Evolution or Revolution?

Exploring New Ideas for Cohesion Policy 2020+

Highlights

- **The recently published MFF review presents proposals for the evolution of spending for the remainder of the 2014-20 period and the context for the post-2020 MFF**
- **Key principles for MFF reform are European added value, performance, transparency, simplification and transparency**
- **The debate on the future of Cohesion policy is slowly moving from the collection of evidence from 2007-13 and initial lessons of 2014-20 to the development of reform options**
- **Options for change will need to address the added value of Cohesion policy, increased flexibility, simplification, differentiation, synergies, performance and the links with economic governance**

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

The period 2016-17 is a crucial year in the future of Cohesion policy, with debate intensifying on the future of EU spending after 2020, stimulated by the Mid-Term Review of the Multiannual Financial Framework (MFF) published by the European Commission in mid-September 2016. The debate is also being informed by the publication of the ex post evaluation of the 2007-13 period and the emerging evidence from a series of studies examining the new implementation of new regulatory innovations for 2014-20.

The MFF Review takes stock of achievements and proposes a €6.3 billion package of financial measures by 2020 to support job creation, investment and economic growth and to address migration challenges. The report is critical of the delayed implementation of Cohesion policy in 2014-20 but recognises the performance-enhancing innovations that have been introduced. While it is vague on the post-2020 period, it does highlight important future priorities including more flexibility to respond to unforeseen circumstances and maximising effectiveness and efficiency through conditionality, a re-examination of the links between ESIF and economic governance, greater use of financial instruments and simplification of rules. Post-2020 proposals will also examine the potential for the EU budget to contribute to new spending areas – including defence and security and in relation to the completion of Economic and Monetary Union – as well as the duration of the MFF and reform of own resources.

EU institutions, Member States, interest groups, academics and other stakeholders are beginning to set out ideas and options for the EU budget as a whole and for individual policy areas. Discussion about the future of Cohesion policy is also following a well-worn path, including themes such as the added value, performance and efficiency of the policy. The recently published ex post evaluation of the 2007-2013 period provides concrete evidence of the policy's effectiveness and support for the key performance-enhancing innovation introduced in Cohesion policy for 2014-20. Recent EU studies on the implementation of the new provisions, including of the results orientation and ex-ante conditionalities, confirm that there has been a qualitative shift in the performance orientation of programming and an improvement in the institutional regulatory and strategic contexts for implementing the funds.

European added value of Cohesion policy**.** The **added value of Cohesion policy** is one of the central issues for the wider reform debate on the future of the MFF. The Commission President and Budget Commissioner have insisted that decisions on the MFF need to maximise the European added value of spending, reiterated in the budget review. The problem is that the concept is vague and open to interpretation although several key dimensions are highlighted in debates: cohesion/convergence of less-developed regions linked to solidarity; long-term planning and investment framework for growth and jobs; multi-level governance and place-based approach; policy innovation; European territorial cooperation; contribution to wider EU objectives (Europe 2020, European semester, single market etc.).

While there is support for **additional EU budgetary flexibility** to address the migration crisis outside of the Cohesion policy heading, the creation of flexibility within Cohesion policy appears to have limited support among Member States because it could lead to more complexity in practice through additional requirements and would weaken the predictability and long-term nature of programming.

The need for **simplification** is pressing**.** Administrative time and cost of implementing ESIF programmes has increased significantly, primarily due to the resources required for intensified financial management and control procedures. Second, the declining amount of Cohesion policy funding in several of the more developed EU Member States has led to claims that the management cost of Structural Funds programme administration is disproportionate to the scale of funding. Indeed, there is some evidence that the administrative workload in such cases is reducing the willingness of intermediate bodies and beneficiaries to take part in programmes; EU funding is becoming synonymous with complexity and bureaucracy, in particular at the 'grassroots' levels which historically have been some of the strongest supporters of the policy. While there is widespread support for a major simplification of delivery systems and mechanisms, including fewer rules, regulations/acts and more legal certainty and proportionality, there are also structural barriers to such changes due to the budgetary discharge requirements and it is unclear whether the HLG on simplification will be able to propose meaningful reform.

Differentiation is a further key issue. Linked to the debate on simplification, there is increasing recognition, including by Commissioner Creţu, of the need for a fundamental change to the management system for Cohesion policy that goes beyond simplification of rules and recognises differences in institutional and administrative structures and capacities across Member States. While support for differentiation in rules across Member States is not universally accepted, it is possible that some Member States may be unwilling to continue participating in Cohesion policy unless a more differentiated approach is introduced. The challenge will be how to engineer a system that makes a real difference to administration. At the programming stage, it would need to ensure coherence with Cohesion policy objectives and wider EU economic and industrial policies, provide a performance framework and a commitment to the principles of partnership. During implementation, there would need to be mechanisms for assurance on the regularity of spending, and evidence for the results achieved. However, the fundamental requirement would be a need for less onerous administrative requirements based on the key criterion is of risk: those Member States (or programme) which represent low risk – on the basis of scale of funding and proven capacity – could be subject to fewer controls, while those representing higher risk would remain under shared management.

There is consensus that the **focus on performance** has moved the policy in the right direction and that EU Cohesion policy is unique among other policies in taking the results agenda seriously. Indicators have generally improved and should facilitate evaluation, although some of the common EU-defined indicators are not always relevant and have led to some target congestion. The focus of the performance reserve is on outputs rather than results, not least because of the long time needed for results to materialise. An important challenge will be to demonstrate results in time for the post-2020 reform of the budget. Further, a genuine performance turn requires simplification in other management processes and less concentration on formal compliance as well as a strong commitment to allow learning over time.

To increase the leverage of funding, the European Commission has put considerable emphasis on increasing the **use of financial instruments** in the form of loans, equity and guarantees, instead of traditional grants. These instruments are acknowledged to have the potential to be a more effective and efficient means of funding investment across many policy areas than non-repayable grants. However, the ex post evaluation of 2007-13 showed that there are clearly a range of operational difficulties including capacity deficits, possible conflict of interests between the objectives of private fund managers and public policymakers, and deficiencies of monitoring systems and indicators. More

fundamentally, the ex post evaluation expressed concerns about the lack of clarity in defining the expected contribution of FIs to the pursuit of programme objectives. There is also limited evidence as yet concerning the impact of FIs on job creation and innovation – in particular the additionality of using FIs and how they compare – in terms of efficiency and effectiveness – with grants. As noted earlier, the same concerns have been expressed by the European Court of Auditors. In this context, the question is whether the European Commission's emphasis on financial instruments – under ESIF, but also under EFSI – is justified and whether decisions on their use post-2020 should wait until more convincing evidence of their added value is available.

The pursuit of **synergies** is becoming an increasingly important priority particularly in the context of post-2020 budget debates**.** Priorities for reform post-2020 discussed at the conference begin with regulatory issues, notably harmonisation of rules and consistency in State aid rules as we as maximising flexibility for rules to be adapted to different national circumstances. In terms of governance and implementation, more attention needs to be given to a 'programme lifecycle' approach to exploiting synergies – from strategic planning through the design of partnership arrangements, mechanisms for project generation, appraisal, selection and implementation support, to monitoring and evaluation. This needs to be supported by investment in capacity-building such as training, information exchange platforms and networking. Lastly, there are structural issues relevant for the post-2020 debate: better coordination between relevant DGs; the architecture of the Funds; the 'culture' gap between regional development and RTDI actors; and an approach to implementation that facilitates risk-taking.

Finally, there is the relationship between **economic governance and structural reform.** The legislative framework for 2014-20 formalised the linkages between ESIF and the European Semester and economic governance, notably the requirement for Partnership Agreements and Operational Programmes to take account of country-specific recommendations (CSRs), and the introduction of macroeconomic conditionality. Cohesion policy is also providing financial and technical resources for structural reforms, including administrative capacity building. The question is whether these linkages can and should be developed further. Structural reform conditionality is one possibility, for example introducing a mix of incentives (higher co-financing rate, increased advance payments, and flexibility in applying de-commitment) and/or sanctions (suspensions of commitments and payments) linked to structural reforms through the annual cycle of the European Semester. These have, though, been rejected by Member States on the grounds of infringement of subsidiarity, potential policy conflicts and administrative costs.

1. INTRODUCTION

The period 2016-17 is a crucial year in the future of Cohesion policy, with debate intensifying on the future of EU spending after 2020, stimulated by the Mid-Term Review of the Multiannual Financial Framework (MFF) published by the European Commission in mid-September 2016. Following the pattern of previous reform debates, the EU institutions, Member States, interest groups, academics and other stakeholders are beginning to set out ideas and options for the EU budget as a whole and for individual policy areas. Discussion about the future of Cohesion policy is also following a well-worn path, including themes such as the added value, performance and efficiency of the policy.

However, the evolving debate on the future of EU Cohesion policy after 2020 is taking place in markedly different circumstances compared to the discussions of the early 2000s on the 2007-13 period and debate of the mid-2000s on the 2014-20 period. The most important difference is that the EU is recovering from the most serious recession in its history and is dealing with fundamental economic and political challenges associated with the survival and future governance of the eurozone, pressures of migration and the maintenance of Schengen, and (as yet uncertain) consequences of the UK referendum vote to leave the EU on 23 June 2016.

Further, with respect to the dynamics of the reform process, there is no clear, agreed strategic imperative for change to the architecture of Cohesion policy. In the reform debate for 2007-13, the key questions – relating to the implications of the 2004 enlargement - were already set out in the Second Cohesion Report (2001). Likewise, the debate on policy reform for the 2014-20 period was initiated with the Fourth Cohesion Report (2007) and key principles on the need to improve performance and link the policy to EU objectives were set out in 2008.

The relatively later development of policy ideas by the Commission on post-2020 Cohesion policy is partly because the 2013 reform involved major strategic change, with an extensive body of legislation that has taken time to enact, that addressed key criticisms of the policy (notably effectiveness) and whose effects in practice are not yet clear. Also, the Commissioner for Regional Policy and DG Regio have not been in a position to provide the direction – strategically or tactically - that was given by the Barnier Group in the early 2000s or the commissioning of the Barca Report in 2007. Further, it is not clear whether a successor to the Europe 2020 strategy will be developed by the Commission, although its Annual Growth Survey for 2016 did note that a process was being launched for developing a longer term vision beyond the 2020 horizon**.** Lastly, there are currently no public, alternative propositions for the future of Cohesion policy from other parts of the Commission comparable to the Sapir Report.

In the absence of a strategic clarity on the future of Cohesion policy, others have been filling the policy space, with ideas for boosting spending on the European Fund for Strategic Investments (Commission President, Jean-Claude Juncker) or utilising European and Structural Investment Funds to promote structural reforms as an arm of European economic governance (German Finance Minister, Wolfgang Schäuble). More generally, there are debates on whether and how Cohesion policy should be used more flexibly to address EU concerns such as migration, and the need for more simplification in the management of the Funds – and even a more differentiated approach to the management of the Funds.

These are of course early days and, as EU and national policymakers focus on the development of positions, more concrete ideas will undoubtedly emerge. In this open environment, there is considerable scope for new ideas to be put forward as contributions to the debate.

The aim of this paper is to examine future options for Cohesion policy after 2020.[1] It begins by exploring the current state of debate on the MFF, notably the Mid-Term Review and implications for the future of the EU budget. The paper then discusses the reform of Cohesion policy, highlighting key questions and exploring options for change.

[1] The paper builds on the series of EoRPA Cohesion policy papers produced in recent years, notably Mendez C and Bachtler J (2015) *Permanent revolution in Cohesion policy: restarting the reform debate*, EoRPA Paper 15/4, and Mendez C and Bachtler J (2014) *Prospects for Cohesion policy in 2014-20 and Beyond: Progress with Programming and Reflections on the Future,* EoRPA Paper 14/4. An earlier version of this paper was presented at an Interim Meeting of EoRPA in Amsterdam on 19 April 2016: Bachtler J and Mendez (2016) *Exploring New Ideas for Cohesion Policy 2020+*, EoRPA Briefing Paper 16/1, European Policies Research Centre, University of Strathclyde, Glasgow.

2. THE MID TERM REVIEW OF THE MFF

The future of Cohesion policy has to be seen within the context of the wider Multiannual Financial Framework (MFF). Some indications of how this might evolve after 2020 are provided by the Mid Term Review of the Multiannual financial Framework 2014-2020, tabled by the Commission on 14 September 2016.[2] The background to the review was a key demand of the European Parliament during the negotiation of the MFF in 2013 to allow the next parliament (elected in May 2014) and Juncker Commission (formally appointed in November 2014) to reassess priorities for the second half of the MFF (2017-20 period) taking account of changes in the economic situation.

The mid-term review package includes:

- a mid-term review Communication and Commission staff working document;
- a proposal for a revision of the MFF Regulation and Inter-Institutional Agreement (for flexibility)
- a proposal for simplifying financial rules under the Financial Regulation and relevant basic acts (the so-called “omnibus” Regulation)

Linked to these proposals are:

- a proposal for doubling the size of the European Fund for Strategic Investments;
- a proposal for the European Fund for Sustainable Development Fund (under the External Investment Plan); and
- a WIFI4all proposal, providing for free wifi access for citizens in certain locations

The mid-term review takes stock of achievements during the first three years of the MFF (2014-2016) and, without altering the existing spending limits, proposes a €6.3 billion package of additional financial measures by 2020 to support job creation, investment and economic growth and to address migration challenges. The review makes proposals to for the EU budget more flexible in responding to unforeseen circumstances and simplifies some financial rules. It also identifies some of the contextual pressures and principles that will inform the post-2020 reform of the MFF due to be proposed at the end of 2017. As noted, the Mid Term Review of the MFF is accompanied by a legislative proposal to modify the MFF regulation and other accompanying legislation, which the Council and Parliament will need to adopt. [3]

2.1 Taking stock of achievements

The review takes stock of key achievements of the current MFF cycle across all the budget headings. The main successes highlighted in the Commission’s press release are:[4]

- the funding to support integration of refugees, security, border control, and managing migration, which was almost doubled to more than €15 billion for 2015-2017;

[2] European Commission (2016) *Mid-term review/revision of the multiannual financial framework 2014-2020*: An EU budget focused on results. Communication from the Commission to the European Parliament and the Council, COM(2016) 603 final, 14.9.2016, Brussels: http://ec.europa.eu/budget/mff/figures/index_en.cfm

[3] *Proposal for a COUNCIL REGULATION amending Regulation (EU, Euratom) No 1311/2013 laying down the multiannual financial framework for the years 2014-2020*, COM(2016) 604 final.

[4] European Commission (2016) *State of the Union 2016: EU budget review further focuses budget on priorities, ensures more flexibility and less red tape*, Press release, Strasbourg, 14 September 2016.

- the Youth Employment Initiative has assisted over 1.4 million people, exceeding initial estimates;
- around €200 billion is earmarked for measures in a number of policies to mitigate and adapt to climate change over the 2014-2020 period; and
- the European Fund for Strategic Investment (EFSI) is said to have mobilised €115 billion in investments in its first year, leveraged in significant additional public and private finance, especially particularly successful for small firms.

With respect to Cohesion policy, the MTR provides a mixed (arguably negative) review. It acknowledges that the new regulatory provisions aim to increase the effectiveness and added-value of the funds through concentrating funding on European 2020 objectives and country-specific recommendations, the performance framework and reserve, ex-ante conditionalities and closer linkages with economic governance. But the main point made is that implementation has been delayed, in part because of the need to set up the new performance-oriented measures but also owing to the late adoption of the legal acts, the extension of the decommitment rule which has relaxed spending discipline, and because of the focus on maximising absorption under the 2007-2013 programmes. Interestingly, the review contrasts the delays in Cohesion policy with a more positive performance under the Competitiveness heading 1a, although the comparison is flawed because it is based on committed funding or project demand under the latter heading and actual certified expenditure in the case of the ESIF:

> *"In contrast to the delays in cohesion policy, competitiveness programmes under direct management under heading 1A of the MFF ("Smart and Inclusive Growth"), such as Horizon 2020, the CEF and COSME, have experienced very strong take-up, with calls for application resulting in a number of eligible projects often exceeding the available budget by a significant margin. It is also the case of Erasmus+, with a strong EU value-added in its transnational mobility activities, contributing to skills development, employability of students and less likelihood of unemployment."*

2.2 A package of financial measures for performing programmes and new challenges

The MTR comprises a financial package of around €6.3 billion in additional financing by 2020 or €13 billion when including the draft budget 2017 (€1.8 billion) and the technical adjustment made to cohesion envelopes (€4.6 billion) (Table 1). The extra funding will not require additional Member State contributions as the funding will come from some of the reserves of the budget (unallocated margins and special instruments).

Table 1: European Commission Mid-Term Review financial proposals

Mid-Term Review proposals	Millions (€) in current prices
Heading 1A: • Horizon 2020 • CEF-Transport • Erasmus+ • COSME • Prolongation of EFSI • WIFI4EU	**1,400** • 400 • 400 • 200 • 200 • 150 • 50
Heading 1B: • Youth Employment Initiative	**1,000** • 1000
Heading 3: European Border and Coast Guard, EUROPOL, EU Agency for Asylum, Dublin common asylum system, Emergency support within the Union, Entry/Exit system	**2,549**
Heading 4: • Partnership framework process • European Fund for Sustainable Development • Macro-financial assistance • External Lending Mandate	**1,385** • 750 • 250 • 270 • 115
TOTAL	**6,334**
Draft Budget 2017 • Additional spending on migration (from special instruments and margins)	**1,822**
Technical Adjustment of Cohesion policy envelopes • For sustaining the effort to fight against youth unemployment, integration of refugees and supporting investment through financial instruments and in combination with EFSI	**4,642**
TOTAL Mid-Term Review Package	**12,798**

Source: COM(2016)203: 16

The focus of the additional funding will be to support investment and to address migration challenges.

- €2.4 billion is allocated to support growth and jobs through investment programmes - notably the EFSI, the Youth Employment Initiative, research and innovation (Horizon 2020), the programme for the Competitiveness of Enterprises and SMEs (COSME), Erasmus as well as the Connecting Europe Facility (CEF). This includes a legislative proposal to transfer €500 million from the CEF to the EFSI and €1.1bn from CEF financial instruments to grants to be blended with EFSI.

- €2.5 billion is to support the ongoing work in the areas of migration, security and external border control, including the setting up of the European Border and Coast Guard, the EU Agency for Asylum, and the reform of the Common European Asylum System.

- €1.4 billion is allocated for the Global Europe budget heading notably for the European Fund for Sustainable Development and for migration partnerships.

In terms of the technical adjustment of the Cohesion envelopes in June 2016 (Member State outcomes reviewed below), the Commission is encouraging the largest beneficiaries to focus the

additional allocations on addressing youth unemployment challenges (Spain, Italy and Greece) and potentially migration (at least in Italy and Greece).

2.3 Flexibility and a new EU Crisis Reserve

The Commission also proposes to improve the ability of the EU budget to react quickly and adequately to unforeseen events such as the migration crisis, including:

- setting up a new European Union Crisis Reserve dedicated to spending on priorities to be funded by decommitted appropriations;
- doubling the size of the Flexibility Instrument (to €1 billion) and the Emergency Aid Reserve (to €0.5 billion), which have been used to support the migration packages since 2015;
- introducing a 'flexibility cushion' for support outside the EU through a reserve of up to ten percent of annual commitment appropriations; and
- allowing Trust Funds for emergency or specific actions within the EU (currently only allowed outside of the EU).

With respect to Cohesion policy, revisions to financial rules include provisions to provide legal certainty for supporting the reception and integration of migrants and refugees.

2.4 Simplification of rules

Together with the mid-term review, the Commission is proposing in a single act to simplify some financial rules for Member States and beneficiaries of EU funding accompanied by changes to the sectoral financial rules. Some of the key measures include:

- simplification for recipients of EU funds, for example, reinforcing the use of standard cost options under the ESIF;
- allowing the application of only one set of rules to hybrid actions or combined measures or instruments, notably by facilitating the combination of ESIF with financial instruments and the EFSI, as well as a provision to allow a direct award of financial instruments to publicly owned banks or institutions operating under public mandate;
- to facilitate cooperation, the EU will be able to rely on already existing audits and controls by other donors, like the UN; and
- the financial rules will be consolidated and 25 percent shorter than at present.

2.5 Towards the post-2020 Multiannual Financial Framework

The Commission Communication is vague on the post-2020 period, although it does highlight some of the key challenges and priorities. Proposals for the next MFF are due by the end of 2017 and will be steered by the BFOR initiative and, assessment of the effectiveness of existing approaches (in areas such as Cohesion policy, the Common Agricultural Policy and the external action instruments) and the new visions for the EU including the future of economic and monetary union. It will also provide an opportunity re-examine the structure, financing and duration of the budget to ensure that they maximise its ability to support Europe's political objectives.

- **The need for flexibility** to respond to unforeseen circumstances will be a key priority in light of the multiple crises faced in recent years. The Commission notes that some 80 percent of the EU budget is pre-allocated in the current MFF (i.e. the CAP and Cohesion Policy), which limits the budget's responsiveness to evolving needs and argues that the setting-up of reserves which can be rapidly mobilised within and across the Union's main programmes should be re-examined.

- **Maximising effectiveness and efficiency.** Another key aspect of the reflection is how the effectiveness and efficiency of EU funds can be maximised building on some of the innovations of the current MFF, including the following.

    - **Conditionality:** Even a small amount of money can have a significant impact by making financing conditional on changes in national policy-making.

    - **The link between ESIF and economic governance** will deserve renewed attention in the context of the next MFF, building on the assessment of progress made under the current provisions.

    - **Leverage and synergies:** Expanding the use of financial instruments is deemed crucial such as through the EFSI and other new instruments such as trust funds as well as building on the proposed possibility for creating contingent liabilities beyond the assets provided and the creation of a common provisioning fund which would centralise guarantees. Fostering cooperation between Member States in areas where economies of scale and/or externalities are significant will be essential, notably where cooperation at EU level has gained in importance, e.g. on security and defence.

    - **Simplification:** A re-examination is needed of the requirements for programmes under shared management given the implementation delays witnessed.

- **New spending areas.** The Commission will examine potential for the EU budget to contribute in new areas highlighting defence and security and in relation to the completion of Economic and Monetary Union following the roadmap in the Five Presidents' report.

- **EDF budgetisation.** The Commission will carefully analyse the way forward for the budgetisation of the European Development Fund taking into account all relevant circumstances and considerations

- **Own resources.** With respect to the own resources, the Commission acknowledges the growing consensus on the need for reform and looks forward to the recommendations of the High-Level Group on Own Resources which will provide an important contribution for the preparation of its proposals for the next MFF (the results of an independent study commissioned by the group are presented below).

- **Duration of the MFF.** The current duration of seven years is not aligned with the five-year terms of the mandate of the European Parliament and of the Commission. The challenge is

how to reconcile these accountability requirements with the longer time frames needed for preparing and implementing EU funds, in particular those under shared management.

3. THE DEBATE ON THE POST-2020 MFF

Debate on the future of the EU budget have been developed at several major conferences over the past year. These include a conference on the 'Future of the EU Multiannual Financial Framework' organised by the Federal German Foreign Office (June 2015) and the first two Annual Conferences 'EU Budget Focused on Results' organised by the European Commission (September 2015 and September 2016).[5] Also worth noting is the Brussels symposium 'The Future of EU Finances' in January 2016 to present a major study sponsored by the German Federal Ministry of Finance.[6], and followed up with a further BMF event in June 2016 'New Priorities in the spending – How to Shape the Budget of the Future?'. In addition, the Dutch EU Council Presidency organised a major conference on the post-2020 MFF in January 2016 with the aims of kick-starting the discussions at EU level and brainstorming ideas with around 200 high-level participants.[7] The Slovak EU Council Presidency also convened a conference and informal DG Meeting on post-2020 reforms.

On the future of own resources, there have been several meetings and seminars throughout 2016, including in the ECOFIN Council and a European Parliament conference with budget committees of national parliaments in September, during which a study commissioned by the High-level Group on Own Resources was presented. Closely related to the own resources issue, is the impact of Brexit on the future MFF which has potentially important financial implications for the size of the MFF and individual spending headings given the UK's net payer status.

3.1 Key principles

These discussions rehearsed many of the long-standing problems of the EU budget, in terms of process and structure. They include the "obsession with net balances" and its impact on expenditure quality and distribution, the need for the EU to have genuine 'own resources', and the limited ability of the EU to react in a crisis; [8] there was also a recognition that the structure of the budget has shifted significantly towards EU priorities such as research and the low-carbon economy, the application of performance reserves, the increased use of financial instruments, and the introduction of ex ante and macro-economic conditionalities.

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

- **European added value –** interpreted partly as aligning the EU budget with the EU's political aims (Juncker), and potentially aligning spending to Country Specific Recommendations (Thyssen, Schäuble); the possibility of merging existing investment programmes into a single, EU investment fund to foster economic growth (Koenders);

[5] European Commission (2015) *EU Budget Focused on Results – Conference Summary*, 22 September 2015, http://ec.europa.eu/budget/budget4results

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

[7] Report of the Presidency Conference on the Multiannual Financial Framework (MFF), 28 January 2016, Amsterdam: http://tinyurl.com/gpksg6s

[8] Ferrer J N (2015) *Interim Assessment of the current MFF – critical view on the outcome of the MFF negotiations*, Speech to the Conference 'Future of the EU Multiannual Financial Framework', Berlin, 15 June 2015. Lehner S (2015) *Implementation of 'Better Spending'*, Speech to the Conference 'Future of the EU Multiannual Financial Framework', Berlin, 15 June 2015.

- **Improving performance** – rebalancing measures of performance, away from the primary concentration on absorption and compliance to the results of spending (Georgieva); increasing effectiveness by using EU funds to stimulate more private sector investment, using funding to achieve multiple objectives, and greater accountability (Juncker); and greater application of performance-informed budgeting (Robinson) and more use of conditionalities;

- **Transparency -** the need for greater transparency towards EU's citizens to ensure greater visibility for EU spending, demonstration of the relevance of EU spending, and more understanding of the EU role (Georgieva, Thyssen);

- **Simplification** – simplifying rules by orienting controls towards the risk profile e.g. lower risk, simpler controls and vice versa (Georgieva);

- **Flexibility -** the need for more flexibility to cope with unforeseen purpose and new challenges, such as the refugee crisis or future economic shocks (Georgieva, Schäuble); the possibility of creating a substantial general (crisis) margin with clear rules on how it can be accessed.

3.2 Own Resources

With respect to funding sources, the need to move towards a genuine system of own resources has been a long-term objective for the Commission and European Parliament, but this has been resisted by the Council, notably Member States that would lose out from radical changes to the system. In exploring options for new "own resources" for the financing of the EU budget, a Financial Transactions Tax (FTT) has been one of the most often cited sources of new revenue for the EU budget. Various other options for own resource include a reformed VAT, reformed EU Emissions Trading System and Carbon taxation, transport taxation, EU wide corporate taxation, digital taxation.

To facilitate the development of reform options, a high-level group on own resources (HLGOR) was set up in February 2014 to review the own resources system and provide recommendations to the Commission. The HLGOR produced a 'First Assessment' in November 2014, reviewing the current system, previous reforms and identifying guidelines for the forthcoming work, notably the criteria and broader issues to be examined further to create the conditions for reform. The report acknowledges the major obstacles to reforming the current system and aims at finding practical solutions, in particular by enlarging the debate to "a comprehensive analysis of the problem, comprising economic, budgetary, institutional and political aspects". A final report with recommendations will be delivered at the end of 2016 to feed into the MFF review.

A study on the potential and limitations of reforming the financing of the EU budget was commissioned by the European Commission on behalf of the HLGOR and published in July 2016.[9] It discusses potential elements of a reform, from an assessment of new resources to reforms connected with expenditure-side improvements (Part III), and presents the potential elements of a possible package deal (Part IV, see Box 1). Wider issues concerning the role of the EU budget in relation with the Eurozone and the duration of the MFF are also explored.

[9] Ferrer J.N, Cacheux J.L, Benedetto G. Saunier, M Candau F, Emonnot C, Lachet-Touya F, Mortensen J, Potteau A and Taranic I (2016) *Potential and Limitations of Reforming the Financing of the EU Budget,* The Centre for European Policy Studies, Brussels.

3.3 The impact of Brexit on the MFF

Following the UK referendum vote to leave the EU, the implications of future Brexit scenarios for the future MFF has become a critical issue. It has been calculated that the loss of the UK, post-rebate contribution is equal to much of Heading 1a (Competitiveness for growth and jobs) or the same order of magnitude as the gross contribution of the EU12.[10] An internal document by the German federal government reported in the media suggest that Britain's departure from the EU would mean the "loss of the second biggest net payer" and an "increase of the German share of financing of the EU budget by about €4.5 billion a year in 2019 and 2020."[11]

Another study by the Centre for European Policy Studies suggests that the impact of Brexit on the EU budget would not be major and could be easily absorbed, based on analysis of different scenarios of the future UK-EU relationship and using the 2014 EU budget as a reference case.[12] For 2016, the UK's net balance with the EU is estimated to be €4.6-6 billion (depending on the concept of net balance used), which equates to four percent of the EU budget. Assuming the UK would not make any contributions to the EU budget and existing rebates were discontinued, the biggest impact of the UK's departure on national contributions in absolute terms would be on Germany, which would need to increase its contribution by €2.56 billion (nine percent increase), followed by France with €1.47 billion (seven percent increase) see Table 2. Several countries would, on the other hand, see marginal falls in their contributions (BG, EL, LV, NL) because of the change in the weight of the different sources (UK VAT and customs contributions impact) and the redistributive effects of the elimination of rebates.

A second scenario assumes that the UK enters an EEA membership agreement to secure preferential access to the single market and is treated like Norway in terms of making EU budget contributions. Here, the EU budget reduction would be in the order of €3.4 billion. Compared to the first scenario, this would reduce the impact of Brexit on the largest net payers Germany (by €0.9 billion to €1.67 billion) and France (by €0.65 billion to €0.83 billion) and increase the number of countries witnessing reductions in their contributions (BG, EE, EL, ES, LV, NL, PT, RO).

While not modelled explicitly, the authors highlight a third scenario in which the UK leaves the single market and tariffs are imposed in line with WTO rules. Assuming that UK export volume to the EU were maintained at 2015 levels (a value of €220 billion) and that an average two percent tariff was applied to EU imports, the authors estimate that this could bring €4.6 billion in revenue to the EU budget, cancelling out most of the net loss from Brexit. The overall conclusion reached is that the reduction in EU contributions from Brexit would not be a catastrophe for the EU budget and could be relatively easily absorbed. That said, the financial implications for some of the net payers could be significant if current levels of EU spending are maintained.

A distributional question that is not considered in the CEPS paper is the impact of Brexit on different EU spending headings. The critical issue here is whether a standard reduction would be applied to all

[10] Begg I (2016) *Red bus timebomb*, UK in a Changing Europe, 28.10.16, http://ukandeu.ac.uk/red-bus-timebomb/

[11] Müller P, Reiermann C and Schult C (2016) Britain's Departure Likely to Cost EU Billions, *Spiegel Online*, 14.9.16. Also Kullas M, Dauner M, Pötzsch U and Hohmann I (2016) *Redistribution between the EU Member States Winners and losers of European transfers,* epStudy, Centre for European Policy, September 2016.

[12] Núñez Ferrer J and Rinaldi D (2016) *The Impact of Brexit on the EU Budget: A non-catastrophic event,* No. 347, 7 September 2016: https://www.ceps.eu/system/files/Impact%20of%20Brexit%20on%20EU%20budget.pdf

headings of the EU budget after Brexit, or based on the 'share' of the UK's net contribution to each heading; if the latter, Cohesion policy and the CAP would take a disproportionately affected. There are also distributional consequences for Member State eligibility for Cohesion policy from a British exit of the EU due to shifts in average GDP per head levels (see Section 4.3).

Box 1: Potential elements of a package deal

1. Commit to a budget driven by EU added value and clear objectives with better monitoring and flexible approaches. The commitment has to be accompanied by a deep and detailed review of measures financed by the EU in the Mid-Term Review – going beyond main headings to level of actions that EU budget allows.
2. Commit to agree to a substantial reform of the expenditure based on the results of the Mid-Term Review, making parts of the own resources agreement subject to steps in the reforms. New resources could be phased in according to milestones achieved in reforms.
3. Identify all headings that have to be excluded from any correction calculation (which could go down to sub-headings) in addition to the heading for external action, such as R&D support, administrative expenditure, the Connecting Europe Facility, funds allocated for financial instruments, internal policies, structural funds for EU objectives and EU added value.
4. Introduce a co-financing system for the CAP, preferably with an emphasis on cohesion or linked to the added value generated by farms (the level of co-financing would be based on the level of added value (wealth) generated by the sector to the economy). The EU co-financing would be lower, the higher the added value.
5. Link any corrections to specific headings that Member States do not agree to fulfil EU added value criteria, and in cases where costs or benefits are disproportionate compared with Member States in a similar situation. Corrections have in all cases to be justified, and terms agreed on reform targets and explicit conditions for removing the corrections. Corrections would remain or fade depending on the progress in resolving the policy bias negatively affecting the Member State(s) concerned.
6. Increase flexibility substantially, possibly through creation of a funded budget heading for unforeseen events.
7. Incorporate the ETS revenues as own resources for the EU budget.
8. Institute carbon tax - maybe combined for those disadvantaged with investment in decarbonisation programmes.
9. Introduce a corporate income tax after a common base has been established. 10) Introduce of a real VAT rate for those items where all Member States apply VAT.
10. Introduce a real VAT rate for those items where all Member States apply VAT.
11. Use a GNI key either to finance the residual on a simple GNI share base or other adapted wealth-based approach, but while accepting that the resources are fully owned by the EU.
12. If some of the resources are not accepted as fully owned, calculate the residual GNI contribution so as to ensure that all pay the same share.
13. Introduce the FTT in those countries that wish to join an enhanced cooperation procedure. The funding raised could be treated like fully owned resources. Other Member States would then pay the residual through a GNI resource.
14. If FTT is not accepted because of the benefits for those not participating, agree on a compensatory additional contribution to the EU budget by non-participating Member States, based on some common method of calculation. This may be on a GNI share based on the case where the budget would have been fully financed by the GNI resource.
15. Possibly exclude EU budget contributions from the stability pact, as revenue is attributed to the EU budget.

Source: Ferrer and Rinaldi (2016) *op cit.*

Table 2: CEPS Simulation changes in gross contributions, using 2014 budget

	Scenario A UK contributions set to zero		Scenario B UK as EEA member	
	€ million	% change	€ million	% change
BE	+191.9	+4.98	+72.0	+1.93
BG	-4.9	-1.24	-17.1	-4.43
CZ	+74.6	+5.39	+31.6	+2.36
DK	+265.4	+10.71	+186.5	+7.77
DE	+2562.0	+9.03	+1676.4	+6.10
EE	+5.6	+3.05	-0.1	-0.03
IE	+104.4	+6.83	+56.8	+3.84
EL	-59.4	-3.36	-112.6	-6.57
ES	+141.2	+1.39	-172.3	-1.76
FR	+1477.2	+7.02	+827.9	+4.06
HR	+22.7	+5.53	+10.2	+2.57
IT	+791.9	+5.22	+311.1	+2.12
CY	+17.9	+11.13	+13.0	+8.32
LV	-13.5	-5.83	-20.6	-9.20
LT	+12.2	+3.67	+1.7	+0.53
LU	+51.1	+18.05	+42.3	+15.43
HU	+63.9	+6.70	+33.9	+3.67
MT	+8.2	+11.14	+6.0	+8.32
NL	-71.7	-1.13	-269.0	-4.39
AT	+493.0	+15.48	+395.0	+12.80
PL	+207.3	+5.55	+89.3	+2.47
PT	+26.2	+1.58	-24.8	-1.54
RO	+24.3	+1.77	-19.3	-1.45
SI	+30.6	+8.57	+19.7	+5.69
SK	+57.2	+8.38	+35.2	+5.32
FI	+187.0	+9.52	+126.2	+6.63
SE	+421.3	+9.91	+288.7	+0.07

Source: Ferrer and Rinaldi (2016) *op cit.*

4. THE REFORM DEBATE ON COHESION POLICY

Focusing now on Cohesion policy, the post-2020 reform is a lengthy process involving three key stages and a series of milestones and inputs (Figure 1).

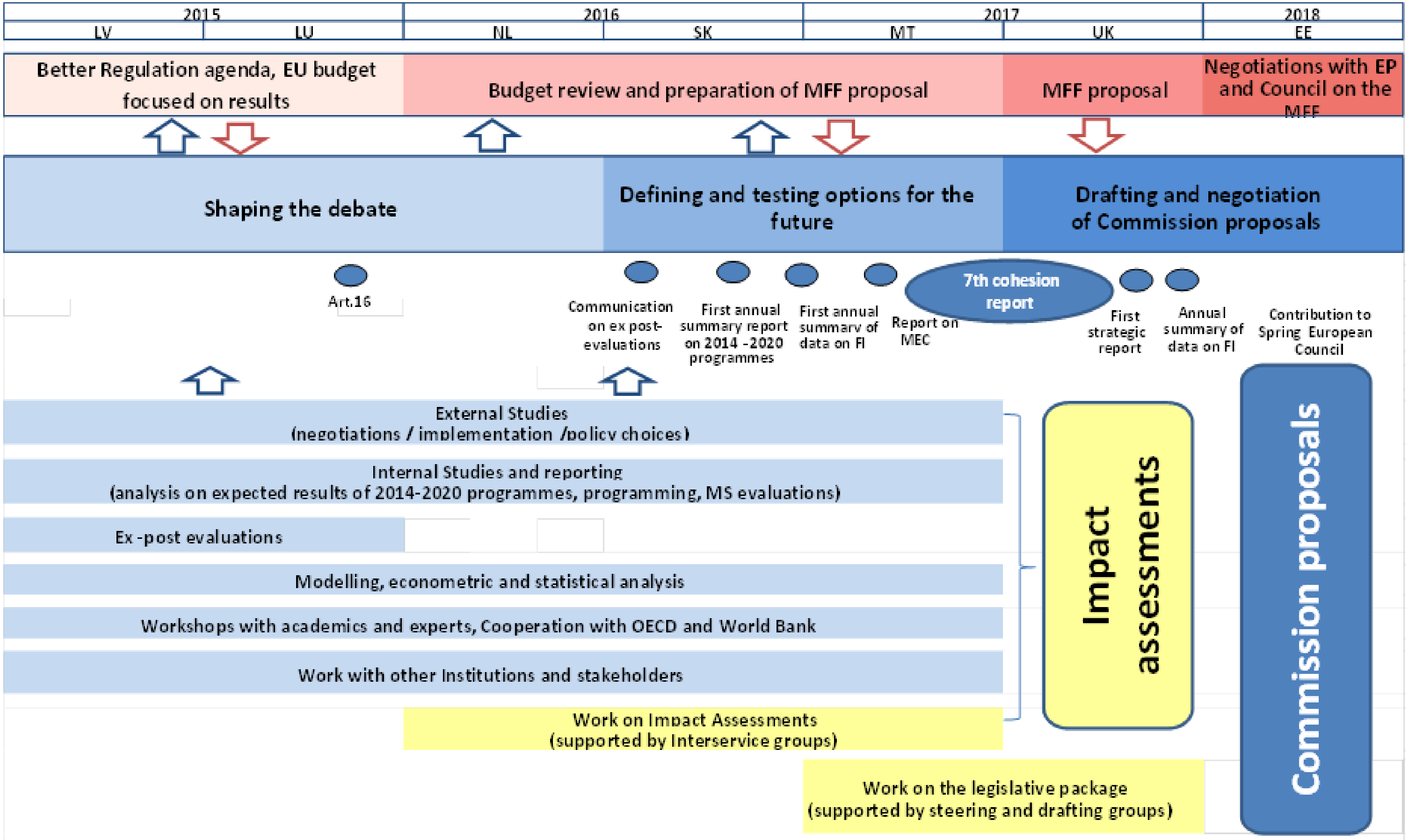
1. **Shaping the debate (2015 to mid-2016).** The first stage has involved the collection of evidence and lessons to inform post-2020 debate through the commissioning of a series of studies on the programming and implementation of the 2014-20 programmes and the ex-post evaluation of the 2007-13 period.

2. **Defining and testing options (mid-2016 to mid-2017).** Reform options are being developed in the latter half of 2016 informed by further analytical work and the implementation of the 2014-20 programmes, including: a communication synthesising ex-post evaluations; the first annual summary report on the ESI Funds 2014-20; the first annual summary of data on Financial Instruments; a report on the review of measures linked to sound economic governance; and the first Strategic Report on the implementation of the 2014-20 programmes.

   The preparation of the post-2020 reform impact assessment will also begin together with a public consultation and a Cohesion Forum in June 2017 to gather the views of stakeholders. An outline of the Commission's reforms proposals is expected in the Seventh Cohesion Report in 2017.

3. **Drafting and negotiation of Commission proposals (mid-2017 to 2018+).** The drafting of legislative proposals will begin in mid-2017 and will be formally tabled in 2018, once the MFF proposals are published (at the end of 2017) setting out the key budgetary parameters. The inter-institutional negotiations will then commence and could take up to two years based on previous experiences.

Figure 1: Milestones in the reform of Cohesion policy



Source: Pienkowski J (2015) Preparations for post-2020 impact assessment, Presentation to DG Regio Evaluation Network, 5 November 2015, Brussels.

4.1 Taking stock of achievements and lessons

The future design of Cohesion policy will be informed by implementation experiences and the results of evaluation studies, which will feed into the Commission ex-ante impact assessments of reform proposals. To date, most of the available evidence is from the ex-post evaluations of the 2007-2013 period, supplemented by various studies assessing the take-up of the new provisions in 2014-2020[13]

4.1.1 The 2007-2013 period

The ex-post evaluation of the ERDF and Cohesion Fund support for the 2007-13 period was a major exercise divided into 14 work packages concentrating on distinctive policy areas and issues. As in the evaluation of the 2007-13 period, a synthesis of all the work packages was produced summarising the key findings and implications.[14]

The main conclusion of the synthesis report is that Cohesion policy was effective in addressing its objectives by making a major contribution to jobs and growth, to the pursuit of both the Lisbon agenda and the Europe 2020 strategy priorities, and to the reduction of regional disparities despite the difficult context of the economic crisis. The evidence of impact is largely based on the econometric modelling and macro-economic simulation work packages. Macroeconomic modelling (using the QUEST III model) shows that cohesion and rural development spending in the EU12 led to GDP in 2015 being increased by four percent, with more modest impacts in the EU15 given the much lower allocations relative to GDP. Counterfactual impact evaluations of Structural and Cohesion Funds support to EU27 regions during the period 1994 to 2013 show a positive impact in terms of annual per-capita GDP growth due to the higher intensity of EU funds, although the impacts on gross fixed capital formation and employment rate changes are not statistically significant.

Evidence of significant achievements at EU-level is also provided through aggregated core indicators reported in implementation reports such as the creation of 940,000 jobs (gross), supporting 400,000 SMEs directly, assisting 121,000 start-ups and the construction of 4,900 km of roads, almost half of which are on the Europe-wide TEN-T network (Table 3).

A second key conclusion is that EU Cohesion policy provides clear EU added-value in terms of supporting investment that would not have occurred without the EU contribution. This applies to INTERREG programmes under the European Territorial Cooperation objective in particular, but also to: transport investments, notably Trans-European Transport Networks (TEN-T) in the EU12; environmental infrastructure investments in clean water supply, wastewater treatment and waste management; and SME support during the crisis when there was a shortage of credit, especially in the EU12 and the Less-Developed Regions in the southern EU15 Member States.

[13] SWECO, ÖIR & Spatial Foresight (2016) *The implementation of the performance frameworks in 2014-2020 ESI Funds*, Final Report, Directorate-General for Regional and Urban Policy, August 2016, Brussels; METIS & ICF (2016*) Implementation of the provisions in relation to the ex-ante conditionalities during the programming phase of the European Structural and Investment (ESI) Funds,* Final Report, Directorate-General for Regional and Urban Policy, July 2016, Brussels; Altus (2016) *The use of new provisions during the programming phase of the European Structural and Investment Funds,* Final Report, Directorate-General for Regional and Urban Policy, May 2016, Brussels. European Commission (2015c) *Investing in jobs and growth – maximising the contribution of European Structural and Investment Funds*, Communication from the Commission, COM(2015) 639 final, Brussels, 14.12.2015

[14] Applica and Ismeri Europa (2016) *WP1: Synthesis report Ex post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF),* Luxembourg: Publications Office of the European Union.

Table 3: Values of core indicators reported for programmes co-financed by the ERDF and Cohesion Fund up to end-2014

Core indicator	Value at end-2014
Aggregated Jobs (no.)	940,000
RTD projects (no.)	95,000
Cooperation projects between enterprises and research institutions (no.)	33,600
Research jobs created (no.)	41,600
SMEs directly supported (no.)	400,000
Start-ups supported (no.)	121,400
Jobs created in SMEs (gross, full-time equivalent, no.)	322,100
Additional population covered by broadband (thousand)	8,400
Km of new roads (no.)	4,900
Km of new TEN roads (no.)	2,400
Km of reconstructed roads (no.)	28,600
Km of new railway (no.)	1,100
Km of TEN railway (no.)	2,600
Km of reconstructed railway (no.)	3,900
Additional capacity of renewable energy production (megawatts)	3,900
Additional population served by water projects (thousand)	5,900
Additional population served by waste-water projects (thousand)	6,900
Area rehabilitated (square km)	1,100
Jobs created in tourism (no.)	16,200

Source: Applica and Ismeri Europa (2016): 197

The evaluation of the delivery system showed that the system was effective in absorbing funding with a few exceptions (notably Italy and Romania) where there was a risk that not all of the funding would be spent. However, the absorption of funding was generally prioritised over effective spending. Delays in implementation were largely caused by the impact of the crisis on the availability of co-finance and investment uncertainty, lengthy and inefficient project appraisal and procurement and high staff turnover, particularly in the EU12.

The thematic concentration of funding on EU priorities, through the Lisbon earmarking mechanism, was largely respected. It did not impose major restrictions on management, partly because of the general nature of the priorities and vague project selection, which allowed a wide and dispersed range of priorities and instruments to be supported and hampered the policy's effectiveness.

More effective compliance performance was found in terms of a lower error rate owing to improved controls. However, the majority of managing authorities reported that the administrative burden was disproportionately high relative to funding, especially for smaller programmes. The evaluation also points to domestic sources of administrative burden, notably in the EU12 and southern Convergence regions, emanating from "multiple, often poorly coordinated layers of control, contradictory interpretation of the regulations, a lack of capacity at management level, the low uptake of simplification measures and the limited use of digital technology".

In taking stock of the lessons to be drawn and policy implications for the future, the report sets out a number of weaknesses and recommendations, many of which were already identified in the previous ex-post evaluation for 2000-06 and which have been taken into account of in the 2013 reform.

- **Objectives.** Vague objectives expressed in OPs making it difficult to define the projects for achieving them or to relate the results to the objectives. This was addressed in 2014-2020 through a requirement for specific objectives with accompanying result indicators and targets.

- **Concentration.** Excessive dispersion of funding across policy areas and objectives leading to insufficient spending in particular areas to achieve meaningful results. This was addressed in 2014-20 through obligatory thematic concentration and earmarking requirements.

- **Monitoring and evaluation**
    - lack of relevant indicators to monitor and evaluate outcomes, addressed in 2014-2020 through compulsory use of common output and result indicators;
    - lack of programme evaluations carried out in Member States that could be used for the present evaluation exercise - for 2014-2020, there is a requirement for programmes to undertake evaluations on each priority, but the report acknowledges that the needs for an improvement in the standard of impact evaluations;
    - more meta-evaluations needed to synthesise evaluations findings, which can be used as a reference by MAs across the EU;
    - better data needed on the implementation context so that outcomes can be more meaningfully interpreted, including Eurostat regional data (e.g. environment and social aspects, and public investment).

- **Capacity.** Lack of capacity in MAs in a number of countries, due partly to inexperience in several EU12 Member States but also to high staff turnover and institutional inefficiencies. For 2014-2020, the capacity of MAs to manage programmes is a particular focus and ex ante conditionality has been introduced to try to ensure that capacity is sufficient to carry out programmes.)

- **Administrative burden.** The administrative burden imposed on MAs was found to be disproportionate in many EU15 countries with small programmes. Various measures were introduced in 2014-2020 to reduce administrative burden - mainly for beneficiaries – and the report argues that there is an ongoing need to make auditing less costly and more efficient.

- **Absorption focus.** The excessive focus on the absorption of funding, partly because of the decommitment rule, at the expense of effectiveness. This is addressed in 2014-2020 by the emphasis on results and extending the n+2 decommitment rule by one year to n+3.

- **Procurement.** The procurement process emerged as a major source of delays in implementation, especially in the EU12. This was because of the widespread practice of awarding contracts on the basis solely of price and neglecting the quality of the bid, the expertise and financial viability of the tenderer.

Turning to specific instruments and policy themes, the key policy implications arising from the ex-post evaluation findings are as follows.

- **Financial instruments (FIs).** To realise the potential effectiveness and efficiency gains (relative to grants) there is a need for more detailed legal provisions, clearer linkages with programmes objectives (through binding agreements with fund managers and results oriented indicators) and more transparency on the costs of operating FIs and reporting of data on the recycling of funds and private funds attracted. (A more extensive set of recommendations on financial instruments is provided in a recent special report by the European Court of Auditors, summarised further below.)

- **SMEs and RTDI.** Support should be tailored to the local context and what they are intended to achieve. This may mean complementing financial aid with support services to increase the effectiveness of measures implemented as well as the greater use of intermediaries with knowledge of local conditions. In More-Developed Regions, ERDF support should place a greater focus on piloting innovative measures to add value to domestic schemes.

- **Large enterprises.** Support should be selective and conditional on there being tangible benefits to local economies and firms. Enterprises which are only slightly larger than SMEs deserve special attention.

- **Transport.** Continued support for road building in the EU15 is questionable, although this policy conclusion does not seem to have been reported in the transport work package report. Ongoing implementation difficulties in rail projects in some countries needs further attention. Consideration needs to be given to the appropriate division of funding between TEN-T projects and those aimed at meeting local and regional needs, both of which provide EU added value in terms of transport objectives and regional convergence.

- **Environmental infrastructure.** More attention is needed to management capacity especially for waste management projects in smaller local authority areas. Evaluations should be better aligned with the goals of relevant EU Directives.

- **Energy efficiency in residential and public buildings.** The use of loans or other kinds of FI should be examined as a more cost-effective means of support for energy efficiency measures than grants and facilitated with awareness-raising campaigns and off-the-shelf templates for such FIs. Energy audits should be a standard part of project selection criteria, to identify the reduction in energy use intended and to verify its achievement. Financial support should be complemented by a range of non-financial measures, including advice and guidance, certification schemes and building regulations.

- **Culture and tourism.** The potential of the two sectors to contribute to regional development should be more effectively targeted and integrated. Serious consideration should be given to supporting the development of creative industries as a potential source of growth and employment in particular regions.

- **Urban development and social infrastructure.** Coherent, area-based integrated strategies should be pursued where there is a clear need. Specific impact evaluations should be undertaken that cater for qualitative outcomes inherent to integrated approaches.

- **European Territorial Cooperation.** Programmes need to have a clear strategic focus extending beyond cooperation or joint action to competitiveness and territorial integrations as well as more attention to functional regions as an appropriate level to intervene. Better coordination with mainstream Cohesion policy programmes and dissemination of learning is needed to reinforce effectiveness. Lastly, there is a need to develop more meaningful indicators to capture the initiation or strengthening of cross-border cooperation.

Similar conclusions and policy implications are provided in an earlier study evaluating the achievements of Cohesion policy programmes and projects over the longer term - from 1989-1993 programming period to the 2007-13 period – in 15 selected regions.[15] The research demonstrated many positive achievements and improvements in the sophistication of strategies and programme management over the study period, albeit unevenly across the 15 regions. However, it also highlighted examples of poor practices including fragmentation of funding and a general need for more rigorous strategic programming. A further important factor was an enabling domestic policy framework and the existence or development of institutional capacity and leadership. In summary it provided evidence to support the direction of Cohesion policy in 2014-20, especially with respect to the emphasis on conditionalities, the new results-orientation, the enhanced performance framework and the promotion of capacity building.

The ex-post evaluations of the ESF echoed these findings,[16] although many of the final reports and synthesis report had not been completed as yet. Overall, the evidence gathered for the period 2007-2013 shows that the ESF was an effective instrument for supporting national and EU priorities in the area of human capital and supporting disadvantaged groups and with sufficient flexibility to adjust to the economic crisis. Targeted, tailored interventions was highlighted as a key success factor for facilitating effective implementation. A key recommendation was the need for greater thematic concentration to facilitate well-defined interventions and avoid supporting an excessively wide range of dispersed activities. The objectives for the different priorities could also be defined in a more robust way and supported by clear and measurable targets.

With respect to monitoring and evaluation, the evaluation called for a robust set of monitoring arrangements with comprehensive, reliable and comparable result indicators, more effective and coordinated planning of evaluation activities at both EU and national level, and greater use of impact evaluation. Lastly, the lack of efficient delivery and governance structures and insufficient management capacity of delivery partners were a recurrent problem for implementation requiring more attention.

A recent Commission Communication provides its own synthesis of the ex post evaluation findings and implications for the ERDF and Cohesion Fund. On the basis of the findings, the Commission concludes that Cohesion policy in 2007-2013 was effective but that that there is scope for increased efficiency through greater use of financial instruments and improved relevance, effectiveness and

[15] Bachtler J, Begg I, Polverari L, and Charles D (2013) *Evaluation of the Main Achievements of Cohesion Policy Programmes and Projects over the Longer Term in 15 Selected Regions (from 1989-1993 Programme Period to the Present (2011.CE.16.B.AT.015)*, Final Report to the European Commission (DG Regio), European Policies Research Centre, University of Strathclyde (Glasgow) and London School of Economics.

[16] ICF (2015) *European Social Fund (ESF) 2007-2013 ex-post evaluation: Investment in human capital, European Commission,* Publications Office of the European Union: Luxembourg; ICF (2016) *European Social Fund (ESF) 2007 – 2013 ex-post evaluation: Supporting the integration of disadvantaged groups into the labour market and society,* European Commission, Publications Office of the European Union: Luxembourg.

coherence through a stronger results orientation, and that these issues have been addressed in the 2014-20 Regulations.

- **Effectiveness.** The evaluations provided evidence that Cohesion Policy responded effectively to the challenges of the crisis and enlargement and delivered a wide range of positive results. Monitoring data shows that around one million jobs were created and macro-economic models estimate that Cohesion Policy in the period 2007-13 is likely to generate nearly €1 trillion of additional GDP by 2023. Further, the policy showed the capacity to be flexible during the crisis.

- **Efficiency.** There is scope for increased efficiency. While the revolving nature of financial instruments makes them more cost efficient in the long-run, 90 percent of ERDF financial instrument spending in 2007-13 was concentrated in just one field – enterprise support. The 2014-20 regulations have now extended the possibility of using financial instruments to all thematic objectives and is being strongly promoted in energy efficiency, renewable energy and transport infrastructure in line with the EU investment Plan.

- **Relevance, effectiveness and coherence of the actions.** A key lesson is the need for a stronger results orientation. Although results were delivered, only a minority of programmes had a clear intervention logic. This has been addressed in the 2014-20 Regulations by requiring specific objectives translated into result indicators with targets and benchmarks, projects to take account of programme results through selection criteria, a performance framework and reserve, and impact evaluations for each specific objective.

The Commission also highlights three key areas of EU added value from the ex post evaluation.

1. **EU-wide growth.** Cohesion policy has a net positive impact on the GDP of every region of the EU, even the net contributors through trade effects. This effect is clear in 2016 but lasts into the longer term (2023).

2. **Supporting SMEs and EU infrastructure goals.** In a context of economic crisis and a pressure on the public investment budgets of the poorer countries, Cohesion policy enabled SMEs to keep afloat and even expanding during the crisis, as well as investment in transport and in waste and waste water infrastructure to meet European goals.

3. **European Territorial Cooperation.** INTEREG is a unique instrument for ensuring continuity and linkages of common projects across borders and across the EU.

As noted, the European Court of Auditors has recently issued a Special Report assessing the experiences in using financial instruments in the 2007- 2013 period and the lessons for 2014-20 and beyond, based on analysis of all 1,025 ERDF and ESF financial instruments set up during the 2007-2013 programme period under shared management and as six centrally-managed financial instruments (see Box 2). A key finding was that a significant number of ERDF and ESF financial instruments were oversized, partly because they were used as a tactic to avoid decommitment problems, and faced significant absorption problems. Overall, financial instruments in both shared and central management were unsuccessful in attracting private capital and only a limited number of ERDF and ESF financial instruments provided revolving financial support successfully. High levels of

management costs and fees were found under the ERDF and ESF compared to the actual financial support to final recipients, which also appear to be significantly higher than those of centrally managed instruments or private-sector investment funds. The report welcomed the improvements in the legal framework agreed for the 2014-2020 period but argued that certain problems persisted and highlighted a range of recommendations.

4.1.2 The 2014-20 period

Assessments of the new regulatory elements for 2014-20 and how they have been taken up by Member States have been recently published, based on various studies commissioned by the European Commission. The first annual report by the Commission to the Council and Parliament summarising the Annual Implementation Reports and evaluation results, as required by Art 53.1 CPR, is also due by the end of the 2016.

The European Commission launched a series of studies in 2014 to assess the application of new regulatory provisions for 2014-2020, including the performance framework, ex-ante conditionality and the partnership principle. The overall purpose of the work was to develop an evidence-base on how these new provisions were used in the new PAs and OPs financed by the European Regional Development Fund and the Cohesion Fund, including multi-fund ESF OPs.

The performance framework and reserve are obligatory elements in programmes for 2014-2020 to incentivise the achievement of objectives and to ensure that progress can be adequately measured. The main beneficial impact of the new requirements on programming are as follows:[17]

- the result orientation in the programming phase has been strengthened;
- the setting of milestones and targets has been undertaken on a sounder methodological basis increasing the quality of planning and potentially facilitating implementation if fewer revisions to programmes are required at later stages;
- for a number of Member States, the performance reserve provided an incentive for more effective and efficient performance of the ESI funds; and
- the role of common output indicators has been strengthened – accounting for half of all performance indicators – increasing the overall comparability of performance of programmes.

[17] SWECO, ÖIR & Spatial Foresight (2016) *The implementation of the performance frameworks in 2014-2020 ESI Funds,* Final Report, Directorate-General for Regional and Urban Policy, August 2016, Brussels

Box 2: ECA Special Report on Financial Instruments: 15 Recommendations

The ECA Special Report sets out 15 recommendations relating to FIs.

- The Commission's ex ante assessment for centrally managed instruments should systematically include an analysis of the 'lessons learnt' to date.
- The Commission should assess the effect of major socioeconomic changes on the rationale of the instrument and the corresponding contribution required from the EU budget in the context of their respective mid-term reviews for all centrally managed financial instruments.
- The Commission and the Member States should aim at optimising the size of specific ERDF and ESF funds to take advantage of the significant economies in the cost of operating funds. Additional guidance should be provided to Member States on how to set up such financial instruments within Member States or at Union level (which are managed directly or indirectly by the Commission).
- The Commission should provide in the financial regulation and sectorial regulations a definition for the leverage of financial instruments applicable across all areas of the EU budget, which clearly distinguishes between the leverage of private and national public contributions under the OP and/or of additional private or public capital contributions, and takes into account the type of instrument involved.
- For ERDF and ESF financial instruments under the 2007-2013 programme period, the Commission should ensure at closure that Member States provide complete and reliable data on private contributions on capital endowments, both through the OPs and in addition to them.
- For ERDF and ESF financial instruments, the Commission should provide additional guidance to Member States on how best to apply the provisions on preferential treatment to attract more private capital without allocating excessive risks to public contributors to the financial instruments' endowments.
- For centrally managed financial instruments, the general risk-sharing principles which may have an impact on the EU budget should be defined in the legislation governing the instrument concerned.
- For all financial instruments funded from the EU budget during the 2014-2020 programme period, the Commission should ensure that only structures which are in line with its own recommendations and actions with regard to tax arrangements are implemented by Member States, the Commission itself and the EIB group.
- The Commission should take appropriate measures to ensure that Member States maintain the revolving nature of the funds during the required 8-year period after the end of the eligibility period for the 2014-2020 programme period.
- The Commission should provide guidance in respect of the provisions allowing financial instruments to continue to be used into the following programme period, in particular for cases where fund managers are selected on the basis of public procurement.
- The Commission should ensure that Member States report comprehensive information on management costs and fees incurred and paid by March 2017 in view of the upcoming closure of the 2007-2013 programme period.
- The Commission should clarify that the ceilings for management costs and fees need to be applied to the actual capital endowment used by the financial instrument, i.e. the contribution from the OP that has been used to provide financial support to final recipients.
- As regards the performance-based remuneration of fund managers in the 2014-2020 programme period the Commission should make a legislative proposal aiming at a revision of the existing provisions in the common provisions regulation (CPR) to strengthen the incentive effect of these arrangements.
- Member States' managing authorities should make extensive use of the existing performance-based elements of the remuneration for fund managers when negotiating funding agreements.
- The Commission should carry out a comparative analysis of the implementation costs of grants and repayable financial support, mainly through financial instruments, for the 2014-2020 programme period with a view to establishing their actual levels. Such information would be particularly relevant for preparing legislative proposals for the post-2020 period and determining an adequate level of technical assistance.

Source: ECA (2016) *Implementing the EU budget through financial instruments – lessons to be learnt from the 2007-2013 programme period*, European Court of Auditors Special report No 19/2016, Publications Office of the European Union, Luxembourg.

Several weaknesses were also highlighted in the study:

- the technical complexity of the exercise may have reduced political ownership of the frameworks with negative consequences for implementation;
- the risk of conservative target-setting was highlighted by some interviewees although national experts considered the targets to be appropriate;
- the focus on indicators may have an excessively powerful impact on the steering of some programmes; and
- achieving a good balance between short-term output-based indicators on the one hand, and the drive for long-term results, supported by evaluation and policy learning, remains a challenge, not least because result indicators are not generally used in the performance frameworks.

Ex-ante conditionalities are another new compulsory element that aims to ensure that certain regulatory, institutional and strategic preconditions are in place before the launch of programmes or shortly afterwards. The key conclusions of the ex-ante conditionality study are as follows.[18]

- The fulfilment rate for general ex-ante conditionalities at the time of the programme adoption was high at approximately 75 percent compared with 58 percent of thematic conditionalities. As a consequence, the majority of Member States provided action plans for general and thematic conditionalities at either PA or OP level amounting to a total of more than 700 action plans.
- Most difficulties in the general conditionalities related to arrangements for state aid implementation. There were also particular challenges in relation to statistical systems, notably in terms of the training and capacity requirements and adoption of indicator systems and result targets; and in capacity for public procurement and in the application of public procurement rules.
- The most problematic thematic conditionalities related to smart specialisation strategy, transport, environment and poverty reduction. Criteria related to monitoring and review systems were difficult to fulfil in the smart specialisation, health and Roma strategies In the water and waste sector, the implementation of management plans and recycling measures was particularly problematic. And in the transport sector, the fulfilment for a "realistic and mature project pipeline" was the most problematic conditionality criteria.
- The study highlights the value of ex-ante conditionalities in speeding up the fulfilment of EU regulatory requirements and reinforcing effectiveness by ensuring that relevant regulatory, institutional and strategic preconditions are in place from the outset, although it is too early to assess the actual impact on the effectiveness of interventions.
- The process has also allowed the Commission to engage in a dialogue with Member States, resulting in an improved understanding of the situation in the Member States.

[18] METIS and ICF (2016*) Implementation of the provisions in relation to the ex-ante conditionalities during the programming phase of the European Structural and Investment (ESI) Funds*, Final Report, Directorate-General for Regional and Urban Policy, July 2016, Brussels.

- The added value was perceived to be greater in the EU13 in terms of identifying weaknesses and facilitating change. In some of the EU-15 Member States, the added value was perceived to be limited and the process was criticised for being administratively disproportionate to the benefits. Timing, costs and the extent of actions required to fulfil some of the conditionalities have generally exceeded initial of the Commission and Member States. Key criticisms during the early stages were uncertainty about the level of applicability and fulfilment (PA or OP level) and lack of clarity in conditionality criteria notably in the area of smart specialisation.

Another study assessed 19 new provisions related to programming content and results, integrated approaches to territorial development and programme management.[19] The main overall conclusions of the study are the following

- The approach to programming has been significantly altered as a result of the new provisions. In particular, the focus on results required programme authorities to link strategic thinking and result-based management, and relate strategic thinking with Europe 2020 objectives and mechanisms.

- The structure of programming documents has changed substantially making the strategies and the links between means and results more specific and transparent.

- However, the presentation of programmes has become more complicated due to multi-priority and multi-region axes. The wide range of needs addressed suggests an apparent demand for integrated territorial approach. At the same time, the scope for applying the integrated instruments in all sectors and types of areas has not yet been exhausted.

- Implementation-related new provisions were among the less controversial elements of the nineteen new provisions analysed, and in general, Member States did comply with new requirements in this area. This provides a good basis for further developing implementation capacity.

Looking more specifically at the different categories of new provisions, the following key findings are reported with respect to the content of programmes and results.

- **Strategic programming and link with Europe 2020 strategy**. Considerable alignment between PA and OP priorities and the Europe 2020 strategy

- **Thematic concentration.** Substantial degree of concentration on thematic objectives with requirements often exceeded, and a more transparent programming menu of objectives and priorities that is easier to monitor and analyse.

- **Results orientation**. The results and specific objectives were well-defined in programmes. However, actions and selection criteria were generally defined broadly and ambiguously. The transition from action-based programming to a result-based one seems to have proved challenging for Member States, particularly in terms of the identification of result indicators, and was reflected in the strong influence of the Commission during the negotiations of the results orientation

[19] Altus (2016) *The use of new provisions during the programming phase of the European Structural and Investment Funds,* Final Report, Directorate-General for Regional and Urban Policy, May 2016, Brussels.

- **Financial instruments.** OP provisions suggest that financial instruments usage will increase to 9.5 percent of the ERDF (2.7 percent of the Cohesion Fund and 1.3 percent of the ESF allocations in multifund OPs), compared with five percent of ERDF previously. However, the new provisions on financial instruments have received a cautious reception by Member States.

- **Major projects.** There is high concentration of major projects in one or two investment priorities for each thematic objective, except for transport projects which are included in most priorities of the transport objective. The phasing of major projects from the previous period (accounting for 13 percent of projects) should contribute to the launch of the new programmes for 2014-2020.

- **Use of co-financing rates.** There is variation in the co-financing rates especially in more developed regions, transition regions, EU-15 Member States and cooperation programmes. The Cohesion Fund and EU-13 programmes mostly apply maximum rates. A third of programmes foresee the use of modulation, mainly because of the importance of the priority for Europe 2020.

- **Horizontal principles.** The principles of sustainable development, social inclusion and non-discrimination principles have been included in the highest share of programmes (80-90 percent), while accessibility, climate change and demography receive comparatively less attention. Mainstreaming is the most popular method to promote horizontal principles.

Turning to **integrated approaches to territorial development**, key challenges related mainly to the programming of territorial instruments in terms of establishing a coherent framework for addressing different kinds of territorial challenges, reconciling territorial and sectoral approaches, and the preparation of good quality strategies. The willingness of programme authorities to delegate functions appeared limited in all instruments. The key findings concerning specific territorial instruments are:

- the financial take-up of SUD and ITIs is above regulatory requirements and expectations, although take-up of CLLD is relatively low and the scope for applying integrated instruments in all sectors and types of areas has not been fully exhausted;[20]

- synergies between mainstream OPs and ETC and between ESIF OPs and macro-regional and sea basin strategies in the programming has proved difficult to achieve;

- there are specific integrated approaches towards poor and regions and vulnerable groups in more than half of the member states, although the targeting of vulnerable groups is usually based on a sectoral approach; and

- regions with permanent geographical handicaps have coherent and integrated strategies although they lack accurate data and indicators specific to these areas.

[20] Integrated territorial investments (ITI) allocations are €14.7 bn and are being used in 20 MS of which 87percentis funded by the ERDF. This take-up is viewed positively because ITI were not obligatory. Sustainable urban development allocations has been allocated €15.5 bn, mainly by the ERDF (92.5 percent with the rest funded by the ESF in multi-fund programmes), of which half is delivered through ITIs. This represents eight percent of the ERDF allocation, significantly above the five percent requirement. Community-led local development (CLLD) allocations are much lower (€1.5bn, excluding EAFRD/EMFF), with ERDF and ESF accounting for 81% and 19%, respectively.

The final group of new provisions concerned programme management, especially coordination across funds and with other instruments, administrative capacity and administrative burden on beneficiaries

- **The coordination between the ESI funds and other Union and national instruments and with the EIB.** Co-ordination is mainly focussed on the programming and was strongest among the ESI Funds, followed by other EU instruments (e.g. Horizon 2020, LIFE, COSME and CEF), and then national funds and the EIB. Co-ordination during implementation was mentioned less often in programme documents (e.g. with respect to project selection criteri or in monitoring and evaluation), which suggests weaknesses. Similar conclusions can be found in two studies undertaken for the European Parliament.[21]

- **Administrative capacity building.** The quality of action plans for administrative capacity was assessed as weak. The most urgent capacity building needs identified in programmes included project selection, monitoring and evaluation (including results-oriented management), as well as financial control, public procurement and state aid. Consistency between needs and actions was found with the exception of a suboptimal focus on HR management methods. A more strategic use of technical assistance funds in cooperation with public administrative reform is recommended. As regards capacity building of beneficiaries, needs were fairly evenly spread between project generation, public procurement, financial management and monitoring. Difficulties cited included complexity and exceedingly technical management rules, especially with respect to state aids and public procurement, followed by financial instruments

- **Actions to reduce administrative burden on beneficiaries**. The most important actions to reduce the administrative burden include the increased use of simplified cost options and e-cohesion, as well as simplification of application, procurement and payment procedures and a reduction of archiving requirements. However, several interviewees considered that the legal framework is just as (or more) complex than the previously.

The final study reviewed the implementation of the partnership principle and multi-level governance in the 2014-20 period.[22] It found an overall improvement in the application of the partnership principle compared to previous periods. This was supported by the new legal framework and code of conduct, which have proved useful in clarifying the role of partnerships and the application of the partnership principle.

The main added-value generated by partnership is the use of experience and technical know-how during decision-making processes, enabling better thematic balance and focus; the strengthening of commitment and ownership facilitating policy implementation; and the introduction complementarities with other policies, strategies and funding sources. By contrast, challenges were found in mobilising partners and managing conflicting interests.

[21] Kah S, Mendez C, Bachtler J and Miller S (2015) *Strategic coherence of Cohesion Policy: comparison of the 2007-13 and 2014-20 programming periods,* Report to the European Parliament's Committee on Regional Development, Brussels; Ferry M, Kah S and Bachtler J (2016) *Maximisation of synergies between European Structural and Investment Funds and other EU instruments to attain Europe 2020 goals*, Report to the European Parliament's Committee on Regional Development, Brussels.

[22] SWECO, ÖIR & Spatial Foresight (2016) *op cit.*

Policy implications for national and programme authorities derived from the study areas follows

- Partnerships need to be thoroughly managed to generate added value. Resources for this management are important, although there may be a trade-off between efficiency and effectiveness in partnership.

- Planned actions to involve partners in the implementation process should be followed-up and assessed regularly to see whether things can be improved further.

- As implementation progresses, the composition of the partnership may change and partnerships might benefit from taking on board new partners.

- Capacity building schemes for partners and a clear focus on the added value of the partnerships (both for the programmes and the individual partners) may help, especially when mobilising the relevant partners raises a challenge.

- Avoiding imbalances in the partnership in terms of formal composition and the role and influence of partners can be crucial.

- The role of the partners and the competences required to fulfil this role varies throughout the programme lifecycle. Measures for capacity building for the partnership can help the partnership to adjust to its changing roles.

- Different means of stakeholder participation can be considered at different stages of the programme lifecycle. Creating the right mix and reaching out to the right people can help building a community of practice around the topics of the programme in the programme area.

Finally, the overall assessment provided by the Commission in its Communication *"Investing in Growth and Jobs"* paints a positive picture of the latest reform's impact on the programming stage based on analysis of the negotiations of the programmes.[23]

- Public investment mobilisation: In 2014-2016, ESIF commitments will account for around 14 percent of total public investment on average, going above 70 percent in some countries (Portugal, Croatia).

- Contributing to the European semester and country-specific recommendations: More than two thirds of the CSR adopted in 2014 were relevant for Cohesion policy and taken into account in Member State programmes.

- Improving investment conditions: Around 75 percent of ex ante conditionalities were fulfilled and the remainder should be fulfilled by the end of 2016 on the basis of action plans agreed with the Commission.

- Strengthening the focus on results and performance: The programmes have a more results orientation than the past and a range of expected achievements are illustrated based on core indicators reported in the adopted OPs across key thematic objectives.

[23] European Commission (2016) *Investing in jobs and growth - maximising the contribution of European Structural and Investment Funds,* Commission Communication, COM(2015) 639 final, 14.12.2015, Brussels.

- A boost to financial instruments providing greater leverage: through significantly increased allocations under the ERDF, CF and ESF.

- Concentration of resources: Thematic concentration requirements were exceeded in many cases to support investments achieve critical mass.

- Simplification: A range of possibilities were included in the 2013 reform although there is room for more reflection.

- Partnership: Improvements can be seen with the introduction of the code of conduct, although it is recognised that practices reflect domestic traditions and strengthening the partnership culture is long-term process.

- More focus at local level and investment in tackling concentration of territorial challenges: through the use of ITI in 20 Member States, a significantly greater share of funding dedicated to sustainable urban development strategies than required, and multi-funded Community-led Local Development and reinforced use of macro regional strategies.

Among the key preconditions highlighted in the report to make delivery successful are good governance and full implementation. There is also a need to respond to changing circumstances such as the refugee crisis. The areas in which continued efforts are needed are in particular related to:

- ensuring the focus on results and the level of ambition for targets;
- further increasing the use of financial instruments;
- making full use of the synergies between ESIFs, EFSI and other funding sources such as Horizon 2020 at project level, financial instrument level and through investment platforms;
- fulfilment of ex-ante conditionalities where action plans have been agreed with assistance from the Commission; and
- simplifying access to the ESIFs and reducing administrative burden.

More generally and in view of the preparations for the post-2020 period, a critical issue will be to demonstrate that the policy is delivering concrete results on the ground. However, this will be very challenging. As noted, there have been significant delays in spending in the first three years of the new period, implying that it will be difficult to demonstrate significant outputs by next year let alone concrete results. This will present significant reputational risks to the policy in the context of the debates on the next MFF, as already attested to in the mid-term review of the budget and the absence of references to Cohesion policy in Juncker’s 2016 State of the Union address and the Budget Commissioner’s presentation of the Mid Term Review to the European Parliament.

Box 3: Expected achievements in 204-2020 based on core indicators

Research and innovation

- Around 130,000 firms will receive R&I support and almost 72,000 researchers will benefit from improved ERDF-supported research facilities.

Supporting the growth of Europe's small and medium-sized enterprises

- Under the European Regional Development Fund (ERDF) alone, 5 % of all SMEs and 8 % of all new enterprises will be supported. The ERDF will support approximately 1,100,000 enterprises, of which 129,460 will be in a position to increase their research and innovation capacity.

Protection of environment, circular economy and resource efficiency

- Waste management will be supported by ERDF – with about € 5.5 billion – in the regions where this is particularly needed, leading to expected increased waste recycling capacity by 2.5 million tonnes.

Transport infrastructures

- 7,515 km railway lines, of which 5,200 km belonging to the TEN-T, will be built reconstructed or upgraded.
- 3,100 km of new roads will be built, of which 2,020 km will be TEN-T. 10 270 km of roads will be reconstructed, of which 798 km will be TEN-T. The 2,818 km of TEN-T road to be built or upgraded represents 5 % of the TEN-T network.
- 748 km of tram or metro lines will be constructed or improved.
- 977 km of new or improved inland waterways are foreseen.

Direct job creation

- Interventions financed by DG Regional and Urban policy will support the direct creation of 423,100 new jobs, 29,500 of which will correspond to new researchers employed under ERDF research measures. Many more jobs will be created indirectly.

Social inclusion

- Due to ERDF interventions, more than 40 million people will benefit from improved health services.

Education and training

- As a result of the interventions financed, supported childcare or education infrastructure will improve its capacity by close to 7 million.

Strengthening administrative capacity

- 17 Member States will invest €4.2 billion in institutional capacity building, according to their individual needs. Member States will also use part of their Technical Assistance to reinforce the capacities of authorities and beneficiaries to administer and use the ESI Funds. The total amount of Technical Assistance for ERDF and the Cohesion Fund is set at €7.5 billion. In addition, Interreg programmes will contribute €0.8 billion of ERDF funding to establish or consolidate cooperation structures.

Source: European Commission (2016) *op cit.*

4.2 The mid-term revision of Cohesion allocations and implications for post-2020

Cohesion policy allocations for Member States were reviewed in June 2016 for the 2017-20 period to take account of the latest available data and make reallocations to those countries that have suffered most from the crisis,[24] as required by the review clause of the political agreement on the 2014-20 MFF and the Common Provisions Regulation (Article 92). Member State allocations can be altered when total allocations diverge by more than +/-5 percent of the initial allocations foreseen with a total reallocation limit of €4 billion to be spread over the years 2017-2020. The review also takes account of updated data used for the capped Member State (Bulgaria, Estonia, Croatia, Hungary, Lithuania, Latvia, Poland, Romania, Slovakia) calculations and to determine Cohesion Fund eligibility.

[24] European Commission (2016) *Communication from the Commission to the Council and the European Parliament Technical adjustment of the financial framework for 2017 in line with movements in GNI and adjustment of cohesion policy envelopes* (Article 6 and 7 of Council Regulation No 1311/2013 laying down the multiannual financial framework for the years 2014-2020)

The results of the review of Cohesion policy allocations alters the financial allocations of 16 Member States (Table 4). For most of these countries, the impact on allocations is relatively small. The largest increases in allocations will be in Southern European Member States:

- Cyprus will receive an increase of 20 percent compared to the original calculations, primarily because it regains eligibility for the Cohesion Fund resulting in additional funding of €19.4 million;
- Spain will see an increase of 14.2 percent in its allocation or €1.8 billion, accounting for almost half of the total €4 billion available to reallocate across Member States; and
- Greece and Italy see increases in the order of 10 percent (11.4 and 9.2 percent respectively).

In terms of the programming of these reallocations, the Commission is encouraging the largest beneficiaries (Spain, Italy and Greece) to focus the additional allocations on addressing major EU challenges, namely youth unemployment and, in the case of Italy and Greece, the migration challenges.

Looking forward to the post-2020 period, while the impact on allocations for 2017-20 of these technical adjustments is relatively small due to the €4 billion cap, the table provides a clear indication of the implications for future eligibility and funding (Table 4, column 2). If Cyprus, Spain, Greece and Italy are likely to see the largest relative increases in Cohesion allocations based on current economic data, the countries witnessing the largest relative reductions will be Sweden, Estonia, Croatia and the Czech Republic.

4.3 Cohesion policy eligibility and allocations post-2020 and post-Brexit

Analysis of the sub-national geography of the latest regional GDP data for 2012-14 shows significant shifts in eligibility status of EU regions based on a comparison of the eligibility at the start of the 2014-20 period and the equivalent based on the latest data and also with respect to a Brexit scenario (Table 5).

In population terms, some 55.7 million people are in regions whose relative GDP per head has declined to an extent that they would be in a region with different eligibility status, were designation for 2014-20 to take place on the basis of 2012-14 averages. Most of these (38.1 million) are in regions that would go down from More-Developed Region (MDR) to Transition Region (TR) status, with a further 17.3 million in regions moving from TR to Less-Developed Region (LDR) status. Almost nine million people are in regions that have experienced a sufficiently high increase in relative GDP per head that they would move from LDR to TR status (6.4 million) or from TR to MDR status (2.6 million).

Table 4: Results of the review of Cohesion policy envelopes for 2017-2020

	Original allocation 2017-20	Cumulative divergence based on Art.7.1 & 7.3 (%)	Adjustment respecting Art.7.5 maximum	New adjusted allocation 2017-20	Change in new allocation (%)
AT	507.6	0.44	0	507.6	0.00
BE	969.5	8.05	9.4	979	0.98
BG	4133.2	3.73	0	4133.2	0.00
CZ	11078.2	-7.39	-99.1	10979.1	-0.89
DK	168.4	27.12	5.5	173.9	3.27
DE	8942.4	-3.83	0	8942.4	0.00
EE	1960.7	-12.85	-30.5	1930.2	-1.56
IE	439.3	5.92	3.1	442.4	0.71
EL	7351.3	94.07	836.6	8187.9	11.38
ES	12971.3	117.07	1837.1	14808.4	14.16
FR	7503.6	2.17	0	7503.6	0.00
HR	4714.4	-7.52	-42.9	4671.5	-0.91
IT	15338.8	76.4	1417.8	16756.6	9.24
CY	156	76.75	31.5	187.6	20.26
LV	2453.9	1.88	0	2453.9	0.00
LT	3723.7	-2.49	0	3723.7	0.00
LU	22.2	4.34	0	22.2	0.00
HU	10756.5	3.48	0	10756.5	0.00
MT	267.9	0.39	0	267.9	0.00
NL	518.9	8.14	5.1	524.1	1.00
PL	42973.5	0.01	0	42973.5	0.00
PT	10566.8	-0.5	0	10566.8	0.00
RO	12836.5	-2.32	0	12836.5	0.00
SI	1577.6	25.3	48.3	1625.9	3.06
SK	7629.3	-6.43	-59.3	7570	-0.78
FI	676.1	6.09	5	681.1	0.74
SE	880	-16.59	-17.7	862.3	-2.01
UK	5488.2	7.53	50	5538.2	0.91
Total	176605.7		4000	180605.7	2.26

Source: based on COM(2016) 311 final

In terms of the geography of these changes, significant downward shifts include:

- Spain and Greece, because a significant number of TR would become LDR; of particular note is the Spanish region of Andalucía because it has a high population by EU standards (8.4 million) and the scale of funding is accordingly high (a €2.9 billion ERDF allocation as a TR currently);
- Cyprus would have TR rather than MDR status and gain Cohesion Fund eligibility
- a significant number of regions in the UK and France would shift from MDR to TR status; and

- in Portugal, the case of Madeira is unique because it is the only region in the EU that would drop two categories from MDR to LDR status.

By contrast, there is an upward shift from LDR to TR in:

- Czech Republic: one region (Strední Cechy, Jihovýchod);
- Poland: one region (Dolnoslaskie); and
- UK: one region (Cornwall and Isles of Scilly)

Lastly, there are two regions in the UK (Highlands and Islands, Cumbria) and one in Germany (Dresden) that are designated TR but would be MDR based on the recent data.

A second scenario considers the impact of a Brexit scenario in which the UK is no longer eligible for Cohesion policy funding and the EU27 (rather than EU28) is used as the unit of analysis for calculating eligibility in the other Member States (column 4, Table 5).

This shows that the largest losses in allocations arising from shifts in eligibility in a Brexit scenario would be in the following categories:

- from LDR in 2014-20 (in 2014-20 initially and using updated 2012-14 data for the EU28 without Brexit) to TR status: one region in Bulgaria (Yugozapaden);
- from TR status (in 2014-20 initially and using updated 2012-14 data for the EU28 without Brexit) to MDR: one region in Austria (Burgenland) and in France (Corse).

In five other regions, the current eligibility status in 2014-20 will be retained in a Brexit scenario, although with continued UK membership the regions would have seen a fall in eligibility category and increased allocations:

- maintaining the same TR status as in 2014-20, even though updated data for the EU28 (without Brexit) would have led to a fall in eligibility status to the CONV category: one region in Spain (Murcia);

- maintaining the same MDR status as in 2014-20, even though updated data for the EU28 (without Brexit) would have led to a fall in eligibility status to the TR category and increased allocations: Centre, Bourgogne, Bretagne (France) and Umbria (Italy).

Table 5: Shifts in eligibility status based on 2012-14 GDP per head data and Brexit scenario

Country	Region	Eligibility (initial)	Eligibility (new, EU28) – No Brexit Scenario	Eligibility (new, EU27) – Brexit Scenario	Pop (mil, 2014)
Austria	Burgenland	TRANS	TRANS	**MDR**	0.28
Bulgaria	Yugozapaden	LDR	LDR	**TRANS**	2.13
Cyprus	Cyprus	MDR	TRANS	TRANS	0.85
Czech	Strední Cechy	LDR	TRANS	TRANS	1.31
	Jihovýchod	LDR	TRANS	TRANS	1.6
Estonia	Estonia	LDR	TRANS	TRANS	1.32
Germany	Dresden	TRANS	MDR	MDR	1.59
Greece	Voreio Aigaio	TRANS	LDR	LDR	0.20
	Notio Aigaio	MDR	TRANS	TRANS	0.34
	Kriti	TRANS	LDR	LDR	0.63
	Dytiki Makedonia	TRANS	LDR	LDR	0.28
	Ionia Nisia	TRANS	LDR	LDR	0.21
	Sterea Ellada	TRANS	LDR	LDR	0.56
	Peloponnisos	TRANS	LDR	LDR	0.59
Spain	Galicia	MDR	TRANS	TRANS	2.73
	Asturias	MDR	TRANS	TRANS	1.06
	Cantabria	MDR	TRANS	TRANS	0.59
	Castilla y León	MDR	TRANS	TRANS	2.49
	Castilla-la Mancha	TRANS	LDR	LDR	2.07
	C. Valenciana	MDR	TRANS	TRANS	4.95
	Andalucía	TRANS	LDR	LDR	8.40
	Murcia	TRANS	LDR	**TRANS**	1.46
	Ceuta	MDR	TRANS	TRANS	0.08
	Melilla	TRANS	LDR	LDR	0.08
France	Centre	MDR	TRANS	**MDR**	2.58
	Corse	TRANS	TRANS	**MDR**	0.33
	Bourgogne	MDR	TRANS	**MDR**	1.64
	Bretagne	MDR	TRANS	**MDR**	3.28
	Martinique	LDR	TRANS	TRANS	0.38
Ireland	Border, Midland and Western	MDR	TRANS	TRANS	1.23
Italy	Sardegna	TRANS	LDR	LDR	1.66
	Umbria	MDR	TRANS	**MDR**	0.90
Poland	Dolnoslaskie	LDR	TRANS	TRANS	2.90
Portugal	Madeira	MDR	LDR	LDR	0.26
UK	Tees Valley and Durham	TRANS	LDR	-	1.18
	Northumberland, Tyne & Wear	MDR	TRANS	-	1.43
	Cumbria	TRANS	MDR	-	0.50
	Derbyshire & Nottinghamshire	MDR	TRANS	-	2.15
	West Midlands	MDR	TRANS	-	2.81
	Essex	MDR	TRANS	-	1.77

	Outer London (East, N.East)	MDR	TRANS	-	1.84
	Kent	MDR	TRANS	-	1.78
	Dorset and Somerset	MDR	TRANS	-	1.30
	Cornwall and Isles of Scilly	LDR	TRANS	-	0.55
	South Western Scotland	MDR	TRANS	-	2.34
	Highlands and Islands	TRANS	MDR	-	0.47

Source: Own research

4.4 European Commission perspectives

DG Regio has not provided formal policy orientations for post-2020 as yet, but Commission thinking on the key issues is evident from various interventions on the post-2020 debate. In August 2015, Commissioner Creţu set out ten questions to stimulate post-2020 reflections concerning the policy's challenges and objectives, territorial targeting, architecture, instruments and governance (Box 4).

By contrast, more recent speeches in 2016 by Commissioner Creţu and her Head of Cabinet Nicola De Michelis have focussed on four key challenges for Cohesion policy in the post-2020 period[25]

i) Flexibility. The refugee crisis has demonstrated that Cohesion is not flexible enough to respond swiftly to new challenges/priorities. Flexibility must accordingly be a core principle for the future so that Cohesion policy can react to new events. While this may imply losing a degree of stability/predictability in investment planning, the alternative could be to create flexibility outside of the cohesion heading in the MFF compensated through a reduction in cohesion policy funding.

ii) Economic Governance. The links between Cohesion policy and wider economic governance have been strengthened in terms of alignment with CSRs and macro-economic conditionality. The challenge now is to demonstrate that Cohesion policy is contributing to Europe 2020 targets and the delivery of key structural reforms (e.g. health and education systems).A focus is needed to optimise the functioning of the links between Cohesion policy and economic governance. A radical alternative is to convert Cohesion policy into financial incentive for the implementation of structural reform/country-specific recommendations, as suggested by the German Finance Minister.

[25] Opening speech by Commissioner Creţu at the Ministerial meeting of the Visegrad Group Countries (Czech Republic, Hungary, Poland, Slovakia), Bulgaria, Croatia, Romania and Slovenia, 26 January 2016. Speech by Nicola de Michelis, Head of Cabinet of the EU Commissioner for Regional Policy, *The future of Cohesion policy beyond 2020* Final conference, 3.3.16, Committee of the Regions, Brussels.

Box 4: Commissioner Creţu questions to guide the post-2020 Cohesion policy reflections

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

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

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

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

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

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

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

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

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

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

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

iii) **Performance.** An increased performance orientation has been a cornerstone of the 2013 reform through requirements for thematic concentration, a clearer intervention logic with targets and result indicators, and a performance reserve. The challenge is to provide credible evidence of performance in 2014-20 and making the performance framework an effective instrument for measuring and reporting on progress and results in the post-2020 period.

iv) Simplification. The complexity of administration is an ongoing challenge particularly in the area of audit and control. The HLG on Simplification will focus on improving simplification in 2014-20 but will not entail major changes to the policy framework. A more fundamental and systemic simplification for the future would require a rethink of budgetary discharge requirements and responsibilities.

These themes were reiterated in a recent speech in September 2016 at a Member State conference under the Slovak Presidency, with a particular focus on simplification and the linkages between economic governance and ESIF.[26] With respect to simplification, two concrete proposals were put forward.

- **Differentiation of rules across Member States.** In the area of financial management, audit and control, a *"fundamental review of the way cohesion policy operates" is needed to recognise differences in "institutional and administrative structures and capacities" across Member States. This could involve significantly fewer controls "where administrations can prove that they are reliable and strong audit authorities are in place" potentially "relying only on national rules in these cases".*

- **Harmonisation of rules across ESIF:** The priority here is *"to move toward a single set of rules for shared management funds for the next period"*

In terms of the relationship between Cohesion policy and the wider economic governance of the Union, a vaguer proposal is to build on the new conditionality provisions without compromising the Treaty objectives on cohesion. Nevertheless, it implies a stronger level of conditionality by potentially introducing formal ex-ante conditionalities on the implementation of Country-Specific Recommendations.

[26] Corina Creţu (2016) Speech of Commissioner Corina Creţu at the European Union Cohesion Policy Conference, Slovak Presidency of the EU, 16.09.2016, Bratislava.

5. EXPLORING OPTIONS FOR CHANGE

5.1 European added value of Cohesion policy

The added value of Cohesion policy is one of the central issues for the wider reform debate on the future of the MFF. The Commission President and Budget Commissioner have insisted that decisions on the MFF need to maximise the European added value of spending, reiterated in the conferences and meetings discussed above, as well as at the recent ministerial meeting in Cracow.[27]

In interpreting the concept, it is worth recollecting the 2007-8 Budget Review which provided an extensive review of what constitutes added value.[28] A working paper accompanying the Budget 2020 Communication defined European added value as 'the value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone.'[29] Key criteria for determining added value were specified as:

- effectiveness: where EU action is the only way to get results to create missing links, avoid fragmentation, and realise the potential of a border-free Europe;
- efficiency: where the EU offers better value for money, because externalities can be addressed, resources or expertise can be pooled, an action can be better coordinated; and
- synergy: where EU action is necessary to complement, stimulate, and leverage action to reduce disparities, raise standards, and create synergies.

Several Member States also provided criteria for assessing the added value of EU policies (see Table 6).

In the Budget 2020 Communication chapter on Cohesion policy, added value was linked to:

- contribution to convergence, underlining the impacts on GDP and on infrastructure outputs and results in less-developed regions;
- support for smart, sustainable and inclusive growth across the EU;
- territorial cooperation through joint programmes addressing issues that cut across national/regional boundaries and bring EU citizens closer together; and
- social cohesion support through the ESF, which supports common objectives, leverages funding and provides financial stability.

[27] *Issue Paper for the Meeting of EU28 Ministers for Cohesion Policy on 13-14 April 2016*, in Cracow, Poland.

[28] Bachtler J, Mendez C and Wishlade F (2008) Ideas for Budget and Policy Reform: Reviewing the Debate on Cohesion Policy 2014+, *EoRPA Paper 8/4,* European Policies Research Centre, University of Strathclyde. Mendez C, Bachtler J and Wishlade F (2011) *Comparative Study on the Visions and Options for Cohesion Policy after 2013,* Study for the European Parliament: DG for Internal Policies, European Policies Research Centre, University of Strathclyde.

[29] European Commission (2011) *The added value of the EU budget,* Commission Staff Working Paper accompanying the document Commission Communication, A budget for Europe 2020, SEC(2011) 867 final, 29.6.2011, Brussels.

Table 6: Criteria for assessing the added value of EU policies

Proposed added value criteria	CY	DE	ES	HU	PL
Cost-effectiveness – lower cost through using EU instruments; justified by CBA		*			*
Financial synergy – critical financial mass only achievable at EU level		*		*	*
Efficiency/economies of scale	*	*		*	
Policy additionality – better outcomes through EU action than national measures		*			
Nature of the problem – requirement for, or contribution to, European cooperation	*	*			
Positive externalities for EU integration e.g. security, single market, justice area	*	*	*	*	
Collective/shared Member State interests – facilitates/maximises collective action	*	*	*		*
Multiplier effects – through synergies, enhances effort by Member State resources			*		
Adaptive capacity – facilitating MS adjustment to Community decisions					*
Contribution to EU objectives – e.g. cohesion, competitiveness	*			*	
Provision of EU public goods – e.g. safety, border control, environmental standards	*			*	
Coherence – contribution to inter-policy coherence and coordination	*			*	
Promotion of European idea – making membership benefits visible to the citizen	*				

Source: Bachtler *et al* (2008)

At the level of Cohesion policy, more specific dimensions of added value have been identified, related to cohesion, policy influence, implementation, learning and visibility (see Table 7).[30]

In updating the justification for the added value of Cohesion, two points are worth making. First, previous criticisms of the added value of Cohesion policy have focused on two issues – the performance of the policy (in terms of visible results) and its lack of alignment with EU objectives – both of which have been addressed comprehensively as part of the 2013 reform. Second, Cohesion policy is arguably in the forefront of a more performance-oriented approach to EU spending; it is striking that the examples used by President Juncker and Budget Commissioner Georgieva to illustrate the directions in which the EU budget needs to go (integration of performance indicators, conditionalities, performance reserve) were drawn from the Cohesion policy domain – often without acknowledgement of the policy.

[30] Bachtler J and Taylor S (2004) *The Added Value of Cohesion Policy: A Regional Perspective*, IQ-Net Paper, European Policies Research Centre, University of Strathclyde. Mairate A (2006) The added value of European Union Cohesion Policy, *Regional Studies*, 40, 2, 167-177. Bachtler J, Mendez C and Wishlade F (2013) *EU Cohesion Policy and European Integration: The Dynamics of EU Budget and Regional Policy Reform*. Farnham.

Table 7: Dimensions of added value in EU Cohesion policy

Cohesion	• Reduction in economic and social disparities • Macroeconomic impact in large beneficiary countries • Creation /safeguard of jobs • Large linkages / accessibility gains (TENs) • Improved environmental performance • Business start-ups • Higher education levels • Research / IT capabilities
Policy	• Additionality of EU expenditure • Private sector leverage • Stable medium-term framework • Higher profile of regional policy • Strategic coherence • Innovation in policy • Resource allocation process • Horizontal themes
Implementation rules	• Partnership arrangements • Project generation, appraisal / selection • Monitoring systems / frameworks • Evaluation culture • Audit / control
Learning	• Exchange of experience • Networking • Dissemination of good practice
Visibility	• Enhanced participation of local actors, businesses and civil society

Source: Mairate (2006).

These points are clearly reflected in the latest statement by DG Regio on the added value of Cohesion policy at EU level, which highlights the following elements.[31]

- It delivers investment in all regions to support the achievement the goals and headline targets of the Europe 2020 Strategy for smart, sustainable and inclusive growth, supporting the delivery of EU priorities and the targeted provision of European public goods in areas such as research and innovation, information and communication technologies, small and medium-sized enterprise (SME) development and the low-carbon economy.

- It concentrates resources on the poorest regions enhancing the potential for jobs and growth and supporting the development of the Single Market. In addition, this produces spillover effects from less developed regions to the rest of Europe, via increased trade flows.

- It supports innovative solutions in research and development, climate change, energy, environment and transport, through the development of strategies, financial instruments, dedicated support platforms and exchange of experience, particularly across borders and in macro-regions. These solutions often spill over into national policies.

[31] European Commission (2016) *Strategic Plan 2016-2020*, DG Regional and Urban Policy, May 2016, Brussels

- It provides a link between European policy objectives and national and subnational actors, through its shared management and partnership mechanisms and provides concrete support for structural reforms through Country Specific Recommendations in the framework of the European Semester.

- It increases efficiency and quality of public expenditure through an enhanced use of financial instruments, encouraging synergies between ESI Funds and with other EU funding instruments, addressing the preconditions for effective expenditure through ex-ante conditionalities, and requiring result orientation and the application of performance frameworks.

- It builds administrative and institutional capacity, inducing – through its delivery system and the support mechanisms provided by DG REGIO – institutional and administrative change, promoting long-term planning, mobilising a wide range of partners, diffusing a culture of evaluation and monitoring of public policies, and reinforcing control and audit capacities.

5.2 Flexibility

Commissioner Creţu has identified 'the challenge of flexibility' as an important issue. Noting that "the refugee crisis has showed that Member States have difficulties in using the Policy to respond swiftly to changing needs", she has presented the dilemma of "how to reconcile the need for stable investment over the medium term, with the imperative of responding to new European priorities", arguing that "flexibility must be a core principle for the next policy and financial framework".[32]

There are several options for introducing more flexibility (see Table 8). One would be the creation of an unallocated reserve at EU, national or programme levels that would be available for responses to unexpected challenges. Creating the reserve at EU level would maximise flexibility but at the expense of a funding allocation of significant scale; there are also issues of subsidiarity. National and programme-level allocations would allow flexibility to be adapted to national or regional circumstances, but at the expense of using the reserve where it is most needed across the EU.

Other possibilities would involve a shorter programme period, potentially aligned with a shorter MFF period as discussed above; a variant would be a break-point allowing review and adjustment of programme priorities, allocations and targets, although this was generally unsuccessful when it was applied to Objective 2 in the 1994-99 period (with two sub-periods, 1994-96 and 1997-99) which created additional work for marginal change.

Further options would provide more flexibility at programming stage in the breadth of priorities or the scope to switch funding between priorities without a formal OP amendment procedure. This could, though, undermine the current focus on thematic concentration and strategic coherence.

[32] Opening speech by Commissioner Creţu at the Ministerial meeting of the Visegrad Group Countries (Czech Republic, Hungary, Poland, Slovakia), Bulgaria, Croatia, Romania and Slovenia, 26 January 2016.

Table 8: Options for greater flexibility in Cohesion policy

Option	Strengths	Weaknesses
Reserve at EU level	EU-wide flexibility in reacting to challenges	MS preference for pre-allocated funding means that size of reserve likely to be limited. Greater influence of Commission may be negatively perceived. Need for agreed criteria on use.
Reserve at national level	Flexibility to adapt to national circumstances and challenges. More scope to manage national allocations.	Loss of scope at EU level to react to challenges. Possible politicisation of reserve. Less EU added value of reserve.
Reserve at programme level	Flexibility to adapt to local circumstances. More scope to manage programme allocations.	Pressure to spend regardless of challenges. Possible politicisation of reserve. Limited EU added value of reserve.
Shorter programme period	Greater scope to react strategically to change.	Loss of stability and predictability. More frequent regulatory change. Less long-term policy thinking. Late start would allow little time for implementation. Non-stop reform debate.
Mid-term review of programming	Scope to adjust programmes within same strategic framework (no new programming).	Less long-term policy thinking. Change likely to be minimal in many cases. Additional workload
More scope to specify broad programme priorities	Scope to adjust programmes easily as needs arise. Minimal additional workload.	Potential decrease in thematic concentration and strategic coherence.
More scope to shift allocations between priorities	Scope to adjust programmes easily as needs arise. Minimal additional workload.	Potential decrease in thematic concentration and strategic coherence.

Source: Bachtler *et al* (2016)

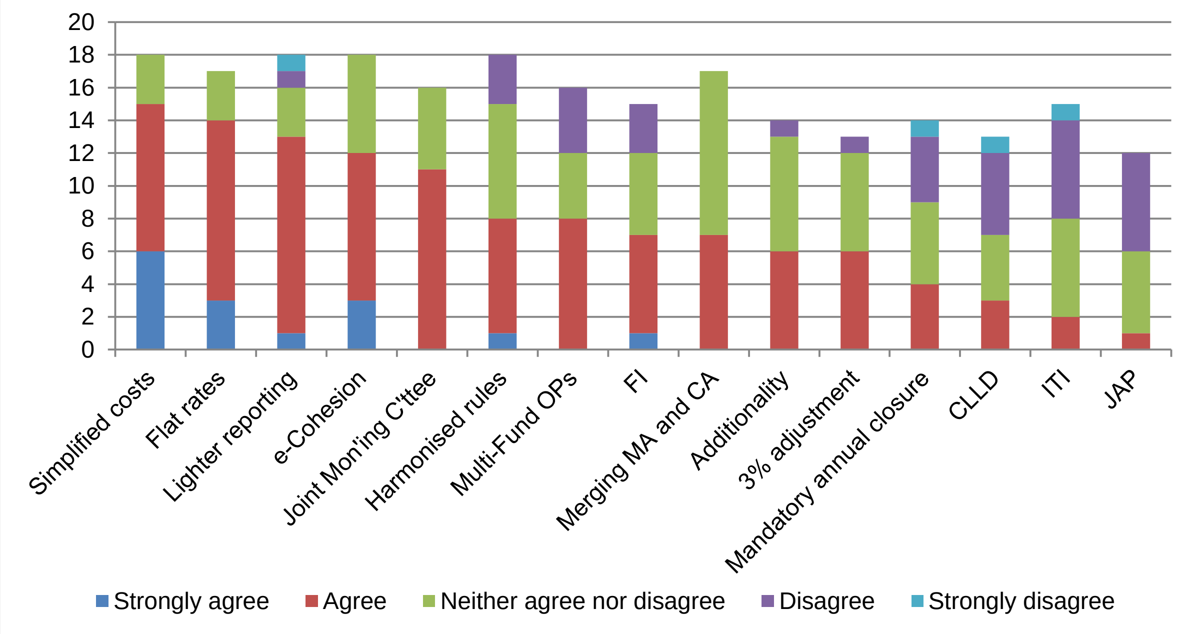
5.3 Simplification

Simplification of the management and implementation of ESIF is universally regarded as an imperative both for the 2014-20 (insofar as possible) and in the planning of reforms for the post-2020 period with a view to reducing the administrative burden of management. Steps were taken in 2013 to simplify aspects of administration, and some of these have clearly been beneficial as an EPRC survey of Managing Authorities in 15 Member States shows (see Figure 2), particularly in relation to simplified costs, flat rates, reporting requirements and e-cohesion.[33] However, many of the measures are considered to be mainly of benefit to the workload of beneficiaries, and most Managing Authorities and Intermediate Bodies perceive that the regulations and accompanying acts and guidelines have

[33] Davies S (2015) Is simplification simply a fiction*? IQ-Net Thematic Paper* 37(2), European Policies Research Centre, University of Strathclyde, Glasgow.

become more complex and that the administrative workload and cost in managing the funds has increased.[34] Specific concerns related to administrative complexity are listed in Box 5.

Figure 2: Assessment of the degree to which simplification measures have reduced administrative burdens



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

As noted above, the High-Level Group on ESI Funds Simplification was set up in 2015 to provide the Commission with advice on simplification measures and the reduction of administrative burden for beneficiaries. The indicative programme envisages eight meetings between October 2015 and February 2018 addressing different themes (e-cohesion, simplified costs, SME access to funding, gold-plating), a study of simplification and the post 2020 agenda. At the first meeting in October 2015, the exchange of views between the members of the group and Commission services highlighted key areas that are considered to be challenging and requiring attention for 2014-20 and beyond:

- **the area of audit** and the possibility to extend the single audit principle and a more risk based approach as well as proportionality in terms of control of the funds relative to both the amount of funding, geographical coverage and the objectives;
- **limited take-up of simplification measures** due to risk aversion in the Member States to the use of new tools
- **the conflict between results and compliance** with the focus of many authorities on the control side, often as a result of Commission and ECA audit;
- **tackling barriers to accessing funding caused by gold plating** or overly strict national interpretation **of national rules** and a lack of trust between different levels;
- **the challenges of complying with other EU policies** such as public procurement and state aid; and
- **lack of co-ordination between the ESI Funds**, which still had significant differences in their rules, and other EU funds such as Horizon 2020 which have a lighter touch approach in some cases.

[34] Mendez and Bachler (2015) *op. cit.* Kah *et al* (2015) *op. cit.*

Box 5: Simplification concerns of Member States

- Harmonisation of rules between Funds and the application of proportionality remain incomplete, and some unnecessary differences remain.
- Joint Action Plans, Integrated Territorial Investments and Community-led Local Development have attracted their own, additional, requirements and regulations, leading to low uptake in some cases.
- Preparatory work for additional SCOs is onerous, and difficulties remain, especially with regard to legal uncertainty, interpretation of regulations, their use in relation to public procurement rules and the treatment of SCOs at audit.
- The introduction of flat rates for revenue generating projects excludes important areas of support such as ICT, business support and low carbon schemes.
- The process of designating Managing Authorities and Certifying Authorities has been particularly complex, long and painful.
- The lack of legal certainty is a key issue. The multiplicity of texts is confusing, exacerbated by (at times) divergent messages from different Commission Services.
- There is uncertainty over the status, interpretation and application of Commission guidance, and whether it should it be treated as advice, as 'soft law', as 'best practice' or as a form of regulation.

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

The second high-level group meeting focused on e-governance and simplified costs. The key conclusions and recommendations for both the 2014-20 period and the future post-2020 period are outlined in Table 9. Further meetings in in February and June 2016 looked at the themes of access to funding for SMEs and financial instruments, and gold-plating. Future meetings will examine:

- a study on simplification and cross-cutting audit issues (November-December 2016);
- the post-2020 period (March 2017);
- the post-2020 period and new territorial tools (CLLD, ITI) (June 2017); and
- Commission proposals for the post-2020 period (February 2018).

EPRC survey research suggests that the priorities for simplification among Managing Authorities and Intermediate Bodies are particularly important in two areas.[35] A first set of changes perceived to be necessary relate to audit processes.

- As part of the designation process, consideration should be given to 'joint interpretation compacts' between Managing Authorities, Audit Authorities and the Commission services to establish common understanding and interpretation, to ensure legal clarity and certainty in the allocation of roles and exercise of remits, and to develop practical solutions to facilitate and accelerate the process. Where a Managing Authority has experience and a good track record over previous programme periods, it should not have to go through the protracted process required for designation for the 2014-20 period.

[35] Davies (2015) *op. cit.*

Table 9: HLG on Simplification - conclusions and recommendations on e-governance and SCO

Electronic governance	Simplified Costs
2014-20 period	
• disseminate good practice examples and establishing a knowledge sharing portal (e.g. the Simplify ESIF online platform)	• closer collaboration between authorities and more investment in training for relevant partners
• encouraging organisational and business change through the introduction of e-Governance initiatives in a constructive manner and developing a business process approach	• MAs should give clear and transparent descriptions of how SCOs should be documented, monitored, archived and audited
• widen the use technical assistance of all ESI Funds to facilitate the implementation of e-Governance e.g. allowing also the use of EAFRD and how technical assistance could be used at the same time to support IT development as well as other interventions such guidance and training.	• European and national auditors should be actively involved in ex ante verification of national SCOs
• strengthen beneficiaries trust' and use of e-Governance by: ○ clarifying articulation between e-document archiving and paper trail requirements ○ clarifying that supporting documents permitted in national common law (e.g. software extraction) are accepted; ○ promoting the "once only" principle that documents provided once by beneficiaries are kept in digital form; ○ clarifying e-signature issues	
Post-2020 period	
• more stability and legal certainty including timely delivery of rules by adopting regulations in the year after the framework is set up and the delegated/implementing acts within two years	• gather evidence on best practices and barriers to implementation of SCOs
• deepen knowledge of legal obstacles to implementation of e-Governance and promote their removal	• reflect on extending the possibilities for declaring output-based expenditure in particular for infrastructure projects (e.g. reimbursement based on a unit cost per kilometre of new built road)
• facilitate a common platform for e-Governance across ESI Funds by harmonising terminology, processes and structure between the ESI Funds	• investigating approaches already in place elsewhere that are in line with the idea of SCOs – such as the "Output-based Aid" approach systematically used by the World Bank and the idea of Social Impact Bonds
• mitigate adverse effects caused by the cross-over between the control and audit requirements for EAGF and EAFRD.	• exploring ways to improve and simplify the legal framework and introduce potential other options for SCOs based on lessons learnt including the possibility of differentiated flat rates for different thematic objectives
• enable standard platforms and EU level solutions for e-Governance, including interfaces between the current SFC system and national systems.	• identifying ways to make the use of SCOs mandatory/extend the use of mandatory SCOs, with clear requirements on audit and control
• promote open data portals through e-governance	• finding a suitable way to avoid conflict between the use of SCOs and state aid rules
• examine electronic monitoring system developed by Interact as best practice to extend to all programmes and also to ensure its interconnectivity with SFC.	

Source: First and Second HLG Meetings of the High Level Group on Monitoring and Simplification for Beneficiaries of ESI Funds.

- The nature and extent of checks, verifications and audits carried out on projects should be proportional to the EU funding committed and at risk..

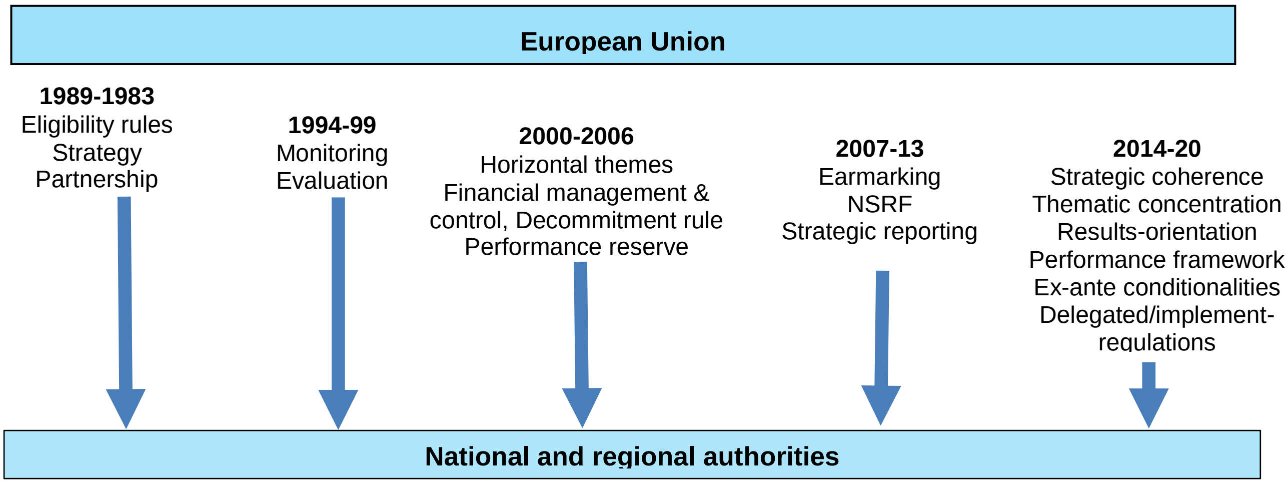
- The multiple layers of audit need to be rationalised and reduced. Where there is a good-quality, well-established, national audit system in place, which can continue to give a strong degree of assurance that EU funds are being well spent, and a programme has been audited by a national audit authority, this should avoid the need for an additional Commission audit. An agreement between the Managing Authority, Commission and Audit Authority on the management and control system should prevent the need for re-audit.

A second set of changes relate to coordination across policy areas and DGs within the Commission, the alignment of rules and synergies in the use of funding. Reflecting other recent research,[36] MAs recommend greater harmonisation of rules across Commission services, funds and instruments. In particular, there is a perceived need for alignment of the regulatory requirements of different EU policies. Of particular concern is that requirements in different EU legislation are combined with ESIF rules, sometimes without clear thematic coherence, which complicates smooth, effective realization of ESIF in certain fields. Specifically, greater harmonisation between EU Cohesion policy and EU Competition policy is seen to be required (e.g. procurement and State aid). For instance, the Commission approval of an OP could automatically result in a completed notification procedure in the context of regional aid.

5.4 Differentiation in the management of Cohesion policy

While there are numerous changes that could be made to detailed regulatory requirements and the processes and procedures governing the management and implementation of Cohesion policy, the scope for simplification is limited in a system which is inherently complex. The past 25 years have seen the build-up of layers of conditions and conditionalities as part of the regulatory reforms of 1988, 1993, 1999, 2005 and 2013 – as well as interim legislation relating to financial management and control in particular (see Figure 3). Each reform has added new or amended rules, requiring assimilation in national systems among thousands of organisations involved in delivering the Funds.

Figure 3: Administrative complexity in Cohesion policy through successive layers of reform



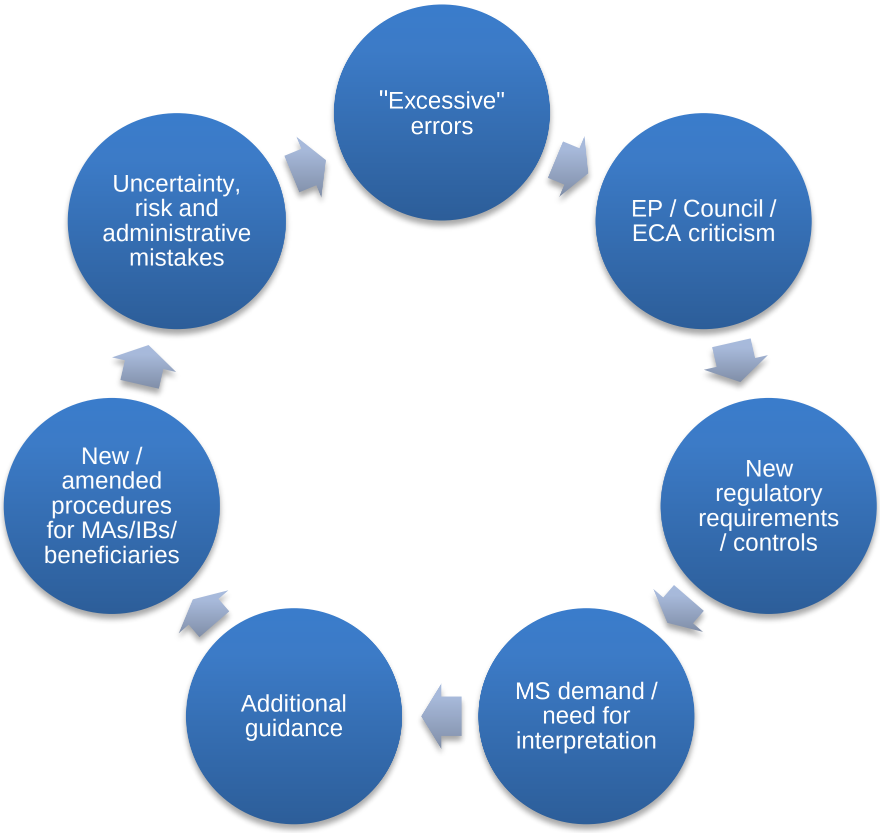
Source: Bachtler J and Ferry M (2015*) Rethinking the future of Cohesion policy: Performance and added value*, Presentation to Growth, Innovation, Competitiveness Conference, University of Warsaw, 26-28 February 2015

Further, since the start of the 2000 the dynamic of Cohesion policy has been driven by the imperatives of compliance and an ever-growing set of financial management and control obligations

[36] Kah et al (2015) *op. cit.*

and layers of audit in an effort to reduce the error rate. As shown in Figure 4, the annual reporting on the error rate by the Commission and European Court of Auditors has, over the past decade, been a central indicator of how Cohesion policy is perceived in the European Parliament and the Council. Political pressure to reduce the error rate has brought new regulatory requirements which in turn has brought demands from Member State authorities for interpretation by the Commission (to reduce the likelihood of audit challenge). Rules and guidance then require Managing Authorities, Intermediate Bodies and beneficiaries to adapt processes and procedures, which inevitably introduces uncertainty, risk and scope for administrative mistakes, which, if picked up through audit, may then be classed as errors.

Figure 4: Complexity and the error rate cycle



Source: Authors

This is a universal problem affecting all Member States, but it has distinctive dimensions in richer countries and regions which are receiving smaller amounts of EU funding, where the proportion of ESIF may be very small compared to domestic expenditure on economic development and where EU rules and procedures often differ from national ones.[37] With a relatively small proportion of staff involved in ESIF administration in departments/agencies responsible for Managing Authority and Intermediate Body functions, there is a heightened risk of differences in (for example) procurement practices, eligibility rules and other administrative processes resulting in errors. In this context, the growing complexity of financial management and control, as well as other regulatory requirements, is

[37] According to European Commission (2015a), whereas in Poland, Hungary, Slovakia, Latvia, Lithuania and Portugal, the ESIF account for 50-80 percent of public investment, in the Netherlands, Sweden, United Kingdom, France, Germany, Finland and Austria, the Funds only represent between one and five percent of public investment

not only associated with high workloads but also with a loss of trust and confidence in the policy, to the extent that some bodies are taking the decision to avoid involvement in ESIF where there are alternative domestic funding opportunities. Efforts to address these problems through regulatory provisions for proportionality have, so far, been marginal and made little difference.

The question is whether a differentiated approach could be designed that moves away from the one-size-fits-all model of shared management and which recognises that different models are appropriate for different contexts.

A starting point is to consider the principles that would need to guide a differentiated approach – or the minimum requirements that the COM would expect, notably (a) coherence with Cohesion policy objectives and wider EU economic and industrial policies; (b) assurance on the regularity of spending; (c) evidence on the performance of EU funding and the results achieved; and (d) a commitment to the principles of partnership.

Based on these principles, it would be possible to conceive a new model of shared governance[38] (as opposed to shared management), based on partnership and cooperation, which would be inspired by the current 'direct budget support' approach. This might have the following elements.

First, Member States would elaborate national strategies for territorial/regional development and cohesion (or demonstrate that there is a domestic strategy in place) and negotiated with the Commission to ensure it meets regulatory requirements. The Commission would clearly want to be assured that pre-conditions relating to sound financial management, performance and partnership are met.

Second, Member States would implement the strategies – in terms of management, monitoring and controls – according to national rules and administrative arrangements without need for approved OPs. Relevant EU rules on State aids, public procurement, the internal market and environmental protection would need to be met.

Third, Member States would commit to regular reporting to the Commission and Council on the progress and performance of their use of EU funding. Financial payments would be approved by the Commission based on the demonstrated achievement of agreed outputs or results. Audit would be the responsibility of national audit services; verification of the work of national audit services would be undertaken either by a single Commission Audit or by the European Court of Auditors.

Lastly, the Commission would have the scope to implement a limited number of Community initiatives to respond to specific challenges or opportunities. It would also facilitate coordination of the exchange of experience across Member States within the framework of the open method of coordination.

A key question concerns the criteria to justify the use of simplified contracting of this type, Scale of funding allocation could be the primary criterion but others could also be considered (or combinations thereof), related to administrative performance, capacity etc.

[38] This may not be the best term to use, at least with respect to the financial management aspects (pre-conditions, audit, control). The defining feature of governance is the inclusion of non-Government actors (namely interest groups, civil society, trade unions etc.). This is relevant to the partnership principle functions of programming, monitoring, but less to direct management of large sums of public funding.

Table 10: Possible criteria for differentiation

Indicator	Rationale	Drawbacks
Scale of EU funding	Main EU concerns are (a) regularity of EU spending – larger allocations / programmes are associated with greater risk to EU financial interests; and (b) performance – impact of policy depends on larger recipients. Justifiable for regulatory requirements to be greater for larger allocations and vice versa.	Arbitrary threshold of (e.g.) €100 mill or €250 mill making significant difference to regulatory requirements / cost. If applied at programme level, different regulatory regimes would apply within same country, possibly to neighbouring programmes. Incentive to have smaller programmes. Even a 'low' threshold like €100 mill still involves a significant amount of public funding.
National co-financing rate	Member States that are prepared to invest larger amounts of their own money to match EU funding can be considered as particularly committed to the achievement of good results. They can also be expected to put in place the necessary administrative structures monitor and control projects and processes because their own money is at stake. At the same time, the higher the co-financing rate is at the national level, the lower is the risk for the EU budget. If national authorities, together with their regional and local counterparts, are prepared to co-finance their regional development programmes at rates beyond 50% and independent of the minimum rates already foreseen in the regulations (e.g. 85% in the case of well-developed regions, 75% in the case of transition regions and 60% in the case of less developed regions), this could be considered as a 'guarantee of good will and commitment' which could allow to give more freedom to the countries/regions concerned, with a reduced level of EU controls or to switch from the current shared management approach to 'direct budget support'	Less developed countries which, in line with Cohesion Policy objectives, benefit from high amounts of EU funds, but at the same time – because of their overall economic and financial situation, experience strong budget constraints, may not have the possibility to commit themselves to high national co-financing. They would therefore have to stay in a system of shared management under stricter EU rules and controls. Although there are arguments in favour of such an approach, some of the countries concerned may find this unfair. Others may wish to reduce the funding foreseen by the EU and conceive smaller programmes in order to be able to match EU funding at high rates and thus 'buy their freedom'.
EU funding as % of GDP or public investment	Small allocations relative to GDP have limited potential to achieve significant change but also are associated with less risk. National GDP is generally related to quality of governance – better administrative systems in countries with smaller proportion of EU funding relative to GDP	There may be more misfit between EU rules and domestic rules in countries with low levels of EU funding relative to GDP. Significant variation in quality of government across regions/programmes in some Member States, and comparable public investment data at regional level is not available across the EU.
Absorption	MS or programmes that have shown they can spend money on time have better and more reliable administrative systems, requiring less control.	Absorption is not necessarily an indicator of good management – merely the ability to spend.
Regularity	MS or programmes that have shown they can spend money with few irregularities have better and more reliable administrative systems, requiring less control.	Some of the more developed MS have a poor record on irregularities – attributable partly to the lower level of administrative resources deployed to implementing Cohesion policy as well as the influence of differences between national and EU rules and administrative systems. The level of irregularities in a programme (region or MS) is partly a function of the effectiveness and independence of the audit authorities; a high level of errors may reflect good detection. Errors also depend on the level of risk incurred; innovative projects that potentially contribute more to programme objectives may be associated with more errors

Outputs/results	MS or programmes that have shown that they can implement programmes to achieve in line with targets have better and more reliable administrative systems, requiring less control.	The setting of targets is highly subjective. Good achievement may reflect undemanding targets and vice versa. The accuracy of outputs and results achieved may also be difficult to verify.
Quality of government	Administrative capacity – especially for major projects, public procurement, State aids, financial management etc – is determined by QoG for which independent measures exist –e.g. Transparency International, World Bank, Gothenburg	Administrative capacity for Cohesion policy may differ from the wider QoG due to greater controls, EU oversight etc. There are, for example, administrative 'islands of excellence' for managing Cohesion policy in Central and Eastern Europe, where the capacity for ESIF is significantly better than the capacity for domestic policies. Vice versa in developed countries.

5.5 Synergies

The topic of ESIF synergies was a core theme discussed during the Netherlands Presidency in the first half of 2016 with a specific focus on Research and Innovation. A discussion paper drafted under the Dutch Presidency in May 2016 noted that increasing activity geared towards synergies but argued that it is now vital to take stock of where we stand with regard to the actions that are necessary to ensure synergy, to see if best practices can be identified and to discuss where and how additional efforts can be made.[39] Discussions at the Netherlands EU Presidency conference in June 2016 identified six main options for exploiting synergies in 2014-20 – from the programming stage to the implementation of projects (see Table 11).

Table 11: Options for exploiting synergies

Options	Usage
Synergies in strategic frameworks and programme documents	Probably area of most progress. All PAs identify potentials for synergy between ESIF and other EU policy instruments and funding sources, often using correspondence tables identifying where the strongest potential lies.
Structural or organisational initiatives to facilitate synergies	Widespread changes in practice through: (a) changes in the programme architecture (fewer programmes, more multi-fund programmes, use of integrated Priority axes in many Member States; (b) new institutional arrangements to promote coordination (central coordination bodies, joint monitoring committees) such as co-location of agencies; and (c) operational tools (budgeting processes, strategic documents, databases, national guidance, networks, monitoring and evaluation arrangements).
Project level - cumulating grants, pooling or combining funding from different EU instruments	Major potential but exploitation currently unclear. Complex because of the need to respect rules of different policies, informational issues, and (in some cases) difficulties of combining EU and national funding.
Project sequencing	Considerable mileage in parallel projects (that complement each other) or successor projects (that build on each other), as recommended in COM guidance.
Potential to align cost models (unit costs, flat rates, lump sums)	Evidence is limited but feedback from research suggests low take-up at present.
Potential role of FIs in achieving synergies	Limited evidence so far.

Source: Bachtler J (2016) *Synergies in Cohesion policy – Summary of NL Presidency Conference discussion*, Amsterdam 13 June 2016 (mimeo).

[39] Council of the EU (2016) *Council conclusions on "A more R&I friendly, smart and simple Cohesion Policy and the European Structural and Investment Funds more generally*", adopted by the Council at its 3478th meeting held on 24 June 2016.

Priorities for reform post-2020 discussed at the conference begin with regulatory issues, notably harmonisation of rules and consistency in State aid rules as we as maximising flexibility for rules to be adapted to different national circumstances. In terms of governance and implementation, more attention needs to be given to a 'programme lifecycle' approach to exploiting synergies – from strategic planning through the design of partnership arrangements, mechanisms for project generation, appraisal, selection and implementation support, to monitoring and evaluation. This needs to be supported by investment in capacity-building such as training, information exchange platforms and networking. Lastly, there are structural issues relevant for the post-2020 debate: better coordination between relevant DGs; the architecture of the Funds; the 'culture' gap between regional development and RTDI actors; and an approach to implementation that facilitates risk-taking.

Box 6: Council Conclusions on fostering R&I synergies and developing smart specialisation

To further the pursuit of **synergies in a Research and Innovation context**, the GAC conclusions called on the Commission to:

- continue to support evidence based policy changes and to improve data, data collection systems, to promote and share best practices of synergies;
- propose new measures to improve synergies within the simplification agenda and coordinating with other initiatives based upon a bottom-up and user friendly approach;
- explore the options for alignment and greater coherence, especially regarding state aid and public procurement rules, including by using projects with a Seal of Excellence as a pilot and providing an interpretation note on state aid rules in the context of ESI Funds and Horizon 2020;
- provide data on the implementation of synergies to monitor its progress, including via the beneficiaries of directly managed EU funds
- provide a clear, aligned and coordinated approach for the post 2020 development of the Framework Programme for R&I and ESIF, including a roadmap to address synergies at all levels at an early stage.

In developing the **future Smart Specialisation approach,** the GAC expressed supported for the smart specialisation concept and the existing CPR ex-ante conditionality, and called on the Commission to:

- further RIS3 development taking into account existing strategies of both the national and the regional policy levels, where appropriate, and result in a more tailor made and differentiated priority setting and implementation of instruments
- continue supporting cooperation across countries, particular through:
    - promoting RIS3 related cooperation across different countries and regions, including ETC programmes (e.g. via thematic programmes and smart specialisation platforms, bottom-up approaches such as the Vanguard Initiative and in collaboration with existing European stakeholder platforms);
    - examining ways to promote RIS3 that focus on a portfolio of specific themes leading to a better concentration and coordination of resources;
    - assessing how smart specialisation can help regions with particular barriers to research and innovation and economic development, including examples of how to involve the different stakeholders in such regions;
    - supporting mutual learning and sharing of good practices in innovation policy implementation, governance and monitoring, in particular via the S3-Platform.

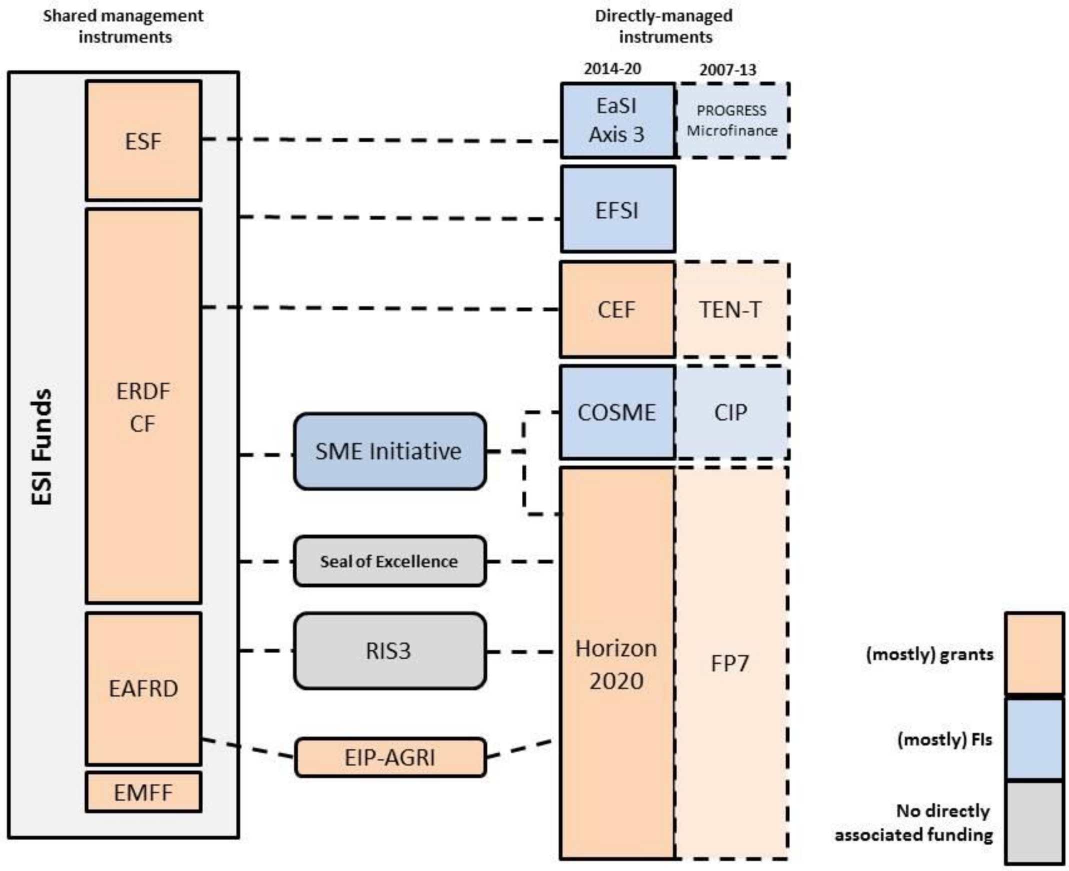
Source: Council Conclusions 10668/16, 27 June 2016.

The General Affairs Council subsequently adopted conclusions on "A more R&I friendly, smart and simple Cohesion Policy and the European Structural and Investment Funds more generally" in June 2016 (see Box 6). The main points raised in the conclusions were the need to pursue synergies within the simplification agenda and to harmonise rules, especially in terms of public procurement and state aid, and a coordinated approach to the development of post-2020 proposals under ESIF and the R&I Framework Programme (Horizon 2020). In the area of smart specialisation, the Council supported the concept and the existing conditionality on smart specialisation strategies (RIS3), but also called for

more sensitivity to existing national and regional strategies and support for coordination across countries and regions.

Going beyond the area of Research and Innovation, two recent studies have explored synergies between ESIF and all the relevant and centrally-managed EU instruments in 2014-20 period (Figure 2). As noted, the study assessing the programming of new provisions across all PAs and OPs included a section on ESIF coordination. It found that the quality of the descriptions and coordination varied across countries, instruments and the policy cycle. Co-ordination is strongest among the ESIF themselves, followed by other EU instruments, and then national funds. Member State co-ordination efforts are more concentrated on the strategic planning phase rather than implementation and that this may jeopardise the positive effects of the complementarity established in the programming phase.

Figure 5: Relationships between ESIF and directly-managed EU instruments



Source: Ferry *et al.* (2016) *op. cit.*

The second study, based on more in-depth case studies in a sample of countries and regions, identified a shift from focusing on the demarcation of Funds and instruments to avoid overlaps and duplication, towards a push for more synergistic working in the design and implementation of initiatives under specific themes and objectives.[40] However, it also identified strong variation in the scope and extent of synergistic working at different stages in the policy process, in different thematic

[40] Ferry M, Kah S and Bachtler J (2016) *Maximisation of synergies between European Structural and Investment Funds and other EU Instruments to attain EUROPE 2020 goals*, Study for the European Parliament's Committee on Regional Development, Brussels.

fields and in different territories. The key conclusions and recommendations concerning the regulatory context, governance, strategic framework and implementation are summarised in the following table:

Table 12: Improving synergies between ESIF and other EU instruments

Conclusions	Recommendations
Regulatory context	
Regulatory reforms introduced for 2014-20 have addressed the issue of synergies but substantial challenges remain (e.g. in the areas of financial regulations and State aid rules).	Harmonising regulations governing the involvement of State aid in different instruments. Harmonising regulations concerned with the exchange of information / reporting requirements for different instruments. Strengthening regulations that facilitate joint funding operations. In the financial regulation, this should emphasise common rules and definitions to enhance interactions between instruments.
Governance	
Governance arrangements to pursue synergies, changes have been somewhat limited. EU-level initiatives, including the S3 Platform have been established and Member State networks are in operation but compartmentalised or 'silo' based implementation approaches remain evident at DG and Member State levels.	Strengthened coordination among DGs in the pursuit of synergies. 'Soft governance' options should be explored further.
Strategic frameworks	
The strengthened strategic alignment of ESIF with other EU-funded instruments under the Europe 2020 strategy is one of the key advances for the pursuit of synergies in 2014-20, reflected in references to synergies in ESIF PAs and OPs and in the use of the strategic programming process to identify and pursue synergies.	More consistency is needed in the description of synergies in strategic documents. Programmes should include a clear account of how synergies will be pursued.
Implementation	
Implementation approaches 'on the ground' have an influence on the degree to which synergies might be achieved. These include: familiarity with different instruments and funds among implementers; the availability of up-to-date information on the progress of different instruments; and ad hoc contact between actors. The strength of formal 'linking' structures, synchronicity in implementation, and capacity-building are also important.	The potential of developing joint work programmes or joint calls between ESIF and other EU-funded instrument should be considered.

Source: Ferry *et al*. (2016)

Other survey research at programme level has come to similar conclusions. The emphasis on synergies appears to be regarded by Managing Authorities and Intermediate Bodies as among the most positive of the reforms introduced in 2013, not just in principle but also in practice.[41] While national coordination arrangements vary significantly between Member States, not least in terms of their formality, many Managing Authorities are cautiously optimistic that the structures and systems planned or introduced will exploit synergies and lead to greater coordination than in 2007-13.[42]

[41] Bachtler J, Mendez C and Polverari L (2016) Ideas and options for Cohesion Policy Post-2020, IQ-Net *Thematic Paper* 38(2), European Policies Research Centre, University of Strathclyde, Glasgow.

[42] Kah S, Mendez C, Bachtler J and Miller S (2015) *Strategic Coherence of Cohesion Policy: Comparison of the 2007-13 and the 2014-20 Programming Periods*, Report to European Parliament, Committee on Regional Development, European Parliament, Brussels.

5.6 Performance

5.6.1 Results orientation

The 2013 reform of Cohesion policy introduced a stronger performance orientation involving more clearly specified objectives, intervention logics and results targets. The results orientation was a step-change in the philosophy of Cohesion policy but has proved to be challenging to implement in practice**.** Member States and regions found it difficult to formulate well-defined specific goals. Initially, many programmes 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 was to fix targets that were both ambitious and realistic, with the Commission often influencing Managing Authorities to modify objectives, outcome indicators or targets. In reviewing the negotiations, the Commission has stated that "every programme has a performance framework against which performance will be assessed" making it "possible to have transparent reporting and evaluate progress towards programme objectives".[43]

As yet, there is insufficient practical experience to judge whether the results-orientation and performance framework will deliver the twin objectives of more effective interventions and more visible outcomes on the ground. EPRC research among Managing Authorities and the earlier cited EU studies on the performance frameworks suggests that the key challenge is to strengthen and support the change in mind-set from an absorption/compliance focus to a results focused approach in managing programmes, with appropriate feedback and learning.

5.6.2 Conditionalities - quality of government and administrative capacity

Ex ante conditionalities were introduced for the 2014-20 period in response to research showing that the effectiveness of Cohesion policy spending was undermined by deficits in national/regional policy frameworks and institutional capacity. Cohesion policy is credited with having strengthened administrative structures and cultures across Europe over successive periods through its programming requirements, and the focus on institutional capacity building was reinforced in 2014-20 by making it a thematic objective with dedicated funding.[44] Member States have made considerable effort to comply with ex-ante conditionalities; Commission data indicate that 75 percent of ex ante conditionalities were fulfilled at the time of programme approval but with 750 the subject of action plans.[45] However, the process has not been easy,[46] and EPRC research suggests mixed views among many Managing Authorities. The principle of conditionalities has generally been seen as positive, especially in promoting awareness of the policy or institutional pre-conditions that need to be in place for effective implementation, and in influencing government departments/agencies to make necessary legal, regulatory or organisational changes. However, the administrative requirements have frequently been seen as onerous and unnecessary, mainly in MDRs.

Notwithstanding this initial experience, quality of government varies significantly across the EU (see Figure 6), and the evidence shows that institutional capacity-building and efficient public

[43] European Commission (2015a) *op. cit.* p.6

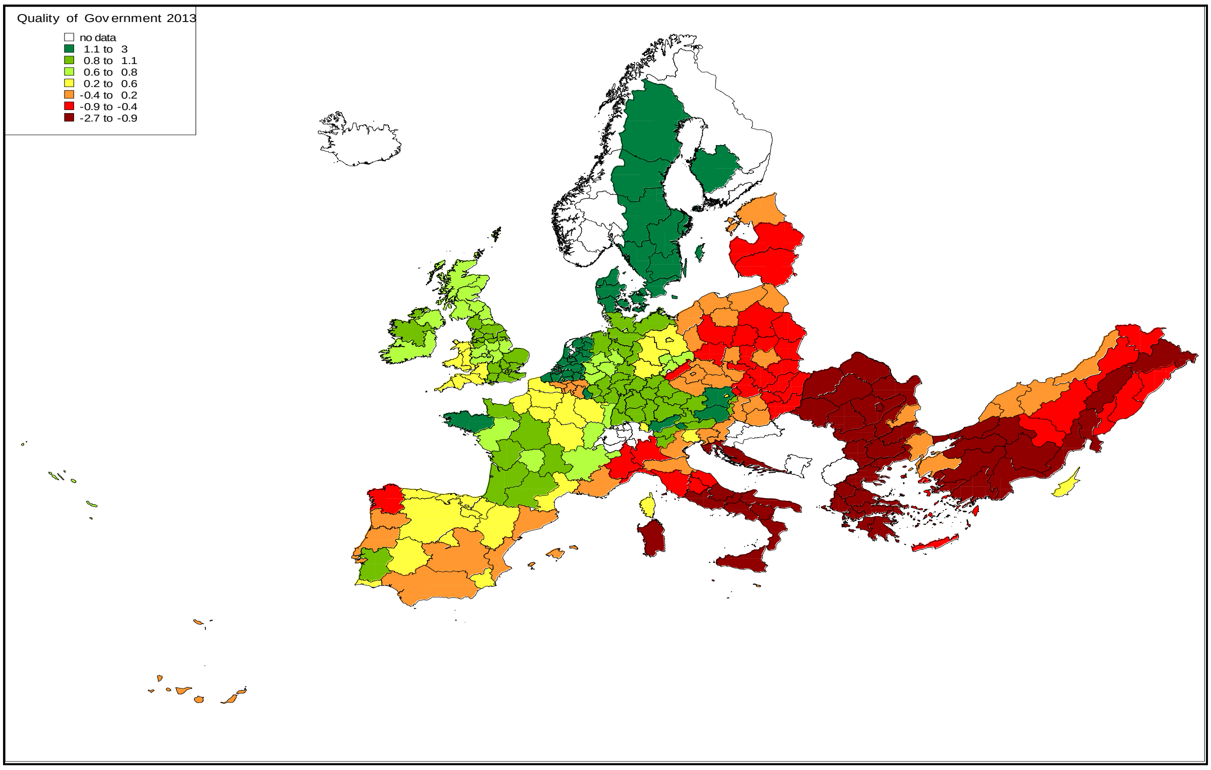
[44] Mendez and Bachtler (2015) *op. cit.*

[45] European Commission (2015a) *op. cit.*

[46] Mendez and Bachtler (2014) *op. cit.*

administration are particularly important for effective CP implementation.[47] Consequently, the question is whether there is a case for strengthening conditionalities related to quality of government and administrative capacity. There are also arguments for reconsidering whether requiring all countries/regions to address all EU thematic priorities makes sense.

Figure 6: Regional quality of government in Europe



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

5.6.3 Financial instruments

In her 2015 Lisbon speech (although not subsequently), Commissioner Creţu questioned the relative efficiency of different forms of support (grants, financial instruments, or their combination) and whether the share allocated to financial instruments should be increased in the future.

The Commission has encouraged greater spending of Cohesion policy resources through financial instruments, strengthened by the Investment Plan. Commission estimates suggest that around €20 billion of ERDF and Cohesion Fund will be allocated to financial instruments in 2014-20, compared to less than €12 billion in 2007-13; ESF delivery of funding through FIs is also expected to almost double to over €800 bn.[48] The Commission argues that "given the leverage effect of financial instruments, the impact of their support is greater than grants to the same policy area".[49]

[47] Rodrigues-Pose A (2013) Do institutions matter for regional development? *Regional Studies*, 47:7, 1034-1047. Farole, T., Rodríguez-Pose, A. and Storper, M. (2011), Cohesion Policy in the European Union: Growth, Geography, Institutions. JCMS: *Journal of Common Market Studies*, 49: 1089–111.

[48] European Commission (2015a) *op. cit.*

[49] *Ibid*, p.6.

Looking towards post-2020, a continuation and expansion of EFSI have already been proposed, and the option of allocating Cohesion policy funding to richer countries or MDR largely or wholly through financial instruments has been mooted. However, as noted in previous EPRC research,[50] there are dangers in focusing excessively on financial instruments on the present scale given that they are unproven in some countries (which lack the 'eco-system' for FIs) and the evidence for their effectiveness is still mixed, as reported in a recent audit by the Court of Auditors (See Box 2). There are also limits in the capacity of programmes to incorporate financial instruments. The administrative complexities associated with EU co-financed financial instruments are a major concern for managing authorities. Given the administrative burden (and expertise) involved in setting up structures for managing such instruments, they are perceived to less useful in small programmes and in sparsely-populated areas where there are both few SMEs and a less well-developed capital market. In addition, the impact of the current economic crisis suggests that the capacity of financial instruments to leverage in private sector funding or to incentivise SME investment may be limited. More fundamentally, there is no evidence as yet that financial instruments lead to improved programme performance (in terms of growth, productivity, jobs) compared to grants.

5.7 Economic governance and structural reform

The legislative framework for 2014-20 formalised the linkages between ESIF and the European semester and economic governance, notably the requirement for Partnership Agreements and Operational Programmes to take account of country-specific recommendations (CSRs), and the introduction of macroeconomic conditionality. The Commission estimates that 2/3 of the CSRs in 2014 were relevant for Cohesion policy, with future CSRs triggering ESIF programme adjustments where required.[51] Some 62 CSRs were taken up in ESIF programmes, most notably those relating to labour markets (in 19 Member States) and education and skills (in 13).[52] As one example, in Poland 45 percent of ERDF/CF and 65 percent of ESF are reported as addressing the priorities and challenges identified through the European Semester.[53]

Cohesion policy is also providing financial and technical resources for structural reforms, including administrative capacity building. Although criticised by the European Parliament and Committee of the Regions,[54] the Commission is looking at strengthening the relationship between Cohesion policy and

[50] Michie R and Wishlade F (2011) Between Scylla and Charybdis: Navigating financial engineering instruments through Structural Fund and State aid requirements, *IQ-Net Thematic Paper*, 29(2), European Policies Research Centre, University of Strathclyde, Glasgow. Wishlade F. and Michie R. (2015) *Financial instruments in 2014-20: learning from 2007-13 and adapting to the new environment*, Paper to the 2nd joint DG Regio – RSA EU Cohesion Policy conference 'Challenges for the New Cohesion Policy 2014-20: an Academic and Policy Debate, Riga, 4-6 February 2014. European Parliament (2015f) *Financial Instruments under Cohesion Policy 2007-13: How have Member States and Selected Financial Institutions Respected and Preserved EU Financial Interests?*, Study for the European Parliament, Directorate General for Internal Policies, Policy Department D: Budgetary Affairs, European Parliament, Brussels. Van der Zwet A, Bachtler J, Miller S, Vernon P and Dozhdeva V (2016) *Review of the Role of the EIB in Cohesion Policy*, Study for the European Parliament, Directorate General for Internal Policies.

[51] European Commission (2015a) *op. cit.*

[52] Deffaa W (2016) The New Generation of Structural and Investment Funds – More than Financial Transfers? *Intereconomics*, 51(3), 1550-163.

[53] European Commission (2016) *Country Report Poland 2016*, Commission Staff Working Document, SWD(2016) 89 final, Brussels, 26.2.2016.

[54] European Parliament (2015) *Draft Report on the European Structural and Investment Funds and sound economic governance: guidelines for the implementation of Article 23 of the Common Provisions Regulation* Committee on Regional Development, 2015/2052(INI) 21.4.2015, Brussels; Committee of the Regions (2015) *CoR Opinion on Guidelines on the application of the measures linking the effectiveness of the European*

structural reforms given the potential impact on Member State economic performance. DG Regio's lagging region initiative is also analysing the structural reforms needed to maximise growth and jobs in these regions.[55] More radically, as noted above, the German Finance Minister has said that "we should use the money that is currently spent for cohesion policy and parts of the agriculture budget to support structural reforms in Member States".[56] A Dutch position paper on the MFF review called for "a more effective link between EU resources and economic policy coordination in the EU in order to align investments more closely with economic, employment and fiscal policy requirements.[57]

As discussed in previous EPRC reports,[58] structural reform conditionality has been mooted by the Commission, for example introducing a mix of incentives (higher co-financing rate, increased advance payments, and flexibility in applying de-commitment) and/or sanctions (suspensions of commitments and payments) linked to structural reforms through the annual cycle of the European semester. These have, though, been rejected by Member States on the grounds of infringement of subsidiarity, potential policy conflicts and administrative costs. The creation of the Structural Reform Service Programme (SRSP) provides another mechanism through the provision of technical support "to all Member States requesting this" in designing and implementing institutional, structural and administrative reforms (including factors such as administrative and institutional capacity), including "assistance for the efficient and effective use of Union funds".[59] This would be a promising option, given that the support would be provided in agreement and in partnership with Member State. However, as the ex ante evaluation of the proposal notes, there are potential risks in the division of competences between the EU and Member States, as the implementation of the reforms is the responsibility of the Member States although the Commission "would follow-up the reform progress" through close "monitoring and evaluation processes via specific indicators".[60]

Not stated is the implication of Member States ignoring Commission advice or the wider question of Member States perceived to require support nor requesting support. Consequently, there must be a likelihood of conditionalities being introduced at a future date requiring Member States to work with the Commission on structural reforms provided through the SRSP.

Structural and Investment Funds (ESIF) to sound economic governance, COTER-V-053 110th plenary session, 11-13 February 2015, Brussels.

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

[56] Speech by Wolfgang Schäuble, German Minister of Finance, to the Symposium 'The Future of EU Finances', 14 January 2016.

[57] Position paper Netherlands – Mid term review MFF Dutch non-paper on the mid-term review of the Multiannual Financial Framework 2014-2020, The Hague, the Netherlands – July 2016

[58] Mendez and Bachtler (2015) *op. cit.*

[59] European Commission (2015b) Proposal for a Regulation of the European Parliament and of the Council on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303.2013 and (EU) No 1305/2013, COM(2015) 701 final, Brussels, 26.11.2015.

[60] European Commission (2015c) Ex-Ante Evaluation accompanying the Document Proposal for a Regulation of the European Parliament and of The Council on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013, Commission Staff Working Document, SWD(2015) 750 final, Brussels, 26.11.2015.

6. CONCLUSIONS

6.1 Future objectives of Cohesion policy

What should be the future rationale(s) for Cohesion policy? What is the appropriate balance between its role in addressing regional development objectives and delivering EU industrial policy goals and supporting European economic governance?

The future of Cohesion policy is often uncertain at this stage in the MFF reform cycle but the options for change are currently more uncertain than in previous periods. Over the past three decades, there has been significant change in the mandate of the policy, to the extent where its role as a policy for 'cohesion' needs to be reassessed.

Following the reform of the Structural Funds in 1988, the objective of Cohesion policy was to reduce disparities by supporting economic and social development in designated problem regions. Comparable to many national regional policies of the time, the 1989-93 programmes were often developed 'top down' providing support in the form of regional investment and employment aid to enterprises and local infrastructure in designated problem regions – often co-financing national and nationwide regional policy schemes. The role of Structural Funds developed during 1994-99 and 2000-06 programme periods into a more regionalised economic development policy, focusing on supporting regions to promote endogenous development and build capacity, with the Commission actively supporting the decentralisation of economic development responsibilities to the regional level. From the mid-2000s, Cohesion policy became more of an arm of European industrial policy, first with its orientation to the Lisbon agenda and then by positioning of the policy as a 'delivery agent' for Europe 2020. The most recent reforms also enhanced the link with European economic governance, most notably through macro-economic conditionalities.

There is clearly external pressure, from within the Commission and some Member States, for Cohesion policy to have a continued - or indeed a stronger role - in implementing EU economic policy objectives, and supporting European economic governance, by funding EU investment priorities and structural reforms. Yes, as Commissioner Creţu has asked: *"how we can strengthen the support of the policy to structural reforms, building on the successful introduction of ex-ante conditionalities to ensure that cohesion policy interventions and reforms reinforce each other, and that the objectives of the policy as fixed by the Treaty are not compromised?"*

Indeed, the policy is in danger of being overloaded with numerous and contradictory objectives, diluting its Treaty focus on cohesion and reducing the importance of 'place' and 'territory' in the design and implementation of programmes. The growing top-down prescription of ever-more regulatory requirements also runs counter to the principle of subsidiarity and weakens the ability of countries and regions to address development needs and challenges in ways most appropriate to national and regional circumstances. There is a strong argument for refocusing the policy on its Treaty mandate as a distinctively 'regional' policy; the question is whether this is achievable in the current environment while defending the significant resource allocation to Heading 1b.

6.2 Future implementation of ESIF

To what extent is a differentiated approach to the management of ESIF justified? What are the principles and criteria for an effective and equitable approach?

The shared management system has been a distinctive feature of Cohesion policy since the inception of the current approach in 1988. The principle of a partnership between the EU and Member State (and often sub-national) levels is fundamental to the way ESIF programmes are designed and implemented, and has been used as a paradigmatic example of multi-level governance in EU studies.

However, over the past decade, the principle has come under increasing pressure for two reasons. First, since the early 2000s the administrative time and cost of implementing ESIF programmes has increased significantly, primarily due to the resources required for intensified financial management and control procedures. Second, the declining amount of Cohesion policy funding in several of the more developed EU Member States has led to claims that the management cost of Structural Funds programme administration is disproportionate to the scale of funding. Indeed, there is some evidence that the administrative workload in such cases is reducing the willingness of intermediate bodies and beneficiaries to take part in programmes; EU funding is becoming synonymous with complexity and bureaucracy, in particular at the 'grassroots' levels which historically have been some of the strongest supporters of the policy.

Commissioner Creţu has acknowledged that there is a need for a more fundamental change to the management system for Cohesion policy that goes beyond simplification of rules. As she stated in mid-September 2016: *"we [have] reached the limit to what we can do within a system whose foundations have not changed radically for more than 25 years. Time has come for a more fundamental review of the way cohesion policy operates. We need to recognise, for example, that institutional and administrative structures and capacities differ across Member States, and this should be reflected in the delivery system."*

The question of course is how a differentiated approach could be structured. In previous reform debates, research and discussion of differentiation focused more on providing more flexibility within a common management system.[61] Also, previous negotiations on the regulations showed that there was a lack of unanimity on a more differentiated approach, beyond some limited provisions for proportionality. In the current reform phase, however, it is possible that some Member States may be unwilling to continue participating in Cohesion policy unless a more differentiated approach is introduced.

The challenge will be how to engineer a system that makes a real difference to administration. At the programming stage, it would need to ensure coherence with Cohesion policy objectives and wider EU economic and industrial policies, provide a performance framework and a commitment to the principles of partnership. During implementation, there would need to be mechanisms for assurance on the regularity of spending, and evidence for the results achieved. As noted earlier, there are several possible criteria for determining where and how less onerous administrative requirements are introduced, but the key criterion is that of risk: those Member States (or programme) which represent

[61] Bachtler J (2009) *Can differentiated requirements for different Member States be defended?* Hearing on the first findings of the ex post evaluation of Objectives 1 and 2, European Commission, Berlaymont, 23 June 2009 http://tinyurl.com/hwtyrkd 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.

low risk – on the basis of scale of funding and proven capacity – could be subject to fewer controls, while those representing higher risk would remain under shared management.

6.3 Future role of financial instruments

To what extent should financial instruments be given a greater role in Cohesion policy after 2020? Should they be used preferentially in richer countries or More-Developed Regions?

The European Commission has placed considerable emphasis on increasing the use of financial instruments in the form of loans, equity and guarantees, instead of traditional grants. These instruments are acknowledged to have the potential to be a more effective and efficient means of funding investment across many policy areas than non-repayable grants. However, the ex post evaluation of 2007-13 showed that there is a range of operational difficulties including capacity deficits, possible conflict of interests between the objectives of private fund managers and public policymakers, and deficiencies of monitoring systems and indicators.

More fundamentally, the ex post evaluation expressed concerns about the lack of clarity in defining the expected contribution of FIs to the pursuit of programme objectives. There is also limited evidence, as yet, concerning the impact of FIs on job creation and innovation – in particular the additionality of using FIs and how they compare – in terms of efficiency and effectiveness – with grants. The same concerns have been expressed by the European Court of Auditors.

In this context, the question is whether the European Commission's emphasis on financial instruments – under ESIF, but also under EFSI – is justified and whether decisions on their use post-2020 should wait until more convincing evidence of their added value is available.

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