lo sviluppo e la coesione economica (Department for Development and Economic 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, Energy and Communications), Stockholm

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

United Kingdom
- Department for Business, Innovation and Skills, London
- The Scottish Government, Enterprise, Transport and Lifelong Learning Department, Glasgow

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in sponsoring countries during the first half of 2014. The EoRPA research programme is coordinated by Professor John Bachtler, Fiona Wishlade, Dr Sara Davies and Heidi Vironen.

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Disclaimer: It should be noted that the content and conclusions of this paper do not necessarily represent the views of individual members of the EoRPA Consortium.

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Executive Summary

2014 marks the start of a new seven-year programming period for EU Cohesion policy. The new rules on the European Structural and Investment Funds for 2014-20 were agreed in December 2013, providing for greater strategic realignment of Cohesion policy with the Europe 2020 strategy, a more integrated approach to programming and a stronger performance orientation. This paper provides a review and assessment of the pogramming of the 2014-20 Partnership Agreements and Operational Programmes across the EU and reflects on the implications for the future of Cohesion policy.

The economic, political and institutional context

The crisis has had a major impact on the economies of EU Member States and regions reversing long-term regional convergence trends. There has been an upturn in economic activity across the EU recently, but the recovery is fragile, unevenly spread and will take time to impact on territorial disparities. The deterioration in public finances across the EU has severely restricted public investment and limited the ability of some Member States to comply with the Cohesion policy principles of additionality and co-financing. There is thus a major tension between the investment goals of EU Cohesion policy and the EU's fiscal consolidation goals, which may become difficult to reconcile in the absence of strong growth and with more restrictive macro-conditionality requirements on Cohesion policy.

Cohesion policy in 2014-20

There are significant shifts in eligibility and allocations across the EU in the 2014-20 period. The coverage of the Less-Developed Regions will fall from 31.7 percent of the EU population (in 2007-13) to 25 percent (in 2014-20), while Transition Region coverage will almost double to 13.5 percent of the EU population and is heavily concentrated in four EU15 countries (Germany, Spain, France and the United Kingdom). Although the overall cohesion budget has fallen, in six countries there is an increase in funding. At the opposite end of the spectrum, there are very significant reductions in a number of countries, particularly in Spain, Germany, Greece and Hungary. Overall, there will be a reduction in the annual aid intensity (allocations per head) in the Less-Developed Regions and Transition Regions, while the More-Developed Rregions will see a minor increase in the intensity of support.

Programming has advanced considerably over the last year. By mid-September 2014, half of the Partnership Agreements were agreed and the rest were close to agreement, although only a small number of programmes have been approved. The Commission's preliminary assessment highlights a number of challenges in meeting the expectations of the reform. Member States and regions have found it difficult to formulate well-defined specific goals, partly to maintain flexibility in implementation. Similarly, thematic targeting within objectives has often been regarded by the Commission as insufficiently focussed, although there has been major shift in in funding towards Europe 2020 objectives. Compliance with ex-ante conditionality requirements has proved administratively challenging, in many cases requiring action plans to be adopted. There are also bottlenecks relating to administrative capacity in some countries. Challenges are expected in setting quantified targets that are both ambitious and realistic under the performance frameworks. For their part, many Member States have found the negotiation process to be laborious and have been critical of the lack of flexibility on the part of the Commission, particularly on issues relating to thematic concentration.

Post-2020 reform scenarios

The launch dates of the Europe 2020 and EU budget reviews are approaching and will prompt a debate at EU level on the future of Cohesion policy. The age-old debate on spatial targeting in Cohesion policy is likely to be dominated by proposals for retaining the current all-region approach or focusing the Funds more or exclusively on the less-developed countries and regions, potentially involving a form of policy coordination for richer countries/regions without funding.

The multi-level governance model of implementation will be an important feature of the next policy review, both in terms of performance management and financial management. More stringent requirements and enforcement of compliance are being pursued. A negative consequence is higher administrative workload and bureaucracy with consequences for how the policy is perceived. In several richer countries, some beneficiaries are avoiding applying for Structural Funds if alternative domestic funding sources are available. Shared management is a fundamental principle, but the time may be right to consider whether a more devolved approach – that provides more scope for nationally determined policy frameworks and domestic administrative systems to be used to achieve EU objectives and to provide a better balance between the goals of simplification, assurance and performance.

Recent changes in EU economic governance arrangements are reconfiguring economic and monetary union (EMU) with potentially profound implications for Cohesion policy. In the context of proposals for a genuine EMU, plans for an additional EU fiscal capacity (dubbed “partnerships for growth, jobs and competitiveness”) could complement the European Structural and Investment Funds to promote cohesion, but could also be a source of confusion about their respective functions. Moves towards a comprehensive Genuine Economic and Monetary Union could mean a greater focus on EU's spending priorities in Cohesion policy. This would imply a shift of policy responsibilities to the European level, with Cohesion Policy being run as a ‘top-down’ contribution to EU-wide goals with less territorial emphasis and more intrusive oversight with stricter conditionality and sanctions.

Questions for debate

With the programming of the new strategies in full swing, the key question is whether the spirit and the letter of the new regulatory requirements will be met in practice and lead to a genuine shift in the performance orientation of Cohesion policy. The launch dates of the Europe 2020 and EU budget reviews are approaching, prompting fundamental questions about the purpose, eligibility, financing and governance of Cohesion policy post-2020. Questions for the EoRPA meeting discussion on Cohesion policy are:

- **Will the reforms improve the delivery and performance of Cohesion policy in 2014-20?**
- **What is Cohesion policy for - a tool for Europe 2020 or for tackling regional disparities?**
- **Who is Cohesion policy for and what is the appropriate level of spatial targeting?**
- **How could Cohesion policy be simplified?**
- **What is the scope for separating decisions on the budget from decisions on policy?**

1. INTRODUCTION

2014 marks the start of a new seven-year programming period for EU Cohesion policy. The new rules on the European Structural and Investment Funds for 2014-20 were agreed in December 2013, after two years of intense negotiations and in a challenging context of economic and political crisis in the EU. Key hallmarks of the reform are full alignment of Cohesion Policy with the Europe 2020 strategy; more strategic and integrated programming through Partnership Agreements and programmes; thematic concentration to maximise impact; a stronger focus on results including performance frameworks with milestones and targets; and new conditionality provisions to ensure that the conditions necessary for effective support are in place before programme implementation and that the effectiveness of cohesion expenditure is not undermined by unsound macro-fiscal policies.

The programming of the new Partnership Agreements and Operational Programmes for 2014-20 has advanced considerably over the last year. The Commission had approved half of the Partnership Agreements by mid-September 2014 and most others were close to agreement. However, only a small number of Operational Programmes have been approved. Delays in the approval of the programmes could be problematic for some countries that are dependent on Cohesion policy as a core source of expenditure for development, especially given the fragility of the recovery and ongoing constrains on public and private investment.

The process of negotiating the Partnership Agreements and programmes is proving challenging. Among the key issues dominating negotiations are the degree of precision in expressed objectives, the extent of strategic coherence across programmes and Funds and with Council recommendations under the European semester, the level of thematic concentration on Europe 2020 objectives, compliance with ex-ante conditionalities and, in some countries, the commitment to administrative capacity-building. More generally, the key question is whether the spirit and the letter of the new regulatory requirements will be met in practice and lead to a genuine shift in the performance orientation of the policy. With the launch dates of the Europe 2020 and EU budget reviews approaching, this question will be central to the debate on the future of Cohesion policy post-2020.

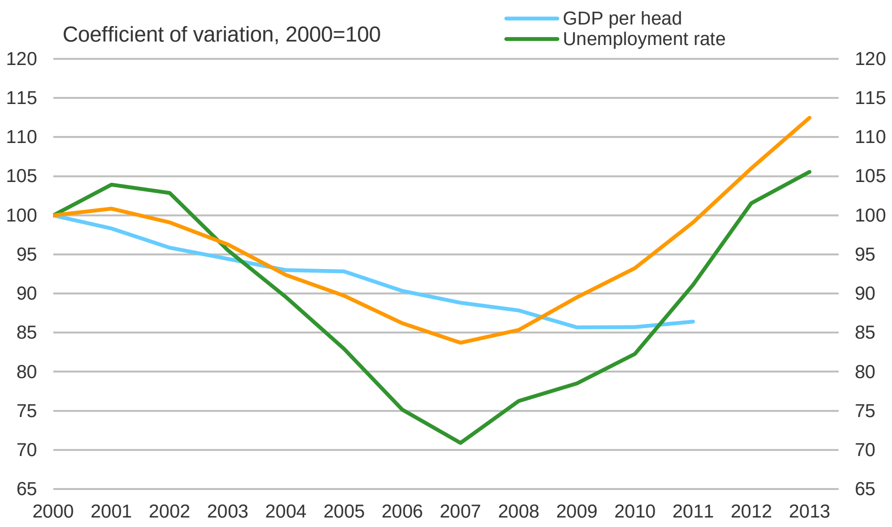
Against this background, this paper begins by setting out the recent economic, political and institutional developments at EU level with a bearing on Cohesion policy (Section 2). Section 3 reviews the finalisation of the 2014-2020 legislative framework and changes in geographical eligibility and allocations, followed by an overview of the state-of-play of programming, the key issues in the negotiations between the Commission and Member States and the expected shifts in thematic allocations across the EU. Looking forward, section 4 summarises recent studies exploring post-2020 reform scenarios. The final section concludes by reflecting on some of the key implications of the 2013 reform and questions that will inform the debate on the future of Cohesion policy.

2. THE ECONOMIC, POLITICAL & INSTITUTIONAL CONTEXT

2.1 The crisis and territorial disparities

The crisis has had a major impact on the economies of EU Member States and regions reversing long-term regional convergence trends. As the 6th Cohesion Report shows, an increase in regional disparities in GDP per head can be seen between 2009 and 2011 across the EU, along with a marked increase in regional employment and unemployment between 2007 and 2013. These trends are clearly illustrated in changes in the co-efficient of variation of GDP per head, employment and unemployment rates across regions (Figure 1).

Figure 1: Coefficient of variation of GDP per head, employment rate and unemployment rate, EU-27 NUTS 2 regions, 2000-12



Source: European Commission (2014), p3

The Commission's analysis of sectoral trends confirms that the construction and industry sectors have been hardest hit by the crisis with marked variations across Member States. Construction employment and output fell particularly sharply in the three Baltic States, Ireland, Greece and Spain. The industrial sector has maintained a strong share of total gross value added in Central and Eastern Member States compared to the EU15, as is the case with agricultural employment.

Capital metropolitan regions across the EU have witnessed above average reductions in employment and, in the EU13, economic output. GDP growth in rural regions has been more resilient than in urban ones. Poverty and exclusion has also increased, including in many cities in the more developed Member States. The highest increases in deprivation rates since the start of the crisis were witnessed in Greece, Hungary, Lithuania, Latvia and Italy (by 7-8 percentage points between 2008 and 2012). A notable distinction between the more developed and less developed Member States is that poverty tends to be concentrated in urban centres in the latter and in rural areas in the latter.

The impact of the crisis on the environment has been mixed. On the one hand, the economic downturn has generally served to moderate greenhouse emissions, albeit with significant variations across countries. On the other hand, energy efficiency has not increased significantly and the costs of allowances for greenhouse gas emissions have fallen reducing the incentive to invest in energy

efficiency and renewable energy. Finally, the treatment of urban wastewater and solid waste has improved in more towns and cities across Europe, but more needs to be done in the less developed Member States and regions.

Looking forward, there are tentative signs of economic recovery across EU Member States, such as increases in trade and positive GDP growth in the latter part of 2013 in almost all EU Member States. At regional level, the Commission anticipates the long-run convergence process to continue after the crisis comes to an end with faster relative growth expected in the less developed EU regions underpinned by technological catch-up and associated productivity gains. By contrast, independent economic forecasts produced as part of a recent ESPON project predict growing national and regional disparities as well as large labour migration and depopulation in many Eastern European regions at least up to 2030.[1] While forecasts such as these are inevitably uncertain, the Commission does not recognises that the recovery is fragile, unevenly spread and will take time to impact on territorial disparities.

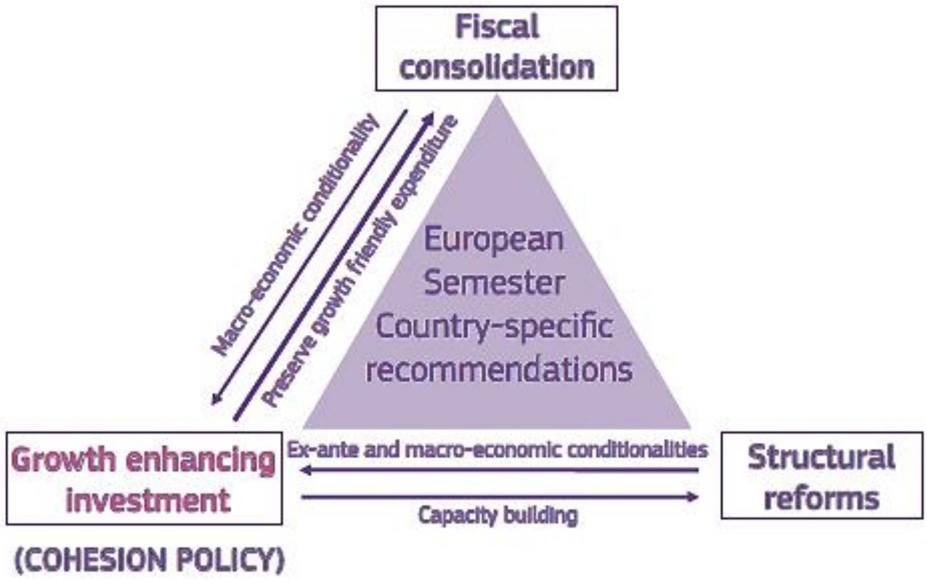
The key policy implication derived by the Commission from the 6th Cohesion Report's analysis is a need for long-term investment to reduce the large economic, social and territorial disparities and to complete the single market with a critical role for Cohesion policy to play in supporting smart, sustainable and inclusive growth and jobs. Yet, the deterioration in public finances across EU countries has severely restricted public investment and limited the ability of Member States to comply with the Cohesion policy principles of additionality and co-financing, as the Commission itself highlights in a specific chapter of the 6th Cohesion Report on public investment and the crisis. Put differently, there is a major and arguably irreconcilable tension between the investment goals of EU Cohesion policy and the EU fiscal consolidation goals that have been vigorously pursued under the reinforced economic governance framework.

2.2 Economic governance developments

The 2013 reform of Cohesion policy has increased the policy's alignment with the EU's long-term growth strategy (Europe 2020) and associated economic governance architecture and policy cycle (the European semester), which will play a more important role in both the programming and implementation of the ESI Funds in 2014-20. The most relevant regulatory requirements are (i) thematic concentration on growth-enhancing investments linked to Europe 2020 objectives (ii) addressing Country-specific recommendations issued under the European semester in the programming and implementation of the Funds and (iii) macro-economic conditionality linked to compliance with EU economic governance rules (Figure 2). Longer-term developments with an important bearing on Cohesion policy include the review of Europe 2020 strategy and the ongoing debate about establishing an EU fiscal capacity to support structural reforms in Member States.

[1] Politecnico di Milano (2014) Volume 3: Economic Trends and Scenarios, Draft Final Report, Territorial Scenarios and Visions for Europe (ET2050), ESPON.

Figure 2: Cohesion policy in the EU economic policy mix



Source: European Commission (2014) p235

2.2.1 The European semester in 2014

As part of the 2014 European Semester cycle,[2] the latest **Country-specific recommendations** (CSRs) were published by the Commission in June 2014, analysing the economic situation of each Member State and recommending measures to support growth and jobs over the year ahead. The recommendations cover a broad range of topics relating to public finances, the financial sector, structural reforms and employment and social policies. The CSRs most relevant to Cohesion policy must be explicitly addressed in the new Partnership Agreements and programmes for 2014-20.[3] Early indications based on the Commission's assessment of Partnership Agreements and Operational Programmes suggests that the relevant CSRs are being addressed by identifying the related development and investment needs.[4] However, in most Member State PAs the results expected from the investment supported by the funds are not clearly related to the CSRs specified, and there is a need for more detail on the way that the CSRs concerned will be put into effect in the programmes.

Compliance with the EU Stability and Growth Pact rules on fiscal deficits will become increasingly salient in Cohesion policy because of the new macroeconomic conditionality provisions for 2014-20, which can potentially lead to suspensions of Funds in the event of non-compliance with economic governance rules. In the latest Commission assessment, the excessive deficit procedure was terminated in 6 Member States although there are still 11 Member States under the procedure (Table 1).

[2] The Europe Semester is the annual policy cycle of economic guidance and monitoring at EU level which began in 2011.

[3] See: http://ec.europa.eu/europe2020/pdf/csr2014/overview_recommendations_2014_by_member_state.pdf

[4] European Commission (2014) Investment for jobs and growth: promoting development and good governance in EU regions and cities, Sixth Report on economic, social and territorial cohesion. Publications Office of the European Union, Luxembourg.

Table 1: Compliance with Stability and Growth Pact, June 2014

No excessive deficit procedure	BG, DE, EE, FI, HU, IT, LT, LU, LV, RO, SE
Abrogation of excessive deficit procedure	AT, BE, CZ, DK, SK, NL
On-going excessive deficit procedure	CY, EL, ES, FR, HR, IE, MT, PL, PT, SI, UK

Source: Commission (2014) Building growth: Country-specific recommendations 2014, IP/14/623, 2/6/2014

2.2.2 Towards an EU fiscal capacity

Looking to the future, there has been progress in the debate about establishing an **EU fiscal capacity to support structural reforms,** with potentially important consequences for Cohesion policy in the long-term. As noted in last year EoRPA report,[5] the Commission's *Blueprint on Deep and Genuine Economic and Monetary Union* pointed towards the benefits of a euro area fiscal capacity that could be used to provide incentives to reforms in the Member States, followed up by Commission proposals for a Convergence and Competitiveness Instrument in March 2013. More recently, the European Council agreed in December 2013 on the main features of a system of "partnerships for growth, jobs and competitiveness" based on mutually agreed contractual arrangements and associated solidarity mechanisms:[6]

> *"**Mutually agreed contractual arrangements** will be a "home-grown" commitment which constitutes a partnership between the Member States, the Commission and the Council. The National Reform Programme submitted by each Member State in the context of the European Semester will be the basis for the mutually agreed contractual arrangements, also taking into account the Country Specific Recommendations. Mutually agreed contractual arrangements will be tailored to the needs of each individual Member State and will focus on a limited number of key levers for sustainable growth, competitiveness and job creation. The economic policy objectives and measures included in the mutually agreed contractual arrangements should be designed by the Member States, in accordance with their institutional and constitutional arrangements, and should ensure full national ownership through appropriate involvement of national parliaments, social partners, and other relevant stakeholders. They should be discussed and mutually agreed with the Commission, before being submitted to the Council for approval. The Commission will be responsible for keeping track of the agreed implementation of the mutually agreed contractual arrangements on the basis of jointly agreed timelines.*
>
> *On the **associated solidarity mechanisms**, work will be carried forward to further explore all options regarding the exact nature (e.g. loans, grants, guarantees), institutional form and volume of support while ensuring that these mechanisms do not entail obligations for the Member States not participating in the system of mutually agreed contractual arrangements and associated solidarity mechanisms; they should not become an income equalisation tool nor have an impact on the Multi-annual Financial Framework; they should respect the*

[5] Mendez C, Wishlade F and Bachtler J (2013) A new dawn for Cohesion policy? The emerging budgetary and policy directions for 2014-2020, Paper to the 34th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside on 6-8 October 2013.

[6] Europea Council (2013) Conclusions – 19/20 December 2013, EUCO 217/13, 20 December 2013, Brussels: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/140245.pdf

> *budgetary sovereignty of the Member States. Any financial support agreement associated with mutually agreed contractual arrangements will have a legally binding nature. The President of the EIB will be associated to this work."*

The European Council invited the President of the European Council, in close cooperation with the President of the European Commission, to carry work forward and to report to the October 2014 European Council with a view to reaching an overall agreement on both of these elements. As discussed in the final section, the establishment of a new fiscal capacity at EU level raises important questions about the complementarity if not direct competition of the instrument with Cohesion policy funding.

2.2.3 The launch of the Europe 2020 mid-term review

A **pubic consultation of the Europe 2020 strategy** was launched on 5 March 2014 setting the basis for a mid-term review in early 2015. In a Communication entitled "Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth"[7], the Commission set out preliminary lessons on the first four years of implementation of the Europe 2020 strategy.

- **The impact of the crisis.** The crisis has had a negative impact on growth, public finances, access to finance, unemployment and poverty, and led to growing divergence across and within Member States in the economic situation and performance. The recovery since 2013 has been sluggish and the long-term growth challenges identified in the Europe 2020 strategy remain valid.
- **Achievement of Europe 2020 targets.** Progress has been mixed. The EU is on course to meet or to come close to its education, climate and energy targets, but is not on track to meet employment, research and development or poverty reduction goals, although results and forecasts vary widely across Member States.
- **The role of headline targets.** The targets are not exhaustive, legally-binding and have some limitations in measuring intended outcomes. However, the targets help to illustrate and provide focus to core EU objectives, play a role as policy anchors and are easy to monitor.
- **The role of Flagship Initiatives.** It is too early to assess their impact, but achievements include catalysing action at EU level, contributing to mutual learning, steering the use of EU Funds and triggering or inspiring policy actions at national and regional levels.
- **The role of the European semester.** Provides a credible framework for policy implementation, reconciling economic and budgetary priorities, reinforced contacts between EU and national level, strengthened monitoring capacity at EU level. Key challenges relate to difficulties in reconciling short-term urgencies and long-term needs, the need for more clarity and enhancement of roles of EU actors, varied involvement of national/sub-national stakeholders and excessive bureaucracy.

The Commission has not drawn policy conclusions nor made policy recommendations at this stage. However, the consultation will contribute to informing the Commission's proposals for further development of the Europe 2020 strategy over the next five years as part of its mid-term review in the

[7] European Commission (2014) Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth, Commission Communication, COM(2014) 130 final/2, 19.3.2014, Brussels: http://ec.europa.eu/europe2020/pdf/europe2020stocktaking_en.pdf

first quarter of 2015. The key questions in the public consultation, which is due to conclude in the autumn 2014, are set out below.

Box 1: The Europe 2020 Review – Consultation questions

1. Taking stock: the Europe 2020 strategy over 2010-2014

1.1 Content and implementation

- For you, what does the Europe 2020 strategy mean? What are the main elements that you associate with the strategy?
- Overall, do you think that the Europe 2020 strategy has made a difference?
- Has the knowledge of what other EU countries are doing in Europe 2020 areas impacted on the approach followed in your country?
- Has there been sufficient involvement of stakeholders in the Europe 2020 strategy? Are you involved in the Europe 2020 strategy? Would you like to be more involved? If yes, how?

1.2 Tools

- Do the current targets for 2020 respond to the strategy's objectives of fostering growth and jobs?
- Among current targets, do you consider that some are more important than others?
- Do you find it useful that EU-level targets are broken down into national targets? If so, what is, in your view, the best way to set national targets? So far, have the national targets been set appropriately/too ambitiously/not ambitiously enough?
- What has been the added value of the seven action programmes for growth? Do you have concrete examples of the impact of such programmes?

2. Adapting the Europe 2020 strategy for a post-crisis Europe

2.1 Content and implementation

- Does the EU need a comprehensive and overarching medium-term strategy for growth and jobs for the coming years?
- What are the most important and relevant areas to be addressed?
- What new challenges should be taken into account in the future?
- How could the strategy best be linked to other EU policies?
- What would improve stakeholder involvement in a post-crisis growth strategy? What could be done to increase awareness, support and better implementation of this strategy in your country?

2.2 Tools

- What type of instruments do you think would be more appropriate to use to achieve smart, sustainable and inclusive growth?
- What would best be done at EU level to ensure that the strategy delivers results? What would best be done at Member State level?
- How can the strategy encourage Member States to put a stronger policy focus on growth?
- Are targets useful?
- Would you recommend adding or removing certain targets, or the targets in general?
- What are the most fruitful areas for joint EU-MS action? What would be the added value?

2.3 Political and institutional developments

The election of a new European Parliament

The European Parliamentary Election was held across Europe from 22-25 May 2014. As in previous elections, voter participation was low with only 43 per cent of eligible voters casting their votes. Against a background of crisis and discontent with the EU, more voters than ever voted for political parties that advocated radical reforms of the EU, campaigned for an exit of their countries from the EU, or even pushed for scrapping the whole European integration project. Around 28 percent of the 751 Members of the European Parliament (MEPs) now belong to a Eurosceptic party, up from less

than 20 per cent of MEPs in the previous election.[8] Euro-sceptic parties made big gains with France's Front National, Britain's UKIP, the Danish People's party and Syriza in Greece all topping their country's EU parliamentary elections.

The formation of a new Commission

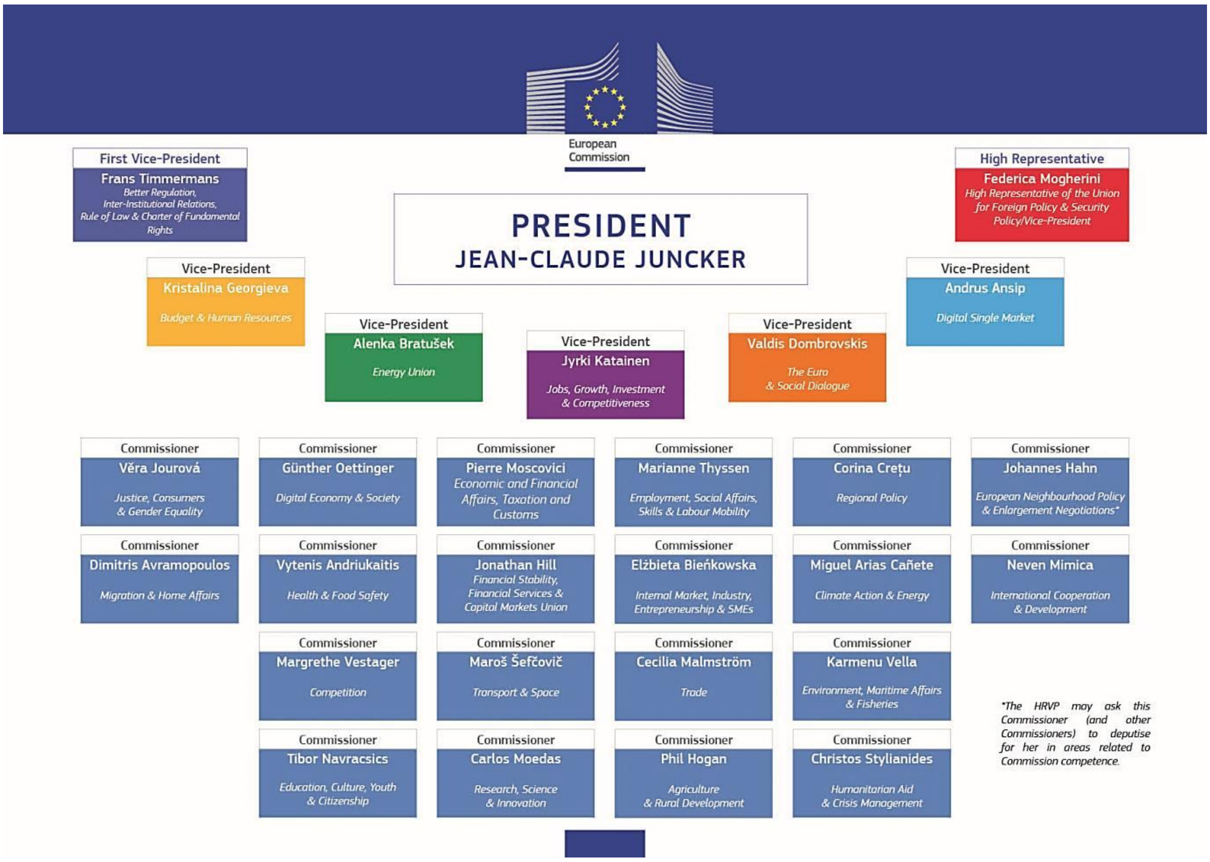
Jean-Claude Juncker, the former Luxembourg Prime Ministers, was confirmed as European Commission president on 15 July 2014 replacing Jose Manuel Barroso. A new college of Commissioners must be formed by the end of October 2014. Following the nominations for Commissioners by Member States, Jean-Claude Juncker announced a list of proposed Commissioners and portfolios was on 10 September 2014. In terms of the main Cohesion policy portfolios, the new Commissioner for DG Regional and Urban Policy will be Corina Cretu, currently a Romania MEP. Johannes Hahn, the current commissioner at DG REGIO, will stay on as the Neighbourhood Policy commissioner. The existing Commissioner for DG Employment, László Andor, will be replaced by Marianne Thyssen, currently MEP for the Belgian region Flanders.

There are several interesting changes in the approach to forming a new Commission. First, in the past, Commissioners have been appointed to posts that are not of strategic interest to their home country. Juncker has done the reverse, deliberately putting people in posts that are problematic for their host country e.g. Hill (UK) in financial services, Cretu (RO) in Cohesion policy, Vella (MT) in environment, and Avramopoulos (migration). Second, the creation of vice-presidents to oversee strategic themes is an innovation, especially as they should have the power to veto decisions by the sectoral Commissioners. The VPs have been largely taken from small countries, especially from newer Member States, mainly because they sent ex –prime ministers or other experienced people (the Italian High Commissioner being an exception on all counts). Whether large member states will be happy to be over-ridden by small country Commissioners is a moot point.

Hearings of the nominees will take place during September at the European Parliament followed by a vote on whether to approve the new college of commissioners on 20-23 October 2014. On past performance they will target individual Commissioners, threatening to block the whole Commission if that person is not replaced. The lead candidate for rejection is expected to be the Spanish Commissioner Miguel Cañete, partly because of misogynist comments made during his election campaign.

[8] Trieb O (2014) The voter says no, but nobody listens: causes and consequences of the Eurosceptic vote in the 2014 European elections, Journal of European Public Policy, Vol. 21:10, pp1541-1554.

Figure 1: The Junker Commission



Source: European Commission (2014) The Juncker Commission: A strong and experienced team standing for change, Press Release, 10 September 2014, Brussels.

The European Council

Finally, the European Council elected its new President, Donald Tusk (former Prime Minister of Poland) to replace Herman Van Rompuy, and appointed the Italian foreign minister Federica Mogherini as High Representative of the Union for Foreign Affairs and Security Policy (taking over from Catherine Ashton), on 30 August 2014.

3. COHESION POLICY 2014-20

3.1 Finalisation of the legislative framework

After two years of negotiations, the new legislation governing the European Structural and Investment Funds in 2014-2020 was agreed in December 2013.

- A Common Provisions Regulation (CPR)[9], including a Common Strategic Framework as an Annex
- Fund-specific Regulations for the ERDF[10], ESF[11], CF[12] and EAFRD[13]; and
- ETC[14] and EGTC[15] Regulations

Developing the basic Regulations, progress was made in the preparation of Delegated and Implementing Acts throughout 2014 according to the degree of urgency for programming (Box 2). However, there at least 10 more Acts being prepared for adoption over the course of 2014 and beyond.

Box 2: State of play of Delegated Acts and Implementing Acts

Delegated Acts

- Code of conduct on the partnership principle (January 2014)
- Programming and implementation issues, including financial corrections linked to the performance reserve, financial instruments, revenue-generating projects, major projects and the functions of key authorities (March 2014)
- Eligibility rules for ETC (March 2014)
- Innovative actions in sustainable urban development (March 2014)

Implementing Acts

- Model for operational programmes (February 2014)
- Electronic data exchange and categories of intervention for ETC programmes (February 2014);
- Methodologies for climate change support, the performance framework and categories of intervention for the ERDF, ESF and CF (March 2014)
- Transfer and management of programme contributions, reporting on financial instruments, information and communication measures and the system to record and store data (July 2014)

In parallel, the Commission issued guidance documents aimed at supporting desk officers and programme authorities on programming, conditionality, community-led local development, financial instruments, management and control, each of the 11 thematic objectives as well as cross-cutting thematic guidance.

[9] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013

[10] Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013

[11] Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013

[12] Council Regulation (EU) No 1300/2013 of 17 December 2013

[13] Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005.

[14] Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17 December 2013

[15] Regulation (EU) No 1302/2013 of the European Parliament and of the Council of 17 December 2013

3.2 Geographical eligibility & allocations

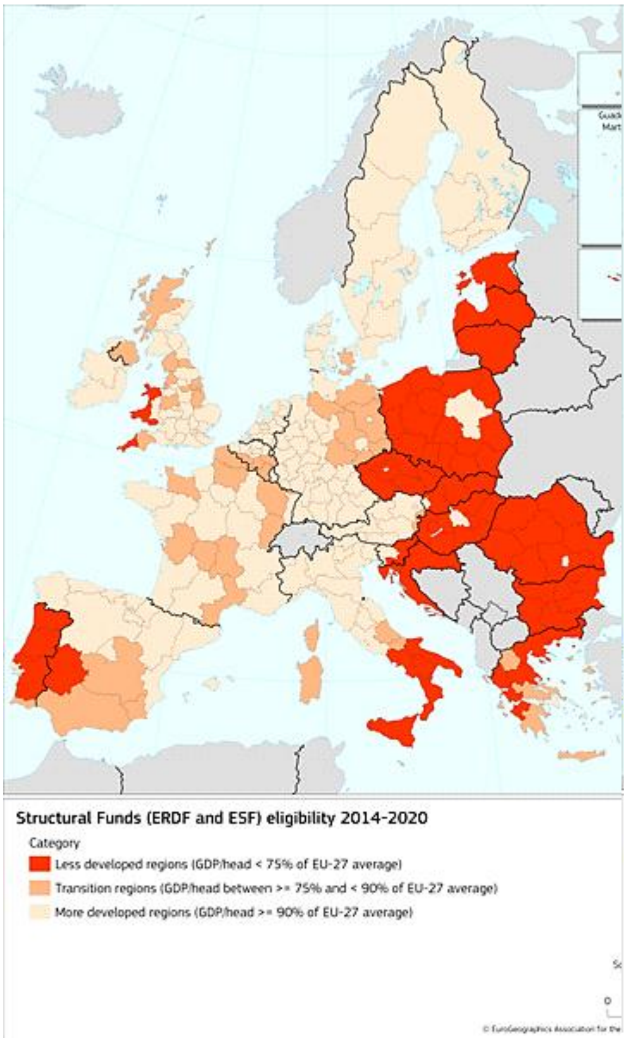
Geographical eligibility and financial allocations for 2014-20 were confirmed in Commission implementing decisions in February and April 2014.[16] Maps are reproduced below of regional eligibility under the Structural Funds (Map 1), national eligibility under the Cohesion Fund (Map 2) and regional eligibility under the Youth Employment Initiative (Map 3), followed by financial allocations to Member States in Table 1.

There will be significant shifts in eligibility across the EU and within certain countries.

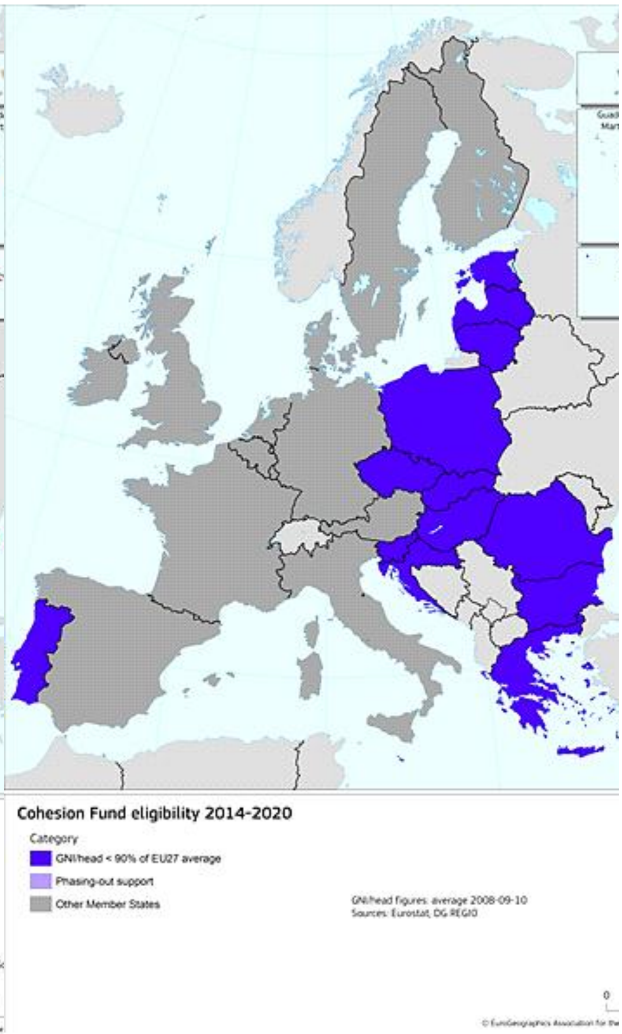
- **Less-developed regions** will cover 25 percent of the EU population, down from 31.7 percent in 2007-13. Germany will cease to have any LDR regions, Spain will see LDR coverage significantly reduced (Extremadura only), while Malta loses Convergence status. The capital cities in Poland, Romania and Slovenia will also lose less-developed region status, while Croatia will have LDR status in its entirety following a reconfiguration of the NUTS 2 regions.
- **Transition regions** coverage will increase from 7.3 percent to 13.5 percent of the EU population, but the eligible regions are heavily concentrated in certain countries, notably Germany, Spain, France and the United Kingdom.
- **More-developed regions** cover the remaining regions as was the case under the former RCE category. Importantly, it includes four regions which had Convergence status in 2007-13 – namely Galicia (ES), the Warsaw region Mazowieckie (PL), Bucharesti-Ilfov (RO) and the Ljubljana region, Zahodna Slovenija (SI).
- **Cohesion Fund** eligibility will mainly impact on Cyprus which loses eligibility and Croatia which qualifies for the Cohesion Fund following accession.

[16] Commission Implementing Decision of 18 February 2014 setting out the list of regions eligible for funding from the European Regional Development Fund and the European Social Fund and of Member States eligible for funding from the Cohesion Fund for the period 2014-2020; CPR Art 91(2) Annual breakdown of global resources per MS under IGJ and ETC and the annual breakdown of resources from the specific allocation for the YEI by MS together with the list of eligible regions; CPR Art 92 (6) subpara 2 - Transfer from CF to CEF; Commission Implementing Decision of 16 June 2014 setting up the list of regions and areas eligible for funding from the European Regional Development Fund under the cross-border and transnational components of the European territorial cooperation goal for the period 2014 to 2020.

Map 1: Structural Funds (ERDF and ESF) eligibility 2014-2020



Map 2 Cohesion Fund eligibility 2014-2020



Source: 6th Cohesion Report

Overall aid intensity will fall from €100 per head of the EU population per year to €84 per head (Table 2). However, there will only be a decline in aid intensity in less-developed regions and transition regions. By contrast, the more developed regions and Cohesion fund allocations have seen a marginal increase in the level of aid intensity.

Table 2: Change in eligible population and aid intensity by category of region

Category of region	Eligible Population (% of EU)		Annual Aid intensity (€ per head)	
	2007-2013	2014-2020	2007-13	2014-20
Less-developed	31.7	25.4	188	180
Transition regions	7.3	13.5	101	66
More-developed	61.0	61.0	21	22
Cohesion Fund	34.3	25.8	60	62
Total			100	84

Source: 6th Cohesion Report

Regions eligible for support under the Youth Employment Initiative are those with youth unemployment rates of more than 25 percent in 2012 and those with rates of over 20 percent which are in countries where the rate increased by more than 30 percent in 2012 (Map 3).

Map 3: Youth employment initiative, 2014-2020

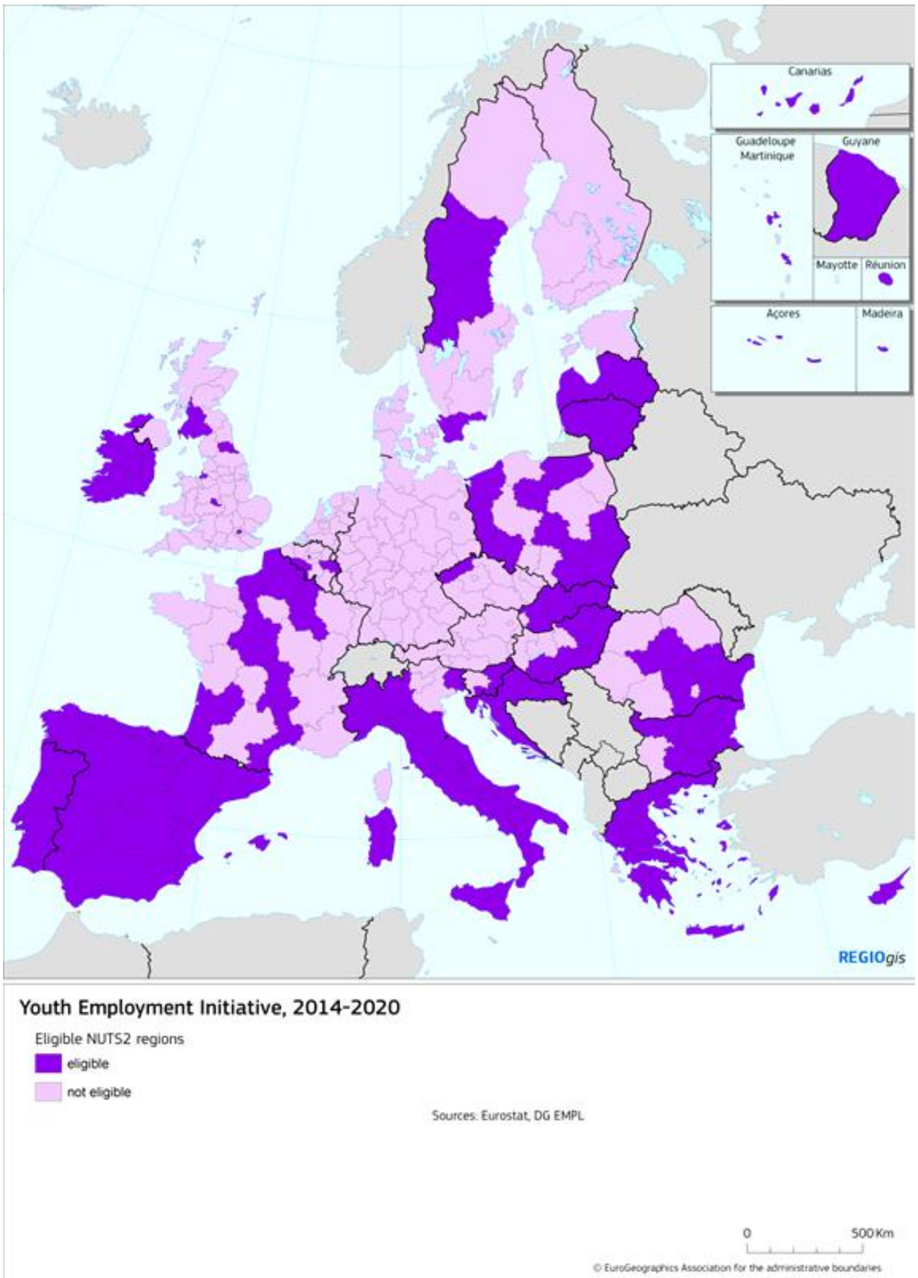


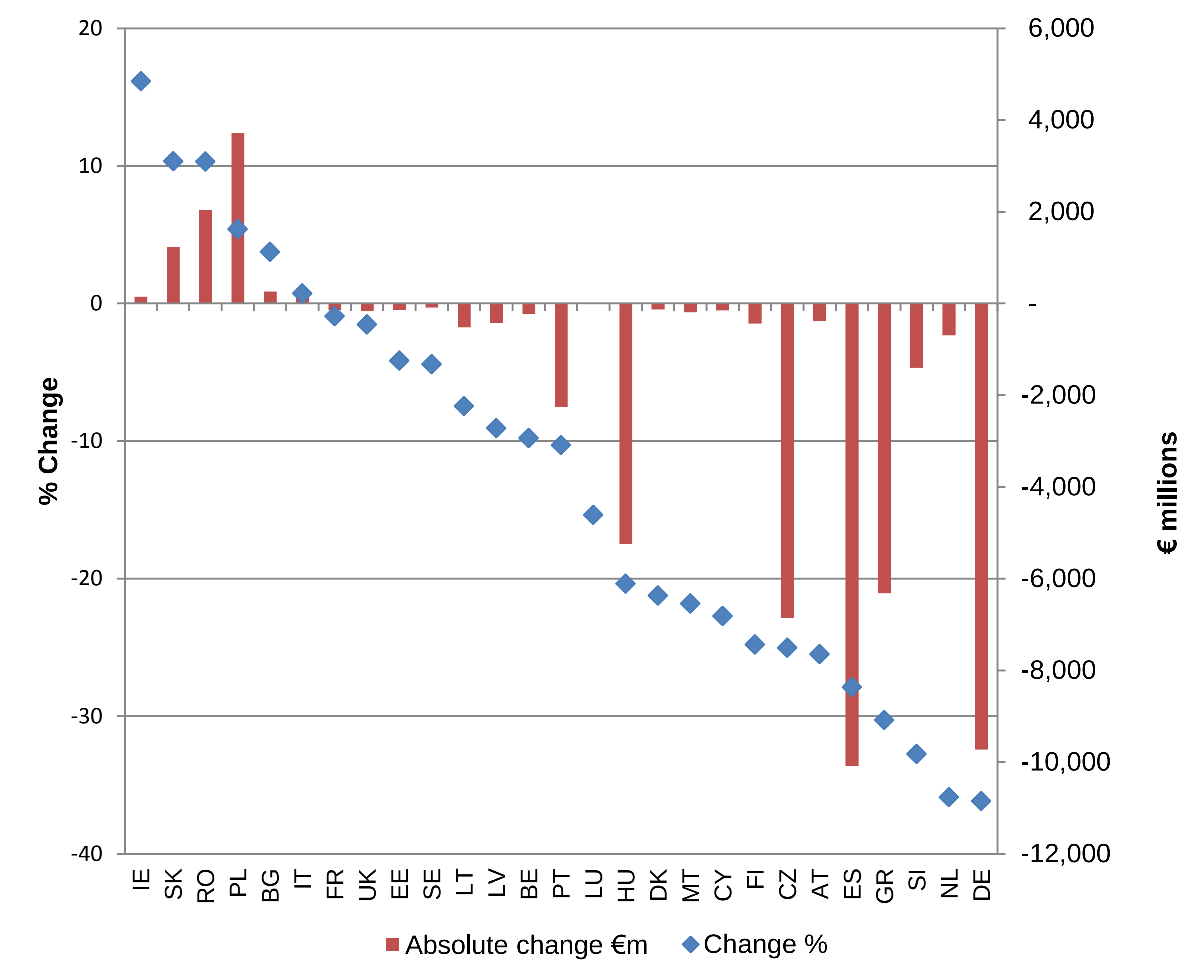
Table 1: Cohesion allocations in 2014-20

	CF	LDR	TR	MDR	OMR	ETC	YEI	TOTAL
AT	0	0	72.30352	906.0459	0	257.3001	0	1235.65
BE	0	0	1039.687	938.6199	0	263.1765	42.43507	2283.919
BG	2278.307	5089.295	0	0	0	165.6189	55.18875	7588.41
CY	269.5417	0	0	421.7879	0	32.73628	11.5721	735.638
CZ	6258.926	15282.49	0	88.20375	0	339.6683	13.59998	21982.89
DE	0	0	9771.462	8497.997	0	965.3918	0	19234.85
DK	0	0	71.40243	255.1026	0	226.8634	0	553.3684
EE	1073.322	2461.238	0	0	0	55.41014	0	3589.97
EL	3250.244	7034.213	2306.12	2528.153	0	231.6346	171.517	15521.88
ES	0	2040.418	13399.5	11074.4	484.1391	617.5482	943.4963	28559.5
FI	0	0	0	999.1248	305.3318	161.35	0	1465.807
FR	0	3407.801	4253.322	6348.545	443.347	1089.34	310.1614	15852.52
HR	2559.546	5837.533	0	0	0	146.1009	66.17714	8609.357
HU	6025.427	15005.22	0	463.7034	0	361.7913	49.76536	21905.9
IE	0	0	0	951.6431	0	168.7691	68.14542	1188.558
IT	0	22324.56	1101.984	7692.2	0	1136.776	567.5112	32823.03
LT	2048.918	4628.696	0	0	0	113.7261	31.78263	6823.122
LU	0	0	0	39.55863	0	20.17718	0	59.73581
LV	1349.415	3039.808	0	0	0	93.60108	29.01064	4511.834
MT	217.7421	0	490.2474	0	0	17.00905	0	724.9986
NL	0	0	0	1014.636	0	389.6759	0	1404.312
PL	23207.99	51163.6	0	2242.433	0	700.5203	252.4378	77566.98
PT	2861.742	16671.25	257.5873	1275.511	115.6818	122.4608	160.7722	21465
RO	6934.997	15058.85	0	441.2713	0	452.6877	105.9943	22993.8
SE	0	0	0	1512.426	206.9224	342.2612	44.1631	2105.772
SI	895.3704	1260.022	0	847.2961	0	62.88705	9.211536	3074.787
SK	4168.251	9483.661	0	44.22898	0	223.3673	72.17526	13991.68
UK	0	2383.162	2617.438	5767.578	0	865.6088	206.0981	11839.88

Source: DG Regional Policy

Differences between current (2007-13) and future funding (2014-20) allocations are illustrated in Figure 2 which shows marked shifts across countries. In six countries there is an increase in funding in 2014-20 compared with 2007-13. In relative terms Ireland gains most with a 16 percent increase on current allocations. However, in absolute terms this is rather modest and represents only around €150 million. By contrast, three countries gain significantly in absolute terms: in Poland allocations increase by €3.7 billion, while those in Romania increase by €2 billion and those in Slovakia by €1.2 billion.

Figure 2: Changes in financial allocations from 2007-13 to 2014-20



Source: EPRC calculations.

At the opposite end of the spectrum, there are very significant reductions in expenditure both in absolute and relative terms in a number of countries. These include Spain and Germany which each lose in excess of €9 billion in Cohesion policy receipts, equivalent to well over a quarter of their current allocations. Greece and Hungary also see major reductions in their allocations.

3.3 State of Play of Partnership Agreements and Operational Programmes

The preparation of the new generation of Cohesion policy strategies has been a long-term process. Informal dialogue and negotiations between the Member States and the Commission began at the end of 2012 on the basis of early drafts of Partnership Agreement plans and Commission Position Papers outlining its key priorities in each Member State. The deadline for formal submission of the PAs was set at four months after the Common Provisions Regulation came into force (22 December 2013), namely 22 April 2014. As Table 2 shows, the vast majority of Member States submitted their Partnership Agreements on time. Only two Member States did not meet the deadline, a day late in the case of Belgium and a week late for Luxembourg. The earliest submissions were made in January (France and Poland) but the majority of PAs were submitted during April.

Table 2: Programming deadlines for 2014-20 Partnership Agreements and Programmes

Key dates	Partnership Agreement	Operational Programmes
22 April 2014	Deadline for Member States to submit Partnership Agreements to Commission (4 months after CPR enters into force)	
June-July 2014	Commission observations to MS on PAs	
22 July 2014		Deadline to submit OPs to Commission (within 3 months of PA submission)
22 August 2014	Deadlines for Commission to adopt PAs (no later than 4 months after PA submission)	
22 September 2014		Deadline to submit ETC OPs to Commission
22 January 2015		Deadline for Commission to approve OPs
22 March 2015		Deadline for Commission to approve ETC OPs

Source: based on Common Provisions Regulation

The Commission is required to approve the PAs within four months of their submission, provided that Commission observations have been adequately taken into account. At the time of writing (September 2014), more than half of the PAs (16) had been approved: a first batch of 4 PAs were approved in April (Denmark, Poland, Germany, Greece), followed by 6 more in June (Latvia, Lithuania, Estonia, Cyprus, Slovak republic, Portugal) and 6 in August (Romania, Bulgaria, France). Most of the adopted PAs took around 3 months to agree, except for the PA for Greece which was adopted within 5 weeks of submission. The Commission expects to approve all remaining PAs in the autumn 2014.

Progress has also been made with the finalisation and negotiation of Operational Programmes. The majority of Member States have formally submitted all of their ERDF/CF programmes to the Commission. The countries that have yet to submit all of their OPs are Belgium, Cyprus, Italy, Malta, Romania, Sweden and the United Kingdom. The Commission is required to provide comments on the submitted OPs within three month and to adopt them within a further 3 months. At the time of writing (mid-September 2014), only 3 ERDF programme has been approved. It is expected that the majority

of programmes will be approved towards the end of 2014 and in 2015. Delays in the approval of the programmes and accompanying management and control systems could be problematic for some countries that are dependent on Cohesion policy as core source of expenditure for development, especially given the fragility of the recovery and ongoing constrains on public and private investment

Table 3: State-of-play of Partnership Agreements and ERDF/CF Operational Programmes

Member State	PA submission	PA approved	No. ERDF/CF OPs submitted	OPs approved
Denmark	4 March	5 May	1 (all)	1
Germany	26 February	22 May	16 (all)	1
Poland	10 January	23 May	21 (all)	
Greece	17 April	23 May	16 (all)	
Latvia	15 February	20 June	1 (all)	1
Lithuania	4 March	20 June	1 (all)	
Estonia	28 March	20 June	1 (all)	
Cyprus	17 April	20 June	1	
Slovak Republic	14 February	20 June	5 (all)	
Portugal	4 February	20 June	10 (all)	
Romania	1 April	6 August	2	
Bulgaria	2 April	7 August	4 (all)	
France	14 January	8 August	32 (all)	
Netherlands	10 March	22 August	4 (all)	
Czech Republic	17 May	26 August	6 (all)	
Hungary	7 March	29 August	5 (all)	
Finland	17 March		1 (all)	
Slovenia	10 April		1 (all)	
Sweden	17 April		9	
Austria	17 April		1 (all)	
Malta	1 April		1	
United Kingdom	17 April		6 (all)	
Italy	22 April		23	
Spain	22 April		22 (all)	
Croatia	22 April		1 (all)	
Ireland	22 April		2 (all)	
Belgium	23 April		2	
Luxembourg	30 April		1 (all)	

Source: Based on information on DG Regio website:
http://ec.europa.eu/regional_policy/what/future/index_en.cfm#1

3.4 Negotiation issues

The key issues emerging from the negotiations between the Commission and Member States on Partnership Agreements and programmes have been outlined by the Commission in the Sixth Cohesion Report and are summarised below, followed by a Member State perspective based on interviews with national policy-makers.

The European Commission's perspective

In developing the 2014-20 strategies, **consultation with partners** is generally considered to be reasonable, although in some cases the dialogue has been insufficient. Important stakeholders were not always involved or their comments were not reflected in the documents.

In terms of **programming,** key Commission priorities in the negotiations have been to ensure thematic concentration and better targeted investments to maximise impact and reflect EU objectives or to clarify the objectives pursed.

- **Innovation and R&D.** Most Member States and regions have prepared innovation strategies for smart specialisation to accelerate economic development and to narrow the knowledge gap. It is important that these strategies focus on investments which reach a critical mass and best reflect regional potential. More emphasis needs to be put on 'soft' forms of support, on promoting market-driven research and cooperation with the private sector instead of funding predominantly research infrastructure and equipment.

- **ICT.** Some Member States have brought forward programmes that establish clear links between the digital economy and innovation. This is important as investment in high speed broadband and ICT is needed to overcome particular bottlenecks and to encourage market-driven solutions. For example, it is essential to focus investment in broadband on next generation networks to ensure that less developed regions do not fall further behind. Coordination between Cohesion Policy, Horizon 2020 and other EU programmes is also critical as regards smart specialisation strategies at national and regional level.

- **SME competitiveness.** Will be central to many of the PA growth strategies and it is expected that financial instruments will play a major role. However, there is limited interest so far in the new SME Initiative and a risk of generic business support for SMEs that does not target particular sectors and activities.

- **Energy, climate change and the environment.** In the PAs of a number of Member States, energy, climate change and the environment are well integrated into their economic development strategy. Several have put specific emphasis on energy efficiency or developing renewable energy as a means of creating new businesses, jobs and export opportunities, while also reducing greenhouse gas emissions. However, the link between investment and the expected results in relation to the climate change objectives needs to be made clearer in some cases.

- **Employment, social inclusion & education.** The focus on the inclusive growth objectives could be stronger in some PAs in line with needs. The Commission also considers that the

funding allocated to education is not sufficient to achieve the priorities identified. In some PAs, low priority is given to active measures for social inclusion. To ensure better social outcomes and investment that is more responsive to social change, social policy reform needs to be reflected in programming.

- **Youth Employment Initiative.** Relevant information in some PAs and OPs is relatively general and does not set out how this new initiative will be delivered and if and how it will support the implementation of Youth Guarantee schemes. In some programmes, the actions supported by the YEI need to be more focused on employment creation.

- **Marginalised communities.** Despite the existence of a CSR on the integration of the Roma minority, some Member States do not plan to have a specific priority for marginalised communities, making it more difficult to assess how much funding will be allocated to this policy area. Some Member States do not sufficiently address the needs of this target group, while others need to develop their strategy and intervention logic further.

- **Public administration reform:** In a number of Member States where a need for reform of public administration has been identified, a clear strategy is missing and objectives are incomplete and unclear. Moreover, in some of these Member States a clear political commitment to such reform is lacking.

The Commission has emphasised the need for stronger **strategic coordination** at the national and regional level to ensure consistency between programmes and support for Europe 2020 and the Country-specific Recommendations (CSRs) as well as to avoid overlaps and gaps. CSRs are generally reflected in the 2014-20 strategies in terms of identifying the related development and investment needs. However, in many cases the results expected from the funds are not clearly related to the CSRs and there is a need for more detail on the way that the CSRs will be put into effect in the programmes. Some CSRs require more than one Fund to support the intervention needed and the Commission calls on Member States to ensure that the relevant Funds will do so. The Commission also calls on Member States to be precise on how support from the ERDF and ESF will be coordinated, e.g. infrastructure investments combined with teaching and training measures to ensure that the infrastructure is used effectively.

Considerable effort has been made to comply with **ex-ante conditionalities** in most Member States. However, the process has not been easy and action plans will need to be agreed in many cases. The most problematic conditions have related to the coherence of underpinning strategies (eg. smart specialisation) and compliance with EU Directives (e.g. energy efficiency, environmental impact assessment and public procurement).

The results orientation is considered to be a step-change in the philosophy of Cohesion policy but is proving challenging to implement in practice**.** Member States and regions have found it difficult to formulate well-defined specific goals. Many draft programmes have expressed vague general aims and a large number of possible actions in order to maintain maximum flexibility in project selection. The main challenge when formulating performance frameworks is to fix targets that are both ambitious and realistic.

Finally, in some countries substantial efforts are still needed to tackle bottlenecks relating to **administrative capacity**. Key priorities for the Commission are to ensure that a clear and stable institutional and regulatory framework is in place, that skilled and motivated staff are attracted and retained and that the tools and instruments used are appropriate for the effective deployment of the funds.

Member State perspectives

Complementing the Commission's assessment, a Member State perspective on the negotiations is instructive in revealing alternative views on the negotiation process especially issues that are perceived to be problematic from a national or regional perspective.

The process of negotiating the PAs has been considered laborious for some countries owing to the extensive number of observations provided by the Commission on the Partnership Agreements - more than 300 observations in some cases, albeit with varying level of importance – or because the transmission of responses was considered to be slow. A key change compared to the past is the stronger role for Commission Directorates-General (DGs) that are not directly responsible for Cohesion policy, notably relating to Europe 2020 themes such as climate change and R&D and innovation, which may have increased the formality of the process. The Commission has also provided a more structured position on its expectations from the outset through the publication of position papers for each country at the preparatory stage, although concerns have been expressed about the legal status of the papers, particularly the level of leeway for negotiation on recommendations and whether they are applicable only at PA level or also at programme level.

While some Member States consider that the negotiations focused mainly on presentational issues (such as how to integrate the different elements of the PA into a coherent whole), for others there has been a greater emphasis on substantive content issues.

- **Thematic concentration.** A key negotiation issue in the UK and Italy has concerned the level of thematic concentration. The agreement reached with Italy was that the 11 TOs will be selected differently (and selectively) in the different OPs, while some of the TOs have been revised and rationalised. The UK found resistance to proposals on broadband, transport and climate change flood alleviation measures, partly because the Commission expects EU funding to be only used to support high priority activity where the EU contribution is clearly identifiable. This poses a problem in a country like the UK where the Structural Funds represent a small proportion of overall expenditure eon development. By contrast, in Hungary discussions about the level of thematic concentration on economic development priorities have been eased by adopting a wider interpretation of economic development which extends to climate change support measures.

- **Innovation.** The approach to smart specialisation has raised some uncertainty in a number of countries. Finnish authorities consider that smart specialisation strategies already exist in the form of innovation strategies, but it remains to be seen whether the Commission agrees to this approach. The financial planning conditions of the smart specialisation requirements could be an issue in Germany, especially the need to commit to financial budgeting for the entire 7 year period when the German public finance law operates on an annual basis. Similarly, the Commission has expressed concerns about whether Austria has fulfilled the

smart specialisation requirements because not all Länder have their own strategies (e.g. Tyrol). Austria instead argues that whatever exists at Land level is irrelevant, as the OP is a national programme strategically underpinned by a national smart specialisation strategy. In the innovation priority of the Dutch PA, the Commission requested more information on innovation infrastructure even though such investments are not envisaged.

- **SME competitiveness.** In Poland, the Commission argued for greater allocations to entrepreneurship in the national OP Intelligent Development. The Polish authorities, however, argued that support for entrepreneurship is covered in all programmes in cross-cutting manner. An increase in repayable types of business aid is foreseen in Hungary, which the Commission would like to increase further but the Hungarian authorities are concerned about absorption challenges.

- **Infrastructure.** There has been Commission resistance to infrastructure investments in a number of more-developed countries (Finland, France Germany and Sweden). In Finland, the Commission has argued for restricting support to infrastructure linked directly to business activities. Support for transport infrastructure has been discussed in France. The draft PA includes ERDF support for railway interconnections and EMFF support for upgrading port infrastructure. While the Commission is in favour of support for non-polluting urban modes of transport (electric vehicles), there is less support for major infrastructures which account for large amounts of funding. In Germany, the Commission has objected to proposals for (limited) funding for transport, water and waste water infrastructure. By contrast, in Hundary support for the urban/community transport priority was slightly increased following negotiations, although further discussions are expected on non-TEN-T road support.

- **ICT/broadband.** One of the key negotiation issues in France related to the funding of broadband infrastructure. An agreement was reached to allow ERDF support for broadband targeting research centres, universities and businesses. However, in Germany references to broadband support were removed from the PA following Commission resistance. The Commission has accepted the case for broadband in (less developed/transition regions) in Scotland and Wales. In Sweden, broadband support is considered to be important particularly in the northern-most programmes.

- **Low-carbon economy.** In the Netherlands, more information was requested concerning the policy issues in relation to the low carbon economy, including a clearer explanation of goals and objectives. The Commission has objected to proposals in the German PA to fund the upgrading of energy efficiency in privately owned buildings.

- **Social inclusion.** In Italy, the Commission has encouraged a clarification of the labour market orientation of some social inclusion interventions and to show that some measures are not welfare policies but support for the active inclusion of disadvantaged groups.

The programme architecture has been a negotiation issue in several countries, mainly in terms of the Commission seeking **more coherence across OPs**. Overlaps between the territorial operational programmes and the Economic Development Operational Programme have required the definition of demarcation lines between the OPs (Hungary). In the Netherlands, there are four OPs that have

regional goals but the Commission wants a more integrated PA which sets out national goals. For the OP Eastern Poland, the Commission has asked for clarification of the relationship between this OP and the national Innovation OP and a stronger justification of the focus on innovation.

Various territorial issues have arisen in a number of countries**.** The introduction of the county-level planning process and implementation regime has represented a significant change in Hungary. The Commission expressed concerns about the replacement of NUTS 2 level programming and the establishment of a new delivery structure for the territorial OPs. The Hungarian Authorities argue that the proposed regime better suits the new public administration system and the regional decentralization process. Additionally, stronger reliance on the county level enhances the taking on board of local conditions. Concerns over the complexity of the territorial OPs and the wide-ranging use of new instruments (ITIs, CLLDs) in the absence of experience have been raised as well. A particular feature of the Territorial OPs programming has been the introduction of pre-defined budget allocations for counties, cities with county rights and sub-county areas. The Commission has voiced concerns about the impact of pre-defined allocations on the quality of projects and argued for competition to be considered to increase the value for money. Italian authorities contested some Commission feedback relating to the cross-cutting approach to the urban strategy, the European territorial cooperation aspects (which is not required in the PA), and some observations on the integrated territorial approach were judged to pertain to the OPs rather than the PA. In the UK, London had been proposed to meet the 5 percent urban allocation but the Commission finds that while this 'meets the letter of the regulation, it goes against its spirit'. Finally, in Germany the Commission is arguing that local authorities must be intermediate bodies (IBs) for urban development strategies. This will have the effect of increasing the number of IBs and make control issues more onerous for the MAs.

In the area of **financial management, control and audit**, a number of issues have come up in relation to new Commission Acts and guidelines. The German authorities consider that the Commission is either going beyond what was agreed during the negotiations on the regulations, or is interpreting the regulations in an extreme way. One example of the additional burden is the Commission proposal to introduce a new fraud prevention system (ARACHNE), which will require Managing Authorities to provide more information on each project holder for external assessment on the risks of fraud/error. This is seen as contrary to a number of key principles in German law e.g. legality and proportionality, as well as Germany's very strong data protection laws. More proportionality and a better balance between steps to reduce corruption and administrative burden are considered necessary.

Technical assistance and management capacity issues have featured in discussions in Hungary and Italy. The Hungarian Government chose to charge a predominant share of the programme implementation expenditure against the national budget so that most of the technical assistance allocation can be spent on sectoral/territorial operations. The Commission observed that technical assistance funds are key factors to improving delivery capacity and that a broad scope of functions need to be fulfilled and human resources developed. Italy committed to administrative capacity development plans of authorities in charge of programme management. These will be concise documents outlining the human resources (quality and quantity) devoted to the management of the funds and show that there is adequate capacity for an efficient and effective delivery of Cohesion policy. In Poland, the extent to which ESF is used to fund technical assistance in OPs was contested.

Although DG EMPLOI opposes too much of an ESF focus on technical assistance, the Polish proposal is considered to be fully in line with Commission regulations.

3.5 Thematic allocations and concentration

Thematic concentration is a core principle of the 2013 reform of Cohesion policy requiring concentration on 11 thematic objectives linked to Europe 2020 objectives (Box 3). For the ERDF, minimum shares of funding must be allocated to TOs 1-4, while the ESF should concentrate a minimum share of funding on four investment priorities within TOs 8-11. In addition, the share of the ESF must be above 23 percent in order to ensure that sufficient investment is targeted at youth employment, labour mobility, knowledge, social inclusion and combating poverty.

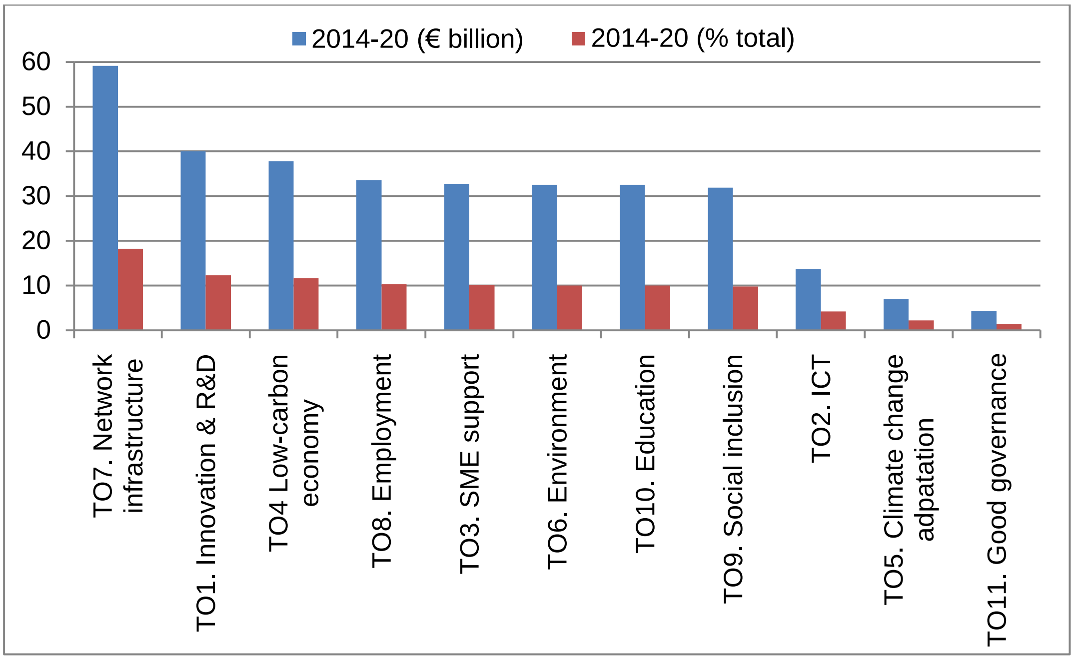
Box 3: Thematic Objectives for 2014-20

1. Strengthening research, technological development and innovation;
2. Enhancing access to, and use and quality of, ICT;
3. Enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the EMFF);
4. Supporting the shift towards a low-carbon economy in all sectors;
5. Promoting climate change adaptation, risk prevention and management;
6. Preserving and protecting the environment and promoting resource efficiency;
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures;
8. Promoting sustainable and quality employment and supporting labour mobility;
9. Promoting social inclusion, combating poverty and any discrimination;
10. Investing in education, training and vocational training for skills and lifelong learning;
11. Enhancing institutional capacity of public authorities and stakeholders and efficient public administration

Infrastructure retains the largest financial allocation at just under a fifth of total funding, while a cluster of 7 TOs (1, 3, 4, 6, 8, 9, 10) will receive around 10-12 percent of funding, leaving less than 5 percent for the remaining TOs (2, 5 and 11).

- **18%:** The largest allocation is foreseen for transport and energy infrastructure (TO7) accounting for just under a quarter of allocations form all Funds (€59.1 billion or 18.2 percent of the total),
- **12%:** Strengthening R&D and innovation (TO1) (€40 billion, 12.3 percent) and support for a low carbon economy (TO4) (€37.8 billion, 11.6 percent).
- **10%:** allocations to Employment (TO8), SMEs (TO3), education and training (TO10), environmental protection (TO6), and social inclusion measures (TO9) range from €32–33 billion (or around 10 percent of the total)
- **<5%:** to support ICTs (TO2, 4.2%), climate change adaptation (TO5, 2.2) and good governance (TO11, 1.3%).

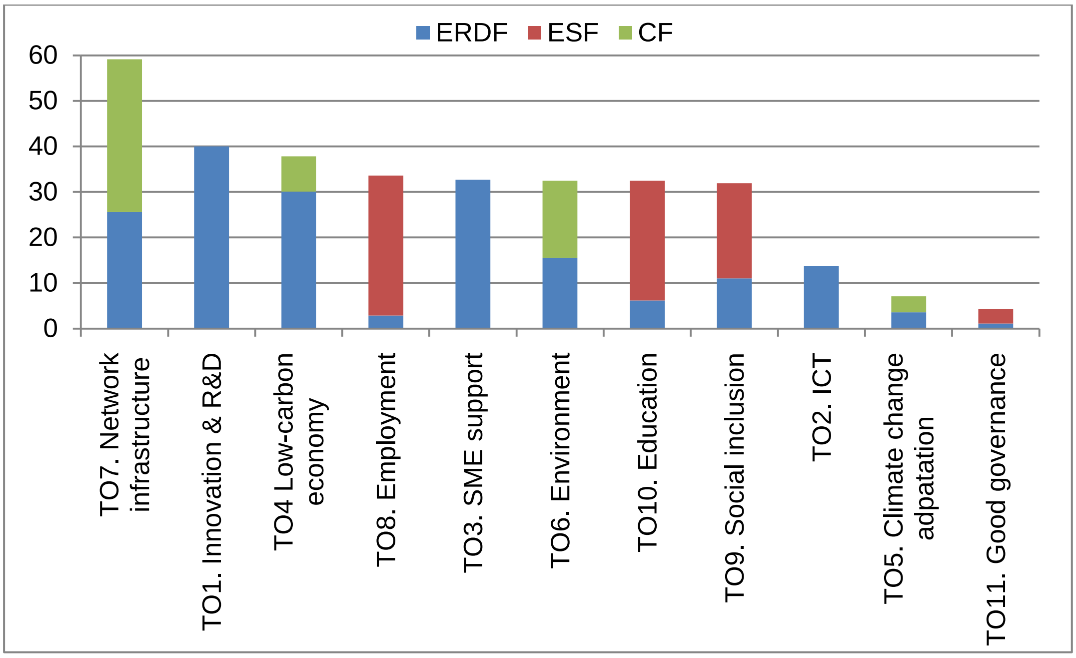
Figure 3: Allocations to thematic objectives in 2014-20



Notes: based on final and draft PAs as of June 2014

Source: EPRC, data from 6th Cohesion Report

Figure 4: Allocations to thematic objectives in 2014-20 by Fund (€ billions)

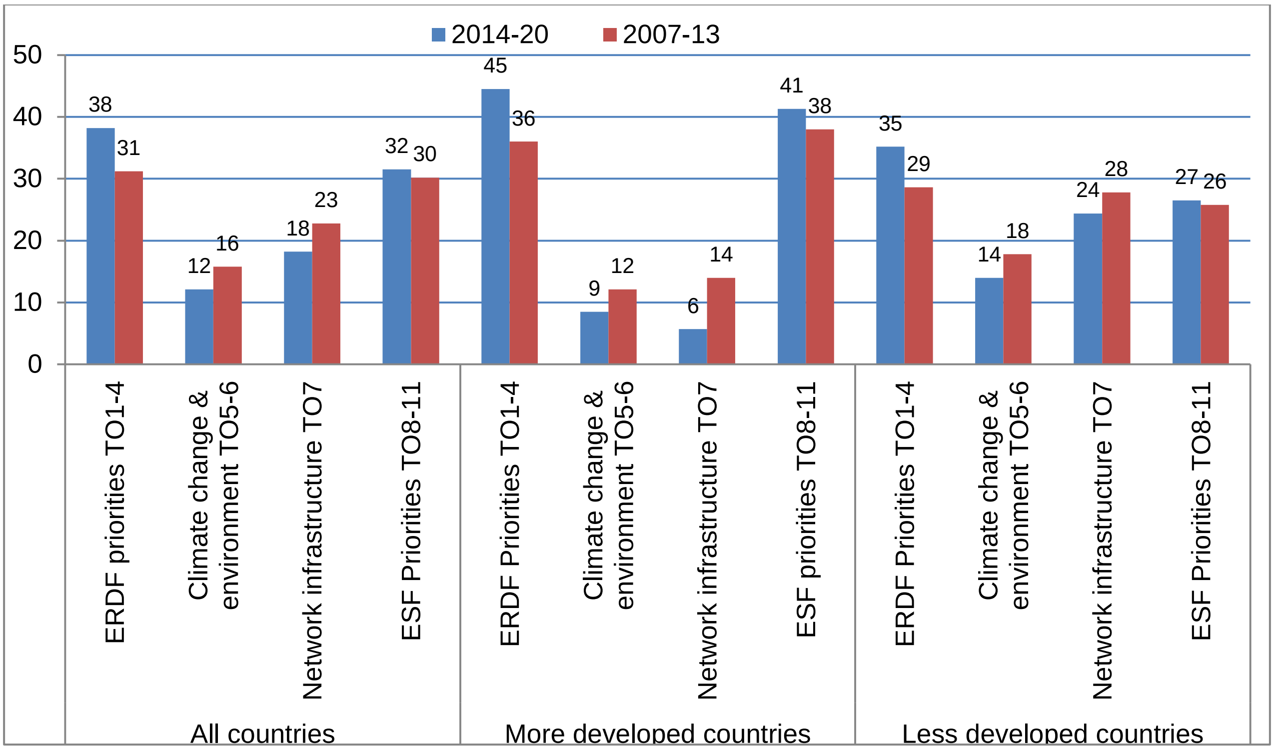


Notes: based on final and draft PAs as of June 2014

Source: EPRC, data from 6th Cohesion Report

A comparison of thematic shifts in funding from 2007-13 to 2014-20 shows a significant increase in ERDF/CF allocations to Europe 2020 thematic objectives 1-4: R&D and innovation, ICT, SMEs and a low-carbon economy, which collectively will see an increase of 7 percentage points to 38 percent of total funding in 2014-20. Support for the ESF priorities Employment, social inclusion and education and training will see a marginal increase (of 2 percentage points to 32 percent of allocations). These increases are borne by reductions in infrastructure spending on environmental protection, transport and energy. The shifts are common to both less developed and more developed Member States, but more pronounced in the latter.

Figure 5: Allocations by thematic objective by groups of Member States, 2007-13 and 2014-20 (% of total)



Notes: based on final and draft PAs as of 1 June 2014

Source: EPRC, data from 6th Cohesion Report

4. POST-2020 REFORM SCENARIOS

While the budgetary and regulatory framework for Cohesion policy in 2014-2020 was only agreed at the end of 2013 and very few programmes have been adopted, thinking on the future of Cohesion policy post-2020 will soon gain momentum as part of the Europe 2020 review in early 2015 and the review of the EU budget in 2016. The European Commission has not initiated a review of Cohesion policy at this stage, but other EU institutions and some Member States have commissioned studies looking at possible scenarios. The following sections summarise the findings of two studies conducted by EPRC for the European Parliament (with the LSE) and for UK government's balance of competences review examining reform scenarios with a focus on spatial coverage, shared management and the implications of EU economic governance reform.[17]

4.1 Scenarios for spatial coverage and targeting of Cohesion policy

The debate on targeting Cohesion policy has been dominated by the proposals for retaining the current all-region approach or focusing the Funds more or exclusively on the less-developed countries and regions.

4.1.1 Targeting Cohesion policy on the less-developed regions

The rationale for assigning the EU competences and funding to regional development, especially to richer countries or regions, is contested and has been a prominent feature of reform debates over successive reviews of the EU's budget. As part of the last EU budget review for the 2014-20 period and beyond, several studies and think-tank reports have been published offering different assessments and conclusions on these issues.[18]

The ECORYS *et al.* (2008) study commissioned by DG Budget assessed the assignment of EU spending responsibilities between the EU and Member States across all EU policy areas with a view to providing recommendations on future spending priorities for the EU budget. The study applied a 'subsidiarity test' to the main EU spending policies based on the fiscal federalism criteria of preference heterogeneity, economies of scale and externalities as well as public choice theory and political-economy arguments relating to the disciplining function of competition, complementarity between policies, lobbying at the national and European level. The study's conclusion was that parts of Cohesion policy (namely, funding for the richer regions under the Competitiveness and Employment Objective strand), most of pillar I of the Common Agricultural Policy (income and price support) and a considerable share of pillar II (rural development fund) did not pass the subsidiarity test.

[17] 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; see Mendez C and Bachtler J (2014) Assessment of Territorial Governance and Targeting, in Polverari L. and Bachtler J. (eds.) Balance of Competences Cohesion Review: Literature Review on EU Cohesion Policy, Final Report to the Department for Business, Innovation and Skills, February 2014.

[18] 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.

Looking more specifically at Cohesion policy, the report makes a clear distinction between the different strands of funding. The rationale for Convergence funding for the less-developed EU regions is assessed as being strong and well-justified on various normative and political-economy grounds:

- scale economies with respect to regional policy financing and institutional capacity;
- externalities and spillovers effect to other regions and trade with other countries;
- complementarities with other EU policies;
- second-best issues, if national governments do not offer regional policy support or have ineffective delivery mechanisms;
- redistribution and solidarity between Member States;
- preventing emigration from low-income regions; and
- better income distribution and stabilisation.

The territorial cooperation objective of EU Cohesion policy is also assessed positively. Not only because of the presence of economies of scale but also, and more importantly compared to other strands of Cohesion policy, because of externality and spillover effects; cross-border cooperation can only be dealt with effectively through joint programmes and is a neglected aspect of domestic territorial development policy due to institutional, cultural and governance obstacles that are inherent in such programmes. There are also internal market complementarity arguments favouring an EU-wide territorial cooperation strand because it contributes to the free movement across borders of goods, services, capital and labour. It is worth pointing out that the territorial cooperation strand of Cohesion policy has historically commanded widespread political support across Member States and EU institutions and is recognised to provide high European added value.[19]

By contrast, the case for EU funding under the Regional Competitiveness and Employment Objective for more-developed EU regions is assessed as being weak. The main criticism is that the funds are allocated mainly to richer Member States with the financial and institutional capacity to fund and deliver their own regional development policies. Consequently, the economy of scale argument is not relevant to this strand of funding. There are positive spillover effects in terms of trade but these are relatively low. Finally, although there are arguments to support EU budgetary intervention for Internal Market policies and the Lisbon agenda, this need not be done through a regional policy framework. Based on these findings and echoing the conclusions of the Sapir Report during the previous budget review,[20] the main policy recommendation study was that the EU should maintain its competences and funding for EU Cohesion policy in less-developed regions and under the territorial cooperation strand while discontinuing the Regional Competitiveness and Employment funding strand for more-developed regions.

Another contribution to the debate taking a critical stance on Cohesion policy support for richer countries, particularly in the case of the UK, is an Open Europe report Off-target: The case for bringing regional policy back home'.[21] While recognising several arguments for EU-level spending on

[19] Bachtler, J and Taylor, S (2003) The added value of the Structural Funds: A regional Perspective, IQ-Net Thematic Paper on the Future of the Structural Funds, European Policies Research Centre, Strathclyde University: Glasgow; Tarschys, D. (2003) Reinventing Cohesion: The Future of European Structural Policy, Swedish Institute for European Policy Studies, Stockholm.

[20] Sapir, A, Aghion, P, Bertola, G, Hellwig, M, Pisani-Ferry, J, Rosati, D, Viñals, J and Wallace, H, with Buti, M, Nava, M and Smith, P (2003) An Agenda for a Growing Europe, Oxford University Press: Oxford.

[21] Swidlicki *et al.* (2012) *op.cit.*

regional development, the case for supporting richer countries is considered to be weak. Three main criticisms are highlighted with respect to the rationale and effectiveness of geographical targeting.

- **Ineffective tool for redistribution.** Replicating the analysis of a Bruegel policy report (Santos 2009), the report finds that within the richer Member States there is a significant redistributive effects with regions (rather than across regions or countries as intended) because of the individual contribution of these regions to the EU budget via their tax contributions to national budgets.
- **Conflicting objectives.** If the primary aim of the Funds is convergence, and scare public funds should avoid replicating what the market can already provide, spending in richer member states and regions is wasteful and irrational.
- **Poor targeting.** Weaker regions can lose out on financial allocations owing to the use of GDP as an indicator for eligibility and allocations compared to other measures of economic welfare such as disposable income

In line with the ECORYS study, the authors argue that Cohesion policy should focus exclusively on poorer Member States with eligibility restricted to countries with an average income below 90 percent of EU average. They also highlight that this would allow richer Member States to make significant savings in EU budget contributions and regain control over their own regional policies.

4.1.2 Retaining Cohesion policy across all regions, including richer areas

A stronger case for retaining Cohesion policy across all regions, including in richer areas, has been made in several other contributions to the debate on geographical targeting in Cohesion policy. The European Commission and European Parliament have always argued for a pan-EU Cohesion policy to support all Member States, with a higher concentration of funding in the less-developed EU regions. For the 2014-2020 period, the Commission examined a ‘lagging country focus’ option in its impact assessment accompanying the reform proposals with funding restricted to the less-developed Member States.[22] The scenario implied a budget half the size of the alternative status quo option covering only those countries with an average GNI/head of less than 90 percent of the EU average and 22 percent of the EU population. While concentration on less-developed countries would save money for the EU budget, the option was rejected for four reasons: Cohesion policy would become a redistributive policy losing its allocative benefits across the EU; there would be lower incentives to foster cross-border spill-over effects across countries and regions; the incentives to contribute to EU-wide priorities would decline; and there would be lower growth effects on the EU economy

There are several arguments in support of EU intervention and funding for richer regions:[23]

- Constitutional: In constitutional terms, the treaty objective of cohesion is vague but implies a commitment to Structural Funds support in all Member States and regions.
- Political: Equally important, there are also the political and legitimacy arguments favouring an all-region approach (covering developed and less-developed regions), given the strong support for this among EU citizens, institutions (notably the European Parliament and Committee of the Regions) and interests groups.

[22] European Commission (2011) Impact Assessment accompanying the Draft Regulation, Commission Staff Working Paper, Part I, SEC(2011) 1141 final: Brussels.

[23] Begg (2009) *op.cit.*

- Economic: a more positive assessment of the economic case for supporting richer regions is provided compared to the other studies, the economic case in places greater emphasis particularly in terms of contributing to on the contribution to wider economic goals relating to the Lisbon agenda and in providing a supportive framework for the regulation of regional aid under EU Competition policy.

The Barca Report's justification of an all-region approach is justified on the basis of federalist and political conceptions of social and territorial justice.[24] Specifically, the Barca Report conceptualises the EU as a federation-in-the-making and Cohesion policy as a core EU instrument for contributing to the realization of the rights and expectations of EU citizens to benefit from the economic gains from European integration, to have equal access to the opportunities created as well as an equal possibility of coping with the risks and threats posed wherever they happen to live in the EU. The implication is that eligibility should be open to all EU citizens in all regions of the EU territory. A similar perspective informs the Barca Report's conceptualisation of Cohesion policy's economic rationale, which is interpreted as tapping into the under-utilized potential which exists in all EU regions in line with new economic geography theories and mirroring OECD thinking. Finally, an institutionalist argument supporting an EU role in the governance of regional policy across all EU regions is that it provides an external pressure to challenge vested interests that limit the effectiveness of domestic regional development policies in less-developed and more-developed regions alike.

From a different perspective – the need to enhance the EU's growth performance – the Sapir Report in 2003 also proposed redirecting Cohesion policy through a growth fund for the EU to promote competitiveness, a convergence fund targeted at low income countries, and a restructuring fund targeted at affected individuals in all Member States.[25]

The thinking underpinning the Sapir report is reflected in more recent contributions by the Bruegel think tank.[26] An analysis of the allocation of Structural Funds spending found that, on the one hand, EU resources are not spent in a way that would "optimise their potential to generate EU-wide growth";[27] research found that the Funds are not allocated to regions with the highest return on capital. On the other hand, the study also questioned the redistributive role of the Funds on the basis that "regions themselves pay for much of the SF they receive, limiting the extent of inter-regional distribution". The research concluded that the EU should use country-level criteria for the allocation of funds – focusing policy on convergence between Member States - with national governments being best placed to undertake subnational distribution.

This argument was developed further by Marzinetto (2012) whose analysis of national and regional income convergence led to the observation that "there is probably no reason for EU Cohesion policy to be concerned with what happens inside countries…..national governments redistribute well across regions, whether they are fiscally centralised or decentralised". However, whether the allocation is at national or regional level, the Funds should be allocated to maximise returns on investment. Thus,

[24] Barca (2009) *op.cit.*

[25] Sapir *et al.* (2003) *op.cit.*

[26] Santos, I (2008) Is structural spending on solid foundations? Bruegel Policy Brief, 2008/02, Bruegel: Brussels; Santos, I. (2009) EU cohesion policy: some fundamental questions, Bruegel Policy Contribution 2009/07, Bruegel: Brussels; Marzinetto, B (2012) The growth effects of EU Cohesion policy: a meta-analysis, Bruegel Working Paper 2012/14, Bruegel: Brussels.

[27] Santos (2008) *Ibid*, p6.

support should be provided to overcome bottlenecks or facilitate sectoral restructuring that create conditions to exploit comparative advantage, but it should not be allocated to compensate for disparities arising from policy failures (e.g. lack of labour mobility, weak institutions), geographic disadvantages or agglomerations of "benign origin".

4.1.3 EU policy coordination for richer countries/regions, without funding

The Treaty commitment to cohesion requires the EU to promote harmonious development and a reduction in disparities across all Member States irrespective of the spatial targeting or level of financial support. If Cohesion policy resources were restricted to the less-developed countries/regions, the role of the EU level in the more-developed areas could be more one of coordination of national regional policies.[28] As in existing areas of EU policymaking, such as research or employment policies, this could be governed by the 'open method of coordination', involving the setting of joint objectives at EU level, periodic monitoring and sharing of national regional policy experiences with a view to improving the design and implementation of national policies and strategies, the development of coordinated or joint initiatives on issues of transnational interest, and the identification of areas where Community initiatives could reinforce national actions. It would involve developing some of the 'experimentalist governance' features of the existing programming method:[29] 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 any 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).

To be effective, this policy coordination approach would require the Member States to take political ownership of cohesion objectives.[30] Proactive engagement by the Member States in peer review processes is another important ingredient.[31] The OECD practice of territorial reviews of regional policies could provide a model to learn from. A key part of the OECD review process are evaluation missions by international experts and high-level officials and elected representatives from peer countries/cities to feed into the process of assessment and to provide recommendations based on international experiences.

4.2 Reassessing the shared management model of delivering Cohesion policy

A unique and defining feature of EU Cohesion policy compared to other EU policies is its Multi-level Governance (MLG) model of implementation. MLG is codified in the partnership principle in the Regulations and is a broader concept than shared management (regulated by the Financial Regulation) in so far as it does not only relate to the distribution of financial management tasks

[28] Begg, I. (2003) Complementing EMU: rethinking cohesion policy, Oxford Review of Economic Policy, 19 (1), pp. 161–179.

[29] Mendez, C. (2011) The Lisbonization of EU Cohesion Policy: A Successful Case of Experimentalist Governance? European Planning Studies, 19 (3), pp.519–537.

[30] Begg (2003) *op.cit.*

[31] Mendez (2011) *op.cit.*

between the EU and Member States, but also wider participation among private and societal stakeholders at all governance levels.

The partnership principle is often identified as one of the main areas of EU added value in Cohesion policy and is credited with having a significant impact on regional policy practice in the Member States. Since 1988, regional policy partnerships across all Member States have been Europeanized to varying degrees. In the early years, national governments were in many cases the sole interlocutors with the European Commission and 'gatekeepers' to European funding.[32] Over successive programme periods, regional and local governments and partner organisations (including environmental and gender equality bodies and the voluntary sector) have been progressively integrated into programme decision-making and implementation.[33]

The impact of Cohesion policy on wider territorial governance and political-institutional decentralisation is contested in the literature, although positive spillover effects can be detected on domestic policies and governance in both old and new Member States (Bachtler et al. 2009). That said, the implementation of the partnership principle is uneven across and within the Member States, and various studies highlight substantial challenges to effective implementation of the principle.[34]

- limited experience of partnership-working: especially where political decentralization is limited or there is a lack of neo-corportatist/social-market economy traditions based on consensual and cooperative governance.
- lack of resources: to effectively participate in programme decision-making and understand the complex array of rules governing Cohesion Policy rules.
- administrative/managerial tensions: associated with the increased role of the Commission and emphasis on financial compliance, as well as tensions between different tiers of government within the Member States.
- veto points: the higher the number of actors involved, the greater the complexity of management and potential for decision-making deadlock.
- democratic deficits: the role of democratic institutions and elected representatives is often limited in programme partnerships in favour of a technocratic decision-making model.

Beyond these well-documented governance effects and tensions, the contribution of Cohesion policy's MLG model to regional development is uncertain. Various OECD reports[35] and the Barca

[32] Anderson, J (1990) Skeptical reflections on a Europe of the regions: Britain, Germany, and the ERDF, Journal of Public Policy 10, pp. 417–447; Pollack, M. (1995) Regional actors in an intergovernmental play: The making and implementation of EC structural policy. The state of the European Union, 3, pp.361–90.

[33] Tavistock Institute (1997) Thematic evaluation of the partnership principle, report to DGXVI, European Commission: London; Bache, I (2008) Europeanization and multilevel governance: cohesion policy in the European Union and Britain, Rowman & Littlefield Pub Inc.: Lanham, MD/US; Bachtler J, Polverari L, Oraže H, Clement K and Tödtling-Schönhofer H, with Gross F, McMaster I and Naylon I (2009) Ex post evaluation of the management and implementation of Cohesion policy, 2000-06 (ERDF), Report to the European Commission, DG Regio, Brussels.

[34] Tavistock Institute (2009) *op.cit.* Radzyner A, Tödtling-Schönhofer H and Frangenheim A (METIS), Mendez C, Bachtler J, Charles D and, Granqvist K (EPRC) (2014) Multi-level Governance and Cohesion Policy, Report to the European Parliament Committee on Regional Development, European Parliament, Brussels.

[35] OECD, 2012, Promoting Growth in All Regions, Organisation for Economic Growth and Development, Paris; OECD, 2009, Regions Matter: Economic Recovery, Innovation and Sustainable Growth, Organisation for Economic Growth and Development, Paris.

Report have argued that MLG is the most effective approach for regional and national development policies because its allows for top-level priorities to be tailored to local needs and potentials. A recent study examining Cohesion policy implementation in a number of case study regions, based on interviews with programme managers and stakeholders, found that the MLG model can contribute to greater policy effectiveness, legitimacy and transparency in decision-making processes, as well as greater commitment and ownership of programme outputs.[36] However, there is a lack of robust, credible and quantified evidence of the impact of MLG on economic outcomes compared to other centralised models of regional development policy. Just as the impact of Cohesion policy on economic development is difficult to disentangle from other drivers of growth, the contribution made by the MLG model is equally if not more difficult to quantify.

The (in)efficiency of the MLG model is one the most frequent criticisms by national policy-makers and stakeholders in terms of the administrative workload and bureaucracy involved in managing the funds and complying with the multitude of rules, particularly in relation to the sums of funding involved or to domestic policies in many countries. However, a study examining other comparable policy fields managed by international organisations found that that they have considerably higher administrative costs than EU Cohesion policy, such as the World Bank's global and regional partnership programmes and a range of other bilateral aid programmes, while the European Bank for Reconstruction and Development (EBRD) has broadly comparable management and implementation structures and roughly similar general administrative expenses.[37] Moreover, various types of management and implementation systems across the Member States did not differ significantly in terms of administrative workload. Centralised systems have a somewhat lower median administrative workload than regionalised and mixed systems, although the differences are marginal. The implication is that the extent of MLG within Member States does not have a negative impact on the efficiency of Cohesion policy management.

The aspect of multi-level governance that raises the most criticism from EU and national policy-makers is financial management and control. The high levels of irregularities in Cohesion policy has forced the Commission to introduce more stringent requirements and stricter enforcement of compliance, resulting in higher administrative workload and bureaucracy for programme managers and implementing bodies with negative consequences for how the policy is perceived. In several richer countries, beneficiaries are avoiding applying for Structural Funds if alternative funding sources are available. Shared management is a fundamental principle but the time may be right to consider whether a more devolved approach – that provides more scope for nationally determined policy frameworks and domestic administrative systems – could be used to achieve EU objectives.

4.3 Economic Governance scenarios and implications for Cohesion policy

Recent changes in economic governance arrangements in the EU are reconfiguring economic and monetary union and the channels through which Member States and regions are affected by EU-level decisions with potentially profound implications for the future of Cohesion policy. In a recent study for the European Parliament, Begg *et al.* (2014) set out two different reform scenarios based on recent

[36] Radzyner *et al.* (2014) *op.cit.*

[37] SWECO (2010) Regional governance in the context of globalisation: reviewing governance mechanisms and administrative costs, final report for DG Regio, European Commission: Brussels.

moves towards a Genuine Economic and Monetary Union and explored the implications for Cohesion policy.

- A first scenario – 'Limited GEMU' – would be that relatively little will change compared with the position reached as a result of the changes already introduced since the onset of the crisis. This could result either from relatively few of the proposals being adopted or from them being adopted in so limited a form that they do not make a substantial difference.
- The second scenario – 'Comprehensive GEMU' – is predicated on a much more extensive adoption of the measures in the Commission blueprint. They would entail additional transfers of power to the EU level resulting in what the blueprint refers to as 'progressive pooling of sovereignty and thus responsibility as well as solidarity competences to the European level'. It would also be likely to mean that some of the proposals, for example for an additional fiscal capacity, would larger in scale than in the first scenario.

The extent to which the different components of genuine economic and monetary union (GEMU) will progress is uncertain. Plans for an additional EU fiscal capacity - through partnerships for growth, jobs and competitiveness - are gaining momentum. These partnerships could complement the European Structural and Investment Funds to promote cohesion, but the instrument could also be a source of confusion about their respective functions in the governance system. Difficult issues include eligibility and the nature of any conditionality.

4.3.1 A 'limited GEMU' scenario

A 'Limited GEMU' scenario would not have major implications for Cohesion Policy beyond the changes introduced since the crisis and in the 2013 reform of Cohesion Policy. This assumes that relatively few of the proposals are adopted or that they are adopted in only a limited form that makes no substantial difference. Nevertheless, the combination of top-down constraints, conditionality and an increased resort to contracts between Member States and the EU level have implications for co-financing and the interactions between Cohesion Policy and other EU policies and processes.

4.3.2 A 'comprehensive GEMU' scenario

A 'comprehensive GEMU' scenario could mean a greater focus on the EU's spending priorities. This would imply a shift of policy responsibilities to the European level, with Cohesion Policy being financially downgraded in favour of a separate fiscal capacity or being run as a 'top-down' contribution to EU-wide goals with less territorial emphasis. More intrusive oversight would intensify all of the financial and governance challenges: stricter conditionality; more automatic sanctions and strategy revisions; and associated financial, administrative and political tensions.

Comprehensive GEMU without new instruments would enhance the need for Cohesion Policy to cope with stabilisation pressures, probably leading to increased sectoralisation and pressure to modify the budget model. The implications of a GEMU with new instruments would depend on the funding involved. A small budget would not significantly affect Cohesion Policy. A larger budget could usurp the current stabilisation function of Cohesion Policy and might require a narrower thematic focus. There may be benefits for the policy in terms of freeing it from a stabilisation function and allowing a greater focus on the disadvantaged parts of the EU.

5. QUESTIONS FOR DEBATE

5.1 Implications of the 2013 reforms

5.1.1 Will the reforms improve the delivery and performance of Cohesion policy in 2014-20?

The 2013 reform of Cohesion policy envisages a stronger performance orientation involving more clearly specified objectives, intervention logics and results targets. Conditionality provisions aim to ensure that the pre-conditions for effective implementation of the Funds are put into place, while the new performance framework and reserve would provide incentives to reward the achievement of targets and sanctions for under-achievement. Accountability at EU level should be reinforced by requiring the Council of Ministers to discuss the implementation and results of the CSF funds every two years.

In introducing these changes, the 2013 reform responds to the findings of evaluation research and criticisms of Cohesion policy by placing a greater emphasis on performance. The requirement for conditionalities seeks to address the problem that the effectiveness of Cohesion policy interventions are not undermined by deficiencies in the strategic, regulatory or institutional contexts. The focus on results is a consequence of the poorly framed and over-ambitious objectives of previous programmes that have given insufficient attention to the outcomes of interventions. And the enhanced performance framework responds to the lack of accurate and reliable monitoring data for assessing the progress and performance of programmes, and gives a higher profile to reporting.

The key question then is whether the spirit as well as the letter of the new regulatory requirements will be met in practice. While there is evidence of increased attention to these issues in some countries, it is not clear whether the expectations will be entirely fulfilled. The Commission's review of programming suggests that Member States and regions have found it difficult to formulate well-defined specific goals, preferring in many cases to formulate vague objective to maintain flexibility in the selection of interventions and projects. Similarly, the extent of thematic targeting within objectives has often been insufficiently focussed, although there have been major shift in in funding towards Europe 2020 objectives. Compliance with ex-ante conditionality requirements has proved administratively challenging, in many cases requiring action plans to be adopted for future reviews of compliance. There are also bottlenecks relating to administrative capacity in some countries that have not been sufficiently addressed. Performance frameworks are still being developed but challenges are expected in setting quantified targets that are both ambitious and realistic. Moreover, it remains to be seen whether a qualitative shift in the performance orientation will be achieved and delivered on the ground at the implementation stage in the years ahead.

5.2 Longer term reform of Cohesion policy after 2020

With the regulatory package for 2014-20 only agreed in November 2013, and a new Commission coming into office, the European Commission decided against using either the Sixth Cohesion Report or the associated Cohesion Forum for a substantive exposition or discussion of ideas for post-2020 Cohesion policy. Nevertheless, in closing the Cohesion Forum on 9 September, Commissioner Johannes Hahn did signal the need to begin the next reform debate:

Though we are only beginning the implementation of the 2014-2020 period, now it is also the time to start reflecting on what follows. Let us not forget that after all by 2018 the Commission would have to table its proposals for the next financial perspective.

Therefore I would like to conclude with some questions for further reflection. I think that the replies to these questions will be important for defining the Cohesion Policy after 2020.

The first question that comes to mind is what steps should we take to further simplify? We went a long way in streamlining, procedures, defining common rules, integrating different fund sources. But I am convinced that the work is not finished and more can be done. This is particularly true since the focus of the policy is changing from large infrastructure operation to diffused support to the economy.

Then what about risks? What is the acceptable level of risk? I think that in supporting SMEs we have to be more adventurous and evaluate the risk with a business mind-set. Increasingly young entrepreneurs find it easier to get investment outside the EU and therefore set-up their business abroad. But this is not something for Cohesion Policy alone. This requires a collective approach, including from the Court of Auditors, otherwise we are risking high error rates.

Another question we have to reflect upon is whether GDP should remain the main criterion for determining needs and evaluating impact. Its role is crucial to reflect the capacity of countries and regions to tackles development problems. But these have different dimension, which should be better taken into account.

5.2.1 What is Cohesion policy for?

A more fundamental question than those posed by Commissioner Hahn concerns the purpose of the policy. The reformed Cohesion policy is presented by the European Commission as a mechanism for 'growth-enhancing investment' supporting structural reforms and fiscal consolidation as part of the EU economic policy mix. The Commission argues that Cohesion policy has been an important source of investment during the crisis and subsequent recovery strategies, notably in the less-developed Member States, where the Funds are estimated to account for over 60 percent of public investment.[38]

Looking forward, the Commission's conception of Cohesion policy in 2014-20 is to act as an 'investment tool' for achieving the Europe 2020 goals, reflected primarily in the level of thematic concentration on RTDI, ICT, SME competitiveness and low-carbon economy (ERDF) as well as employment and mobility, better education, social inclusion and better public administration (ESF). This approach is also evident in the linkages between the reformed Cohesion policy and the (evolving) processes of EU economic governance and the European Semester. The intended focus of European Structural and Investment Funds on jobs, growth, investment and competitiveness is reinforced in the mandate given by the new Commission President, Jean-Claude Juncker to the new

[38] *Restoring growth and jobs – How can Cohesion policy contribute to a sustainable recovery of the EU?* Speech by Commissioner Johannes Hahn to the 6th Cohesion Forum, Brussels, 8 September 2014.

Regional Policy Commissioner, Corina Creţu, which also emphasises the role of Cohesion policy in completing the Digital Single Market and establishing a European Energy Union.[39]

What is striking about the Commission President's letter is that it makes only passing reference to cohesion. Similarly, the opening and closing speeches by the outgoing Commissioner Johannes Hahn to the 6th Cohesion Forum made virtually no mention of economic and social cohesion, and contained no references to regional inequality, regional development, or the role of the regions. This begs the question of how far Cohesion policy remains a 'regional policy' other than regional indicators being used to determine eligibility and scale of funding, and the use of regional programmes (in some countries) to deliver funding. Paradoxically, this is occurring at a time when EU regional disparities across the EU in GDP per head, employment and unemployment are increasing (now wider than in 2000) and have also been widening within countries;[40] the crisis has given rise to new core-periphery differences across the EU.[41]

There are also legitimate questions as to whether Cohesion policy is capable of meeting the formidable thematic goals - alongside requirements such as greater strategic coherence, better performance and more efficient administration. Evaluation research and ECA reports indicate that the added value of thematic support for renewables (for example) can be difficult to justify and there are challenging implementation issues for ESIF in addressing such thematic goals.[42]

The main question in considering options for Cohesion policy post-2020, therefore, is whether Cohesion policy should continue, or even intensify, its investment function in support of European thematic priorities, or should return to a more 'traditional' regional policy focus on the needs and challenges of individual regions.

5.2.2 Who is Cohesion policy for?

A second question for post-2020 Cohesion policy is where ESIF resources should be spent, and how the eligibility for countries and regions should be determined. This includes the issue raised by Commissioner Hahn as to 'whether GDP should remain the main criterion for determining needs and evaluating impact'.

For much of the 25-year history of Cohesion policy, since the reform of the Structural Funds in 1988, eligibility for ERDF was restricted to designated areas. The most (only?) 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 Less-Developed Regions.

[39] Mission letter from Jean-Claude Juncker, President-elect of the European Commission to Corina Creţu, Commissioner-elect for Regional Policy, European Commission, Brussels, 10 September 2014.

[40] European Commission (2014) *Investment for jobs and growth: promoting development and good governance in EU regions and cities*, Sixth report on economic, social and territorial cohesion, Brussels.

[41] Milio S (ed.) (2014) *Impact of the Economic Crisis on Economic, Social and Territorial Cohesion of the European Union*, Study for the European Parliament, Brussels.

[42] ECA (2014) *Cohesion policy funds support to renewable energy generation — has it achieved good results?* Special Report No. 6, European Court of Auditors, Luxembourg. Dodd J, Fox T, Güntner S, Provan B and Tosics I (2013) *Housing investments supported by the European Regional Development Fund 2007-2013: Housing in sustainable urban regeneration*, Report to the European Commission, Ecorys, Brussels. Ward T (2011) *Renewable energy and energy efficiency of housing, expert evaluation network delivering policy analysis on the performance of Cohesion policy 2007-2013*, Report to the European Commission (DG Regio), Applica srl, Brussels.

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.[43]

Table 4: Distribution of funding between categories of region, 1989-2020

	1989-1993	1994-1999	2000-2004	2004-2006	2007-2013	2014-2020
Less Developed	73.2	61.6	63.6	63.2	59.0	53.5
Transition	0.0	0.2	2.6	2.0	7.5	10.8
More Developed	23.6	27.4	24.3	19.1	12.9	16.5
Cohesion Fund	3.1	10.8	9.4	15.7	20.7	19.2
Less Developed and Cohesion Fund	76.4	72.4	73.1	78.9	79.7	72.8
Total	100	100	100	100	100	100
EU	EU-12	EU-15	EU-25	EU-25	EU-27	EU-28

Source: 6th Cohesion Report

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.[44] 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.

Looking forward, the question is how Cohesion 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.

[43] 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.

[44] *Ibid.*

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.

From a policy perspective, the issue of 'who Cohesion policy is for' gives rise to more basic questions related to the definitions of 'lagging' or 'underdevelopment', the responsiveness of policy, and the importance of inequality.

What is underdevelopment? The current approach to spatial coverage and the above alternatives use regional GDP or national GNI to determine the eligibility of poor regions/countries for Cohesion policy support. The use of regional GDP per head has often been criticised because of the inherent difficulties in measuring and aggregating the production of goods and services, and increasingly because GDP does not capture environmental degradation, resource depletion or inequality. The problem is finding adequate measures, with available and up-to-date data at the regional scale to price these factors. Nevertheless, as progress is made by international bodies – such as the OECD Better Life Initiative[45] (including a regional wellbeing index) or the EU's Beyond GDP work[46] - and by national governments, new options are becoming available. The collation and analysis of regional data sets on health, wellbeing, personal relationships, housing, education, crime and the environment provide a starting point for discussing potential new measures of regional revelopment and inequality.

Over what time period(s) do we judge regional problems? A further challenge to the existing approach is that regional GDP statistics for the EU are several years of out of date – meaning that 2-3 year old statistical averages have been used for determining eligibility 6-7 years ahead. In the recent budget debate, for example, decisions on budget allocations were being taken using figures that did not fully reflect the contemporary impact of the crisis. One solution is to build in a mid-term review of eligibility, as was done for Objective 2 in 1994-99 and is planned for the whole EU in 2016. With the uncertainty about medium-term economic prospects in the EU, the question is whether a more rolling and responsive review of geographical eligibility should be part of a new policy framework.

How important is inequality? Structural Funds are allocated geographically at EU level in line with various measures of regional disadvantage – not just regional GDP per head, as now, but also

[45] http://www.oecd.org/statistics/measuring-well-being-and-progress.htm

[46] http://ec.europa.eu/environment/beyond_gdp/indicators_egdp_en.html

measures of change in (un)employment or other economic and labour market indicators, as was the case up to 2006. These latter measures continue to play a role in the Berlin formula but only in determining the volume of funding for each Member State not where it is actually spent. With rising inequality at EU level and in some countries, the question is whether the allocation of Cohesion policy should again involve more geographical selectivity in determing regional eligibility at EU level, either through 'direct zoning' by the Commission or 'indirect zoning' by the Member States. A broader issue is whether Member States should be required to have a strategy for addressing regional inequality in place as an ex ante conditionality for receiving Structural Funds, and whether they should be rewarded or penalised for progress in reducing inequality.

5.2.3 How could Cohesion policy be simplified?

For almost 20 years, the management and implementation of Cohesion policy has suffered from problems of administrative complexity (see Table 5). In response, successive reforms – 1999, 2005, 2013 – have introduced administrative changes to refocus the Commission's role on the strategic aspects of programming, rationalise management rules, simplify eligible expenditure rules, increase proportionality for control systems, and encourage Member States to simplify or rationalise national and regional procedures.

Table 5: The elusive goal of simplification

1996	1st Cohesion Report	In view of the complexity of present procedures, all avenues for the simplification of the financing and implementation of the measures need to be explored
1997	Agenda 2000	Making the Structural Funds more effective will require simplification of management and greater flexibility and decentralisation in implementation
2004	3rd Cohesion Report	The need before the new funding period is to review the regulations with a view to increasing the effectiveness of the system and further reducing its complexity.
2010	5th Cohesion Report	Further reforms of Cohesion Policy [are needed to] achieve results, while cutting red-tape and simplifying the daily management of the policy.
2014	6th Cohesion Forum	What steps should we take to further simplify? We went a long way in streamlining, procedures, defining common rules, integrating different fund sources. But I am convinced that the work is not finished and more can be done.

At the same time, each reform has brought new rules or guidance, which themselves have involved further administrative procedures or obligations. Evidence from within the Commission suggests that even DG Regio officials are dubious whether the simplification efforts - while welcome in principle - have been successful in practice.[47]

As noted earlier, while the administrative costs for implementing Cohesion policy are in line with comparable policies managed by international organisations, it is the *complexity* of the multi-level governance system that has proved contentious, and one whose positive impact on economic

[47] CSIL (2010) *Lessons from shared management in cohesion, rural development and fisheries policies*, Report to the European Commission (DG Regio), Centre for Industrial Studies, Milan.

development is difficult to demonstrate conclusively. The question for the next reform is whether complexity is endemic to a system that requires a single regulatory framework for managing and delivering the Funds over 28 Member States. The 'shared management' model has been a fundamental principle of Cohesion policy since the reform of the Structural Funds in 1988 but the time may be right to consider whether a more devolved approach – that provides more scope for nationally determined policy frameworks and domestic administrative systems to be used to achieve EU objectives.

5.2.4 What is the scope for separating decisions on the budget from decisions on policy?

Under the current approach MFF negotiations, decisions on how much each country pays and receives are closely associated with what kind of policies the money is spent on. For the two biggest areas of the EU budget (agriculture and cohesion policy), funding is largely pre-allocated, and, since 1999, successive reforms have seen the Commission becoming more transparent about how their funding allocation model operates. Member States have therefore been increasingly able to estimate broadly how much they should receive under specific proposals for policy reform, and their negotiating positions are invariably (and understandably) directed to securing the best possible net balance.

This limits the scope for making policy decisions that are in the best interests of the EU as a whole, and it is a cause of inertia in changing the structure of the budget. As Begg (2006) noted, "the EU cannot quite decide whether it wants a budget that redistributes money from one set of member-states to another; or a budget that achieves certain EU-wide policies. By mixing the two objectives, the EU is stuck in the worst of both worlds." This leads on to the question is whether and how it would be possible to separate the redistributive aspects of the budget (how much Member States pay and receive) from the allocative ones (what kinds of policies the money is spent on).

One option would be an EU tax. There is a rich literature on the different options available for EU taxes. In successive MFF proposals, the European Commission has put forward proposals for independent EU revenue sources, but on each occasion these have been rejected by the Council. Nevertheless, a financial transactions tax (FTT) is currently being negotiated, justified by the Commission as a mechanism "to make the financial sector pay its fair share" but also as a source of direct revenue for the EU. With divisions about the desirability of the FTT among Member States, the tax appears likely to apply only in a minority of Member States' and the revenue raised would probably be equivalent to less than one percent of the MFF.

An alternative would be for Member States to agree on overall policy objectives for the EU and a politically acceptable net balance (i.e. what they are prepared to contribute to the EU budget) and then subsequently decisions would be made on the how the funding is to be spent to meet the policy objectives. Member State contributions could be determined on the basis of GNI (see Begg 2006), previous budget contributions, or other factors such as the degree to which they are net beneficiaries of intra-EU trade and investment. Freeing Cohesion policy from its role as an 'adjustment variable' in the MFF negotiations would potentially allow more substantive debate on the scale and priorities of ESIF funding.