

## The Performance Framework in Cohesion Policy: Expectations and Reality



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The IQ-Net Network promotes exchange of experience on the management and implementation of Structural Funds programmes among Managing Authorities and Intermediate Bodies. The network is managed by the European Policies Research Centre Delft under the direction of Professor John Bachtler, Stefan Kah and Dr Laura Polverari. The research for this paper was undertaken by EPRC in preparation for the 43rd IQ-Net meeting held in Zagreb, Croatia on 6-8 December 2017. The paper was written by Dr Irene McMaster and Stefan Kah.

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**Denmark**

- Danish Business Authority

**Finland**

- South and West Finland (Etel- ja Lnsi-Suomi)

### **France**

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

### **Germany**

- Nordrhein-Westfalen (North Rhine-Westphalia), Ministry for Economic Affairs, Innovation, Digitalization and Energy

### **Greece**

- Management Organisation Unit of Development Programmes S.A.

### **Poland**

- Marshal Office of the Pomorskie Region

### **Portugal**

- Agency for Development and Cohesion (ADC)

### **Spain**

- Provincial Council of Bizkaia, País Vasco (Basque Country)

### **Slovakia**

- Central Coordination Body (Office of the Deputy Prime Minister for Investments and Informatization)

### **Slovenia**

- Government Office for Development and European Cohesion Policy

### **Sweden**

- Swedish Agency for Economic and Regional Growth (Tillväxtverket)

### **United Kingdom**

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

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It should be noted that the content and conclusions of this paper do not necessarily represent the views of individual members of the IQ-Net Consortium.

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## LIST OF ABBREVIATIONS

AIR	Annual Implementation Report
CLLD	Community-led Local Development
COI	Common output indicators
DG REGIO	Directorate-General for Regional and Urban Policy
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
ECA	European Court of Auditors
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESIF	European Structural and Investment Funds
ESF	European Social Fund
EU	European Union
FI	Financial instrument
IB	Intermediate Body
ITI	Integrated Territorial Instrument
LEP	Local Enterprise Partnerships (in England, UK)
MA	Managing Authority
OP	Operational Programme
PA	Partnership Agreement
PDRA	Performance Data Reliability Audits
PF	Performance Framework
PSI	Programme-specific indicators
RTDI	Research Technological Development and Innovation
SF	Structural Funds
SME	Small and Medium-sized Enterprise
TO	Thematic Objective

## EXECUTIVE SUMMARY

An increased performance orientation has been a cornerstone of the 2014-20 programmes. For ESI Funds, a key element of the shift towards a stronger performance orientation is the application of a Performance Framework (PF) which involves the establishment of clear, measurable milestones and targets to ensure progress in implementation. In the case of OPs under the investment for growth and jobs goal, the PF is linked to a Performance Review, carried out by DG REGIO in 2019. If the Performance Review shows the milestones set in the PF have been met, a Performance Reserve is made available for use by the Managing Authorities (MAs), which is 6 percent of OP funding. For the PF, MAs can set targets in the form of indicators or, so-called, key implementation steps. Indicators can be financial indicators or output indicators, and these can be either common indicators suggested by the European Commission (EC) or programme-specific (result indicators are only used for the ESF). Key implementation steps can also be used in cases where no outputs are expected by 2018.

Although at an early stage in their implementation, the PF have already been the focus of a number of studies, most notably for the EC and for the European Court of Auditors (ECA).<sup>1</sup> Initial findings of the studies identify a role for the PF in, e.g. strengthening the result orientation of programmes. However, other analyses are more critical. In its Annual Report for 2014, the ECA's assessment of the preparations for the PF was discouraging, particularly in terms of the incentive effect of the Performance Reserve: *'...the impact of the performance reserve, in terms of encouraging an increased focus on results, is likely to be no more than marginal, since there remain no real financial incentives or sanctions in the 2014-2020 period relating to the results achieved with the EU funding.'*<sup>2</sup>

Much of this evidence is based on the preliminary experiences of the PF and highlight issues linked to programming and establishing the PFs, e.g. concerning its role in reinforcing programme strategies and issues related to establishing appropriate indicators. However, as the PF is implemented in practice, it is possible to provide an early assessment of its contribution to strategic management of programmes and their effect in terms of pursuing the result orientation.

Against this background, the paper examines programmes' practical experiences of working with the PF. The paper identifies significant differences in the scope and scale of the PF of the IQ-Net programmes. It finds that IQ-Net programme managers largely agree with the underlying logic of the PF from the EC point of view and there is substantial support for some form of performance-related measures. The research found aspects of the process to be useful for focussing efforts on strategic planning, delivery and capturing results. Thus, the PF has value in emphasising that programmes cannot simply wait until the end of the programme period to think about results. Specific benefits identified include the PFs' role in enhancing programmes' results focus, its use as a tool for strategic management, its capacity to build commitment to and awareness of targets. Thus, the PF is identified

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<sup>1</sup> See particularly: SWECO, ÖIR, Spatial Foresight (2016) *The Implementation of the Performance Frameworks in the 2014-2020 ESI Funds*, European Commission; European Court of Auditors (2017a) *Special Report: The Commission's negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion: Spending more targeted on Europe 2020 priorities, but increasingly complex arrangements to measure performance*, European Court of Auditors, No. 2.; and European Court of Auditors (2017b) *Ex ante conditionalities and Performance Reserve in Cohesion: innovative but not yet effective instruments*, Special Report, No. 15.

<sup>2</sup> European Court of Auditors (2015) *Annual report of the Court of Auditors on the implementation of the budget concerning the financial year 2014, together with the institutions' replies*, paragraph 3.65, <https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2014/annualreports-2014-EN.pdf>

as having a valued role at various stages in programme development and delivery, and across at various levels. However, a number of challenges are also identified which have led some authorities to question the value of specific aspects/elements of the process; raise broader questions about the added value of the exercise; and propose areas that could be changed in the immediate future and longer-term.

The paper identifies practical challenges in the early stages of establishing the PF, e.g. in relation to identifying appropriate, good quality, reliable data for a wide range of, at times, highly complicated indicators. Further challenges include the lack of flexibility and uncertainty, which programmes feel limit their capacity to accurately convey progress and respond to change. In particular, there is a perceived lack of flexibility from the EC in allowing changes to the indicators/targets. Compounding concerns about the lack of flexibility and the impact of delays is the fact that, currently, the PF only takes into account completed actions.<sup>3</sup> The tight focus on key milestones and targets can build in a rigidity into the programmes with the result of disadvantaging more innovative/experimental projects or less experienced/new applicants. Further, uncertainty over how this Performance Reserve will be applied is a frustration.

What the PF adds to existing arrangements is also brought into question by others. Several programme managers point out that the existing n+3 rule already seeks to ensure that sufficient progress is made and incentivises performance to meet financial targets. The idea of the PF working as a sanction rather than a positive incentive was criticised by a number of IQ-Net programme authorities. The effectiveness of the incentive is also diminished by the expectation that the EC will pay the reserve to all Member States, whether specific Priorities meet milestones or not. Further, the award of the Performance Reserve on the basis of what is considered a narrow, partial view of what the programmes are achieving is a concern. For many IQ-Net programme authorities, the PF is a useful tool for measuring efficiency, but is very limited in measuring effectiveness.

Many MAs would like to see an end to the Performance Reserve (or a PF but no reserve) due to the administrative burdens and 'red tape' that it generates for the MA and IB. However, there is recognition of the value of a result orientation, but it needs to be done in the right way. With this in mind the paper goes on to outline some suggestions and recommendations for change to reinforce the positive elements of the PF and address concerns. These include recommendations to help address administrative burdens, maximising value and quality of indicators and data, encourage greater differentiation in the thematic application of the PF, improve flexibility and responsiveness, and build added value.

The report concludes that looking to the future in a context of growing needs and budgetary discipline, it is argued that a continued focus on performance is 'unavoidable'.<sup>4</sup> IQ-Net programme managers largely agree with the underlying logic of the PF from the EC point of view. However, while there is support for the general principle, questions are raised about the current application in a highly complex system such as Cohesion policy.

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<sup>3</sup> Likely regulatory changes for early 2018 would allow the inclusion of partially completed interventions.

<sup>4</sup> Calviño N (2016) *Budget Focused on Results*, presentation to the European Parliament CONT Committee, 24 May 2016, [http://ec.europa.eu/budget/library/budget4results/news/BFOR\\_presentation\\_CONT\\_20160524.pdf](http://ec.europa.eu/budget/library/budget4results/news/BFOR_presentation_CONT_20160524.pdf)

## INTRODUCTION

More attention, time and money are spent on performance measurement and evaluation in the public sector than ever before.<sup>5</sup> The aim is better informed budgets, greater administrative efficiency and robust public accountability. An increased performance orientation is a cornerstone of the 2014-20 Operational Programmes (OPs). Requirements envisage a stronger performance orientation involving more clearly specified objectives, intervention logics, targets and results. For ESI Funds, a key element of the shift towards a stronger performance orientation is the application of a Performance Framework (PF), which involves the establishment of clear measurable milestones and targets to ensure progress in implementation.

Previous studies<sup>6</sup> highlight a number of perceived benefits in the approach, e.g. strengthening the result orientation, ensuring focus in the programmes, and enabling comparability across indicators. However, an increasing body of literature refers to the unintended consequences of increased measurement in public policy, which can even have negative impacts on performance.<sup>7</sup> More specifically, as the PF has been applied in practice, issues have emerged, such as challenges in setting realistic targets and difficulties in measuring complex or innovative interventions. More strategic questions are also asked: whether the PF makes a valuable contribution to the strategic management of programmes; is the current approach adequately conveys the performance of programmes? Thus, key questions/issues for this paper are:

- What are the programmes' experiences of working with the PF?
- Is a more strategic role of the PF being fulfilled? What does it actually tell programme managers, what does it do for programme focus, implementation efficiency, improved delivery etc.?
- Could this approach to performance management be taken forward in the future?
- In a changing policy context, is data gathering worth the effort? Are new approaches needed?

This report paper draws on the experience of the members of the IQ-Net network, based on a mix of desk research and interviews (conducted in autumn 2017) with national and regional government officials working on the implementation of Cohesion policy programmes in the 16 Member States. Interviews have also been carried out with European Commission staff at the DG REGIO Units B.2 'Evaluation and European Semester' and C.2 'Audit II'.

As set out in Table 1, the paper begins (in Section 1) by outlining the EC framework for the PF. Section 2 examines the processes involved in establishing PFs. Section 3 focuses on the implementation of the frameworks and preparations for the Performance Review. Section 4 presents explores programme authorities' of working with the PF. Section 5 considers recommendations for the future and Section 6 sets out the report's conclusions.

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<sup>5</sup> OECD (1996) *Performance auditing and the modernisation of government*. Paris: Organization for Economic Cooperation and Development Press.

<sup>6</sup> SWECO, ÖIR, Spatial Foresight (2016) *The Implementation of the Performance Frameworks in the 2014-2020 ESI Funds*, European Commission and European Court of Auditors (2017a) *Special Report: The Commission's negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion: Spending more targeted on Europe 2020 priorities, but increasingly complex arrangements to measure performance*, European Court of Auditors, No. 2.

<sup>7</sup> Robinson M (2014) *Connecting Evaluation and Budgeting*, Evaluation Capacity Development, EDC Working Paper Series, No. 30 March 2014.

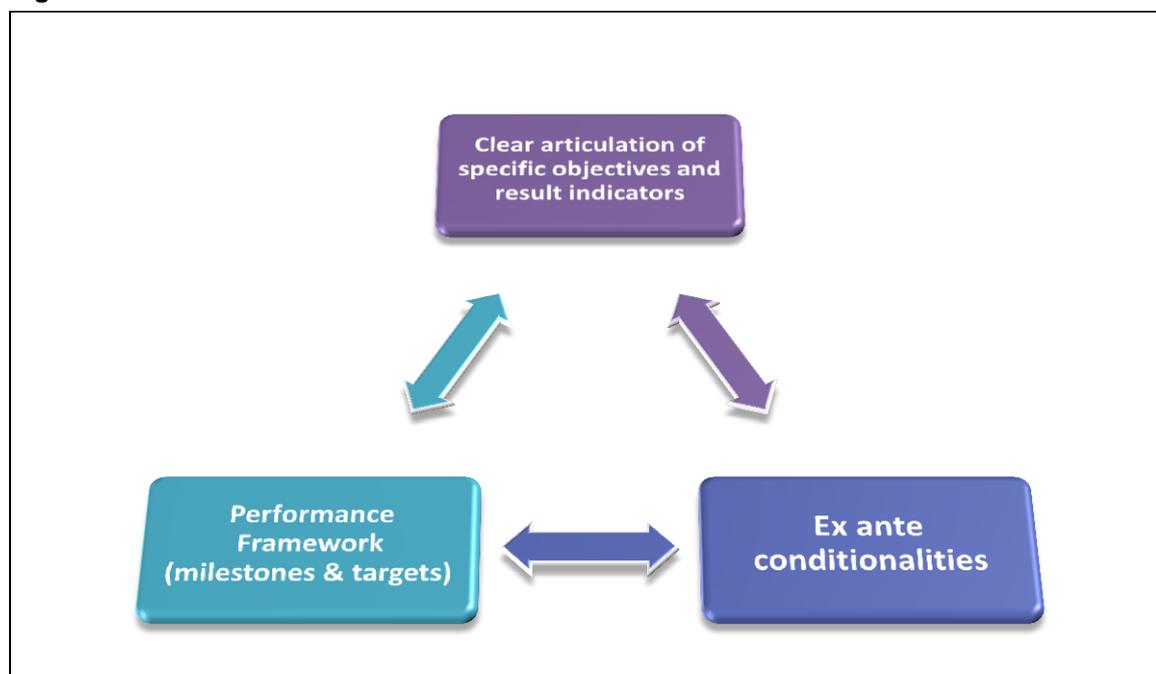
**Table 1: Report structure**

Section 1	Rationale of the Performance Framework and Review	<ul style="list-style-type: none"> <li>• Performance Framework</li> <li>• Performance Review</li> <li>• Performance Reserve</li> <li>• Initial expectations and early assessments</li> </ul>
Section 2	Establishing the Performance Frameworks	<ul style="list-style-type: none"> <li>• How were the PF established and by whom</li> <li>• Key considerations</li> <li>• Challenges addressed</li> </ul>
Section 3	Implementation: Preparing for the Performance Review 2019	<ul style="list-style-type: none"> <li>• Preparations for the Performance Review</li> <li>• Progress towards targets and anticipated challenges</li> </ul>
Section 4	Programme Experiences of working with the Performance Framework: Value and Limitations	<ul style="list-style-type: none"> <li>• Areas of value for programme management and delivery</li> <li>• Limitations and constraints derived from the process</li> </ul>
Section 5	Future recommendations	<ul style="list-style-type: none"> <li>• Addressing administrative burden</li> <li>• Maximising value and quality of indicators and data</li> <li>• Improving flexibility and responsiveness</li> <li>• Building added value</li> </ul>
Section 6	Conclusions	

# 1. THE RATIONALE OF THE PERFORMANCE FRAMEWORK AND REVIEW

The Performance Framework (PF) is one of the three pillars upon which the result orientation of the 2014-20 European Structural and Investment Funds (ESIF) are based (see Figure 1).<sup>8</sup>

**Figure 1: Pillars of the ESIF result orientation**



The PF consists of selected indicators, as well as key implementation steps for each Priority. In the case of OPs under the investment for growth and jobs goal, the PF is linked to a:

- **Performance Review**, carried out by DG REGIO in the second half of 2019 on the basis of the Annual Implementation Reports (AIRs) for 2018, which, if positive, results in the payment of the;
- **Performance Reserve**, which is six percent of the OP's funding, ranging from 5 to 7 percent for each Priority Axis.<sup>9</sup>

The allocation of a performance-based financial reserve is not new in Cohesion policy. A **compulsory Performance Reserve was in place in the 2000-06 programme period**. However, it was made voluntary for the 2007-13 period, when only two Member States (Italy and Poland) made use of an ERDF Performance Reserve. IQ-Net research from 2012<sup>10</sup> found that the approach taken in 2000-06 was not felt to be useful by many IQ-Net programme authorities (Austria, Finland, Nordrhein-Westfalen, United Kingdom), although there were some positive experiences (Greece). Targets were

<sup>8</sup> European Commission (2014a) *Performance Review and Reserve*, Guidance Fiche, Final Version, 14 May 2014.

<sup>9</sup> Except for OPs under the European Territorial Cooperation goal, OP Priorities dedicated to Technical Assistance, the Youth Employment Initiative (YEI) and other instances listed in Article 20 of the Common Provisions Regulation (CPR).

<sup>10</sup> Mendez C, Kah S and Bachtler J (2012) *The Promise and Perils of the Performance Turn in EU Cohesion policy*, IQ-Net Thematic Paper 31(2), European Policies Research Centre, Glasgow.

often set at low levels to make sure they were achievable. Some of these points echo findings from an ECA report from 2007, which assessed the implementation of the Performance Reserve in the 2000-06 programme period and concluded: *'The performance reserve was used primarily to maximise spending rather than to concentrate spending on areas which were shown to be particularly effective.'*<sup>11</sup>

The new PF for 2014-20 takes a different approach. It is intended to ensure the programmes deliver *'what is under the control of the Managing Authorities'*.<sup>12</sup> In practice, this means that Priorities are implemented as planned, the programme is kept on course to achieve its objectives, and problems are anticipated and tackled as soon as they arise.

**The PF is established at Priority level**, with the exception of complex Priorities covering more than one Fund or category of region.<sup>13</sup> The PF consists of up to four different types of indicator (financial, output, result, and key implementation steps), whose progress is reviewed twice, in 2019 and 2025,<sup>14</sup> against milestones and targets, see Table 2. EC guidance states that the number of indicators selected for a Priority should be as limited as possible, as the risk of failing to achieve the milestones increases with the number of indicators.

**Table 2: The building blocks of the Performance Framework**

Indicators (at Priority level)	Milestones (intermediate targets)	Targets
Financial	<ul style="list-style-type: none"> <li><b>Must be included</b></li> <li>Total amount of eligible expenditure entered into the accounting system of the certifying authority (except for EAFRD)</li> </ul>	
Output	<ul style="list-style-type: none"> <li><b>Must be included</b></li> <li>Not additional – chosen from among indicators already selected for the programme</li> <li>Limited number (majority of resources allocated)</li> </ul>	
Result	<ul style="list-style-type: none"> <li>To be used <b>only where appropriate</b> (close link to supported policy interventions)</li> <li>Different approach Fund by Fund</li> </ul>	
Key implementation steps	<ul style="list-style-type: none"> <li>To be used <b>when necessary</b> (no outputs)</li> </ul>	<ul style="list-style-type: none"> <li>Should not be used as outputs must be delivered by then</li> </ul>

**Source:** Ziółkowski J-M (2013) *Performance Framework 2014-2020*, Evaluation and European Semester Unit, DG for Regional and Urban Policy, Brussels, 15 March 2013.

**Milestones are intermediate targets set for indicators to be achieved by 31 December 2018.** The targets themselves are set to be achieved by 31 December 2023. According to Annex II of the Common Provisions Regulation, both milestones (end of 2018) and targets (end of 2023) should be:

- realistic;
- achievable;

<sup>11</sup> European Court of Auditors (2007) *Special Report No 1/2007 concerning the implementation of the mid-term processes on the Structural Funds 2000-2006 together with the Commission's replies* (2007/C 124/01), [https://www.eca.europa.eu/Lists/ECADocuments/SR07\\_01/SR07\\_01\\_EN.PDF](https://www.eca.europa.eu/Lists/ECADocuments/SR07_01/SR07_01_EN.PDF)

<sup>12</sup> European Commission (2014a) *op. cit.*, p. 2.

<sup>13</sup> *'Where more than one category of region (the Structural Funds only), all the indicators, their milestones and targets, as well as their achieved values, have to be broken down by Fund and category of region'*, see European Commission (2014a) *op. cit.*, p. 9. For such complex Priorities, the verification of whether the selected output indicators relate to operations representing the majority of resources is to be carried out at the level of each Fund or category of region within the Priority.

<sup>14</sup> Progress in European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMMF) OPs is reviewed in 2019 and 2024.

- relevant;
- capture essential information on the progress of a Priority;
- consistent with the nature and character of the specific objectives of the Priority;
- transparent, with objectively verifiable targets;
- have a source data identified (where possible, publicly available);
- verifiable (without imposing a disproportionate administrative burden); and
- consistent across the programmes, where appropriate.

In its Partnership Agreement (PA), each Member State outlines the methodology and mechanisms to ensure consistency in the functioning of the PF across the programmes and ESI Funds, while the actual PFs are included in the programmes. The PAs include a table with information on the allocation related to the Performance Reserve, broken down by ESI Fund and, where appropriate, by category of region.<sup>15</sup>

The PF is the focus of a formal **Performance Review carried out by the EC**. This will be carried twice, in 2019 and 2023. For the first Performance Review, data on progress towards PF milestones and targets are presented in the Annual Implementation Reports (AIR) for 2018, which are submitted to the EC by the end of June 2019. In addition to financial data, they are expected to include cumulative values for output indicators and, where appropriate, information about result indicators and key implementation steps. AIRs also include a complimentary section on issues affecting programme performance.<sup>16</sup> From the date of receipt of the AIRs, the EC has two months to examine the achievement of the milestones. In practice, this means that decisions about **the allocation of the Performance Reserve to successful Priorities** will be taken at latest by the end of August 2019 (see Table 3).

**Table 3: Timeline of the Performance Review 2019**

c. 2014	Performance Frameworks included in OPs
end of 2018	OP implementation towards milestones
end of June 2019	Member States report PF achievements to EC
end of August 2019	EC adopts decision on allocation
end of October 2019	MAs request OP amendments based on decision

Within two months of the Performance Review, the EC will adopt a decision on the programmes and Priorities that have achieved their milestones and, subsequently the **Performance Reserve can be made available to the successful Priorities**. As has been noted, the Performance Reserve is a percentage of the funding allocation to a programme<sup>17</sup> Priority and allocated to the relevant Priorities that achieve their targets by the end of 2018.<sup>18</sup>

<sup>15</sup> European Commission (2014a) *op. cit.*

<sup>16</sup> European Commission (2014b) *Guidance Document on Monitoring and Evaluation*, European Cohesion Fund and European Regional Development Fund, Concepts and Recommendations. DG Regio, March 2014.

<sup>17</sup> Except for the European Territorial Cooperation goal and other resources listed in Article 20 of the Common Provisions Regulation (CPR).

<sup>18</sup> Commission Implementing Regulation (EU) No 215/2014 of 7 March 2014.

'Serious failure' to meet targets, which is defined as a failure to achieve at least 65 percent of the milestone value by the end of 2018,<sup>19</sup> may lead to the suspension of interim payments. Failure to meet targets in 2025 could give rise to financial corrections. In cases where milestones have not been met in 2018, the reserve related to these Priorities may be **reallocated among other Priorities** that have achieved their milestones. If all Priorities in a programme fail to achieve their milestones, the Performance Reserve has to be **reallocated to another programme in the same Member State**.<sup>20</sup> In practice, this means that Member States cannot lose any funding. Allocation to other Priorities or OPs will require formal programme amendment procedures, which need the approval of the EC. In this case, the EC may make observations only if the proposed amendments are not compliant with applicable rules, are not consistent with the development needs of the Member State or the region or entail a significant risk that the objectives and targets included in the proposals cannot be achieved.

The PF, with its Performance Review process and the potential allocation of its Performance Reserve were introduced with the **expectation that they would incentivise the achievement of objectives and ensure that progress can be adequately measured**.<sup>21</sup> According to the EC, the PF provided incentives for MAs:

- to focus on the key interventions for the programme;
- to carefully select those indicators that best represent what the programme activities; and
- to establish meaningful milestone/target values.

The requirement to record information on how the PF was designed and to provide this information at EC request **improved the understanding of the way programmes work**, for both MAs and the EC.

Although at an early stage in their implementation, the **PF have already been the focus of a number of studies**, most notably for the Commission and for the European Court of Auditors (ECA).<sup>22</sup> Initial findings confirm some of the EC expectations and suggest that the PF would:

- strengthen the result orientation/enhance focus in the programmes, e.g. with the PF helping to support the thematic focus of the programmes;
- steer and guide programme implementation, with the PF acting as a control mechanism to anticipate and tackle problems,<sup>23</sup> or concentrating resources on a smaller number and types of projects allowing better projects to be selected;<sup>24</sup>
- provide realistic target setting on a sounder evidence base, e.g. the process of establishing the PF forced critical thought and analysis on what it was possible to achieve;

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<sup>19</sup> *Ibid.*

<sup>20</sup> On 6 December 2017, the European Commission published a legislative proposal to reform the ESIF CPR providing for the possibility to use all or part of the Performance Reserve in the current period (2018-20) to support structural reforms as part of the new EMU package: [https://ec.europa.eu/info/sites/info/files/economy-finance/com\\_826\\_0.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/com_826_0.pdf)

<sup>21</sup> SWECO, ÖIR & Spatial Foresight (2016) *op. cit.*

<sup>22</sup> See particularly: SWECO, ÖIR & Spatial Foresight (2016) *op. cit.*, European Court of Auditors (2017a) *op. cit.* and European Court of Auditors (2017b) *Ex ante conditionalities and Performance Reserve in Cohesion: innovative but not yet effective instruments*, Special Report, No. 15.

<sup>23</sup> SWECO ÖIR & Spatial Foresight (2016) *op. cit.*, p. 5.

<sup>24</sup> Mendez C, Wishlade F and Bachtler J (2013) *A new dawn for Cohesion policy? The emerging budgetary and policy directions for 2014-20*, EoRPA paper 13/4.

- improve comparability of indicators across programmes, through the use of the EC's common output indicators;<sup>25</sup>
- promote internal exchanges and dialogue through the process of developing indicators and targets – the process necessitates a dialogue between programme stakeholders, evaluators and the EC;<sup>26</sup> and crucially,
- act as an incentive to deliver.

However, other analyses are more critical. In its Annual Report for 2014, the ECA's assessment of the preparations for the PF was discouraging, particularly in terms of the incentive effect of the Performance Reserve: '*...the impact of the performance reserve, in terms of encouraging an increased focus on results, is likely to be no more than marginal, since there remain no real financial incentives or sanctions in the 2014-2020 period relating to the results achieved with the EU funding.*'<sup>27</sup>

Other concerns that have also emerged relate in particular to the **increasingly complex arrangements to measure performance**,<sup>28</sup> including:

- the administrative burden and developing, monitoring and reporting;
- large numbers of programme-specific indicators have been developed linked to the way in which the programmes are structured and efforts to convey their at times complex and varied results,<sup>29</sup> posing the question over whether a meaningful aggregation of performance data will be possible;
- concerns raised about indicators' capacity to reflect concrete achievements, especially challenges in measuring specific types of complex or innovative intervention;
- lack of ownership/understanding of the PF, as developing it was commonly undertaken by experts;
- lack of coordinated interpretations – Fund-specific regulations introduced different requirements for collecting and reporting performance data on outputs and results and for the financial monitoring of investments, e.g. there is no harmonised approach between the different Funds as to the use of common indicators.<sup>30</sup>
- challenges in data gathering linked to poor definition of indicators and weak measurement;
- unrealistic targets: either setting conservative milestones and targets or; over ambitious milestones and targets; and
- concerns that indicator fixation could drive programmes.<sup>31</sup>

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<sup>25</sup> SWECO ÖIR & Spatial Foresight (2016) *op. cit.*, pp. 5-6.

<sup>26</sup> *Ibid.*

<sup>27</sup> European Court of Auditors (2015) *Annual report of the Court of Auditors on the implementation of the budget concerning the financial year 2014, together with the institutions' replies*, paragraph 3.65, <https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2014/annualreports-2014-EN.pdf>

<sup>28</sup> European Court of Auditors (2017a) *op. cit.* and European Court of Auditors (2017b) *op. cit.*

<sup>29</sup> *Ibid.*, p. 12.

<sup>30</sup> *Ibid.*

<sup>31</sup> Mendez C, Wislade F and Bachtler J (2013) *op. cit.*



## 2. ESTABLISHING THE PERFORMANCE FRAMEWORK

### 2.1 Developing the Performance Framework: rationales and principles

The following section focuses on the development of the PFs, who set the PFs, how, and what are the particular challenges encountered in establishing the Frameworks.

#### ***2.1.1 Managing Authorities leading role in establishing programme Performance Frameworks, complemented by national guidance***

In IQ-Net programmes, the selection of PF indicators and setting of milestones/targets was **mostly carried out by Managing Authorities (MAs)** (e.g. Austria, Czech Integrated Regional OP, Denmark, France). In several countries, the **national level provided methodological advice and guidance** for the design of indicator systems, including PFs (France, Portugal, Spain, Sweden).

- Portugal defined **guiding principles for indicators and the PF** and discussed these with the EC during the programme period for 2014-20.<sup>32</sup> The document provided guidelines to ensure the representativeness of the PF, and it integrated EU-level and domestic requirements. At the level of PA, a list of common indicators was established, which should be used in as many OPs as possible.
- In France, the central coordinating body CGET elaborated a **methodology report**, including targets, which was widely taken into account by MAs when selection indicators and milestones/targets at programme level.
- In Spain, the national level MA organised meetings with all regions to **coordinate the definition and selection of indicators** and provided guidance.
- In Sweden, the Ministry of Enterprise and Innovation had several meetings about this issue and put forward strong **recommendations that the programmes use one or two indicators** in their PF.

In some cases, **Intermediate Bodies (IBs) played an important role** (e.g. in Slovenia). In England, milestones and targets were developed jointly by different territorial levels, the MA involved Local Enterprise Partnerships (LEPs), which allowed development needs and the different distribution of financial resources to be taken into account.

#### ***2.1.2 Indicators definitions informed by past programme experience***

The overarching rationale in selecting indicators was to **keep the PF simple and manageable**. Several programme authorities aimed to select **as few indicators as possible** for the PF (e.g. Austria, Sweden, Wales) and, more generally, to use fewer indicators overall than in 2007-13 (Vlaanderen). In Austria and in most OPs in Sweden, only one output indicator per Priority Axis was selected for the PF. **Key implementation steps** have not been used in many cases (a notable exception is in Pomorskie). In France, key implementation steps as a new concept are felt to have created some confusion.

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<sup>32</sup> Agência para o Desenvolvimento e Coesão (2014) *Princípios orientadores para indicadores e quadro de desempenho na programação 2014-2020* (Guiding principles for indicators and Performance Framework in 2014-2020 programming), version of 28 July 2014, [http://www.adcoesao.pt/sites/default/files/portugal2020/monitorizacao/doc\\_orientacao\\_da\\_monitorizacao\\_estrategica/principios\\_orientadores\\_para\\_indicadores\\_e\\_quadro\\_de\\_desempenho\\_na\\_programacao\\_2014\\_2020.pdf](http://www.adcoesao.pt/sites/default/files/portugal2020/monitorizacao/doc_orientacao_da_monitorizacao_estrategica/principios_orientadores_para_indicadores_e_quadro_de_desempenho_na_programacao_2014_2020.pdf)

IQ-Net programme authorities stressed that indicators should be **easy to define and to measure** (e.g. Austria, Czech Integrated Regional OP, Wales). In this context, having **experience with the definition and measurement of the selected indicators** is important (Finland, Scotland). In Scotland, indicators were chosen from a range of indicators already being measured, either as part of national frameworks or frameworks the lead implementation partners were already using. In Finland, all indicators selected for the PF were already in use in the 2007-13 programme period. An additional consideration in Vlaanderen was selecting indicators where the MA had some scope to 'steer' the indicator, so it would be able to adjust target values of the project beneficiaries if necessary and thus reduce the risk of not achieving milestones and targets for the PF.

As suggested by the EC guidance,<sup>33</sup> some programme authorities specifically chose to select **indicators that cover a large part of a Priority Axis** (Austria, Sweden). Sweden considered their programmes to be focused enough that one output indicator is sufficient to reflect most of their Priority Axes. Having only a few indicators in the PF also makes it easier to monitor their progress and take corrective actions if needed (Sweden Norra Mellansverige OP).

Looking at the **definition of milestones and targets, experiences gained in the previous programme period** were the most important factors in developing realistic values (e.g. Austria, Czech Republic, Denmark, England, Finland, País Vasco, Slovakia, Slovenia, Sweden, Wales). In the case of the Slovak OP Integrated Infrastructure, the selection of indicators and the setting of milestones has been based on the information provided by a **domestic strategic document** – the Slovak Transport Master Plan.

However, establishing robust indicators and targets is particularly problematic in cases where there is no 'track record' for setting the indicators and targets, e.g. innovative interventions under RTDI, SME support, education

(Pomorskie, Slovakia). For some indicators, neither the EC nor MAs had robust points of reference in developing the PF. In Denmark, issues arose with new thematic priorities for 2014-20. In these areas, the MA could not base the definition of milestones and targets on previous experience. Performance figures thus far indicate that the estimates made were not always accurate. This raises the wider question of whether programmes will unlock the reserve because of good performance or because the targets were set too low.

A more general issue encountered by IQ-Net programme authorities in establishing the PF was the **lack of time to plan a programme's data requirements properly**. For example in Pomorskie, as has been noted, there is a recognised lack of experience in indicator setting, especially at the regional level (in 2007-13, criteria were set at the national level and defined according to previous experience). Compounding the issue, it was felt that the EC had limited time and capacity to discuss and agree indicators with the MA. The MA produced a comprehensive report outlining the assumptions behind its PF, but there was no EC response to this. Similarly, there was little input from the Polish government. Thus, the process lacked transparency and comparability: each Polish region had its own suggested indicators and targets. As a result, the MA has learned very little from the exercise: it suggested certain indicators and targets and no-one from the EC assessed or discussed these: it has proved to be a 'box-ticking' exercise rather than a strategic process.

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<sup>33</sup> European Commission (2014a) *op. cit.*, p. 6.

### **2.1.3 Establishing the Performance Framework is a resource intensive exercise**

**For IQ-Net programme authorities, establishing the PF was resource intensive exercise.** Considerable staff resource was expended on the development of the PF, setting indicators and targets, e.g. in England and Wales. In Sweden, the process was time consuming due in part to the organisation and implementation of a number of training courses related to preparing beneficiaries for the PF and gathering information to inform indicators and targets. In Croatia, ensuring commonly agreed definitions proved challenging and required intensive consultations between the organisations involved, and the EC. As has already been highlighted, in some cases, lack of qualified staff and skills further complicated the task, e.g. in Croatia and Poland. Building technical capacity was also a concern (England, Slovenia). For example, in England, the MA's eClaims database is still under development and at present, the authority does not have the capacity to store and update all the information on line.

**As programmes progress, data gathering and maintenance remains time-consuming and resource-intensive.** This substantial administrative load is felt across the institutions involved, down to the level of project applicants (e.g. in Croatia, Finland, Sweden).

- In England, the on-going requirement to update performance data requires resource in both the ERDF policy and regional ERDF delivery teams, as producing reliable data at such a detailed level and ensuring consistency across programmes is challenging. In Finland, time and personnel are also committed at project applicant and project levels. Both are required to be familiar with the indicator system and definitions, and ensure indicators are correctly reported. In Scotland, the level of detail required to evidence the outputs has also been challenging for project sponsors.<sup>34</sup> All lead partners have said that they have '*under-resourced*' for this task – '*much more information needs to be gathered ... way more than before*'. In this case, project sponsors feel that it exceeds what is asked for under other regimes.

All of these issues are especially acute for multi-Fund programmes. France notes that the practical implementation requirements do not favour integrated multi-Fund programmes. In France, most OPs are multi-Fund and the Youth Employment Initiative (YEI) features prominently. This presents a particular challenge, as explained in the EC's guidance: '*In the case of priorities which concern more than one Fund providing support under Cohesion policy or category of region (the Structural Funds only), the achievement of milestones will be assessed separately for each of the Funds and each category of region within the priority, taking into account the indicators, their milestones and their achievement values broken down by Fund and category of region. If the YEI is implemented as part of a priority, the YEI specific allocation along with the matching ESF support for the YEI is to be treated separately.*'<sup>35</sup>

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<sup>34</sup> In England it is suggested that the unique situation in the UK, with Brexit on the horizon, could lead to potential applicants concluding that the effort involved in gathering such large, detailed amounts of data outweighs the benefits of ERDF co-financing.

<sup>35</sup> European Commission (2014a) *op. cit.*, p. 15.

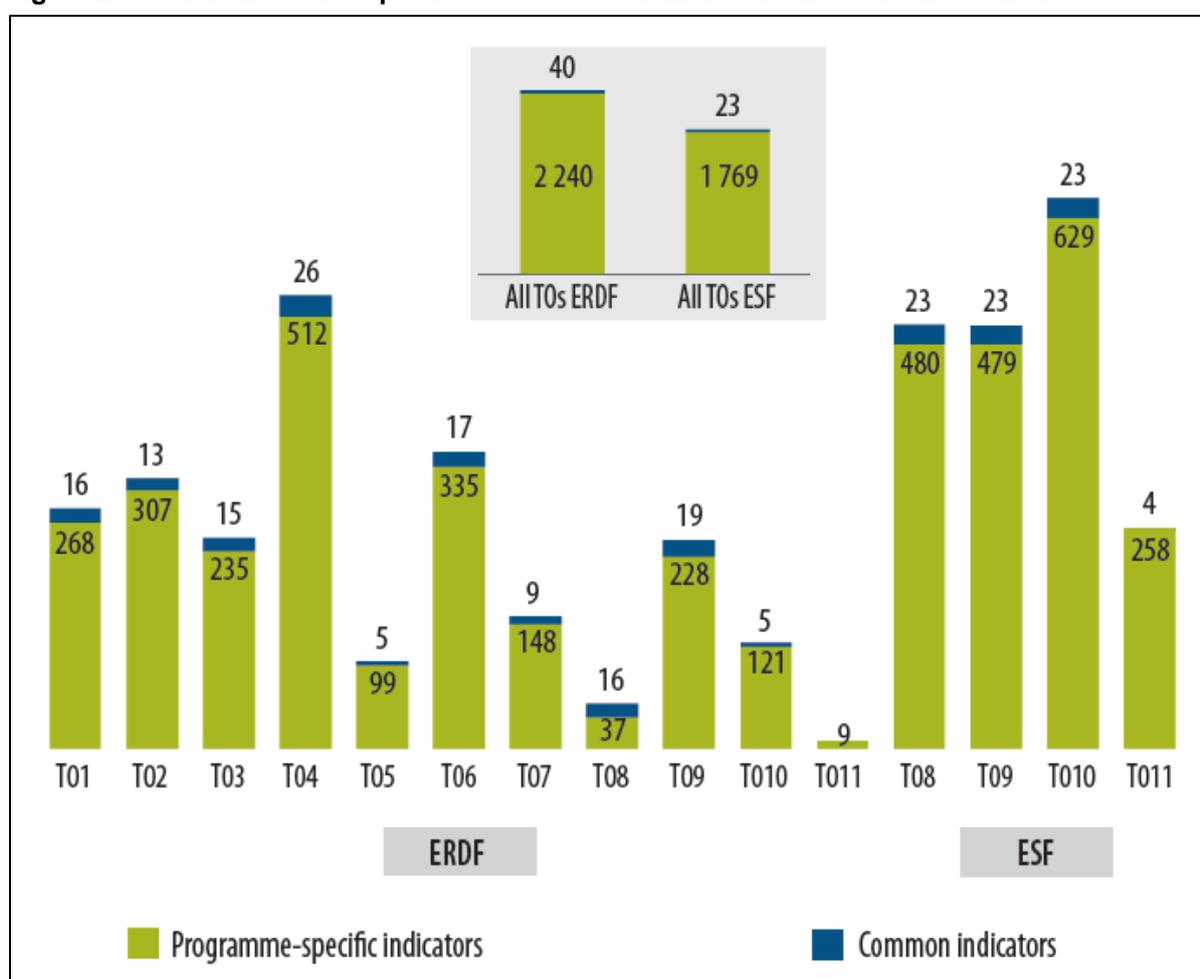
## 2.2 Content of the Performance Frameworks

### 2.2.1 Performance Frameworks draw on Common and Programme Specific Indicators to differing extents

The following sections focus on the practical arrangements in place that make up the programme PF, it is important to note that the figures below relate to the use of indicators in programmes overall, not specifically to their use in PFs. The EU28 combined created a total of 2,240 different programme-specific indicators (PSI) for the ERDF, in addition to the 40 common output indicators (COI, see Annex), which can be used for ERDF OPs under the investment for growth and jobs goal. On average, each ERDF OP used 14.8 COI and 13.2 different PSI.

Figure 2 shows the use of COI and PSI in ERDF and ESF OPs. Member States tended to create more PSI for TOs under ESF than under ERDF. For ERDF, the highest numbers of PSI are being used under TO4 (low-carbon).

**Figure 2: Total number of output indicators used in ERDF and ESF OPs in the EU28**

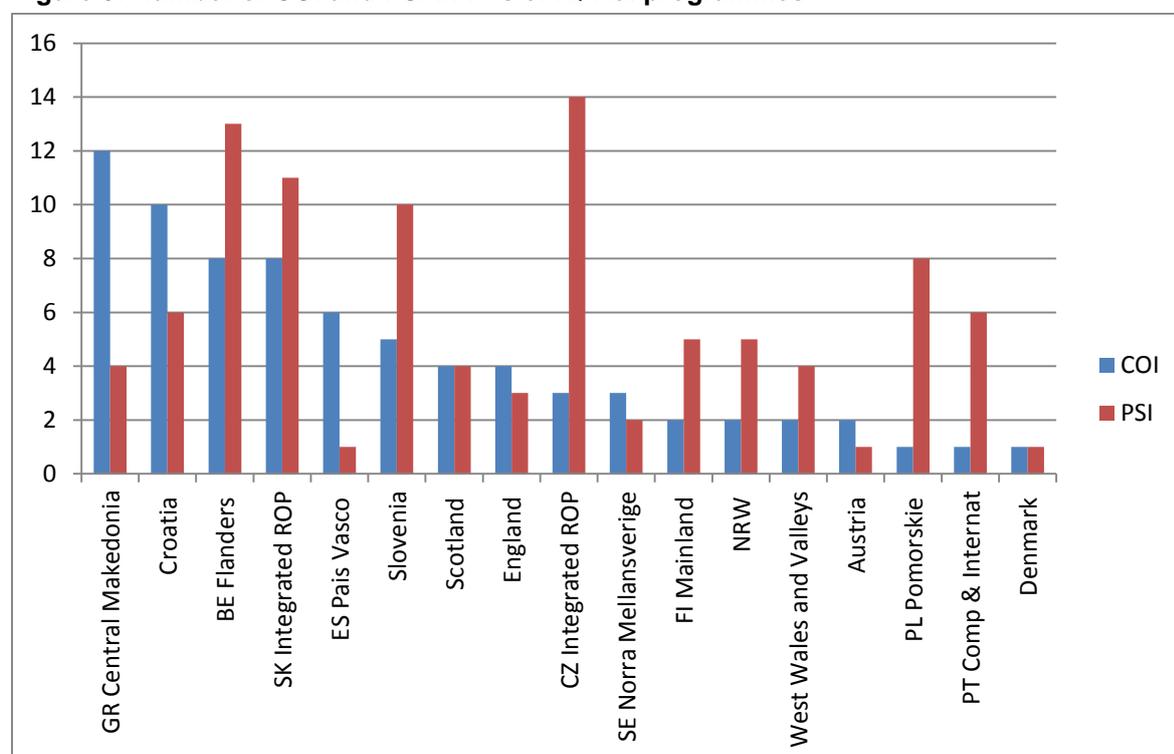


**Source:** European Court of Auditors (2017a) *op. cit.*, p. 63.

Narrowing this down to **indicators used in the PF specifically** and to a sample of 17 IQ-Net programmes, **most of the programme authorities analysed opted to use more PSI than COI** in their PFs (5.8 PSI versus 4.4 COI on average). The size and thematic breadth of a programme does not automatically result in a higher number of PF indicators. As Figure 3 illustrates, the number of COI

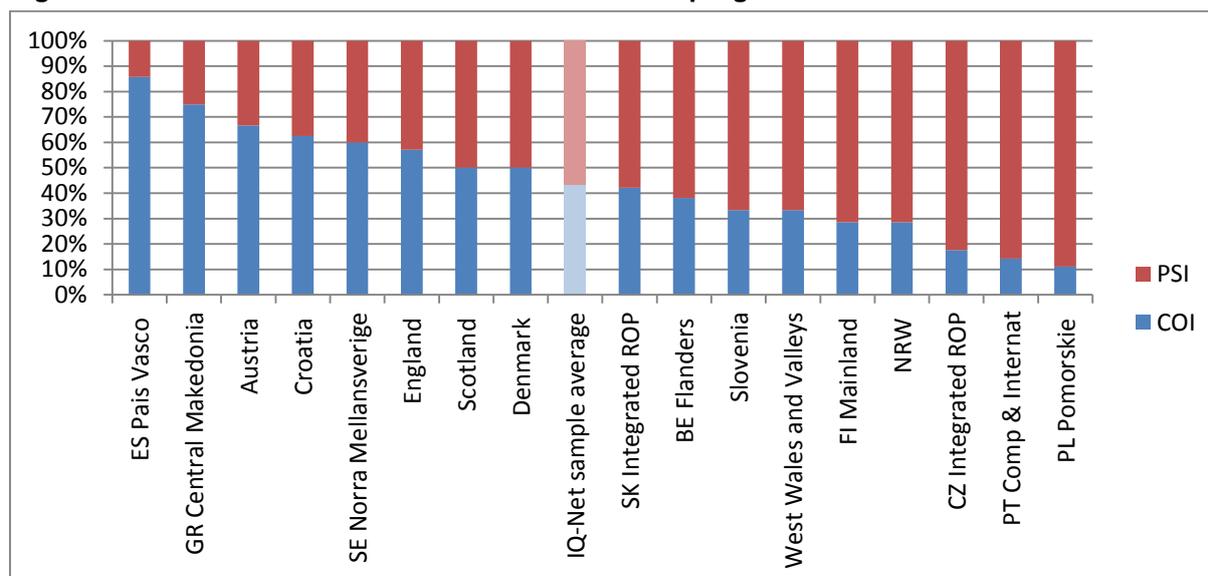
used in PFs ranges from just one (Denmark, Portuguese Competitiveness and Internationalisation OP, Pomorskie) to 12 (Central Makedonia, Greece). At the same time, 14 PSI have been defined in the Czech Integrated OP, compared to only one in Austria, Denmark and País Vasco. The most commonly used COI in the sample of IQ-Net programmes is COI1, which refers to the 'number of enterprises receiving support' and is used in 10 out of 17 analysed PFs.

**Figure 3: Number of COI and PSI in PFs of IQ-Net programmes**



**Source:** EPRC research based on IQ-Net programme documents.

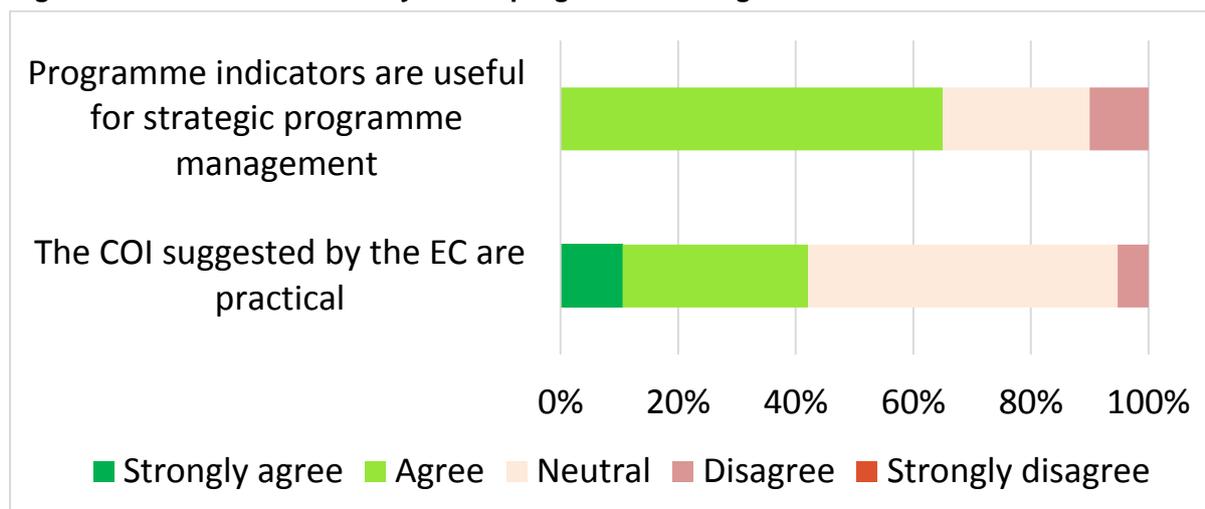
Figure 4 shows the balance between COI and PSI in 17 IQ-Net programmes. While **some programme authorities rely widely on COI** (e.g. País Vasco, Central Makedonia), **others use predominantly PSI** that they defined themselves (e.g. Pomorskie, Portuguese Competitiveness and Internationalisation OP). EU-wide, 60 percent of PF indicators are COI and 40 percent are PSI. In Scotland, the EC encouraged the MA to use COI and also any Scottish PSI have been based on COI as closely as possible, e.g. by replacing 'business' with 'organisation' under the low-carbon/green infrastructure measures.

**Figure 4: Ratio between COI and PSI in PFs of IQ-Net programmes**

**Source:** EPRC research based on IQ-Net programme documents.

IQ-Net programme authorities **recognise the usefulness of indicators more widely and recognise the value of common indicators at EU-level**. Several valued EC advice to keep indicator systems simple (Austria, Nordrhein-Westfalen, Portugal). As Figure 5 illustrates, views about COI are generally positive or neutral. Nevertheless, the following issues were highlighted in relation to COI.

- In Denmark, the MA feels that, in spite of their usefulness for an EU-wide comparison, COI can be complicated to use in some cases. For instance, COI for green projects under TO4 are not always suitable. For the MA, it is difficult to demonstrate how their activities/outputs can fit the indicators on issues such as CO<sub>2</sub> reduction, which are broad indicators and it is difficult to measure against them.
- Some of the indicators are seen as too broad even for PA level and need contextualised (Portugal). In Bizkaia (País Vasco), standard output indicators are used (e.g. no. of projects) under the PF, but more in-depth contextual indicators are collected for internal purposes and accountability to the monitoring committee with a view to providing a more comprehensive account of project performance.
- The interpretation of some indicators varies, weakening the value of comparisons across programmes or countries (Czech Republic, Portugal, Wales). As similar point was made by Greece, which argued that there is a need for the EC to provide a 'methodology' for the use of the indicators (Greece).
- The applicability of a 'one-size-fits-all' approach covering such diverse programmes is questioned (e.g. in England).
- Some indicators are measured at national level (e.g. business-related ones) and are therefore of limited use for regional programme authorities (Scotland).

**Figure 5: Assessment of COI by IQ-Net programme managers**

**Source:** IQ-Net research based on 20 respondents from 12 Member States.

Addressing some of the criticisms of the COI, PSI can be more context and programme-specific, allowing measures of progress to be less general and to better reflect the character of the programmes. However, given their diversity, **programmes use an extremely wide range of PSI**,<sup>36</sup> which can limit the scope for comparisons and reinforces challenges of complexity and administrative burdens. Reinforcing a point made by the ECA, France notes that too many indicators are in use simultaneously. Also, the fact that the indicator is 'tailored' to the programme may mean data availability and access is difficult. For instance, in Denmark there have been some isolated problems with certain indicators which can be difficult to collect, e.g. due to issues surrounding data protection.

### 2.2.2 Challenges in establishing indicators, data and targets

The PF means that MAs and IBs are under pressure to not only under pressure ensure fast, efficient and effective spending, but also to ensure the outputs and results of that spending is useful, and accurately and clearly conveyed. Central to this is the quality of the indicators, data and targets. Several IQ-Net programme authorities (Denmark, England, Nordrhein-Westfalen, País Vasco, Portugal, Vlaanderen) consider **all TOs to be suitable for the PF, as long as the appropriate indicators are selected**.

PF indicators have been formally evaluated as part of ex ante evaluations and will be considered again as part of subsequent studies (e.g. England, Slovakia, Sweden, Wales).<sup>37</sup> In Wales, the indicator system is reviewed yearly in terms of definitions. The MA provides training on indicators, and holds workshops for projects/sponsors. There was also an audit on data quality. Evaluations, along with practical experience, are highlighting some issues and concerns over the value of some indicators. As a result, in some cases, changes are being made to the indicator definitions. Key concerns are in the following areas.

<sup>36</sup> ECA (2017a) *op. cit.*

<sup>37</sup> Evaluations and assessment of the indicators are not simply informing Cohesion policy processes. It should also be recognised that the PF is being implemented against a background where domestic policy interventions are also working with performance measurement and indicator systems. For example, Austria plans to use synergies across policy areas, as other Austrian actors are also working on developing and improving performance measurement and indicator systems. Examples include the Ministry of Agriculture (how to measure the impact of environmental measures) and the Austrian Research Promotion Agency FFG.

*(iii) New areas of intervention*

As has already been noted, establishing robust indicators and targets is particularly problematic in cases where there is not a 'track record' to draw on for setting the indicators and targets.

*(iii) 'Soft' interventions*

The specificity and complexity of some 'softer' interventions make it difficult to find appropriate indicators that directly relate to the planned scope of planned intervention, particularly as there is often a lack of reliable data sources to use as baselines (e.g. in Pomorskie). In Pomorskie, **'softer' interventions** under RTDI, SME support or education can be problematic – the specificity and complexity of these interventions made it difficult to find appropriate indicators that would directly relate to the planned scope of planned intervention, particularly as there is often a lack of reliable data sources to use as baselines. For these types of intervention, it can be necessary to have quality-based indicators that are context specific and agreed between the EC and the MA on a programme-by-programme basis, requiring substantial capacity-building on both sides. According to Finland, the PF is best suited for measuring **TOs that produce tangible quantifiable outputs**, as opposed to soft interventions. These are for example TOs related to business support and infrastructure development. TOs related to RTDI, and skills and knowledge development are more difficult, because the results cannot be captured only on numeric terms and the funded projects are very different to each other. Because of this, the numeric indicators are more difficult to define for capturing the real results or become more ambiguous, leaving room for interpretation. Consequently, their reporting becomes more inconsistent and inaccurate.

*(iii) Complex interventions*

As has been discussed even in apparently 'straight forward' areas of intervention setting useful indicators and milestones has proved challenging. The challenges faced are **amplified for more complex interventions**, e.g. Integrated Territorial Initiatives (ITIs)<sup>38</sup> and Financial Instruments (FIs) (Austria, Czech Republic, Pomorskie, Portugal and England). **FIs and territorial instruments** such as ITIs, Community-led Local Development (CLLD) and urban development strategies (France, Nordrhein-Westfalen, Slovakia) appear also to be less suited for the PF.

- Austria's Priority Axis 5 supports measures encouraging cooperation between cities with their surrounding areas. The progress of these types of interventions are difficult to measure. The Priority consists of diverse and complex projects, therefore any effective measurement of performance would have to take place at project level.
- In Pomorskie, there are special provisions for FIs in the PF and there were additional discussions between the Ministry and the MAs in setting output indicators for FIs - assessing progress towards financial and physical targets in grant-based approaches is more straightforward than in loans, guarantees etc. where funding can revolve several times.
- In Portugal, ITIs contribute to a wide range of TOs and are 'spread' around a range of Priority Axes (under various OPs and Funds). Even in cases where the actions under a specific ITI fulfil (or even exceed) all the targets, if the Priority Axis as a whole does not deliver on its PF target, the whole axis is penalised, and the ITI thus may get affected. A possible solution

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<sup>38</sup> The ITI interventions implemented are contributing to the achievement of the COI.

could be a single dedicated axis for ITIs, but this would make the whole system completely inflexible.

*(iii) Interventions relying on major projects*

It appears that even **support for infrastructure is challenging in a PF context**, e.g. under TO7 (transport), due to its comparatively back-ended nature in terms of expenditure and delivery of outputs (Croatia, Greece, Sweden, Wales). While the **PF is easy to define for infrastructure projects, the risk of not achieving the milestones is high**. Reliance on a few key major projects, such as in the Slovak Integrated Infrastructure OP, can also be risky. **Large, complex projects** with extensive administrative procedures and bureaucratic obstacles have also proved to be challenging for PF targets, e.g. in the Czech Republic, Slovenia, Wales. For instance, in Slovenia, climate change mitigation measures and anti-flood infrastructure are complicated projects, involving a lot of permits, regulation, complex project planning and implementation, resulting in slow progress. Thus, there is no direct correlation between 'easy to define' and 'easy to achieve'. On the other hand, Pomorskie points out that transport infrastructure and waste management interventions are **relatively standardised and commonly used**, therefore are more suited to a quantitative, standardised indicator system.

### **2.2.3 Reliability of data**

Even if indicators are suitable and milestones/targets have been set appropriately, there is the **question of the reliability of the reported data**. In order to have assurance about the quality of the data reported in the context of the PF, DG REGIO is carrying out **Performance Data Reliability Audits (PDRA)**.<sup>39</sup> In early 2016, it developed an audit methodology and drafted an Enquiry Planning Memorandum (EPM) on the PDRA. The **PDRA focuses on the reliability of data, not on the actual progress** in reaching the PF milestones and targets. It covers financial and output indicators in the PF under the ERDF, but can also look at indicators more widely where appropriate (e.g. where there was nothing reported under indicators included in the PF).

In the first half of 2017, DG REGIO's Unit C.3 Audit II selected three pilot OPs regions to test their audit approach: the Nordrhein-Westfalen ERDF OP); the Nord-Pas-de-Calais ERDF and ESF OP; and the West Wales and the Valleys ERDF OP.

The PDRA used data from the most recent AIRs available, which were from 2015 at the time of pilot audits. The selection of pilot OPs was constrained by the fact that few 2015 AIRs contained any progress data in their PFs.

The result of the PDRA was positive but highlighted a number of issues.

- **Missing IT interface for beneficiaries**, i.e. the requirement of e-Cohesion not fulfilled. This means that data is entered by MA/IB, which can lead to errors
- **No automatic data extraction possible**. Even if the reported data are correct, it has to be transferred into AIRs manually, which creates risks.
- **Insufficiently clear definition of indicators**. Indicators need to be understood correctly and in the same way by all users. In one case, for the indicator, COI26 (number of enterprises

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<sup>39</sup> It has to be noted that the PDRA is at an early stage and the initial results are internal to the EC. IQ-Net fieldwork research has only identified some preliminary findings.

cooperating with research institutions) has been interpreted differently by different actors. Some included enterprises that had the intention to cooperate, but were not cooperating yet.

- **Lack of audit trail.** In some cases, data has been modified in IT systems, but the systems do not register by whom and when this was carried out.<sup>40</sup>

Overall, the audit approach was assessed positively and it will therefore be continued. In order to extend the approach to more cases, the Audit Unit carried out a risk assessment on the basis of the AIR 2016 data. It plans to carry out further PDRA in 18 OPs until the end of 2018. Of these, 14 cases had already been selected at the time of the interview. The Audit Unit plans to combine these audits with other system audits where possible.

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<sup>40</sup> European Commission (2017) *Enquiry Planning Memorandum on Performance Data Reliability Audit (PDRA)*, presentation at INTERACT Audit Authority network meeting, Malta, 14 June 2017 and interview with DG REGIO, Unit C.3 Audit II, 9 November 2017.

### 3. IMPLEMENTATION: PREPARING FOR THE PERFORMANCE REVIEW 2019

The overall PF is linked to a Performance Review, carried out by DG REGIO in 2019. If the Performance Review shows the milestones set in the PF have been met a, Performance Reserve equivalent to six percent of the OP's funding made available for use.<sup>41</sup> The first Performance Review of the 2014-20 programme period will take place in 2019, based on achievements up to the end of 2018.

#### 3.1 Progress and challenges

At this stage, it is **still early for programmes to comment on the targets that have/have not met**. Although previous IQ-Net research noted timely progress on the PF, in line with satisfactory project generation and selection, and good financial progress,<sup>42</sup> there is significant versatility in target achievement. In several cases, actual progress in implementing measures had not yet been expressed in PF indicators at the end of 2016, the cut-off date for the most recent AIRs.

In several cases, many (Austria, Croatia, Czech Republic, Nordrhein-Westfalen, Pomorskie, Slovakia, Slovenia) or most (England, Scotland, Wales) **values for PF indicators were still at zero at the end of 2016**. However, progress made against the milestones and targets for the PF varies naturally between Priorities, and **most programme authorities remain optimistic and the PF indicators are considered to be generally on track** (Austria, England, Nordrhein-Westfalen, Pomorskie, Sweden, Vlaanderen, Wales). In Vlaanderen, for instance, only one indicator (COI31 - number of households with improved energy consumption classification) still stands at zero, while others progressed well. COI38 (open space created or rehabilitated in urban areas) has already reached 340 percent of its milestone value.

In some cases, there are **challenges in individual thematic areas or with specific types of interventions**. Some of these areas reflect **fields of intervention that have not previously received support**, such as poverty, or where the type of support has materially altered e.g. innovation centres (Scotland). Some examples of Thematic Objectives (TOs) that have been mentioned as challenging by IQ-Net programme authorities include:

- **TO2 – ICT** (England, País Vasco, Slovenia, Sweden). In Slovenia, the demand for Cohesion policy funding decreased due to larger private investments than expected. In Sweden, the outputs of implemented operations are not expected to be reported until later into the programme period. In England, the related State aid scheme expired in 2015 and the process of a new State aid notification delayed implementation. This resulted in a programme modification.
- **TO4 – low-carbon** (England, País Vasco, Sweden, Wales). This is a new area of intervention in several cases. In England, many early applicants failed at the outline stage, as they were not compatible with the OP, in part due to programme managers having limited experience in delivering low-carbon activity.

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<sup>41</sup> It can be argued that the Performance Reserve is not paid, as it has already been included in the OPs' allocations.

<sup>42</sup> Lehuroux T (2017) *Gathering Implementation Speed: The Progression of Structural Funds Programmes*, Summer 2017, IQ-Net Review Paper 40(1).

- **TO5 – climate change adaptation** (England, Slovenia). In Slovenia, the implementation of anti-flood measures is very complex, requiring demanding environmental procedures and the requirement to involve citizens’ initiatives. In England, the MA established that the PF targets for 2023 were based on incorrect assumptions and required a programme modification.

In other cases progress has been affected by delayed starts to the Programmes. The late approval of the EU regulations and delegated acts led to delays for many OPs. In the Czech Republic, considerable delays with the launch of 2014-20 period mean that milestones will be difficult to achieve by the end of 2018. Instead, they argue, for only using targets for 2023. In some cases, the **approach to project generation, specifically involving a preparatory phase**, has meant that funds have been slower to be absorbed in the early stages of the OP. The Nordrhein-Westfalen ERDF OP allocates funding mainly via competitive or project calls. As a result, it has been slower to commit funding than would be the case if public authorities were simply allocating funding to projects which were already planned. **In a number of cases, milestones and targets appear to have been set too high, making progress less ‘visible’**. For example, in Croatia, operational level administrators have warned that in some cases the targets set in the PF were too optimistic. Similarly, in the Czech Integrated Regional OP, some milestones and targets were too high and had to be reduced as part of programme revisions. In other cases the poor selection of targets means progress is not well reflected. In Denmark, there have been issues surrounding Priority Axis 4, which focuses on low-carbon and energy efficiency. The MA acknowledged a lack of familiarity with this thematic area and the potential beneficiaries involved, resulting in certain targets being incorrectly estimated.

Often, the regulatory frameworks set by the EU and Member States result in implementation challenges that impact on the PF progress. However, these **relate to programme implementation progress more widely and are not specific to the PF**. Table 4 lists a number of examples.<sup>43</sup>

**Table 4: Regulatory and operational aspects influencing performance levels (examples)**

Regulatory requirements	State Aid rules (England, Greece, Vlaanderen) Public procurement procedures (e.g. Greece, Pomorskie) Complex financial control and monitoring requirements acting as disincentive (England)
Involvement of IBs	IB selection (Greece) IB role and competences (ITIs in Nordrhein-Westfalen) High number of IBs and resulting complexity (Slovakia)
Domestic issues	Protracted term procedures for drafting and adopting strategic documents (Croatia) Broad focus of Priority Axes (Slovakia) Implementing new/revised electronic systems for monitoring and programme management (England, Portugal) Domestic co-funding challenges (Scotland)

**Source:** IQ-Net research.

<sup>43</sup> For a more detailed overview of challenges with programme implementation see Michie R and Dozhdeva V (2017) *Halfway there? Taking stock of ESIF programme implementation*, IQ-Net Review Paper 41(1), European Policies Research Centre Delft.

## 3.2 Managing preparations for the Performance Review

Research indicates that review management involves six actions: coordination of responsibilities; awareness raising; forecasting; data validation, risk management; and on-going monitoring.

### 3.2.1 *Coordination of responsibilities*

**Oversight and coordination responsibilities are set and clarified** (Austria, England, Greece, Nordrhein-Westfalen). For example, in Austria the MA is responsible, with a strong complementary role played by the monitoring body (based at the ERP-Fund at Austria Wirtschaftsservice). In England, as the review is carried out at Member State level, the MA anticipates that the responsible national-level authority, the Department for Business, Energy and Industrial Strategy, will be coordinating the review, with input from the MAs. In Greece, the MAs are responsible for the data provision, and the National Coordination Authority is performing coordination tasks. In Nordrhein-Westfalen, it is the ERDF OP MA which is leading on preparations for the Performance Review, in cooperation with the IB.

### 3.2.2 *Awareness raising*

**Steps are taken to alert relevant authorities and officials to the upcoming review and the need to initiate preparations** (Croatia, Sweden). Part of this process is to encourage the early identification of problems or changes (Croatia),<sup>44</sup> and, more generally, to open channels of communication, ensuring a good flow and exchange of information. For example, in Sweden there have been productive workshops and seminars to ‘catch what is happening’ under each TO, which has helped to inform views of progress. In addition, external evaluations have been looking at each TO.

### 3.2.3 *Forecasting*

**Efforts are made to forecast where the OPs will be in terms of milestones.** In Greece, a preliminary report at national level forecasts progress with programme indicators, and further work will review operations that contribute to the indicators. This involves cooperation between the Greek Special Service for Strategic Planning and Evaluation (EYSSA), the Special Service for Coordination of Implementation (EYSE) and the MA. In December 2017, a thematic workshop will take place in order to communicate the significant issues to the Greek MAs. In País Vasco, a qualitative and quantitative analysis of the likely achievement of indicators was undertaken through an external evaluation, and a further evaluation will be carried out to support preparations. The first is an evaluation of the achievement of indicators using data on projects selected due to the absence of certified expenditure, which was conducted to feed into the Progress Report and AIR 2016, and the second will be a mid-term evaluation conducted in 2019 to assess the OP’s PF using data at the end of 2018. In Pomorskie, the MA gathered data on risks and identifying delays (see Table 5).

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<sup>44</sup> Also in Croatia, the MA and Coordination body has notified IBs and advised them to, if necessary, relocate the funds among specific objectives.

**Table 5: Preparations for the Performance Review in Pomorskie**

	<p>The monitoring and evaluation system for the Pomorskie OP (SL 2014) is the database for data from the MA and beneficiaries. The database is continuously updated and reports with financial information are prepared on a monthly basis. More extensive reports on the implementation of the OP are prepared once a year. In addition, evaluation reports based on the evaluation plan for Pomorskie are prepared periodically.</p> <p>Thus, the indicators for the PF and for the programme more widely are collected regularly and are constantly monitored. Data are obtained directly from the beneficiaries. Aggregate performance indicators are prepared once a year by the MA, and form an integral part of the AIR.</p> <p>In order to properly assess the implementation of the PF, and increase its strategic value, additional elements affecting the performance against some targets are taken into account. In a situation where the realisation of PF proved to be at risk, additional information was used which allowed assessment of the factors behind different levels of achievement.</p> <p>MA actions so far were aimed at gathering information on risks and identifying delays and their causes. Several of these factors lay outside the control of the Member State (e.g. changing market conditions, new legislation).</p> <p>In order to minimise the risk of not achieving targets, the MA also took into account the number of contracts signed, the number of training sessions with Beneficiaries held etc. This made it possible to assess the real risk of reaching PF targets and to take action to address these risks.</p>
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### **3.2.4 Data validation**

**Ensuring the validity of data is part of preparations.** In Nordrhein-Westfalen, extensive financial/output control work is being conducted and a management tool for forecasting whether they are likely to meet each PF goal was developed. A detailed assessment is undertaken, focussing on ensuring that proof is available to underpin all the data, in order to ensure that no objections are raised to particular blocks of data, which could result in data being challenged or declared invalid. For example, in the case of indicators of ‘number of firms supported or reached’, the MA and IBs are ensuring that the dates of any advisory meetings are recorded.

### **3.2.5 Risk management**

**Programme authorities have worked with partners to identify areas of risk** and subsequently work to boost take up. For example, in Sweden, where an area was identified that slower to progress, the authorities have been proactive in encouraging projects – asking what is happening, identifying areas where there may be outputs/results which may not have been reported yet, and taking measures to enhance programme progress (workshops, seminars), and providing information. All of these efforts have resulted in more project applications. Similarly, Nordrhein-Westfalen works on accelerating the implementation of its OP Priority Axis 4. It encourages local authorities to apply for funding for integrated urban development strategies by undertaking significant communication work with the local authorities, aimed at generating interest in the call.

### 3.2.6 On-going monitoring

As the **PF is embedded in wider programme monitoring and evaluation systems**, online monitoring systems can provide complete indicator information, and programme managers regularly monitor indicators, part of which is predicting progress towards the review targets (Austria, Czech Republic, Denmark, England, Finland, Slovenia, Sweden, Wales). On this basis, at present, some IQ-Net authorities **do not see the necessity for additional measures to prepare for the Performance Review**. In England, the MA is continuing to measure its outputs in line with the PF and this will feed into any Performance Review.<sup>45</sup> In Wales, the MA has a detailed forecast of where the OP will be, and each operation has a quarterly forecast. This features in each management meeting and the monitoring committee discusses it at every (quarterly) meeting. In Slovenia, line ministries in their role as IBs are monitoring the progress of measures and the achievement of OP indicators (and PF values) regularly. The MA is undertaking monitoring and controlling in the framework of the regular implementation report that is sent to the Slovenian Government, the Slovenian Parliament, the EC and to cohesion regions.

### 3.3 Revisions of milestones and targets

**Revisions to the milestone and target values of the PF are being considered by several IQ-Net programme authorities, but this is discouraged by the EC.**<sup>46</sup> Any request for modifications are considered by the EC on a case-by-case basis based on the relevant legislation. Annex II of the CPR indicates what may constitute a 'duly justified case' for amendments, notably:

- a significant change in the economic, environmental and labour market conditions in a Member State or region; or
- the information recorded by the body preparing the programme has been found to be based on incorrect assumptions leading to under- or over-estimation of targets or milestones.

Most importantly, **if the revision aims only to align the milestones and targets with actual performance, the EC will not consider this as a 'duly justified case'**.

Modifications have been, to date, justified either by **changes in the underpinning socio-economic conditions/challenges or are of a more technical nature**, including the recent technical adjustment of the Member State envelopes. Examples in IQ-Net programmes so far include the following.

- In Scotland, changes have been envisaged from the start and a programme review took place in 2017. The Scottish programmes were initially (pre-Brexit) designed to run for three years, following which there would be a programme review. Strategic and labour market changes mean that adjustments to both the scope and allocations are required. Changes aimed at ensuring full allocation of the programmes and to address lower levels of absorption, particularly in the Highlands and Islands.
- In Sweden, there was discussion with the EC about some change. However, the decision was taken not to change the milestones or targets, but simply the way they were expressed in absolute numbers rather than as a percentage change.

<sup>45</sup> Although, with the proposed departure of the UK from the EU, the MA is uncertain of the future of the England ERDF programme beyond March 2019, so has not made any firm preparations for the Performance Review in 2019.

<sup>46</sup> European Commission (2014) *op. cit.*, p. 14.

- In Vlaanderen and the Slovak Research and Innovation OP, some changes have been made to milestones and targets to reflect changes in the OP financial allocations.

Specific changes to indicators are also addressed in Slovenia (see Table 6).

**Table 6: Changes to indicators proposed in Slovenia**

	<p>Priority Axis 2 (ICT): In investment priority 2.1 ('expansion of broadband services and introduction of high-speed networks'), the responsible IB (Ministry of Public Administration) carried out a demand assessment for commercial interest in the deployment of broadband networks over the next three years. This showed strong commercial interest, which significantly changed the basic assumptions on which the Priority was based. Hence, not all planned funds (€50 million) will be necessary to achieve the objectives and can therefore be decreased. Therefore the MA has proposed changing the funding allocation and of milestones for 2018 and 2023.</p> <p>Priority Axis 4 (CO<sub>2</sub>): In investment priority 4.1 ('energy efficiency measure in residential buildings, owned by public authorities'), indicators will need to be changed. The number of buildings that are to be renovated with the objective of energy efficiency was set too high due to the fact that public authorities do not own enough building (block of flats) for renovation. In the proposals for OP changes the quantity of flats that are to be renovated and the funds for renovation have been reduced. The additional funds will be committed to sustainable urban mobility measures within ITIs, implemented in 11 Slovenian cities.</p> <p>Priority Axis 5 (Climate change adaptation): In investment priority 5.1 ('promoting investments for climate change adaptation'), costs of investments are much higher than initially envisaged. Therefore the number of planned interventions had to be reduced, which resulted in the revision of indicators, including the PF indicators.</p>
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The prospect of future changes will partly depend on whether the **proposed regulatory changes that would allow the inclusion of partially completed interventions** will materialise. It is also anticipated that changes to elements of the PF will continue in the future. For example, the Welsh MA has undertaken a review of all indicators, and changes are planned for the next monitoring committee (December 2017). Similar plans are emerging in Portugal. At the moment, political guidance is being awaited to proceed to reviewing the OPs and including revisions (which has already been agreed with the EC), also the revision of indicators which are considered as no longer realistic. In Greece, only minimal changes have been made to date (particularly concerning ESF), but a review is planned for 2018 in which further changes are expected. In Finland, changes to the milestones could become topical. The adjustments on milestones would concern the two indicators, in which target achievement is still uncertain: 'total eligible expenditure' and 'new R&D jobs'.

Some programme authorities **have not had to consider changes to the PF** and are not considering changes in the future (Nordrhein-Westfalen). Others have tried to make amendments but the **EC did not accept the proposed changes** (Denmark, Croatia), see Table 7.

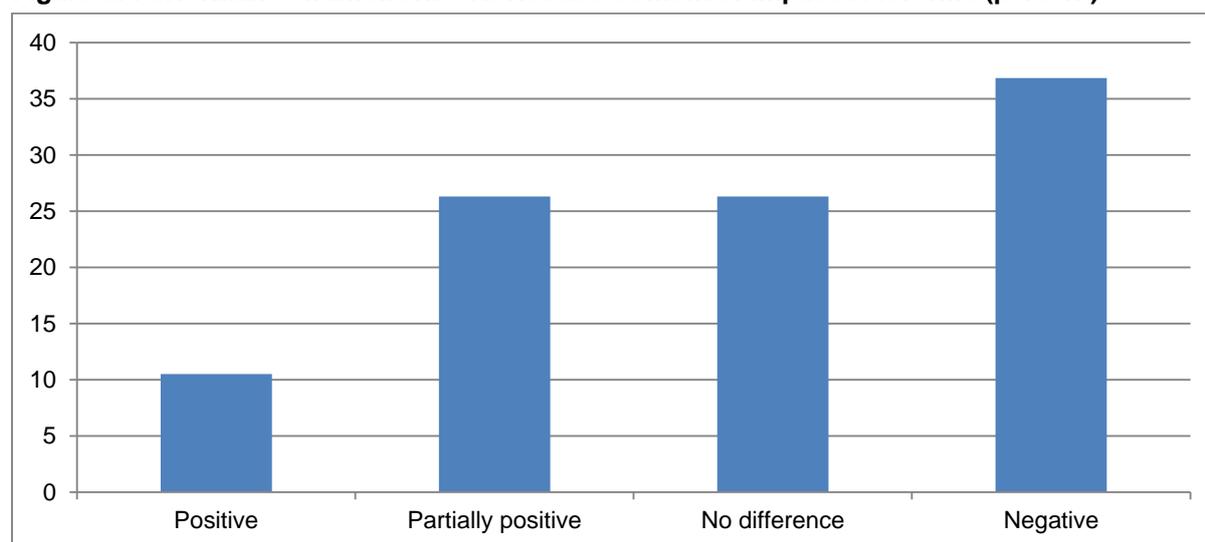
**Table 7: Proposed changes not accepted**

	<p>The Danish Business Authority (MA) considers some of the targets set to be inaccurate and wish to review them but the EC has been reluctant to explore this at this stage. At the annual review meeting, the MA gave a presentation, to direct the EC's attention to two particular Priority Axes (one under the ESF OP) where they feel they may encounter problems to release the reserve. The EC advised waiting to see if performance may improve in the future, rather than amending targets. In some areas for the ERDF OP, the outputs are sufficient but meeting the financial targets for expenditure will prove difficult. It is a situation where there are projects with a substantial output but with low individual costs.</p>
	<p>The MA in Croatia has tried to change some technical issues and errors (e.g. base values of indicators), but the EC stressed that is not possible to meet this request before 1 January 2019. Amendments to the OP, which were presented and approved by the monitoring committee in November 2016, included technical corrections of the indicator system.</p>

## 4. EXPERIENCES OF WORKING WITH THE PERFORMANCE FRAMEWORK: VALUE AND LIMITATIONS

Views on the value and utility of the PF have differed between the IQ-Net programme managers from the outset (see Figure 6). Previous (2016) IQ-Net research highlighted that a relatively small proportion of IQ-Net programme authorities had a positive opinion; many held negative views and a significant number considered that it would have minimal effect.<sup>47</sup>

**Figure 6: Performance framework – IQ-Net assessment of impact of reforms (percent)**



**Source:** Bachtler J, Mendez C and Polverari L (2016) *Ideas and Options for Cohesion Policy Post-2020*, IQ-Net Thematic Paper 38(2), p. 24.

Particular concerns were that the approach could potentially constrain ambition in favour of a ‘safe approach’ and become an additional administrative burden, placing undue emphasis on financial absorption. Many expressed concerns about the achievement of 2018 targets. One IQ-Net programme manager observed that the PF is ‘measuring too early or the wrong thing’.

Although views on the value and utility of the PF vary between IQ-Net programme managers, result orientation more widely is viewed predominantly positively. An IQ-Net survey of a sample of 20 programme authorities from 12 Member States (see Figure 7) shows that the **increased focus on targets and indicators in the 2014-20 programme period is deemed to be helpful** for the delivery of the programmes by over two-thirds of respondents. However, there are also some more critical voices, e.g. citing the added administrative effort.

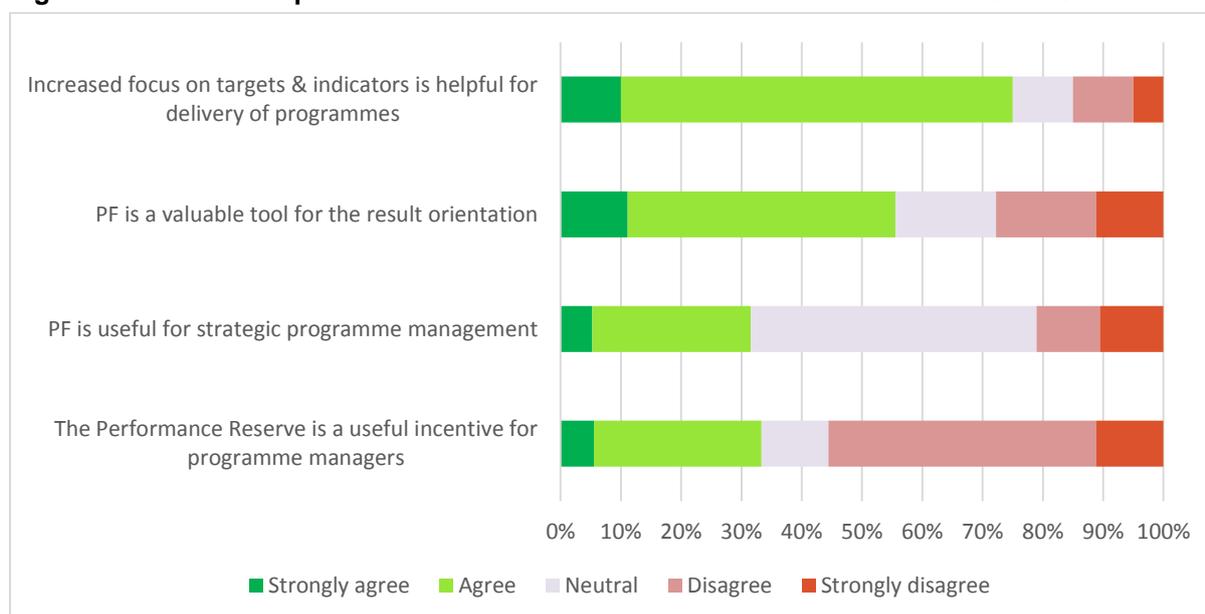
Views about the PF are more mixed. Some Member States have previously noted a positive impression of the new PF (Croatia, Portugal); others called for improvements (France) or questioned the value of the exercise (Austria, Denmark).<sup>48</sup> Among IQ-Net programme authorities, over half of the respondents find that the **PF is a valuable tool for the result orientation**. However, only about a third of interviewed programme managers agree that it is also useful for strategic programme

<sup>47</sup> Bachtler J, Mendez C and Polverari L (2016) *Ideas and Options for Cohesion Policy Post-2020*, IQ-Net Thematic Paper 38(2), European Policies Research Centre, Glasgow.

<sup>48</sup> Bachtler J, Mendez C and Wishlade F (2017) *Reshaping the EU Budget and Cohesion Policy: Carrying On, Doing less, Doing More or Radical Redesign?*, paper prepared for the 38<sup>th</sup> meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside on 1-3 October 2017.

management. Finally, the majority of respondents do not think that the **Performance Reserve has an incentive effect for programme managers.**

**Figure 7: Views about performance-related elements of result orientation in 2014-20**



**Source:** IQ-Net research based on 20 respondents from 12 Member States.

The following sections examines these and other issues, discussing areas where value is derived from working with the PF. It points out where the process is seen as having less value and has limits on its role of supporting efficient and effective implementation of programmes and programme results.

#### 4.1 Value in strategic programme management and driving result orientation

Initial EC expectations were that the PF would strengthen the result orientation in the programmes, support better steering and guiding of programme implementation, provide realistic, comparable targets; promote internal exchanges and dialogue; and act as an incentive for the programme to 'deliver'. In practice, authorities administering the PF also identify some beneficial elements. Sweden, England, Croatia and Finland, for example, found aspects of the process to be useful for **focussing efforts on strategic planning, delivery and capturing results**. In doing so, it makes it clear that programmes cannot simply wait until the end of the programme period to think about results.

##### 4.1.1 Enhancing result orientation

The aim of the PF was that it would **strengthen the result orientation and focus in the programmes and this has been evident at various stages of programme management**. The PF is viewed as supportive in enhancing the result focus in programme planning by some IQ-Net programme authorities. Sweden, England, Croatia and Finland, for example, found the aspects of the process to be useful for focussing efforts on strategic planning, delivery and capturing results. In doing so, it makes it clear that programmes cannot simply wait until the end of the programme period to think about results. The experience in Greece with the PF so far shows that it is an important instrument which helps the MAs define objectives, and develop a logic based on what can be achieved. In Finland, the PF assisted in drafting the intervention logic and focusing on measurable

activities best delivering the programme strategy by focussing the programme on measureable outputs and targets.

#### 4.1.2 Tool for strategic management

The PF has gone on to provide MAs and IBs with a **tool for improving the strategic management and effective implementation of the programme** (e.g. Table 8). For central level coordinators of Cohesion policy, the PF has supported their efforts to encourage MAs to better plan OP activities (Czech Republic). In addition, the PF has introduced an element of ‘competition’ between MAs (Greece). PF targets focuses attention of MAs and ERDF recipients on the delivery of results at programme and project levels. It can also provide useful data to inform any changes to the OP. For example, the Performance Review is felt to retain a focus on the overall intervention logic of programmes (Croatia, Czech Republic, Finland, Greece). It is a useful guide to decide any potential changes to the OP (England, Finland). The PF is considered useful as an ‘early warning mechanism for the MA (Croatia), or as a planning tool or ‘check-point’ on the way to delivering results (Czech Republic). In Denmark, it provided an additional tool in project selection (Denmark, Finland, Nordrhein-Westfalen).

During monitoring, the PF, and frequent discussions on progress towards milestones and targets, provides the MA and implementing bodies with a tool for self-reflection, which helps them to monitor whether they have succeeded on focusing on actions that contribute to achievement of the OP strategy (Finland). Particularly for the more ‘simple’ interventions, (e.g. transport infrastructure, waste management, which are suited to quantitative, standardised indicator systems) the PF has helped in assessing the progress of some of the programme's objectives accurately (Pomorskie).

**Table 8: Performance Framework as a tool in Denmark and Finland**

	<p>In Denmark, the MA stated that the PF has been helpful in making it easier to process applications as these are closely linked to the indicators and targets. This is supported by the observations of the programmes’ evaluator who noted that the beneficiaries are more informed than previously. The PF gives a clearer view of what is happening in the programmes and allows this to be measured.</p>
	<p>In Finland, the PF has provided an additional tool for project selection and monitoring for implementing bodies. During project evaluation, the implementing bodies compare the content of a proposal to indicators, and assess whether the project will contribute to indicator achievement. If the project does not contribute to the indicators, it will score a lower rating. In West Finland, for example, the implementing bodies committed to funding only project proposals that contribute positively to indicators, during the project preparation stage, the implementing bodies will coach the applicants to shape the project plan so that it will produce more results contributing to the core indicators. During programme implementation, the PF has provided the implementing bodies with a tool to ‘demand’ results from the projects, to improve their quality and contribution to the programme strategy</p>

### 4.1.3 Building commitment to targets

Portugal notes that the **focus on targets and indicators has filtered down to projects**, which ensures a greater level of commitment to the targets at this, most critical, level. In each call, the MA is clear with applicants what results and targets are expected, which has helped build focus from the outset. In Scotland the result orientation, of which the PF is part, is leading to difficult questions being asked of project sponsors about whether projects achieve what they are actually intended to achieve. In Finland, it is linked to shifts in the make up of projects and has led indirectly to increased business participation in projects, where projects without participating companies do not contribute to the core indicators set for the ERDF Priority Axes 1 (Competitiveness of SMEs) and 2 (Production and utilisation of new knowledge and skills).

### 4.1.4 Builds political awareness of targets

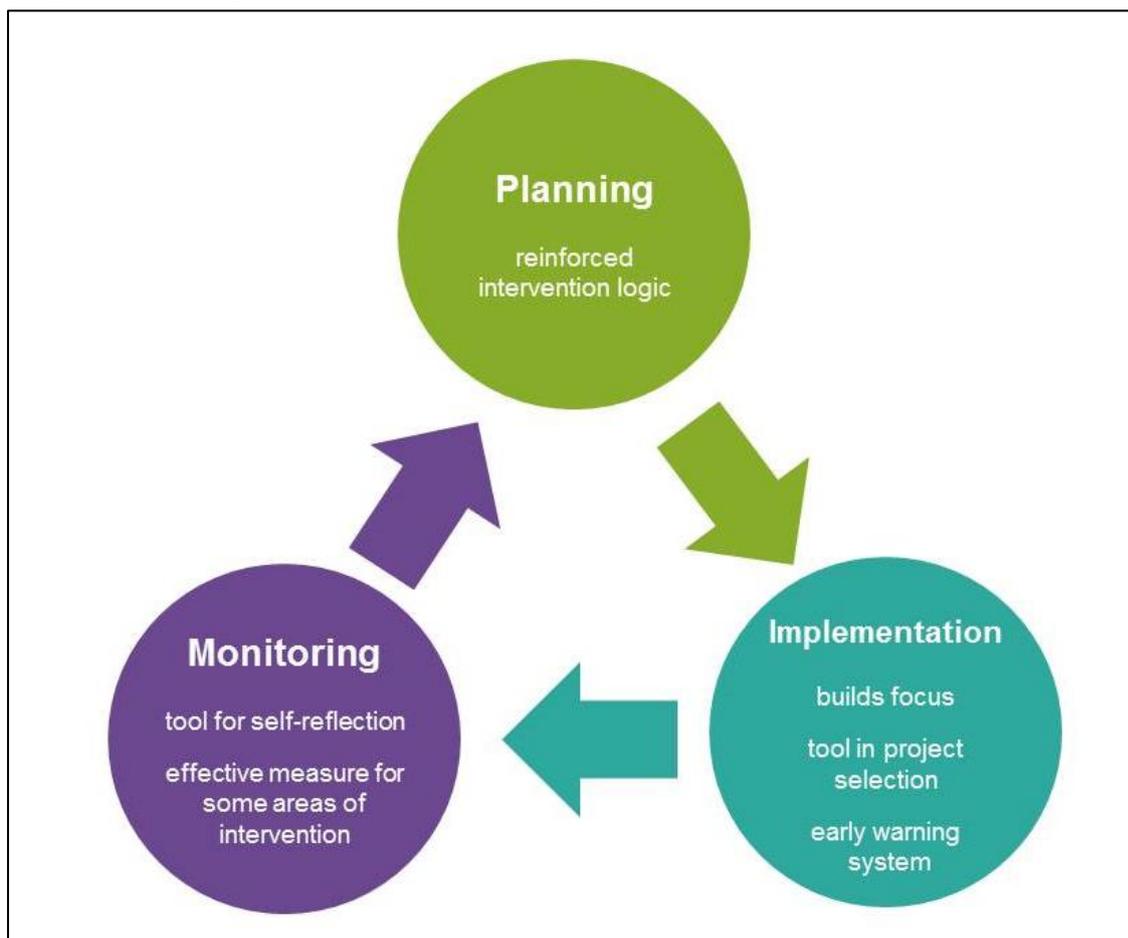
The PF has been linked to shifts in political roles in the process. In Pomorskie, the exercise is viewed as useful in that it has raised awareness among policy makers and politicians about programme outputs and achievements. This has also raised expectations, particularly among politicians. In Pomorskie, regional elections are likely to coincide with the announcement of the results of the Performance Review, and these results could be used in political campaigning. In the Danish case, the PF is considered to have helped to prevent political interference in the programme. In the past, politicians have tended to *'change their minds and want to launch their own strategies, using ESI Funds and their strategies are always delayed thus delaying project calls to coincide with them'*. However with the PF in place and there is a clear message that delays/changing direction will prevent access to the Performance Reserve. Similarly, in Vlaanderen, it is no longer possible for politicians to launch very specific calls for proposal, which do not add much to the PF targets.

As the preceding points highlight the PF is identified as having a valued role at various stages in programme development and delivery and also at various levels involved (see Table 9 and Figure 8).

**Table 9: Performance Framework benefits at different levels**

Level	Benefits	Examples
Project	<ul style="list-style-type: none"> <li>Results focus is filtering down to project level</li> <li>Greater commitment to targets</li> <li>Project sponsors are being challenged to think about what they aim to achieve</li> </ul>	Portugal, Scotland
Programme	<ul style="list-style-type: none"> <li>Result-focused planning, not only during programming process</li> <li>Guide to decide possible changes in OP</li> </ul>	England, Finland, France
Central	<ul style="list-style-type: none"> <li>Supported central-level efforts to encourage MAs to better plan OP activities</li> <li>Introduced an element of 'competition' between MAs</li> </ul>	Czech Republic, Greece
Political	<ul style="list-style-type: none"> <li>Raised awareness among policy-makers and politicians about programme outputs and achievements</li> <li>Helped to prevent political interference in the programme</li> </ul>	Denmark, Pomorskie, Vlaanderen

**Figure 8: Beneficial impacts/influence of the Performance Framework at stages of the programme management and implementation process**



However, a number of challenges are also identified which have led some authorities to:

- question aspects/elements of the process;
- question the added value of the exercise; and
- propose areas that could be changed in the immediate future and longer-term.

Many of the practical challenges in establishing meaningful PF are already discussed in this paper, most notably in relation to setting indicators and targets. However, as programmes progress new issues gain prominence. Before examining these points in greater detail, it is important to emphasise that the PF is part of wider performance management systems. Consequently, some of the issues discussed in the following sections are not confined to the PF. Nevertheless, as a part of the performance management system that carries particular weight, and crucially, determines resources, these issues can be particularly keenly felt in relation to the PF, and distinct issues have also arisen leading to questions over the responsiveness and added value of the PF.

## 4.2 Limits and constraints in working with the Performance Framework

### 4.2.1 Lack of flexibility and uncertainty – not allowing programmes to accurately convey progress and respond to change

The lack of flexibility in the PF is an issue highlighted by a number of IQ-Net Authorities for several reasons:

- Difficulty in changing milestones and targets
- Focus on completed actions
- Tight focus on key targets building inflexibility into programmes
- Uncertainty over Performance Reserve application

#### *(iii) Difficulty in changing milestones and targets*

There is a **perceived lack of flexibility from the EC in allowing changes to the indicators/targets**. The PF for the programmes were developed in 2013, setting targets for 2018 and beyond. This was felt to be a very early stage in the process when many variables influencing the programmes are not yet clear (Austria, Finland, Nordrhein-Westfalen, Slovakia). The initial years of programme are difficult to predict. Further, the milestones and targets are unresponsive to changes in the external environment over the programme period and/or possible delays with OP implementation (e.g. Finland). In some cases, the milestones and targets were set too ambitiously and required amendments (e.g. Czech Integrated Regional OP). In the Welsh experience, the impression given by the EC when the PF was agreed was that the MA should 'not worry about it too much', and to use a 'best guess' given that targets would be easy to change in 2017. The message now seems to be that it will be difficult to change.

#### *(iii) Focus on completed actions*

Compounding concerns about the lack of flexibility and the impact of delays is the fact that, currently, the **PF only takes into account completed actions** (Czech Republic, Portugal, Wales).

- In Portugal, despite delays in the launch of interventions, substantial progress has been made as a result of considerable effort, but this is still not reflected in PF indicators which only cover the outputs of actions implemented in full.<sup>49</sup>
- The Czech Integrated Regional OP MA argues, instead, that would be more appropriate to take accomplished indicators into account, e.g. completed sections of a road, even though the whole road may not have been completed.

This issue is currently addressed by a proposed amendment of Commission Implementing Regulation (EU) No 215/2014. In order to allow for the inclusion of operations that have not yet been implemented in full, Art. 5(3) will be replaced by the following:

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<sup>49</sup> ...the milestone and target for an output indicator shall refer to operations, where all the actions leading to outputs have been implemented in full, see Art. 5(3) of Commission Implementing Regulation (EU) No 215/2014 of 7 March 2014.

*'For all ESI Funds, except for the EMFF, the milestone and target for an output indicator shall refer to operations, where all the actions leading to outputs have been implemented in full, but for which not all the payments have necessarily been made, or to the values achieved by operations which have been started, but where some of the actions leading to outputs are still ongoing.'*<sup>50</sup>

*(iii) Tight focus on key targets building inflexibility into programmes*

The **tight focus on key milestones and targets builds rigidity into the programmes**, with the consequence of:

- disadvantaging more innovative/experimental projects or less experienced/new applicants (England); e.g. in Finland there has been a noted professionalisation of the project application process and a resulting reduction in the diversity of applications;
- generating 'templated' projects with no innovative or fundamentally new forms of support and non-investment measures, i.e. that can be realised quickly are preferred (Czech Republic); and
- driving negative behaviours and leading to the approval of projects that will deliver the 'numbers' (Wales) and 'safe' projects (Slovenia, England).

*(iii) Uncertainty over Performance Reserve application*

The considerable uncertainty over how the Performance Reserve will be applied is frustrating for many IQ-Net programme authorities (e.g. Czech Republic, Poland, Portugal). The flexibility for Member States to reallocate funding.<sup>51</sup> Is not yet clear. Member States should be able to move non-allocated PF funding, but will this be moved to different Priority Axes in the same of in different OPs? Will it need to cover the same thematic area, i.e. similar Priorities? And, crucially, how will this relate to regional categories or ring-fencing requirements (e.g. minimum allocations to specific TOs such as TO4 low-carbon)?

#### **4.2.2 Added value of the Performance Framework – duplicating effort, lacking of positive incentive and presenting a narrow view of commitment not outputs**

Some IQ-Net programme managers argue that requirements of the PF would exist anyway; they highlight public pressure/interest in the programmes to maximise results in order to justify the relevance of the programme (Czech Republic, Denmark, Vlaanderen). For example, Vlaanderen were already putting more focus on indicators and targets in the selection process, so it can be assumed that the same results would have been achieved without PF.

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<sup>50</sup> Draft Commission Implementing Regulation amending Implementing Regulation (EU) No 215/2014 with regard to changes to the determination of milestones and targets for output indicators in the performance framework for the European Structural and Investment Funds.

<sup>51</sup> The ECA concluded that, the Performance Review can at most result in a reallocation within the Member State. Reallocation of the Performance Reserve is performed at national level: funds can be reallocated to Priority Axes within an OP or can be reallocated to Priority Axes of other OPs of the Member State. There is therefore no risk for a Member States to lose EU funding. In previous reports, we already stated that it is a challenge to obtain good qualitative results from schemes where funds are pre-allocated among Member States.

*(i) Decommitment / n+3 rules are sufficient*

Several programme managers (e.g. Austria, Denmark, Wales) point out that the **existing n+3 rule already seeks to ensure that sufficient progress is made** and incentivises performance to meet financial targets. Similarly, the Czech Integrated Regional OP MA notes that financial milestones / targets are in principle already mirrored in the n+3 rule, therefore financial milestones are regarded as useless and generate additional administrative workload. Also, the programmes already spend time and effort to measure progress.

- For France, in terms of financial impact, compliance with the n+3 is seen as more important, as the financial impact of decommitment due to the n+3 rule is potentially bigger. Austria notes that the PF runs the risk of accentuating the n+3 challenges and breaking it down to the level of Priority Axis. As such it risks being viewed as simply an additional requirement, an administrative exercise potentially causing complex reprogramming of the whole OP. Additionally in Wales, it is felt that the PF runs the risk of undermining the annual review process – what is the annual review for if it is not to review performance? It is also felt that the ongoing relationship with desk officers should also be on performance management. Thus, a strong focus on performance is already present through other means.

*(iii) Not acting as a positive incentive*

The **negative/‘punitive’ approach of the PF**, acting as a sanction rather than a positive incentive, is highlighted by a number of IQ-Net programme authorities (Austria, Poland, Portugal, France). In contrast to the approach used in 2007-13 where the reserve was based on an additional ‘pot’ of funding that could be accessed by the programmes, in 2014-20 there is no ‘additional’ funding. The PF funds are part of the initial financial allocation to the OP, meaning the PF is seen as punishing by deducting money, rather than encouraging and rewarding. Some argue that as an incentive to improved programme management and implementation, the PF remains artificial because the milestones and targets can be adjusted to more achievable ones during the programme period, which waters down the aim of trying to achieve them in the first place.

The effectiveness of the incentive is also diminished by the expectation that **the EC will pay the reserve to all Member States, whether specific Priorities meet milestones or not**. For example, a ECA report published 23 November 2017, suggests that the PF and the Performance Reserve is

*‘unlikely to trigger a significant reallocation of Cohesion spending during the 2014-2020 period to better performing programmes. In particular, any reallocation will be within and/or between the programmes of the same Member States. [...] the way the Performance Reserve has been designed provides little incentive for a better result orientation of the OPs since it is mostly based on spending and outputs. Furthermore, the additional funding is definitively allocated even if milestones are not met in full by 2018 and can at most be reallocated within the Member State.’* It concludes, *‘the newly introduced suspensions and financial corrections for underperformance are a step in the right direction, but are subject to restrictive conditions and therefore unlikely to be applied in practice’*.<sup>52</sup>

<sup>52</sup> European Court of Auditors (2017b) *op. cit.*, p. 9.

*(iii) Presents a narrow partial view*

The award of the Performance Reserve on the basis of what is considered a **narrow, partial view of what the programmes are achieving** is a concern for some IQ-Net programme managers. A 2017 ECA report presented a similar finding that the PF remains focused on spending and outputs, with hardly any result indicators included. This meant that the PF was not significantly more result-oriented than similar arrangements in the previous period. For many IQ-Net programme authorities, the PF can be considered a **useful tool for measuring efficiency but limited utility for measuring effectiveness** (Pomorskie, Scotland, Slovenia).<sup>53</sup> As noted in Slovenia, PF indicators need to be simple and are not ill-suited to representing a wide range of Priority Axes, e.g. the number of supported SMEs cannot measure the effectiveness of the implemented measure. Further, PF only comprised of a few indicators and, thus, its wider role for in strategic management of the programmes is limited<sup>54</sup> (Austria, Nordrhein-Westfalen, Wales). Wales argues that the focus on 'everything being aggregated as outputs is a backward step. The MA is 'on board' with the idea of core indicators but it is overly complicated (e.g. for enterprise support) and it has created an emphasis on the PF and taken the emphasis away from actual results. In England, the MA's view is that the detailed information required under the PF about milestones and targets, down to investment priority level, does not particularly lend itself to a strategic approach. The PF cannot take the place of policy evaluation, which can provide a wider and more informed perspective on programme performance (Sweden). The performance and impact of programmes must be seen in a wider context as a number of policy tools and programmes (EU, national or regional) support territorial development from different angles.

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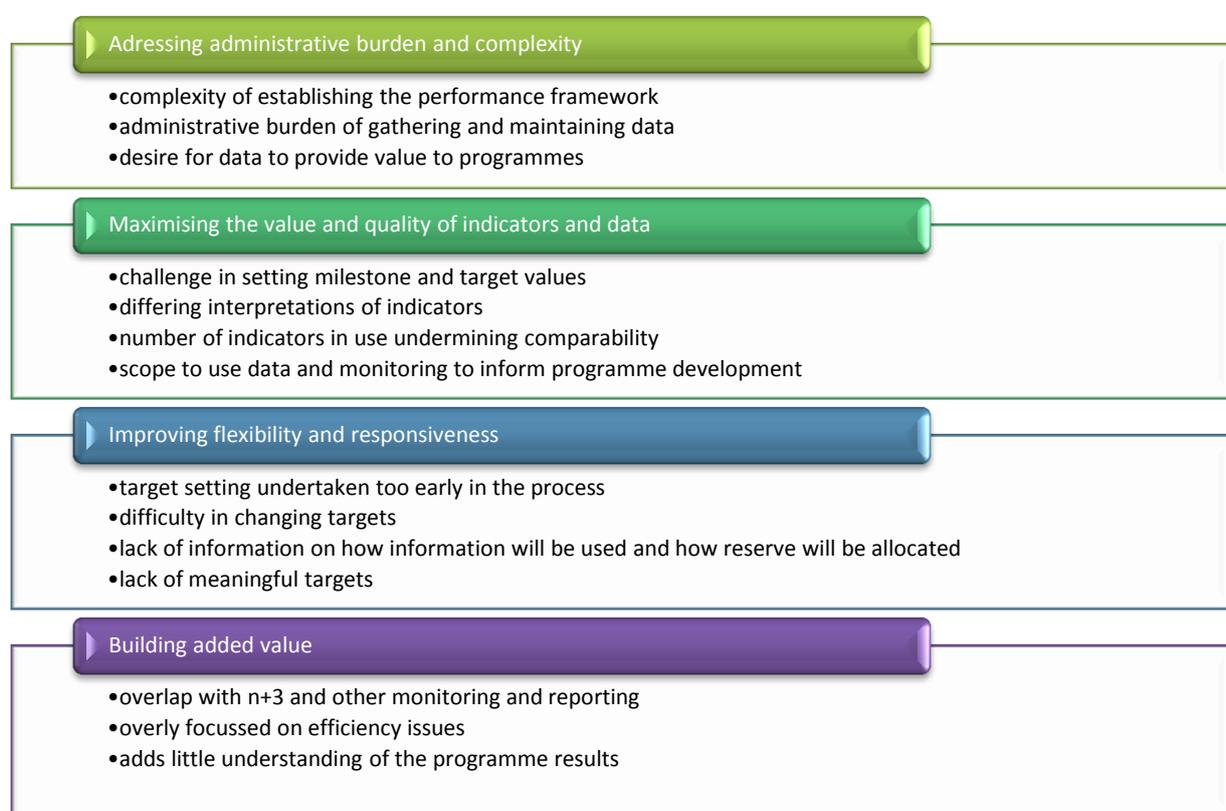
<sup>53</sup> In order to ensure complementarity (Slovenia has one multi-Fund and multi-regional OP, covering all TOs; and one central MA) we need better IT support and a good overview on different sector policies, to be able to react quicker and better. Arguing that measuring output figures will not show the whole picture, Slovenia suggests that innovative and complementary actions are considered useful. Similarly, Scotland the most useful information comes from actually speaking to a business or person to find out what they money really achieved, i.e. through evaluation. The indicator focus of the PF does not reveal this story. There is a sense that the PF a step in the right direction, but is only measuring one dimension of performance.

<sup>54</sup> In contrast, the wider sets of programme indicators, which do offer a wider few of progress, are criticised as being too numerous (Czech Republic), too detailed to be strategic (England), and difficult to measure (Finland).

## 5. RECOMMENDATIONS FOR THE FUTURE

Many MAs would like to see an end to the Performance Reserve (or a PF but no reserve) due to the administrative burdens and 'red tape' that it generates for the MA and IB. In Denmark, for example, the MA does not consider the PF a useful feature for programming but, stressed that this is not a rejection of result orientation more widely, but purely of the PF. There is recognition of the value of a result orientation, but it needs to be done in the right way and the PF/Performance Reserve is not necessarily the way to do this. There is support for the general principle, but doubts about its application in a highly complex system such as Cohesion policy. Figure 9 draws together key issues highlighted in relation to establishing the PF and working with the PF in practice, which have been highlighted in this paper.

**Figure 9: Working with the Performance Framework**



Responding to these issues, IQ-Net programme managers make a number of recommendations which are set out as follows.

*(iii) Addressing administrative burden:*

Taking into account existing concerns over administrative burdens, any changes should **not make the system more burdensome** as this will prevent an insurmountable pressure on the OPs (England, Nordrhein-Westfalen).

**Greater clarity and guidance at the outset** would enable all OPs to use the same assumptions in defining their PF and do appropriate planning (Portugal, Croatia). Ensure that OPs can start on time (Czech Republic) e.g. by providing all regulatory and guidance documents in advance of the

programme period, and by streamlining OP approval processes (including requirements in relation to the management and control system (Nordrhein-Westfalen). Greater clarity about how the information will be used would also be welcome (e.g. in Sweden).

*(iii) Maximising value and quality of indicators and data*

The **quality and availability of data** was identified as a major issue for a number of programmes. Programme managers highlighted the ongoing need to be careful not to set more targets than can be monitored and managed, and should not set targets for aspects over which they have very little control.<sup>55</sup> Recommendations included:

- selecting indicators which can easily be quantified – which in turn implies the need to check ex ante the practicality of both indicator definition and targets set (Nordrhein-Westfalen);
- reducing the number of indicators used (Czech Republic); and
- expanding the use of common indicators for all the documents based on a single system of indicators (Greece, Nordrhein-Westfalen).

**Linked to the quality and availability of data and the information it provides, greater differentiation in the thematic application of the PF is recommended.** For some programme managers, global application of the PF across the entire programme is not considered desirable. For example, the PF is not suitable for new instruments /new forms of support in the implementation system. For example, in the case of financial instruments, FIs, territorial investments the quality of new instruments should be given priority over speed of implementation (Czech Republic). The current system is not well suited to a long-term, strategic projects investments.

*(iv) Improving flexibility and responsiveness*

**Change in the timing of target setting** was considered helpful by a number of authorities. In particular, there should be more time allowed to undertake analyses to determine target values (Wales), especially where previous data and studies are lacking (Slovakia, Slovenia). The need for more timely advice on requirements for evidencing indicators was highlighted in Scotland.

**This is linked to concerns over the lack of flexibility in the PF**, where recommendations included the following:

- Any future approach needs to be less mechanistic, and take a more nuanced approach (e.g. enhanced data collection plus indicators plus evaluation findings) (Wales)
- The centralised, national indicator approach for ERDF does not really tell individual MAs what they want to know, especially in devolved administrations (Scotland).
- Time and flexibility is needed to adapt and learn and potentially change their PF targets. This is especially the case for new/innovative areas of intervention where it is important to allow for adjustments and fine tuning in the face of evolving needs as initial planning was probably carried out largely on the basis of expectations rather than experience (Portugal, Slovakia).
- Nordrhein-Westfalen proposes allowing changes to the indicators/targets if there are unforeseen circumstances which lead to delays and to targets not being met.

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<sup>55</sup> Calviño N (2016) *Budget Focused on Results*, presentation to the European Parliament CONT Committee, 24 May 2016, [http://ec.europa.eu/budget/library/budget4results/news/BFOR\\_presentation\\_CONT\\_20160524.pdf](http://ec.europa.eu/budget/library/budget4results/news/BFOR_presentation_CONT_20160524.pdf)

- The incentive should be more flexible and more binding than at the moment. This could mean, for example, that targets and milestones would have a certain flexibility but could not be changed during the programme period (Finland). This would help to react to the changes in the external environment during the seven year period, within the framework of the predefined PF.
- Milestones and targets should be counted from accomplished indicators, not from accomplished projects (Czech Republic).

*(iii) Building added value*

**Building system based on trust and encouragement, as opposed to negative/punitive approaches, would be valued by many IQ-Net programme managers.** Any future PF should work in an encouraging, not '*punishing way*' (Austria). There should be less rules and a reserve should be a 'real reserve' and not an amount of money included in the initial envelope (France). The German *Länder* advocate an approach that encourages and strengthens initiative, creativity and focus on the common good. Future implementation should be accompanied by dialogue with each region based on the idea of a strategic partnership. This dialogue should also contribute to simplifying programme implementation and reporting. Programme effectiveness should be appraised primarily on the basis of the results achieved.

Further, **proposals include:**

- **Using more flexible tools to assess performance** (effectiveness). It is not possible to measure or quantify all interventions of the programme accurately, e.g. there are (innovative) approaches that cannot be represented with simple figures (Slovenia).
- **Incentivising performance could reach to project level.** Currently there is no direct impact on projects for not reaching a certain target – they do not receive extra funding if they perform well. To be a more effective tool for the result orientation there should be a closer link to project performance (Denmark).



## 6. CONCLUSIONS

The result orientation, of which the PF is a part, was a step-change in the philosophy of Cohesion policy. In reviewing the negotiations, the EC stated that ‘every programme has a PF against which performance will be assessed’ making it ‘possible to have transparent reporting and evaluate progress towards programme objectives’. In practice, this has been challenging to achieve. During the programming process, the main challenge when formulating PFs was to fix milestones/targets that were both ambitious and realistic, with the EC often influencing MAs to modify objectives, outcome indicators or targets.<sup>56</sup> Subsequently, challenges are encountered in relation to administrative burdens, gathering and maintaining appropriate data, revising targets, lack of certainty about the Performance Reserve and questions around the added value of the process.

Key questions/issues set out at the start of this paper were:

- **What are programmes’ experiences of working with the PF?**

Based on the experience of the IQ-Net programmes, the form and format of the PF differ substantially. This research highlights the considerable variation in IQ-Net programmes’ experiences of establishing and working with the PF. For some it has been a comparatively streamlined approach, working with a small number of mainly common indicators. For others, a wide range of indicators cover numerous types and areas of intervention. For some authorities, the PF is still evolving, with milestones and targets being revised. IQ-Net programmes widely acknowledge the complexities involved in establishing the PF, in particular selecting reliable, comparable dates that accurately convey programme interventions, with specific challenges noted in relation to innovative, soft and complex interventions.

As programmes progress, the questions raised focus more on the operation of the PF and the associated Performance Review and Performance Reserve and the role of the PF in supporting effective and efficient programme management, implementation and results.

- **Is a more ‘strategic’ role of the PF being fulfilled? What does the PF actually tell programme managers, what does it do for programme focus, implementation efficiency, improved delivery etc.?**

In terms of the ‘strategic’ value of the PF, programme experiences have varied. Some IQ-Net programme managers have found working with the PF a valuable exercise, offering insights and tools to support programme development and delivery. However, for others the PF has been a burdensome obligation with little added value for the programmes. For example, the point is raised that mechanisms like PF and n+3 can support efficiency in spending. However, delivering good results is more dependent on good projects, and pressure to spend and meet targets can even undermine this link and shift the emphasis away from results.

- **Is this approach to performance management something that could be taken forward in the future?**

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<sup>56</sup> ECA (2017a) *op. cit.*

Looking to the future in a context of growing needs and budgetary discipline, it is argued that a continued focus on performance is 'unavoidable'.<sup>57</sup> IQ-Net programme managers largely agree with the underlying logic of the PF from the EC point of view, e.g. France, Vlaanderen. It is clear that there is a lot of **support for some form of performance-related measures**, e.g. in Austria, Croatia, England and Finland. For example, in Croatia the process was found to be very useful and should be carried forward. In Germany, the Federal Finance Ministry has argued strongly in favour of a Performance Reserve.<sup>58</sup> In England, the MA supports the continued use of realistic performance-related measures in the delivery of ERDF programmes and the need to monitor the performance of projects in achieving their output and other targets. However, this should not increase the already large burden on MAs and grant recipients. In Greece, overall the preference of the respondents is for the framework to remain the same.

As has been highlighted there are concerns about the current approach. Many MAs would like to see an end to the Performance Reserve (or a PF but no reserve) due to the 'red tape' that it generates for the MA and IB. In Denmark, for example, the MA does not consider the PF a useful feature for programming but stressed that this is not a rejection of result orientation more widely, but purely of the PF. There is recognition of the value of a result orientation, but it needs to be done in the right way and the PF/Performance Reserve is not necessarily the way to do this. There is support for the general principle, but questions have been raised about the current application in a highly complex system such as Cohesion policy.

With this in mind, the paper outlined some suggestions and recommendations for change to reinforce the positive elements of the PF and address concerns. These include recommendations to help address administrative burdens, maximising value and quality of indicators and data, encourage greater differentiation in the thematic application of the PF, improve flexibility and responsiveness, and build added value. However, looking further towards post 2020, further questions have to be raised:

- The emphasis on tracking hard indicators of 'growth and jobs' could work well for the current focus of Cohesion policy, but how well can it adapt to changing policy needs/focus?
- Does a reliance on reliable, accessible, measurable data run the risk of building path dependency and a lack of flexibility into the programmes?
- In a potentially changing policy context, is data gathering worth the effort? Are new approaches needed?

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<sup>57</sup> Calviño N (2016) *op. cit.*

<sup>58</sup> 'EU cohesion policy has to maintain its focus on sustainable growth and employment. The funds available ought to be put to maximum use, which is why we call for the creation of more powerful incentives for Member States to use funds in a way that is more performance oriented. Existing instruments such as the PF ought to be reviewed and refined to be as effective as possible', see joint statement by the German government and the German Länder on EU Cohesion Policy beyond 2020 from June 2017.

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## ANNEX: COMMON OUTPUT INDICATORS FOR ERDF SUPPORT

No.		Unit	Name
<b>Productive Investment</b>			
1		enterprises	Number of enterprises receiving support
2		enterprises	Number of enterprises receiving grants
3		enterprises	Number of enterprises receiving financial support other than grants
4		enterprises	Number of enterprises receiving non-financial support
5		enterprises	Number of new enterprises supported
6		€	Private investment matching public support to enterprises (grants)
7		€	Private investment matching public support to enterprises (non-grants)
8		full time equivalents	Employment increase in supported enterprises
9	Sustainable tourism	Visits/year	Increase in expected number of visits to supported sites of cultural and natural heritage and attractions
10	ICT Infrastructure	households	Additional households with broadband access of at least 30 Mbps
<b>Transport</b>			
11	Railway	kilometres	Total length of new railway lines of which: TEN-T
12	Railway	kilometres	Total length of reconstructed or upgraded railway lines of which: TEN-T
13	Roads	kilometres	Total length of newly built roads of which: TEN-T
14	Roads	kilometres	Total length of reconstructed or upgraded roads of which: TEN-T
15	Urban transport	kilometres	Total length of new or improved tram and metro lines
16	Inland waterways	kilometres	Total length of new or improved inland waterways
<b>Environment</b>			
17	Solid waste	tonnes/year	Additional waste recycling capacity
18	Water supply	persons	Additional population served by improved water supply
19	Wastewater treatment	population equivalent	Additional population served by improved wastewater treatment
20	Risk prevention and management	persons	Population benefiting from flood protection measures
21	Risk prevention and management	persons	Population benefiting from forest fire protection measures
22	Land rehabilitation	hectares	Total surface area of rehabilitated land
23	Nature and biodiversity	hectares	Surface area of habitats supported in order to attain a better conservation status
<b>Research, Innovation</b>			
24		full-time equivalents	Number of new researchers in supported entities
25		full-time equivalents	Number of researchers working in improved research infrastructure facilities
26		enterprises	Number of enterprises cooperating with research institutions
27		€	Private investment matching public support in innovation or R&D projects
28		enterprises	Number of enterprises supported to introduce new to the market products
29		enterprises	Number of enterprises supported to introduce new to the firm products
<b>Energy and Climate change</b>			
30	Renewables	MW	Additional capacity of renewable energy production
31	Energy efficiency	households	Number of households with improved energy consumption classification
32		kWh/year	Decrease of annual primary energy consumption of public buildings

33		users	Number of additional energy users connected to smart grids
34	GHG reduction	tonnes of CO <sub>2</sub> eq	Estimated annual decrease of GHG
<b>Social Infrastructure</b>			
35	Childcare & education	persons	Capacity of supported childcare or education infrastructure
36	Health	persons	Population covered by improved health services
<b>Urban Development specific indicators</b>			
37		persons	Population living in areas with integrated urban development strategies
38		square metres	Open space created or rehabilitated in urban areas
39		square metres	Public or commercial buildings built or renovated in urban areas
40		Housing units	Rehabilitated housing in urban areas