

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

**POLICY DEPARTMENT B**  
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**COMPARATIVE STUDY  
ON THE VISIONS AND  
OPTIONS FOR COHESION  
POLICY AFTER 2013**

STUDY





**DIRECTORATE GENERAL FOR INTERNAL POLICIES**  
**POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES**

**REGIONAL DEVELOPMENT**

**COMPARATIVE STUDY ON THE VISIONS  
AND OPTIONS FOR COHESION POLICY  
AFTER 2013**

**STUDY**

This document was requested by the European Parliament's Committee on Regional Development.

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DIRECTORATE GENERAL FOR INTERNAL POLICIES  
POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES

REGIONAL DEVELOPMENT

# COMPARATIVE STUDY ON THE VISIONS AND OPTIONS FOR COHESION POLICY AFTER 2013

## **Abstract**

This study provides a critical analysis of EU Cohesion Policy reform perspectives for the post-2013 period. On the basis of a literature review and budgetary modelling, the study offers an assessment of the policy's strengths and weaknesses, the main reform ideas and counter-positions, including the implications of different reform proposals.

Recommendations are derived to inform the position of the European Parliament in the upcoming negotiations on the legislative package of regulations.



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## LIST OF ABBREVIATIONS

<b>AMECO</b>	Annual Macro-Economic Database
<b>CAP</b>	Common Agricultural Policy
<b>CSF</b>	Common Strategic Framework
<b>CSG</b>	Community Strategic Guidelines
<b>DIPCO</b>	Development and Investment Partnership Contract
<b>DG</b>	Directorate General
<b>DG EMPL</b>	Directorate General for Employment and Social Affairs
<b>DG REGIO</b>	Directorate General for Regional Policy
<b>EAFRD</b>	European Agricultural Fund for Rural Development
<b>EC</b>	European Commission
<b>EESC</b>	European Economic and Social Committee
<b>ERDF</b>	European Regional Development Fund
<b>ESF</b>	European Social Fund
<b>ETC</b>	European Territorial Cooperation
<b>EU</b>	European Union
<b>GDP</b>	Gross Domestic Product
<b>GNI</b>	Gross National Income
<b>IFI</b>	International Financial Institution
<b>MFF</b>	Multi-Annual Financial Framework
<b>MLG</b>	Multi-Level Governance
<b>MS</b>	Member State
<b>NSRF</b>	National Strategic Reference Framework
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OP</b>	Operational Programme
<b>RCE</b>	Regional Competitiveness and Employment
<b>R&amp;D</b>	Research and Development
<b>RTDI</b>	Research, Technological Development and Innovation



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## EXECUTIVE SUMMARY

EU Cohesion Policy is the main instrument for pursuing the EU's economic, social and territorial cohesion objectives. It accounts for the second largest share of the EU budget, encompasses several funds and is aligned with the EU's overarching growth and jobs strategy. In the present period of EU budgetary review and policy change, the debate on the reform of Cohesion Policy post-2013 has gained strong momentum. Following the publication of the Fifth Cohesion Report in November 2010 and the draft Financial Perspective in June 2011, the draft legislative package for Cohesion Policy is expected to be published by the Commission in October 2011 as a basis for negotiation within the Council and Parliament.

In this context, the overall objective of this study has been to review the main visions and reform options for Cohesion Policy post-2013, based on an analytical comparison and review of recent research and policy documents. Following the introductory chapter on the policy context for reform, Chapter 2 sets out the objectives, design and methodology in more detail. Based on a 'policy analysis' approach, the aim of the research design is to assess the advantages and drawbacks of alternative policy options and to distil the understandings and values underlying competing reform visions. The methodology draws on a literature review and budgetary modelling.

In Chapter 3, a **conceptual framework** is developed to compare different discourses and visions on the nature and future of Cohesion policy. It begins by contrasting a redistributive discourse, which dismisses the policy as a mere budgetary transfer mechanism, with an increasingly prominent place-based vision that portrays the policy as an integrated and territorially-focused development policy. The debate on Cohesion Policy reform is then situated within the broader Europe 2020 context, framed by the dual and often opposing visions on territorial versus sectoral approaches on the one hand, and centralised versus devolved governance on the other. The formal and informal contributions of the European Parliament to the post-2013 budgetary and policy reform debate clearly indicate that it shares the place-based, territorially-integrated vision of Cohesion Policy placed at the centre of the EU's overarching Europe 2020 agenda. Furthermore, it remains a firm advocate of a strong, well-resourced Cohesion Policy. As it is now a full co-legislator with the Council of Ministers on the legislative framework, the European Parliament should not be constrained in articulating a clear and ambitious vision for Cohesion Policy.

**Future eligibility and allocation scenarios** under EU Cohesion Policy are presented in Chapter 4, on the basis of the latest statistical data. These reveal a new 'policy landscape' due partly to regional economic growth and partly to the use of EU27 averages, which together have the effect of reducing significantly the coverage of the Convergence regions. In particular, regional growth would result in several German and Spanish regions losing Convergence status, along with the capital regions of Poland and Romania. The introduction of a new definition of transitional region will also alter the pattern of intervention, creating a category of assisted area covering over 11 percent of the EU15 population. Overall, the Budget 2020 proposals suggest a modest decrease in the Cohesion Policy budget. This is largely borne by a reduction in Convergence spending, although per capita spend on Convergence would rise slightly; Regional Competitiveness & Employment spending would rise significantly both in absolute and per capita terms; and Transitional region spending would increase by half. Financial capping will play a key role in determining financial allocations, especially for the least prosperous Member States. For these countries, the cap proposed is substantially lower than it was in 2007-13.

Chapter 5 reviews **the objectives of Cohesion policy**, including the new Treaty commitment to territorial cohesion and the relationship with Europe 2020. It underlines the

multi-faceted nature of Cohesion Policy objectives, which has led to criticism of goal congestion and confusion. The Commission has not proposed significant changes to the overarching objectives or offered further conceptual precision on the matter. There is recognition of the addition of a territorial dimension in line with the new Treaty commitment, but the main message is that a closer alignment with Europe 2020 objectives is needed, raising anxiety amongst some Member States and policy stakeholders about traditional cohesion goals being undermined. This highlights the need to operationalise the objectives of policy in order to clarify the precise meaning, implications and trade-offs involved in the pursuit of the policy's objectives.

The **territorial dimension** is examined in Chapter 6. It underlines Cohesion policy's adaptability to the specific needs and characteristics of EU territories as a key asset, which could be bolstered by the formalisation of territorial cohesion as a Treaty objective. The Commission proposes to reinforce the urban agenda, encourage functional geographies, support areas facing specific geographical or demographic problems and enhance the strategic alignment between transnational cooperation and macro-regional strategies. Unsurprisingly, there is resistance to some of the more prescriptive elements. Yet, the territorial dimension could benefit from a greater strategic steer at EU level, potentially drawing on the recently agreed Territorial Agenda for 2020 to clarify and reinforce future territorial priorities for Cohesion Policy. A more strategically focused approach to the territorial dimension of cooperation must also be a priority, including a greater focus on priorities and projects of real transnational and cross border relevance, seeking greater coherence with mainstream, external cross-border cooperation and macro-regional strategies and the simplification of administrative requirements.

Under the heading of **strategic coherence and programming**, the focus of Chapter 7 is on the proposals for a new planning framework and thematic concentration. This includes the introduction of a Common Strategic Framework at EU level, more binding national Partnership Contracts and greater thematic concentration on Europe 2020 priorities. There is widespread support for the establishment of a Common Strategic Framework, although it remains to be seen how it will address the territorial dimension which is at the heart of Cohesion Policy. Moreover, to increase ownership of the document there is a need for a political discussion on the framework by involving the Council of Ministers and the European Parliament in the approval process. A key challenge with the introduction of binding Partnership Contracts is the increase in administrative burdens and costs. While there is broad agreement on the need for thematic concentration, there is no consensus among Member States on how it should be put into practice. If common objectives and binding and results-oriented targets for each Member States are agreed in Partnership Contracts, there is a strong case for providing flexibility on how to achieve the targets and on the policy-mix of interventions. It is also necessary to ensure that thematic concentration does not detract from integrated policy delivery at multiple territorial levels.

Chapter 8 reviews the new ideas on **conditionalities and incentives** as part of the results-driven agenda and broader economic governance developments in the EU. To address criticism about the effectiveness of Cohesion Policy and to ensure that it produces quantifiable and visible results and impacts, the Commission proposes to introduce ex-ante, structural, performance and macro-economic conditionalities. While most Member States have been cautious on this issue, the Commission's proposals merit serious consideration if the ongoing criticism of the policy's performance is to be addressed and the policy is to be placed on a more sustainable path with increased legitimacy among EU institutions and citizens. Moreover, the political sensitivity analysis and review of existing studies suggests that a strengthening of conditionalities and incentives could be feasible, particularly those of the ex-ante variety.



Further preconditions for a performance-based model are effective **monitoring, evaluation and capacity** to deliver. As reviewed in Chapter 9, the Commission proposals on monitoring and evaluation envisage clearer programme objectives and targets at the planning stage, more robust and accurate reporting, obligatory evaluation plans and a greater focus on impact evaluation. The proposals build on previous experiences and are in line with the recommendations of various studies, but there are concerns among Member States that the additional obligations would imply less flexibility and more administrative and reporting burdens. A critical question that needs to be addressed is how to reinforce the role of the European Parliament in the strategic debate on the performance of Cohesion Policy, particularly through stronger inter-institutional dialogue with the Commission and Council on the results and achievements of Cohesion Policy. To underpin strategic debate, the information on implementation available to the European Parliament (and other stakeholders) for holding policy-makers to account needs to be strengthened. One immediate measure would be to require all programme implementation data, evaluations, annual implementation reports, closure reports to be made publicly available on the internet as soon as they are available/approved. Another issue that remains relatively neglected in the Commission's proposals is the need for a corresponding increase in administrative and technical capacities to design, monitor and evaluate programmes, both in the Member States and the Commission.

Chapter 10 turns to the **assurance model of shared management**. Far-reaching changes to the architecture are proposed as part of the review of the Financial Regulation, essentially transferring the current Common Agricultural Policy model to Cohesion Policy through annual accreditation, annual clearance of accounts and reporting, the rolling closure of programmes and independent assessment. In the face of strong opposition from the Member States and questionable benefits, at least in the short-term, there is a strong case for ensuring continuity in the existing management and control systems or at least finding a way to marry the Financial Regulation proposals with the existing arrangements. A more pressing issue is to simplify the financial management, audit and control burden on programme managing bodies and beneficiaries, while maintaining a high standard of financial control. Proportionality must be part of the solution, placing more reliance on national systems where they are proven to be effective. The extension of simplified reimbursement procedures for overheads like standard unit costs and lump sums could be beneficial, but further clarification and assessment of the current application of simplified costs is needed.

The increasingly prominent theme of **added value** is reviewed in Chapter 11, often interpreted in a broad manner that covers not only development impacts, but also administrative, learning and visibility effects as well as spillovers on domestic systems and the related innovation and efficiency improvements. Beyond the proposals reviewed in the earlier chapters, other reform proposals connected to added value relate to new financial instruments, financial additionality, co-financing and the partnership principle.

The value of **non-grant financial instruments** is well-recognised, but the Member States do not want to see their margin for manoeuvre in the use of direct grants reduced, and there is a need for simpler, clearer and more flexible rules on the use of such instruments. The Commission's proposals on **additionality** aim to simplify reporting and eliminate inconsistencies between economic governance reporting, yet the question remains how to ensure that Cohesion Policy expenditure is genuinely additional to domestic expenditure on regional development. The question of policy additionality in relation to substantive policy content or process has received far less attention. There is a strong case for allocating a small share of resources for the Commission to take on a more managerial role, and a much firmer commitment to policy added value should be required in programme documents and subsequent assessments. A more flexible decommitment rule would also

contribute to policy added value. Lastly, the **partnership principle** could be reinforced by including more precise and verifiable regulatory requirements, the introduction of a soft law approach and extended use of technical assistance for partnership-working. However, the Commission has not made any specific proposals and these ideas are likely to be met with Member State resistance.

A final chapter brings together the **conclusions of the study** and provides **policy recommendations** to inform the position of the European Parliament.

- **Policy architecture:** A coherent policy approach needs to be formulated to the Transition category given the diverse mix of regions covered with different regional growth trajectories.
- **Objectives:** The commitment to a more effective and results-based Cohesion Policy requires the operationalisation of the policy to clarify the precise meaning, implications and trade-offs involved in the pursuit of objectives.
- **The territorial dimension** of cooperation should be strengthened by: focusing on priorities and projects of real transnational and cross border relevance on the basis of sound territorial analysis to achieve impact; simplifying administrative requirements; ensuring greater coherence with mainstream, external cross-border cooperation and macro-regional strategies; requiring a supportive political/policy framework to be established by the participating Member States to demonstrate that the EU programme is part of a wider strategy of cross-border or transnational cooperation; and enabling or encouraging willing Member States to use resources to implement different types of place-tailored interventions. More generally, the territorial dimension in all its facets would profit from a greater strategic steer from the EU. The potential contribution of ESPON to policy design and delivery needs to be better exploited.
- **Strategic coherence and programming:** To increase ownership of the Common Strategic Framework, there is a need for a political discussion on the Framework by involving the Council of Ministers and the European Parliament in the approval process. If common objectives and binding and results-oriented targets for each Member State are agreed in Partnership Contracts, there is a strong case for providing flexibility on implementation i.e. how targets are achieved and the policy-mix of interventions. It is necessary to ensure that thematic concentration does not detract from integrated policy delivery at multiple territorial levels.
- **Performance management:** Conditionalities and incentives should be assessed on the basis of whether they: focus on improving effectiveness in Cohesion Policy; have a direct link to Cohesion Policy investments; are open to influence by policy-makers; are limited in number; respect subsidiarity; and are based on a joint agreement between the Member States and the Commission.
- **Monitoring, evaluation and capacity:** The role of the Parliament in strategic debate on the performance of Cohesion Policy should be strengthened, particularly through stronger inter-institutional dialogue with the Commission and Council on the results and achievements of Cohesion Policy. All programme implementation data, evaluations, annual implementation reports, closure reports should be made publicly available online as soon as they are available/approved. More support is needed for administrative and technical capacities to design, monitor and evaluate programmes, both in the Member States and the Commission.
- **Shared management:** There is a strong case for ensuring continuity in the existing management and control systems or at least finding a way to marry the Financial Regulation proposals with the existing arrangements. An urgent priority is to simplify

the financial management, audit and control burden on programme managing bodies and beneficiaries.

- **Added value:** There is a need for simpler, clearer and more flexible rules on the use of financial engineering instruments from the outset of the next period. From a financial or expenditure added value perspective, the question remains how to ensure that Cohesion expenditure is genuinely additional to domestic expenditure on regional development. To support policy additionality, there is a strong case for allocating a small share of resources for the Commission to take on a more managerial role. A much firmer commitment to policy added value should be required, particularly in programme documents and subsequent assessments. A more flexible decommitment rule could contribute to innovation and experimentation.



## 1. INTRODUCTION

EU Cohesion Policy is the main instrument for pursuing the EU's economic, social and territorial cohesion objectives. It accounts for the second largest share of the EU budget, encompasses several funds and is aligned with the EU's overarching growth and jobs strategy. In the present period of EU budgetary review and policy change, the debate on the reform of Cohesion Policy post-2013 has gained strong momentum. Initially launched by the consultation in the Fourth Cohesion Report (May 2007) and the Cohesion Forum (September 2007), major contributions include the Barca Report, 'orientation' and 'reflection' papers by former Commissioners Danuta Hübner and Paweł Samecki, and the Fifth Cohesion Report. Cohesion Policy reform has also been discussed in informal ministerial meetings and the 'High-Level Group' meetings during 2009-2011.

Following the publication of the draft Financial Perspective in June 2011, the draft legislative package for Cohesion Policy is expected to be published by the Commission in October 2011 as a basis for negotiation within the Council and Parliament.

The contributions to the reform debate have different ideas on the role and coverage of Cohesion Policy, but there are some commonalities on the priorities, governance and implementation of the policy, including:

- focusing the policy on a limited number of EU priorities aligned with Europe 2020, notably research and innovation, low-carbon economy, human capital;
- requiring better and more visible performance and a results-orientation through conditionalities on spending, better indicators, monitoring and evaluation;
- a different alignment of funding instruments;
- achieving more strategic coherence between relevant policy areas through (for example) joint strategic planning or programming of all EU funding;
- strengthening the territorial dimension, including territorial cooperation, the use of macro-regions and functional areas as a basis for planning/intervention; and
- reviewing administrative procedures, with potential differentiation of management and control requirements and other simplification measures.

The European Parliament has made several inputs to the reform debate and now has stronger institutional influence – as co-legislator with the Council – through the Lisbon Treaty.<sup>1</sup> A recent Parliament contribution was the resolution on the Commission's Fifth Cohesion Report.<sup>2</sup> Other future-oriented resolutions have focused on good governance and control, the urban agenda, the role of macro-regional strategies, territorial cooperation, and the contribution to Europe 2020 objectives.<sup>3</sup> Of particular note are also the informal

<sup>1</sup> Massot A (2010), *Structural and Cohesion Policies Following the Treaty of Lisbon*, Note by the Policy Department Structural and Cohesion Policies, 15.2.2010, European Parliament, Brussels.

<sup>2</sup> European Parliament (2011), *European Parliament Resolution of June 2011 on the Commission's Fifth Cohesion Report and the strategy for post-2013 cohesion policy*, (2011/2035(INI)), Brussels.

<sup>3</sup> European Parliament (2010), *European Parliament Resolution of 7 October 2010 on good governance with regards to the EU regional policy: procedures of assistance and control by the European Commission*, (2009/2231(INI)), Brussels; European Parliament (2011), *European Parliament Resolution of 1 June 2011 on European Urban Agenda and its Future in Cohesion Policy*, (2010/2158(INI)), Brussels; European Parliament (2010), *European Parliament Resolution of 14 June 2010 on the European Union Strategy for the Baltic Sea Region and the role of macro-regions in the future cohesion policy* (2009/2230(INI)), Brussels; European Parliament (2010), *European Parliament Resolution of 11 April 2011 on Objective 3: a challenge for territorial cooperation – the future agenda for cross-border, transnational and interregional cooperation*, (2010/2155(INI)), Brussels; European Parliament (2010), *European Parliament Resolution of 30 April 2010 on the contribution of the Cohesion policy to the achievement of Lisbon and the EU2020 objectives*, (2009/2235(INI)), Brussels.

arrangements established by the REGI Committee for information exchange with the Hahn Cabinet and DG Regio.

The EP's Policy department has supported the work of the REGI Committee by commissioning studies to assess and provide policy recommendations on a wide range of Cohesion Policy priorities, interventions and management issues (e.g. integrated urban policy approaches, added value, climate change interventions etc.). Other relevant notes prepared by the department's staff have examined the implications of the Lisbon Treaty for Cohesion Policy and the future role of national parliaments in regional policy; and a follow-up on the Cohesion Policy reform debate including ideas for a joint discussion with the COTER.<sup>4</sup> Taken together, these initiatives signal the increased attention being given by the Parliament to the reform debate and its determination to be a key player in the policy development process.

The rationale of this study is to contribute to these efforts through a structured analysis of debates and reform options on Cohesion Policy post-2013. The chapters are organised as follows:

- Chapter 2 presents the study's objectives, design and methodology;
- Chapter 3 provides a conceptual framework for comparing different narratives on the nature of Cohesion Policy and competing reform visions in relation to Europe 2020;
- Chapter 4 explores future eligibility and allocation scenarios under EU Cohesion Policy on the basis of the latest statistical data;
- Chapter 5 reviews the policy's objectives, including the new Treaty commitment to territorial cohesion and the relationship with Europe 2020 objectives;
- Chapter 6 examines the territorial dimension in more detail, particularly in relation to the urban agenda, territorial and functional cooperation;
- Chapter 7 turns to the issue of strategic coherence and programming, focusing on the proposals for a new planning framework and thematic concentration;
- Chapter 8 reviews the new ideas on conditionalities and incentives as part of the results-driven agenda and broader economic governance developments in the EU;
- Chapter 9 looks at the key preconditions for a performance-based model, based on effective monitoring, evaluation and capacity to deliver;
- Chapter 10 examines the assurance model of shared management, particularly the proposals connected to the review of the Financial Regulation;
- Chapter 11 reviews the different dimension of added value in Cohesion Policy, including the specific proposals on new financial instruments, financial additionality, co-financing and the partnership principle; and
- Chapter 12 brings together the conclusions of the study and provision of policy recommendations to inform the position of the European Parliament.

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<sup>4</sup> Kramer E (2010a), *The Impact of the Treaty of Lisbon on Regional Policy*, Policy Department Structural and Cohesion Policies, European Parliament, Brussels. Kramer E (2010b), *The role of National Parliaments in Regional Policy under the Treaty of Lisbon*, Policy Department Structural and Cohesion Policies, European Parliament, Brussels. Katsarova I (2009), *Cohesion Policy: Challenges and Issues*, Policy Department Structural and Cohesion Policies, European Parliament, Brussels.

## 2. OBJECTIVES, DESIGN AND METHODOLOGY

### KEY POINTS

- The overall objective of the study is to review the main visions and reform options for Cohesion Policy post-2013.
- The research design is based on a 'policy analysis' approach, with a view to assessing the advantages and drawbacks of alternative policy options and distilling the understandings and values underlying competing reform visions.
- The methods employed are a systematic literature review and budgetary modelling.
- The main methodological limitation is the lack of prospective analysis of reform options in the literature, while accuracy of the budgetary modelling forecasts is hampered by the lack of detail in the Budget 2020 proposals and the need to construct estimates.

The overall objective of the study is to review the main visions and reform options for Cohesion Policy post-2013, based on an analytical comparison and review of recent research and policy documents. The key tasks are:

- the elaboration of a conceptual framework, including a justification and explanation of the research design and analytical themes to be covered in the comparative literature review;
- a review of the key characteristics and challenges facing Cohesion Policy after 2013;
- the identification of baseline scenarios for the different reform options;
- the identification of the policy implications of the reform options;
- and the provision of policy recommendations to inform the position of the European Parliament.

The research methodology and design of this study is based on a 'policy analysis' approach. This analytical method originated in the 1960s in response to developments in the policy sciences and growing policy-maker demands for simplified and structured information to facilitate strategic or rational policy-making.<sup>5</sup> The key objective of policy analysis is to "determine which of various alternative policies will most achieve a given set of goals in light of the relations between the policies and the goals."<sup>6</sup> It also serves to clarify arguments and distil the values and beliefs underpinning alternative policy scenarios.<sup>7</sup> Different to evaluation, policy analysis is concerned with assessing prospective changes to policy rather than current or previous performance *per se*, although it often relies on evaluation research as a source of evidence.<sup>8</sup> A related distinction of note is between basic and applied policy analysis (Table 1);<sup>9</sup> the present study falls within the latter category by taking a problem-oriented perspective that seeks to provide lessons for informing better policy design.

<sup>5</sup> Parsons W (2005), *Public Policy: An Introduction to the Theory and Practice of Policy Analysis*, Edward Elgar: London, p.383.

<sup>6</sup> Nagel S (2002), *Public Policy Studies*, Nova Science Publishers Inc: New York.

<sup>7</sup> Majone G (1989), *Evidence, Argument, & Persuasion in the Policy Process*. New Haven, CT: Yale University Press.

<sup>8</sup> Patton C and Sawicki D, (1986) *Basic Methods of Policy Analysis and Planning*. Englewood Cliffs, Prentice Hall, p19.

<sup>9</sup> Dunn William N. (1994), *Public policy analysis : An introduction*, Englewood Cliffs, Prentice-Hall: New Jersey.

**Table 1: Basic and applied policy analysis**

CHARACTERISTICS	BASIC	APPLIED
Origin of problem/opportunity	Literature (theory); peers	Government; Clients/public
Typical methods	Quantitative modelling	Development of sound argument
Type of research	Original data collection	Synthesis/evaluation of existing data
Primary aim	Improve theory	Improve practice
Dissemination	Refereed article/book	Briefing note; Issue paper; memo to cabinet; policy statement; Green Paper; White paper

Source: Dunn (1994: 424)

It is possible to distinguish between two decision-making models to describe the policy process or prescribe courses of action for policy-makers when formulating or reviewing policies: the ‘rational’ or ‘synoptic’ model; and the ‘incremental’ model. The rational model is grounded in several logical and sequential steps:

- identification of the problem and classification of the values, goals and objectives relevant to the policy problem;
- listing all possible ways to solve the problem and to realise the goals;
- identification of the possible consequences of each policy alternative with probability of occurrence;
- comparison of the consequences with previously formulated goals and objectives; and
- selection of the policy solution with consequences most closely aligned to goals and providing the highest level of problem resolution.

The descriptive accuracy of the above model is criticised for an excessive reliance on the assumption of rationality.<sup>10</sup> A competing “incremental model”, by contrast, assumes that policy-makers face significant limitations in the availability of information and the ability to process policy alternatives.<sup>11</sup> Lacking complete information and knowledge of all policy options and the consequences of options, policy-makers and analysts must make “educated guesses” at best. The “bounded rationality”<sup>12</sup> model infers very different conclusions for decision-making. First, rational, planned goal attainment is neither possible nor desirable. Second, decision-making rests on bargaining and negotiation. Third, policy requires feasible and supported decisions rather than decisions that achieve a desired outcome. Fourth,

<sup>10</sup> Hogwood B and Gunn L (1984), *Policy Analysis for the Real World*, Oxford: Oxford University Press, pp. 42-62.  
<sup>11</sup> Lindblom C (1959), *The Science of “Muddling Through”*, *Public Administration Review*, Vol. 19, No. 2, pp. 79-88.  
<sup>12</sup> Simon H. A. (1956), *Rational choice and the structure of the environment*. *Psychological Review*, 63, pp. 129-138.



incremental decisions are preferable to radical changes because they can be tested and adjusted as they are implemented and the potential negative consequences can be minimised.

This study takes a middle ground between these two perspectives,<sup>13</sup> rather than entering into a sterile debate about the relative theoretical / practical merits or trade-offs between each model.<sup>14</sup> On the one hand, it offers sensitivity to the political consequences of reform options, acknowledges the limits to knowledge and understanding of policy impacts and consequences, and recognises that incremental policy reforms may be more feasible or even preferable under conditions of uncertainty. On the other hand, it seeks to profit from the application of the core methodological tenets of the rational model as a mode of enquiry to facilitate the organisation of the analysis. Accordingly, and following contemporary policy analysis approaches,<sup>15</sup> the key components of the methodology include problem analysis, solutions analysis, information gathering and communication.

**Problem analysis** is the first step of the analytical framework. It provides crucial direction for gathering evidence and assisting in the formulation of the policy alternatives and recommendations. The key tasks are to assess the policy problems faced, to choose and explain relevant goals and constraints, and to select a method for the solution analysis.

**Solution analysis** is the second component and the overarching aim of policy analysis. The core task is the construction of policy options to solve or mitigate the problems identified as a basis for policy recommendations. In order to do this, it is first necessary to set out some evaluative criteria to assess reform options; these are listed in Box 1. In assessing the potential impacts of the policy reform scenarios, it will be important to note the alternatives which key political actors are actively pursuing in the post-2013 reform debate.

**Information Gathering** requires the identification and organisation of relevant data, theories, and facts for assessing problems and predicting consequences of current and alternative policies. The starting point for the methodological approach to information gathering is to recognise that:

- the field of study is dynamic, with the perceived challenges facing Cohesion Policy, the main policy issues of interest and the political environment evolving during the 2010-11 period;
- the future of Cohesion Policy has to be seen within the context of the wider political and budgetary debate, which influences or constrains certain options; and
- the relevant literature and research on the future of Cohesion Policy are only partly contained in published documents – and that many key sources will be in the grey literature (working papers, conference presentations, think-tank papers etc) and also non-papers, especially those produced by Member State government authorities.

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<sup>13</sup> See also Hogwood B and Gunn L (1984), *op.cit.* p62.

<sup>14</sup> Smith G and May D (1993), *The Artificial Debate Between Rationalist and Incrementalist Models of Decision Making*, in Michael Hill (ed.) *The Policy Process: A Reader*, New York.

<sup>15</sup> Weimer D and Vining A (1998), *Policy Analysis: Concepts and Practices*, Prentice Hall: New Jersey; Bardach E (2000), *A Practical Guide for Policy Analysis*, Secwen Brudges Press, New York.

### Box 1: Assessment criteria for policy change

Rationale for change – evidence from academic research, evaluation studies, policy practice or other sources influencing or justifying changes to the policy.

Options for change – identification of the different options (and variants on options) for responding to the challenge or implementing a change.

Budgetary effects – implications of the reform for the overall Cohesion Policy budget, the division of the budget between objectives (Convergence, Regional Competitiveness, Territorial Cooperation) or types of areas.

Policy effects – implications of the change for the design or overall management of Cohesion Policy; relationship with other policy changes (conflicts, complementarities); implications for other EU policies; effects on specific policy funds or instruments; policy conditions or pre-conditions required for (or policy consequences from) introducing the change.

Institutional effects – implications of the reform for the balance of responsibilities and inter-relationships: among the European institutions; within the Commission services; and between the European institutions and Member States.

Administrative effects – implications of the reform for Cohesion Policy administration as a whole, and different types of national (regional) management and implementation systems across the EU27; systems or procedures likely to cause difficulties in certain countries or regions.

Political implications – particular impacts or implications for individual Member States and the balance of favourable/unfavourable opinion among European institutions and Member State governments towards the different options.

Assessment – overall assessment of reform changes and development of baseline scenario for the policy change.

The main methods employed for the information-gathering component of the research were a systematic literature review and budgetary modelling. The defining characteristics of a systematic literature review are that all of the procedures are documented, made explicit and divided into a series of distinct phases, as follows.

- *Searching*: the systematic identification of potentially relevant studies is the first stage of the process. This involved the identification of papers, research reports and policy documents that were concerned with assessing Cohesion Policy performance and achievements. Appropriate electronic websites were identified to locate potentially relevant studies. To identify academic papers in peer reviewed journals, a first selection was derived from the Social Science Citation Index (SSCI) (search on 'Cohesion Policy'; period 1997–2010). National experts in the research team were asked to identify potentially relevant studies through similar national-level sources.<sup>16</sup>
- *Screening*: the application of pre-determined inclusion and exclusion criteria to report titles, executive summaries and full texts. The main criteria related to thematic content (addressing the key themes set out in the tender specifications, such as policy

<sup>16</sup> Stefan Kah (Austria), Frederike Gross (Belgium, France, Luxembourg), Prof. Julia Spiridinova (Bulgaria), Victoria Chorafa (Cyprus and Greece), Prof. Jiri Blazek (Czech Republic), Prof. Henrik Halkier (Denmark), Siim Espenberg (Estonia), Heidi Vironen (Finland, Sweden), Dr Sara Davies (Germany), Prof. Laszlo Farago (Hungary), Dr Laura Polverari (Italy), Dr Irene McMaster (Ireland), Prof. Tatjana Muravska (Latvia), Jonas Jatkauskas (Lithuania), Gordon Cordina/Stephanie Vella (Malta), Drs Luc Broos/Vincent Ketelaars (Netherlands), Prof Grzegorz Gorzelak/Katarzyna Wojnar (Poland), Prof Daniela Constantin (Romania), Martin Obuch (Slovakia), Jurij Kobal (Slovenia), Carlos Mendez (Spain, Portugal), Dr Martin Ferry/Rona Michie (UK)

objectives, multilevel governance, effectiveness etc.), comprehensiveness (taking account of as many scientific and policy perspectives as possible) and timing (excluding studies that do not relate to the 2007-2013 period, unless they offer prospective lessons of relevance from the 2000-06 period).

- *Data-extraction*: in-depth examination of studies meeting the pre-determined criteria was undertaken to assess the quality of the literature and extract evidence in support of the review of policy problems and reform solutions. An inventory of literature and knowledge with relevance to the research and objectives of the study was collated. Each record consisted of a single article, policy document or report, providing summary information on problems and solutions identified in relation to the themes of interest (a list of the fiches is annexed to this report).
- *Synthesis*: the aggregation and analysis of the results of the literature review, based on the above framework and the key themes in the study's objectives and of interest to the European Parliament.

**Budgetary modelling** has been employed to estimate the financial consequences of the budgetary reform (or non-reform) options. It draws on an in-house model constructed to assess post-2013 reform scenarios.<sup>17</sup> The key parameters of the model are existing expenditure under most policy areas, the projected distribution of spend under Cohesion Policy, as well as historical patterns of income, adjusted to reflect changing views on its possible composition. The data sources include Eurostat data and DG ECFIN data, as well as the annual financial reports of the European Commission, complemented by Commission documentation on the handling of the various dimensions of the budget, as this becomes available.

**Communication** is the final component of the framework. In communicating the analysis, the key requirements for sound policy analysis are lucidity in reporting and presentational format, coherence in the narrative, the use of clear and succinct language and the formulation of conclusions that are sensitive to the Parliament's needs.

It should be noted that there are important **methodological limitations**. The most significant limitation with the methodology employed is the lack of information in the existing literature on the costs and benefits of reform options. The academic literature on Cohesion Policy tends to have a narrow focus, either on policy governance issues by political scientists, especially the implementation of the partnership principle, or macro- and micro-economic impacts studies by economists. It rarely engages in prospective analysis of policy reform options or solutions. The same is generally true of the national evaluation and policy analysis literature analysed. By contrast, many of the studies commissioned at EU level are required to provide policy recommendations to support policy design.

These limitations are compounded further by the early stage of the reform process. At time of writing, a full set of Commission proposals had not yet been tabled. Indeed, the initial timetable for publication of the draft legislation was pushed back from June 2011 to September 2011. Accordingly, impact analyses of the Commission's reform proposals are not available. This made it difficult to provide a comprehensive assessment of the reform ideas in relation to the criteria set out in the methodology or to weight, quantify or prioritise the different reform options and proposals.

Nevertheless, the Commission has announced some of its key reform ideas in the Fifth Cohesion Report and Budget Communication, while the responses to the reform

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<sup>17</sup> Bachtler J, Mendez C and Wislade F (2010), *Challenges, Consultations and Concepts: Preparing for the Cohesion Policy Debate*, European Policy Research Papers, No 74, European Policies Research Centre, University of Strathclyde, Glasgow.

consultation and High-Level Group discussion reports on Cohesion Policy reform provide invaluable insights into the potential advantage and drawbacks of these and other proposals on the agenda.<sup>18</sup> Further, the broader policy and evaluation literature permits the key problems in Cohesion Policy to be identified and mapped out, providing a good basis for assessing the relevance of the reform options and ideas. In this perspective, the approach is premised to a large extent on the assumption that what is going wrong (the problem) sets the parameters for what can be done (the solution), even in the absence of complete information on all potential solutions and effects.

Lastly, the budgetary modelling of post-2013 scenarios includes some caveats. This is partly because the calculations have, in some cases, been based on estimates and partly because the Budget 2020 proposals do not contain sufficiently detailed information for making firm assessments. That said, it is possible to provide an overall picture of the new policy landscape that emerges from the Budget 2020 proposals.

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<sup>18</sup> The 'High Level Group reflecting on Future Cohesion Policy' was established by DG REGIO to facilitate discussions and exchanges of views on future policy directions between Commission officials and national government representatives. The group met about ten times between October 2009 and May 2011.

### 3. RATIONALITIES AND REFORM VISIONS

#### KEY FINDINGS

- The debate on the reform of EU Cohesion Policy is underpinned by contested understandings of the policy and its place in the broader Europe 2020 strategy.
- A redistributive discourse dismisses the policy as a mere budgetary transfer mechanism, while an increasingly prominent place-based vision portrays the policy as an integrated and territorially-focused development policy.
- There are competing views about the role of Cohesion Policy within Europe 2020, driven by the dual and often opposing visions on territorial versus sectoral approaches on the one hand, and centralised versus devolved governance on the other.
- The European Parliament is a firm supporter of the place-based, territorially-integrated vision of Cohesion Policy at the centre of Europe 2020, and it is better placed to shape the policy development process than in the past as a full co-legislator with the Council of Ministers.

Cohesion is a core political value and priority of the European Union. Its importance is reflected in a specific Treaty title on cohesion, the existence of several dedicated funds and instruments and a budget line that accounts for more than a third of EU finances. Despite the prominent place of Cohesion Policy in the EU's constitutional, budgetary and policy architecture, it is one of the most misunderstood and contested EU policies. Different interpretations about the policy's rationale, function and role have existed since the policy was created and continue to the present.<sup>19</sup> The reform imperatives of the post-2013 budget and policy review have given fresh impetus to these debates, driven by the articulation of new ideas about the policy's spatial rationale and governance model along with the rise of territorial cohesion as an EU objective.

In this context, the main aim of this section is to develop a conceptual framework for characterising different reform visions on EU Cohesion Policy and its place in the EU's overarching socio-economic development agenda. This will involve the identification of the key assumptions, parameters and prescriptions underpinning competing visions and pressures on Cohesion Policy reform.

#### 3.1. What is Cohesion Policy: a redistributive mechanism or a development policy?

At the heart of the debate on the future of EU Cohesion Policy are contested understandings of the policy. Two main perspectives can be distinguished. A '**redistributive**' discourse has been an ongoing undercurrent in academic and policy-maker debates about Cohesion Policy for much of the policy's history. It characterises the policy's rationale in dismissive terms as a 'side-payment' to poorer countries and regions for facilitating bargaining over enlargement and economic integration, the implication being that the principal objective is one of budgetary redistribution.<sup>20</sup>

<sup>19</sup> Manzella G P and Mendez C (2009), *The turning points of EU cohesion policy*, Barca Report Working Paper, DG Regio, Brussels.

<sup>20</sup> Pollack M (1995), *Regional actors in an intergovernmental play: The making and implementation of EC structural policy*, *The state of the European Union*, 3, pp.361–90.

Yet, formally the policy has always had a regional development mission through the use of conditional grants - as opposed to unconditional transfers - implying that the objectives are of an '**allocative**' nature.<sup>21</sup> The policy's development rationale has gained increased visibility in the post-2013 reform debates, reinforced by new ideas about the territorial sources of EU economic development challenges and the role of Cohesion Policy in promoting balanced territorial development. This 'territorial turn' in Cohesion Policy discourse is evident in the increasingly frequent descriptions of the policy as a place-based development policy, a territorial development policy, a territorial cohesion policy, or an integrated development policy. The new discourse must be seen within the context of the rise of the territorial cohesion objective in the EU, but it has also been stimulated and popularised by the Barca Report's articulation of a place-based vision for Cohesion Policy<sup>22</sup> and the work of the OECD on territorial development and governance.<sup>23</sup>

To systematise and distil the key differences between these two rival visions of Cohesion Policy, the conceptual framework presented below distinguishes several analytical dimensions (represented synoptically in Table 2). While some of the dimensions have an abstract quality, they have concrete policy implications for the reform of Cohesion Policy taken as a whole, particularly in terms of the governance of Cohesion Policy. Therefore, this is more than an academic exercise. The intention is to shine some light on the key parameters, big questions and pressures driving contemporary debates on the reform of Cohesion Policy as a basis for developing reform options and recommendations.

The two rival visions of Cohesion Policy offer distinct perspectives on the **nature of the EU polity**. The redistributive vision presents the EU as an intergovernmental forum for cooperation, which merely serves to reduce transaction costs between states in the pursuit of collective objectives.<sup>24</sup> By contrast, in the place-based vision the EU is portrayed as a 'federation-in-the-making'.<sup>25</sup> And as in any other 'union of states with unified markets', a development policy is represented as a *sine qua non* for the very existence of the EU. The precise form it should take is a separate issue, but it is assumed that the key characteristics should evolve in accordance with the shift in the paradigm of regional policy witnessed in other comparable polities.

Flowing from these different conceptions of the EU polity are two different understandings about the **legitimacy norms** underpinning Cohesion Policy. The state-centric perspective suggests that the notion of solidarity between states is a mere rhetorical device used to justify redistributive bargaining pay-offs on enlargement or economic integration. By contrast, the place-based paradigm views solidarity as the normative glue of the EU polity, premised on the basic rights and expectations of all EU citizens irrespective of where they live: 'to benefit from the economic gains from unification, to have equal access to the opportunities so created as well as an equal possibility of coping with the risks and threats.'<sup>26</sup>

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<sup>21</sup> Begg I (2010), *Cohesion or Confusion: A Policy Searching for Objectives*. Journal of European Integration, 32(1), pp.77-96.

<sup>22</sup> Barca F (2009), *An Agenda for a Reformed Cohesion Policy: A place-based approach to meeting European Union challenges and expectations*, Independent Report to DG REGIO, Brussels.

<sup>23</sup> Particularly through its *Territorial Reviews of OECD countries and regions*. See also: OECD (2009) Background Report for TDPC Meeting at Ministerial Level, 31 March 2009, OECD, Paris.

<sup>24</sup> Moravcsik A (1991), *Negotiating the Single European Act*. International organization, 45(01), p.19-56.

<sup>25</sup> Barca F (2009), *op.cit.*

<sup>26</sup> Barca (2009), *op.cit.* pvii.

**Table 2: The redistributive vision versus the place-based vision**

	The redistributive vision	The place-based vision
EU polity	Inter-governmental cooperation forum	Federation
Legitimacy norms	Solidarity (between Member States)	Solidarity + rights and expectations (of EU citizens)
EU development rationale	Subordinate Sectoral/thematic	Central Territorial balance
External drivers	Economic integration	Economic integration + global forces
Policy goals	Convergence in regional living standards	Tapping underutilized potential in all areas
Spatial targets	Pre-defined (administrative/political)	Open-ended (functional)
Efficiency/equity relationship	Trade-off	Uncertain (trade-off + synergistic)
Governance	Bottom-up/weak centre (vertical) Soft coordination (horizontal)	Top-down/strong centre (vertical) Integrated (horizontal)

Turning to the **developmental mission** of the policy, the redistributive narrative portrays Cohesion Policy as being a subservient instrument in the EU's economic policy tool-kit, serving the interests of broader socio-economic strategic goals in the EU. By contrast, the place-based perspective presents EU Cohesion Policy as a core policy in its own right: a territorial development policy anchored in place-based strategies with a central place in the EU's overarching growth and jobs strategy. Key to this perspective is the view that territory is not merely a problem but also an opportunity to be exploited for European advantage.<sup>27</sup>

Both the redistributive and place-based visions recognise the intrinsic links to **external policy drivers and challenges**. While the redistribution discourse emphasises the role of Cohesion Policy in compensating regions for the competitive challenges arising from economic integration in the EU, the place-based perspective underlines the developmental opportunities of the single market and the need for a place-based strategy to exploit untapped potential by reducing inefficiency and social exclusion across the EU territory. An important departure from the redistributive discourse is the addition of a global dimension

<sup>27</sup> ESPON (2010), *New Evidence on Smart, Sustainable and Inclusive Territories*, ESPON, Luxembourg.

to underline the role of Cohesion Policy in addressing long-term challenges of an international nature. In the place-based vision, Cohesion Policy is seen as a buffer of global forces as regions are repositioned within the international economy, with the sources of competitiveness lying in the ability to design policies that accommodate global pressures through adaptive, place-based strategies.<sup>28</sup>

From a **spatial targeting** perspective, the traditional discourse on Cohesion Policy conveys the central objective as being economic convergence across regions, expressed in GDP per head at the so-called NUTS 2 regional level. The place-based paradigm questions whether this is realistic or appropriate as there are inherent differences in regional potentials across Europe, and because there are well-known deficiencies in GDP as a measure of economic welfare. Instead, the key overriding policy objective is reformulated as tapping into under-utilised potential in all areas. The implication is that the spatial boundaries of intervention should be open-ended and respond to the functional needs of places at different territorial scales not pre-defined on the basis of politically or administratively demarcated borders.

The **equity-efficiency relationship** is viewed differently in the two visions. According to the redistributive perspective, the relationship is dualistic involving a trade-off between redistribution in favour of poorer regions and overall EU efficiency. A variant of this argument, prominent in the policy discourse on the 'Lisbonisation' of Cohesion Policy,<sup>29</sup> posits a tension between the Lisbon agenda's (growth and jobs) objectives and classic cohesion (redistribution) objectives. The place-based narrative suggests that the terms of this debate are misguided and lack empirical foundations. First, the 'objects' of support are being confused with the 'objectives' of support. Though the targets may be primarily poorer regions, in a redistributive sense, the means are growth-enhancing development policies that aim to release untapped potential in places (from an efficiency perspective) and raise the opportunities for individuals (in equity terms). Put differently, the 'regional' distribution of funding should not be conflated with equity considerations about the well-being of 'individuals' even if they are located in poorer regions. Second, efficiency and equity objectives can be *a priori* mutually reinforcing, implying that a trade-off should not be represented as a general law. Third, the argument that regions with higher concentrations of economic activity grow faster than other regions has no statistical support. Indeed, recent OECD research presents a more complex analysis of regional economic performance<sup>30</sup>.

The final dimension of these rival perspectives on Cohesion Policy concerns the **governance architecture**. In terms of vertical governance, the place-based paradigm is strongly supportive of the multi-level governance model pioneered by EU Cohesion Policy, but calls for a stronger contractual relationship between the centre and its constituent units to ensure increased focus on performance and greater accountability over outcomes. The redistributive frame, by contrast, calls for minimum involvement and conditions from the EU level preferring a strongly devolved "no-strings-attached" model. Horizontally, the fundamental requirement of the place-based paradigm is cross-sectoral policy integration at all levels: strategies, programmes, interventions and projects. By contrast, the redistributive perspective portrays the dynamics of the policy as being driven by the autonomous and budget-maximising goals of sectoral interests in the Commission and Member States.

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<sup>28</sup> European Commission (2008), *Regions 2020: An Assessment of Future Challenges for EU Regions*, SEC(2008), Brussels; Ismeri Europa (2009), *Regional Challenges in the Perspective of 2020*, DG Regional Policy, Brussels; ESPON (2010), *New Evidence on Smart, Sustainable and Inclusive Territories*, ESPON, Luxembourg.

<sup>29</sup> Mendez C (2011), *The Lisbonization of EU Cohesion Policy: A Successful Case of Experimentalist Governance?*, *European Planning Studies*, 19(3), pp.519-537.

<sup>30</sup> OECD (2009), *Regions Matter: economic recovery, innovation and sustainable growth*, OECD, Paris.



### 3.2. The bigger picture: Cohesion Policy and Europe 2020

Regional policy can be understood as a component of a 'broader and more comprehensive economic policy embracing the whole economy.'<sup>31</sup> In the EU context, the overarching socio-economic development programme is the Europe 2020 strategy, providing a single economic development framework on smart, sustainable and inclusive growth.<sup>32</sup> Indeed, all EU policies are required to justify their place within, and contribution to, this overarching agenda as part of the post-2013 budgetary and policy review.<sup>33</sup>

But what is the place of Cohesion Policy in Europe 2020? As can be expected, there are competing views on this question. Simplifying and modifying the place-based/redistributive taxonomy, four policy visions can be identified which vary across two dimensions: substantive focus on policy problems and objectives (territorial or sectoral); and governance relations between the EU and Member States (top-down or bottom-up).

**Territorial Contractualism.** The first vision corresponds to the place-based vision advanced by the Barca Report and has strong support from DG REGIO and the European Parliament's REGI committee. As noted, this frame presents Cohesion Policy as the EU's territorial means for delivering Europe 2020 goals, underlining the place-based sources of and required responses to competitive (dis)advantages in the EU. It also highlights the policy's unique multi-level governance model as an asset for increasing ownership of EU objectives at different territorial levels, but it envisages reinforced governance arrangements through stricter coordination and contractual relations.<sup>34</sup> Two key instruments are envisioned to achieve this: a common EU strategy linked to Europe 2020 for all EU policies (not just the ERDF and ESF) with territorial significance; and binding 'national contracts', setting out conditionalities, incentives and minimum standards for Member States/regions.

**Territorial Experimentalism/Pragmatism.** The second vision shares the territorial vision, but envisages a less binding and devolved governance model. It offers more sensitivity to local conditions, needs and preferences, and from a problem-solving perspective encourages local experimentation and systematic diffusion of policy innovations through mutual learning and peer review.<sup>35</sup> Institutional support for this frame can be found most clearly in the position papers of the Committee of the Regions, which has continually called for Europe 2020 'to be given a territorial dimension...to take into account existing differences in territorial conditions and starting points and translate them into place-based policies encompassing the three pillars of the strategy'.<sup>36</sup> The key proposed instrument to achieve this would be a 'territorial pact' that translates Europe 2020 objectives into place-based reference frameworks (rather than binding contracts) at the regional/local (rather than national) level with Cohesion Policy funding and programming playing a leading role.<sup>37</sup> Experimentalist policy innovation and policy diffusion, in turn,

<sup>31</sup> Armstrong H and Taylor J (2000), *Regional Economics and Policy*, Oxford, Wiley-Blackwell.

<sup>32</sup> European Commission (2010), *Europe 2020. A strategy for smart, sustainable and inclusive growth*, COM(2010)2020. Brussels.

<sup>33</sup> Conclusions of the European Council, June 2010.

<sup>34</sup> European Commission (2011), *Regional Policy contributing to sustainable growth in Europe 2020*, SEC(2011)92, Brussels.

<sup>35</sup> Mendez C (2011), *The Lisbonization of EU Cohesion Policy: A Successful Case of Experimentalist Governance?*, *European Planning Studies*, 19(3), pp.519-537.

<sup>36</sup> Committee of the Regions (2010a), *For a better tool-box to implement the EU 2020 Strategy*, CdR 175/2010, Brussels; Committee of the Regions (2010b), *Territorial Pacts: Making the Most of Europe 2020 through Partnership*, Committee of the Regions, Brussels; Committee of the Regions (2010c), *First COR Monitoring Report on Europe 2020*, Committee of the Regions, Brussels.

<sup>37</sup> Committee of the Regions (2010b), *op.cit.* Committee of the Regions (2010c), *op.cit.*; Committee of the Regions (2011), *Outlook Opinion on the Future of the European Social Fund after 2013*, Committee of the Regions, Brussels.

would be incentivised by the reinforcement of existing devolved and territorial initiatives, such as the 'Lisbon Monitoring Platform' and 'Regions for Economic Change'.

Many national government responses to the Europe 2020 consultation also called for the strategy to be given a stronger territorial dimension, involving a more prominent place for Cohesion Policy.<sup>38</sup> However, the parallel responses to the Fifth Cohesion Report consultation revealed mixed feelings about the introduction of stronger conditions and an enhanced role for the Commission in Cohesion Policy.<sup>39</sup> While the need for a stronger performance orientation commands widespread support among all Member States, the frequent requests for more 'subsidiarity', 'proportionality', 'flexibility' and 'simplification' indicate that issues of competence, authority and administrative burden loom large. This reform vision can accordingly be labelled 'territorial pragmatism', lacking an explicit concern for promoting experimentalist forms of problem-solving or governance. On the other hand, the recent agreement on the Territorial Agenda for Europe 2020 during the Hungarian EU Presidency suggests that there is support among the Member States for a bottom-up, territorial development perspective underpinned by knowledge generation, learning and exchange of innovative experiences.<sup>40</sup>

If the first two visions place territory at the centre of Europe 2020 – although with different views about governance – the remaining two frames adopt a more dismissive stance on the territorial problematic of Europe's growth and jobs agenda and governance architecture.

**Sectoral Functionalism.** The policy vision in the top-right quadrant of Figure 1 represents the most serious threat to the territorial vision of Cohesion Policy as it advocates a sectoral or thematic perspective, is dismissive of the multi-level governance model of shared management in limited favour of centralised management by the Commission, and it is a direct competitor for EU funding. From a development policy perspective, this vision resembles the traditional model practiced by international organisations such as the UN or the spatially-blind 3-D model put forward by the World Bank in its 2009 World Development Report.<sup>41</sup>

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<sup>38</sup> Particularly Belgium, Cyprus, Germany, France, Greece, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Slovenia and the Slovak Republic.

<sup>39</sup> European Commission (2011), Results of the public consultation on the conclusions of the fifth report on economic, social and territorial cohesion, Commission Staff Working Paper, SEC(2011) 590 Final, Brussels.

<sup>40</sup> *Territorial Agenda of the European Union 2020: Towards an Inclusive, Smart and Sustainable Europe of Diverse Regions* agreed at the Informal Ministerial Meeting of Ministers responsible for Spatial Planning and Territorial Development on 19th May 2011, Gödöllő, Hungary.

<sup>41</sup> The model is premised on the view that unbalanced spatial development is an inevitable feature of the socio-economic landscape and that policy interventions should be restricted to diminishing trade costs (distance), lowering border effects (division) and encouraging agglomeration (density), leaving no space for territorially-based policies in the policy mix. See: World Bank (2009), *World Development Report 2009: Reshaping Economic Geography*, World Bank, Washington.

Figure 1: Four policy visions of Europe 2020

PROBLEM/OBJECTIVE ORIENTATION		
	Territorial	Sectoral
GOVERNANCE	<b>Top-down</b> <b>Territorial Contractualism</b> Strategies: Europe 2020, Territorial Agenda, Common Strategic Framework Instruments: National contracts, programmes	<b>Sectoral Functionalism</b> Strategies: Europe 2020, sectoral strategies Instruments: Centralised EU Funds, sectoral policies
	<b>Bottom-up</b> <b>Territorial Experimentalism/Pragmatism</b> Strategies: Europe 2020, Territorial Agenda, Common Strategic Framework Instruments: National reference frameworks, territorial pacts, programmes	<b>Sectoral Coordination</b> Strategies: Europe 2020, sectoral strategies Instruments: Open Method of Coordination, National Reform Programmes

In EU debates on the budget review, this reform vision became evident in late 2008 and 2009 when policy experts proposed the creation of large-scale, sectoral funds dedicated to the delivery of Lisbon objectives in areas such as research, transport, energy and climate change. The Europe 2020 Strategy also has strong echoes of this frame, describing a heavily 'thematic approach' to economic development centred on centralised 'flagship initiatives.' It also provides an ambivalent stance on the place of Cohesion Policy in Europe 2020. While the document has a reference to Cohesion Policy becoming the 'standard bearer' for the Europe 2020 objectives of smart, inclusive and sustainable growth, territorial cohesion and the Structural Funds have been subsumed within the inclusion objective.

**Sectoral Coordination.** The final vision shares the sectoral vision of Europe 2020 but sees the EU playing a less interventionist, supportive role through soft coordination. To a large extent, this frame corresponds to the pre-existing Lisbon agenda governance architecture, where the open method of coordination was the core governance mechanism and the National Reform Programme provided the key delivery instrument. Cohesion Policy is

deemed to be irrelevant to Europe 2020 or to play a subservient funding role in line with the redistributive vision.

Support for the latter two sectoral visions is evident from the calls for National Reform Programmes (NRPs) to provide the main strategic reference point for Cohesion programmes. For instance, the DG Employment Commissioner argues that Cohesion programmes should primarily focus on 'the most critical areas' identified in the NRPs 'in line with the country-specific recommendations and areas which make a direct contribution to meeting the headline targets'.<sup>42</sup> The implication is that the role of Cohesion Policy is primarily to support Europe 2020, rather than being a distinct instrument to support the EU's territorial agenda or even a territorialised Europe 2020 strategy. What this highlights is that there are competing ideas within the Commission about the purpose of Cohesion Policy and its relationship with broader EU goals, partly driven by struggles for control and budgetary politics. For instance, in contrast to the place-based vision's proposal for a 'territorialised social agenda'<sup>43</sup>, suggestions were being made within the Commission that the ESF should be removed from Cohesion Policy altogether in order to create an independent employment strategy with a separate funding stream. Following criticism by the Parliament and various national governments, the idea is no longer on the agenda. Nevertheless, the Fifth Cohesion Report does note that a firm commitment to the European Employment Strategy requires more 'visible' and 'predictable' ESF funding, while the Budget 2020 Communication proposes to increase the share of ESF resources within Cohesion Policy.

### 3.3. The legislative reform process

The legislative process for reforming the Cohesion Policy regulatory framework involves the Commission, the Council of Ministers, the European Parliament, and, to a more limited extent, the Committee of the Regions and the Economic and Social Committee.

The Commission is responsible for drafting the proposals, given its monopoly institutional right over legislative initiative. As noted, the process has been delayed. The Commission's proposals on the Multi-annual Financial Framework were published at the end of June 2011 and the publication of the Cohesion policy legislative package is anticipated in October 2011 during the Polish Presidency. This package will include a General Regulation containing the overall principles and rules, and regulations for the ESF, ERDF and Cohesion Fund detailing the Fund-specific rules. The regulation of the European Grouping of Territorial Cooperation (EGTC) will also be revised,<sup>44</sup> and it is possible that a separate regulation for European Territorial Cooperation may be issued.

Once the proposals have been tabled, the regulations will be examined and negotiated by the Member States in the relevant Council committees, namely, the Structural Actions Working Party and a similar committee for the ESF. The financial elements of the regulations, along with the broader Multiannual Financial Framework proposals, will be reviewed by a separate Council committee, the 'Friends of the Presidency Group'.

The so-called 'ordinary legislative procedure' will be used for the adoption of the package of regulations, based on co-decision between the Council and the European Parliament.

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<sup>42</sup> Andor L (2011), *Shaping the future of Cohesion Policy based on an integrated approach*, High Level Meeting on the Future of Cohesion Policy, Budapest.

<sup>43</sup> Barca (2009), *Towards a territorial social agenda for the European Union*, Working Paper in the context of the Barca Report, DG Regio, Brussels.

<sup>44</sup> European Commission (2011), *The application of the Regulation (EC) No 1082/2006 on a European Grouping of Territorial Cooperation (EGTC)*, Report from the Commission to the European Parliament and the Council, COM(2011) 462 final, Brussels.

Different to the previous period, this means that the Parliament is now a full co-legislator with the Council on all of the regulations, providing it with more leverage to influence the final outcomes. By contrast, the Committee of the Regions and the Economic and Social Committee lack formal decision-making power as such, as they may only issue opinions on the regulations.

Also of note are the reinforced Lisbon Treaty provisions on subsidiarity checks by national Parliaments. This provides Member State parliaments with the possibility to object to draft EU legislation on subsidiarity grounds by submitting a reasoned opinion within eight weeks of the draft proposal being tabled and can require EU institutions to justify decisions before proceeding with the legislative process.<sup>45</sup> New scrutiny powers have also been granted to the Committee of Regions, now being able to challenge draft legislation on the issue of subsidiarity.

### 3.4. Conclusions

This review of Cohesion Policy reform perspectives has identified competing discourses on the nature of the policy and its place in the Europe 2020 strategy. It began by contrasting a redistributive discourse, which dismisses the policy as a mere budgetary transfer mechanism, with an increasingly prominent place-based vision that portrays the policy as an integrated and territorially-focused development policy. The debate on Cohesion Policy reform was then situated within the broader Europe 2020 context, framed by the dual and often opposing visions on territorial versus sectoral approaches on the one hand, and centralised versus devolved governance on the other.

The formal and informal contributions of the European Parliament to the post-2013 budgetary and policy reform debate clearly indicate that it shares the place-based, territorially-integrated vision of Cohesion Policy placed at the centre of the EU's overarching Europe 2020 agenda. Furthermore, it remains a firm advocate of a strong, well-resourced Cohesion Policy.

Nevertheless, there are important hurdles to the institutionalisation of this reform vision. While the place-based vision has featured prominently in the Cohesion Policy reform debates, it has been much less visible in the Europe 2020 and budget review discussions, despite the new treaty commitment to 'territorial' cohesion. Moreover, the different perspectives advanced by Cohesion Policy's lead DGs indicate a lack of consensus on the future vision for Cohesion Policy within the Commission, exacerbated by competition for control and finance. Similar tensions exist with other sectoral DGs as the place-based narrative suggests a broader scope for Cohesion Policy that cuts across different policy areas and DG responsibilities. As regards the Member States, there is resistance to stricter contractual relations and centralised control, preferring instead a less binding and more devolved governance frame. Last, the structural features of the place-based vision - in both the narrow and broad development policy conceptions - sit uneasily with the pre-existing institutional structure of the EU polity, characterised by fragmented sectoralised policies and limited institutional capacity for central coordination and steering.

These hurdles present important reform obstacles, but they should not hold back the European Parliament from articulating a clear and ambitious vision for Cohesion Policy, particularly as it is now a full co-legislator with the Council of Ministers on the legislative framework. Taking these considerations into account, the rest of this study explores the

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<sup>45</sup> For a more detailed review, see: Kramer E (2010), *The Role of National Parliaments in Regional Policy under the Treaty of Lisbon*, Policy Department B: Structural and Cohesion Policies, DG for Internal Policies, European Parliament, Brussels.

key themes at the centre of the reform debate in more detail: the policy architecture; objectives; the territorial dimension; strategic coherence and programming; performance management; monitoring and evaluation; shared management; and added value. For each of these themes, a baseline scenario of no policy change will be presented – that is, the current arrangements - including an analysis of strengths and weaknesses. Reform proposals and options will then be presented and assessed on the basis of the available literature.

## 4. POLICY ARCHITECTURE: ELIGIBILITY AND ALLOCATIONS

### KEY FINDINGS

- Under the Commission's proposals for future Cohesion Policy, the coverage of Convergence regions would fall from 32 percent to 24 percent of the EU population, mainly due to regional economic change, but also due to the move from EU25 to EU27 GDP thresholds.
- A new category of Transitional region has been proposed – regions with GDP(PPS) per head in the range 75-90 percent of the EU average which did not have Convergence status in 2007-13; there are 37 such regions – all in the EU15.
- According to the proposals, the Cohesion Policy budget would fall in real terms by 4.5 percent between 2007-13 and 2014-20, but average per capita allocations would rise for Convergence regions (from €188 to €194 per head per annum) and for Regional Competitiveness and Employment regions (from €21 to €26 per head per annum) – in 2011 prices.
- Capping is proposed at a flat rate – 2.5 percent of GNI (rather than on a sliding scale up to 3.7893 percent of GDP, as for 2007-13). This would have a major impact on allocations to most of the EU12, in some cases reducing future funding to well below 2007-13 levels.

### 4.1. Current arrangements

The architecture of Cohesion Policy is set out in the general Regulation on the Structural Funds.<sup>46</sup> It distinguishes three objectives:

- *Convergence*, which aims at "speeding up the convergence of the least-developed Member States and regions" and which is considered the "priority of the funds";<sup>47</sup> the Convergence objective is financed by the European Regional Development Fund (ERDF) the European Social fund (ESF) and the Cohesion Fund.
- *Regional competitiveness and employment*, (RCE) which aims at "strengthening regions' competitiveness and attractiveness as well as employment by anticipating economic and social change";<sup>48</sup> RCE is financed by the ERDF and the ESF.
- *European territorial cooperation*, (ETC) which aims at "strengthening cross-border cooperation... .... transnational cooperation... ...and interterritorial cooperation";<sup>49</sup> ETC is financed by the ERDF.

The overall resources available to Cohesion Policy for **2007-13 are €308,041 million** (2004 prices).<sup>50</sup> Within the Regulation, this is broken down between the objectives as set out in Table 3.

<sup>46</sup> Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, OJEU No L 210 of 31 July 2006.

<sup>47</sup> Article 3.2(a) of the General Regulation.

<sup>48</sup> Article 3.2(b).

<sup>49</sup> Article 3.2(c).

<sup>50</sup> Article 18.

**Table 3: Commitment appropriations by objective 2007-13**

		€ m (2004 prices)	% of objective	% of total
<b>Convergence</b>				
	Regional convergence	177083.6	70.5	<b>57.5</b>
	Phasing-out	12521.3	5.0	<b>4.1</b>
	Cohesion Fund	61558.2	24.5	<b>20.0</b>
	Total	251163.1	100.0	<b>81.5</b>
<b>Reg. Competitiveness &amp; Employment</b>				
	C&E regions	38742.5	78.9	<b>12.6</b>
	Phase-in	10385.3	21.1	<b>3.4</b>
	Total	49127.8	100.0	<b>15.9</b>
<b>Territorial cooperation</b>				
	Cross-border	5576.4	72.0	<b>1.8</b>
	Transnational	1581.7	20.4	<b>0.5</b>
	Interregional	392.0	5.1	<b>0.1</b>
	PEACE	200.0	2.6	<b>0.1</b>
	Total	7750.1	100.0	<b>2.5</b>
<b>TOTAL</b>		<b>308041.0</b>		<b>100.0</b>

Source: General Regulation Articles 81 to 21 and Annex II para 22.

Cohesion Policy distinguishes between eligibility for the Cohesion Fund, which is determined at the *national* level, and eligibility for the various strands of policy determined at the *regional* level.

#### 4.1.1. Cohesion Fund

Eligibility for the Cohesion Fund is restricted to Member States where gross national income (GNI) per head measured in PPS is less than 90 percent of the EU 25 average for the period 2001-3. Recipients of the Cohesion Fund in 2000-6 were Greece, Portugal and Spain. Ireland ceased to be eligible at the end of 2003, following a mid-term review. For 2007-13, Spain successfully made a case that special arrangements should apply to Member States subject to the 'statistical effect' of enlargement on the threshold for the Cohesion Fund, and benefits from a special allocation.

#### 4.1.2. Structural Funds

Eligibility in 2007-13 for the *regionally*-based elements of Cohesion Policy is illustrated in Figure 2. As is well-known, four categories of assisted area can be distinguished:

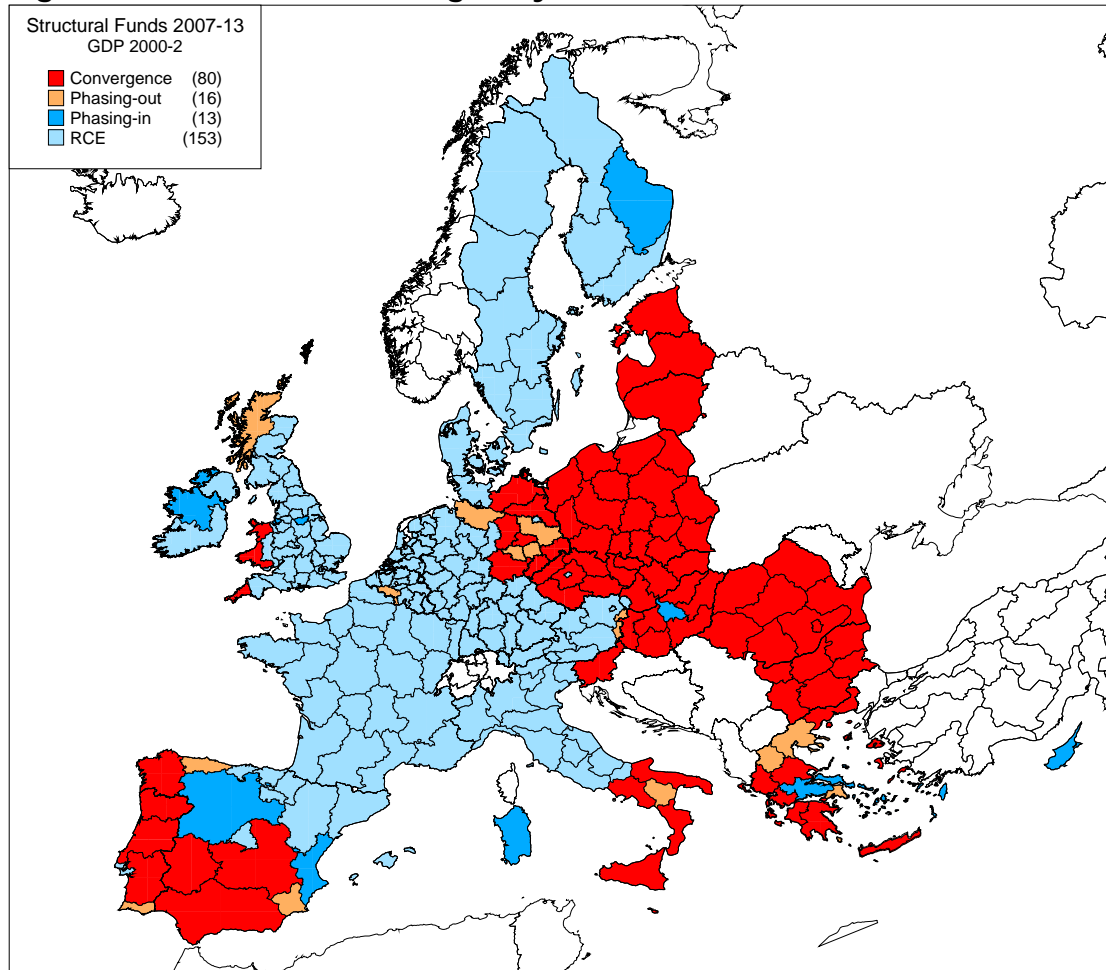
- Convergence: those regions where GDP(PPS) per head for 2000-2 was less than 75 percent of the EU25 average.
- Phasing-out: those regions squeezed out of eligibility for Convergence status as a consequence of enlargement, these being regions where GDP(PPS) per head was between 75 percent of the EU15 average and 75 percent of the EU25 average.



- Phasing-in: former Objective 1 regions which had outgrown even Phasing-out region status.
- Regional Competitiveness and Employment: the remaining territory of the EU.

It is important to note that while Bulgaria and Romania joined the EU on 1 January 2007, the averages used for 2007-13 were for EU25, not EU27.

**Figure 2: Structural Funds eligibility 2007-13**



Source: Own elaboration after DG Regio.

As Figure 2 shows, **Convergence regions** are heavily concentrated in central and eastern Europe and the Baltic states, covering the entire territories of Bulgaria, Estonia, Latvia, Lithuania, Malta, Poland, Romania and Slovenia, as well as most of Hungary and the Czech and Slovak Republics (the capital city regions of these countries being excluded). Most of Portugal is also covered (the Lisbon region is excluded) together with around one-third of Italy, Greece and Spain, most of eastern Germany, and small parts of the UK. Overall, the EU15 account for just over one-third of total convergence coverage. However, around half of the EU27 total is within three countries – Italy, Poland and Romania.

Coverage of **Phasing-out regions** is not significant at the EU27 level, covering just 3.4 percent of the EU population. Moreover, Phasing-out only concerns eight countries – all within the EU15. Nevertheless, coverage is particularly significant in Greece, where over half the population falls into this category. Germany, Greece and Spain together account for over 80 percent of Phasing-out coverage.

Coverage of **Phasing-in** regions is also modest at the EU27 level, covering just 3.9 percent of the population. However, coverage is particularly significant in Cyprus (where the whole country is eligible), Hungary, Ireland and Spain. Spain alone accounts for approaching half of the total Phasing-in population.

Lastly, the **Regional Competitiveness and Employment (RCE)** strand covers all regions that do not have Convergence, Phasing-out or Phasing-in status. This covers over 60 percent of the EU population, but is heavily concentrated in the EU15 – notably Germany, France and the UK, which together account for over 60 percent of the RCE population.

## 4.2. 2014+ Criteria and Coverage

Assessing the future spatial coverage and budgetary allocations of Cohesion policy is complex, with a range of caveats that need to be borne in mind given the incomplete information available. The following analysis<sup>51</sup> takes as its starting point the Budget 2020 Communication which provides some important indications about future eligibility criteria for the Structural Funds<sup>52</sup>.

The key proposals in the Budget 2020 Communication are as follows:

- the definition of Convergence regions would remain unchanged, save for being based on the EU27, rather than the EU25 average;
- the current Phasing-out and Phasing-in categories would be abolished;
- a new Transitional category would be established, comprising (a) regions with Convergence status in 2007-13, but where GDP has grown to more than 75 percent of the EU27 average; and (b) regions where GDP(PPS) per head is between 75 percent and 90 percent of the EU27 average;
- the eligibility criterion for the Cohesion Fund remain the same, except that it would be based on the EU27 rather than the EU25 average.

### 4.2.1. Cohesion Fund

Eligibility for the Cohesion Fund on the basis of 2008-10 GNI data<sup>53</sup> is illustrated in Table 4. The main change in relation to the current position is that, in principle, Cyprus would cease to be eligible for the Cohesion Fund. However, Cyprus would be certain to benefit from some transitional arrangements, precedents for which were set when Ireland and Spain ceased to qualify. The scale and nature of such arrangements would, as in the past, be the subject of negotiation.

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<sup>51</sup> The following section is drawn from: Mendez, Wishlade and Bachtler (2011, forthcoming), *A focus on results and effectiveness: Assessing proposals for reforming Cohesion policy*, EoRPA Paper 11/5, European Regional Policy Research Consortium, European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>52</sup> European Commission (2011), *A budget for Europe 2020*, COM(2011)500 final of 29 June 2011.

<sup>53</sup> In principle, this is the data that would determine eligibility for the Cohesion Fund from 2014, though it may be subject to revision.

**Table 4: Member States eligible for the Cohesion Fund 2014+?**

<b>Eligible</b>	<b>GNI (PPS) per head EU27 = 100</b>		<b>Ineligible</b>	<b>GNI (PPS) per head EU27 = 100</b>
<b>Bulgaria</b>	42.6		<b>Cyprus</b>	94.6
<b>Romania</b>	45.3		<b>Spain</b>	100.8
<b>Latvia</b>	54.8		<b>Italy</b>	102.4
<b>Lithuania</b>	56.6		<b>Ireland</b>	107.5
<b>Poland</b>	58.0		<b>France</b>	108.7
<b>Hungary</b>	61.4		<b>United Kingdom</b>	115.4
<b>Estonia</b>	63.0		<b>Finland</b>	116.8
<b>Slovakia</b>	72.5		<b>Belgium</b>	117.5
<b>Malta</b>	76.2		<b>Germany</b>	119.2
<b>Portugal</b>	76.7		<b>Austria</b>	123.6
<b>Czech Republic</b>	77.2		<b>Denmark</b>	124.0
<b>Slovenia</b>	87.3		<b>Sweden</b>	125.0
<b>Greece</b>	89.5		<b>Netherlands</b>	130.2
			<b>Luxembourg</b>	199.1

Source: Own calculations from AMECO – the annual macroeconomic database of DG ECFIN.

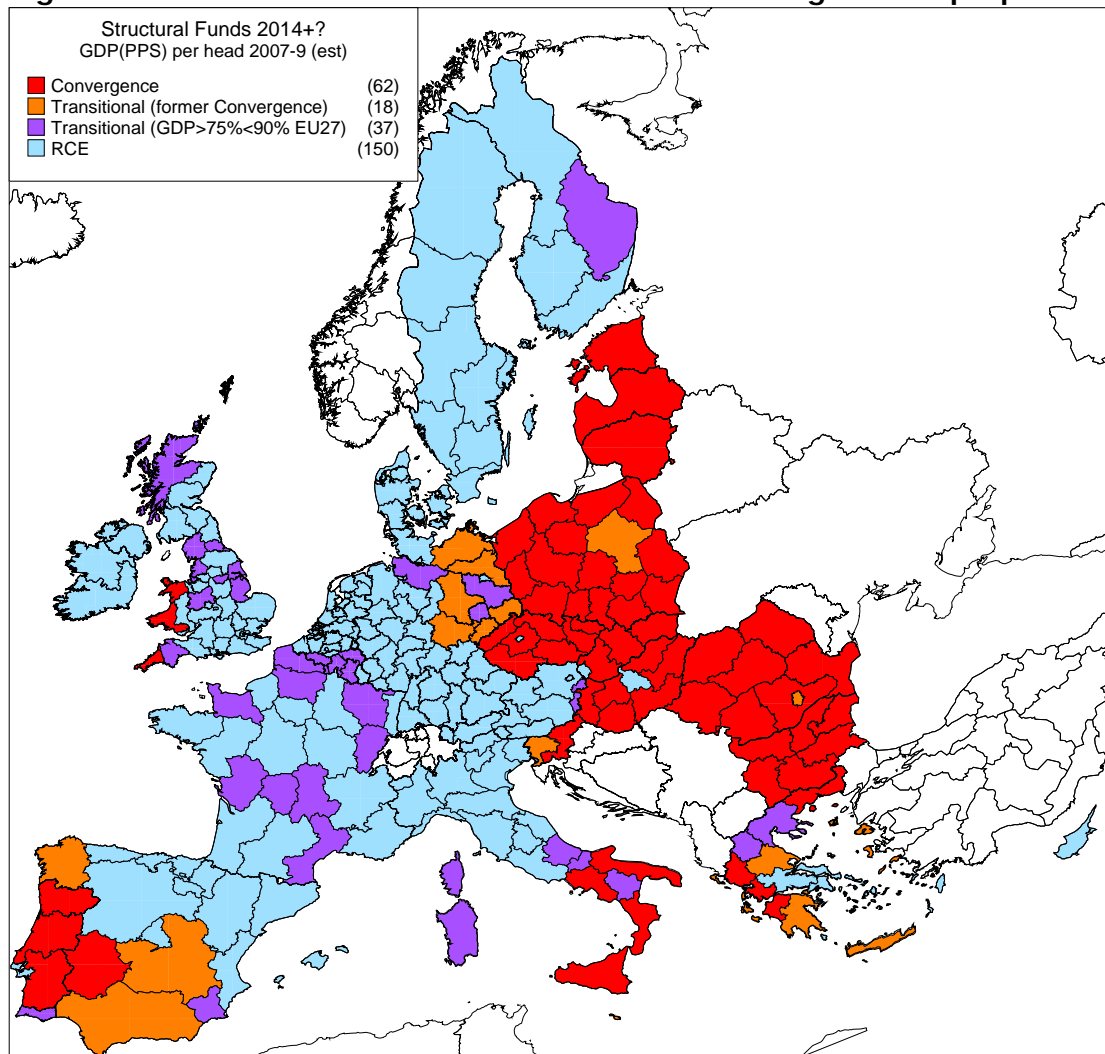
#### 4.2.2. Structural Funds

Coverage of eligible areas determined at the *regional* level for the post-2014 period is illustrated in Figure 3. This is based on published GDP(PPS) per head data for 2007-8 and an estimate of regional GDP(PPS) per head for 2009; 2009 data are due for release in February 2012.<sup>54</sup> Figure 3 takes account of the Budget 2020 proposals, distinguishing the new categories of transitional area.

Compared with Figure 3, Figure 2 shows a very different pattern of area designation. In particular, Convergence coverage is reduced, and the new Transitional category comprises areas which have never had Convergence status, notably in Belgium, France and the UK.<sup>55</sup>

<sup>54</sup> In principle, the key criteria for determining eligibility for the Convergence objective will be: GNI(PPS) per head 2008-10; National GDP(PPS) per head 2007-9; and Regional GDP(PPS) per head 2007-9. Of these, regional GDP(PPS) per head data are currently only available for 2007-8. However, neither 2007-8 nor 2008 are capable of reflecting accurately the likely outcome for 2007-9. This is essentially because the recession began and ended at different times in the different Member States, with the result that, in relation to EU27 average GDP(PPS) per head, some countries are on an upward trend over 2007-9, some are on a downward trend and for some 2008 is a 'peak' year. In consequence, for the purposes of this analysis, estimates of regional GDP(PPS) per head for 2009 have been made in order more accurately to reflect likely outcomes for 2007-9. For this and other reasons, not least the inconsistency of some of the data currently available from Eurostat and the absence of complete information on the allocation methodologies for 2007-13, the outcomes presented here should be treated with caution.

<sup>55</sup> Caution should be exercised in considering the *number* of eligible regions in the two maps – these are not directly comparable owing to changes in NUTS 2 boundaries in a number of countries.

**Figure 3: Structural Fund areas 2014+ under the Budget 2020 proposals**

Source: Own calculations using Eurostat data.

#### 4.2.2.1. Convergence regions

Looking first at the coverage of Convergence regions, several key points emerge from the calculations based on the most recent data (see Table 5).

At a global level, coverage would fall from 31.7 percent to 24.1 percent of the EU27 population, with coverage concentrated in 16 rather than 18 Member States, as previously. Eight Member States would lose population coverage; and eight would remain unchanged (save for changes in regional population).

- *Germany* would cease to have any Convergence regions;
- Coverage in *Greece* would fall from 36.6 percent to 15.1 percent of the population, with five regions losing Convergence status;
- *Spain* would have only one such region (Extremadura);
- In *France*, Martinique would lose Convergence status, though the other *départements d'outre mer* would retain it;
- *Poland* and *Romania* would no longer have Convergence status in their entirety: the capital regions of Mazowieckie and București-Ilfov would become Transitional regions;

- *Malta* would lose Convergence status and become a Transitional region;
- *Slovenia* would partly be covered by Convergence status with coverage falling from 100 percent to 54 percent following its split into two NUTS 2 regions, with the remainder becoming a Transitional region.

**Table 5: Convergence region coverage 2014+?**

	Population	% of population	Share of total
<b>EU27</b>	119,780	24.1	100.0
<b>EU25</b>	92,830	19.9	77.5
<b>EU15</b>	30,711	7.8	25.6
<b>Bulgaria</b>	7,603	100.0	6.3
<b>Czech Republic</b>	9,123	88.2	7.6
<b>Estonia</b>	1,339	100.0	1.1
<b>Greece</b>	1,695	15.1	1.4
<b>Spain</b>	1,079	2.4	0.9
<b>France</b>	1,459	2.3	1.2
<b>Italy</b>	16,909	28.5	14.1
<b>Latvia</b>	2,280	100.0	1.9
<b>Lithuania</b>	3,386	100.0	2.8
<b>Hungary</b>	7,175	71.5	6.0
<b>Poland</b>	32,939	86.4	27.5
<b>Portugal</b>	7,149	67.5	6.0
<b>Romania</b>	19,347	90.1	16.2
<b>Slovenia</b>	1,086	53.8	0.9
<b>Slovakia</b>	4,792	88.9	4.0
<b>United Kingdom</b>	2,419	4.0	2.0

Source: Own calculations from Eurostat data.

#### 4.2.2.2. New Transitional regions

As noted earlier, the Budget 2020 proposals envisage two categories of Transitional region:

- ex-Convergence regions: 2007-13 Convergence areas where GDP(PPS) per head will exceed 75 percent of the EU27 average in the next period;
- what might be termed 'Sliding-scale' regions:<sup>56</sup> NUTS 2 regions where GDP(PPS) per head is between 75 percent and 90 percent of the EU27 average.

The coverage of the 'ex-Convergence' Transitional regions is shown in Table 6. This shows that around 35 million of the EU27 population falls into this category, and that over 80 percent of the total is in Germany, Spain and Poland.

<sup>56</sup> No specific terminology for the new categories is indicated in the proposals.

**Table 6: 'Ex-Convergence' Transitional region coverage 2014+?**

	Population	% of population	Share of total
<b>EU27</b>	34,874	7.0	100.0
<b>EU25</b>	32,642	7.0	93.6
<b>EU15</b>	26,127	6.6	74.9
<b>Germany</b>	10,714	13.0	30.7
<b>Greece</b>	2,364	21.1	6.8
<b>Spain</b>	12,650	28.2	36.3
<b>France</b>	399	0.6	1.1
<b>Malta</b>	408	100.0	1.2
<b>Poland</b>	5,172	13.6	14.8
<b>Romania</b>	2,232	10.4	6.4
<b>Slovenia</b>	934	46.3	2.7

Source: Own calculations from Eurostat data.

'Sliding-scale' Transitional regions would, according to the calculations for this report, cover around 44 million inhabitants or almost nine percent of the EU27 population (see Table 7). This population lies entirely within the EU15 Member States and covers substantial parts of Belgium, Greece, France and the United Kingdom. Together, France and the United Kingdom would account for almost two-thirds of the population in this category.

**Table 7: 'Sliding-scale' Transitional region coverage 2014+?**

	Transitional	% of population	Share of total
<b>EU27</b>	44,123	8.9	100.0
<b>EU25</b>	44,123	9.4	100.0
<b>EU15</b>	44,123	11.2	100.0
<b>Belgium</b>	3,074	29.0	7.0
<b>Germany</b>	4,171	5.1	9.5
<b>Greece</b>	2,222	19.8	5.0
<b>Spain</b>	1,393	3.1	3.2
<b>France</b>	17,573	27.5	39.8
<b>Italy</b>	3,891	6.6	8.8
<b>Austria</b>	281	3.4	0.6
<b>Portugal</b>	424	4.0	1.0
<b>Finland</b>	660	12.5	1.5
<b>United Kingdom</b>	10,434	17.1	23.6

Source: Own calculations from Eurostat data.

#### 4.2.2.3. Regional Competitiveness and Employment (RCE)

Regional Competitiveness and Employment (RCE) is essentially a residual category for regions not qualifying under the Convergence or Transitional headings. Reflecting the impact of the new Transitional category for areas with GDP(PPS) per head in the range 75-90 percent of the EU average, the RCE population would remain more or less the same (it would otherwise have increased substantially). It would also be heavily concentrated in EU15: eight countries (Bulgaria, Estonia, Latvia, Lithuania, Malta, Poland, Romania and Slovenia) have no RCE regions; by contrast, six countries (Denmark, Ireland, Cyprus, Luxembourg, the Netherlands and Sweden) are entirely covered by RCE status (see Table 8).

**Table 8: RCE region coverage 2014+?**

	<b>RCE</b>	<b>% of population</b>	<b>Share of total</b>
<b>EU27</b>	297,704	60.0	100.0
<b>EU25</b>	297,704	63.7	100.0
<b>EU15</b>	292,231	74.3	98.2
<b>Belgium</b>	7,544	71.0	2.5
<b>Czech Republic</b>	1,198	11.6	0.4
<b>Denmark</b>	5,464	100.0	1.8
<b>Germany</b>	67,394	81.9	22.6
<b>Ireland</b>	4,366	100.0	1.5
<b>Greece</b>	4,904	43.8	1.6
<b>Spain</b>	29,744	66.4	10.0
<b>France</b>	44,350	69.5	14.9
<b>Italy</b>	38,588	65.0	13.0
<b>Cyprus</b>	785	100.0	0.3
<b>Luxembourg</b>	480	100.0	0.2
<b>Hungary</b>	2,881	28.7	1.0
<b>Netherlands</b>	16,378	100.0	5.5
<b>Austria</b>	8,026	96.8	2.7
<b>Portugal</b>	3,050	28.8	1.0
<b>Slovakia</b>	608	11.3	0.2
<b>Finland</b>	4,633	87.5	1.6
<b>Sweden</b>	9,182	100.0	3.1
<b>United Kingdom</b>	48,130	79.0	16.2

Source: Own calculations from Eurostat data.

### 4.3. Financial allocations

In the Budget 2020 proposals, the Commission makes provisions for 2014-20, a seven-year planning period as in 2007-13. In fact, the duration of the budget planning period had been the subject of some debate, with a number of options considered.<sup>57</sup> These included shorter terms and/or a mid-term review and the possibility of aligning the budget period with the terms of political mandates. Ultimately, however, the Commission retained the current seven-year approach, but drew attention to some complexities that would arise if the preparation cycle were to remain unchanged.

Under the 2007-13 Multiannual Financial Framework (MFF), projected commitment appropriations amounted to 1.048 percent of GNI. This is equivalent to €987.5 billion (2011 prices); of this €352 billion (2011 prices) was allocated to Heading 1b for Cohesion Policy.<sup>58</sup>

For **2014-20**,<sup>59</sup> the Commission has proposed commitment allocations amounting to 1.05 percent of GNI within the MFF.<sup>60</sup> This represents €1,025 billion (2011 prices), of which **€336 billion** is allocated to Cohesion Policy.

In real terms, this therefore represents a modest decrease – just under five percent – in the funds allocated to Cohesion Policy. A more detailed comparison is provided in Table 9. This shows that, for two strands of policy (Convergence regions and the Cohesion Fund), the commitment appropriations would *decrease* - by almost a fifth in the case of the Convergence regions. In contrast, appropriations for the Transitional regions would *increase* by almost half, those for Territorial Cooperation by over a third and those for RCE by a fifth.

Importantly, however, the shifts in allocations partially reflect shifts in coverage. As a result, the *per capita* amounts differ less significantly. For example, although the Convergence total would go down by almost 20 percent, the aid intensity would actually rise slightly because the Convergence population will be lower than before.

Overall aid intensity for the Transitional regions is significantly lower under the Budget 2020 proposals than under MFF 2007-13, reflecting the extension of transitional provisions to regions which have never had Convergence status. Moreover, aid intensities can be expected to vary widely between former Convergence regions, which will receive two-thirds of their previous allocation, and other Transitional regions, which will receive more than RCE regions, but on a sliding scale depending on prosperity.

Interestingly, aid intensity for the RCE regions is proposed to be significantly higher in 2014-20 as against 2007-13, rising from €21.4 per head per annum to €25.5.

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<sup>57</sup> European Commission (2011), Commission Staff Working Paper accompanying *A Budget for Europe 2020*, SEC(2011)868 final of 29 June 2011.

<sup>58</sup> Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management, OJEU No C139/1 of 14 June 2006; converted on the basis of DG ECFIN AMECO online GDP deflators.

<sup>59</sup> European Commission (2011), *A budget for Europe 2020*, COM(2011)500 final of 29 June 2011.

<sup>60</sup> A further sum amounting to €58.3 billion, or 0.06 percent of GNI was proposed outside the MFF.



**Table 9: Cohesion Policy 2007-13 and Budget 2020 proposals compared (2011 prices)**

	2007-13			2014-20			% Change in total
	€ m	% of total	€ per head pa	€ m	% of total	€ per head pa	
<b>Convergence regions</b>	202320	57.5	187.9	162590	48.4	193.9	-19.6
<b>Cohesion Fund</b>	70331	20.0	60.6	68710	20.4	78.9	-2.3
<b>Transitional regions, of which:</b>	26170	7.4	105.6	38952	11.6	70.4	48.8
• <i>Phasing-out</i>	14305	4.1	124.6				
• <i>Phasing-in</i>	11865	3.4	89.2				
<b>RCE</b>	44263	12.6	21.4	53143	15.8	25.5	20.1
<b>Territorial cooperation</b>	8626	2.5	2.5	11700	3.5	3.4	35.6
<b>OMR and LPD</b>				926			
<b>TOTAL</b>	351710	100.0		336021	100.0		-4.5

**Notes:** (i) The 2007-13 figure for the Cohesion Fund includes the transitional arrangements for Spain; excluding Spain, per capita annual aid intensity would be around €76. (ii) Commitment appropriations for Outermost regions and low population density regions were not disaggregated in 2007-13, but the additional amount per head per annum was €35.

**Source:** Own calculations from Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, OJEU No L210/25 of 31 July 2007, European Commission (2011) *A budget for Europe 2020*, COM(2011)500 final of 29 June 2011, Eurostat data and AMECO.

#### 4.3.1. Financial allocation mechanisms

The Budget 2020 proposals contain some **important changes to the mechanisms for allocating funding** under the different strands. At the same time, it appears that some key elements will remain unchanged, but there are also a number of uncertainties.

Among the apparent changes to funding allocations are:

- Capping of Cohesion Policy allocations at 2.5 percent of GNI; this contrasts with the approach for 2007-13 in two main respects: first, for 2007-13, the cap is set as a percentage of GDP, not GNI; and second, the level of the cap varies according to prosperity as measured by GNI(PPS) per head from almost 3.8 percent of GDP in the case of Latvia, to less than one percent for Luxembourg. Of course, although the capping system was in principle generalised to all Member States, in practice it applied only to nine of the EU12 – it did not bite in the case of Malta, Cyprus and Slovenia, nor did it apply to any of the EU15.
- The abandonment of the one-third/two-thirds split between the Cohesion Fund and the Structural Funds for the then 'new' Member States; this is not mentioned in the Budget 2020 proposals which give a total budget for the Cohesion Fund, rather than an initial per capita allocation as for 2007-13.
- The introduction of a fixed proportion (two-thirds) of the previous Convergence allocation for all regions losing Convergence status.

Among the uncertainties are: the role (if any) of growth forecasts in determining the level of capping; the methodology for allocations to the 'Sliding-scale' Transitional regions; the baseline for determining allocations to ex-Convergence regions, e.g. post-transfers to rural development and fisheries, post-capping, post-Cohesion Fund adjustment; and the formulae for allocating RCE and ETC monies.

Despite the number of 'unknowns', the approach to allocating funding has a number of precedents embedded within it. This is particularly so for allocations to the Convergence regions, where the so-called 'Berlin formula' has been applied on two occasions; the Budget 2020 proposals do not explicitly indicate any changes to the Berlin formula. It could be argued that the use of a 'distribution key' for allocating Cohesion Fund monies has also become entrenched.

Of central importance, however, and notwithstanding the Berlin formula and the Cohesion Fund key, it is clear that for least prosperous Member States the GNI cap, however defined, will continue to determine funding allocations. This is illustrated in the discussion in the following sections, which focuses primarily on the Convergence regions and the Cohesion Fund.

#### **4.3.2. Convergence region allocations**

The basic mechanism for allocating funding to the Convergence regions for 2007-13 was modelled on the Berlin formula used for 2000-6. This involved making an allocation based on regional disparities in GDP per head, adjusted for national prosperity, and high unemployment – the basic principle being that the Convergence region allocation should be related to the prosperity 'gap'.

In looking forward, the Berlin methodology (excluding the unemployment premium) has been reapplied unchanged, save the use of EU27, rather than EU25 averages. The most striking aspect of the outcome (see Table 10) is the budgetary impact of applying the Berlin formula *without* capping. Even though the calculations presented earlier suggested that the Convergence population would *fall* by almost 34 million. Table 10 suggests that a straight reapplication of the Berlin formula – i.e. *without* capping - would require the Convergence region budget to rise from €201.8 billion in 2007-13<sup>61</sup> to €391.1 billion for 2014-20 (all 2011 prices); this contrasts with the proposed sum of €162.6 billion indicated in the Budget 2020 proposals.

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<sup>61</sup> This is the 2007-13 allocation *after* capping.

**Table 10: Uncapped Convergence region allocations 2014+? (€m, 2011 prices)**

	2007-13	2014-20
<b>EU27</b>	201,814	391,192
<b>EU15</b>	87,799	56,441
<b>EU25</b>	184,700	266,362
<b>Bulgaria</b>	4,414	33,286
<b>Czech Republic</b>	17,265	21,844
<b>Germany</b>	12,027	-
<b>Estonia</b>	2,271	3,357
<b>Greece</b>	9,550	3,014
<b>Spain</b>	21,342	1,400
<b>France</b>	3,234	2,571
<b>Italy</b>	21,502	27,277
<b>Latvia</b>	3,017	7,858
<b>Lithuania</b>	4,519	10,726
<b>Hungary</b>	14,421	29,060
<b>Malta</b>	564	-
<b>Poland</b>	45,000	120,487
<b>Portugal</b>	17,368	18,960
<b>Romania</b>	12,700	91,544
<b>Slovenia</b>	2,744	1,713
<b>Slovakia</b>	7,100	14,877
<b>United Kingdom</b>	2,776	3,219

**Note:** Clearly the 2007-13 figure was much larger prior to capping.

**Source:** Own calculations from Commission Decision of 4 August 2006 2006/594/EC (as amended), Eurostat data and AMECO.

#### 4.3.3. Cohesion Fund allocations

For 2007-13, there were two elements to the allocation of the Cohesion Fund, the first of which applied to all eligible Member States and the second only to the EU12 Member States.

The first phase involved the distribution of a 'theoretical financial envelope' obtained by multiplying average aid intensity of €44.7 per head per annum (2004 prices) by the eligible population.<sup>62</sup> This sum was allocated on the basis of a 'distribution key' which took account of eligible Member State shares of population and surface area, adjusted by national GNI to favour the poorer Member States. For Greece and Portugal, the Cohesion Fund allocation was the outcome of this method. For the EU12 Member States, there was a second stage

<sup>62</sup> The Commission had proposed that the same aid intensity should apply in 2007-13 as in 2004-06.

which involved adjusting the Cohesion Fund allocation so that it represented one-third of the Cohesion Policy allocation over the 2007-13 period.

The Budget 2020 proposals specify a fixed budget - €68.710 billion - for the Cohesion Fund (rather than an indicative per capita amount) and make no mention of the one-third/two-thirds rule. The calculations presented below take the proposed budget and divide it among the eligible Member States according to the distribution key described above; the one-third adjustment for the EU12 is not applied (see Table 11).

As mentioned earlier, it is almost certain that some form of transitional arrangement would be made for Cyprus – assuming that the criteria remained unchanged; however, as for Ireland and Spain in the past, this would be the subject of negotiation. On the basis of 2008-10 GNI data, Greece and Portugal are the only EU15 countries that would qualify.

**Table 11: Cohesion Fund allocations 2007-13 and 2014+? (€m, 2010 prices)**

	2007-13	2014-20
<b>EU27</b>	70,155	68,710
<b>EU25</b>	61,284	46,664
<b>EU15</b>	10,554	12,045
<b>Bulgaria</b>	2,296	6,898
<b>Czech Republic</b>	8,923	5,625
<b>Estonia</b>	1,162	1,282
<b>Greece</b>	3,748	8,133
<b>Spain</b>	3,704	0
<b>Cyprus</b>	221	0
<b>Latvia</b>	1,554	2,038
<b>Lithuania</b>	2,318	2,289
<b>Hungary</b>	8,649	4,348
<b>Malta</b>	288	165
<b>Poland</b>	22,294	16,041
<b>Portugal</b>	3,102	3,912
<b>Romania</b>	6,575	15,147
<b>Slovenia</b>	1,412	720
<b>Slovakia</b>	3,912	2,111

Source: Own calculations from Commission Decision of 4 August 2006 2006/594/EC (as amended), Eurostat data and AMECO, together with indications from Budget 2020.

#### 4.3.4. Transitional regions – ‘ex-Convergence’

As mentioned above, special provisions are proposed for regions losing Convergence status. These are to retain two-thirds of their current receipts. This is not straightforward to calculate given the uncertainties outlined above. Nevertheless, some estimates can be made and these are set out in Table 12.

These figures suggest that the transitional arrangements for former Convergence regions could involve around €26.5 billion. Of this, the bulk would be accounted for by Germany, where no Convergence regions would remain on the basis of the calculations in this paper, and Spain. Also of note, these figures suggest that around €12.5 billion would remain for the 'Sliding-scale' Transitional regions.

**Table 12: Transitional regions ('ex-Convergence') allocations 2014+?**

	€ million (2011 prices)
<b>EU27</b>	26,507
<b>EU25</b>	25,982
<b>EU15</b>	24,154
<b>Germany</b>	8,018
<b>Greece</b>	3,207
<b>Spain</b>	12,646
<b>France</b>	282
<b>Malta</b>	376
<b>Poland</b>	1,173
<b>Romania</b>	525
<b>Slovenia</b>	279

**Source:** Own calculations from Commission Decision of 4 August 2006 2006/594/EC (as amended), Eurostat data and AMECO, together with indications from Budget 2020.

#### 4.3.5. Outcomes and the impact of capping

As noted, for nine Member States (all the EU12, except Cyprus, Malta and Slovenia), a crucial feature of the 2007-13 methodology was the imposition of an annual limit on transfers expressed as a percentage of projected GDP for that year. Initially the cap had been set at four percent and restricted to the EU10 Member States. However, in the course of the negotiations, the cap was generalised and made progressive so that the poorer the Member State, the higher could be the Cohesion Policy allocations as a proportion of GDP. At the same time, however, the limit was reduced to below four percent in all cases; moreover, the system of limits was not *meaningfully* generalised, as the cap only 'bites' in the case of the least prosperous countries. Of crucial importance, the cap was applied to *forecasts* of GDP over the planning period, so that predictions of annual GDP growth rates had a direct and material impact on the Cohesion Policy allocations to those countries where the cap applied.

Looking forward, a somewhat different approach is implied by the **Budget 2020** proposals. Under these, the cap would be set at a *uniform* rate of 2.5 percent of GNI (not GDP), but no information is provided about whether this cap would be applied to a single year's GNI or to forecasts, as in 2007-13. Given this, it is impossible to forecast the precise effects of capping. Nevertheless, the level of Cohesion Policy spending proposed in Budget 2020, coupled with the outcomes from applying the Berlin formula and the Cohesion Fund distribution key described above mean that, for some countries, a very substantial reduction in 'theoretical' commitment appropriations would arise from the imposition of capping; it also seems probable that the same nine Member States would be affected in

2014-20 as in 2007-13. Moreover, in several cases, notably the Baltic States and Hungary, the 'new' cap would impose a substantial reduction in Cohesion Policy receipts compared to 2007-13.

#### 4.4. Counter-positions

National formal positions on the Commission's Budget 2020 proposals were not yet available at the time of writing. Nevertheless, the views on four divisive issues are already known. The first is the total level of Cohesion Policy funding. In December 2010, five Member States (Finland, France, Germany, the Netherlands and the United Kingdom) signed a letter to the Commission calling for a real-terms freeze in the overall post-2013 budget. Although Cohesion Policy was not mentioned, two of these countries (Netherlands, UK) stated that Cohesion Policy funding should fall in their subsequent responses to the Fifth Cohesion Report, while Sweden had argued for a reprioritisation of funding away from the CAP and Cohesion Policy in its earlier budget review position. In the opposing camp, 12 'net beneficiaries' recently signed a letter calling for "an ambitious cohesion policy" with a share in the EU budget "of at least its present level".

A second area of political division concerns the question of national versus regional eligibility and financial concentration. The group of 12 maintain that all EU regions should remain eligible, but that the focus should remain on the less prosperous regions. By contrast, the UK government is calling for a phased withdrawal of funding in the wealthiest Member States, and other responses to the Fifth Cohesion Report argue that there should be more concentration on less-developed countries and regions (Denmark, Latvia, Netherlands). In this context, Portugal and the UK share the view that the national prosperity coefficient should be given more weight in the allocation formula, albeit for different reasons. Other countries would like to see greater focus on less-developed regions (Belgium, Germany, Greece, Latvia), involving a higher level or at least the retention of the current level of concentration on the Convergence objective (Czech Republic, Hungary, Latvia).

The proposal for a new intermediate category of Transitional regions is also contentious. While a significant number of countries have offered support or consider that the idea is worth examining (Austria, Belgium, Cyprus, France, Germany, Ireland, Czech Republic, Slovak Republic, Spain), Austria, Denmark and Sweden state that funding should be limited or reduced for this category, while Italy and the Netherlands have rejected the proposal.

Another critical issue is the proposal for financial envelopes to be decided ex-ante for the ESF and ERDF/CF. Almost every Member State that expressed a view on this rejected the idea (e.g. Belgium, Cyprus, Czech Republic, Estonia, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Poland, Slovak Republic, Sweden), instead insisting that the split between funds should remain a Member State decision, albeit decided in partnership with the Commission during programme negotiations. Nevertheless, in the subsequent Budget 2020 Communication, the Commission proposed that minimum shares for the ESF should be established for each category of regions, with specified percentages (25 percent for Convergence regions, 40 percent for Transitional regions and 52 percent for Regional Competitiveness and Employment regions).

Lastly, the creation of a Connecting Europe facility, absorbing some of the Cohesion Policy budget, has elicited negative reactions from regions and the European Parliament, which fear that it will lead to greater centralisation and sectoralisation of Cohesion Policy.<sup>63</sup> As

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<sup>63</sup> Euractiv.com (2011), *Regions fear being sidelined in new EU infrastructure fund*, Euractiv.com, 28 June 2011, Brussels.

anticipated in the Barca Report, it would be important for such a Fund to be 'managed as a "Structural Fund" under the same European strategic framework as the Regional Fund (ERDF), and with TENS investments coordinated with Member State cohesion policy strategies to ensure a territorially coherent approach to maximising the benefit of new transport networks'.<sup>64</sup>

## 4.5. Conclusions

The analysis in this chapter provides an assessment of the implications of the Commission's reform proposals for eligibility of financial allocations. It has been careful to include a number of caveats, partly because the calculations here have, in some cases, been based on estimates and partly because the Budget 2020 proposals do not contain sufficiently detailed information for making firm assessments.

Notwithstanding these cautionary remarks, it is fair to say that a somewhat different policy landscape emerges from Budget 2020. This partly owes to regional economic growth and the use of EU27 averages which together have the effect of reducing significantly the coverage of the Convergence regions. In particular, regional growth would result in several German and Spanish regions losing Convergence status, along with the capital regions of Poland and Romania. The introduction of a new definition of Transitional region will also alter the pattern of intervention. This will comprise: former Convergence regions that have 'outgrown' that status – this is in line with past transitional arrangements; and regions with GDP in the range 75-90 percent of the EU27 average. This is a break with past practice creating a new category of assisted area covering over 11 percent of the EU15 population.

Overall, the Budget 2020 proposals suggest a modest decrease in the Cohesion Policy budget. This is largely borne by a reduction in Convergence spending, although per capita spend on Convergence would rise slightly; RCE spending would rise significantly both in absolute and per capita terms; and Transitional region spending would increase by half.

Financial allocation mechanisms are difficult to replicate in the absence of methodological detail, although past practice does provide some guidance. In spite of the difficulties, the key point to note is the overriding importance of capping in determining financial allocations, especially for the least prosperous Member States. Moreover, for these countries, the cap proposed is substantially lower than it was in 2007-13. As a result, for the main beneficiaries of the Convergence and Cohesion Funds the outcomes of the allocation formulae are hypothetical and the appropriations are set to be determined purely as a proportion of GNI.

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<sup>64</sup> Barca (2009), *op.cit.*





## 5. OBJECTIVES

### KEY FINDINGS

- Cohesion Policy objectives are multi-faceted, encompassing economic, social and territorial dimensions, a political commitment to solidarity, and close links to broader EU objectives and policies.
- This has led to criticism of goal congestion and confusion, compounded by terminological disorder in the legislative texts and by the distinct missions of different Structural and Cohesion Funds.
- The Lisbon Treaty formally recognises the 'territorial' dimension of cohesion for the first time, but the implications for Cohesion Policy are unclear.
- There is agreement on the need for closer alignment with Europe 2020 objectives, although there are concerns about traditional cohesion objectives being undermined.

### 5.1. Current arrangements

Cohesion Policy objectives are formally defined and agreed by the EU in the Treaty and the Funds governing legislation. It is instructive to review these provisions in detail, particularly as there is a great deal of debate, if not confusion, in the literature about what the policy is and what it seeks to achieve.

Beginning with the constitutional level, the legal basis for the operation of Cohesion Policy in 2007-13 dates back to the Treaty on European Union of 1992 (and the 1988 Single European Act, before that), which expresses the Union's commitment to promote 'economic and social cohesion and solidarity among Member States' (Article 2). A specific Title (XVIII) on 'economic and social cohesion' specifies cohesion objectives in general terms as promoting overall 'harmonious development' in the EU by 'reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas'.

The policy instruments assigned to the cohesion objective comprise the economic policies of the Member States, other EU policies (including the internal market), the Structural Funds (the ERDF, ESF and EAFRD<sup>65</sup>), the European Investment Bank and other financial instruments. As regards the ERDF, the largest Structural Fund in financial terms, it is 'intended to help to redress the main regional imbalances in the Community through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions'.

Provisions for setting up a Cohesion Fund are briefly mentioned in the Cohesion Title, but are mainly anchored in the Treaty Titles on Trans-European Networks (Title XII), the environment (Title XVI) and a separate protocol on economic and social cohesion (TEU), which notes that the Fund will 'provide Community financial contributions to projects in the fields of environment and trans-European networks in Member States with a per capita GNP of less than 90% of the Community average'.

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<sup>65</sup> The Treaty refers to the European Agricultural Guidance and Guarantee Fund - Guidance Section and continues to do so under the Lisbon Treaty (TFEU), despite the change of naming to European Agricultural Fund for Rural Development (EARDF). It is also of note that the Cohesion Fund is not included as a Structural Fund, although it is treated as one in practical and legislative terms.

The remaining Structural Funds' provisions are included in other Treaty titles. The Title on Social Policy, Education, Vocational Youth and Training states that the ESF was set up to 'improve employment opportunities for workers in the internal market and to contribute thereby to raising the standard of living' and that it aims 'to render the employment of workers easier and to increase their geographical and occupational mobility within the Community, and to facilitate their adaptation to industrial changes and to changes in production systems, in particular through vocational training and retraining'.

The European Agricultural Fund for Rural Development and the European Fisheries Fund were no longer part of the Cohesion Policy budgetary heading of the multiannual financial framework in 2007-13. However, they pursue similar aims by supporting rural development and structural adjustment in rural and fisheries areas (Title on Agriculture and Fisheries, TEC).

The territorial dimension of cohesion objectives was given its first constitutional expression in the 1997 Treaty of Amsterdam amendments in relation to Services of General Economic Interest, recognising the 'role they play in the social and territorial cohesion of the Union' (Article 7d). More significant changes were introduced in the Lisbon Treaty (in force since December 2009), which amended the Cohesion Title to economic, social 'and territorial' cohesion (now title XVIII) and added a new paragraph to Article 158 (re-numbered Article 174) stating that particular attention should be given to 'rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions'.

Moving down the legislative ladder, the preamble of the General Regulation defines Cohesion Policy objectives as 'seeking the convergence of the Member States and the regions, regional competitiveness and employment and European territorial cooperation' (Council Regulation 1083/2006), in accordance with the tri-partite policy architecture for 2007-13. Although the Treaty commitment to territorial cohesion was not yet in force, the regulation states that 'within the three objectives, both economic and social characteristics and territorial characteristics should be taken into account in an appropriate fashion.' Under the chapter on 'objectives and missions' in the main body of the regulations, the three-fold distinction between convergence, competitiveness and cooperation is further developed in a specific article on 'objectives' (Box 1).

#### **Box 1: Cohesion objectives and missions**

a) the **Convergence objective**, which shall be aimed at speeding up the convergence of the least-developed Member States and regions by improving conditions for growth and employment through the increasing and improvement of the quality of investment in physical and human capital, the development of innovation and of the knowledge society, adaptability to economic and social changes, the protection and improvement of the environment, and administrative efficiency. This objective shall constitute the priority of the Funds;

b) the **Regional competitiveness and employment objective**, which shall, outside the least-developed regions, be aimed at strengthening regions' competitiveness and attractiveness as well as employment by anticipating economic and social changes, including those linked to the opening of trade, through the increasing and improvement of the quality of investment in human capital, innovation and the promotion of the knowledge society, entrepreneurship, the protection and improvement of the environment, and the improvement of accessibility, adaptability of workers and businesses as well as the development of inclusive job markets; and

c) the **European territorial cooperation objective**, which shall be aimed at strengthening cross-border cooperation through joint local and regional initiatives, strengthening transnational cooperation by means of actions conducive to integrated territorial development linked to the Community priorities, and strengthening interregional cooperation and exchange of experience at the appropriate territorial level.

The '**territorial dimension**' of Cohesion objectives is expressed in the following terms:

...assistance from the Funds shall, according to their nature, take into account specific economic and social features, on the one hand, and specific territorial features, on the other. The assistance shall, in an appropriate manner, support sustainable urban development particularly as part of regional development and the renewal of rural areas and of areas dependent on fisheries through economic diversification. The assistance shall also support areas affected by geographical or natural handicaps which aggravate the problems of development, particularly in the outermost regions as referred to in Article 299(2) of the Treaty as well as the northern areas with very low population density, certain islands and island Member States, and mountainous areas.

**Source:** Article 3, Council Regulation 1083/2006

The most significant change to policy objectives in the current period, and arguably since the policy was founded, is the alignment with the EU's Lisbon agenda objectives. In legislative terms, this is codified in the 'principles of assistance' of the General Regulation, which states that the 'Funds shall target the European Union priorities of promoting competitiveness and creating jobs, including meeting the objectives of the Integrated Guidelines for Growth and Jobs' (Article 9). These priorities were translated into guidelines (see below), while an annex to the General Regulation includes a list of priority themes and categories of expenditure that are seen as contributing directly to Lisbon agenda objectives.

Cross-cutting EU objectives and priorities also feature in the General Regulation. These concern sustainable development, gender equality and non-discrimination. The Funds are also required to comply with the requirements of other policy objectives and priorities, particularly those derived from single market (public procurement) competition (state aid) and transport (Trans-European networks) policies.

The main purpose of the Fund-specific legislation (for the ESF, ERDF and CF) is to set out the types of activities that may be financed by each Fund. The regulations reiterate the commitment to the Treaty objectives on cohesion, while the ESF regulation also underlines the Fund's contribution to the 'policy objectives and priorities of the Community in relation to employment and social inclusion'.<sup>66</sup> Additionally, the Fund regulations distinguish between 'purpose' (for the ERDF<sup>67</sup> and CF<sup>68</sup>) and 'tasks' (for the ESF<sup>69</sup>).

<sup>66</sup> In the 2005–2008 employment guidelines, these included full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.

<sup>67</sup> To 'contribute to the financing of assistance which aims to reinforce economic and social cohesion by redressing the main regional imbalances through support for the development and structural adjustment of regional economies, including the conversion of declining industrial regions and regions lagging behind, and support for cross-border, transnational and interregional cooperation. In so doing, the ERDF shall give effect to the priorities of the Community, and in particular the need to strengthen competitiveness and innovation, create and safeguard sustainable jobs, and ensure sustainable development' (Council Regulation 1080/2006). See also Figure 4.

<sup>68</sup> 'Established for the purpose of strengthening the economic and social cohesion of the Community in the interests of promoting sustainable development' (Council Regulation 10801/2006).

<sup>69</sup> To 'contribute to the priorities of the Community as regards strengthening economic and social cohesion by improving employment and job opportunities, encouraging a high level of employment and more and better jobs. It shall do so by supporting Member States' policies aiming to achieve full employment and quality and

The final piece of the legislative framework are the Community Strategic Guidelines for Cohesion (CSG). Introduced for the first time in 2006, the main purpose of this instrument is to increase the strategic coherence of Cohesion Policy with, and financial contribution to, Lisbon agenda objectives. These objectives are operationalised through three guidelines drawn directly from the priorities agreed under the renewed Lisbon agenda:

- improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies; and
- creating more and better jobs by attracting more people into employment entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

The 'territorial dimension' of the CSG is included in a stand-alone section, which emphasises the need to address specific geographical circumstances, particularly the problems and opportunities of urban and rural areas, those of cross-border and broader transnational areas, and regions suffering from handicaps due to their insularity, remoteness, sparse population or mountainous character. In line with EU priorities and the other Structural Funds Regulations, the CSG also underline the requirement for Cohesion Policy to pursue the objectives of sustainable development, gender equality and prevention of discrimination.

## 5.2. Strengths and weaknesses

The most striking feature of Cohesion Policy objectives is their multi-faceted nature. They encompass economic, social and territorial dimensions; they include a political or normative element, reflected in the Treaty link with solidarity between Member States; and they are derived from broader EU objectives on growth and employment under the Lisbon Agenda, along with cross-cutting EU priorities on sustainable development, gender equality and non-discrimination.

A key strength of Cohesion Policy is its ability to address these multiple development objectives through an integrated cross-sectoral approach, allowing synergies to be pursued between them. Moreover, the breadth of the different objectives and dimensions facilitates political buy-in to the policy from a wide range of institutional actors and stakeholders at all levels.

On the other hand, the policy is accused of suffering from 'goal congestion'<sup>70</sup> and is caricatured as a confused policy in 'search of objectives'.<sup>71</sup> Further conceptual confusion arises from the interchangeable use of different terms in the Treaty and governing legislation (e.g. objectives, missions, aims, purposes, tasks, goals, guidelines, missions, priorities) and the fact that cohesion is a cross-cutting objective applying to all EU policies and to specific dedicated policy instruments / Funds. The blurring of the linkages and inter-relationships between instruments and objectives is compounded by the different legal

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productivity at work, promote social inclusion, including the access of disadvantaged people to employment, and reduce national, regional and local employment disparities.'

<sup>70</sup> Tarschys D (2003), *Reinventing Cohesion: The Future of European Structural Policy*, SIEPS Report no. 17, Stockholm: Swedish Institute for Growth Studies.

<sup>71</sup> Begg I (2010), *Cohesion or Confusion: A Policy Searching for Objectives*, Journal of European Integration, 32(1), pp.77-96.

basis of the Structural and Cohesion Funds, enshrined in different Treaty Titles with their own specific objectives, ties to broader EU Lisbon objectives and historical trajectories. This conceptual fuzziness presents difficulties for the strategic or operational delivery of the policy.<sup>72</sup>

Looking more specifically at the economic, social and territorial dimensions, there is nevertheless broad consensus that:<sup>73</sup> 'economic cohesion is primarily concerned with narrowing disparities in output and employment; social cohesion focuses on interpersonal inequalities, and especially the elimination of poverty and social exclusion and the creation of employment opportunities; and territorial cohesion aims at a sustainable and equitable spatial distribution of activities and services'.

However, it is the economic dimension that has until now, been the most widely used and applied test of cohesion, usually interpreted as implying the promotion of convergence between regional average GDP/capita levels compared to the EU average. Yet, as two senior DG Regio officials put it, 'there are few reasons, in fact, to actually believe that regional convergence is an appropriate measure of the success of European cohesion policy.'<sup>74</sup> A more fitting but overlooked question is whether Cohesion Policy 'is impacting on the absolute growth of less-developed regions, which is relatively well connected to the objectives of EU cohesion policy.'<sup>75</sup> Similarly, the Director-General of DG Regio 'recognises that even in the case where potentials would be fully exploited in each region, large performance differentials would inevitably remain. This corresponds much more to a concept of conditional convergence.'<sup>76</sup>

Even if economic convergence is an appropriate yardstick, it remains unclear whether this should be between regions within a Member State, between Member States, or between regions within the EU as a whole.<sup>77</sup> The latter aggregate measure is the most frequently used benchmark for measuring trends in EU regional inequality (e.g. through coefficient of variation tests), although it is criticised for masking the dynamics in specific clusters of poor regions and understating their relative economic performance.<sup>78</sup>

Further, while there are political and practical feasibility advantages in using a simple indicator such as GDP, it ignores non-economic aspects (e.g. well-being, social inclusion) which are critical to the pursuit of cohesive development. In similar vein, it is argued that consumption or income-based measures of GDP provide a better metric for assessing cohesion than the production-based per capita GDP indicator.<sup>79</sup>

The failure to separate economic-efficiency objectives from social-equity objectives is strongly criticised in the Barca Report, which notes that 'social goals have progressively

<sup>72</sup> Mancha-Navarro T and Garrido-Yserte R (2008), *Regional policy in the European Union: The cohesion-competitiveness dilemma*, Regional Science Policy & Practice, 1(1), 47-66; Mendez C (2011), *The Lisbonization of EU Cohesion Policy: A Successful Case of Experimentalist Governance?*, European Planning Studies, 19(3), pp.519-537; ESPON and Nordregio (2010), *Territorial Diversity (TeDi)*, Targeted Analysis 2013/2/8, Final Report, ESPON, Luxembourg.

<sup>73</sup> EPRC and EUROREG (2010), *The objective of economic and social cohesion in the economic policies of the Member States*, Final Report, DG Regional Policy, European Commission, Brussels.

<sup>74</sup> De Michelis N and Monfort P (2008), *Some reflections concerning GDP, regional convergence and European cohesion policy*, Regional Science Policy & Practice, 1(1), pp.15-22; see also Barca (2009), *op.cit*; Bachtler J & Gorzelak G 2007, *Reforming EU Cohesion Policy: A reappraisal of the performance of the Structural Funds*, Policy Studies, 28(4), 309-326; Farole T Rodriguez-Pose A and Storper M (2011), *Cohesion Policy in the European Union: Growth, Geography, Institutions*, Journal of Common Market Studies.

<sup>75</sup> See also Barca (2009), *op.cit*.

<sup>76</sup> Ahner D (2009), *What do you really know about European cohesion policy?*, Notre Europe, Brussels.

<sup>77</sup> EPRC and EUROREG (2010), *op.cit*.

<sup>78</sup> De Michelis N and Monfort P (2008), *op.cit*; Muccigrosso T Pellegrini G & Tarola O (2010), *Measuring the Impact of the European Regional Policy on Economic Growth: a Regression Discontinuity Design Approach*, Working Papers 6/10, Sapienza, Universita di Roma.

<sup>79</sup> Tarschys D (2011), *How Small are the Regional Gaps? How Small is the Impact of Cohesion Policy?* European Policy Analysis, Issue 2011(1), Swedish Institute for European Policy Studies, Stockholm.

been pursued by “camouflaging” them as efficiency goals, while efficiency goals have often been “justified” with reference to their social synergies.’ The territorial dimension also lacks visibility, attributed by some to the dominance of sectoral interests at both the EU and national levels.<sup>80</sup> On the other hand, it is argued that ‘in practice, and for policy purposes, economic, social and territorial cohesion cannot readily be separated’.<sup>81</sup>

A final criticism is the lack of attention to the potential trade-offs faced in the pursuit of cohesion objectives.<sup>82</sup> A commonly cited dilemma in this respect is between strengthening economic development and improving territorial balance and / or achieving social equity.<sup>83</sup> The academic literature does not offer clear-cut solutions or policy prescriptions to resolve such dilemmas, but they should not be ignored, as has often been the case in Cohesion Policy.<sup>84</sup> The ‘Lisbonisation’ of cohesion objectives raises similar tensions. While DG Regio has always maintained that the two sets of objectives are perfectly compatible,<sup>85</sup> others argue that the Lisbon focus has encouraged prioritisation of a ‘misconceived’ and ‘overly narrow view of the role of innovation in economic development policies’,<sup>86</sup> diverting attention from traditional enterprise sectors<sup>87</sup> and posing numerous management challenges for programme managers.<sup>88</sup> It is also argued the emphasis on Lisbon has deflected policy efforts from long-standing EU and regional policy priorities on sustainable development.<sup>89</sup>

### 5.3. Proposals and counter-positions

The Fifth Cohesion report conclusions do not propose changes to the objectives of Cohesion Policy. The report restates the Treaty objectives and close link to broader Europe 2020 goals: ‘Cohesion Policy aims to promote harmonious development of the Union and its regions by reducing regional disparities (Article 174 of the Treaty). It also underpins the growth model of the Europe 2020 strategy including the need to respond to societal and employment challenges all Member States and regions face.’<sup>90</sup>

Similarly, the Budget 2020 Communication states that the ‘primary objective of EU cohesion policy is to reduce the significant economic, social and territorial disparities that still exist between Europe’s regions’ and that ‘Cohesion policy also has a key role to play in delivering the Europe 2020 objectives throughout the EU’.<sup>91</sup> A strong case is made for increasing the alignment between Cohesion Policy and Europe 2020 in these documents,

<sup>80</sup> Faludi A (2007), *Territorial Cohesion Policy and the European Model of Society*. European Planning Studies, 15(4), 567-583.

<sup>81</sup> Tarschys D (2003), *op.cit*; Begg (2010), *op.cit*; Farole et al. (2011), *op.cit*.

<sup>82</sup> Barca (2009), *op.cit*; Farole et al. (2011), *op.cit*.

<sup>83</sup> Ward T and Wolleb E (2010), *Ex-Post Evaluation of Cohesion Policy programmes 2000-06 co-financed by the ERDF (Objective 1 & 2)*, Synthesis Report, DG Regional Policy, Brussels; EPRC and EUROREG (2010) *op.cit*.

<sup>84</sup> Ward T and Wolleb E (2010), *op.cit*; Nordregio (2009), *The potential for Regional Policy Instruments (2007-13) to contribute to the Lisbon and Gotenborg objectives for Growth, Jobs and Sustainable Development*, Final Report to the European Commission, Directorate-General for Regional Policy, Brussels.

<sup>85</sup> Hübner D (2004), *Lisbon and cohesion policy: complementary objectives*, UNICE – competitiveness day, Speech 04/535, Brussels, 9 December 2004.

<sup>86</sup> Begg (2010), *op.cit*. See also Mancha-Navarro T and Garrido-Yserte R (2008), *op.cit*.

<sup>87</sup> Bradley J and Untiedt G (2011), *The future of Cohesion Policy in a time of Austerity*, International Evaluation Conference Vilnius, What’s New and What Works in the EU Cohesion Policy 2007–2013: Discoveries And Lessons For 2014–204, March 2011, Lithuania.

<sup>88</sup> Koschatzky K and Stahlecker T 2010, *A new Challenge for Regional Policy-Making in Europe? Chances and Risks of the Merger Between Cohesion and Innovation Policy*, European Planning Studies, 18(1), 7-25.

<sup>89</sup> Mendez C (2011), *op.cit*; see also Pädam S, Ehrlich U and Tenno K (2010), *The impact of EU Cohesion Policy on environmental sector sustainability in the Baltic states*, Baltic Journal of Economics, 10(1), 23-42.

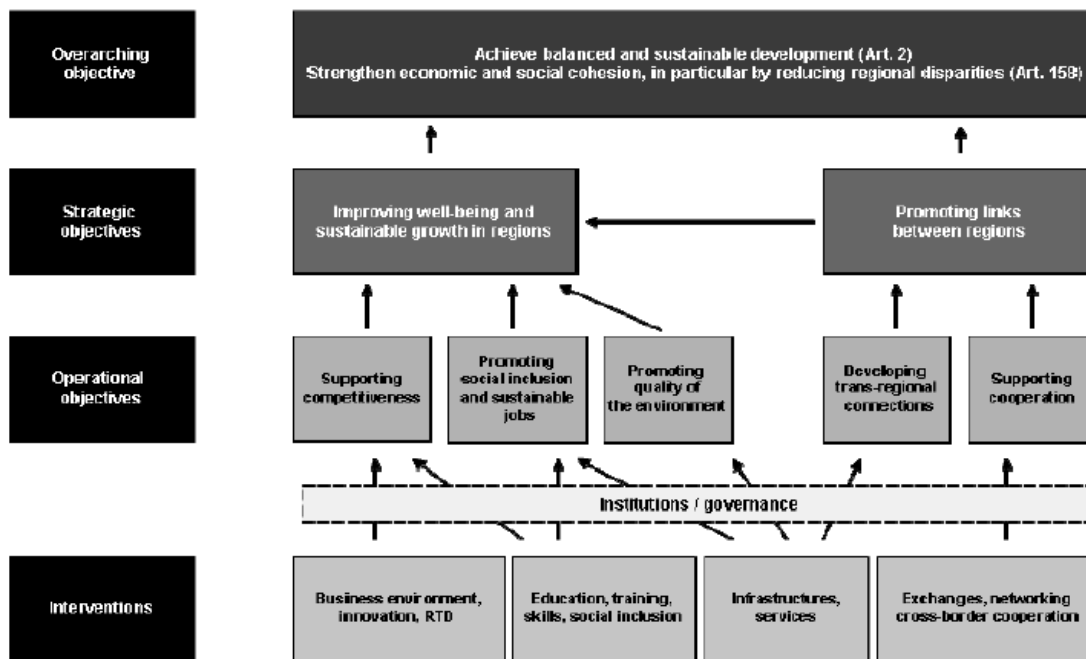
<sup>90</sup> This dual mandate is also explicitly acknowledged in the Europe 2020 strategy itself, which states that: ‘Cohesion Policy and its Structural Funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions’.

<sup>91</sup> European Commission (2011), *A budget for Europe 2020 - Part II: Policy fiches*, COM(2011)500 final of 29 June 2011, Brussels.

including a series of governance proposals (that will be examined in detail later). The Cohesion Report also acknowledges, albeit with less conviction, the addition of 'territorial' cohesion to the goals of economic and social cohesion and sets out several implications for the governance of Cohesion Policy (reviewed in the next section).

While these formal documents merely restate cohesion objectives in general terms, an informal contribution by DG Regio's Director-General acknowledged the widespread confusion and attempted to offer some clarification by distinguishing between overarching, strategic and operational objectives (Figure 4).<sup>92</sup> Yet, these objectives were subsequently reformulated in a more recent version of this 'Cohesion Policy logical diagram' to accommodate the Europe 2020 objectives of smart, sustainable and inclusive growth.<sup>93</sup>

**Figure 4: Cohesion Policy logical diagram**



Source: Ahner (2009)

From a Member State perspective, the need for alignment of Cohesion objectives with Europe 2020 objectives has widespread support. There are, however, concerns that this may undermine traditional cohesion goals. Several of the national responses to the consultation stressed that the primary and overarching objective must remain economic, social and territorial cohesion irrespective of the alignment with Europe 2020 (e.g. Cyprus, Czech Republic, France and Hungary). By contrast, the German contribution presented the relationship in positive sum terms.<sup>94</sup> Similarly, the Council Conclusions on the Fifth Cohesion Report underline that 'the objectives of the Europe 2020 Strategy can only be achieved in a sustainable manner if disparities between the levels of development in the

<sup>92</sup> Ahner D (2009), *op. cit.*

<sup>93</sup> Ahner D (2010), *Cohesion Policy: tackling the challenges of the EU and its regions*, Regional Studies Association Conference 'Regional Responses and Global Shifts: Actors, Institutions and Organisations', 24 May 2010, Pécs, Hungary.

<sup>94</sup> Stating that 'Cohesion Policy has made a substantial contribution to spreading growth and prosperity throughout the European Union and to reducing economic and social disparities and should continue to play an important role so that smart, sustainable and inclusive growth can be attained in line with the priorities of the Europe 2020 Strategy, whilst the reduction in regional disparities fosters a harmonious development in the European Union and its regions.'

European Union continue to be reduced,<sup>95</sup> in line with similar arguments that historically have been made about the relationship between Cohesion Policy and the single market.<sup>96</sup>

Much like the Cohesion Report, the Member States have not made any specific proposals to clarify, reformulate or change cohesion objectives in their position papers or in the latest Council Conclusions on the Commission's proposals.

The main ideas put forward in the broader academic and policy-related literature are threefold. First, it is necessary to clarify the distinction between efficiency and equity objectives.<sup>97</sup> For instance, it is argued that the objective of addressing underdevelopment in a growth-enhancing way be clearly distinguished from:<sup>98</sup>

- convergence policies;
- policies to address underdevelopment that have few community-wide growth-enhancing effects; and
- policies for social cohesion and meeting basic needs, that have few growth-enhancing properties.

An alternative perspective suggests focusing on three elements, including a territorial dimension and a stronger onus on cooperative relations:<sup>99</sup>

- economic cohesion, denoting the possibility for effective cooperation between economic agents, lowering transaction costs, and harmonising relationships between businesses and their institutional environment;
- social cohesion, eliminating barriers to horizontal and vertical mobility by helping to overcome differences in levels of education, career advancement and material status; and
- territorial cohesion, removing constraints on spatial development which restrict the achievement of social and economic cohesion, such as eliminating barriers to transport, connecting the major nodes of European and national space, and developing research and business networks.

Second, trade-offs need to be assessed and defined.<sup>100</sup> Concepts such as 'adaptive efficiency', 'innovation', 'productive efficiency' and 'growth enhancing development' require precise definition and their relationship with equity objectives should be assessed. On this basis, criteria could be derived to support the selection of appropriate interventions and provide a more useful tool for strategic programming.

Third, to avoid terminological confusion the current 'Convergence' and 'Regional Competitiveness and Employment' Objectives should be renamed and distinguished from the targets of support (i.e. lagging countries/regions, all other regions).<sup>101</sup> Although the Cohesion Report did not propose a classificatory scheme for the new policy architecture, the earlier orientations paper by Commissioner Samecki was clearly receptive to this idea (Box 2). Also in line with the Barca Report, the paper formulated the primary objective as enhancing competitiveness and employment in all regions, as under many national regional policies, as opposed to the traditional depiction of Cohesion Policy as a support instrument for less-developed regions.

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<sup>95</sup> Council of the European Union (2011) *op.cit.*

<sup>96</sup> Mendez C (2011), *Clouds, Clocks and Policy Dynamics: A Path, (Inter)Dependent Analysis of EU Cohesion Policy in Policy and Politics*, Fast track on-line article.

<sup>97</sup> Barca (2009), *op.cit.*

<sup>98</sup> Farole et al. (2011), *op.cit.*

<sup>99</sup> Bachtler and Gorzelak (2007), *op.cit.*

<sup>100</sup> Farole et al. (2011), *op.cit.*

<sup>101</sup> Samecki P (2009), *Orientation Paper On Future Cohesion Policy*, DG Regional Policy, December 2009.



## Box 2: DG Regio perspectives on Cohesion Policy rationale, mission and objectives

### Pamel Samecki Orientations Paper

**Rationale:** Cohesion Policy is a development policy aiming at promoting long-term sustainable growth and prosperity in European regions. It is also needed to exploit cross-border spill-overs, reinforce linkages between leading and lagging areas, steer investment towards EU priorities, mobilise territorial assets and potentials and address the territorial impacts generated by European integration.

**Mission:** to promote balanced and harmonious development, in particular by reducing social and economic disparities between regions.

**Objectives:** The existing objectives are appropriate but need to be clarified in the context of the challenges faced by the EU in the 21st century:

- to enhance competitiveness and employment at the regional level: all regions need to adjust to global challenges which often result in losses of competitiveness, employment and social cohesion;
- to facilitate growth in the lagging areas of the Union: to exploit their underutilised resources, contribute to overall EU growth and make take full advantage of the Single Market;
- to foster integration across borders: providing solutions to challenges that transcend administrative boundaries and taking advantage of the unexploited potential in border regions within the context of a single market.

**Broader EU objectives:** Cohesion Policy is an essential part of the economic policy framework of the Union alongside macroeconomic and micro-economic policies. For this reason, it must be strongly linked to the Single Market and key Community priorities, in particular those of the EU2020 strategy.

### Dirk Ahner Notre Europe Paper

**Rationale:** Cohesion Policy is a development policy targeted at people and places. It allows all EU citizens, wherever they live, to contribute to and benefit from the shared political project of a European space with a high degree of development, cohesion and solidarity.

**Objectives:** aims to improve the conditions for sustainable growth and jobs, well-being, and quality of the environment in the EU regions and strengthening the integration of regional economies.

**Means:** promoting investments in human, physical and social capital which help mobilising resources in regions where they are underutilised, removing bottleneck where productivity is already high, improving regions' capacity to adjust to a constantly changing environment, encouraging an innovative business environment, and supporting cooperation and exchanges.

**Broader EU Objectives:** It is fully in line with the medium to long-term view of the objectives defined under the Lisbon and the Gothenburg Agenda. In this way, Cohesion Policy can and indeed does also serve as an important lever (with positive incentives) for the achievement of the objectives under these priority agendas of the EU.

**Source:** Samecki (2009); Ahner (2009a)

## 5.4. Conclusions

Cohesion Policy objectives are multi-faceted, encompassing economic, social and territorial dimensions, a political commitment to solidarity and close links to broader EU objectives and policies. This has led to criticism of goal congestion and confusion, compounded by terminological disorder in the legislative texts and the distinct missions of different Structural and Cohesion Funds. While economic convergence is the most often used proxy for assessing policy objectives, it is regarded as being an unrealistic yardstick and, moreover, downplays the equally important social and territorial dimensions and the potential tensions between all three.

Some of the criticisms are perhaps unfair. Treaty objectives are by definition vague, succinct and high-level. And there is arguably a permissive consensus that they should remain so given the cross-cutting nature of the policy and the diverse interests and policy portfolios involved. Moreover, the precise meaning, implications and trade-offs involved in the pursuit of objectives should be clarified at lower operational levels.

The Commission has not proposed significant changes to the overarching objectives of Cohesion Policy or offered further conceptual precision on the matter. There is recognition of the addition of a territorial dimension in line with the new Treaty commitment, but the main message throughout the Fifth Cohesion report is that a closer alignment with Europe 2020 objectives is needed. Although DG Regio notes that the policy is already fully aligned with Europe 2020 (and the Lisbon predecessor) at the level of objectives, the proposals have raised anxiety amongst some Member States and policy stakeholders about traditional cohesion goals being undermined. What is often meant, though not always explicitly stated, is that Cohesion Policy expenditure should continue to focus on the less-developed regions and countries and that the types of interventions supported should be closely in line with their development needs.

The key question is therefore what does the alignment with Europe 2020 objectives and a reinforced territorial dimension mean for the governance and delivery of Cohesion Policy strategies. These issues are addressed in the next two chapters.

## 6. THE TERRITORIAL DIMENSION

### KEY FINDINGS

- A key strength of Cohesion Policy is its adaptability to the specific needs and characteristics of EU territories.
- The formalisation of territorial cohesion as a Treaty objective provides an opportunity to bolster the territorial dimension of Cohesion Policy.
- The Commission proposes to reinforce the urban agenda, encourage functional geographies, support areas facing specific geographical or demographic problems and enhance the strategic alignment between transnational cooperation and macro-regional strategies.
- There is particular resistance to a more prescriptive, top-down urban agenda.
- The territorial dimension could benefit from a greater strategic steer at EU level, potentially drawing on the recently agreed Territorial Agenda for 2020 to clarify and reinforce future territorial priorities for Cohesion Policy within the proposed Common Strategic Framework for all Structural Funds.

### 6.1. Current arrangements

The territorial dimension has always been a defining feature of Cohesion Policy. Beyond the new treaty commitment, the territorial dimension is clearly reflected in the policy architecture, the strategic content of programmes, programme governance arrangements and EU-level data generation and analysis activities.

The territorial dimension of the **policy architecture** is evident in the approach to spatial eligibility and targeting. The less-developed EU regions and countries are the main targets of support (primarily under the Convergence Objective), which receive over two-fifths of the Cohesion budget in accordance with their greater development needs. All other regions are eligible for assistance under the Regional Competitiveness and Employment Objective. It is the third and final strand of the policy architecture – the European Territorial Cooperation Objective – that is most commonly associated with the territorial dimension (especially from an EU spatial planning perspective) with its interregional, cross-border and transnational strands.

At the programming stage, the NSRF and OP **strategies** should include territorial priorities on the basis of an analysis of territorial needs. The Commission also recommended the inclusion of a specific priority axis for sustainable urban development, although it is mainly the responsibility of Member States and regions to decide how financial resources are concentrated on the themes necessary to address the territorial dimension. The principal aim of territorial cooperation is to promote common solutions across territorial borders in the domain of urban, rural and coastal development, the development of economic relations and the setting-up of small and medium-sized enterprises. More recent additions to the strategic tool-kit are the Baltic Sea and Danube Basin macro-regional strategies, two test cases for cooperation on a functional, macro-regional level.

The **governance** of programmes is primarily the responsibility of Member States at the appropriate territorial level and in accordance with the institutional system specific to each Member State. Programmes may voluntarily specify a list of cities for urban sub-delegations (i.e. to manage parts of programmes through global grants). Under the territorial cooperation objective, a specific management instrument was created in 2006 – the so-

called European Grouping of Territorial Cooperation (EGTC) – to facilitate cooperation and prevent discrimination that may arise from different legal arrangements over the border.

A final aspect of the territorial dimension concerns the generation of **territorial data, analysis and learning**. A key source is the ESPON 2013 Programme, managed by the European Observation Network for Territorial Development and Cohesion (ESPON). It aims to support policy development in relation to territorial cohesion by providing comparable information, evidence, analyses and scenarios on territorial dynamics across the EU. The programme has a budget of €47 million in 2007-13 to commission applied and targeted studies, to develop a scientific platform of data, to publicise the results and for technical assistance. Another rich source of territorial data is the Urban Audit. Initiated by DG Regio, the urban audit is the Commission's periodic collection of data on the quality of life in 300 large and medium-sized cities across the EU27.

## 6.2. Strengths and weaknesses

A key strength of Cohesion Policy is its adaptability to the specific needs and characteristics of EU territories. This has always been a defining asset of the policy, but it has become more visible in EU discourse as a result of the rise of the territorial cohesion objective and the need to justify the policy's contribution to broader EU objectives (i.e. the Lisbon agenda and its Europe 2020 successor). The added value lies in its ability to diagnose the territorial challenges and opportunities of European development and deliver EU objectives in a territorially-sensitive manner through a partnership-based framework of multilevel governance.

The flipside of adaptability is a lack of conceptual precision. An EU-wide evaluation found that the territorial dimension was explicit in two-thirds of programme strategies, but that the definitions and conceptualisations of territorial cohesion varied widely, often presented in rather vague or general terms, e.g. in terms of the reduction of regional/spatial disparities or as an objective to exploit regional potential (particularly in Convergence programmes), or in relation to inter-regional/national cooperation (Competitiveness programmes). This should come as no surprise given the failure to arrive at a common understanding of the territorial cohesion objective or its policy implications at EU level.

A more critical explanation is advanced in the Barca Report, which argues that the policy approach in many Member States remains grounded in an old 'compensatory' regional policy paradigm, based on financial transfers to firms to compensate for higher capital costs or public works conceived as a source of direct employment. Irrespective of the territorial rhetoric presented in policy strategies and documents, it argues that there is a lack of political will or institutional capacity to implement a place-based approach, involving the tailoring of public goods and services to specific contexts. Further, the lack of clarity and consensus on the policy model has limited the coordination between the territorial approach and sectoral strategies, at both Member State and EU levels. The report also criticises Cohesion Policy's social agenda on similar grounds, arguing that it lacks a territorialised approach even though the causes of social inclusion are highly context (place) dependent.

Part of the reason for the lack of visibility of a territorial dimension under the ESF is the discontinuation of EQUAL as an independent Community Initiative for local development. The mainstreaming of these interventions in national / regional programmes renders them less easily identifiable.<sup>102</sup> Similar implications arise from the decision to mainstream the ERDF-funded URBAN Community Initiative, which supported integrated development

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<sup>102</sup> DG EMPLOI (2011), *The territorial dimension in the ESF programmes – issues and options*, Ad-Hoc Group on Future of the ESF, Brussels.

projects at the local level. While the Commission has encouraged Member States and regions to prioritise urban projects with critical mass, a real partnership with territorial actors and an integrated approach encompassing economic, social and environmental dimensions, the intended mainstreaming of the urban agenda has been rather patchy across and within Member States.<sup>103</sup> This has been compounded by the 'non-Lisbon' coding of integrated, urban interventions in the new earmarking scheme, thus shifting policy priorities in other directions.

A further indication of the lack of a territorial dimension under the ESF is that it is much less regionalised than the ERDF in operational management terms. The only countries to implement regional ESF programmes are Italy, Germany, UK, Portugal, Czech Republic and Spain (although in mainland Portugal, Spain and Germany, there is also a national ESF programme). On the other hand, national ESF programmes tend to be delivered at the regional or local level.

As regards the ERDF and Cohesion Fund, it is striking that under the Convergence objective, which accounts for the majority of total funding, only 30 percent of resources are implemented through regional programmes.<sup>104</sup> National programmes in this objective tend to be centrally managed in a sectoral way by the respective line ministries, especially as they primarily focus on large-scale infrastructure investments. National line ministries can also exert a strong influence in some regional programmes (as in Greece, Hungary and Portugal), often employing a top-down approach that is insensitive to territorial specificities.

Territorial cooperation is often highlighted as one of the main areas of added value in Cohesion Policy. The economic efficiency rationale for EU level involvement is compelling, and it has strong support from European institutions, Member States, regions and other stakeholders.<sup>105</sup> The main concern is that the current investment in territorial cooperation is not working effectively.<sup>106</sup> The concrete benefits of territorial cooperation are not always clear, being very difficult to capture and quantify.<sup>107</sup> Part of the problem is that the programmes are not sufficiently focused on strategic projects with strong added value.<sup>108</sup> It is the complexity and restrictiveness of the implementation rules that form the basis for other criticisms:<sup>109</sup>

- the pre-allocation of funding to countries rather than (the best) projects undermines the effectiveness of the objective;
- the number of different 'cooperation spaces' is considered to be excessive;
- management is considered to be overly bureaucratic, particularly because participating organisations represent different levels of government in different jurisdictions, with varying resources, power and responsibilities;
- the EGTC instrument is not used widely and is not regarded as a solution to overcoming the administrative and regulatory differences between countries and regions;

<sup>103</sup> ADETEF et al. (2010), *Cohesion Policy Support For Local Development: Best Practice And Future Policy Options*, Final Report to DG Regio, Brussels.

<sup>104</sup> Barca (2009), *op.cit.*

<sup>105</sup> ECORYS, CPB and IFO (2008), *A Study on EU Spending*, Final Report to DG Budget, European Commission, Brussels.

<sup>106</sup> Bachtler J and Mendez C (2010), *The Reform of Cohesion Policy after 2013: More Concentration, Greater Performance and Better Governance?*, IQ-Net Thematic Paper, 26(2), European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>107</sup> Panteia et al. (2010), *Ex post evaluation of INTERREG 2000-2006*, Final Report to DG Regio, Brussels; DG Regio (2010) *European Territorial Cooperation, High Level Group Reflecting On Future Cohesion Policy*, DG REGIO, Brussels.

<sup>108</sup> Panteia et al. (2010), *op.cit.*

<sup>109</sup> Bachtler J and Mendez C (2010), *op.cit.*; Panteia et al. (2010), *op.cit.*; DG Regio (2010), *op.cit.*

- the INTERACT programme of support for management and implementation is considered to be overly complex and to pay insufficient attention to policy content issues of strategic import;
- linking Convergence/Competitiveness programmes with territorial cooperation programmes is difficult, given the considerable administrative effort required, and there are challenges with the alignment with external cross-border cooperation, which takes place under a separate policy (European Neighbourhood Policy) with different rules.

Macro-regional strategies are a novel experience in the EU and hold promising potential for territorial cooperation on a functional basis. The main positive features and achievements are the inclusive consultation process, the new policy principles, the flexible approach to membership, policy experimentalism and territorially coordinated policy interventions.<sup>110</sup> Among the most significant challenges are aligning the available funding with the Strategy, promoting the involvement of regional and private actors, and creating genuinely cooperative links.<sup>111</sup> A key challenge with respect to Cohesion Policy is how to achieve complementarity with Transnational programmes, since the strategy areas coincide or present a strong overlap.<sup>112</sup>

The statistical and knowledge base on territorial development issues has been considerably advanced by the work of ESPON, providing valuable contributions to key policy documents, including the EU Territorial Agenda and the Third, Fourth and Fifth Cohesion Reports. The main criticism is that the quality of the study reports is variable and that their conclusions and policy implications are not always formulated in a user-friendly manner.<sup>113</sup>

### 6.3. Proposals and counter-positions

In the Fifth Cohesion Report conclusions, the key proposals in relation to the territorial dimension are to support or reinforce the urban agenda, functional geographies, areas facing specific geographical or demographic problems and macro-regional strategies.

- **The role of cities:** an 'ambitious' urban agenda is required, involving a clearer identification of urban actions, resources and targeted cities. Urban authorities should also play a stronger role in the design and implementation of urban strategies.
- **Programme management adapted to functional areas:** Greater flexibility to organise OPs in accordance with the geography of development processes by, for instance, designing and managing programmes at the level of groups of towns or of river and sea basins.
- **Areas facing specific geographical or demographic problems:** Targeted provisions are required to address the problems of outermost regions, northernmost regions, island and cross-border and mountain regions, in line with Treaty objective on Territorial cohesion. Urban-rural linkages and social exclusion should also be addressed.
- **Macro-regional strategies:** should be reviewed and supported by a reinforced transnational strand, although funded mainly through national and regional programmes and other sources.

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<sup>110</sup> Mirwaldt K, McMaster I and Bachtler J (2010), *The Concept of Macro-Regions: Practice and Prospects*, "The power of the Baltic Sea macro-region", Baltic Sea Region Programme Conference, 30 November – 1 December 2010, Jyväskylä Paviljonki, Finland.

<sup>111</sup> European Commission (2011), *DG Regional Policy Policy AAR 2010*, DG Regio, Brussels

<sup>112</sup> Mirwaldt K, McMaster I and Bachtler J (2010), *op.cit.*

<sup>113</sup> Panteia *et al.* (2010), *op.cit.*

A broader perspective on the new territorial cohesion objective is provided in the analytical section of the Report. It does not identify concrete proposals as such, but it does suggest that more attention should be given to access to services, sustainable development, functional geographies and territorial analysis (Box 3).

### **Box 3: Territorial Cohesion themes in the Fifth Cohesion Report**

**Access to services of general economic interest:** including education, health care and commercial, financial and business services. In remote and sparsely populated regions, physical accessibility is a prominent concern. This is increasingly being overcome by e-services such as e-health, e-education, e-government and e-banking. In other regions, access may be hindered by cost or a lack of knowledge of the system or, among migrants, of the local language. In some cases, discrimination may also limit this access.

**The environment and sustainable development:** Environmental protection, climate change and renewable energy production have a strong territorial dimension. The territorial dimension of environmental protection, which ranges from air quality and waste water treatment to protected habitats and species under Natura 2000 and the provision of ecosystem services, is increasingly recognised. The growing threat of climate change and the political goal to radically increase the share of renewable energy in the EU underlines the fact that policies at different levels will need to be coordinated to respond to these various threats and opportunities in an efficient and effective way and to avoid them counteracting each other.

**Functional geographies:** the pursuit of territorial cohesion implies a more functional and flexible approach. Depending on the issue, the appropriate geographical dimension ranges from a macro region, such as the Baltic Sea or the Danube region, to metropolitan and cross-border regions or a group of rural areas and market towns. Such a flexible geography can better capture the positive and negative externalities of concentration, improve connections and facilitate cooperation and so be more effective in furthering territorial cohesion.

**Territorial analysis:** There is need for better knowledge of the EU in territorial terms and more robust ways of estimating the territorial impact of EU policies. Eurostat, the Joint Research Centre (JRC) and the European Environmental Agency (EEA) have significantly increased the data available for more finely defined geographical areas. The Urban Audit and the Urban Atlas provide more indicators for cities, Eurostat and the National Statistical Institutes have increased data at NUTS 3 level, and the JRC and EEA are providing more grid data and developing more detailed models. ESPON is making use of these new data and undertaking territorial trend analyses, impact assessments and prospective studies.

**Source:** European Commission (2010a)

These timid pronouncements on territorial cohesion will do little to appease the ongoing requests by academics, policy stakeholders and EU institutions for more conceptual and operational precision.

An important contribution in this respect is the EU Territorial Agenda for 2020, agreed at the EU Informal Ministerial Meeting of Ministers responsible for Spatial Planning and Territorial Development on 10 May 2011 under the Hungarian Presidency (Box 4). It underlines that all EU policies should take territorial cohesion into consideration, while identifying Cohesion Policy as a key framework for delivering the agenda. However, like the previous Territorial Agenda agreed in 2007, it is not a legally binding framework as such, but rather 'an action oriented policy framework' providing 'strategic orientations' to support the new Treaty goal of territorial cohesion.

#### **Box 4: The Territorial Agenda for 2020**

The objective of the TA2020 is 'to provide strategic orientations for territorial development, fostering integration of territorial dimension within different policies at all governance levels and to ensure implementation of the Europe 2020 Strategy according to territorial cohesion principles.' The key territorial priorities identified to meet the EU's territorial challenges are:

**1. Promoting polycentric and balanced territorial development:** is a key element of territorial cohesion to foster territorial competitiveness of the EU. Cities should form innovative networks to improve their global competitiveness and promote sustainable development. Polycentric development is necessary at the macro-regional, cross-border and national and regional levels. Polarization between capitals, metropolitan areas and medium sized towns should be avoided and policy should contribute to reducing territorial polarisation and regional disparities by addressing bottlenecks to growth in line with Europe 2020 Strategy.

**2. Encouraging integrated development in cities, rural and specific areas:** cities are seen as motors of smart, sustainable and inclusive development and attractive places to live, work, visit and invest in. Integrated and multilevel approaches in urban development are needed. Cities should focus on functional regions where appropriate. Rural areas should take develop their unique characteristics. Urban-rural interdependence should be recognised through integrated governance and planning based on partnership. Coastal zones, islands, including island states, mountainous areas, plains, river valleys and lake basins and other types of territories have special features, or suffer from severe handicaps, while outermost regions have specific constraints. These potentials can be unleashed and problems tackled in an integrated way.

**3. Territorial integration in cross-border and transnational functional regions:** is an important factor in fostering global competitiveness, utilising valuable natural, landscape and cultural heritage, city networks and labour markets divided by borders. Attention should be also be paid to external EU borders. Cross-border and transnational functional regions may require proper policy coordination between different countries. The focus should be on developments and results of real cross-border or transnational relevance. European Territorial Cooperation should be better embedded within national, regional and local development strategies.

**4. Ensuring global competitiveness of the regions based on strong local economies:** the use of social capital, territorial assets, and the development of innovation and smart specialisation strategies in a place-based approach can play a key role. The global and local strands are mutually reinforcing. Integration of local endowments, characteristics and traditions into the global economy is important in strengthening local responses and reducing vulnerability to external forces. It is important to preserve and improve the innovation capacity of all regions. Diversification can decrease local vulnerability.

**5. Improving territorial connectivity for individuals, communities and enterprises:** fair and affordable accessibility to services of general interest are essential for territorial cohesion. Emphasis is placed on access to road, rail, waterway and air transport, broadband and trans-European energy and transport networks. Inter-modal transport solutions are important within city-regions; as are secondary networks at regional and local level.

**6. Managing and connecting ecological, landscape and cultural values of regions:** well-functioning ecological systems and the protection and enhancement of cultural and natural heritage are important conditions for sustainable development. Joint risk management is particularly important, taking geographical specificities into account. The integration of ecological systems and areas protected for their natural values into green



infrastructure networks at all levels is supported. The protection, rehabilitation and utilization of heritage through a place-based approach is of key importance.

**Source:** Territorial Agenda for 2020

More recently, the Commission has made a number of proposals to promote the use of the EGTC instrument in the next period.<sup>114</sup>

- First, several targeted regulatory modifications should be introduced to allow EGTCs to be created between public bodies from only one Member State and from non-Member States, and to expedite EGTC set up in the absence of reasoned objections by national authorities; to extend the purpose of an EGTC to cover strategy and the planning and management of regional and local concerns in line with EU policies; and to introduce an insurance-based solution for setting-up of EGTCs with limited liability.
- Second, the Commission will seek to clarify that the convention establishing an EGTC must state clearly under which laws it will operate, that private bodies submitted to public procurement rules may be members of EGTCs and that the EGTC's statutes must clearly set out the rules under which it will operate.
- Third, the use of EGTCs in other policies will be encouraged - including macro-regional strategies and inter-regional cooperation projects outside ETC, environmental policy, research collaboration, education and culture etc - and problems linked to cross-border public procurement will be resolved.
- Last, to diffuse information on the implementation of the EGTC Regulation in the Member States more widely, to collaborate pro-actively with the Committee of the Regions on the EGTC Platform, and to encourage sharing of know-how, networking and regular exchange of views.

Returning to the Fifth Cohesion Report conclusions, national policy-maker reactions to some of the proposals were provided in the High-Level Group on the future of Cohesion Policy.<sup>115</sup>

Beginning with the local/urban development agenda, the idea of introducing a more precise regulatory framework, potentially including minimum earmarked shares of funding, received a lukewarm response. Some policy-makers consider that stricter regulatory requirements are necessary to guarantee a more systematic approach, while others would prefer flexibility in identifying target cities and financial allocations in line with the present arrangements. Related, proposals for EU-level 'zoning' - designation of minimum and maximum areas' population size for targeting interventions - were universally rejected. While there are lessons that could be learned from the more prescriptive rural development (LEADER) approach, on which the Commission's ideas appear to be grounded, national experts noted significant implementation difficulties with this model in practice and did not support its transfer *en masse* to the ERDF. A more promising idea could be the adoption of single strategic framework for local development, although it was noted that the harmonisation of delivery rules for all Funds (ERDF, CF, ESF, EARDF and EFF) was more urgent, especially to facilitate an integrated approach.

At the political level, similar views were expressed in the official responses to the Fifth Cohesion Report. While a number of countries argued that the urban agenda merits special

<sup>114</sup> European Commission (2011), *The application of the Regulation (EC) No 1082/2006 on a European Grouping of Territorial Cooperation (EGTC)*, Report from the Commission to the European Parliament and the Council, COM(2011) 462 final, Brussels.

<sup>115</sup> DG Regio (2010), *Report of Sixth Meeting*, High Level Group Reflecting on Future Cohesion Policy, 23-24 September 2010, Brussels; DG Regio (2010), *Report of Seventh Meeting*, High Level Group Reflecting On Future Cohesion Policy, 2-3 December 2010, Brussels.

attention (Austria, Belgium, Latvia), particularly the role of cities and city regions as engines of growth, creativity and innovation (Netherlands, Sweden), others underlined that this is already possible under existing provisions (Denmark, Ireland, Sweden) and that the priority given to the theme will very much depend on the domestic context (Bulgaria, Estonia, Latvia). In this respect, several countries rejected the idea of setting earmarking thresholds or requiring global grants to be set up (Belgium, Denmark, France, Germany, Ireland, Italy). Other issues that may merit closer attention in the future are how to reinforce the integrated approach in urban policies (France, Hungary, Slovak Republic) or improve linkages to rural areas (Hungary, Poland, Slovak Republic, Sweden).

In contrast to the sceptical reactions of the Member States, the recommendations of a recent evaluation commissioned by DG Regio are more in line with the top-down, prescriptive orientations of the Fifth Cohesion Report (Box 5).

#### **Box 5: A new local development strategy for Cohesion Policy**

- Every programme should contain a dedicated local development priority targeted at social and economic urban development and local economic development in small and medium-sized towns and their fringes, rather than focusing on rural-urban relationships.
- A specific local development strand should be required in the territorial cooperation objective, targeted at the territorial areas designated in the Lisbon Treaty.
- A minimum 5% compulsory financial allocation should be dedicated to local development in each OP combined with an indicative threshold of "at least 1%" for local development outside urban areas.
- Population/area eligibility criteria should be no less than 30,000 inhabitants without an upper limit, but the operational strategy should target areas between 30,000 and 100,000 inhabitants.
- Strategies should be defined by local groups, but overall management responsibility assigned to the regional level.
- An integrated approach should be adopted involving different EU-funds and other domestic funds.
- Funding should be provided for long-term capacity building
- A development phase should be required with a probationary period of 6-12 months and involving an external assessment of the composition of the partnership and quality of the action plan
- An EU-level support unit should assist in the implementation of the measures, and secure networking and capitalisation activities.

**Source:** ADETEF *et al.* (2010) Cohesion Policy Support For Local Development: Best Practice And Future Policy Options, Final Report to DG Regio, Brussels.

A second territorial theme discussed in the High-Level Group on the future of Cohesion Policy was the European Territorial Cooperation Objective. Three main issues dominated the discussions. First, the need for more strategic focus was recognised, but some expressed scepticism about the addition of new goals or subordination to Europe 2020 objectives. Second, more strategic alignment is required with mainstream programmes, external cross-border cooperation and macro-regional strategies. The main concern with respect to macro-regional strategies is that they should not replace the transnational strand as this would exclude some Member States and regions or encourage the creation of artificial macro-regions. Third, simplification of administrative requirements is required,

arguably more so than in the mainstream programmes because of the additional challenges arising from the multi-regional/national nature of territorial cooperation. On the other hand, there were also calls for more detailed regulatory provisions on territorial cooperation in the regulation, including EU-wide eligibility conditions and a more active Commission role through guidance and neutral arbitration.

The urgency of reviewing and simplifying the implementation rules and structures was particularly evident in the national positions on the Fifth Cohesion Report (Austria, Belgium, Cyprus, Finland, Greece, Hungary, Ireland, Italy, Latvia, Luxembourg, Netherlands, Poland). Many countries called for harmonised eligibility rules (Cyprus, Finland, France, Greece, Hungary, Italy, Latvia, Sweden), and some would welcome the establishment of a specific regulation on territorial cooperation (Austria, Spain). Most of the responses did not offer concrete suggestions for improving the strategic impact or effectiveness of territorial cooperation, beyond better coordination with other programmes (Belgium, Netherlands, Poland, Sweden) or thematic concentration (Netherlands, Poland), although the ex-post evaluation of the 2000-06 period offers important lessons for the post-2013 period (Box 6).

#### **Box 6: Post-2013 recommendations for territorial cooperation**

- Cross-border and transnational co-operation should enhance the territorial integration of their respective programme areas by eliminating or alleviating obstacles which cause a fragmentation of relations between areas located in different countries and through establishing functional relations and enlarging their geographical scale and intensity.
- Cross-border and transnational programmes should establish a closer co-operation and coordination with other EU-interventions operating in the same territory. The Commission should support the development of macro-regional EU-strategies, with territorial cooperation programmes taking a lead role.
- ESPON and INTERACT support should help to develop a better understanding of the factors that enhance the territorial cohesion of the Community territory and an integration of cross-border and transnational areas (ESPON) and through enhancing the emergence of a co-operative dimension for territorial development and governance in the EU (INTERACT).
- The current definition of eligible areas should be maintained in the future, as well as the current delimitation of programme areas for cross-border and transnational co-operation. Administrative NUTS-area classifications should be used for defining programme areas as convincing alternative methods do not yet exist.
- Future programmes should avoid implementing overly broad / unfocussed strategies and avoid themes which are not relevant to project-level demand or wider territorial impact. This requires programmes to address issues of real cross-border or transnational relevance. Programme partnerships should be required to select only a few strategic issues, which demonstrate a clear potential for furthering cross-border and transnational integration.
- The content of a future inter-regional co-operation programme should be developed closely in line with the needs of the primary co-operation stakeholders (mainly regions and local authorities), while including aspects which are of strategic EU interest (Europe 2020). A clearer distinction should be drawn between inter-regional and transnational co-operation to avoid overlaps and duplication.
- Future programmes should be encouraged to combine management functions by using European Groupings of Territorial Cooperation (EGTC) with targeted assistance and

exchange of experiences provide by INTERACT II after 2013.

- The Commission should define clear expectations with respect to future project appraisal / selection processes and the nature of operations (i.e. only projects involving co-operation among partners from different countries). It is recommended that crossborder and in particular transnational programmes (but also inter-regional ones) should seek to ensure that projects become durable or even self-sustaining after the end of EU-funding.
- Consideration should be given to future territorial co-operation allocation being made to programmes rather than Member States. A similar combination of socio-economic criteria that are currently being applied for determining the Member State envelopes would need to be used.

**Source:** Panteia *et al.* (2010)

The macro-regional approach is considered to be an important expression of territorial cohesion (Austria, Estonia, Czech Republic, Latvia, Slovak Republic, Sweden, UK). However, most national position papers consider that more evidence is needed of the benefits (Belgium, Finland, France, Germany, Hungary, Italy, Latvia, Slovak Republic, UK); that their relevance is limited to specific areas (Belgium, France, Luxembourg, UK); and that there should be no new instruments, funding or implementation structures (Belgium, Czech Republic, Hungary, Italy, Latvia). And while there may be lessons for improving transnational cooperation, some responses underlined that macro-regions should not lessen the significance of the existing transnational strand of the European Territorial Cooperation Objective (Italy, Luxembourg, UK).

The idea of more flexible management arrangement to support the targeting of functional areas received limited support; the creation of new management structures is regarded as being expensive or not feasible without political responsibilities (Austria, Germany, Hungary, Latvia, Poland).

More generally, there is agreement among the Member States that the overarching objective of territorial cohesion should not be imposed from above in a dogmatic manner through narrowly-defined territorial priorities. As the Presidency conclusions on the Fifth Cohesion Report put it:

Territorial cohesion should be taken into account in programming and implementation, as a comprehensive and integrated concept, leaving it to the Member States at the appropriate level, to define the most suitable level of intervention, that takes due account of differences among territories with a view to promoting the harmonious and balanced development of the European Union.

The risk is that territorial cohesion will not be systematically addressed in the post-2013 strategies. In the absence of a firm EU commitment to the operationalisation of the concept, solutions could include the publication of a toolkit or guidance at EU level (as proposed by Hungary), or further clarification through the EU's Territorial Agenda for 2020 (France). The ongoing work of ESPON could be useful in this respect. However, on the basis of the 2007-13 applied and targeted analyses reviewed for this study (Annex 1), it is clear that, while ESPON studies have provided a rich source of data on the nature of territorial problems in the EU, the policy implications proposed tend to be rather bland and generic. Recognition of this by the Member States is evident in the recent Presidency Conclusions, calling for improvements in the policy relevance/utility of ESPON outputs:<sup>116</sup>

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<sup>116</sup> Annex to the Presidency Conclusions of the informal meeting of Ministers responsible for spatial planning and territorial development on 19 May 2011.

- keep the Members States and Partner States through the Monitoring Committee, in cooperation with the European Commission, in the deciding position;
- upgrade the external feedback, combining policy advice and scientific quality assurance;
- ensure stronger emphasis on the use of ESPON results from applied research and targeted analyses in policy development, supported by analytical responses;
- provide for an enhancement of the internal scientific and communication capacity of ESPON in order to process scientific results more effectively towards policy-makers.

Similarly, the policy implications of the territorial dimension of Cohesion Policy are rarely assessed in the literature. By contrast, an article by Farole *et al.* (2011) has thoughtful ideas on the territorial dimension. Recognising that one size does not fit all but that guidelines are still needed, it suggests that different types of territories should be identified and positioned within their technology frontier/product spaces as a basis for assessing the utility of different interventions while remaining sensitive to the aims and pitfalls of policy interventions addressing the multiple objectives of Cohesion Policy (Table 13).

**Table 13: Towards a place-tailored Cohesion Policy**

Type of region	Likely location v technological frontier and agglomeration potential	Nature of interventions to support EU cohesion
Core metro regions	<ul style="list-style-type: none"> <li>• On / near technology frontier</li> <li>• Strong agglomeration force</li> </ul>	<ul style="list-style-type: none"> <li>• Growth promotion (via Lisbon Agenda)</li> <li>• Facilitating ongoing adjustment and innovation along the frontier</li> </ul>
Regions adjacent to core metro regions and secondary metro regions in the EU's core	<ul style="list-style-type: none"> <li>• Near the technology frontier</li> <li>• Moderate potential to realise agglomerations</li> </ul>	<ul style="list-style-type: none"> <li>• Promotion of endogenous innovation development</li> <li>• Promotion of integration with core metro regions</li> <li>• Improving agglomeration potential (institutional deepening – e.g. encouraging venture capital, business services, R&amp;D institutions, etc.)</li> <li>• Essentially, these are “extended metropolitan basin” policies</li> </ul>
Metro regions (top of urban hierarchy) in lagging and peripheral regions	<ul style="list-style-type: none"> <li>• Moderately far from the technology frontier</li> <li>• Moderate potential to realise agglomerations in distinctive technology fields</li> <li>• Reasonable home market effect to promote scale</li> </ul>	<ul style="list-style-type: none"> <li>• Institutional “moving up” – e.g. encouraging venture capital, business services, R&amp;D institutions, etc.) – national level</li> <li>• Institutional modernisation and deepening – regional level</li> <li>• Possible targeted sectoral policies</li> </ul>
Underdeveloped or peripheral, semi-rural regions	<ul style="list-style-type: none"> <li>• Far from the technology frontier</li> <li>• Limited potential to realise</li> </ul>	<ul style="list-style-type: none"> <li>• Public goods provision – to facilitate development and retention of human capital and</li> </ul>

	<p>innovative agglomerations</p> <ul style="list-style-type: none"> <li>• Limited home market effect for scale</li> <li>• Limited potential to generate significant productive activity in the short term</li> </ul>	<p>home market</p> <ul style="list-style-type: none"> <li>• Productivity-enhancing interventions at the sector / firm level – tailored to exploiting local sources of comparative advantage</li> <li>• Infrastructure connectivity – to link with leading regions and become attractive to delocalising production activities</li> <li>• Institutional modernisation, especially for openness and coordination</li> <li>• Attract branch plants and “de-agglomerating” basic labour intensive activities</li> </ul>
<p>Sparsely populated rural and peripheral regions</p>	<ul style="list-style-type: none"> <li>• Far from the technology frontier</li> <li>• Limited potential to realise innovative agglomerations</li> <li>• Limited home market effect for scale</li> <li>• Limited potential to generate significant productive activity in the short term</li> </ul>	<ul style="list-style-type: none"> <li>• Public goods provision <ul style="list-style-type: none"> <li>– Quality (for equity purposes)</li> <li>– Mobility-promoting (e.g. education, housing policies that avoid mobility restrictions)</li> <li>– Maintain limited home market effects</li> </ul> </li> <li>• Promoting social enterprise / social entrepreneurship</li> <li>• Institutional modernisation and deepening for social openness</li> <li>• Innovation in niche areas suitable to sparsely populated regions</li> </ul> <p>Increasing education levels and connectedness to metropolitan regions for knowledge transfer and opportunity recognition</p>

Source: Farole *et al.* (2011)

## 6.4. Conclusions

A key strength of Cohesion Policy is its adaptability to the specific needs and characteristics of EU territories. There are, however, doubts that this asset is being systematically exploited across EU Member States and regions. The conceptual looseness surrounding the territorial dimension has meant that it was often treated vaguely in the 2007-13 strategies, compounded by the lack of political commitment and institutional capacity to implement a genuinely territorial approach that is sensitive to place-based opportunities and truly integrated in character.

The formalisation of territorial cohesion as a Treaty objective provides an opportunity to bolster the territorial dimension of Cohesion Policy. The Commission's proposals do not break new ground, but rather they seek to reinforce existing priorities and practice by strengthening the urban agenda, encouraging functional geographies, supporting areas facing specific geographical or demographic problems and enhancing the strategic alignment between transnational cooperation and macro-regional strategies.

Unsurprisingly, there is resistance to some of the more prescriptive elements, in particular the idea of earmarking minimum shares of funding to local and urban development, requiring sub-delegation of authority, or EU-level designation of target areas. The definition of a genuine EU strategic framework for local and urban development could be a more feasible option and there is support for harmonized delivery rules across funds to facilitate an integrated approach at local level.

Also in need of a more strategically focused approach is the territorial dimension of cooperation. As underlined in the recent ex-post evaluation, it is necessary to focus on priorities and projects of real transnational and cross border relevance on the basis of sound territorial analysis to achieve impact. The simplification of administrative requirements for territorial cooperation is a top priority, but so too is the need for greater precision and harmonization of rules at EU-level to address the legal challenges arising from variations in implementation approaches by partners in different jurisdictions. Greater coherence with mainstream, external cross-border cooperation and macro-regional strategies is needed, but there are concerns that the latter should not reduce the importance of the existing transnational strand of territorial cooperation and strong resistance to the creation of new funds, legislation or institutions. It should be noted that the added value of the existing macro-regional strategies is not yet fully known, as the Commission acknowledges in the Fifth Cohesion Report.

More generally, the territorial dimension in all its facets could profit from a greater strategic steer from the EU. The territorial dimension was a secondary add-on to the previous set of Community Strategic Guidelines. Perhaps the recently agreed Territorial Agenda for 2020 could contribute to clarifying and reinforcing the future territorial priorities for Cohesion Policy in the future Common Strategic Framework for all Structural Funds. Similarly, ESPON needs to make a more pro-active contribution in identifying and proposing cross-cutting and place-specific solutions to territorial problems.





## 7. STRATEGIC COHERENCE AND PROGRAMMING

### KEY FINDINGS

- The Commission has proposed introducing a Common Strategic Framework for all Structural Funds at EU level, binding national Partnership Contracts and greater thematic concentration on Europe 2020 priorities.
- Strategic coherence could be improved with a Common Strategic Framework, although it remains to be seen how it will address the territorial dimension and there is a case for involving the Council of Ministers and the European Parliament in the approval process.
- Binding national Partnership Contracts could resolve some of the weakness in the strategic effectiveness of NSRFs, but there are concerns about added administrative burdens and costs.
- On thematic concentration, an appropriate balance needs to be struck between a top-down approach and a bottom-up approach based on territorial needs, potentially involving more flexibility in how to pursue thematic objectives and on the policy-mix of interventions.
- Thematic concentration should not detract from integrated policy delivery at multiple territorial levels, enabling coordination and synergies between EU and national policies and between sectoral policies.

### 7.1. Current arrangements

Central to the 'strategic approach' introduced in the 2007-13 period was a new planning system involving three strategic layers. The aim was to link EU priorities (as set out in Community Strategic Guidelines) to national priorities (through a National Strategic Reference Framework), which were then to be taken into account in the design and implementation of Operational Programmes:

- **Community Strategic Guidelines (CSG)**, proposed by the Commission and agreed by the Council, specified an indicative framework for intervention of the Funds (ERDF, CF and ESF) based on the EU's growth and jobs objectives. The CSG comprised three guidelines, a more detailed list of sub-guidelines and actions. A separate section of the CSG included a 'territorial dimension', mainly focusing on specific territorial features and territorial cooperation.
- On the basis of the CSG, **National Strategic Reference Frameworks (NSRFs)** were drawn up by Member States setting out the broad priorities for the use of the Funds in each country. The main required elements were an outline of the strategy and its justification, a list of OPs, a financing plan and arrangements for coordination with other EU funds. The Commission took note of the NSRF strategy and the priority themes, along with a formal decision on the list of OPs and their financial allocations.<sup>117</sup>
- **Operational Programmes (OPs)** are regional, multi-regional or national development strategies, drawn up by Member State authorities and negotiated with and adopted by the Commission, which set out the priorities to be carried out by a single Fund.<sup>118</sup> The main required elements were: a socio-economic analysis, a strategy with priority axes

<sup>117</sup> For the Convergence Objective only, the decision covered compliance with the additionality principle and actions for improving administrative efficiency.

<sup>118</sup> Unlike previous period, the ERDF and CF could be integrated into a single programme.

(justified on the basis of the CSG and NSRF) and quantified targets, an indicative breakdown of categories of expenditure, a financing plan and implementing provisions.

In operational terms, the **earmarking** instrument was the main tool used to ensure thematic concentration on Lisbon objectives. This required a set share of total EU funding to be allocated to Lisbon-related thematic priorities and categories of expenditure (Table 14), 60 percent under the Convergence Objective and 75 under the Competitiveness Objective. The earmarking requirement was voluntary for the newly acceded Member States (EU12), although they were encouraged to achieve at least 50 percent.

**Table 14: Priority themes for Structural Funds support \*, 2007-13**

Priority themes (earmarking)	Priority themes (not earmarked)
R&TD + innovation and entrepreneurship	Transport (RCE Objective)
Information society	Environmental protection and risk prevention (except for clean urban transport)
Transport (partly, Convergence only)	Tourism
Energy (partly)	Culture
Access to employment and sustainability	Urban and rural regeneration
Social inclusion	Social infrastructure
Human capital	Social partnership mobilisation
	Institutional capacity
	Outermost regions

\* The Priority themes are sub-divided into 86 categories of expenditure. Under the Convergence Objective, 47 categories are classified as being Lisbon-related, compared to a more restricted list of 32 categories under the Regional Competitiveness and Employment Objective.

Source: Mendez et al. (2011)

## 7.2. Strengths and weaknesses

The new planning framework has played an important role in reinforcing the strategic dimension of Cohesion Policy, strengthening the integration and linkages between EU, national and regional objectives and priorities. The CSG and NSRF required an explicit 'Lisbonisation' of strategies in all EU27 Member States,<sup>119</sup> in many cases involving the preparation of coherent, comprehensive, long-term national development strategies for the first time. A close alignment with EU priorities was also achieved in the operational programmes, with sufficient flexibility to follow different 'paths to Lisbon' in accordance with domestic circumstances and choices.<sup>120</sup> The most easily quantifiable effect was a significant shift in financial allocations towards key Lisbon priorities, particularly on R&D and innovation spending and away from basic infrastructure.<sup>121</sup> In this respect, the

<sup>119</sup> Mendez (2011), *op.cit.*; Polverari L, McMaster I, Gross F, Bachtler J, Ferry M and Yuill D (2006), *Strategic Planning for Structural Funds in 2007-2013*, IQ-Net Paper, 18(2), European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>120</sup> Nordregio (2009), *Potential for EU Structural Funds to contribute to the Lisbon and Göteborg objectives*, DG Regio, Brussels.

<sup>121</sup> European Commission (2011), *Innovation Union Competitiveness report: 2011 Edition*, DG for Research and Innovation, Luxembourg; Publications Office of the European Union; European Commission (2007) Commission Communication, Member States and Regions delivering the Lisbon strategy for growth and jobs through EU cohesion policy, 2007-2013, COM(2007) 798, Brussels; European Commission (2007) Commission Staff

earmarking instrument provided a useful tool to steer programmes toward EU objectives in a transparent manner and to verify that financial means were attached to the priorities.<sup>122</sup>

Implementation arrangements were also influenced by the new strategic approach.<sup>123</sup> In some countries, national programmes were merged and organised according to Lisbon themes, and systems of shared management responsibility and cooperation between several Ministries were established. Strengthened horizontal integration of policy fields has been further encouraged through the creation of new formal coordination bodies and inter-ministerial working groups and increased dialogue between Cohesion Policy officials and those responsible for NRPs as a result of the strategic reporting requirements. There have been widespread changes to project generation, appraisal and selection systems, including specific measures to increase thematic targeting. The strategic framework of the Lisbon Agenda also prompted renewed efforts to increase the involvement of the private sector not only on advisory bodies and Monitoring Committees but also as active participants in the implementation process. The thematic shifts in spending and the need to monitor funding at both OP and NSRF levels led to new monitoring indicators being introduced and a greater focus on Lisbon-related priorities and interventions in evaluation plans.<sup>124</sup>

These positive features need to be set against a number of weaknesses in the design and implementation of the strategic approach. While the Community Strategic Guidelines and the regulations aimed to achieve strategic concentration, the areas covered were broadened during the negotiation of these documents. This meant that it was possible to design NSRFs broadly with less strategic focus than originally intended by the Commission. A high degree of strategic generality was arguably inevitable in the NSRFs of large countries with diverse territorial situations spanning the different categories of eligibility status, while in small countries with very few programmes the requirement to draft a national strategy duplicated much of the work of the OPs.<sup>125</sup> The nature of the domestic political system also impacted on the strategic utility of the document, particularly in some federal or regionalised countries where the strategies were assembled on the basis of autonomously devised regional inputs rather than through the development of a unified, nationwide vision.

As regards the linkages with the overarching Lisbon agenda, the consistency between NSRFs and NRPs was often unclear. The documents contained only broad references to shared goals and much less information on how Structural Funds programmes should contribute to the NRPs and vice versa.<sup>126</sup>

Much like the NSRFs, Operational Programme priorities were often broad, encompassing a wide array of eligible expenditure categories,<sup>127</sup> and they frequently lacked clearly specified and verifiable objectives or a justification of how planned interventions should achieve them.<sup>128</sup> The new strategic approach had limited impact where the Lisbon priorities were in

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Working Document Regions Delivering Innovation Through Cohesion Policy, Brussels, SEC(2007) 1547, Brussels.

<sup>122</sup> CSIL (2010) *op.cit.*

<sup>123</sup> Ferry M, Gross F, Bachtler J and McMaster I (2007), *Turning strategies into projects: the implementation of 2007-13 Structural Funds programmes*, IQ-Net Thematic Paper 20(2), European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>124</sup> Polverari L, Mendez C, Gross F and Bachtler J (2007), *Making sense of European Cohesion Policy: 2007-13 on-going evaluation and monitoring arrangements*, IQ-Net Thematic Paper 21(2), European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>125</sup> CSIL (2010) *op.cit.*

<sup>126</sup> European Commission (2006), *More and Better Jobs: Delivering the Priorities of the European Employment Strategy*, Joint Employment Report 2005/2006, European Commission, Brussels; Polverari *et al.* (2006) *op.cit.*

<sup>127</sup> DG Regio (2010a), High Level Group Reflecting on Future Cohesion Policy: *Increased Coherence in the Delivery of EU Strategic Priorities*, Meeting no. 3, 2 January 2010, Brussels.

<sup>128</sup> Barca (2009), *op.cit.*

line with the previous programmes or domestic priorities,<sup>129</sup> especially in more developed countries and regions.<sup>130</sup>

The earmarking instrument has been criticised for being too top-down, for placing too much emphasis on financial inputs rather than the outputs or outcomes of intervention, and for being administratively demanding and inflexible.<sup>131</sup> The instrument's effect on spending patterns has also been questioned. In particular, the extent to which the shift towards innovation in enterprise support reflects a genuine change in the types of measure funded or merely the adoption of a loose definition of innovation remains uncertain.<sup>132</sup>

Further factors hampering the adoption and implementation of the strategic approach are connected to other legislative requirements. First, the administrative burden associated with financial management, audit and control rules is widely acknowledged to have detracted attention and resources from the delivery of strategic goals. Second, programmes are often designed and managed to prioritise financial absorption and meet spending deadlines rather than EU policy objectives, and do not provide sufficient incentives to use resources effectively.<sup>133</sup> Third, the decision to separate the rural development from the general framework of the Structural Funds in 2007-13 has hindered the adoption of an integrated approach in rural, urban and other areas.<sup>134</sup> Similar criticisms are made about the separation of the ESF from the ERDF as a result of the requirement for mono-fund programmes.

### 7.3. Proposals and counter-positions

In the Budget 2020 Communication and Fifth Cohesion Report, the Commission has proposed changes to the strategic planning framework mainly to ensure a greater focus on the priorities of the Lisbon agenda's successor, the Europe 2020 strategy. The basic structure would involve a progression of the existing system of Community Strategic Guidelines, National Strategic Reference Frameworks and Operational programmes, as follows.

- **A Common Strategic Framework** would translate the objectives and headline targets of Europe 2020 into investment priorities. The framework would be more comprehensive than the current guidelines, extending beyond the ERDF, CF and ESF to the EAFRD and EFF and also cover coordination with other EU policies. To speed up the approval process and ensure strategic coherence, the Commission proposes that the strategy is adopted by the Commission, rather than requiring Council approval as under the CSG.

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<sup>129</sup> Applica and ISMERI Europa (2010), *Evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-2013*, Synthesis of national reports 2010, Report to DG Regional Policy, Brussels.

<sup>130</sup> Mendez (2011), *op.cit.*

<sup>131</sup> Mendez C, Kah S and Bachtler J (2010), *Taking stock of programme progress: implementation of the Lisbon Agenda and lessons for Europe 2020*, IQ-Net Thematic Paper, 27(2), European Policies Research Centre, Glasgow.

<sup>132</sup> Applica and ISMERI Europa (2010), *Evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-2013*, Synthesis of national reports 2010, Report to DG Regional Policy, Brussels.

<sup>133</sup> Barca (2009), *op.cit.*

<sup>134</sup> Ward T and Wolleb E (2010), *Ex-Post Evaluation of Cohesion Policy programmes 2000-06 co-financed by the ERDF (Objective 1 & 2)*, Synthesis Report, DG Regional Policy, Brussels; OECD (2009), *OECD Territorial Review of Sweden*, OECD Territorial Reviews, OECD, Paris, p203; OECD (2008), *Territorial Review of Poland*, OECD Territorial Reviews, OECD, Paris p25; Bachtler J, Mendez C and Wishlade F (2009), *Ideas for Budget and Policy Reform: Reviewing the Debate on Cohesion Policy 2014+*, European Policies Research Paper 67, European Policies Research Centre, University of Strathclyde, Glasgow, p28, p35; Bachtler J and Mendez C (2010), *The Reform of Cohesion Policy after 2013: More Concentration, Greater Performance and Better Governance?*, IQ-Net Thematic Paper, 26(2), European Policies Research Centre, University of Strathclyde, Glasgow; Davies S (2011), *Interactions between EU Funds: Coordination and Competition*, IQ-Net Thematic Paper 28(2), European Policies Research Centre, University of Strathclyde, Glasgow.

- **Development and Investment Partnership Contracts** would set out for each Member State the investment priorities, allocation of national and EU resources between priority areas and programmes. The main difference with respect to the current NSRF would be the inclusion of conditionalities and targets based on agreed indicators.
- **Operational Programmes** would remain the main management tool. Greater thematic concentration on Europe 2020 priorities would be achieved by limiting the number of priority axes in programmes, particularly in more developed regions, or by introducing compulsory priorities. In the Budget 2020 Communication the Commission proposes that Transition regions and Regional Competitiveness and Employment regions should focus the entire allocation of Cohesion Policy funding (except for the ESF) on energy efficiency and renewable energy (representing at least 20 percent of programme allocations), and SME competitiveness and innovation, while Convergence regions would be able to fund a wider range of priorities reflecting their needs.<sup>135</sup> Unlike the present period, integrated programming would be encouraged through multi-fund programmes including the designation of a 'lead fund' where appropriate.

The thematic priorities would be established in the Cohesion Policy regulations, perhaps resembling the indicative list suggested by the Commission in one of the High-Level Group meetings (Box 7).

Notwithstanding the widespread support for the strategic alignment of Cohesion Policy with other EU policies and Europe 2020, national experts have raised several key concerns.<sup>136</sup> First, the obligations arising from the Partnership Contract may increase administrative burdens and costs, particularly if they necessitate the establishment of an additional management layer at national level. Related, the contractual approach may be difficult to implement at national level in regionalised or federal countries where economic development competences are devolved. Third, the requirements for greater thematic concentration and alignment with National Reform Programmes may reduce the flexibility to devise and implement tailor-made programmes. Fourth, ownership of the Common Strategic Framework may be diminished if the Member States are not involved in the development and adoption of the document.

#### **Box 7: Thematic Priorities for Cohesion Policy based on Europe 2020**

##### **Smart Growth**

- Strengthening research and technological development
- Promoting innovation and smart specialization
- Enhancing accessibility to and use and quality of information and communication technologies
- Removing obstacles to the growth of SMEs
- Improving the quality and performance of education and training system at all levels and increasing participation in tertiary or equivalent education

##### **Sustainable Growth**

- Supporting the shift towards a low-carbon, resource efficient and climate resilient economy
- Promoting renewable energy sources

<sup>135</sup> European Commission (2011), *A Budget for Europe 2020 - Part II: Policy fiches*, COM(2011) 500 final, Brussels.

<sup>136</sup> DG Regio (2011), *Report of Eighth Meeting*, High-Level Group Reflecting on Future Cohesion Policy, DG Regio, Brussels.

- Upgrading Europe's energy network
- Promoting sustainable transport
- Correcting and preventing unsustainable use of resources
- Removing bottlenecks in key network infrastructures

#### **Inclusive Growth**

- Increasing labour market participation, reducing structural unemployment and promoting job quality
- Developing a skilled workforce responding to labour market needs and promoting lifelong learning
- Promoting social inclusion and combating poverty

#### **Developing administrative capacity (horizontal priority)**

**Source:** DG Regio (2010) Thematic Concentration for Cohesion Policy Post 2013, Meeting No.7, High-Level Group Reflecting on the Future of Cohesion Policy, DG Regio, Brussels.

Some of these views were reaffirmed in the formal position papers of the Member States, providing a good indication of the key issues that are likely to arise in the upcoming negotiations. On the **Common Strategic Framework**, widespread support was expressed in the national responses to the Fifth Cohesion Report underlining the potential for greater strategic coherence across EU Funds and policies (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Estonia, Germany, Hungary, Portugal, Sweden), also confirmed in the Council Conclusions on the Fifth Cohesion Report.<sup>137</sup> Links with rural development were highlighted as being especially important by some (e.g. France and the Slovak Republic), while others emphasised the need to build bridges with other EU policies (Austria, Germany, Portugal, Latvia, Poland, Portugal). Issues that require further clarification include the relationship between the CSF and the EU Territorial Agenda (France, Italy, Poland), and the legal status and force of the document (Czech Republic). By contrast, one Member State rejected the need for a CSF altogether (Finland), arguing that it adds an unnecessary strategic layer and would increase coordination complexity.

National positions on the **Partnership Contract** were similarly mixed. Again, one Member State rejected the need for change, arguing that the current NSRF is fit for purpose (Netherlands). Elsewhere, there were different views on the appropriate reach of the contract, with some countries supporting the idea of extending its scope beyond Cohesion Policy (Cyprus, France, Hungary, Poland), especially to Rural Development and Fisheries policies (Estonia, Greece, Hungary, Latvia), while others arguing that it should primarily or only cover Cohesion Policy (Czech Republic, Belgium, Germany, Italy, Netherlands, Luxembourg). Key concerns are that the Partnership Contract should not introduce another management layer or increase administrative burdens (Cyprus, Estonia, Finland, Latvia, Sweden) and that it should respect the subsidiarity principle (Belgium, Germany).

Many countries consider that further clarification of the contract's content and requirements is needed before a firm position can be taken (Cyprus, France, Finland, Germany, Hungary), a point that was underlined in the Council Conclusions on the Cohesion Report.<sup>138</sup> For instance, there is a lack of clarity on the relationship with National Reform Programmes (Belgium, Hungary, Netherlands), which according to some Member States should not represent the sole reference framework for Partnership Contracts or Cohesion

<sup>137</sup> Which noted 'that a common strategic framework has the potential to ensure greater complementarity, coordination, coherence and synergies among the different Funds of cohesion, rural development and fisheries policies.' Council of the European Union (2011) Council conclusions on the Fifth Report on economic, social and territorial cohesion, 3068th General Affairs Council meeting, Brussels, 21 February 2011.

<sup>138</sup> Council of the European Union (2011), *op.cit.* p. 5.

Policy (Belgium, Germany, Slovak Republic). As highlighted in a recent High-Level Meeting under the Hungarian Presidency: 'the NRPs differ from the development strategy of Cohesion Policy in nature, approach, function and time scope.'<sup>139</sup>

Turning to **thematic concentration**, there is widespread support for concentrating funding on a few Europe 2020 priorities (Austria, Denmark, Estonia, France, Germany, Hungary, Latvia, Netherlands, Poland, Slovak Republic, Sweden, UK). In line with the Commission's justification, the Council Conclusions on the Fifth Cohesion Report concurred on the need to 'achieve a critical mass and maximise the impact and the visibility of cohesion policy investments as well as help to reinforce European added value.'<sup>140</sup> Despite the apparent consensus on the principle and rationale for thematic concentration, national authorities have strong reservations about the imposition of a top-down, prescriptive approach focusing on narrow thematic priorities relating exclusively to Europe 2020 objectives and targets.

The need for flexibility to adapt EU priorities to national / regional contexts was underlined in virtually every Member State submission to the consultation and in the Council Conclusions. Related, the proposal to introduce obligatory priorities has little support, with the exceptions of the Italian and the Dutch responses. It is considered necessary to recognise the diversity in absorption capacities (Austria, Bulgaria, Ireland) and to provide scope for other priorities that are less prominent in the Europe 2020 strategy: basic infrastructure needs remain paramount in less-developed countries (Bulgaria, Czech Republic, Latvia, Lithuania, Slovak Republic),<sup>141</sup> remote areas (Finland) and outermost regions (France), while culture and tourism is regarded as an important development priority in Greece. There is also resistance to the idea of limiting the menu of priorities under the Regional Competitiveness and Employment Objective (e.g. France and Germany).

Some Member States expressed concern that thematic concentration may hamper the pursuit of territorial priorities (Belgium, Greece, Latvia) or an integrated approach (Belgium, France, Greece, Sweden); many responses underlined the need to avoid the 'sectoralisation' of Cohesion Policy by, for instance, providing incentives or freedom to use multi-fund programmes (Cyprus, Estonia, Italy, Latvia, Portugal, Sweden). This proposal was reiterated in the Presidency Conclusions on the Fifth Cohesion Report, which called for the ESF, ERDF and CF to work together in a more integrated manner.

The need for flexibility was similarly underlined in the preparatory studies feeding into the post-2013 debate on reform. The Barca Report suggested that between 55-65 percent of Cohesion Policy resources should be allocated to agreed priorities, with a *fourchette* for each core priority and the concentration requirement varying according to territory (highest in non-lagging regions, lowest in lagging regions). The subsequent ex-post evaluation of the 2000-06 programmes underlined the need for more concentration on objectives, priorities and measure, but on the basis of a bottom-up process that is sensitive to the needs of individual regions.

#### **Box 8: Bottom-up concentration on EU objectives**

- There is a strong case for concentrating funding in particular regions on a limited number of objectives to ensure that they have a tangible impact and achieve critical

<sup>139</sup> Ministry of National Development (2011), *Conclusions of the High Level Meeting on the Future of Cohesion Policy*, 31 March – 1 April 2011, Budapest.

<sup>140</sup> Council of the European Union (2011), *op.cit.* p. 3.

<sup>141</sup> See also: *Presidency Conclusions*, Informal Meeting of the Ministers in Charge of Cohesion Policy, Liege, 22-23 November 2010.

- The objectives and the corresponding measured concerned cannot be specified *a priori*, since they should be in line with the needs of the regions in question and their priorities.
- While the choice should not be imposed externally, it has to take account of, and be coherent with, the national strategy being pursued as well as with any commonly agreed EU-level strategy. Equally, where relevant (such as in relation to transport networks), it needs to be in line with the policy being followed in neighbouring regions, which implies a degree of central coordination.
- Whichever objectives and measures are chosen on which to concentrate funding, the choice needs to be justified and subject to open debate. It also needs to be subject to detailed and informed negotiations with the European Commission
- The main drawbacks with concentrating funding on Europe 2020 objectives is that the targets may have no precise meaning for any individual region (i.e. a target of raising R&D expenditure to 3% of GDP or the employment rate of those 20-64 does not mean that every region should seek to achieve these rates), or they may be pursued anyway if they are couched in general terms (i.e. to increase R&D and employment).

Source: Ward T and Wolleb E (2010).

## 7.4. Conclusions

The Commission has proposed reinforcing the strategic approach in Cohesion Policy, involving the introduction of a Common Strategic Framework, more binding national Partnership Contracts and greater thematic concentration on Europe 2020 priorities. The intention is to strengthen the coherence, coordination and complementarities among the EU's structural policies, to integrate them more firmly into the EU's overarching Europe 2020 strategy and to increase the visibility and impact of Cohesion Policy.

There is widespread support for the establishment of a Common Strategic Framework, although it remains to be seen how it will address the territorial dimension which is at the heart of Cohesion Policy. However, to increase ownership of the document, there is a strong case for having a political discussion on the framework by involving the Council of Ministers and the European Parliament in the approval process, as argued in the Barca Report.

The main challenge with the introduction of binding partnership contracts is the increase in administrative burdens and costs, particularly if it implies the establishment of an additional management layer in some countries where national coordination is weak. On the other hand, the strategic generality of the existing NSRFs and the elimination of measure-level detail in programmes hampered the strategic approach sought in this period and hampered the realisation of a genuinely shared management approach between the Commission and Member States in programming.

While there is broad agreement on the need for thematic concentration, there is no consensus among Member States on how it should be put into practice. Reconciling a top-down approach with a bottom-up approach is a challenge, reflected in the requests for flexibility. Moreover, if common objectives and binding and results-oriented targets for each Member States are agreed in Partnership Contracts, there is arguably a strong case for providing flexibility on how to achieve the targets and on the policy-mix of interventions. Indeed, this is the direction that many other EU policies are already moving towards, including Cohesion Policy in the current programme period.



Finally, an appropriate balance has to be struck between thematic concentration and cross-sectoral integration. In particular, it is necessary to ensure that thematic concentration does not detract from integrated policy delivery at multiple territorial levels, enabling coordination and synergies between EU and national policies and between sectoral policies.



## 8. PERFORMANCE MANAGEMENT: CONDITIONALITIES AND INCENTIVES

### KEY FINDINGS

- A key challenge for Cohesion Policy is to ensure that it produces quantifiable results and impacts and that it visibly and measurably contributes to the Europe 2020 strategy.
- The Commission's proposals on ex-ante, structural, performance and macro-economic conditionalities and incentives provide a response to this challenge, although the positions of most Member States have been rather cautious.
- Nevertheless, if the ongoing criticism of the policy's performance is to be addressed and the policy is to be placed on a more sustainable path with increased legitimacy among EU institutions and citizens, then the Commission's proposals merit serious consideration.
- Ex-ante conditionalities are the most feasible option, but would need to be focused on improving effectiveness in Cohesion Policy, have a direct link to Cohesion Policy investments, be limited in number, respect subsidiarity and be based on a joint agreement between the Member States and the Commission.

### 8.1. Current arrangements

Conditionalities and incentives have been identified in the post-2013 reform debate as key tools to drive forwards a more results-driven approach. At present, a wide range of conditions on the use of Cohesion Policy resources are codified in the legislative framework covering a diverse set of policy domains and functions.

- **Community policies and priorities:** the regulations require compliance with public procurement law, State aid rules and the environmental *aquis* (including undertaking strategic environmental impact assessments). In addition, the financing of Trans-European transport projects is conditional upon compliance with the Transport policy guidelines for Trans-European networks.
- **Programme content:** funding is conditional upon the elaboration of a national development strategy (or National Strategic Reference Framework - NSRF). The Commission takes a decision on key elements, including the list of programmes, their financial allocations and, in Convergence regions, compliance with the additionality principle. The NSRF is delivered through Operational Programmes, which the Commission must formally approve. The required elements are a justified strategy; priorities based on the CSG, NSRF and the ex-ante evaluation; quantified targets; a categorisation of expenditure; a financing plan; information on complementarity with other Funds; implementing provisions; and an indicative list of major projects.
- **Performance:** the Member States may voluntarily set aside four percent of programme allocations in a reserve at the start of the programme period and reallocate this at a later stage in line with the achievement of performance goals and targets.
- **Spending:** to incentivise financial absorption, an automatic decommitment rule requires committed funding to be spent within two years (three years for the EU10, Greece, Portugal, Romania and Bulgaria, but only for 2007-10 commitments) or be lost to the programme. Due to the delays in the launch of the programmes and the effects of the crisis, an amendment to the regulation in 2010 relaxed the rules for the first year

of the period. Specifically, the n+2/3 period was removed for the 2007 commitment, splitting it into six parts and spreading them over the 2008-13 commitments for which the rule continues to apply.

- **Financial management, audit and control:** Payments to Member States are made by the Commission at three stages: a first interim payment, conditional on receipt of assurance on control and management systems through a 'compliance assessment'; interim payments, three to five times a year on the basis of certified expenditure incurred and the presentation of statements of expenditure; and the final payment of balance, once the programme closure requirements have been fulfilled and the necessary documentation has been sent to the Commission.
- **Major project revenues:** Revenue-generating project rules require the profitability of the expected investment to be estimated and monitored, potentially requiring a repayment if the revenues greatly exceed the estimates. Also of note is the requirement for major projects financed by the Cohesion Fund to prepare a Cost-Benefit Analysis (CBA) to demonstrate that the socio-economic benefits in the medium term are proportionate to the financial resources mobilised.
- **Macroeconomic goals:** Payments under the Cohesion Fund are conditional on compliance with Stability and Growth Pact rules. The Commission can suspend new payments to countries with excessive deficits following a Council decision.

## 8.2. Strengths and weaknesses

The redistributive discourse on Cohesion Policy conceptualises the policy as a mere side-payment, the implication being that the use of the Funds is (or should be) left to the discretion of Member States and regions with minimal Commission involvement or regulatory conditions on how resources are spent and objectives are achieved. The reality is that there is a wide range of detailed conditions and incentives governing the use of the Funds across all phases of the policy cycle. Many of these requirements correspond to 'good governance' principles from a performance perspective, requiring, for instance, multi-annual objectives and targets to be met, informed discussions and negotiations on the content of strategies in the spirit of partnership, disciplined financial management to ensure timely spending, and periodic monitoring and reporting on achievements to account for the use of the Funds and feed into programme decision-making processes.

Nevertheless, there are several systemic weaknesses in the design and application of conditionalities and incentives. First, there are strong conditionalities in terms of compliance with EU legislation, the content of programming, control, audit and spending, but the relative focus on performance conditionality has remained weak. Programmes are often designed and delivered to prioritise financial absorption and meet spending deadlines rather than EU policy objectives<sup>142</sup>, and they do not provide adequate incentives to use resources effectively.<sup>143</sup>

Second, strategies have very broad priorities, covering all possible areas of public intervention, and often lack clear-cut objectives and a justification of how planned interventions should achieve them.<sup>144</sup> Ex-ante commitments on the institutional pre-

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<sup>142</sup> Mendez and Bachtler (2011), *op.cit.*

<sup>143</sup> Barca F (2009), *op.cit.*

<sup>144</sup> Casavola P (2009), *Operational rules and results in Cohesion Policy programmes: Analysis and proposals for conditionalities*, Working Paper in the context of the Barca Report, DG Regio, Brussels; Ward T and Wolleb E (2010), *op.cit.*

requisites and conditions for effective use of the Funds are inadequate<sup>145</sup> and unsystematically applied.<sup>146</sup> For instance, the ex-post evaluation of the 2000-06 period found that the case for environmental infrastructure interventions is rarely sufficiently spelled out and justified in programme documents or adequately linked to a regional development strategy.<sup>147</sup>

Third, the Commission's role in programming has become too absorbed with administrative requirements and a mechanistic application of its negotiation mandate.<sup>148</sup> This differs from the approach in the mid-1990s, when the Commission played a more pro-active role in the negotiation process by focusing more attention on the development rationale underpinning the strategies.

Fourth, the limited role played by outcome indicators and targets does not provide adequate incentives for good performance.<sup>149</sup> For instance, the Annual Implementation Reports in the first two years of the 2007-13 period are considered to be 'wholly inadequate to enable progress to be meaningfully assessed' due to excessive focus on inputs (financial resources spent) instead of outputs (the direct physical effect of spending) or results (targeted changes), a failure to link indicators to intervention or policy objectives, and inconsistent definitions which do not allow comparisons over time or across regions. Also, the AIRs do not always explain why outcomes have fallen short of targets or substantially exceeded them, nor do they put outcomes into context or relate the co-financed projects or measures to national and regional efforts.

It is notable that only two countries (Italy and Poland) have used the option to create a performance reserve in the 2007-13 period. In the Italian case, however, the targets are not directly related to EU Cohesion Policy and economic development interventions *per se*, but to basic public services and policies (for instance, the key targets include the drop-out rate in secondary school, percentages of municipalities with childcare assistance and percentages of children aged 0-3 using the services),<sup>150</sup> while the Polish approach is criticised for having an excessive focus on financial absorption rather than results or outcomes.

More generally, the low-take up of the performance reserve among the other Member States can be explained by the bad experiences in the 2000-06 period, when the instrument was obligatory for all EU15 countries and was widely discredited for not achieving its objectives. The exercise revealed significant weaknesses on indicators, with evidence of poor target-setting, which made it difficult to assess performance.<sup>151</sup> This 'perfunctory' bias meant that the reserve was essentially used to ensure compliance with the regulations rather than increase the focus on results.<sup>152</sup> Negative experiences were also due to the failure to resolve systemic burdens of excessive administration.<sup>153</sup>

Lastly, macroeconomic conditionality in the Cohesion Fund has been a blunt tool. Despite breaches of Stability and Growth Pact rules in the past, the mechanism has never been

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<sup>145</sup> Barca F (2009), *op.cit.*

<sup>146</sup> DG Regio and DG Emploi (2011), *Report from the Commission on the Work of the Conditionality Task Force*, Document presented at the informal meeting of ministers responsible for regional policy of 20 May 2011, Gödöllő.

<sup>147</sup> Ward T and Wolleb E (2010), *op.cit.*

<sup>148</sup> Barca F (2009), *op.cit.*

<sup>149</sup> Casavola P (2009), *op.cit.*

<sup>150</sup> Naldini A Cirilli P Rizzo E (2010), *Country Report on Achievements of Cohesion Policy*, Italy, Expert Evaluation Network Delivering Policy Analysis on the Performance of Cohesion Policy 2007-2013, DG Regio, Brussels, p11.

<sup>151</sup> Ward and Wolleb (2010), *op.cit.*

<sup>152</sup> Euréval and Rambøll-Management (2008), *Meta-study on lessons from existing evaluations as an input to the Review of EU spending*, Final Report to DG Budget, European Commission, Brussels; OECD (2009), *Governing Regional Development Policy: The use of performance indicators*, OECD, Paris, p110.

<sup>153</sup> Euréval and Rambøll-Management (2008), *op.cit.*

applied.<sup>154</sup> This is mainly because there is a large degree of Commission and Member State discretion in whether sanctions are used.

### 8.3. Proposals and counter-positions

The idea of reinforcing the use of conditionalities and incentives in the post-2013 Cohesion Policy was first suggested by the Commission in its proposals for reforming EU economic governance in the aftermath of the economic and financial crisis.<sup>155</sup> It proposed making Cohesion Policy disbursements conditional on structural and institutional reforms and to introduce a new system of financial sanctions related to fiscal policy rules. The document also suggested that a performance reserve could be established and that co-financing rates could be modulated to incentivise better performance. These ideas were further clarified in the Budget Review Communication, the Fifth Cohesion Report and the papers and discussions in the High-level Group on the Future of Cohesion Policy as well as a specific EU Taskforce on Conditionalities.<sup>156</sup>

As stated in the Fifth Cohesion Report, the main aim of the conditionality proposals is to 'help countries and regions to tackle the problems that past experience has been show to particularly relevant to policy implementation.' The Commission has identified several principles that are required for an effective framework of conditionalities - they should be enforceable, non-prescriptive, credible and shared<sup>157</sup> - and has suggested several different types of conditionality that could be introduced or reinforced.<sup>158</sup>

- **Ex-ante conditionality** would aim to ensure preconditions for effective support by making allocations at the programming stage conditional on the transposition of EU legislation (e.g. water pricing, small business regulation), the existence of strategic plans or frameworks (innovation, research, climate change), the efficiency of project planning (in transport, energy) and institutions (budget planning, public procurement). During the preparation of the partnership contracts and programmes, each Member State would carry out a self-assessment aimed at checking whether it fulfils the prerequisites for each priority theme. When the programmes are being negotiated with the Commission, the Member States would commit to taking the necessary measures to fulfil the conditionalities. Until this is the case, the Commission could delay programme adoption, freeze payments or, following mid-term review, require a transfer of resources to another priority.
- **Structural conditionality** would make disbursements to Member States conditional on the implementation of the structural reforms specified in their National Reform Programmes (i.e. flexicurity policies and education and training policies under the European Social Fund). Conditionality would be compulsory in the event of a Member

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<sup>154</sup> Tjeerdsma R (1997), *Towards a re-assessment of European structural policy*, European Business Review, 97 (1), pp. 43 - 48.

<sup>155</sup> European Commission (2010), Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, *Enhancing Economic Policy Coordination for Stability, Growth and Jobs – Tools for Stronger EU Economic Governance*, COM(2010) 367/2, European Commission, Brussels.

<sup>156</sup> The 'Conditionality Task Force' was set up by the Commission to examine conditionality ideas in response to an invitation by the Council at the Informal Ministerial Meeting on Cohesion Policy of November 2010 under the Belgian Presidency. Comprising representatives of the Commission, the Council, the Committee of Regions, the European Parliament and national governments, the Task Force met several times between November 2010 and May 2011, culminating with the presentation a report of its findings at the Informal Ministerial meeting on Cohesion Policy of 20 May 2011 during the Hungarian Presidency.

<sup>157</sup> DG Regio (2011), *Strengthening Performance through conditionality and incentives*, High Level Group Reflecting on the Future of Cohesion Policy, DG Regio, Brussels.

<sup>158</sup> See also the Commission's Budget 2020 Communication: European Commission (2011), *A budget for Europe 2020*, COM(2011)500 final of 29 June 2011, Brussels.

State being the subject of a Council recommendation under the Europe 2020 Strategy surveillance process in an area directly related to Cohesion Policy. The Member State would then commit to a schedule and a deadline for implementing the reform. Funding would be suspended or cancelled if the reforms were not carried out in time.

- **Macroeconomic conditionality** links disbursement to Member States with compliance of Stability and Growth pact criteria. This would extend the rules currently applicable to the Cohesion Fund to the other Structural Funds (ERDF and ESF), implying that all countries would be treated equally by the rule (not just those eligible for the Cohesion Fund).
- **Performance conditionality** would reward programmes that progress towards the targets of the Europe 2020 Strategy. A five percent share of the budget would be held back in a reserve at EU level and allocated, during a mid-term review, to the Member States and regions whose programmes have contributed most to these targets compared to their starting-points.

The discussions with national experts in the Conditionality Task Force suggest that there is general agreement on the need to improve the performance framework in Cohesion Policy. Nevertheless, a range of perceived challenges and objections emerged.

The strongest opposition concerns the proposals on structural reform conditionalities, particularly the idea of linking disbursements to country-specific recommendations and to the annual cycle of the European semester. Participants noted that the national recommendations would have too wide a scope, covering areas that are not directly linked to Cohesion Policy (where the EU only has soft coordination competences), which may take several programme periods to resolve, while the annual cycle of the European semester is not aligned with the Cohesion Policy timeframe of programming, implementation and reporting. Related, conditionalities should not raise the overall administrative burden.

Ex-ante conditionalities are viewed more positively, but they would need to focus on improving effectiveness in Cohesion Policy, have a direct link to Cohesion Policy investments, be limited in number, respect subsidiarity and be based on a joint agreement between the Member States and the Commission. As regards their application, the main points raised were that: clear criteria are needed for assessment; the Commission's role requires clarification; a sectoralised implementation model should be avoided; and administrative burdens should not increase.

The Conditionality Task Force did not examine the macroeconomic or performance conditionality proposals, but national experts did provide some reactions in the High-Level Group on the future of Cohesion Policy.<sup>159</sup> The introduction of an EU performance reserve was questioned by some experts, preferring instead an optional national reserve as at present. On macroeconomic conditionality, the responses were mixed. For some, the extension of the provisions to all Cohesion Policy funds would be a positive move in terms of equality of treatment for all countries, yet others highlighted that the proposals would exacerbate the problems of indebted countries, would penalise regions for decisions outside their competence and would run counter to the Treaty objective of cohesion.

Similar views can also be found in the national position papers. Several Member States explicitly rejected the idea of macroeconomic conditionalities (Belgium, Greece, Italy, UK). The main drawbacks identified were that poorer Member States and regions would be disproportionately affected (Bulgaria, Hungary, Poland), that sanctions would worsen the fiscal position of the country and that regions would be unfairly punished for national

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<sup>159</sup> DG Regio (2010), *Report of Seventh meeting*, High-Level Group Reflecting on Future of Cohesion Policy, Brussels.

behaviour (Hungary). By contrast, other countries offered support for macroeconomic conditionalities (Estonia, Germany), particularly if they are applied to all EU funds (Austria, Finland, Latvia, Portugal, Slovak Republic).

While many countries stated a clear preference for incentives over sanctions (Cyprus, France, Germany, Greece, Hungary, Portugal), it was also argued that a performance reserve should be optional at Member State level or that it was not necessary (Bulgaria, Finland, Greece, Germany, Hungary, Italy, Latvia, Netherlands, Poland, Spain). Aside from the administrative burden (Austria, Estonia), there would be risks associated with planning or financial uncertainty (Estonia, UK), the rewarding of the wealthiest regions and Member States with better performance (Latvia, UK) and the selection of easily achievable goals / targets (Czech Republic, Netherlands). The main methodological challenges are that performance would be difficult to compare across Member States (Czech Republic, Estonia, Hungary, Italy, Latvia, Slovak Republic) and the inability to measure meaningful results in the short-term (Greece, Latvia, Poland). Lastly, if such a reserve were introduced, key conditions are that it does not prioritise spending over quality, lead to risk aversion (Estonia, Hungary, Latvia, Poland, Sweden) or is assessed solely on the basis of Europe 2020 objectives and targets (Czech Republic, Italy).

The broader academic, evaluation and policy literature has not given much consideration to the issue of conditionalities and incentives from a Cohesion Policy design perspective. The main exceptions are the Barca Report and a study on the use of conditionalities in International Financial Institutions (IFIs) and national regional policies<sup>160</sup>, both commissioned by DG Regio. In fact, the Commission's proposals on ex-ante conditionalities resemble closely the ideas outlined in the Barca Report. In particular, the fourth reform pillar on 'Strengthened governance for core priorities' proposed the establishment of a set of ex-ante conditionalities on the institutional framework required to be in place to pursue each core priority in national contracts and a system for assessing progress in meeting targets. Specific conditionality principles were further elaborated in separate working papers as part of the broader study group of the Barca Report.<sup>161</sup> One of these focused on RTDI policy and made a case for conditionalities to be based two general policy approaches: the systematic adoption of multi-stage policies; and the design of result-based policies.<sup>162</sup>

- **Multi-stage policies:** the aim would be to distinguish between exploration and competitive stages. In the exploration stage, policy-makers can have a good understanding of goals using consultative practices, can define time horizons with precision, and can ask beneficiaries to define their indicators of results. Following this stage, the competitive stage would involve the launch of calls in which funding is made conditional on intermediate or final results.
- **Result-based policies:** two scenarios are distinguished. On the one hand, it may be relatively easy to define, observe and monitor results, without ex post renegotiation. Information asymmetries can be mitigated using various types of contract clauses (contrary to what is often claimed for RTDI policies). On the other hand, contractual incompleteness may hamper the ability to negotiate ex ante results. In this case, the first stage would be useful to discuss general objectives in a collective setting, while the competitive call would deliberately include an incomplete definition of intermediate

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<sup>160</sup> Ferry M and Bachtler J (2011), *EU Cohesion policy in a Global Context: Comparative Study on EU and Third Country and International Economic Development Policies*, Report to DG Regio, European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>161</sup> Casavola P (2009), *op.cit.*

<sup>162</sup> Bonaccorsi A (2009), *Towards better use of conditionality in policies for research and innovation under Structural Funds, The intelligent policy challenge*, Working Paper for the Barca Report, DG Regio, Brussels.



and/or final results. The renegotiation would be done by defining ex ante a neutral body with responsibility for monitoring results and defining the conditions for the new contract. Intermediate and final results modalities are also elaborated in the proposals, including final results obtained by beneficiaries, produced for the final users (innovation services) and for the public administration (public procurement).

The second paper examined three thematic priorities, outlining a limited number of conditionalities that could be employed in each case on the basis of past experiences and the availability of knowledge about what works.

- **Infrastructure:** Given the delays involved in infrastructure projects and the fact that only a limited number of projects can be funded, programmes should explicitly state which projects will be financed (not only the 'type' of project on an 'indicative' basis), their location and timescale.
- **Innovation:** Given the lack of knowledge about what works in innovation policy, programmes should be required to state explicitly the programme's innovation diagnosis and theory, spelling out the key concepts, target groups and implementation modalities, while remaining open to possible revisions in the strategic approach. An obligation to implement ongoing and ex-post evaluation should also be included.
- **Social inclusion:** Given the significant amount of theory and evaluation evidence on what works, programmes should be required to identify precise social inclusion allocations, targets, coverage, and to undertake ex-post evaluations, including the demonstration of the sustainability and added value of the funded interventions.

The final study provided a comparative analysis of regional development policies in a number of IFIs and OECD countries, offering some insights and lessons for the future reform of Cohesion Policy post-2013 (Box 9). On the issue of conditionalities, the report argued that the macroeconomic type would be particularly problematic due to the adverse impacts on budgets and the unfair penalisation of beneficiaries. The arguments for structural outcome and institutional conditionalities are considered to be stronger, although no examples are available of sanctions being enforced and international institutions have moved away from outcome based approaches.

#### **Box 9: Conditionalities in IFIs and national regional policies: Lessons for Cohesion Policy**

**Macro-economic:** could strengthen economic governance in the EU and ensure sound macroeconomic conditions for effective implementation. However, macro-fiscal conditions operate at some 'policy distance' from Cohesion Policy actions. The danger is that the introduction of measures to meet macro-fiscal conditions could impact on other areas of Cohesion Policy support. Related to this is the issue of how the enforcement of such conditions and the suspension of payments could avoid affecting beneficiaries who are not responsible for macro-economic measures. Moreover, the only relevant case study findings on the World Bank show that it has moved away from its focus on macroeconomic adjustment and removing major economic distortions towards support for institutional changes.

**Structural:** There is a stronger argument for increased use of structural conditions in Cohesion Policy. Making the disbursement of funding conditional upon the existence or guarantee of a specific set of policy and institutional preconditions or reforms deemed critical in fields where Cohesion Policy is active is justifiable. Such reforms strengthen effectiveness by creating transparent, direct links between the funds and strategic, regulatory and institutional change. Moreover, the introduction of reforms would have a

direct impact on the efficiency of Cohesion Policy interventions.

**Outcome or performance:** The case studies reveal increasing support for conditions that try to capture the performance of an intervention against specific, realistic and measurable targets, agreed on the basis of dialogue between donors and recipients. However, no national regional policy case study provided a concrete, practical example of sanctions being enforced, illustrating the methodological and political challenges associated with attaching sanctions to conditionalities and the potential for negative behavioural responses. International Financial Institutions have also moved away from this approach.

**Public administration:** There is an increasing emphasis on this type of conditionality by the World Bank, particularly in relation to financial management and control. Cohesion Policy conditionalities could more strongly emphasise improvements in public sector governance: support for government efforts to strengthen public financial management, fiduciary arrangements, public expenditures, and broader public sector reforms.

**Source:** Ferry M and Bachtler J (2011) EU Cohesion Policy in a Global Context: Comparative Study on EU Cohesion and Third Country and International Economic Development Policies, Final Report to DG Regio, European Policies Research Centre, University of Strathclyde, Glasgow.

## 8.4. Conclusions

In the context of the ongoing criticism about the effectiveness of Cohesion Policy, a key challenge is to ensure that it produces quantifiable results and impacts and that it visibly and measurably contributes to the Europe 2020 strategy. The Commission's proposals on ex-ante, structural, performance and macro-economic conditionalities and incentives provide a response to this challenge.

The positions of most Member States have been rather cautious. This it to be expected as the implementation of these provisions implies considerable political, financial and administrative restrictions. In particular, the proposals would imply a stronger role for the Commission in shaping the content of strategies and programmes and potentially involve suspension of payments or even sanctions if objectives have not been met.

Nevertheless, if the ongoing criticism of the policy's performance is to be addressed and the policy is to be placed on a more sustainable path with increased legitimacy among EU institutions and citizens, then the Commission's proposals merit serious consideration. Moreover, the political sensitivity analysis and review of existing studies suggests that a strengthening of conditionalities and incentives could be feasible, particularly of the ex-ante variety. Key conditions are that they focus on improving effectiveness in Cohesion Policy, have a direct link to Cohesion Policy investments, be limited in number, respect subsidiarity and be based on a joint agreement between the Member States and the Commission.

## 9. EFFECTIVENESS: MONITORING, EVALUATION AND CAPACITY

### KEY FINDINGS

- The Commission proposals envisage clearer programme objectives and targets at the planning stage, more robust reporting, obligatory evaluation plans and a greater focus on impact evaluation.
- The proposals build on previous experiences and are in line with the recommendations of various studies, but there are concerns among Member States that the additional obligations would imply less flexibility and more administrative and reporting burdens.
- A critical question is how to reinforce the role of the European Parliament in the strategic debate on the performance of Cohesion Policy, particularly its inter-institutional dialogue with the Commission and Council. The current proposals remain largely silent on this issue.
- A further issue that remains relatively neglected in the Commission's proposals concerns the need for an appropriate increase in administrative and technical capacities to design, monitor and evaluate programmes, both in the Member States and the Commission.

### 9.1. Current arrangements

Effective monitoring and evaluation is a necessary condition for understanding how programmes are working and how they may be improved in support of a more performance oriented Cohesion Policy. Another critical factor is institutional capacity, which influences the human resources, administrative structures, systems and procedures for implementing programmes.

The regulatory requirements for the **monitoring and evaluation** of programmes involve several inter-related processes and structures. When programmes are designed, quantified physical and financial targets at priority-axis level must be provided as well as an indicative breakdown of categories of expenditure. These indicators are used to measure and monitor programme progress, based on the so-called 'logical framework' model which assumes that the allocation of public financial interventions (inputs) leads to a series of effects that can be split into outputs, results and impacts relating to different levels of programme objectives.

Financial and physical progress are subsequently reported by the OP Managing Authority to the programme partnership and the Commission through a Monitoring Committee. Among other tasks, the committee is responsible for approving the Annual Implementation Report in June each year and reviewing any evaluations that are carried out. Annual meetings are also held between the Commission and Member State authorities toward the end of each year to examine implementation progress and results. A key element underpinning these various monitoring structures and processes is the requirement to set up a computerized monitoring and information system, which allows electronic exchange of data with the Commission.

Evaluation covers all phases of the programme life cycle and is the responsibility of the Member State or the Commission. Ex-ante and ongoing evaluations are primarily the responsibility of Member State authorities, although the Commission offers support

(through the publication of guidance documents, networking activities and participation in evaluation steering groups) and commissions evaluations on its own initiative, while ex-post evaluation is only formally required to be undertaken by the Commission.

- **Ex-ante evaluation** is required for all programmes and aims 'to optimise the allocation of budgetary resources under operational programmes and improve programming quality'. The required scope of ex-ante evaluation is broad, covering the identification and appraisal of needs, goals, expected results, quantified targets, strategic coherence (including with Community priorities), added value, lessons from the previous period, as well as the quality of the procedures for implementation, monitoring, evaluation and financial management.
- A system of **on-going evaluation** has been set up in 2007-2013 with flexibility for the Member States to assess programme implementation according to needs and to react to changes in the external environment. An evaluation can be triggered by actual or potential difficulties revealed by the monitoring system, to ensure a regular review of strategic or operational aspects which cannot be solely analysed on the basis of monitoring data and must accompany any proposal for a programme modification.
- **Ex-post evaluation** is the responsibility of the Commission in cooperation with the Member States. The aim is to assess the effectiveness, efficiency and socio-economic impact of programmes in all Member States. The exercise must be completed within two years after the end of the programme period.

The requirement to draw up evaluation plans - presenting the indicative evaluation activities that the Member State intends to carry out - is a new optional provision under the Convergence Objective for this period.

Strategic Reporting is also new for 2007-13. Member States were required to prepare Strategic Reports in 2009, and another is required for 2012, for all programmes, analysing their contribution towards Cohesion and Lisbon objectives. This has been facilitated by the earmarking categorisation of spending linked to Lisbon objectives, and the establishment of core indicators at EU level. A summary of the Strategic Reports is prepared by the Commission (one prepared in 2010 and another expected in 2013) for debate by Council, European Parliament, Committee of the Regions and Economic and Social Committee. Additionally, the annual progress reports for the National Reform Programmes must include a concise section analysing the contribution of Cohesion Policy programmes.

Financial resources for monitoring and evaluation are made available through a technical assistance priority in all programmes. This also provides resources for designing, implementing, monitoring and inspecting programmes. **Capacity building** is mainly carried out by the Member States, which decide on the use of programme technical assistance and how to direct their capacity-building actions. Further support by the Commission is provided through: guidance, advice, networking and training actions; targeted support for countries facing difficulties; specific interventions and support instruments to increase capacity for financial engineering instruments or for managing large infrastructure projects; and guidance and capacity building in audit.

A further requirement linked to administrative capacity is the compliance assessment exercise. As noted, this requires detailed descriptions of management and control systems to be drawn up by the Member States, checked by independent authorities and approved by the Commission, to ensure that the systems comply with EU requirements and that they are ready to function.

Recognition of the importance of institutional capacity for effective public policy delivery more generally is evident in the introduction of a new ESF priority for institutional capacity

in Convergence regions and Cohesion countries, supporting human capital development and ICT in administrative and public services at all territorial levels.

## 9.2. Strengths and weaknesses

Monitoring and evaluation is firmly embedded in Cohesion Policy, being arguably the most monitored and evaluated policy in the EU.<sup>163</sup> The regulatory requirements have been reinforced over time and there have been significant improvements in practice.<sup>164</sup> On the monitoring side, positive developments in the current period include greater concentration on key and fewer indicators; better data quality; more standardisation of definitions and methods; and more systematic and reliable data collection processes and IT systems.<sup>165</sup> As regards evaluation, the new needs-based and flexible approach commands strong support among programme managers and practitioners, providing a response to widespread criticisms of the mid-term evaluations of the 2000-06 period (e.g. the tight deadlines and excessive number of required components and evaluation questions). More generally, the monitoring and evaluation of Cohesion Policy are credited with playing a major role in driving or facilitating the spread of an evaluation culture in Europe over successive programme periods.<sup>166</sup>

Despite these positive features and developments, monitoring and evaluation are plagued by a number of challenges and weaknesses. At the planning stage, indicators and targets often play a marginal or illustrative role in the programme formulation process.<sup>167</sup> The concepts of input, context, output, outcome/result, impacts indicators are often confused,<sup>168</sup> while the take-up of core EU indicators in the programmes was mixed and applied inconsistently, preventing comparison across countries and aggregation to EU level.<sup>169</sup>

At the implementation stage, the quality of progress reporting and data remains weak.<sup>170</sup> In the current period, Annual Implementation Reports have followed a 'checklist approach'<sup>171</sup> and are considered to be 'wholly inadequate to enable progress to be meaningfully assessed.'<sup>172</sup> This is due to deficiencies in the quantitative indicators and a

<sup>163</sup> Euréval and Rambøll-Management (2008), *op.cit.*; Barca (2009), *op.cit.*

<sup>164</sup> Polverari L, Mendez C, Gross F and Bachtler J (2007), *Making Sense of European Cohesion Policy: 2007-13 Ongoing Evaluation and Monitoring Arrangements*, IQ-Net Thematic Paper, 21(2), European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>165</sup> Ward T (2010), *Ex-post evaluation of Cohesion Policy programmes 2000-2006 financed by the ERDF in Objective 1 and 2 Regions Report*, DG Regional Policy, European Commission, Brussels; Bachtler J, Polverari L, Oraže H, Clement K and Tödting-Schönhofer H, with Gross F, McMaster I and Naylon I (2009), *Ex post evaluation of the management and implementation of Cohesion Policy, 2000-06 (ERDF)*, DG Regio, Brussels; Polverari L, Mendez C, Gross F and Bachtler J (2007), *op.cit.*

<sup>166</sup> Bachtler J, Polverari L and McMaster I (2009), *The 'Added Value' Of Cohesion Policy (2000-06) in the EU15*, Comparative Report, Work Package 11, Ex-post Evaluation of Cohesion Policy Programmes 2000-2006 co-financed by the ERDF (Objective 1 and 2), DG Regio, Brussels.

<sup>167</sup> Barca (2009), *op.cit.*; DG Regio (2010), *Focus on results*, High-Level Group Reflecting on Future Cohesion Policy, DG Regio, Brussels; Barca F and McCann (2011), *Outcome Indicators and Targets: Towards a new system of monitoring and evaluation in EU Cohesion Policy*, DG Regio, Brussels.

<sup>168</sup> Barca F and McCann (2011), *op.cit.*; Mendez C, Kah S and Bachtler J (2010), *Taking stock of programme progress: implementation of the Lisbon Agenda and lessons for Europe 2020*, IQ-Net Thematic Paper, 27(2), European Policies Research Centre, Glasgow.

<sup>169</sup> Nordregio (2009), *The potential for Regional Policy Instruments (2007-13) to contribute to the Lisbon and Göteborg objectives for Growth, Jobs and Sustainable Development*, Final Report to the European Commission, Directorate-General for Regional Policy, Brussels; DG Regio (2010), *Focus on results*, High Level Group Reflecting on Future Cohesion Policy, Brussels.

<sup>170</sup> Barca (2009), *op.cit.*

<sup>171</sup> DG Regio (2011), *Concepts and Ideas: Monitoring and Evaluation in the practice of European Cohesion Policy 2014+ (European Regional Development Fund and Cohesion Fund)*, draft paper for discussion between DG Regional Policy and the Member States evaluation network, April 2011, DG Regio, Brussels.

<sup>172</sup> Applica and ISMERI Europa (2010), *Evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-2013*, Synthesis of national reports 2010, Report to DG Regional Policy, Brussels

focus on inputs instead of outputs or results, which are often not directly related to the main purpose of interventions or defined in a consistent way to enable comparisons to be made over time or across regions. The reports often do not: explain why outcomes have fallen short of targets or exceeded them; put outcomes into context; or relate projects or measures to national and regional policies. Related, programme monitoring systems have not kept up with the enterprise support shift towards competitiveness and productivity, instead continuing to measure impact in terms of jobs created.<sup>173</sup>

The ex-ante evaluation process for 2007-13 has been criticised for lacking transparency, and the analysis contained in a significant share of the reports was poor, particularly in Convergence regions.<sup>174</sup> Many evaluations contained limited, if any, guidance on how to deal with development challenges and potentials,<sup>175</sup> often providing post-hoc rationalisation of pre-agreed investment decisions rather than critical assessment.

A common criticism of evaluations undertaken during the programme period is that the focus tends to be on management and implementation issues rather than the effects of interventions on objectives in terms of the outputs, results and impact on regional development.<sup>176</sup> Part of the problem is that the methods for measuring impact remain weak.<sup>177</sup> Too much reliance is placed on macro-modelling where causation cannot be proved,<sup>178</sup> and counterfactual impact analysis of interventions remains underdeveloped.<sup>179</sup> A meta-analysis of national evaluations criticises the limited number of methods used, mainly based on indicator sets analysis, secondary sources, case studies and individual interviews.<sup>180</sup>

There are several challenges associated with the structural features of programming or division of responsibilities. First, programmes tend to be evaluated in specific programme periods, rather than taking account of the cumulative effects of previous programmes.<sup>181</sup> Second, the existence of mono-fund programmes and division of responsibilities between different Funds does not encourage comprehensive analysis of Cohesion Policy instruments; evaluations of the ERDF are normally separate from those on the Cohesion Fund and ESF, not to mention other relevant EU policies.<sup>182</sup> Third, many Member States or regions do not undertake ex-post evaluations as it is only formally required at EU level by the Commission.<sup>183</sup> Related, the new needs-based and flexible approach to ongoing evaluation in 2007-13 has led to wide variations in evaluation effort. Some Member States have set up an extensive evaluation plan covering specific policy areas as well as programmes (particularly Poland, Portugal, Sweden, France, the UK, Estonia and Hungary),<sup>184</sup> but others have minimised their evaluation activity (e.g. Greece, Bulgaria, Cyprus and Slovakia). This

<sup>173</sup> European Commission (2010a), *op cit.*

<sup>174</sup> Nordregio (2009), *op cit.*

<sup>175</sup> Ibid.

<sup>176</sup> Applica and ISMERI Europa (2010), *op.cit.*; DG Regio (2011), *Concepts and Ideas: Monitoring and Evaluation in the practice of European Cohesion Policy 2014+ (European Regional Development Fund and Cohesion Fund)*, draft paper for discussion between DG Regional Policy and the Member States evaluation network in April 2011, DG Regio, Brussels.

<sup>177</sup> Barca (2009), *op.cit.*

<sup>178</sup> De Michelis, N. & Monfort, P (2008), *Some reflections concerning GDP, regional convergence and European cohesion policy*, Regional Science Policy & Practice, 1(1), 15–22.

<sup>179</sup> Barca (2009), *op.cit.*

<sup>180</sup> Esteban M, Rodríguez A, Moreno J, Altuzarra A and Larrañaga J (2010), *La evaluación de la Política Regional Europea*, Análisis empírico de las metodologías aplicadas, Investigaciones Regionales, 14, pp157-184.

<sup>181</sup> Bradley, J and Untiedt G (2011), *The future of Cohesion Policy in a time of Austerity*, International Evaluation Conference Vilnius, What's New and What Works in the EU Cohesion Policy 2007–2013: Discoveries And Lessons For 2014–2014, March 2011, Lithuania.

<sup>182</sup> EPRC and EUROREG (2010), *op.cit.*; Davies (2010), *op.cit.*

<sup>183</sup> Polverari *et al* (2006), *op.cit.*

<sup>184</sup> Applica and ISMERI Europa (2010), *Evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-2013*, Synthesis of national reports 2010, Report to DG Regional Policy, Brussels.

raises doubts about the new approach being able to drive and increase the quantity and quality of evaluation where it is most needed.

While the policy has helped to stimulate a culture of evaluation across the EU, a European “policy learning system” remains underdeveloped limiting the scope for recursive feedback and systemic improvements to the policy over time.<sup>185</sup> The first round of strategic reporting was largely treated as a compliance exercise and was hampered by methodological difficulties and the delayed launch of programmes.<sup>186</sup> Related, there is insufficient public debate at all levels, restricting the demand and supply for systematic diffusion of information on outcomes.<sup>187</sup>

Turning to institutional capacity, there is an extensive literature on the absorption challenges faced by EU10 countries during and after accession highlighting the role of administrative reforms and institutional instability in hindering the effectiveness of management and implementation systems.<sup>188</sup> In the first years of implementation during 2007-13, these difficulties remain evident across EU12 countries as well as in Greece and Italy.<sup>189</sup> Key weaknesses include a lack of experience and competent staff and weak coordination within and across government bodies, compounded by bureaucratic procedures, especially in relation to planning regulations for infrastructure projects, shifts in competences within the administration and delays in setting up management and control systems. More recently, the Commission has estimated that programmes and projects representing seven percent of expenditure were in a critical state in terms of implementation by the end of 2010, particularly in Romania, Bulgaria and Greece, followed by Italy, Slovak Republic and, to a lesser extent, Spain. Administrative capacity weaknesses in Managing Authorities are identified as the main reason, including a lack of funding, shortages of administrative resources, high staff turnover, lack of political steer, and administrative complexities.<sup>190</sup>

### 9.3. Proposals and counter-positions

In the Fifth Cohesion Report the Commission set out several ideas on how to improve the approach to monitoring and evaluation, subsequently fleshed out in more detail in a working paper presented to the Member States in DG Regio’s evaluation network.<sup>191</sup>

<sup>185</sup> Barca (2009), *op.cit.*

<sup>186</sup> Mendez (2011), *op.cit.*

<sup>187</sup> Barca (2009), *op.cit.*

<sup>188</sup> Horvat A and Maier G (2004), *Regional development, Absorption problems and the EU Structural Funds: Some aspects regarding administrative absorption capacity in the Czech Republic, Estonia, Hungary, Slovakia and Slovenia*, 44th European Congress of the European Regional Science Association, Regions and Fiscal Federalism, University of Porto, Portugal. McClements C, Smolkova H (2004), *Final Report of the ABCAP Project (ABCAP: Finalising of Structures and Measures to Increase the Absorption Capacity and National and Regional Level)*, Ministry for Regional Development, Prague. Malhasian D, Marinov V, McClements C (2007), *Can the Operational Programme for Regional Development absorb Structural Funds and on what Conditions?*, An Analysis of Project Demand Relative to Proposed OPRD Operations, 14 April 2007, Sofia, Bulgaria. Mrak M and Horvat A (2009), *Macroeconomic and Financial Absorption Capacity of Turkey for the Use of EU Structural Funds*, Eastern European Economics, Vol. 47, issue 4, pages 86-113; McClements C and Marinov V (2009), *Project Mapping – A Project Pipeline Development Tool and a Bottom-Up Input to (Structural Funds) Programming*, in Tome 101, *Annuaire de l’université de Sofia ‘St. Kliment Ohridski’, Livre 2, Géographie*. Wostner P (2008), *The Micro-efficiency of EU Cohesion Policy*, European Policy Research Papers, No 64, European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>189</sup> Applica and ISMERI Europa (2010), *Evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-2013*, Synthesis of national reports 2010, Report to DG Regional Policy, Brussels; The Commission’s 2010 Strategic Reports synthesis highlights the problems in Bulgaria, Romania and Lithuania.

<sup>190</sup> Commission (2011), *DG Regional Policy AAR 2010*, DG Regio, Brussels.

<sup>191</sup> DG Regio (2011), *Concepts and Ideas: Monitoring and Evaluation in the practice of European Cohesion Policy 2014+ (European Regional Development Fund and Cohesion Fund)*, draft paper for discussion between DG Regional Policy and the Member States evaluation network, 14-15 April 2011, DG Regio, Brussels.

- **Programme objectives:** each priority/sub-priority should identify one or a limited number of result indicators that best express the intended change, the direction of the desired change, a quantified target or a range, and a baseline. Output indicators should cover all parts of a programme, use indicators from the list of common EU indicators and be linked to categories of expenditure. Targets should be set for the end of the programming period. Output baselines would not be required.
- **Annual Implementation Report:** aside from financial implementation data, AIRs should provide cumulative values for output indicators from the second year including actual and expected values. Progress should be reported towards the desired result. A qualitative analysis should be provided of the contribution towards the change of result indicators, using financial data, output indicators, managerial knowledge and evaluations. Analysis of why the objectives / priorities are being achieved or not should be provided. The Fifth Cohesion Report notes that progress reporting would be aligned with the Europe 2020 governance cycle, including a regular political debate in Council and Parliament.
- **Ex ante evaluation:** should appraise the justification for the thematic priorities and their consistency with the Europe 2020 strategy, the Common Strategic Framework and partnership contract; the relevance and clarity of the proposed result indicators and output indicators; the plausibility of the targets and for the explanation of the contribution of the outputs to the results; consistency between financial resources and the targets for output indicators; administrative capacity for management and implementation; the quality of the monitoring system, and how data will be gathered to carry out evaluations.
- **Evaluation during the programming period:** theory-based evaluation, counterfactual evaluation and implementation evaluation should play a role, with an increased focus on the first two. Implementation evaluations are more likely to be useful in the early stages of implementation. Evaluation capturing the effect of priorities and looking into their theory of change are more likely to occur at a later stage. Each priority should be covered at least once by an impact evaluation. A summary evaluation in 2020 could wrap up the main evaluation findings.
- **Evaluation plan:** after programme approval, the Member State or region would adopt an evaluation plan specifying an indicative list of evaluations and rationale; methods and data requirements; provisions for data collection; an evaluation timetable; the human resources involved; and the indicative budget for evaluation. The Monitoring Committee would review the evaluation plan once per year and adopt necessary amendments.
- **Ex post evaluation:** would continue to be the Commission's responsibility but facilitated by evaluations of Member States during the programming period, especially by the Member States' summary of evaluations undertaken.
- **Transparency:** All evaluations should be made public, preferably via the internet. English abstracts are recommended to allow for exchange of evaluation findings across countries.

Monitoring, reporting and evaluation was discussed in several High Level Group meetings on the future of Cohesion Policy, including the work of a team of academics and experts commissioned by DG Regio to provide recommendations on indicators and targets (Box 10).<sup>192</sup>

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<sup>192</sup> Barca F and McCann P (2011), *Outcome Indicators and Targets: Towards a new system of monitoring and evaluation in EU Cohesion Policy*, DG Regio, Brussels.



### Box 10: Towards a new system of monitoring and evaluation in EU Cohesion Policy

Coordinated by Fabrizio Barca and Philip McCann, the first note produced by the group proposes a system of outcome indicators, drawing on previous experiences and emphasising the need to ensure a more results-driven approach. The aim would be to create a system where Member States and regions could choose appropriate performance indicators according to agreed methodological principles. Both outcomes and measurable aspects of these outcomes would be chosen at the programme design stage and then monitored and reported periodically. The proposed approach would need to be accompanied by increased thematic concentration and the establishment of baselines and targets in order to become an effective managerial tool. The main proposals are:

- to clearly distinguish outcome/results (collapsed into outcome) from outputs and express the objectives in the programming documents and at project level in terms of changes in outcome measured by indicators chosen by Member States and assessed, whenever possible, with reference to explicit targets;
- to ensure the quality of outcome indicators through adherence to clear-cut methodological principles that need to be met by these indicators;
- to ensure that Member States report progress of outcome indicators; and
- to reinforce ex-ante and prospective planning of policy impact assessment and clearly distinguishing it from the monitoring of changes in outcome indicators.

Source: Barca and McCann (2011) *op.cit.*

The Barca/McCann paper received a mixed reaction from national policy-makers. While welcoming the general thrust of the proposed system, the main message was that sufficient flexibility is needed to allow Member States and regions to choose the indicators most appropriate to their socio-economic situation and development priorities. Concerns were expressed about the breadth of indicators, relating to themes that go beyond the Treaty goals of cohesion, or an overly sectoral / thematic approach, and about the potential administrative burden for public authorities and beneficiaries of additional reporting. It was underlined that auditors should not use the system as a punitive tool that leads to financial corrections, and that a shift away from the focus on spending and control would be required to free up resources for designing and monitoring indicators and targets. Some policy-makers would like greater proportionality, requiring indicator choices to be informed by the cost of their application, and greater support for administrative capacity.

The need for annual high-level political debate on Cohesion Policy was supported by some policy-makers in the High-Level Group, potentially including a more active role for the European Parliament. On the other hand, some participants consider that the existing structures (e.g. Informal Ministerial meetings) are sufficient or that EU debates should remain flexible rather than following a rigid timetable.

Feedback on monitoring and evaluation in the **national responses to the Fifth Cohesion report** consultation was patchy, presumably because of the rather generic nature of the proposals contained in the Cohesion Report. There was recognition of the need for measurable, clear, uniform indicators and targets (notably, Denmark, Latvia, Poland, Slovak Republic) and some support for common EU indicators (Belgium, Cyprus, France, Germany, Hungary, Netherlands, Latvia). Yet, it was also noted that EU indicators should not limit the choice of programme priorities (Cyprus) and must be feasible to implement in practice (Austria). Few responses offered an opinion on the idea of stronger performance

reporting, aside from Hungary's call for AIRs and Strategic Reports to be raised to a higher strategic level.

In line with the Commission's evaluation proposals, some countries would welcome reinforced ex-ante evaluations (Bulgaria, Hungary, Latvia), obligatory evaluation plans (Bulgaria, Hungary, Latvia, Slovak Republic, UK) and a greater evaluation focus on results to support performance (Austria, Cyprus, UK, Denmark, Finland). Other proposals included more Member State involvement in the Commission's ex-post evaluation (Hungary), greater support for strengthening evaluation capacities (Italy), requiring better evaluations of European Territorial Cooperation programmes (Italy) and avoiding the creation of new administrative burdens on evaluation (Germany, UK). The need for balance between administrative obligations and a stronger performance focus was reiterated in the Council conclusions on the Fifth Cohesion Report, which acknowledged the need for:

- a common understanding of performance, including a methodology of its assessment established in advance;
- a strong and dedicated focus on the actual outcomes and results of the policy underpinned by the improvement of current evaluation, monitoring and indicator systems, concentrating on a limited number of well-defined, easily measurable targets and a limited set of core indicators, without increasing the overall burden of reporting; and
- efficient programme-design and institutional frameworks, while making sure that administrative burden remains as limited as possible.

Many of the Commission's proposals are supported, if not based upon, the findings and recommendations of independent studies. For instance, the Barca Report stressed the need for more rigorous ex-ante (or prospective) evaluation of programmes and a greater focus on impact evaluations of interventions, particularly the use of counterfactual methodologies. On the other hand, some commentators have cautioned against an overly narrow focus on micro-impact studies, as they underestimate the casual influence of external factors,<sup>193</sup> or highlight the difficulties (if not impossibility) of finding suitable control cases for counterfactual analysis.<sup>194</sup>

A second key theme in the Barca Report was the need for high-level political debate on the performance of policy, both at the European Parliament and the Council of Ministers, to replace the dominant focus on financial absorption and the error rate. This could be encouraged through the introduction of annual strategic reporting, placing more emphasis on indicators, results and the attainment of targets than under current triennial reports. Institutional accountability over policy performance could be further stimulated by the creation of a dedicated Council for Cohesion Policy, tasked with reviewing and assessing national contracts and reports as well as issuing recommendations. Similarly, the European Parliament could be empowered to issue opinions on national contracts and reports.

Cross-national learning about policy performance could be promoted through more systematic exchange of experiences on evaluation approaches and results. To this end, the Barca Report recommends the creation of a 'clearing house for collecting, filtering and making accessible studies and their results' at EU level. Some steps in this direction have already been taken. As noted, an expert evaluation network was set up at the end of 2009 to review and synthesise national evaluation results and policy achievements on a

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<sup>193</sup> Bradley and Untiedt (2011), *op.cit.*

<sup>194</sup> Morton M (2009), *Applicability of Impact Evaluation to Cohesion Policy*, Working Paper in the context of the Barca Report, DG Regio, Brussels; Armstrong (2011), *Pushing at the limits of rigorous evaluation*, Presentation to conference evidence based evaluation, 7 July, Gdansk, Poland.

comparative EU basis. In addition, an online evaluation library has been established in 2011 containing summaries of studies carried out by the Member States with a view to promoting exchange of experiences and good practice.<sup>195</sup>

Mirroring the Barca proposals, the evaluation network study on policy achievements in 2007-13 calls for improved monitoring and targeted evaluations.<sup>196</sup> In particular, it underlines the need for better, more coherent and relevant quantitative and qualitative indicators and analysis in annual implementation reports as well as comparable core indicators at EU level.<sup>197</sup> A useful first step could be to require the Member States to make all implementation reports public on the internet in a timely manner, given that they are often only published several months after the Commission has approved the documents or not at all.<sup>198</sup>

In the specific area of RTDI support, more insights are needed into the content and quality of interventions, especially in key EU priorities that remain neglected in existing evaluation studies (e.g. innovation-friendly environment and investment in infrastructure). Further, it calls for more comparative evaluation of RTDI effectiveness in different contexts (impact evaluations of selected measures in different countries and/or regions, as well as case studies on implementation and partnerships), notably of innovation poles and centres of excellence to enable a better understanding of the potential development of regional innovation systems in the EU context. A final, under-explored area that merits greater attention in evaluation work is on the coherence between EDRF interventions and support for human capital development through the ESF.

EU support for institutional infrastructure provides another route to develop monitoring and evaluation capacity in the Member States. For instance, the Commission could have a stronger say in allocating funds towards strategic capacity-building for monitoring and evaluation.<sup>199</sup> This would contribute to improving the sustainability, ownership, consistency and knowledge of evaluated programmes, while supporting the development of an institutionalised culture of evaluation

The need for **institutional capacity** to enhance the policy's performance orientation extends beyond monitoring and evaluation functions to all areas of programme design and delivery. The most prominent Commission proposal in this respect is the introduction of ex-ante conditionalities on administrative and institutional capacity, including implementation assessments (as proposed in the Barca Report). In addition, the Cohesion Report states that funding would continue to be available for developing administrative and institutional capacity, but that eligibility would be extended to all countries and regions (that is, outside convergence regions and cohesion countries). According to DG Regio, this proposal is supported by a comparative study on the quality of government in EU Member States and regions.<sup>200</sup> Yet, the report does not contain any specific recommendations on Cohesion Policy, although it does identify wide variations in the quality of government across the EU, including in developed countries and regions.<sup>201</sup>

<sup>195</sup> 'Evalsed' website: [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/evalsed/evaluations](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evalsed/evaluations)

<sup>196</sup> Applica and ISMERI Europa (2010), *Evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-2013*, Synthesis of national reports 2010, Report to DG Regional Policy, Brussels; Euréval and Rambøll-Management (2008) Meta-study on lessons from existing evaluations as an input to the Review of EU spending, Final Report to DG Budget, European Commission, Brussels.

<sup>197</sup> See also CSIL (2011), *op.cit.*

<sup>198</sup> Mendez, Kah and Bachtler (2011), *op.cit.*

<sup>199</sup> Morton M (2009), *op.cit.*

<sup>200</sup> Dijkstra L (2011), *Quality of government in EU regions*, Short note 01/2011, Regio.c.3(2011)422425, DG Regio, Brussels.

<sup>201</sup> Based on a quantitative analysis of governance and corruption indicators, the study identifies three distinct groupings of countries with high quality of government (Denmark, Sweden, Finland, Netherlands, Luxembourg, Germany, Austria, U.K. and Ireland), moderate quality (France, Spain, Belgium, Malta, Portugal, Cyprus,

A further option could be to earmark or increase the funding for governance and institution-building.<sup>202</sup> By contrast, the recommendations of EU evaluations and ESPON studies tend to place more emphasis on softer measures, such as training, the exchange of experience between regions and Member States<sup>203</sup> and benchmarking of European regions and cities.<sup>204</sup> In the specific domain of RTDI, it is argued that more support for scenario foresight analysis and technological intelligence is needed in Convergence regions,<sup>205</sup> as is being pursued through the recently established smart specialisation platform for regions.<sup>206</sup>

More centralised proposals include the development of an 'institutional capacity' unit in DG Regio to support capacity-building in the Member States, or more use of 'special purpose bodies' for managing and implementing programmes or specific priorities/measures and operating at 'arm's length' from government departments and with Commission oversight.<sup>207</sup> However, there appears to be limited support for a more interventionist Commission role in developing institutional capacity due to concerns about interference in domestic competences.<sup>208</sup> This sentiment is implicit in the Council conclusions on the Fifth Cohesion Report, which states that the main priority should be to ensure that there is 'enough flexibility' for Member States and regions to fund capacity building 'where relevant'.<sup>209</sup> Moreover, an enhanced role for the Commission would arguably require a significant upgrading of its internal capacities. In this vein, proposals put forward in the Barca Report include the establishment of core-priority task forces, reinforced induction training for staff, an upgraded evaluation department, the creation of administrative support teams and a research department.

## 9.4. Conclusions

Monitoring and evaluation is firmly embedded in Cohesion Policy. The regulatory requirements and practice have seen significant improvements over time and are credited with spreading an evaluation culture in old and newer Member States alike. Nevertheless, a series of ongoing and systemic challenges are evident. At the planning stage, indicators and targets often play a marginal role and are not comparable across programmes or countries. The quality of data is variable, and progress reporting remains inadequate during programme implementation. While evaluation has become more needs-based, efforts have

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Estonia and Slovenia) and lower quality of (The Czech Republic, Lithuania, Hungary, Slovakia, Poland, Latvia, Greece, Italy, and especially Bulgaria and Romania). A sub-national survey revealed wide differences between regions in Belgium, Spain, Italy, Portugal, Romania and Bulgaria, while in Denmark, Netherlands, Sweden, Poland, Slovakia and Austria regional differences were insignificant. See: The Quality of Government Institute (2011) "Measuring the Quality of Government and Subnational Variation," DG Regio, Brussels.

<sup>202</sup> Bachtler J. and Gorzelak G, (2007), *Reforming EU Cohesion Policy: A reappraisal of the performance of the Structural Funds*, Policy Studies, 28(4), pp. 309-326.

<sup>203</sup> SWECO (2010), *op.cit.*

<sup>204</sup> ESPON (2010), *New Evidence on Smart, Sustainable and Inclusive Territories*, First ESPON 2013 Synthesis Report: ESPON Results by summer 2010, ESPON, Luxembourg.

<sup>205</sup> Applica and ISMERI Europa (2010), *Evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-2013*, Synthesis of national reports 2010, Report to DG Regional Policy, Brussels.

<sup>206</sup> A three-year scheme for 'smart specialisation' to help national and regional authorities develop original innovation policies was launched at the Regions for Economic Change conference in Brussels on 23 June 2011. The initiative's website is hosted by the JRC, and the web gateway is intended to be a one-stop-shop for all relevant information on EU funding and policy support activities. It will include a database of relevant experts and policy-makers. A peer review mechanism will also be put in place.  
<http://ipts.jrc.ec.europa.eu/activities/research-and-innovation/s3platform.cfm>

<sup>207</sup> Bachtler J, Polverari L, Oraže H, Clement K and Tödting-Schönhofer H (2009), *Ex post evaluation of the management and implementation of Cohesion Policy, 2000-06 (ERDF)*, Report to DG Regio, European Commission, Brussels; Barca (2009) *op.cit.*

<sup>208</sup> Bachtler J and Mendez C (2010), *The Reform of Cohesion Policy after 2013: More Concentration, Greater Performance and Better Governance?*, IQ-Net Thematic Paper, 26(2), European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>209</sup> Council of the European Union (2011), *op.cit.*

been scaled back in several countries, and **impact analysis of interventions is underdeveloped**. The scope for systemic learning, accountability and improvements in policy design is further hampered by the scarcity of public and high-level political debate about programme achievements.

The Commission's proposals aim to address these deficiencies in several ways. First, the formulation of programmes would focus more on the rationale and causal logic (or theory of change) for selected priorities, supported by more rigorous target-setting and ex-ante evaluation. Second, common EU indicators would be obligatory and targets would be linked to categories of expenditure to aggregate policy outputs at EU level and identify linkages with spending on EU priorities. Third, the quality of annual reporting should be improved and more closely aligned with reporting on Europe 2020. Fourth, evaluation planning and reporting would be reinforced by making plans obligatory and requiring the Member States to provide a synthesis of the results of all evaluations undertaken at the end of the period. Last, more effort should be placed on impact evaluations - particularly theory-based and counterfactual approaches - to assess the effectiveness of interventions and programmes, including a requirement for the evaluation of effects of each priority axis.

The proposals build on previous experiences and are in line with the thrust of the recommendations of independent studies. However, while there is widespread support for better monitoring and evaluation among Member States, there are concerns that additional obligations would imply less flexibility in programming and more administrative and reporting burdens. The need for strategic political debate on the results of cohesion policy is recognised, although it remains unclear how this could work in practice and there appears to be no support for the creation of a Council configuration dedicated to Cohesion Policy.

A critical question is how to reinforce the role of the Parliament in strategic debate on the performance of Cohesion Policy, particularly through stronger inter-institutional dialogue with the Commission and Council on the results and achievements of Cohesion Policy. The current proposals remain silent on this issue. Related, it would seem appropriate to require all evaluations and annual implementation reports to be made publicly available as soon as they are approved.

Another issue that remains relatively neglected in the Commission's proposals is the need for a corresponding increase in administrative and technical capacities to design, monitor and evaluate programmes, both in the Member States and the Commission. While the proposals on ex-ante conditionalities seek to improve institutional capacity, the main focus is on programme implementation issues (e.g. project planning and procurement issues) rather than strategic capacity at programme level. On the other hand, proposals to place more priority on direct support for governance and capacity building are likely to be met with resistance from Member States and regions on subsidiarity grounds.



## 10. SHARED MANAGEMENT

### KEY FINDINGS

- The Commission proposes significant changes to management and control systems, based on the Common Agricultural Policy model of annual accreditation, annual clearance of accounts and reporting, the rolling closure of programmes and independent assessment.
- The changes would involve significant administrative costs and disruption and greater uncertainty at the implementation stage.
- There is a strong case for ensuring continuity in the existing management and control systems or at least finding a way to marry the Financial Regulation proposals with the existing arrangements.
- A more pressing priority is to simplify the financial management, audit and control burden on programme managing bodies and beneficiaries, while maintaining a high standard of financial control.

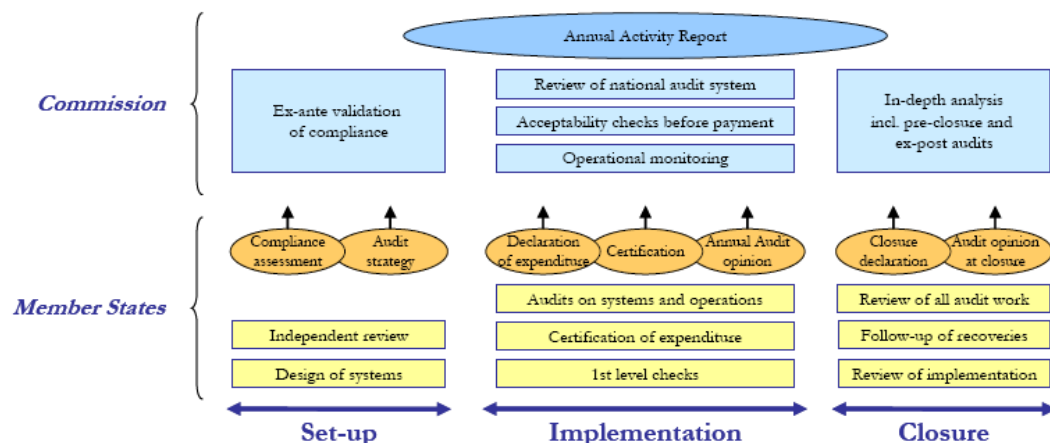
### 10.1. Current arrangements

Cohesion Policy is managed in partnership between the Commission and Member States under the so-called 'shared management' model. This means that implementation is delegated to the Member States along with the requirement to ensure the legality and regularity of the expenditure and sound financial management. Nevertheless, the final responsibility for the EU budget lies with the Commission, which must fulfil its supervisory role and implement financial corrections where necessary.

The assurance system for shared management comprises various functions during the programme cycle. At the ex-ante stage, a compliance assessment of management and control systems and audit strategies provide assurance that the set-up of Member States systems is sound and that their Audit Authorities will review the systems throughout the period. The systems and strategies are approved by the Commission, which is authorised to withhold payments until the required standards are met.

During implementation, three levels of controls in the Member States are undertaken by (see Figure 5): the Managing Authority (operational verifications and checks); the Certifying Authority (preceding certification of expenditure); and the Audit Authority (independent audit of systems and transactions). The Commission's assurance is based on regular reports on audit activities in the Member States and its own audits. It also receives annual implementation reports and participates in Monitoring Committees.

The final stage of the assurance process is programme closure. At Member State level, this involves the settling of final accounts, final controls and drawing final conclusions on the legality and regularity of expenditure in closure reports. The Commission checks that the programmes are properly justified, including ex-post audits, before approving the closure reports and releasing the final five percent of EU funding allocated to the programme.

**Figure 5: Control strategy for the Funds under shared management**

**Source:** European Commission (2010) Annual Activity Report 2009, Directorate General Regional Policy, Brussels, p. 23.

Aside from the internal control framework, the European Court of Auditors is charged with undertaking external audits of systems and expenditure at EU and Member State levels. The Court's findings are reported in its annual 'Statement of Assurance' (or 'DAS', following its French acronym) on the reliability of the EU's accounts, including a specific chapter on Cohesion Policy in its Annual Report. This provides a key source of information for the EU's discharge procedure, the political accountability dimension of external control whereby the European Parliament grants, at the Council's recommendation, the Commission formal release for the year's budget.

## 10.2. Strengths and weaknesses

The present arrangements for shared management in Cohesion Policy have involved a step-change with respect to past periods and have several strengths.<sup>210</sup> First, the system is better geared to provide assurance, particularly with the introduction of preventative elements from the outset of the period. Second, the rules are clearer and more firmly embedded in working routines and practices. Third, there is a relatively clear division of functions and responsibilities between the different actors at EU and national level. Last, the system is credited with having generated positive spillover effects on domestic systems and enhancing administrative capacity.

The most visible weakness in the assurance system is the high error rate. The continued failure to meet the two percent threshold used by the Court of Auditors to assess materiality implies that the system has not been able to deliver reasonable assurance for the appropriate use of Cohesion Policy expenditure since the Court's first statement of assurance in 1994.<sup>211</sup> This has arguably become the main focus of debate on Cohesion Policy in the Parliament and the media, particularly as it is the policy area with the highest level of irregularities, casting doubt on the effectiveness of the policy more generally and

<sup>210</sup> Davies S, Gross F and Polverari L (2008), *The Financial Management, Control and Audit of EU Cohesion Policy: Contrasting Views on Challenges, Idiosyncrasies and the Way Ahead*, IQ-Net Thematic Paper, 23(2), European Policies Research Centre, University of Strathclyde, Glasgow; CSIL (2010), *Lessons from shared management in cohesion, rural development and fisheries policies*, Final Report, DG Regio, Brussels; DG REGIO (2010), *Evaluation of the compliance assessment process*, Internal DG Regional Policy working document for discussion purposes, Post 2013 Working Group, DG REGIO, Brussels.

<sup>211</sup> Barca F (2009), *op.cit.*



even shedding a negative light on the EU.<sup>212</sup> There is preliminary evidence that the strengthened ex-ante approach at the start of the 2007-13 period has improved assurance. The Court's annual report for 2009 estimates a much lower error rate than in previous years, although it remains the policy most affected by error.<sup>213</sup> Moreover, these estimates need to be treated with caution because the risk of error is lower in the payments made at the start of the new period as they are not representative of the more complex projects funded<sup>214</sup>, and the Court's sample focused on small countries situated in the North West and North East of the EU.<sup>215</sup>

The intractability of this assurance problem has several sources. The complexity of the rules governing Cohesion Policy is the most commonly cited reason for the high level of irregularities. These rules are not only specific to Cohesion Policy, but also derive from a range of other EU policies and horizontal rules. The most problematic of these concern public procurement rules, accounting for the highest share of irregularities, followed by State aid and environmental policy rules. This has led to increasing concerns about Cohesion Policy becoming a 'police force'<sup>216</sup> or 'filter'<sup>217</sup> through which errors in the implementation of other EU legislation is detected and compliance enforced. Moreover, it raises questions of fairness because the impacts are relatively greater in the poorer Member States and regions where Cohesion Policy funding is concentrated. It should be noted, however, that most of the detailed eligibility rules are decided at national level in this period, while the practice of 'gold plating' (through the national interpretation of EU regulations) is also responsible for regulatory complexity.<sup>218</sup>

The specific governance characteristics of Cohesion Policy also explain the high level of irregularities. The multi-level governance model has high inherent risk as it involves a multitude of bodies at different territorial levels in the management of programmes or parts of programmes, and thousands of beneficiaries implementing individual projects across the public and private sectors in each Member State. These characteristics are not sufficiently acknowledged in the EU's approach to assurance, which employs a uniform materiality threshold to all budgetary areas. Further, the Commission argues that the Court's annual reports over-estimate the level of financial irregularities over the entire period because they do not allow for the fact that many of the errors found are likely to be remedied in later years by the Member States' own control and audit systems.

While acknowledging these problems, the European Parliament's budgetary control committee and the Court of Auditors argue that the Member States shoulder a significant share of the blame for the high error rate, underlining the **lack of political responsibility** and accountability over expenditure and a relaxed approach to enforcement. For instance, a common criticism in the Court's Annual Reports is that financial corrections are not applied forcefully or speedily, and that Member State systems and controls are often ineffective and unreliable.

Yet, the Member States criticise the assurance system precisely for the excessive focus on punitive enforcement and the intensity with which audit and control rules have been

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<sup>212</sup> Barca (2009), *op.cit.*

<sup>213</sup> European Court of Auditors (2010), *Annual Report concerning the financial year 2009*, Official Journal of the European Union, OJ C 303(53), 9.11.2010.

<sup>214</sup> European Commission (2011), *DG Regional Policy 2010 Annual Activity Report*, DG Regional Policy, Brussels.

<sup>215</sup> European Parliament (2010), *Discharge: MEPs critical of EU 2009 budget implementation*, EP Press Release, Committee on Budgetary Control, 10.11.2010, Brussels.

<sup>216</sup> CSIL (2010), *op.cit.*

<sup>217</sup> Barca (2009), *op.cit.*

<sup>218</sup> SWECO (2010), *Regional governance in the context of globalisation: Reviewing governance mechanisms & administrative costs*, Revised Final Report, DG Regional Policy, Brussels.

applied since the mid-2000s.<sup>219</sup> Driven by the 1999 financial management crisis and the ongoing pressure to reduce the error rate, the 'audit explosion' in Cohesion Policy has fuelled a culture of control and compliance across all aspects of programme administration.<sup>220</sup> The associated increase in costs and workload has reduced the capacity and incentives to monitor strategic performance and deliver programme goals effectively, and there is evidence that beneficiaries are being discouraged from accessing Structural Funds, especially high-risk and innovative projects which consider domestic founding sources to be less complex and demanding.<sup>221</sup> As a result, working relations and trust between the Commission and Member States have been strained, particularly due to the perception of rules being applied unfairly or retroactively by the Commission.<sup>222</sup>

It is the disproportionate force of the rules that has become the most salient criticism of the assurance system in recent years, notably in countries or regions receiving relatively small shares of funding. The introduction of the principle of proportionality in the 2007-13 period offers flexibility for smaller programmes on monitoring indicators, evaluation, implementation reporting and some management and control issues. However, the principle's scope of application is limited, and it does not sufficiently address differences in risk or types of investment.

A further systemic issue concerns the distribution of competences in shared management. It is often argued that the separation of roles between EU and national levels is not clearly articulated. In principle, the system is supposed to follow the 'single audit model' whereby each level builds and relies on the assurance of the previous level. For instance, the Commission can rely on the results of the compliance assessment and the work of national authorities, where they are effective, instead of undertaking its own controls during programme implementation. Whether this is being applied in practice remains uncertain.<sup>223</sup> Related, the coordination of audit and control activity is regarded as being insufficient among different EU institutions and with national audit and control bodies,<sup>224</sup> while the work of certification authorities is criticised for duplicating that of managing authorities within the Member States.<sup>225</sup>

A final deficiency in the assurance model is that the approach to audit is too heavily focused on financial compliance, contrasting with the increasing shift towards performance audit in other countries and international best-practice standards.<sup>226</sup> The focus on regularity and legality of transactions, in a traditional financial audit sense, means that the sound financial management principles of economy, efficiency and effectiveness remain a second-order priority. A positive development in Cohesion Policy during the current period is the introduction of simplified cost options because it involves a departure from the principle of 'real costs' and implies that auditors will have to focus more on outputs rather than on inputs and the costs of projects. However, there are a number of limitations which have constrained the use of this reimbursement method, such as the high workload

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<sup>219</sup> Mendez and Bachtler (2011), *op cit*; Levy R, Barzelay M and Porrás-Gómez A (2011), *The Reform of Financial Management in the European Commission: A Public Management Policy Cycle Case Study*, Public Administration, early view.

<sup>220</sup> Mendez and Bachtler (2011), *op.cit*.

<sup>221</sup> Davies S et al. (2008), *op.cit*; Applica and ISMERI Europa (2010), *Expert Evaluation Network Delivering Policy Analysis on the Performance of Cohesion Policy 2007-2013*, Task 1: Policy Papers on Innovation Synthesis Report, Report to DG Regional Policy, Brussels.

<sup>222</sup> Davies S et al. (2008), *op.cit*; Joint comments by the Federal Government and the Länder on the European Commission's fifth report on economic, social and territorial cohesion.

<sup>223</sup> Michie R (2011), *Programmes under continued pressure: Review of programme implementation, Winter 2010 – Spring 2011*, IQ-Net Review Paper, 28(1), European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>224</sup> Davies *et al.* (2008), *op.cit*.

<sup>225</sup> SWECO (2010), *op.cit*; CSIL (2010), *op.cit*.

<sup>226</sup> Mendez and Bachtler (2011), *op.cit*.

involved in establishing the system, methodological difficulties, lack of legal certainty and the restriction in the scope of the option to grant-based instruments.

### 10.3. Proposals and counter-positions

The strapline for the Fifth Cohesion Report proposals for reforming the assurance system is a 'streamlined and simpler delivery model,' while 'greater flexibility' and 'greater reduction of the risk of error' are identified as core priorities in the Commission's Budget reform proposals on Cohesion policy.<sup>227</sup> The key proposals include changes to the management and control system, reforms to the reimbursement methods, the extension of simplified costs options and more proportionality and differentiation.

#### 10.3.1. Management and control systems

The key principles of the proposed changes to the delivery system are derived from the amendments to the Financial Regulation relating to all shared management policies, which would essentially apply the existing model used for the agricultural funds to Cohesion Policy.

- **Accredited body:** An accreditation process would be established for the main management body, which would assume sole responsibility for the management and control of the funds. Separate managing and certification authorities would not be needed as the system is based on two control layers, the accredited body (fusing managing and certification functions) and an audit body (for independent audit and control). There would be no restrictions on the number of accredited bodies in a country (i.e. a single body at national level or a body per programme or region) and the body's tasks could still be delegated to intermediate bodies. The main difference is that overall responsibility would be concentrated in the accredited body.
- **Accreditation process:** The objective of the accreditation would be to provide ex-ante assurance on the set-up of management and control systems on the basis of an independent audit, as was the case under the compliance assessment. The main difference would be that the Commission's role would be reduced, either by not requiring its validation or by limiting its involvement e.g. to cases with high risk due to the failure to provide assurance during this period, or where significant changes to systems are introduced. Detailed rules and criteria would be needed in the regulations to determine minimum standards for the approval of management and control systems and to establish when and how the Commission can intervene in the approval process. The underlying rationale is to increase the commitment by Member States to assurance and to simplify the process.
- **Annual management declarations:** The accredited body responsible for managing programmes (i.e. the current Managing Authority) would provide the Commission by 1<sup>st</sup> February each year with: (a) accounts of payments and control activity; (b) a management declaration on the reliability of systems and the legality and regularity of expenditure; and (c) an independent audit opinion. At present only some of this information is provided annually (e.g. annual statements on recoveries and the audit opinion, but with different timing requirements), while a management declaration is not required. The rationale for this proposal is to link annual assurance from national

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<sup>227</sup> European Commission (2011), Commission Staff Working Paper on A Budget for Europe 2020: the current system of funding, the challenges ahead, the results of stakeholders consultation and different options on the main horizontal and sectoral issues, Accompanying the document - Commission Communication, A budget for Europe 2020, SEC(2011)868, 29.06.2011, Brussels.

authorities more explicitly to the expenditure of the financial year covered by the annual activity report and budget discharge process at EU level.

- **Annual clearance of accounts and rolling closure:** The approval by the Commission of the above documents would provide the basis for an annual clearance of accounts, which would facilitate a rolling partial closure of programmes. At present, closure takes place after the programme period has ended. Although partial closure is possible, it is not mandatory. The main advantage of the proposals is timely clearance of accounts (strengthening the discharge exercise), while a rolling closure approach could increase legal certainty and reduce the audit trail burden associated with rules on the retention of documents.

The requirements of this proposed model prompted several concerns among national policy-makers in the High-Level Group discussions. First, complexity, administrative burden and costs could increase, as the model involves substantial organisational change and requires additional reporting obligations. Second, and related, the proposed timetables for reporting to the Commission are tight and could be difficult to follow. Third, the requirement for a management declaration could be problematic in some countries due to the dispersed distribution of responsibilities and because the signatories may not be in a position to take full responsibility. Last, the introduction of the two-layer control framework may reduce the reliability of existing systems in some Member States, where the certifying authority provides a useful and effective check on the first level controls of the managing authority.

#### **Box 11 National Positions on management and control systems proposals**

- Proposals could be beneficial in the long-term under specific conditions (UK)
- Stability needed rather than reform (AT, BE, CZ, DK, ES, FR, LU)
- Existing rules and practice should be rigorously evaluated (DK, PT, SE)
- The rules need to be ready early and prepared with MS (CZ, HU)
- Major concerns among many Member States
  - increased administrative burden (AT, ES, IE, HU, IT, PL, SK)
  - increased uncertainty and risks (DE, ES, HU)
  - may decrease assurance (DE), particularly by eliminating the certification authority (HU)
  - limited or no simplification and proportionality (FR, IE)
  - no added value or evidence base for changes (AT, CZ, ES, FR, HU, SK)
  - disregards CP specificities (AT, BE, IT), i.e. multi-annual approach (IT, SK), ETC OPs (HU)
  - no account taken of current improvements in systems and learning (FR, GR, HU, IE, PL, PT, SK)
  - unrealistic deadlines for conducting audits, finalising findings and reporting (AT, FR, HU, PL)
  - enforces major organisational change unnecessarily (DE, PL, SK)
  - duplication problems as the system would have to co-exist with the current one (PL, SK).
  - operational difficulties with annual declarations in highly devolved systems (FR)

**Source:** National position papers on Fifth Cohesion Report

As regards political feasibility, there seems to be little support among the Member States for the changes. In fact, they were arguably the most criticised aspect of the Commission's proposals (Box 11). The only country to offer (qualified) support was the UK, noting that there were potential efficiency and rationalisation savings from a common, integrated

system for financial management, audit and control across all the shared management Funds. However, it also underlined that change would have to be managed carefully to avoid disruption and that it could only support the proposals if they were accompanied by a more risk-based and proportionate approach to financial controls with reduced administrative burdens.

### 10.3.2. Reimbursements

The Cohesion Report puts forward three options for reforming the approach to reimbursements. First, they could be **paid by the Commission on the basis of payments made by the Member States to beneficiaries**, again following existing arrangements in the agricultural policy funds. At present, national authorities are not required to reimburse the public contribution to beneficiaries prior to certifying the expenditure to the Commission, although it is standard practice in some countries.

The rationale behind the proposal is to encourage Member States to speed up payments and to incentivise stronger checks of expenditure before submitting claims. The main drawback is that it could lead to decreased liquidity in some countries, unless it is accompanied with increased advances from the Commission. Related, there could also be a greater risk of decommitment, if domestic procedures or approaches to administering and transferring committed funding to beneficiaries are not expedited.

Political support for this proposal seems to be limited. Only one Member State offered support in the Cohesion Report consultation, noting that the idea should be given consideration (Latvia). Several other countries expressed disapproval (Belgium, Cyprus, France), but most others did not offer an opinion.

A second proposal is the introduction of **output or results-based disbursements** for OPs or parts of OPs, potentially in the form of 'joint action plans'.<sup>228</sup> The underlying rationale is to reinforce the results-based approach by increasing the incentives and pressure on programme administrators and beneficiaries to deliver outputs. The main drawbacks are threefold. First, liquidity difficulties could arise, as payments would be withheld until targets are reached. Second, there would be methodological challenges in establishing and measuring reliable targets and in assessing the causal links between actions and outputs/results. Third, the costs of programme administration would rise because of the need to establish, negotiate and report on targets, as well as increasing the reporting burden on beneficiaries.

This proposal received limited attention in the national responses to the reform consultation questions on assurance, although it is closely related to the issue of conditionalities discussed in detail earlier. Those countries that did respond provided a mixed assessment. For instance, Germany was sceptical on the basis of the drawbacks identified above. By contrast, the Dutch response argued that it was a necessary condition for moving towards a results-based system, on the assumption that it would be accompanied by a shift towards performance auditing and away from financial checking and auditing of real costs and detailed eligibility rules. Yet, other countries note that eligibility of costs, application of procurement rules and other principles would still have to be verified (Estonia).

A performance shift is implicit in the rationale of the final proposal on reimbursements, which is to **promote the simplified costs approach**. Specific measures or options on how this can be achieved in practice are not provided in the Cohesion Report, but the principle does offer potential for increasing simplification and shifting the financial management, control and audit focus to outputs instead of the costs of projects.

<sup>228</sup> European Commission (2011), *A budget for Europe 2020 - Part II: Policy fiches*, COM(2011)500 final of 29 June 2011, Brussels.

As regards political feasibility, a limited number of Member States expressed clear support for an extension of the simplified costs options in the reform consultation (Belgium, Cyprus, Latvia, Slovak Republic). Mirroring discussions in the High-Level Group on the future of Cohesion Policy, several proposals were put forward on how this could be supported:

- by agreeing, at EU level, standard rates by types of expenditure at the start of the period for all Member States and only requiring justification to the Commission if the rate is exceeded (Belgium);
- by relaxing the requirements for small projects, such as allowing higher ceilings (e.g. €100,000 instead of €50,000) for lump sums (France); and
- by providing flexibility to apply the approaches used in other EU policy areas (Cyprus), e.g. the standard unit costs used in EU research policy (Framework Programmes) for research and innovation grants.

### 10.3.3. Proportionality

The Commission suggests that it would be useful to examine how control measures could be made more cost-effective and risk-based in order to improve their effectiveness and efficiency while ensuring adequate coverage at a reasonable cost.

Again, no specific options are put forward in the Cohesion Report, although **the proportionality principle** does provide a promising avenue for pursuing administrative simplification measures. A potential drawback, implicit in the nature of the principle, is that it will lead to unequal treatment, particularly if it is applied on the basis of the size of financial allocations to programmes as is the case at the moment (i.e. by providing more flexibility in richer countries / regions and stricter obligations for the main beneficiaries).

This issue of fairness was underlined in several of the national contributions to the Cohesion Report (e.g. Czech Republic, Hungary, Italy), yet the need for greater proportionality has universal support in the national position papers. The critical question, for which there is no political consensus, is how this can be done. The main criteria proposed for determining the application of the principle include not only the financial size of the programme (Belgium, Cyprus, Denmark, Finland, Ireland, Netherlands, Sweden), but also the size, type, form and targets of assistance (Bulgaria, France, Italy) or track record / risk (Belgium, Cyprus, Denmark, Finland, Ireland, UK).

An approach based on risk or track record to differentiation is implicit in the notion of a 'single-audit' model. As a guiding principle for reforming the assurance model, this concept commands widespread support because it implies that greater reliance and trust would be placed on national systems or, at a minimum, that there should be more coordination between the different levels in the system (e.g. Cyprus, Estonia, Finland, France, Greece, Finland, Italy, Latvia, Netherlands, Portugal, Spain, Slovakia, Sweden and UK). In this vein, several countries called for the concept of 'contracts of confidence' to be reintroduced (e.g. Estonia, France), implying a more legally-binding commitment to the single-audit model, while others proposed specific limits to Commission audits, for example: reducing its scope of action to completed projects (Bulgaria); to Member States' systems (Finland); or to performance audits (Poland).

### 10.3.4. Tolerable risk of error

The concept of Tolerable Risk of Error was first suggested by the Court of Auditors in its 2004 opinion on the Single Audit Model.<sup>229</sup> It acknowledged that different areas of policy expenditure are subject to different risks profiles due to their management mode, the

nature of the actions and the interaction with final beneficiaries. The implication is that the current threshold of two percent may need to be increased for some policy areas to reflect these differences. The Commission has included the concept in the draft Financial Regulation and proposals were made for several policy areas in 2010 (rural development, research and energy transport policies). Proposals for Cohesion Policy are expected shortly.

As noted, the rationale for introducing different levels of materiality for different policy areas is that variation is necessary to reflect the different levels of complexity and the associated costs of the additional controls that would be required to reduce error levels to acceptable levels. The main drawback from a Cohesion Policy perspective is that it could reduce the incentive to undertake more fundamental simplification of the existing regulatory framework, which is arguably the main reason for the high level of errors and the administrative burden associated with the assurance model.

Although proposals or consultation questions on the tolerable risk of error were not included in Fifth Cohesion Report, several Member States did offer support for differentiation across policy areas or an increase in the threshold for Cohesion Policy in their responses (e.g. Greece, Hungary, Latvia). By contrast, one country cautioned against reform in the absence of a thorough assessment of the current regime (UK). Further, it was argued that this debate should not detract from the simplification agenda, which must remain a top priority if the underlying structural problems in the assurance model are to be addressed (Hungary, UK). Other proposals included the need for more clarity and accuracy in the definitions of error, irregularity and fraud (Hungary, Slovak Republic).

## 10.4. Conclusions

The Commission's proposals for reforming the Cohesion Policy assurance model aim to simplify and streamline delivery. They include a combination of incremental and radical changes to existing rules and arrangements. The most far-reaching proposals concern the management and control systems architecture, essentially transferring the current Agricultural policy model to Cohesion Policy through annual accreditation, annual clearance of accounts and reporting, the rolling closure of programmes and independent assessment.

The feedback from national experts and position papers on the future of Cohesion Policy is overwhelmingly negative. Rather than seeking to simplify or streamline delivery, the suspicion is that the real motivation is to reduce the error rate by devolving more responsibilities and obligations to the Member States. The general view is that changes to existing legal and institutional frameworks of this scale would entail more administrative costs and disruption, at least in setting up the systems, as well as greater uncertainty at the implementation stage, which could actually decrease the level of assurance.

Aside from the questionable policy, institutional and administrative benefits, the evidential basis for the proposals is not clear, lacking justification from impact analyses, academic research, evaluation studies, policy practice or other sources influencing or justifying the changes. A comparison of the shared management funds' systems, based on interviews with a limited number of Commission officials from several DGs, provided a mixed assessment of the agricultural policy model and the lessons for Cohesion Policy. Moreover, the Commission has stressed in various communications and its annual activity reports that the current assurance model has improved significantly compared to the past, although the full effects will only be known towards the end of this period.

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<sup>229</sup> Opinion 2/2004 of the Court of Auditors of the European Communities on the single audit model (and a proposal for a Community internal control framework), OJ C107, 30.4.2004, p. 1.

The main message from other evaluation studies, policy research and Member State position papers is that simplification and greater reliability requires a stable legal and institutional framework. This is particularly pertinent in the 2007-13 period, which involved significant investment in resources, the setting up of new structures and IT systems and the training of staff. Based on these considerations, there is a strong case for ensuring continuity in the existing management and control systems or at least finding a way to marry the Financial Regulation proposals with the existing arrangements.

A more pressing priority is to simplify the financial management, audit and control burden on programme managing bodies and beneficiaries, while maintaining a high standard of financial control. Proportionality must be part of the solution, placing more reliance on national systems where they are proven to be effective. The extension of simplified reimbursement procedures for overheads like standard unit costs and lump sums could be beneficial, but further clarification and assessment of the current application of simplified costs is needed; the low-take up of these provisions suggest that the actual impact on simplification has been limited to date.



## 11. ADDED VALUE

### KEY FINDINGS

- The concept of added value embodies many different meanings in Cohesion Policy discourse and policy documents, covering development impacts, administrative, learning, visibility effects, as well as spillovers on domestic systems and the related innovation and efficiency improvements.
- The potential added value of non-grant financial instruments is well-recognised, although the case for eliminating direct grants is weak and has little support. There is more widespread agreement on the need for simpler, clearer and more flexible rules from the outset of the next period.
- Alignment of the additionality principle with EU economic surveillance process may simplify reporting and eliminate inconsistencies between the processes, but the question remains how to ensure that Cohesion policy expenditure is genuinely additional to domestic expenditure on regional development.
- The question of policy additionality process has received limited attention. There is arguably a strong case for allocating a small share of total resources to the Commission to promote policy experimentation and a firmer commitment to policy added value should be required in programme documents and subsequent assessments. A more flexible decommitment rule would also help.
- The partnership principle could be strengthened through more precise and verifiable regulatory requirements, the introduction of a soft law approach and extended use of technical assistance. The Commission has not yet made any proposals, while national policy-makers are likely to seek maximum flexibility.

### 11.1. Current arrangements

The concept of Community added value has attracted much attention from academics and policy-makers since the 2000s. In the Cohesion Policy domain, it essentially refers to the economic and non-economic policy effects and additional benefits with respect to domestic policies. Nevertheless, much like the notion of cohesion, it remains a fuzzy and ill-defined concept. Indeed, there are very few references or regulatory obligations connected to added value in the governing legislation. The General Regulation's preamble states that the European territorial cooperation objective has 'particular value added' and that this justifies the increase in its allocated resources, while the main body of the text contains regulatory requirements to identify the Community added value of programmes in ex-ante evaluations and in the publicity and communication strategies. Yet, the legislation does not specify what is meant by added value. The Commission's guidance on evaluation for 2007-13 is similarly vague, although it does identify several evaluative criteria or dimensions of added value:<sup>230</sup>

- economic and social cohesion;
- policy added value in relation to Community priorities;
- financial, in terms of additionality and leverage effect;

<sup>230</sup> European Commission (2006), *The New Programming Period 2007-2013, Indicative Guidelines on Evaluation Methods: Ex Ante Evaluation*, Working Document No.1, DG Regio, Brussels.

- implementation method, including partnership, multi-annual planning, monitoring, evaluation and sound financial management; and
- the exchange of experience and networking at a transnational, national or regional level.

Similar aspects of added value were outlined in the Fourth Cohesion Report, which set out the building blocks of the reform proposals for the 2007-13 period.<sup>231</sup> In an unofficial contribution to the debate, the director of DG Regio's evaluation unit reformulated the above dimensions by subsuming the financial element within policy added value and by adding a visibility dimension along with a range of sub-dimensions (Table 15).

**Table 15: Dimensions of added value in EU Cohesion Policy**

<b>Cohesion</b>	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
<b>Policy</b>	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
<b>Implementation rules</b>	Partnership arrangements Project generation, appraisal / selection Monitoring systems / frameworks Evaluation culture Audit / control
<b>Learning</b>	Exchange of experience Networking Dissemination of good practice
<b>Visibility</b>	Enhanced participation of local actors, businesses and civil society

Source: Mairate (2006)

<sup>231</sup> See Part 4 on 'Impact and Added Value of Structural Policies'; European Commission (2004), *A New Partnership for Cohesion: Convergence, Competitiveness, Cooperation*, Third Report on Economic and Social Cohesion, Office for Official Publications of the European Communities, Luxembourg.

## 11.2. Strengths and weaknesses

The concept of added value embodies many different meanings in Cohesion Policy discourse and policy documents, covering development impacts, administrative, learning, visibility effects, as well as spillovers on domestic systems and the related innovation and efficiency improvements.

A considerable amount of research confirms the positive effects of Cohesion Policy across these various dimensions.<sup>232</sup> For instance, the ex-post evaluation of the 2000-06 period provides evidence of positive spillovers from Cohesion Policy implementation principles, particularly multi-annual programming, partnership-working, monitoring and evaluation.<sup>233</sup> A more recent study on the 2007-13 programmes underlines the particularly strong influence on policy objectives and governance in EU12 countries,<sup>234</sup> while identifying significant spillovers in several EU15 countries, e.g. in relation to territorial or thematic integration of regional policy, multiannual programming (Italy), stronger reporting, monitoring, evaluation, financial management and partnership-working (Greece), and strategy timing alignment (Spain). There is also evidence of governance principles being adopted or significantly strengthened under the influence of Cohesion Policy in more developed countries, including improved coordination between actors or between domestic and EU regional policy governance (Austria, France, Netherlands, Sweden) and evaluation practice (Belgium).

The nature and intensity of added value is by no means universal across or within Member States, over time or across the different dimensions of added value. For instance, policy and financial added value is not always easy to detect. This is not only due to data limitations or methodological difficulties in establishing causation, but also because Cohesion Policy funding is generally used to support the development policies pursued in Member States, either by reinforcing funding or by complementing domestic policies by being concentrating in areas where funding is less important.<sup>235</sup> This is particularly evident in RTDI support, which increased significantly as a share of Cohesion Policy funding but did not necessarily shift the share or content of domestic funding and policies in this policy area.<sup>236</sup> Indeed, at project level, it is commonly argued that the complexity of EU funding procedures and rules has incentivised the most straight-forward and least risky projects to be supported.<sup>237</sup> And from a financial perspective, it is not possible to verify that the **additionality** principle has been respected as data on spending on regional development

<sup>232</sup> Bachtler J and Taylor S (2003), *The Added Value of the Structural Funds: A Regional Perspective*, IQ-Net Thematic Paper on the Future of the Structural Funds, European Policies Research Centre, Strathclyde University, Glasgow; Mairate A (2006), *The 'added value' of European Union Cohesion Policy*, *Regional Studies*, 40, 2, pp. 167-177.

<sup>233</sup> Bachtler J, Polverari L and McMaster I (2009a), *The added value of EU Cohesion Policy (2000-2006) in the EU15*, Comparative Report, Task 3, Ex post evaluation of Cohesion Policy programmes co-financed by the ERDF (Objectives 1 and 2), Work Package 11: *Management and Implementation Systems*, Report to the European Commission, DG Regio, August 2009; Bachtler J, Polverari L, Oraže H, Clement K and Tödtling-Schönhofer H, with Gross F, McMaster I and Naylor I (2009b), *Ex post evaluation of the management and implementation of Cohesion Policy, 2000-06 (ERDF)*, Report to the European Commission, DG Regio, Brussels.

<sup>234</sup> EPRC and EUROREG (2010), *op.cit.*

<sup>235</sup> Applica and ISMERI Europa (2010), *Evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-2013*, Synthesis of national reports 2010, Report to DG Regional Policy, Brussels.

<sup>236</sup> Applica and ISMERI Europa (2010), *Expert Evaluation Network Delivering Policy Analysis on the Performance of Cohesion Policy 2007-2013*, Task 1: Policy Papers on Innovation Synthesis Report, Report to DG Regional Policy, Brussels; see also Mendez (2011), *op.cit.*; Koschatzky K and Stahlecker T (2010), *A new Challenge for Regional Policy-Making in Europe? Chances and Risks of the Merger Between Cohesion and Innovation Policy*, *European Planning Studies*, 18(1), pp. 7-25.

<sup>237</sup> Applica and ISMERI Europa (2010), *Expert Evaluation Network Delivering Policy Analysis on the Performance of Cohesion Policy 2007-2013*, Task 1: Policy Papers on Innovation Synthesis Report, Report to DG Regional Policy, Brussels.

are unavailable in most countries, and for those that data are available it is not satisfactory or comparable to data on Cohesion Policy expenditure.<sup>238</sup>

It should be noted that the General Regulation specifies that the Funds may be used to 'complement' national policies; there is no regulatory requirement that they should add value to the content of domestic policies as such. The Commission's mandate to add value in policy content terms has been further curtailed by the reduced level of detail required on policy interventions in the 2007-2013 programmes and by the decision to discontinue the innovative actions programmes, which had previously provided the Commission with the possibility to pursue a more 'hands-on' role in the promotion of experimental interventions or projects in the Member States and regions.<sup>239</sup>

Similar arguments apply to the governance or management and implementation dimensions of added value. Evaluations report that the more developed countries tend to use Cohesion Policy instrumentally through coordination with long-established domestic systems,<sup>240</sup> although newer Member States tend to see Cohesion Policy as an instrument to develop and improve existing institutional systems, operational abilities and institutional culture.<sup>241</sup> Yet, even in the new Member States there is limited evidence of spillover effects into non-EU funded development policies or other public policies unrelated to regional development.<sup>242</sup>

The partnership principle is often identified as one of the main areas of added value. By requiring the collective participation of partners from different levels (EU, national, regional and local) and horizontal stakeholders (business representatives, trade unions, NGOs, etc) in the design and delivery of programmes, the principle has encouraged more inclusive and regionalized policy-making and is credited with contributing to decentralisation trends across Europe.<sup>243</sup> However, the roles of regional and local institutions in the various policy stages varies greatly, raising questions about the levels of regionalisation and regional participation in Cohesion Policy programmes.<sup>244</sup> As noted earlier, the policy process remains dominated by national governments in countries with centralised political systems.<sup>245</sup> Even in EU12 countries with regional governments, the vast majority of funding

<sup>238</sup> ISMERI-Europa and Applica (2010), *Distribution of Competences in relation to Regional Development Policies in the Member States of the European Union*, Final Report, DG Regional Policy, Brussels; Ward T and Wolleb E (2010), *Ex-Post Evaluation of Cohesion Policy programmes 2000-06 co-financed by the ERDF (Objective 1 & 2)*, Synthesis Report, DG Regional Policy, Brussels.

<sup>239</sup> Barca (2009), *op.cit.*

<sup>240</sup> EPRC and EUROREG (2010), *op.cit.*; Yesilkagit K. and Blom-Hansen J (2007), *Supranational governance or national business-as-usual?*, The national administration of EU Structural Funds in the Netherlands and Denmark, *Public Administration*, 85(2), pp. 503-524.

<sup>241</sup> EPRC and EUROREG (2010), *op.cit.*

<sup>242</sup> EPRC and EUROREG (2010), *op.cit.*

<sup>243</sup> Hooghe L (ed.), *Cohesion Policy and European Integration: Building Multilevel Governance*, (Oxford: Oxford University Press).

<sup>244</sup> Bachtler et al. (2009b), *Ex post evaluation of the management and implementation of Cohesion Policy, 2000-06 (ERDF)*, Report to the European Commission, DG Regio, Brussels; Bachtler, J and McMaster I (2008), *EU Cohesion Policy and the role of the regions: investigating the influence of Structural Funds in the new member states*, *Environment and Planning C-Government and Policy*, 26(2), 398-427; Graziano, P (2010), *From Local Partnerships to Regional Spaces for Politics? Europeanization and EU Cohesion Policy in Southern Italy*, *Regional & Federal Studies*, 20(3), pp. 315-333.

<sup>245</sup> See also: Bache I (2010), *Partnership as an EU Policy Instrument: A Political History*, *West European Politics*, 33(1), 58-74; Andreou G (2010), *The domestic effects of EU cohesion policy in Greece: islands of Europeanization in a sea of traditional practices*, *Southeast European and Black Sea Studies*, 10(1), 13-27. Bache I, Andreou G, Atanasova G, Tomsic D (2011), *Europeanization and multi-level governance in south-east Europe: the domestic impact of EU cohesion policy and pre-accession aid*, *Journal of European Public Policy*, 18(1), pp.122-141; Dobre A.M (2010), *Europeanization and new patterns of multi-level governance in Romania*, *Southeast European and Black Sea Studies*, 10(1), 59 - 70; Yanakiev A (2010), *The Europeanization of Bulgarian regional policy: a case of strengthened centralization*, *Southeast European and Black Sea Studies*, 10(1), 45 - 57; Andreou G and Bache I (2010), *Europeanization and multi-level governance in Slovenia*, *Southeast European and Black Sea Studies*, 10(1), pp. 29-43.

is allocated to sectoral programmes that are governed in a centralised way.<sup>246</sup> A more generalised criticism is that the extent of involvement and influence of non-public sector bodies in programme decision-making processes remains limited across Europe, particularly at the implementation stage;<sup>247</sup> these actors often do not have the resources to actively participate or influence programme design and implementation, compounded by the complexity of the rules. The sustainability of partnership working can also be questioned, particularly where funding is in decline and partnership-based management arrangements have been rationalised.<sup>248</sup> Lastly, there is limited evidence in the academic or evaluation literatures that the principle has led to better policy outcomes than would otherwise have occurred, i.e. in terms of the quality of projects selected.

The horizontal principles have been criticized on similar grounds. Evaluation evidence suggests that the gender equality priority had limited effect on projects, although it may have contributed to the creation of gender equality bodies and the raising of awareness.<sup>249</sup> More significant effects necessitate political commitment, in which case action would probably have been taken irrespective of whether gender equality is presented as a horizontal priority in programmes or not. Similarly, although there are signs of increasing awareness of demographic challenges, no specific examples can be found of development policy being modified in response to them.<sup>250</sup>

A full assessment of 'net' added value would also need to consider a range of aspects of 'detracted value', notably the perceived complexity and bureaucracy of Structural and Cohesion Funds administration, reflected in the ongoing pressure for 'simplification' from national and regional actors in all programming periods.<sup>251</sup> The first comprehensive evaluation of administrative costs estimated these at some €12.5 billion out of a total Cohesion Policy budget of €390 billion, of which 78 percent are related to programme management.<sup>252</sup> While the study noted that these costs are lower than those of other development aid programmes by international financial institutions, the perception in the Member States is that that the costs and burden associated with administration are not only excessive and disproportionate, particularly when compared to domestic regional development policies, but that they have also increased in the current programme period.

<sup>246</sup> Bruszt, L (2008), *Multi-level Governance—the Eastern Versions: Emerging Patterns of Regional Developmental Governance in the New Member States*, *Regional & Federal Studies*, 18(5), pp. 607-627.

<sup>247</sup> *BusinessEurope (2007), Implementation of the Partnership Principle in preparation of National Strategic Reference Frameworks (NSRFs) and Operational Programmes (OPs) for 2007-13*, Results of a survey among business federations. Brussels; European Parliament (2008), *Governance and partnership at a national, regional and project basis in the field of regional policy*, Non legislative resolution, INI/2008/2064, Committee on Regional Development, 21 October 2008; Churski P (2008), *Structural Funds of the European Union in Poland - Experience of the First Period of Membership*, *European Planning Studies*, 16(4), pp. 579-607; Ahner D (2009), Keynote speech at the Civil Society Forum organised by ECAS in the framework of the Open Days, 7 October 2009; Batory A and Cartwright A (2011), *Re-visiting the Partnership Principle in Cohesion Policy: The Role of Civil Society Organizations in Structural Funds Monitoring*, *JCMS: Journal of Common Market Studies*, 49(4), pp. 697-717; ECSC (2010), *Opinion of the European Economic and Social Committee on how to foster efficient partnership in the management of cohesion policy programmes, based on good practices from the 2007-2013 cycle*, ECO/258, 14 July 2010, Brussels.

<sup>248</sup> Polverari and Michie (2009), *op.cit.*

<sup>249</sup> Ward T and Wolleb E (2010), *Ex-Post Evaluation of Cohesion Policy programmes 2000-06 co-financed by the ERDF (Objective 1 & 2)*, Synthesis Report, DG Regional Policy, Brussels; See also PPML, *Net Effect and Racine (2009)*, A study on the Translation of Article 16 of Regulation EC 1083/2006 for Cohesion Policy programmes 2007-2013 co-financed by the ERDF and the Cohesion Fund, Final Report to DG REGIO, Brussels.

<sup>250</sup> Ward T and Wolleb E (2010), *Ex-Post Evaluation of Cohesion Policy programmes 2000-06 co-financed by the ERDF (Objective 1 & 2)*, Synthesis Report, DG Regional Policy, Brussels.

<sup>251</sup> Bachtler J and Mendez C (2010), *Review and Assessment of Simplification Measures in Cohesion Policy 2007-2013*, Report to Policy Department B: Structural and Cohesion Policies, DG for Internal Policies, European Parliament, Brussels.

<sup>252</sup> SWECO (2010), *op.cit.*

### 11.3. Proposals and counter-positions

The budget review placed the question of European added value at the heart of the debate on the future of all EU expenditure policies. More recently, a working paper accompanying the Budget 2020 Communication has 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.'<sup>253</sup> Key criteria for determining added value are:

- 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.

The paper notes that EU added value is particularly prominent in areas of spending linked to core competences (e.g. agriculture, where more than 70 percent of spending is at EU level); closing missing links (e.g. cross border infrastructures in energy, transport and ICT); and where objectives would be difficult to reach through national action (e.g. large-scale research infrastructures or the combating the consequences of climate change). In the chapter on Cohesion Policy, added value is discussed in general terms and linked to:

- the key effects of Cohesion Policy
  - redistributive transfers to poorer regions;
  - the contribution to EU priorities for growth, jobs and sustainable development;
  - spillover effects via increased trade flows;
  - institutional/administrative change, promoting long-term planning, partnerships, monitoring and evaluation culture, and reinforcing control and audit capacities; combating the effects of the crisis through anti-cyclical spending.
- 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.

As regards reform proposals, the Budget 2020 Communication states that the Commission 'proposes to strengthen the focus on results and EU added-value by tying cohesion policy more systematically to the Europe 2020 objectives', particularly by concentrating on a smaller number of priorities, closer monitoring of progress and through the establishment of conditionalities. The Fifth Cohesion Report conclusions contain a specific section entitled 'enhancing the European added value of Cohesion Policy', to be pursued through:

- reinforced strategic programming;

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<sup>253</sup> 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.

- increased thematic concentration;
- strengthening performance via conditionalities and incentives, including revisions to additionality and co-financing;
- improving evaluation, performance and results; and
- supporting the use of new financial instruments.

As some of these proposals have already been examined in detail in earlier chapters, the focus here will be on new financial instruments, additionality and co-financing. In addition, reform ideas on the partnership principle will be examined, being one of the most commonly cited areas of added value in Cohesion Policy.

### 11.3.1. New financial instruments

To encourage the use of new **financial instruments** the Commission's proposals envisage:

- greater clarity and differentiation between rules governing grant-based financing and rules governing repayable forms of assistance, especially on eligibility of expenditure and audits; and
- extending the scope and scale of financial engineering instruments, particularly for generic forms of business support which should be primarily channelled through financial engineering schemes.

The discussions in the High-Level Group on the future of Cohesion Policy indicate that national policy-makers recognise the added value of non-grant financial instruments, but do not want to see this type of support replacing grants in specific policy domains such as business support. Where there is more agreement with the Commission is on the need for simpler, clearer and more flexible rules (particularly regarding the scope of actions and geographic coverage), potentially involving the establishment of a separate set of rules for financial instruments. There is also widespread support for setting up a European technical support facility as well as enhanced dissemination and sharing of good practice.

Some of these views were reiterated in the Fifth Cohesion Report consultation. The most commonly raised point is the need to review the complexity of the financial engineering rules and reduce administrative burdens (France, Germany, Cyprus, Czech Republic, Hungary, Poland, Spain, UK), including an assessment of current practice (Belgium, Slovak Republic). Several countries consider that the choice and balance of financial instruments should remain a domestic decision (Austria, Cyprus, Estonia, Latvia, Poland) and stressed that direct grants for business support remain important (Czech Republic, Estonia, France, Poland). To support planning and reduce legal uncertainty, it was underlined that the new rules should be available in a timely manner (Belgium) and should include auditors in the drafting process (Germany).

A more critical stance on the Commission's proposals is taken by Austria, which argues that there is no stakeholder demand or evaluation evidence for increasing the use of financial engineering instruments and that it would in any case involve more administrative burdens.

Alternative proposals raised in the submissions include the extension of simplified costs options to new financial instruments (Slovak Republic) and to use the instruments to incentivise an integrated approach across the ERDF, ESF and Cohesion Fund (Poland).

### 11.3.2. Additionality and co-financing

A task force has been set up at EU level to review **financial additionality** reform ideas. Although the group's findings have not been made public, the main idea put forward by the Commission in the Fifth Cohesion Report is to link the verification of the principle to the EU economic surveillance process, using the annual indicators already provided by the Member

States in Stability and Convergence Programmes. This same proposal was put forward in the Barca Report, which called also for an extension of the principle beyond the Convergence Objective to all countries and regions along with the elimination of automatic sanctions by placing more emphasis on political accountability. By contrast, an external study commissioned by DG Regio recommended the adoption of a more formal spending review approach,<sup>254</sup> including the negotiation of suitable monitoring indicators for each country.

National views on financial additionality were only provided in a limited number of responses to the Fifth Cohesion Report. Two of these welcomed the Commission's proposals for a closer articulation with the Stability and Convergence Programmes (Portugal, Slovak Republic). Others called for greater simplification and clarity (Czech Republic), to restrict verification to national co-financing (Austria) and to use the internationally accepted COFOG methodology (Hungary)<sup>255</sup>. By contrast, Latvia proposed eliminating the principle due to its methodological limitations.

A second principle connected to financial added value is **co-financing**. In the Cohesion Report, the Commission has proposed that co-financing should be reviewed and, possibly, differentiated to reflect better the level of development, EU added value, types of action and beneficiaries. The national responses to these proposals are mixed. Some countries offered support for differentiation according to development (Hungary, Latvia, Poland, UK), EU added value, types of activities and beneficiaries (Latvia, Poland), while others would like to reduce the EU co-financing rate for all countries (Sweden), including a lower maximum rate of 75 percent (instead of 85 percent) (Austria, Finland).

Beyond these financial dimensions of additionality, the Barca Report underlined the need for more systematic and demonstrable **policy additionality** in terms of policy content and process innovation. The main proposals to achieve this include requiring explicit commitments to policy added value in programme contracts, assessments of how this is being delivered in annual strategic reports and the establishment of a Commission-managed fund for innovative territorial actions. The latter proposal was supported in the Fifth Cohesion Report, which called for resources to be made available for the Commission to promote 'experimentation and networking.' Most of the national responses did not offer feedback and those that did were unsupportive (Finland) or suggested that if such a fund were to be created it should be managed by Member States (Hungary and Latvia).

A well-known constraint on policy added value is the **decommitment rule**, often criticised for incentivising financial absorption over the selection of quality projects with genuine added value. To increase the flexibility associated with the rule, the Commission has proposed to extend it by one year (i.e. to n+3) for the first year of the new period and to apply the rule to all programmes. The proposal has received a mixed response from Member States. While several support the proposal (Austria, Belgium, Germany, Italy, Greece, Netherlands, UK), some countries would prefer the current approach to be retained (Denmark, France), while others would consider that more flexibility is needed, such as an N+3 rule for the whole period (Poland), especially for territorial cooperation programmes (Czech, Estonia), or by applying the rule at the country (rather than programme) level (Czech Republic, Slovak Republic, Hungary) as proposed in the Barca Report.

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<sup>254</sup> CSIL (2010), *Impact of Additionality on the Real Economy of the EU Member States: Open questions, some facts and a review of the literature*, Final Report, DG Regional Policy.

<sup>255</sup> COFOG: Classification of the Functions of Government, developed by the OECD and adapted as standard in national accounts.



### 11.3.3. Partnership

In the Fifth Cohesion Report, the Commission underlines the positive role of Cohesion Policy's partnership principle in the delivery of Europe 2020 objectives. It goes on to propose that 'representation of local and regional stakeholders, social partners and civil society in both the policy dialogue and implementation of Cohesion Policy should be strengthened.' Aside from the ideas on reinforcing the local dimension (discussed in Chapter 5), the report does not provide specific proposals on how this can be achieved in practice, nor was the partnership principle discussed by the Commission and Member States in the High Level Group on Cohesion Policy.

However, the parallel committee (ad hoc group) on the ESF did devote part of a session to the partnership principle. The discussions drew on the work of a focus group (including experts from managing authorities, from regional/local stakeholders and from the Commission) set up to examine reform ideas. The presentation of the focus groups' work stressed the need to distinguish between two different levels of partnership application: involvement of partners at the programme level (design, implementation, monitoring and evaluation of programmes); and their involvement at the project level (i.e. local development project or third sector projects implemented by sub-regional or non-governmental bodies). At the programme level, the key reform ideas discussed in the group included more precise requirements in the regulations, the introduction of a soft law approach and extended use of technical assistance (Box 12). Similar ideas have been put forward in an earlier European Parliament resolution on governance and partnership-working<sup>256</sup> and an exploratory opinion by the ECSC<sup>257</sup>, including the elaboration of a guide containing a clear definition and assessment criteria as well as setting out instruments, tools and good practices; the allocation of earmarked funding to implement the partnership principle; a requirement for managing authorities to inform partners of their influence on programming; and the introduction of a legally-binding principle with verifiable criteria.

#### Box 12: Proposals for strengthening the partnership principle

##### More precise requirements in the regulations

- Introduce the objectives of partnership
- Make the definition more stringent
- Detail "how the partnership principle" has been applied in the preparation of the development and partnership contract and the OPs" (currently article 27 and article 37 of the GR)
- Mention the representation of the economic and social partners, the civil society and the presence of NGOs in the composition of the monitoring committee (article 64 GR).
- Require a dedicated part in the AIR (article 67 GR)

##### Introduce a "soft law approach"

- Introduction of a code of good practice
- A regular exchange of good practices among MS, which could be built upon the current work made in the Community of Practice (CoP) on Partnership

<sup>256</sup> Resolution T6-0432/2008 *op.cit.*

<sup>257</sup> ECSC (2010), *Opinion of the European Economic and Social Committee on how to foster efficient partnership in the management of cohesion policy programmes, based on good practices from the 2007-2013 cycle*, ECO/258, 14 July 2010, Brussels.

- A regular dialogue between the Commission and the organisations representing the economic and social partners and the regional and local stakeholders at European level on the implementation of the principle of partnership

#### **Extended use of technical assistance**

- Add a specific reference in article 46 of the GR to specify that “MS may use TA technical assistance to strengthen the administrative capacity of the relevant partners.”

**Source:** Lefebvre M (2011) Involvement of local actors in ESF programmes and promotion of local initiatives European Commission, Sixth Meeting of the ESF committee Ad-Hoc Group on the Future of the ESF, Brussels.

The responses of national policy-makers to these ideas in the ESF committee were overwhelmingly negative. The majority did not see the need for additional regulatory requirements on partnership, preferring instead a flexible approach to allow the implementation of the principle to reflect domestic specificities and institutions; only one participant welcomed the idea of clearer and more stringent requirements, including the establishment of a code of good practice. Nor was it considered necessary to change technical assistance provisions, which may already be used to strengthen the administrative capacity of partners.

Ambivalent positions on the need for change are also evident in the national positions on the Fifth Cohesion Report. Most underlined their support for the principle, although very few made reform proposals. Some stressed that the current regulations are clear and that any challenges that arise are due to implementation challenges (Sweden). Austria, which has long-standing experience with partnership-based, neo-corporatist practices, underlines that appropriate, stable working arrangements are key for the partnership principle to succeed in practice. Related, some responses noted that subsidiarity and proportionality must be respected (Estonia, Germany, Greece) and that a standardised approach should be avoided (Denmark).

On the other hand, there were also calls for clearer provisions on, and definitions of, partner responsibilities, competences and even sanctions for national, regional and local authorities that do not comply with the principle (Bulgaria). The monitoring of partnership performance could also be required (Denmark) and, at a minimum, the national contracts should outline the approach to partnership (Czech Republic, Italy).

## **11.4. Conclusions**

The need to demonstrate the added value of Cohesion policy has been high on the policy agenda for at least a decade and has gained added momentum in the context of the post-2013 budget review for all EU policies. This task is by no means straightforward given the multiplicity of dimensions and meanings associated with the concept in Cohesion policy, covering not only development impacts but also administrative, learning and visibility effects as well as spillovers on domestic systems and the related innovation and efficiency improvements.

The lack of conceptual clarity over the concept of EU added value is evident in the Commission’s reform proposals on Cohesion policy. While the budget review offers a narrow and precise definition, in terms of the additional benefits of expenditure with respect to domestic policies, the review of added value in Cohesion policy offers a much broader interpretation, suggesting that all of the effects of Cohesion policy represent added value irrespective of whether they add to existing domestic policies and practice. Further,

the policy reform proposals on added value in the Budget 2020 Communication and Cohesion Report are primarily presented in terms of seeking a closer alignment with Europe 2020 objectives, which in many cases are already aligned with national and regional policies.

The potential added value of non-grant financial instruments is well-recognised in terms of leverage effects and because of the lack of experience with such instruments in many countries and regions. Nevertheless, the Member States do not want to see their margin for manoeuvre in the use of direct grants reduced. There is also a lack of evaluation evidence on how the current instruments are working in practice and much criticism of the complexity of the current rules, notwithstanding the issuing of Commission guidance documents. In this respect, there is agreement on the need for simpler, clearer and more flexible rules from the outset of the next period.

From a financial or expenditure added value perspective, the Commission proposals relate mainly to the additionality principle and co-financing arrangements. The main idea on the reform of the additionality is to align the verification process with the EU economic surveillance process using the annual indicators already provided by the Member States in Stability and Convergence Programmes. While this may simplify reporting and eliminate inconsistencies between the hitherto separate reporting processes, the question remains how to ensure that Cohesion expenditure is genuinely additional to domestic expenditure on regional development. As regards co-financing, greater differentiation is proposed to reflect better levels of development, EU added value, types of action and beneficiaries, but the proposal appears to command limited support among national governments.

The question of policy additionality in relation to substantive policy content or process has received far less attention in the reform debate. Beyond the proposals on new financial instruments, the main idea put forward in the Cohesion Report is for resources to be made available for the Commission to promote 'experimentation and networking,' in line with the proposals in the Barca Report. While some national responses have been critical, there is a strong case for using a small share of resources to enable the Commission to take on a more managerial role. More fundamentally, at the heart of the policy additionality issue is the question of whether Cohesion policy should remain focused on supporting Member States' own policies or whether it should more pro-actively seek to add value to these existing policies. If it is the latter, which must surely be the way forward if the policy is to lose its reputation for being a mere financial transfer mechanism, then a much firmer commitment to policy added value should be required, particularly in programme documents and subsequent assessments. Moreover, as underlined in previous chapters, simpler rules are necessary to provide programme managers and beneficiaries with sufficient space and incentives to experiment and innovate. Although not a panacea in itself, a more flexible decommitment rule appears to be a sensible solution, and already has a precedent in the regulatory amendments introduced during this period.

The partnership principle is a final area of added value, although not framed as such in the Commission's reform proposals. While the Fifth Cohesion Report calls for the principle to be strengthened, no specific reform proposals on how this can be done in practice were made. The key ideas discussed in informal expert groups and recommended by other EU institutions include more precise and verifiable regulatory requirements, the introduction of a soft law approach and extended use of technical assistance for partnership-working. These ideas are likely to be met with Member State resistance. As has been the case in previous periods, national policy-makers are keen to ensure that a flexible approach prevails to allow the implementation of the principle to reflect domestic specificities and institutions.



## 12. CONCLUSIONS AND RECOMMENDATIONS

### 12.1. Objectives of the study and structure of the report

In the context of the reform debate on the future of Cohesion policy, the objective of this study has been to review the main visions and reform options for Cohesion Policy post-2013, based on an analytical comparison and review of recent research and policy documents. The key tasks of the study have involved:

- the elaboration of a conceptual framework, including a justification and explanation of the research design and analytical themes to be covered in the comparative literature review;
- a review of the key characteristics and challenges facing Cohesion Policy after 2013;
- the identification of baseline scenarios for the different reform options; and
- the identification of the policy implications of the reform options.

The preceding chapters have presented:

- the study's objectives, design and methodology (Chapter 2);
- a conceptual framework for comparing different narratives on the nature of Cohesion Policy and competing reform visions in relation to Europe 2020 (Chapter 3);
- future eligibility and allocation scenarios under EU Cohesion Policy on the basis of the latest statistical data (Chapter 4);
- a review of the policy's objectives, including the new Treaty commitment to territorial cohesion and the relationship with Europe 2020 objectives (Chapter 5);
- an examination of the territorial dimension in more detail, particularly in relation to the urban agenda, territorial and functional cooperation (Chapter 6);
- a discussion of the strategic coherence and programming of policy interventions, focusing on the proposals for a new planning framework and thematic concentration (Chapter 7);
- a review of the new ideas on conditionalities and incentives as part of the results-driven agenda and broader economic governance developments in the EU (Chapter 8);
- the key preconditions for a performance-based model, based on effective monitoring, evaluation and capacity to deliver (Chapter 9);
- the assurance model of shared management, particularly the proposals connected to the review of the financial regulation (Chapter 10); and
- the different dimensions of added value in Cohesion Policy, including the specific proposals on new financial instruments, financial additionality, co-financing and the partnership principle (Chapter 11).

This final chapter brings together the conclusions of the study and provision of policy recommendations to inform the position of the European Parliament.

## 12.2. Rationalities and reform visions of Cohesion Policy

The reform of Cohesion Policy involves competing discourses on the nature of the policy and its place in the Europe 2020 strategy. On the one hand, a 'redistributive discourse' dismisses the policy as a mere budgetary transfer mechanism; on the other hand, an increasingly prominent 'place-based vision' portrays the policy as an integrated and territorially-focused development policy. Within the broader Europe 2020 context, the debate on Cohesion Policy reform is framed by dual and often opposing visions on territorial versus sectoral approaches on the one hand, and centralised versus devolved governance on the other.

The formal and informal contributions of the European Parliament to the post-2013 budgetary and policy reform debate clearly indicate that it shares the place-based, territorially-integrated vision of Cohesion Policy placed at the centre of the EU's overarching Europe 2020 agenda. Furthermore, it remains a firm advocate of a strong, well-resourced Cohesion Policy.

Nevertheless, there are important hurdles to the institutionalisation of this reform vision. While the place-based vision has featured prominently in the Cohesion Policy reform debates, it has been much less visible in the Europe 2020 and budget review discussions, despite the new treaty commitment to 'territorial' cohesion. Moreover, different perspectives have been advanced by the Directorates-General in the European Commission that have lead responsibility for Cohesion Policy; this indicates a lack of consensus on the future vision for Cohesion Policy within the Commission, exacerbated by competition for control and finance. Similar tensions exist with other sectoral DGs as the place-based narrative suggests a broader scope for Cohesion Policy that cuts across different policy areas and DG responsibilities. As regards the Member States, there is resistance to stricter contractual relations and centralised control, preferring instead a less binding and more devolved governance frame. Lastly, the structural features of the place-based vision - in both the narrow and broad development policy conceptions - sit uneasily with the pre-existing institutional structure of the EU polity, characterised by fragmented sectoralised policies and limited institutional capacity for central coordination and steering.

These hurdles present important reform obstacles, but **the European Parliament should not be constrained in articulating a clear and ambitious vision for Cohesion Policy**, particularly as it is now a full co-legislator with the Council of Ministers on the legislative framework.

## 12.3. Policy architecture: eligibility and allocations

The Budget 2020 Communication has important implications for the eligibility and financial allocations under Cohesion policy. The analysis presented in this study<sup>258</sup> indicates a different 'policy landscape' due partly to regional economic growth and partly to the use of EU27 averages, which together have the effect of reducing significantly the coverage of the Convergence regions. In particular, regional growth would result in several German and Spanish regions losing Convergence status, along with the capital regions of Poland and Romania.

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<sup>258</sup> It is important to restate the caveats noted in Chapter 4: the calculations have, in some cases, been based on estimates partly because the Budget 2020 proposals do not contain sufficiently detailed information for making firm assessments.

The introduction of a new definition of Transitional region will also alter the pattern of intervention. This will comprise: former Convergence regions that have 'outgrown' that status – this is in line with past transitional arrangements; and regions with GDP in the range 75-90 percent of the EU27 average. This is a break with past practice, creating a new category of assisted area covering over 11 percent of the EU15 population.

**The key question, that has yet to be answered, is how a coherent policy approach will be formulated for the diverse mix of regions** – with different regional growth trajectories and performance – contained within the Transitional region category.

Overall, the Budget 2020 proposals suggest a modest decrease in the Cohesion Policy budget. This is largely borne by a reduction in Convergence spending, although per capita spend on Convergence would rise slightly; RCE spending would rise significantly both in absolute and per capita terms; and Transitional region spending would increase by half.

Financial allocation mechanisms are difficult to replicate in the absence of methodological detail, although past practice does provide some guidance. In spite of the difficulties, the key point to note is the overriding importance of capping in determining financial allocations, especially for the least prosperous Member States. Moreover, for these countries, the cap proposed is substantially lower than it was in 2007-13. As a result, for the main beneficiaries of the Convergence and Cohesion Funds, the outcomes of the allocation formulae are hypothetical, and the appropriations are set to be determined purely as a proportion of GNI.

#### 12.4. The objectives of Cohesion Policy

Cohesion Policy objectives are multi-faceted, encompassing economic, social and territorial dimensions, a political commitment to solidarity and close links to broader EU objectives and policies. This has led to criticism of goal congestion and confusion, compounded by terminological disorder in the legislative texts and the distinct missions of different Structural and Cohesion Funds. Terms such as 'cohesion', 'balanced' or 'sustainable' leave considerable scope for different interpretations and even misunderstanding. While economic convergence is the most often used proxy for assessing policy objectives, it is regarded as being an unrealistic yardstick and, moreover, downplays the equally important social and territorial dimensions and the potential tensions between all three.

The Commission has not proposed significant changes to the overarching objectives of Cohesion Policy or offered further conceptual precision on the matter. There is recognition of the addition of a territorial dimension in line with the new Treaty commitment, but the main message throughout the Fifth Cohesion Report is that a closer alignment with Europe 2020 objectives is needed. Although DG Regio notes that the policy is already fully aligned with Europe 2020 (and the Lisbon predecessor) at the level of objectives, the proposals have raised anxiety amongst some Member States and policy stakeholders about traditional cohesion goals being undermined. What is often meant, though not always explicitly stated, is that Cohesion Policy expenditure should continue to focus on the less-developed regions and countries and that the types of interventions supported should be closely in line with their development needs.

Some of the criticisms made about the objectives of Cohesion policy are perhaps unfair. Treaty objectives are by definition vague, succinct and high-level. And there is arguably a permissive consensus that they should remain so given the cross-cutting nature of the policy and the diverse interests and policy portfolios involved. Nevertheless, **the commitment to a more effective and results-based policy provides a strong case for the operationalisation of the policy to clarify the precise meaning, implications**

**and trade-offs involved in the pursuit of objectives.** Specifically, it would be important to insist on:

- distinguishing between different levels of objective (aspirational, strategic, operational), as in the type of logical structure presented in Ahner (2009);
- precision in the formulation of objectives, making clear their expected outcomes and their measurability;
- differentiating the objectives of the policy (e.g. convergence) from the targets of support (e.g. lagging regions);
- clarification of the contribution to equity and efficiency goals by strategic and operational objectives of the policy; and
- assessment and definition of the trade-offs between different policy objectives, and how they will be resolved.

## 12.5. The territorial dimension

A key strength of Cohesion Policy is its adaptability to the specific needs and characteristics of EU territories. There are, however, doubts that this asset is being systematically exploited across EU Member States and regions. The conceptual looseness surrounding the territorial dimension has meant that it was often treated vaguely in the 2007-13 strategies, compounded by the lack of political commitment and institutional capacity to implement a genuinely territorial approach that is sensitive to place-based opportunities and truly integrated in character.

The formalisation of territorial cohesion as a Treaty objective provides an opportunity to bolster the territorial dimension of Cohesion Policy. The Commission's proposals do not break new ground, but rather they seek to reinforce existing priorities and practice by strengthening the urban agenda, encouraging functional geographies, supporting areas facing specific geographical or demographic problems and enhancing the strategic alignment between transnational cooperation and macro-regional strategies.

Unsurprisingly, there is resistance to some of the more prescriptive elements, in particular the idea of earmarking minimum shares of funding to local and urban development, requiring sub-delegation of authority, or EU-level designation of target areas. The definition of a genuine EU strategic framework for local and urban development could be a more feasible option and there is support for harmonized delivery rules across funds to facilitate an integrated approach at local level.

Also in need of a more strategically focused approach is the territorial dimension of cooperation. As underlined in the recent ex-post evaluation, **it is necessary to focus on priorities and projects of real transnational and cross border relevance on the basis of sound territorial analysis to achieve impact.**

**The simplification of administrative requirements for territorial cooperation must be given a high priority.** This includes the need for greater precision and harmonization of rules at EU-level to address the legal challenges arising from variations in implementation approaches by partners in different jurisdictions.

**Greater coherence with mainstream, external cross-border cooperation and macro-regional strategies is also desirable.** However, the latter should not reduce the importance of the existing transnational strand of territorial cooperation. It is also notable that there is strong resistance to the creation of new funds, legislation or institutions.



Territorial cooperation provides experience of implementation of the territorial dimension, from which lessons can be learned. After three programme periods, relatively small amounts of funding for cooperation continue to be plagued by limited effectiveness due to factors like complex implementation rules, poor alignment with mainstream Structural Funds spending, the lack of a strategic approach and varied levels of commitment from Member State authorities. The Commission's proposals address several of the main problems – particular the advocacy of a more integrated approach, more focused spending and durable interventions. There is a strong case (as argued in the Barca Report) that **territorial cooperation allocations should be conditional on a supportive political/policy framework being established by the participating Member States to demonstrate that the EU programme is part of a wider strategy of cross-border or transnational cooperation** (including complementary actions – potentially smaller projects - financed wholly by the Member States) and that it has the political commitment and resources of Member State authorities at national, regional and local levels.

The macro-region approach offers a different, potentially less bureaucratic, implementation model for advancing the objective of territorial cohesion. It should be noted that the added value of the existing macro-regional strategies is not yet fully known, as the Commission acknowledges in the Fifth Cohesion Report. However, **the principle of enabling or encouraging willing Member States to use resources to implement different types of place-tailored interventions – whether in localities, functional regions, peripheral regions, areas of demographic decline, city regions etc – should be pursued.** As proposed in some studies, the conditions for innovative place-specific approaches of this type should include: a territorial strategy developed by/with regional and local groups; an integrated approach involving EU and domestic funds; focused use of EU funds with measurable effects; probationary funding period and associated evaluation; and evidence of adequate capacity (or investment in capacity building).

More generally, **the territorial dimension in all its facets would profit from a greater strategic steer from the EU.** The territorial dimension was a secondary add-on to the previous set of Community Strategic Guidelines. The recently agreed Territorial Agenda for 2020 could contribute to clarifying and reinforcing the future territorial priorities for Cohesion Policy in the future Common Strategic Framework for all Structural Funds.

Similarly, **the potential contribution of ESPON to policy design and delivery needs to be better exploited.** There is evidence of insufficient linkage between the research and policy communities, and scope for ESPON to make a more pro-active contribution in identifying and proposing policy-relevant cross-cutting and place-specific solutions to territorial problems. This also requires policy-makers in European institutions and Member State authorities to engage actively with ESPON.

## 12.6. Strategic coherence and programming

The Commission has proposed reinforcing the strategic approach in Cohesion Policy, involving the introduction of a Common Strategic Framework, more binding national Partnership Contracts and greater thematic concentration on Europe 2020 priorities. The intention is to strengthen the coherence, coordination and complementarities among the EU's structural policies, to integrate them more firmly into the EU's overarching Europe 2020 strategy and to increase the visibility and impact of Cohesion Policy.

There is widespread support for the establishment of a Common Strategic Framework, although it remains to be seen how it will address the territorial dimension which is at the heart of Cohesion Policy. However, **to increase ownership of the document there is a need for a political discussion on the framework by involving the Council of**

**Ministers and the European Parliament in the approval process**, as argued in the Barca Report.

The main challenge with the introduction of binding partnership contracts is the increase in administrative burdens and costs, particularly if it implies the establishment of an additional management layer in some countries where national coordination is weak. On the other hand, the strategic generality of the existing NSRFs and the elimination of measure-level detail in programmes hampered the strategic approach sought in this period and hampered the realisation of a genuinely shared management approach between the Commission and Member States in programming.

While there is broad agreement on the need for thematic concentration, there is no consensus among Member States on how it should be put into practice. Reconciling a top-down approach with a bottom-up approach is a challenge, reflected in the requests for flexibility. Moreover, if common objectives and binding and results-oriented targets for each Member States are agreed in Partnership Contracts, **there is a strong case for providing flexibility on how to achieve the targets and on the policy-mix of interventions**. Indeed, this is the direction that many other EU policies are already moving towards, including Cohesion Policy in the current programme period.

Lastly, an appropriate balance has to be struck between thematic concentration and cross-sectoral integration. In particular, **it is necessary to ensure that thematic concentration does not detract from integrated policy delivery at multiple territorial levels**, enabling coordination and synergies between EU and national policies and between sectoral policies.

## **12.7. Performance management: conditionalities and incentives**

In the context of the ongoing criticism about the effectiveness of Cohesion Policy, a key challenge is to ensure that it produces quantifiable results and impacts and that it visibly and measurably contributes to the Europe 2020 strategy. The Commission's proposals on ex-ante, structural, performance and macro-economic conditionalities and incentives provide a response to this challenge.

The positions of most Member States have been rather cautious. This it to be expected as the implementation of these provisions implies considerable political, financial and administrative restrictions. In particular, the proposals would imply a stronger role for the Commission in shaping the content of strategies and programmes and potentially involve suspension of payments or even sanctions if objectives have not been met.

Nevertheless, if the ongoing criticism of the policy's performance is to be addressed and the policy is to be placed on a more sustainable path with increased legitimacy among EU institutions and citizens, then the Commission's proposals merit serious consideration. Moreover, the political sensitivity analysis and review of existing studies suggests that a strengthening of conditionalities and incentives could be feasible, particularly of the ex-ante variety. **Conditionalities and incentives should be assessed on the basis of whether they:**

- **focus on improving effectiveness in Cohesion Policy;**
- **have a direct link to Cohesion Policy investments;**
- **are open to influence by policy-makers;**
- **are limited in number;**
- **respect subsidiarity and**

- are based on a joint agreement between the Member States and the Commission.

## 12.8. Effectiveness: monitoring, evaluation and capacity

Monitoring and evaluation are firmly embedded in Cohesion Policy. The regulatory requirements and practice have seen significant improvements over time and are credited with spreading an evaluation culture in old and newer Member States alike. Nevertheless, a series of ongoing and systemic challenges are evident. At the planning stage, indicators and targets often play a marginal role and are not comparable across programmes or countries. The quality of data is variable and progress reporting remains inadequate during programme implementation. While evaluation has become more needs-based, efforts have been scaled back in several countries, and impact analysis of interventions remains underdeveloped. The scope for systemic learning, accountability and improvements in policy design is further hampered by the scarcity of public and high-level political debate about programme achievements.

The Commission's proposals aim to address these deficiencies in several ways. First, the formulation of programmes would focus more on the rationale and causal logic (or theory of change) for selected priorities, supported by more rigorous target-setting and ex-ante evaluation. Second, common EU indicators would be obligatory and targets would be linked to categories of expenditure to aggregate policy outputs at EU level and identify linkages with spending on EU priorities. Third, the quality of annual reporting should be improved and more closely aligned with reporting on Europe 2020. Fourth, evaluation planning and reporting would be reinforced by making plans obligatory and requiring the Member States to provide a synthesis of the results of all evaluations undertaken at the end of the period. Last, more effort should be placed on impact evaluations - particularly theory-based and counterfactual approaches - to assess the effectiveness of interventions and programmes, including a requirement for the evaluation of effects of each priority axis.

The proposals build on previous experiences and are in line with the thrust of the recommendations of independent studies. However, while there is widespread support for better monitoring and evaluation among Member States, there are concerns that additional obligations would imply less flexibility in programming and more administrative and reporting burdens. The need for strategic political debate on the results of cohesion policy is recognised, although it remains unclear how this could work in practice and there appears to be no support for the creation of a Council configuration dedicated to Cohesion Policy. **A critical question that needs to be addressed is how to reinforce the role of the Parliament in strategic debate on the performance of Cohesion Policy, particularly through stronger inter-institutional dialogue with the Commission and Council on the results and achievements of Cohesion Policy.** The current proposals remain silent on this issue. To underpin strategic debate, the information on implementation available to the European Parliament, and other stakeholders, for holding policy-makers to account needs to be strengthened; one immediate measure would be to require all programme implementation data, evaluations, annual implementation reports, closure reports to be made publicly available as soon as they are available/approved.

Another issue that remains relatively neglected in the Commission's proposals is **the need for a corresponding increase in administrative and technical capacities to design, monitor and evaluate programmes, both in the Member States and the Commission.** While the proposals on ex-ante conditionalities seek to improve institutional capacity, the main focus is on programme implementation issues (e.g. project planning and procurement issues) rather than strategic capacity at programme level. On the other hand,

proposals to place more priority on direct support for governance and capacity building are likely to be met with resistance from Member States and regions on subsidiarity grounds.

## 12.9. Shared management

The Commission's proposals for reforming the Cohesion Policy assurance model aim to simplify and streamline delivery. They include a combination of incremental and radical changes to existing rules and arrangements. The most far-reaching proposals concern the management and control systems architecture, essentially transferring the current Agricultural policy model to Cohesion Policy through annual accreditation, annual clearance of accounts and reporting, the rolling closure of programmes and independent assessment.

The feedback from national experts and position papers on the future of Cohesion Policy is overwhelmingly negative. Rather than seeking to simplify or streamline delivery, the suspicion is that the real motivation is to reduce the error rate by devolving more responsibilities and obligations to the Member States. The general view is that changes to existing legal and institutional frameworks of this scale would entail more administrative costs and disruption, at least in setting up the systems, as well as greater uncertainty at the implementation stage, which could actually decrease the level of assurance.

Aside from the questionable policy, institutional and administrative benefits, the evidential basis for the proposals is not clear, lacking justification from impact analyses, academic research, evaluation studies, policy practice or other sources influencing or justifying the changes. An assessment of the shared management funds' systems provided a mixed assessment of the Agricultural policy model and the lessons for Cohesion Policy. Moreover, the Commission has stressed in various communications and its annual activity reports that the current assurance model has improved significantly compared to the past, although the full effects will only be known towards the end of this period.

The main message from other evaluation studies, policy research and Member States' position papers is that simplification and greater reliability requires a stable legal and institutional framework. This is particularly pertinent in the current period, which involved significant investment in resources, the setting up of new structures and IT systems and the training of staff. Based on these considerations, **there is a strong case for ensuring continuity in the existing management and control systems or at least finding a way to marry the Financial Regulation proposals with the existing arrangements.**

A more pressing priority is to simplify the financial management, audit and control burden on programme managing bodies and beneficiaries, while maintaining a high standard of financial control. Proportionality must be part of the solution, placing more reliance on national systems where they are proven to be effective. The extension of simplified reimbursement procedures for overheads like standard unit costs and lump sums could be beneficial, but **further clarification and assessment of the current application of simplified costs is needed**; the low-take up of these provisions suggest that the actual impact on simplification has been limited to date.

## 12.10. The added value of Cohesion Policy

The need to demonstrate the added value of Cohesion policy has been high on the policy agenda for at least a decade, and it has gained added momentum in the context of the post-2013 budget review for all EU policies. This task is by no means straightforward given the multiplicity of dimensions and meanings associated with the concept in Cohesion Policy, covering not only development impacts but also administrative, learning and visibility

effects as well as spillovers on domestic systems and the related innovation and efficiency improvements.

The lack of conceptual clarity over the concept of EU added value is evident in the Commission's reform proposals on Cohesion policy. While the budget review offers a narrow and precise definition, in terms of the additional benefits of expenditure with respect to domestic policies, the review of added value in Cohesion Policy offers a much broader interpretation suggesting that all of the effects of Cohesion Policy represent added value irrespective of whether they add to existing domestic policies and practice. Further, the policy reform proposals on added value in the Budget 2020 Communication and Fifth Cohesion Report are primarily presented in terms of seeking a closer alignment with Europe 2020 objectives, which in many cases are already aligned with national and regional policies.

The potential added value of non-grant financial instruments is well-recognised in terms of leverage effects and because of the lack of experience with such instruments in many countries and regions. Nevertheless, the Member States do not want to see their margin for manoeuvre in the use of direct grants reduced. There is also a lack of evaluation evidence on how the current instruments are working in practice and much criticism of the complexity of the current rules, notwithstanding the issuing of Commission guidance documents. In this respect, **there is a need for simpler, clearer and more flexible rules on the use of financial engineering instruments** from the outset of the next period.

From a financial or expenditure added value perspective, the Commission proposals relate mainly to the additionality principle and co-financing arrangements. The main idea on the reform of the additionality is to align the verification process with the EU economic surveillance process using the annual indicators already provided by the Member States in Stability and Convergence Programmes. While this may simplify reporting and eliminate inconsistencies between the hitherto separate reporting processes, **the question remains how to ensure that Cohesion expenditure is genuinely additional to domestic expenditure on regional development**. As regards co-financing, greater differentiation is proposed with to better reflect levels of development, EU added value, types of action and beneficiaries, but appears to command limited support among national governments.

The question of policy additionality in relation to substantive policy content or process has received far less attention in the reform debate. Beyond the proposals on new financial instruments, the main idea put forward in the Cohesion Report is for resources to be made available for the Commission to promote 'experimentation and networking,' in line with the proposals in the Barca Report. While some national responses have been critical, **there is a strong case for allocating a small share of resources for the Commission to take on a more managerial role**. More fundamentally, at the heart of the policy additionality issue is the question of whether Cohesion policy should remain focused on supporting Member States' own policies or whether it should more proactively seek to add value to these policies? If the latter scenario is preferred, which must surely be the way forward if the policy is to lose its reputation for being a mere financial transfer mechanism, then **a much firmer commitment to policy added value should be required, particularly in programme documents and subsequent assessments**. Moreover, as underlined in previous chapters, simpler rules are necessary to provide programme managers and beneficiaries with sufficient space and incentives to experiment and innovate. Though not a panacea in itself, **a more flexible decommitment rule appears to be a sensible solution**, and already has a precedent in the regulatory amendments introduced during this period.

The partnership principle is a final area of added value, although not framed as such in the Commission's reform proposals. While the Fifth Cohesion Report calls for the principle to be strengthened, no specific reform proposals on how this can be done in practice were made. The key ideas discussed in informal expert groups and recommended by other EU institutions include more precise and verifiable regulatory requirements, the introduction of a soft law approach and extended use of technical assistance for partnership-working. These ideas are likely to be met with Member State resistance. As has been the case in previous periods, national policy-makers are keen to ensure that a flexible approach prevails to allow the implementation of the principle to reflect domestic specificities and institutions.

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