

Financial Implementation of European Structural and Investment Funds

Budgets



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT D: BUDGETARY AFFAIRS

Financial Implementation of European Structural and Investment Funds

STUDY

Abstract

This research paper provides an informative overview of the state of play of the financial implementation of European Structural and Investment Funds (ESIF), with an assessment of the reasons for the state of implementation and the implications. The report is based on desk-review research. It considers financial implementation in the 2007-2013 funding period, before focusing on implementation thus far in the 2014-2020 period. It identifies and analyses factors that influence the pace of ESIF financial implementation. The final section draws together conclusions and recommendations.

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LIST OF ABBREVIATIONS

AA	Audit Authority
CF	Cohesion Fund
CoR	Committee of the Regions
CP	Cohesion Policy
CPR	Common Provisions Regulation
EC	European Commission
ECA	European Court of Auditors
ERDF	European Regional Development Fund
EP	European Parliament
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EQI	European Quality of Government Index
ETC	European Territorial Cooperation
FI	Financial Instrument
JASPERS	Joint Assistance to Support Projects in European Regions
MA	Managing Authority
MS	EU Member State
OP	Operational Programme
PA	Partnership Agreement
PF	Performance Framework
QoG	Quality of Governance
SCO	Simplified Cost Options
SF	Structural Funds
TO	Thematic Objective

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EXECUTIVE SUMMARY

Efforts to analyse and improve the implementation of Cohesion Policy (CP) have been underway since its inception. Central to these is the aim of improving financial performance, or spending capacity, in the Member States (MS) and regions implementing programmes. Although the pace of implementation is only one measure of ESIF performance, the extent to which Member States and programme authorities are capable of effectively and efficiently spending their allocation of funding provides a basic means of assessing implementation progress.

More than halfway through the 2014-20 programme period, analysis of financial implementation is timely. An assessment of financial implementation is important at this stage of the 2014-2020 period as delayed or uneven financial performance in the first half of programming periods creates absorption pressures for programme authorities that can have an impact on efficient and effective programme implementation and closure.

This report is a desk-review research study which, in order to provide an analysis of the financial implementation of the Structural Funds and Cohesion Fund, draws on a range of sources and methods:

- data analysis, drawing largely on information available from the Commission's open data portal (<https://cohesiondata.ec.europa.eu/>) provides insights on patterns and trends of implementation;
- a literature review of reports and policy papers produced by EU institutions and analysis of academic sources identifies factors that help explain these patterns and trends; and
- data and insights gathered from a selection of programme authorities in the context of long-standing EPRC comparative research conducted under the auspices of the IQ-Net network (Improving the Quality of Structural Funds Management)¹.

Financial implementation in 2007-2013

According to Commission data, four years into the 2007-2013 programming period (in 2010), the reported level of financial implementation stood at 22 percent of available EU resources. At the end of the programming period, financial implementation reached close to full absorption, thanks to significant efforts by programme authorities under time pressures, additional technical assistance and in some cases the work of task forces as well as legislative changes.

Factors influencing implementation

Several factors have been identified in the academic and policy literatures as influencing the pace of financial implementation of European Structural and Investment Funds (ESIF). A first set of issues are external contextual and institutional factors, notably:

- **economic factors, in particular financial and economic crises**, which affect the availability of national co-financing and the pipeline of fundable projects;
- the **quality of governance** - including accountability, government effectiveness, regulatory quality and corruption – affecting the overall investment environment;
- **the administrative stability and the capacity of organisations and personnel directly involved in Cohesion Policy implementation**; and

¹<http://www.eprc-strath.eu/iqnet>

- **Member State institutional settings**, such as the degree of decentralisation and the timing of administrative reforms.

Second, there are factors specific to the regulatory framework and the ways in which ESIF are managed and implemented, particularly the following.

- **Regulatory and procedural requirements.** Complex rules may require Managing Authorities and Intermediate Bodies to allocate significant administrative resources to tasks such as financial management, control and audit, potentially at the expense of strategic management or project generation and selection. They may also discourage potential beneficiaries from applying for support, especially where alternative sources of funding are available.
- **Type of fund.** Each of the ESI Funds supports different types of projects, some of which may be more demanding and time-consuming than others to implement (e.g. major transport and environmental projects).
- **Level of regional development** determines both the investment environment and the policy response through regional designation ESIF (LDR, TR, MDR).
- **Thematic focus.** Different thematic areas have differing demands on implementing bodies, the types of beneficiaries and the pipeline of eligible projects.
- **Choice of instruments.** Novel or complex instruments (financial instruments, Integrated territorial Investments) may be complex and demanding to introduce and manage.

Financial implementation in 2014-2020

An assessment of the pace and state of financial implementation of ESI Funds in 2014-2020, and a comparison with the 2007-13 period at a similar point in time provides the following findings.

- Financial implementation of ESI Funds in 2014-20 started late. Notwithstanding an acceleration of implementation during 2017 and 2018, payments under the 2014-20 programmes are approximately one year later compared to the 2007-2013 programming period. Almost all Member States have slower financial implementation rates (payment rates) than at the mid-point in the 2007-13 programming period.

There is significant variation in financial implementation rates across Member States. Those Member States spending more quickly at the equivalent stage in 2007-2013 (e.g. Sweden, Germany, Estonia) are generally among the 'faster spenders' in 2014-20 and the same applies to slower spending Member States (e.g. Malta, Italy, Czech Republic). However, there are notable examples of Member States who are spending comparatively faster than in 2007-13 (e.g. the Netherlands, Luxembourg, Bulgaria) and vice versa (e.g. Ireland, Austria, United Kingdom).

- There is also substantial variation in the implementation rate at programme level. Although the extent of variation depends to some extent on the specific ESIF programme architecture and implementation arrangements in each Member State, a full understanding of variation requires identification and analysis of a range of factors external and internal to ESIF.

Strategies and management methods

At EU level, a number of simplification initiatives have been launched. They are supported by strengthened efforts in capacity building and technical assistance. At Member State level, managing authorities are constantly reviewing their management procedures and strategies. Some Member States have undertaken legislative changes in order to improve the implementation of ESIF.

Conclusions and recommendations

Based on a review of the quantitative and qualitative data resources and literature available, this paper highlights issues that are influencing implementation to varying degrees.

- The influence of the financial crisis (in terms of variation in demand, access to national co-funding etc.) has broadly declined in comparison to 2007-2013.
- The influence of quality of governance in MS on implementation is evident.
- Specific MS institutional settings can have an impact on ESIF implementation.
- Regulatory and procedural complexity have had a significant influence on delayed financial implementation so far in 2014-2020. Reforms introduced for 2014-20 have added new rules that generated more complexity, undermining gains resulting from simplification initiatives.
- The capacity and experience of staff in dedicated ESIF management and implementation bodies is also important in explaining variation in financial implementation.
- Financial implementation varies considerably according to different ESIF Thematic Objectives.

The report puts forward a number of recommendations:

- Continuous assessment of the impact of rules and requirements
- Prioritisation between essential requirements and other requirements, which can be weakened or abolished.
- Continue EU-level and domestic initiatives and strategies.
- Continue the simplification efforts.
- Capacity building efforts need to be better coordinated.

With regards to the proposed MFF 2021-27 and the legislative proposals for Cohesion Policy post 2020 this paper concludes with a discussing on the impact of the proposals on the pace of financial implementation. One of the most important implications is the separation of rural development funding from ESIF which may seriously undermine an integrated approach to development in rural areas.

The proposed legislative framework for Cohesion Policy 2021-27 includes a number of simplification measures linked to: complementarity and flexibility; continuity; financial management and audits; and reliance on national management systems. However, the proposals to reduce co-financing rates and advance funding are likely to cause liquidity problems for beneficiaries in some Member States. The shortening of n+3 to n+2 will also be problematic for major projects in some countries, as will the earmarking of expenditure under Thematic Objectives for countries which have substantial Transition Region coverage for the first time.

Finally, the shortened timetable for agreement on the reform gives the new programming period a greater chance of starting on time but potentially at the expense of less legislative scrutiny. Shorter rules may also require more interpretation and guidance in practice.

ZUSAMMENFASSUNG

Seit der Einführung der Kohäsionspolitik gibt es Bestrebungen, ihre Umsetzung zu analysieren und zu verbessern. Dabei geht es vor allem um eine Verbesserung der Leistungsfähigkeit der finanziellen Durchführung bzw. der Ausgabenkapazität in den Mitgliedstaaten und Regionen, die Programme ausführen. Zwar ist das Tempo der Durchführung nur eine Messgröße für die Leistungsfähigkeit der europäischen Struktur- und Investitionsfonds (ESIF), aber das Maß, in dem die Mitgliedstaaten und die Programmbehörden in der Lage sind, die ihnen zugewiesenen Mittel wirksam und effizient auszugeben, ist ein Anhaltspunkt für die Bewertung der Fortschritte bei der Durchführung.

Nachdem nun mehr als die Hälfte des Programmplanungszeitraums 2014-2020 vergangen ist, ist es an der Zeit, die finanzielle Durchführung einer Analyse zu unterziehen. Eine Bewertung der finanziellen Durchführung ist zu diesem Zeitpunkt des Zeitraums 2014-2020 wichtig, da eine verzögerte oder ungleichmäßige finanzielle Durchführung in der ersten Hälfte des Programmplanungszeitraums zu einem Ausschöpfungsdruck für die Programmbehörden führt, was sich auf eine wirtschaftliche und wirksame Durchführung und den Abschluss des Programms auswirken kann.

Bei diesem Bericht handelt es sich um eine Forschungsstudie mittels der Auswertung einer Vielzahl von Quellen, bei der die finanzielle Durchführung der Strukturfonds und des Kohäsionsfonds mit verschiedenen Methoden analysiert wurde:

- eine Auswertung der zum größten Teil auf Informationen der offen zugänglichen Datenportale der Kommission beruhenden Daten (<https://cohesiondata.ec.europa.eu/>), die Aufschluss über Muster und Trends der Durchführung gibt,
- eine Sichtung der von den EU-Organen erstellten Berichte und Konzeptpapiere und die Analyse wissenschaftlicher Quellen, wodurch Faktoren erkennbar werden, mit denen diese Muster und Trends zu erklären sind, und
- die von ausgewählten Programmbehörden gesammelten Angaben und Erkenntnisse im Rahmen einer vergleichenden Langzeituntersuchung des „European Policies Research Centre“ (EPRC) unter der Federführung von IQ-Net (zwecks Verbesserung der Qualität der Strukturfondsverwaltung)².

Finanzielle Durchführung im Zeitraum 2007-2013

Nach Angaben der Kommission belief sich der Umfang der finanziellen Durchführung nach vier Jahren im Programmplanungszeitraum 2007-2013 (2010) auf 22 % der verfügbaren EU-Mittel. Am Ende des Programmplanungszeitraums war die finanzielle Durchführung dank erheblicher Anstrengungen der unter Zeitdruck stehenden Programmbehörden, dank zusätzlicher technischer Hilfe und in einigen Fällen dank der Tätigkeit von Arbeitsgruppen sowie infolge legislativer Änderungen nahezu vollständig abgeschlossen.

Faktoren mit Auswirkungen auf die Durchführung

In den wissenschaftlichen und politischen Schriften wurden mehrere Faktoren ermittelt, die das Tempo der finanziellen Durchführung der Europäischen Struktur- und Investitionsfonds (ESIF) beeinflussen. Zuallererst gehören dazu externe kontextuelle und institutionelle Faktoren, insbesondere

²<http://www.eprc-strath.eu/iqnet>

- **wirtschaftliche Faktoren, vor allem Finanz- und Wirtschaftskrisen**, die sich auf die Verfügbarkeit der nationalen Kofinanzierung und den Bestand finanzierbarer Vorhaben auswirken,
- die **Qualität der Staatsführung** – darunter die Rechenschaftspflicht, die Leistungsfähigkeit der Regierungsstellen, die Qualität der Regulierung und das Ausmaß der Korruption – mit Auswirkungen auf das Investitionsumfeld insgesamt,
- **die Stabilität der Verwaltungsstrukturen und die Fähigkeiten der unmittelbar an der Umsetzung der Kohäsionspolitik beteiligten Organisationen und ihres Personals** sowie
- **der institutionelle Rahmen im jeweiligen Mitgliedstaat**, wie etwa der Grad der Dezentralisierung und die Terminierung von Verwaltungsreformen.

Hinzu kommen eigens vom Regulierungsrahmen abhängige Faktoren und die Art und Weise, wie die ESI-Fonds verwaltet und umgesetzt werden, wozu insbesondere die folgenden Punkte gehören.

- **Regulatorische und administrative Anforderungen:** Komplexe Vorschriften können es erforderlich machen, dass Verwaltungsbehörden und zwischengeschaltete Stellen erhebliche administrative Ressourcen für Aufgaben wie Finanzmanagement, Kontrolle und Rechnungsprüfung bereitstellen, was möglicherweise zu Lasten des strategischen Managements oder der Projekterstellung und -auswahl geht. Sie können auch potenzielle Begünstigte davon abhalten, einen Antrag auf Unterstützung zu stellen, insbesondere wenn alternative Finanzierungsquellen zur Verfügung stehen.
- **Art des Fonds:** Durch jeden einzelnen ESI-Fonds werden unterschiedliche Arten von Vorhaben unterstützt, von denen einige bei der Umsetzung anspruchsvoller und zeitraubender sein können als andere (z.B. große Verkehrs- und Umweltprojekte).
- **Grad der regionalen Entwicklung:** Davon hängen das Investitionsumfeld und die Wahl der politischen Maßnahmen gemäß der regionalen Einstufung im Rahmen der ESI-Fonds (weniger entwickelte Region, Übergangsregion oder stärker entwickelte Region) ab.
- **Thematischer Fokus:** Unterschiedliche Themenbereiche stellen unterschiedliche Anforderungen an die Durchführungsstellen, die Art der Begünstigten und den Bestand der förderfähigen Projekte.
- **Wahl des Instruments:** Neuartige oder komplexe Instrumente (Finanzierungsinstrumente, Integrierte territoriale Investitionen) können sich bei der Einführung und Verwaltung als zu komplex und anspruchsvoll erweisen.

Finanzielle Durchführung im Zeitraum 2014-2020

Eine Bewertung des Tempos und des Stands der finanziellen Durchführung der ESI-Fonds in den Jahren 2014-2020 und ein Vergleich mit dem Zeitraum 2007-2013 zu einem ähnlichen Zeitpunkt liefern die folgenden Ergebnisse.

- Die finanzielle Durchführung der ESI-Fonds im Zeitraum 2014-2020 begann mit Verspätung. Trotz einer beschleunigten Durchführung in den Jahren 2017 und 2018 erfolgen die Zahlungen im Rahmen der Programme für 2014-2020 etwa ein Jahr später als im Programmplanungszeitraum 2007-2013. Nahezu alle Mitgliedstaaten weisen langsamere Raten der finanziellen Durchführung (Zahlungsraten) im Vergleich zur Hälfte des Programmplanungszeitraums 2007-2013 auf.

Es gibt große Unterschiede bei den Raten der finanziellen Durchführung der einzelnen Mitgliedstaaten. Diejenigen Mitgliedstaaten, die im Zeitraum 2007-2013 Mittel schneller ausgegeben haben (z.B. Schweden, Deutschland und Estland), gehören im Allgemeinen zu den „schnelleren Mittelverwendern“ im Zeitraum 2014-2020, und das Gleiche gilt analog für Mitgliedstaaten mit langsameren Ausgaben (z.B. Malta, Italien und die Tschechische Republik). Es gibt jedoch auch bemerkenswerte Beispiele von Mitgliedstaaten, die vergleichsweise schneller als im Zeitraum 2007-2013 ausgeben (z.B. die Niederlande, Luxemburg und Bulgarien) und analoge Gegenbeispiele (z.B. Irland, Österreich und das Vereinigte Königreich).

- Die Raten der finanziellen Durchführung unterscheiden sich auch beträchtlich von Programmebene zu Programmebene. Auch wenn das Ausmaß der Variation in gewissem Maße von der jeweiligen ESIF-Programmarchitektur und den Durchführungsbestimmungen in den einzelnen Mitgliedstaaten abhängt, ist für ein umfassendes Verständnis der Abweichungen die Ermittlung und Analyse einer Reihe von externen und internen ESIF-Faktoren vonnöten.

Strategien und Verwaltungsmethoden

Auf EU-Ebene wurde eine Reihe von Initiativen für eine Vereinfachung gestartet. Sie werden durch intensivere Anstrengungen beim Aufbau von Kapazitäten und technischer Hilfe unterstützt. Auf der Ebene der Mitgliedstaaten überprüfen die Verwaltungsbehörden ständig ihre Verwaltungsverfahren und -strategien. Einige Mitgliedstaaten haben legislative Änderungen vorgenommen, um die Umsetzung der ESI-Fonds dadurch zu verbessern.

Schlussfolgerungen und Empfehlungen

Basierend auf einer Überprüfung der verfügbaren quantitativen und qualitativen Datenquellen und Literatur werden in diesem Bericht Faktoren aufgezeigt, die die Durchführung in unterschiedlichem Maße beeinflussen.

- Die Auswirkungen der Finanzkrise (etwa in Bezug auf Änderungen bei der Nachfrage oder den Zugang zu nationaler Kofinanzierung) sind um einiges geringer als im Zeitraum 2007-2013.
- Der Einfluss der Qualität der Staatsführung in den einzelnen Mitgliedstaaten auf die Durchführung ist nicht zu übersehen.
- Besondere institutionelle Rahmenbedingungen in den jeweiligen Mitgliedstaaten können sich auf die Umsetzung der ESI-Fonds auswirken.
- Die Komplexität der Regularien und Verfahren war bislang in beträchtlichem Maße verantwortlich für eine verzögerte finanzielle Durchführung im Zeitraum 2014-2020. Durch die für den Zeitraum 2014-2020 in Angriff genommenen Reformen sind neue Regeln hinzugekommen, wodurch sich die Komplexität weiter erhöht hat und Erfolge der Vereinfachungsanstrengungen konterkariert wurden.
- Die Fähigkeiten und die Erfahrung des Personals in den eigens für die Verwaltung und Umsetzung der ESI-Fonds zuständigen Stellen ist ebenfalls ein wichtiger Faktor, mit dem Unterschiede bei der finanziellen Durchführung zu erklären sind.
- Je nach den thematischen Zielen der ESI-Fonds gibt es große Unterschiede, was die finanzielle Durchführung anbelangt.

In dem Bericht werden mehrere Empfehlungen ausgesprochen:

- eine kontinuierliche Bewertung der Auswirkungen von Regeln und Anforderungen,
- eine Prioritätensetzung bei den wesentlichen Anforderungen im Vergleich zu anderen Anforderungen, die abgeschwächt oder gestrichen werden können,
- die Fortführung der Initiativen und Strategien auf der Ebene der EU und der Mitgliedstaaten,
- die Fortsetzung der Bemühungen um eine Vereinfachung
- und eine bessere Koordinierung der Anstrengungen beim Aufbau von Kapazitäten.

In Bezug auf den vorgeschlagenen MFR 2021-2027 und die Legislativvorschläge für die Kohäsionspolitik nach 2020 schließt dieses Papier mit einer Betrachtung der Auswirkungen der Vorschläge auf das Tempo der finanziellen Durchführung. Eine der wichtigsten Konsequenzen ist die Trennung der Mittel für die ländliche Entwicklung von den ESIF, wodurch ein integrierter Ansatz für die Entwicklung des ländlichen Raums ernsthaft untergraben werden kann.

Der vorgeschlagene Rechtsrahmen für die Kohäsionspolitik im Zeitraum 2021-2027 enthält einige der Vereinfachung dienende Maßnahmen in Zusammenhang mit: der Komplementarität und Flexibilität, der Kontinuität, der Finanzverwaltung und den Prüfungen sowie dem Rückgriff auf nationale Verwaltungssysteme. Wahrscheinlich werden die Vorschläge hinsichtlich der Reduzierung der Kofinanzierungssätze und der Vorschüsse aber zu Liquiditätsproblemen bei den Begünstigten in einigen Mitgliedstaaten führen. Die Kürzung von n+3 auf n+2 wird auch bei Großprojekten in einigen Ländern Probleme hervorrufen, und die Zweckbindung von Ausgaben an thematische Ziele wird Ländern Schwierigkeiten bereiten, die zum ersten Mal in wesentlichem Maße unter die Kategorie „Übergangsregion“ fallen.

Hinzu kommt, dass wegen des verkürzten Zeitplans für eine Einigung über die Reform zwar bessere Aussichten auf einen pünktlichen Beginn des neuen Programmplanungszeitraums bestehen, dies jedoch zu Lasten der legislativen Kontrolle gehen könnte. Kürzere Regeln werden möglicherweise in der Praxis auch mehr Auslegungsanstrengungen und Orientierungshilfe erfordern.

SYNTHÈSE

Depuis ses débuts, la mise en œuvre de la politique de cohésion est analysée et fait l'objet d'améliorations constantes. L'objectif premier de ces efforts est d'améliorer les performances financières et la capacité de dépenses des États membres et des régions qui mettent en œuvre les programmes. Bien que le rythme de mise en œuvre ne soit qu'un indicateur parmi d'autres de la performance des Fonds structurels et d'investissement européens (Fonds ESI), la capacité des États membres et des autorités responsables des programmes à dépenser efficacement les fonds est un facteur essentiel pour évaluer les progrès de la mise en œuvre.

C'est le bon moment pour une évaluation de ce type à un peu plus de la mi-parcours de la période 2014-2020. En effet, les performances financières retardées ou inégales lors de la première moitié d'une période de programmation créent des difficultés d'absorption pour les autorités responsables des programmes, ce qui peut avoir un impact négatif sur la mise en œuvre et l'achèvement d'un programme.

Afin de donner une vue d'ensemble de la mise en œuvre financière des Fonds structurels et du Fonds de cohésion, le présent rapport s'appuie sur de multiples sources:

- une analyse de données largement tirées du portail de données publiques de la Commission (<https://cohesiondata.ec.europa.eu/>), qui fournit des indications sur les tendances de la mise en œuvre;
- une analyse des rapports et des notes d'orientation préparés par les institutions de l'Union ainsi qu'une analyse de sources universitaires qui permettent de mieux comprendre ces tendances; et
- des données et informations recueillies auprès d'un certain nombre d'autorités responsables des programmes dans le cadre de recherches comparatives de longue période du Centre de recherche sur les politiques européennes menées sous l'égide du réseau IQNet (le réseau pour l'amélioration de la qualité de la gestion des Fonds structurels)³.

Mise en œuvre financière 2007-2013

D'après la Commission, en 2010, soit quatre ans après le début de la période de programmation 2007-2013, le niveau de mise en œuvre déclaré s'élevait à 22% des ressources disponibles de l'Union. En 2013, la mise en œuvre financière avait atteint un niveau proche de la pleine absorption grâce aux efforts importants déployés par les autorités responsables des programmes pour respecter des délais serrés, à l'apport d'une assistance technique supplémentaire et, dans certains cas à l'aide des groupes de travail et à des modifications législatives.

³<http://www.eprc-strath.eu/iqnet>

Facteurs ayant un impact sur la mise en œuvre

Les recherches universitaire et politique ont montré que plusieurs facteurs influent sur le rythme de mise en œuvre financière des Fonds ESI. Il y a d'abord des facteurs contextuels et institutionnels externes, notamment:

- **les facteurs économiques, en particulier les crises économiques et financières**, qui ont une incidence sur la disponibilité du cofinancement national et le nombre de projets à financer;
- la **qualité de la gouvernance** (y compris la responsabilisation, l'efficacité du gouvernement, la qualité réglementaire et la corruption), qui influe sur le climat général des investissements;
- la **stabilité administrative et la capacité des organisations et du personnel directement associé à la mise en œuvre de la politique de cohésion**; et
- **les cadres institutionnels des États membres**, tels que le degré de décentralisation et le calendrier des réformes administratives.

Il existe aussi des facteurs spécifiques au cadre réglementaire et aux modalités de gestion et de mise en œuvre des Fonds ESI, notamment:

- **les exigences réglementaires et de procédure**: des règles complexes peuvent obliger les autorités de gestion et les organismes intermédiaires à affecter des ressources administratives à des tâches telles que la gestion financière, le contrôle et l'audit, parfois au détriment de la gestion stratégique ou de l'élaboration et de la sélection de projets. Elles peuvent également dissuader les éventuels bénéficiaires de demander une aide, en particulier lorsque d'autres sources de financement sont disponibles;
- **le type de fonds**: chacun des Fonds ESI soutient différents types de projets, certains pouvant être plus exigeants et plus longs à mettre en œuvre que d'autres (par exemple, les grands projets liés aux transports et à l'environnement);
- **le niveau de développement régional**, qui détermine à la fois l'environnement d'investissement et la réponse politique moyennant la désignation des zones géographiques bénéficiant des Fonds ESI (région moins développée, région en transition, région plus développée);
- **l'accent thématique**: différents domaines thématiques ont des exigences différentes à l'égard des organismes de mise en œuvre, des types de bénéficiaires et du nombre de projets éligibles;
- **le choix des instruments**: des instruments nouveaux ou complexes (instruments financiers, investissements territoriaux intégrés) peuvent être difficile à utiliser et complexes à mettre en place et à gérer.

Mise en œuvre financière pour la période 2014-2020

La comparaison entre le rythme et l'état de la mise en œuvre financière des Fonds ESI pour la période 2014-2020 et pour la période 2007-2013 permet de tirer les conclusions suivantes.

- La mise en œuvre financière des Fonds ESI pour la période 2014-2020 a commencé tardivement. Malgré une accélération de la mise en œuvre en 2017 et 2018, les paiements au titre des programmes de la période 2014-2020 ont environ un an de retard par rapport à ceux de la période de programmation 2007-2013. Les taux de mise en œuvre financière (taux de paiement) des États membres pour la première période sont pratiquement tous plus faibles que ceux observés à la mi-parcours de la période de programmation 2007-2013.

Ces taux varient considérablement d'un État membre à l'autre. Les États membres dont le rythme de dépenses était plus le rapide au même stade de la période 2007-2013 (par exemple, l'Allemagne, l'Estonie et la Suède) sont généralement les pays qui ont dépensé le plus rapidement dans la période 2014-2020, et les pays ayant dépensé le plus lentement continue d'observer un rythme peu rapide (République tchèque, Italie et Malte par exemple). Toutefois, certains États membres, dont la Bulgarie, le Luxembourg et les Pays-Bas, dépensent plus vite sur la deuxième période, tandis que d'autres dont l'Irlande, l'Autriche et le Royaume-Uni, sont plus lents.

- Il existe par ailleurs des variations importantes dans le taux de mise en œuvre des programmes. Bien que l'ampleur des variations dépende dans une certaine mesure de l'architecture des programmes et des modalités de mise en œuvre dans chaque État membre, il faut, pour comprendre pleinement ces variations, identifier et analyser une série de facteurs externes et internes aux Fonds eux-mêmes.

Stratégies et méthodes de gestion

Au niveau de l'Union, un certain nombre d'initiatives de simplification ont été lancées, soutenues par un renforcement des capacités et de l'assistance technique. Au niveau des États membres, les autorités de gestion revoient constamment leurs procédures et stratégies. Certains États membres ont introduit des modifications législatives afin d'améliorer la mise en œuvre des Fonds ESI.

Conclusions et recommandations

Le présent document s'appuie sur les données quantitatives et qualitatives ainsi que la littérature disponibles pour faire ressortir les facteurs qui influent à différents niveaux sur la mise en œuvre:

- l'impact de la crise financière (du point de vue de la variation de la demande, de l'accès au cofinancement national, etc.) a significativement diminué par rapport à 2007-2013;
- la qualité de la gouvernance dans les États membres a une incidence très importante sur la mise en œuvre;
- certains cadres institutionnels des États membres peuvent avoir des répercussions sur la mise en œuvre des Fonds ESI;
- la complexité réglementaire et procédurale a eu une incidence significative sur les retards intervenus dans la mise en œuvre financière jusqu'à présent (pour la période 2014-2020); les réformes introduites pour la période 2014-2020 se sont traduites par la mise en place de nouvelles règles, qui ont rendu les choses plus complexes et ainsi sapé tout ce qui avait été accompli en termes de simplification;
- la capacité et l'expérience du personnel des organes de mise en œuvre et de gestion des Fonds ESI expliquent également en grande partie les variations dans la mise en œuvre financière;
- celle-ci varie par ailleurs considérablement selon les objectifs thématiques des Fonds ESI.

Le rapport formule en outre un certain nombre de recommandations:

- évaluer en permanence l'incidence des règles et des exigences;
- établir une hiérarchie entre les exigences essentielles et les exigences moins importantes, qui peuvent même être supprimées dans certains cas:
- poursuivre les initiatives et les stratégies au niveau de l'Union et au niveau des États membres;
- poursuivre les efforts de simplification;
- mieux coordonner le renforcement des capacités.

En ce qui concerne la proposition de cadre financier pluriannuel (CFP) 2021-2027 et les propositions législatives pour la politique de cohésion après 2020, le présent document s'achève sur une discussion concernant l'incidence des propositions sur le rythme de la mise en œuvre financière. L'une des principales implications de ces propositions est la séparation entre le financement du développement rural et les Fonds ESI, qui risque de compromettre sérieusement l'adoption d'une approche intégrée du développement dans les zones rurales.

La proposition de cadre législatif 2021-2027 pour la politique de cohésion comprend un certain nombre de mesures de simplification portant sur la complémentarité et la flexibilité, la continuité, la gestion financière et l'audit et le recours à des systèmes de gestion nationaux. Toutefois, les propositions visant à réduire les taux de cofinancement et les avances de fonds sont susceptibles de causer des problèmes de liquidité pour les bénéficiaires dans certains États membres. La réduction du délai «n+3» pour la passation des contrats après l'année de l'engagement budgétaire à «n+2» sera également problématique pour les grands projets dans certains pays, de même que l'affectation des dépenses au titre des objectifs thématiques pour les pays dont les régions en transition bénéficient pour la première fois d'une vaste couverture.

Enfin, les délais réduits pour convenir de la réforme donnent à la nouvelle période de programmation une plus grande chance de commencer à temps, mais potentiellement au détriment d'un examen législatif plus approfondi. Des règles plus concises peuvent également exiger davantage d'interprétation et d'orientation dans la pratique.

1. INTRODUCTION

This research paper provides an informed overview of the state of play of the financial implementation of the European Structural and Investment Funds (ESIF), with an assessment of the reasons for the state of implementation and the implications. As one of the most important areas of EU spending, the performance of Cohesion Policy has come under close scrutiny almost since its inception in 1988.⁴ Although much of the concern in recent years has focused on the effectiveness and efficiency of the policy, a fundamental question is whether the Member States and regions are capable of spending the money allocated to them. One of the earliest 'conditionalities' introduced by the EU, in 1999, was the decommitment rule in response to persistent delays by some Member State authorities in translating programme commitments into payments.

The challenge of timely spending has increased with the growing complexity of Cohesion Policy over the past two decades, an issue that has been studied extensively.⁵ Implementing bodies have been faced with regulatory requirements to reduce the error rate (with intensified financial management, control and audit), to target spending more in line with EU objectives (thematic concentration), to ensure better and more visible outcomes (performance framework, results orientation, ex-ante conditionalities) and to account for expenditure in greater detail (reporting, monitoring, evaluation). It has become clear that the quality of governance, and especially administrative capacity, to implement such a complex policy varies greatly across the EU.⁶ The unpredictability of the economic environment and the impact of political changes and institutional reforms at national or regional levels create further problems.

The difficulty in managing the financial implementation of programmes begins with the invariably late agreement by the European Council and European Parliament on the Multiannual Financial Framework and legislative package. This leaves little time before the start of a programming period for regulations to be interpreted, for programmes to be drawn up, negotiated and approved, and for the implementation arrangements to be agreed. Many programmes typically start late, sometimes as much as two years into the programming period, and are immediately under pressure to spend quickly (at the same time as Managing Authorities are dealing with closure of the previous programmes). As the decommitment rule starts to bite, there is annual end-of-year pressure to avoid any funds being decommitted, and at the end of the period there is a rush (sometimes involving overbooking of resources) to ensure that as close as possible to 100 percent of funding is committed, and then spent in time for programme closure.⁷

The political salience of the financial implementation of Cohesion Policy is clear in the European Commission's Mid-Term Review of the Multiannual Financial Framework 2014-2020,⁸ which was critical

⁴ See for instance: Mendez C & Bachtler J (2017) Financial Compliance in the European Union: A Cross-National Assessment of Financial Correction Patterns and Causes in Cohesion Policy. *Journal of Common Market Studies*, 55(3); Rodríguez-Pose A & Garcilaz E (2015) Quality of Government and the Returns of Investment: Examining the Impact of Cohesion Expenditure in European Regions. *Regional Studies*, 49(8); Tosun J (2014) Absorption of Regional Funds: A Comparative Analysis. *Journal of Common Market Studies*, 52(2); Surubaru N-C (2016) Administrative capacity or quality of political governance? EU Cohesion Policy in the new Europe, 2007–13. *Regional Studies*, 51(6); Bachtler J, Mendez C & Miller S (2017) Rethinking Shared Management for Cohesion Policy post-2020. *European Policy Research Paper*, No. 96, European Policies Research Centre, University of Strathclyde, Glasgow.

⁵ Katsarova I (2013) The (low) absorption of EU Structural Funds. *European Parliament Library Briefing* 01/10/2013.

⁶ Bachtler J, Mendez C & Wishlade F (2016) Evolution or Revolution? Exploring New Ideas for Cohesion Policy 2020+, *EoRPA Paper* 16/4, European Policies Research Centre, University of Strathclyde, Glasgow.

⁷ Ferry M & Kah S (2017) *Research for REGI Committee – Lessons learnt from the Closure of the 2007-13 Programming Period*. European Parliament, Policy Department for Structural and Cohesion Policies. Brussels.

⁸ European Commission (2016) *Mid-term review/revision of the multiannual financial framework 2014-2020: An EU budget focused on results*. Communication from the Commission to the European Parliament and the Council, COM(2016) 603 final, 14.9.2016, Brussels: http://ec.europa.eu/budget/mff/figures/index_en.cfm

of the pace of ESIF spending. The review – somewhat unfairly⁹ – contrasted the delays in implementing Cohesion Policy with a more positive performance of spending under Competitiveness Heading 1a, noting (with respect to ESIF) the need to introduce new performance-oriented measures, the late adoption of the legal acts, the extension of the decommitment rule which ‘relaxed’ spending discipline, and the focus on maximising absorption under the 2007-2013 programmes. The Council has also recognised the relatively slow start of programmes in 2014-2020,¹⁰ similarly acknowledging factors such as the late adoption of the legislation, the complexity of the rules and the introduction of new rules, time-consuming procedures for designating the competent authorities in the Member States, and the overlap of the closure of the 2007-2013 programming period with the start of the 2014-2020 period. Some Member States have referred to financial implementation issues as they develop positions on the reform of ESIF post-2020, for instance referring to low payment rates under some thematic headings or the impact of weaknesses in domestic administrative capacity in some contexts as potential arguments for changes to the allocation of funds.

The Commission’s Directorate-General for Budgetary Affairs has also noted the implementation delays and cites similar reasons.¹¹ Moreover, on 12 July 2017, the European Parliament’s Budgetary Control committee organised a specific public hearing on the *Absorption of Structural Funds in different Member States*.¹² The European Court of Auditors has highlighted the consequences of the implementation delays on the EU Budget: ‘In light of the low level of payment requests received during the year, the budgetary authorities amended the 2016 budget to decrease payment appropriations by 7.3 billion euro. Even with this reduction, the low number of payment requests led to the highest surplus since 2002: 6.4 billion euro (2015: 1.3 billion euro).’¹³

Against this background, the objectives of this research paper are:

- to analyse the current state of play of financial implementation and its variation by programme, fund, country/region, thematic priority etc. and to present this analysis in a user-friendly way;
- to analyse and assess the factors explaining the state of play of financial implementation; and
- to draw conclusions on areas for further analysis and action by the BUDG Committee, both for the 2014-2020 period and the post-2020 MFF.

The paper comprises six sections. Following this introduction:

- Section 2 introduces the methodology used for this paper.
- Section 3 reviews the financial implementation of the 2007-13 programming period, assessing its evolution.
- Section 4 sets out the context for the paper, introducing financial implementation as a measure of ESIF implementation. Based on a literature review on the financial implementation of the Structural Funds mainly in the 2007-13 period, this section explores the factors that help explain financial implementation in order to inform the assessment of implementation in 2014-2020.

⁹ The comparison is flawed because it is based on committed funding or project demand under Heading 1a and actual certified expenditure in the case of Cohesion Policy.

¹⁰ Council Conclusions of 12/04/2018 on *Delivery and implementation of Cohesion Policy after 2020*, <http://www.consilium.europa.eu/en/press/press-releases/2018/04/12/delivery-and-implementation-of-cohesion-policy-post-2020-council-adopts-conclusions/pdf>

¹¹ European Commission (2017) *Analysis of the budgetary implementation of the European Structural and Investment Funds in 2016*. DG Budget (May 2017).

¹² <http://www.europarl.europa.eu/committees/en/cont/events-hearings.html?id=20170628CHE02081>

¹³ European Court of Auditors (2017) *Annual report of the Court of Auditors on the implementation of the budget concerning the financial year 2016*, <https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2016/annualreports-2016-EN.pdf>

- Section 5 provides an analysis of the financial implementation of ESI Funds thus far in 2014-2020, and an analysis of the current state of play of absorption in comparison with the level of absorption in the previous programming period at the mid-point of implementation.
- Section 6 explores the factors developed in Section 4 that are contributing to financial implementation processes thus far in 2014-2020. They are organised under the broad headings of 'external context' and 'Cohesion Policy context'.
- Section 7 reviews the initiatives, strategies and management methods applied by EU and Member State authorities to address financial implementation challenges and to improve the payment rate of ESI Funds.
- Finally, Section 8 draws conclusions and presents policy recommendations and ideas for further analysis, both for the 2014-20 period and the post-2020 MFF. It also includes a discussion of the findings in light of the MFF proposal and the proposed reform of Cohesion Policy.

2. METHODOLOGY

This report is a desk research study which, in order to provide an analysis of the financial implementation of the Structural Funds and Cohesion Fund, draws on a range of sources:

- data analysis, drawing largely on information available from the Commission's Open Cohesion portal (<https://cohesiondata.ec.europa.eu/>), provides insights on patterns and trends of implementation;
- a literature review of reports and policy papers produced by EU institutions and analysis of academic sources, identifying factors that help to explain these patterns and trends; and
- data and insights gathered from a selection of programme authorities in the context of long-standing EPRC comparative research conducted under the auspices of the IQ-Net network (Improving the Quality of Structural Funds Management).¹⁴

The analysis of implementation in 2007-2013 is based on secondary sources, while the analysis for 2014-2020 largely uses the latest data from the European Commission's Open Data Portal on Cohesion Policy¹⁵ in combination with implementation evidence.

The underlying legal basis of the Open Cohesion portal is Article 112 of the CPR, which provides for Member States to submit to the Commission three times a year for monitoring purposes:

- the total and public eligible cost of the operations and the number of operations selected for support; and
- the total eligible expenditure declared by beneficiaries to the Managing Authority.

The first set of data shows the envisaged project costs, which have not yet occurred, while the second shows actual payments. In some respects, the former is an indicator of the latter, as a high rate in costs should automatically lead to a high rate in expenditure. However, implementation rules at EU level do not provide for a harmonised way of reporting 'total eligible costs'. Recent comparative research in the context of IQ-Net indicates that Member States take different approaches to defining total amounts allocated to selected projects.¹⁶ Some interpret this as the total amount allocated in the Operational Programme (OP) financial plan, while others take a stricter interpretation and define it as funding agreed (i.e. projects contracted) with beneficiaries.

Given these differences in the reporting of eligible costs, the comparability of reported amounts could be compromised. Therefore, the data analysis in this chapter relies on the payment rates only and refers to them as financial implementation or the payment rate. It should however be noted that, according to the Open Data Portal, 'decided' amounts are significantly higher than the 'spent' amounts, which might be interpreted as a sign that payments will be picking up shortly. This seems to be the position of the Commission which in a recent spending review argued that 'this level of project selection over 2014-2016 is comparable to the early years of the 2007-2013 period and it can reasonably be expected

¹⁴ <http://www.eprc-strath.eu/iqnet>

¹⁵ <https://cohesiondata.ec.europa.eu/>

¹⁶ Michie R & Gal F (2018 forthcoming) Reaching Cruising Speed? Programme Progress, Performance Targets and Policy Reform. *IQ-Net Review Paper* 42(1), European Policies Research Centre.

that implementation rates from now on will further increase'.¹⁷ Nevertheless, given the different approaches applied in reporting the data, to ensure comparability this paper will only use data on spent amounts.

In order to compare the 2007-13 and 2014-20 programming periods, this paper considers the state of implementation at similar points in time, calculated in years from the official start of the programming period. Of course, a similar point in time does not necessarily equal a similar point of implementation for two reasons.

- First, the legislative framework for the 2007-13 period was adopted on 11 July 2006, or almost half a year before its official start, whereas the framework for the 2014-20 period was adopted on 17 December 2013, only a couple of working days before its official start. Arguably, preparations for the start of the programming period took much longer for the 2007-13 period than for the 2014-20 period.
- Second, the rules on automatic decommitment changed. In the 2007-13 programming period, the date for automatic decommitment was two years after commitment (n+2), although for some countries this was extended to three years. In the 2014-20 period, the date of automatic decommitment is after three years (n+3). It could therefore be argued that implementation pressure was higher in the previous programming period.

These factors influence the pace of implementation, although the official duration of the programming periods was the same in the two periods (seven years). Therefore, for the purpose of comparing the two programming periods, this report relies on calculating the years from the official start of the programming period without accounting for any delays or change of rules; and the delays and change of rules form part of the analysis.

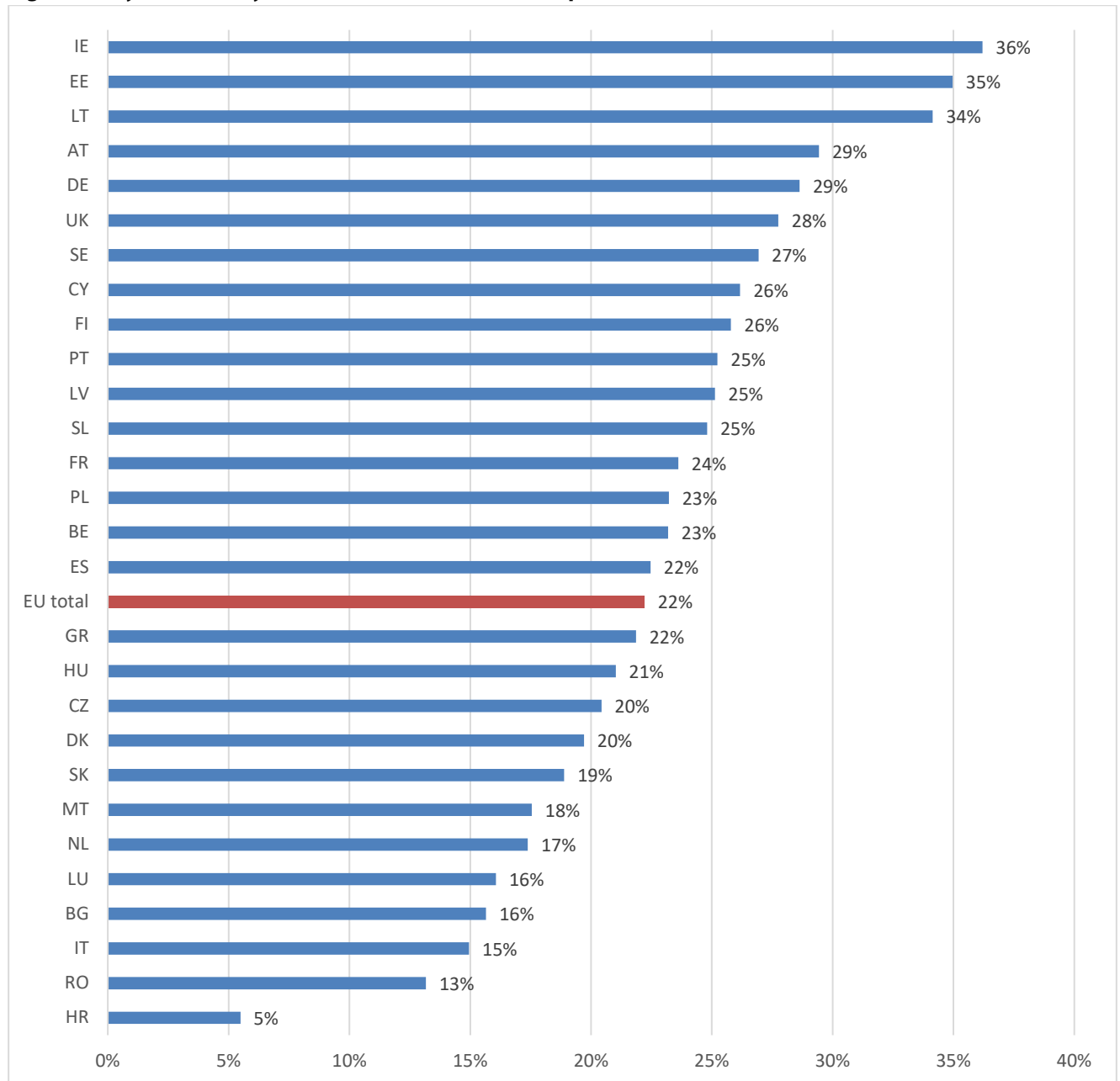
¹⁷ European Commission (2018) Spending review Accompanying the document Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions (SWD (2018) 171).

3. FINANCIAL IMPLEMENTATION IN 2007-2013

3.1. PAYMENT RATES 2007-2010

According to Commission data, in 2010, four years into the 2007-13 programming period, reported financial implementation stood at 22 percent of available EU resources.

Figure 1: Payment rate by Member State, 2010 (2007-13 period)



Source: Authors' calculations based on data from the Open Data Portal <https://cohesiondata.ec.europa.eu/browse> dataset extracted on 09 June 2018.

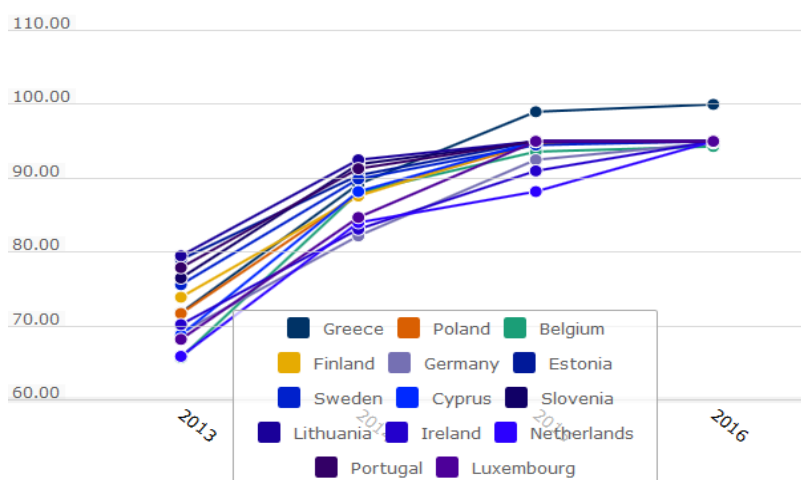
The Commission noted that payment rates up to 2010 were especially slow in a number of Member States, and that the prospect of these rates picking up quickly was remote. The Commission highlighted a growing risk that, by not mobilising the available EU funds promptly, a significant volume of them would be lost and the intended objectives not achieved.¹⁸

3.2. PAYMENT RATE, END 2007-2013 PERIOD

By the time of closure, the lagging Member States had caught up in terms of financial absorption.¹⁹ Nevertheless, the spending profile of programmes in different national contexts continued to vary considerably in the second half of the 2007-13 period. By way of illustration, Figures 2 to 5 present the absorption of ERDF funds available in 2007-2013 in exemplar Member States between 2013 and 2016.²⁰ This identifies four groups of absorption patterns within the 2007-13 programming period:

- **Early absorbers.** A first group of countries, comprising around half of the MS, had absorbed the bulk of their funding relatively early in the period, with absorption figures gradually flattening out from 2014 onwards (Figure 2).

Figure 2: ERDF 2007-2013: financial implementation profiles: early absorption



Source: Ferry & Kah (2017) *op. cit.*

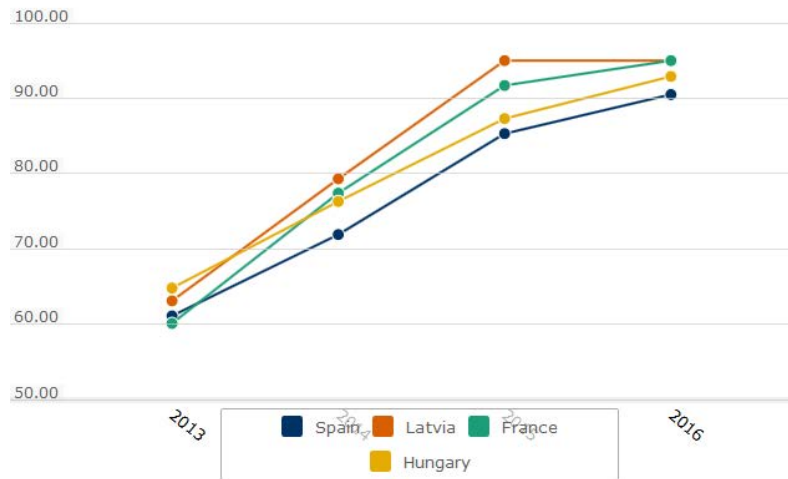
¹⁸ European Commission (2013) *Cohesion Policy: Strategic Report 2013 on Programme Implementation 2007-2013* SWD(2013) 129 final.

¹⁹ European Commission (2016) *Ex-post evaluation of the ERDF and Cohesion Fund 2007-13*, Commission Staff Working Document, SWD(2016) 318 final, 19 September 2016, http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp1_synthesis_report_en.pdf

²⁰ Ferry M & Kah S (2017) *op. cit.*

- Medium-paced absorbers.** A second group of MS recorded a steep increase in absorption in 2013-2015, but from a reasonable base of financial performance (Figure 3).

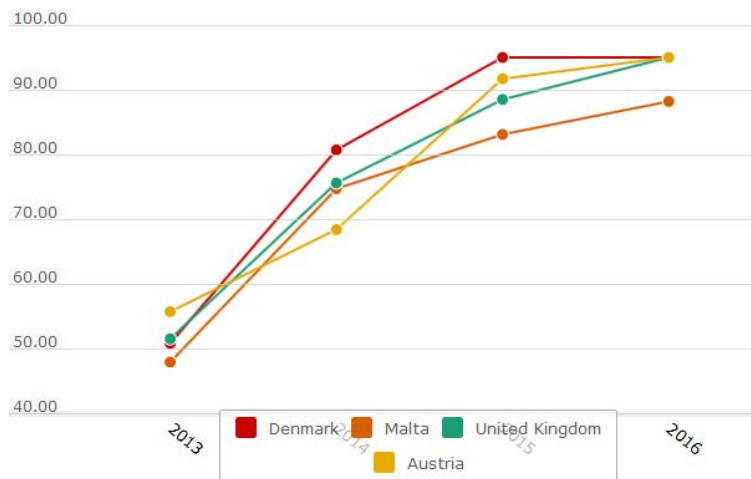
Figure 3: ERDF 2007-2013: financial implementation profiles: medium absorption



Source: Ferry & Kah (2017) *op. cit.*

- Late absorbers.** A third category of MS, starting at a much lower level of absorption in 2013, produced accelerated absorption performance in 2013 and 2014 to 'catch up' with other MS (Figure 4).

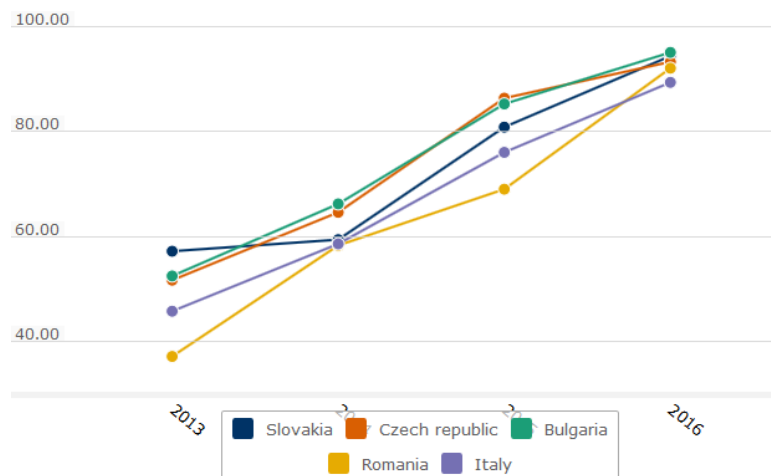
Figure 4: ERDF 2007-2013: financial implementation profiles: late absorption



Source: Ferry & Kah (2017) *op. cit.*

- **Very late absorbers.** A final category of MS started from low – in some cases very low – absorption levels in 2014 and achieved good absorption by 2016, mainly due to accelerated performance in 2014 and 2015 (Figure 5).

Figure 5: ERDF 2007-2013: financial implementation profiles: very late absorption



Source: Ferry & Kah (2017) *op. cit.*

The largest group of Member States showed ‘early absorption’ or ‘medium absorption’ rates of ESI Funds. However, roughly one-third of Member States showed ‘late absorption’ or ‘very late absorption’ rates.

Research indicates that the aim of absorbing the maximum available funding before the spending deadline at the end of the 2007-2013 period put pressure on authorities at a crucial time in programme implementation and closure processes.²¹ The Commission’s ex-post analysis of implementation noted these uneven patterns of absorption across MS and across years, and pointed to the influence of factors (discussed further in Section 4) such as: capacity issues in setting up project generation; selection and implementation; complexity and administrative burden in dealing with regulatory and procedural requirements (e.g. in the fields of public procurement and state aid); and high turnover among key staff.²²

²¹ Ferry M & Kah S (2017) *op. cit.*

²² European Commission (2016) *Commission Staff Working Document. Ex-post evaluation of the ERDF and Cohesion Fund 2007-2013.* SWD(2016) 318 final.

4. FACTORS INFLUENCING IMPLEMENTATION - EVIDENCE FROM 2007-2013

The pace of financial implementation provides a basic measure of the performance of European Structural and Investment Funds (ESIF), as it indicates how efficiently Member States claim and disburse payments to beneficiaries. As noted earlier, financial implementation is only one measure (albeit important) measure of ESIF implementation. Measuring the pace of spending reveals little about the quality of investment and the performance of ESIF beyond 'spending the money'. A greater performance orientation has been a cornerstone of the 2014-20 programmes. For ESIF, a key element is the application of a Performance Framework (PF) that involves the establishment of clear, measurable milestones and targets to manage and monitor progress with implementation. Alongside financial indicators, programme authorities set targets in the form of output indicators to monitor progress. Nevertheless, financial performance is a fundamental indicator of implementation progress: for ESIF to be effective, the funding allocated to MS and programmes must be spent. This is especially important in the early-to-middle stages of programme implementation when operations are still being designed and selected, as there is often a time lag until the delivery of outputs and results, and data are often limited. Ideally, by the end of programming periods, programmes should be reaching 100 percent or more of funds fully committed to operations. In reality, the achievement of absorption targets is not straightforward as a number of factors can delay absorption.

4.1. EXTERNAL CONTEXT

4.1.1. Economic factors/ impact of the financial crisis

The negative shocks of the financial crisis of 2008–2009 had varied effects across Member States, regions and cities. The demands of fiscal consolidation put pressure on government investment in several Member States, and Cohesion Policy came to play a crucial role as a source of investment in many parts of the EU.²³ Nevertheless, programme authorities experienced implementation pressures as a result of the crisis. The impact of the crisis on financial implementation varied in timing and intensity. The economic downturn and the constraints of austerity measures on public budgets had a direct impact on the availability of national co-financing, without which ESIF cannot be spent.²⁴ The situation was particularly serious in Greece, where the European Commission established a specialised 'Task Force for Greece' to provide additional support.²⁵ One of the measures taken was to increase temporarily the co-financing rate to 100 percent, meaning that no national amounts needed to be provided in order to receive ESIF support.

²³ IMF (2018) *Regional Economic Outlook- Europe: Managing the Upswing in Uncertain Times*, World Economic and Financial Surveys, May 2018, <https://www.imf.org/en/Publications/REO/EU/Issues/2018/05/14/EURREO0518>.

²⁴ Hapenciuc CV, Moroşan AA & Gaube GA (2013) Absorption of Structural Funds – International Comparisons and Correlations. *Procedia Economics and Finance*, 6(13).

Tătulescu A & Pătruţi A (2014) Structural Funds and Economic Crises: Romania's Absorption Paradox. *Procedia Economics and Finance*, 16.

²⁵ *Task Force for Greece: Progress on Technical Assistance*, European Commission Press Release, Brussels, 29 April 2013. [http://europa.eu/rapid/press-release MEMO-13-389_en.htm](http://europa.eu/rapid/press-release_MEMO-13-389_en.htm)

More broadly, there were general challenges that applied to all or most Member States:

- some programmes experienced a drop in demand for longer-term support for innovation, a decline in the size of certain projects, and longer timescales for delivery;
- there was growing demand for, or resort to, such measures as labour market interventions, generic business support and access to finance for SMEs; and
- many programmes faced problems with national or regional co-financing (e.g. CZ, GR, IT, PL, PT, RO, and SK) and with exchange rate variations (PL and UK).

4.1.2. Quality of governance

There is increasing consensus that the quality of governance, i.e. the contextual administrative conditions within which ESIFs operate, affects financial implementation. Research indicates that the efficiency and effectiveness of Cohesion Policy are influenced by the overall quality of governance in Member State public administrations.²⁶ The relationship between administrative capacity (measured according to the European Quality of Government Index (EQI)) and implementation is shown in Figure 6.

Figure 6: Administrative capacity and Cohesion Policy implementation, 2007-2013



Source: Boijmans P (2014) *Administrative Capacity Building linked to the Management of ESI Funds. Priorities for 2014-2016*. Committee of the Regions, 19 June 2014.

²⁶ European Commission (2007) *Commission Communication on the Fourth Report on Economic and Social Cohesion*. COM(2007) 273 final, May, Brussels, http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion4/pdf/com_en.pdf

It is important to note that low scores on overall quality of governance do not necessarily mean problematic implementation of ESI Funds. As Figure 6 shows, there is also evidence that the quality of implementation of ESI Funds can be exemplary even in an environment of low overall quality of governance, as is the case in some Central and Eastern European Member States. Nevertheless, studies have found a correlation between overall quality of governance and financial performance of ESI Funds.²⁷ This concerns accountability, government effectiveness, regulatory quality, confidence in institutions and absence of violence and control of corruption.²⁸

4.1.3. Capacity and experience in Cohesion Policy implementation

A related factor concerns the **administrative stability and the capacity of organisations and personnel directly involved in Cohesion Policy** implementation. Many authors looking at the absorption of Cohesion Policy funds point to the importance of administrative capacity as a factor determining the implementation of Cohesion Policy.²⁹ Research on Structural Funds administration indicates the significance of stability for efficient implementation, emphasising the need for timely reorganisation and continuity of personnel.³⁰ Cohesion Policy implementation makes specific administrative demands for tasks such as project generation, selection, monitoring and evaluation.

Insufficient experience,³¹ lack of administrative capacity and internal reorganisation of Cohesion Policy delivery structures can have an impact on processes and undermine administrative continuity. For example, the implementation of the partnership principle, which is an obligation to involve local and regional authorities as well as economic and social actors and civil society in the implementation of ESIF, requires specific capacities: the effectiveness of implementation depends on national administrative structures and cultures, the technical and financial capacity of the partners.³² Not involving stakeholders may lead to investment needs not being recognised appropriately, and potential beneficiaries not being aware of funding opportunities or not understanding the implementation procedures.³³

Changes to political ownership and turnover of staff involved in Cohesion Policy implementation may have a detrimental impact on implementation. Some research argues that political parties alternating in control of EU funds change implementation priorities and even management staff according to their preferences. These changes interrupt implementation, weaken capacities, and

²⁷ Mendez C & Bachtler J (2017) Financial Compliance in the European Union: A Cross-National Assessment of Financial Correction Patterns and Causes in Cohesion Policy. *Journal of Common Market Studies*, 55(3).

²⁸ European Commission (2017) *7th Report on Economic, Social and Territorial Cohesion*. (L Dijkstra, Ed.) Directorate-General for Regional and Urban Policy; Surubaru, NC (2016) Administrative Capacity or Quality of Political Governance? EU Cohesion Policy in the New Europe, 2007–13. *Regional Studies*, 51(6).

²⁹ See for example: Mendez C & Bachtler J (2017) Financial Compliance in the European Union: A Cross-National Assessment of Financial Correction Patterns and Causes in Cohesion Policy. *Journal of Common Market Studies*, 55(3); Rodríguez-Pose A & Garcilazo E (2015) Quality of Government and the Returns of Investment: Examining the Impact of Cohesion Expenditure in European Regions. *Regional Studies*, 49(8); Tosun J (2014) Absorption of Regional Funds: A Comparative Analysis. *Journal of Common Market Studies*, 52(2).

Surubaru NC (2016) Administrative Capacity or Quality of Political Governance? EU Cohesion Policy in the New Europe, 2007–13. *Regional Studies*, 51(6).

³⁰ Wostner P (2008) The Micro-efficiency of EU Cohesion Policy. *European Policy Research Papers*, No 64, European Policies Research Centre, University of Strathclyde, Glasgow.

³¹ European Commission (2013) *op. cit.*

³² Sweco, Spatial Foresight & Nordregio (2016) *Implementation of the partnership principle and multi-level governance in 2014–2020 ESI Funds*. Report Prepared for the European Commission (July).

³³ CoR (2015) *Opinion on the outcome of the negotiations on the partnership agreements and operational programmes*, COTER-VI/001, 113th Plenary Session 8–9 July 2015, Brussels.

thereby also contribute to absorption problems.³⁴ High staff turnover in ESIF administrative bodies may result in loss of experience and institutional memory at different levels. The situation is exacerbated where shorter-term contracts for civil servants are used and where career paths for senior civil servants reward task rotation. Fluctuation in personnel can lead to implementation delays when programme authorities struggle to replace existing staff or when new staff do not bring necessary skills and need extensive training to comply with requirements.

4.1.4. Member State institutional settings

Other research has explored the **influence of Member State institutional settings** in Cohesion Policy financial implementation, including the following factors.

- **The degree of decentralisation in policy governance.** Decentralised systems can improve implementation efficiency by differentiating between the specific needs of localities and citizens. The dispersion of delivery responsibilities across levels is seen to be more flexible and efficient in responding to challenges at various territorial scales. The value of ‘integrated programming’ through decentralised decision-making is perceived to encourage greater flexibility in managing interventions.³⁵

On the other hand, a prominent critique of decentralised models is that they increase the number of levels and actors involved in management and implementation, create a complex delivery system and increase the costs of policy administration. According to the results of a survey published during the 2007-13 period, Cohesion Policy managers believed that a smaller number of OPs encouraged efficient implementation.³⁶ Reports from the European Commission have noted the relationship between complex, decentralised implementation systems and problems with financial implementation.³⁷

In some cases, Cohesion Policy implementation has been recentralised in the name of efficiency improvements, especially where funding allocations have been reduced. Member States such as Austria and Germany significantly reduced the number of bodies involved in the delivery of Cohesion Policy during the 2007-13 period.³⁸ Nevertheless, there is no strong, quantitative evidence of a direct link between Cohesion Policy financial implementation and the extent of decentralisation in Member States. An analysis of the administrative costs of Cohesion Policy implementation for the European Commission found no major differences between centralised and decentralised management systems.³⁹

³⁴ Hagemann C (2017) How politics matters for EU funds’ absorption problems – a fuzzy-set analysis. *Journal of European Public Policy*, 1-19.

³⁵ LSE (2011) *Study on the Impact of the Single Market on Cohesion: Implications for Cohesion Policy, Growth and Competitiveness*, Report for the European Commission, https://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&cad=rja&uact=8&ved=0CDoQFjAC&url=http%3A%2F%2Fec.europa.eu%2Fregional_policy%2Fsources%2Fdocgener%2Fstudies%2Fpdf%2Fsingle_market%2Fsingle_market_report.pdf&ei=l8Z0U-6fOoesO5q9gOAG&usq=AFQjCNE1n8hYaaRCiRXt6VpeouMfYT_tXw

³⁶ Wostner P (2008) The Micro-efficiency of EU Cohesion Policy. *European Policy Research Papers*, No 64, European Policies Research Centre, University of Strathclyde, Glasgow.

³⁷ European Commission (2011) *Commission staff working paper analysis of errors in Cohesion Policy for the years 2006-2009, actions taken by the Commission and the way forward*, SEC(2011)1179, 5 October 2011, http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/errors_analysis_2011_en.pdf

³⁸ EPRC (2013) A New Dawn for Cohesion Policy? The Emerging Budgetary and Policy Directions for 2014-20. *EoRPA paper 13/4*, http://www.eprc.strath.ac.uk/eorpa/Documents/EoRPA_13_Papers/EoRPA%2013-4_Cohesion_Policy.pdf

³⁹ *Ibid.*

- **The timing of administrative reforms.** Other governance issues in 2007-2013 that were important in explaining implementation trends concerned the temporary difficulties created by changes in governance approach rather than the model adopted. For instance, in Denmark, the extensive 2007 reform of sub-national government had a double-edged impact on programme implementation. On the one hand, institutional change complicated the early stages of programme implementation. At the same time, the reforms closely aligned national and European activities in regional development, both operating through the Regional Growth Fora and their secretariats, thereby speeding up implementation in the longer term.⁴⁰

4.2. COHESION POLICY CONTEXT

4.2.1. Regulatory and procedural complexity

Regulatory requirements introduced for 2007-2013 caused a delayed start to the programmes on the ground and consequently delayed financial execution.⁴¹ In particular, Article 71 of Council Regulation 1083/2006, which, before the first interim payments and within one year of approval of the OP, required an assessment report on the management and control systems to be submitted to and approved by the Commission, held up implementation. These documents were approved during the second and third year of the 2014-20 period, contributing to delayed implementation on the ground. Although this new system contributed to reducing the error rate of Cohesion Policy,⁴² programme authorities and beneficiaries noted the ‘perverse effects’ of ESIF regulations, particularly concerning financial control and audit, in terms of increasing complexity and reducing implementation efficiency.⁴³

The Commission’s ex-post evaluation of 2007-13 delivery systems found inefficiencies stemming from the multiplication of controls, inconsistent interpretation of rules, and a low uptake of simplification measures,⁴⁴ contributing to implementation delays and burdens on beneficiaries.⁴⁵ There are a number of ways in which the complexity created by increased control and audit provisions have complicated implementation and hampered policy performance. Complexity leads programme authorities to focus administrative resources on the tasks of control and audit, sometimes to the detriment of project generation and selection. Complexity also discourages potential beneficiaries from applying for support, especially where alternative sources of funding are available, creating absorption pressures.

⁴⁰ Halkier H (2009) *Programme Developments in Denmark*. Fieldwork report for the meeting of the IQ-Net network in Steiermark, Austria, June 2009.

⁴¹ European Commission (2013) *Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Cohesion Policy: Strategic report 2013 on programme implementation 2007-2013*.

⁴² European Court of Auditors (2010) *Annual Report 2009*. Available online at <http://ec.europa.eu/portal/pls/portal/docs/1/5926723.PDF>

⁴³ Davies S & Polverari L (2011) Financial accountability and European Union Cohesion Policy. *Regional Studies*, vol. 45, no. 5, pp. 695-706.

⁴⁴ Including the single audit approach, as single audit status by end of 2014 had been granted only to 76 out of 440 ERDF/Cohesion Fund and ESF OPs (see Karakatsanis & Weber (2016) *op. cit.*, pp. 176-177).

⁴⁵ KPMG & Prognos (2016) *Ex-post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF)*. Final report to the Directorate-General for Regional and Urban Policy (European Commission), work package 12 – Delivery system, pp. 17-18.

4.2.2. Type of fund

Variation in the rate of financial implementation is also found across different Structural Funds. For instance, ERDF and Cohesion Fund support involves a relatively high proportion of large projects. The experience of Cohesion Policy shows that large projects need a longer time for preparation. As a result, there is a longer time delay for implementation and consequently payment claim registration. In 2007-2013, claims for large project payments started to be registered only during the 2010 financial year. Budget consolidation strategies undertaken by Member States in the context of the financial crisis generated challenges in terms of ensuring the necessary national co-funding, especially for large ERDF and CF projects.⁴⁶

4.2.3. Regional categorisation

Research also indicates that **financial implementation varies according to the European Commission's categorisation of regions**: Less-Developed Regions (LDRs, whose per capita GDP is less than 75 percent of the EU average), Transition Regions (TRs, whose GDP per capita falls between 75 and 90 percent of the EU average) and More-Developed Regions (MDRs, which have a GDP per capita above 90 percent of the EU average). Each category of region has different regional development challenges but also different regulatory opportunities, obligations and restrictions, influencing the implementation of ESIF.⁴⁷ A recent report by the European Commission analyses in detail the growth obstacles of 'lagging regions',⁴⁸ including the labour market structure, such as unemployment levels, the population's level of education and the proximity of research institutes, as well as transport links to other economic hubs. Having an innovative and entrepreneurial economy seems to benefit the development of eligible projects for ESIF support. Given that the economies of larger agglomerations and more advanced regions tend to be more entrepreneurial and innovative, some reports claim that MDRs absorb ESIF relatively efficiently.⁴⁹ LDRs, by contrast, reach a saturation point after which basic development potential has been reached and additional investment can no longer be absorbed or does not seem to have additional impact.⁵⁰

4.2.4. Thematic focus

The **allocation of funding across ESIF themes has an impact on implementation**, influencing the complexity of management structures and administrative efforts required for management, monitoring and evaluation. The Commission's 2013 *Cohesion Policy Strategic Report*, shows the variation in the selection of projects by theme between 2007 and 2011. Some themes (e.g. roads, business support, social infrastructure and culture heritage and tourism) were at that stage above the average with others lagging behind (e.g. innovation and R&D, rail, IT services and broadband, energy and capacity-building). The latter group includes areas where administrations had less experience of delivering schemes (innovation, ICT, capacity-building) as well as areas such as rail, which are

⁴⁶ European Commission (2013) *op. cit.*

⁴⁷ Kersan-Skabic I & Tijanic L (2017) Regional Absorption Capacity of EU funds. *Economic Research-Ekonomska Istrazivanja*, 30(1).

⁴⁸ European Commission (2017) *Competitiveness in Low-income and Low-growth Regions. The Lagging Regions Report*. Commission Staff Working Document SWD(2017) 132 Final.

⁴⁹ Novosák J, Novosáková J, Hájek O & Horváth P (2017) Regional Disparities, Absorption Capacity and Structural Fund Payments: A Case Study Of The Czech Republic. *Quaestiones Geographicae*, 36(4).

⁵⁰ Cace C, Cace S, Lova C & Nicolescu V (2009) Absorption Capacity of the Structural Funds. Integrating Perspectives. *Revista de Cercetare Si Interventie Sociala*, 27.

Rodríguez-Pose A & Garcilazo E (2015) Quality of Government and the Returns of Investment: Examining the Impact of Cohesion Expenditure in European Regions. *Regional Studies*, 49(8).

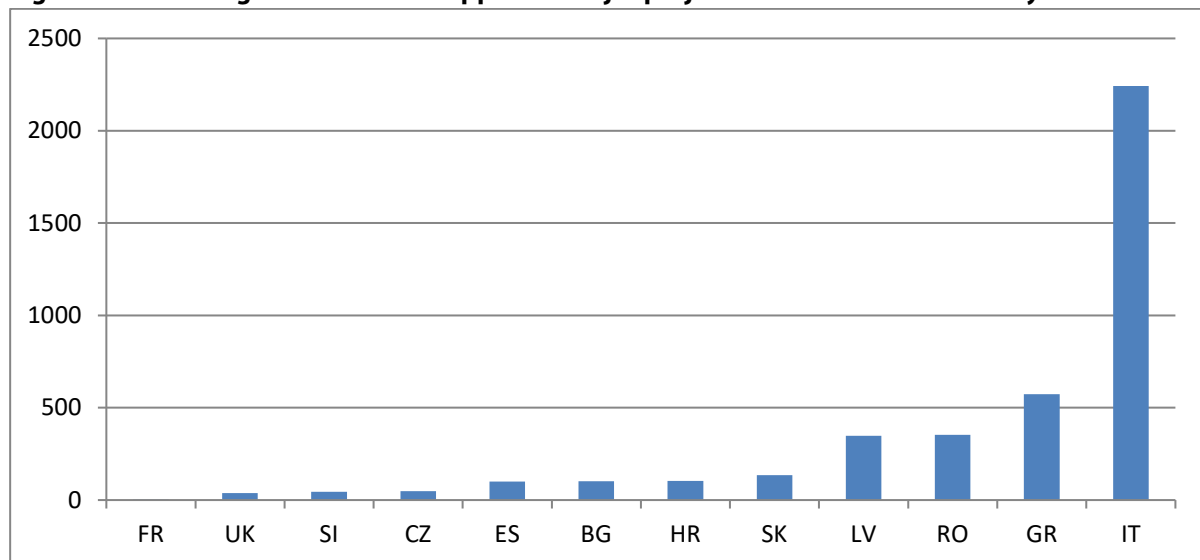
traditionally more complex to deliver than other infrastructures. Behind the averages, there were considerable differences between Member States.⁵¹

4.2.5. Use of specific interventions, instruments

Lastly, different types of projects have different implications for financial implementation. For instance, very large projects (including major projects that receive more than EUR 50 million in support through the ERDF and/or Cohesion Fund) absorb substantial funding, but they are particularly administration-intensive because of the special requirements associated with them, including the need for approval from the Commission. Staffing issues are likely to pose a problem for large infrastructure projects, which require significant technical expertise for efficient planning and preparation. Moreover, large infrastructure projects take significant time to complete, which means that high staff-turnover during the execution of the project can be particularly disruptive to the continuity of the project.⁵²

In 2007-13, there was significant variation across MS in terms of the number of major projects being implemented and their stage of physical implementation as of 2013. The Commission's ex-post evaluation of ERDF and CF for the 2007-13 programmes⁵³ identified a total of 50 approved major projects, where physical work had not yet started by 2013 (see Figure 7).

Figure 7: EU funding associated with approved major projects which had not started by 2013



Source: European Commission (2015b) Ex-post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and Cohesion Fund (CF) – Work Package Zero: Data collection and quality assessment, Final Report.

Note: Community amount, EUR million.

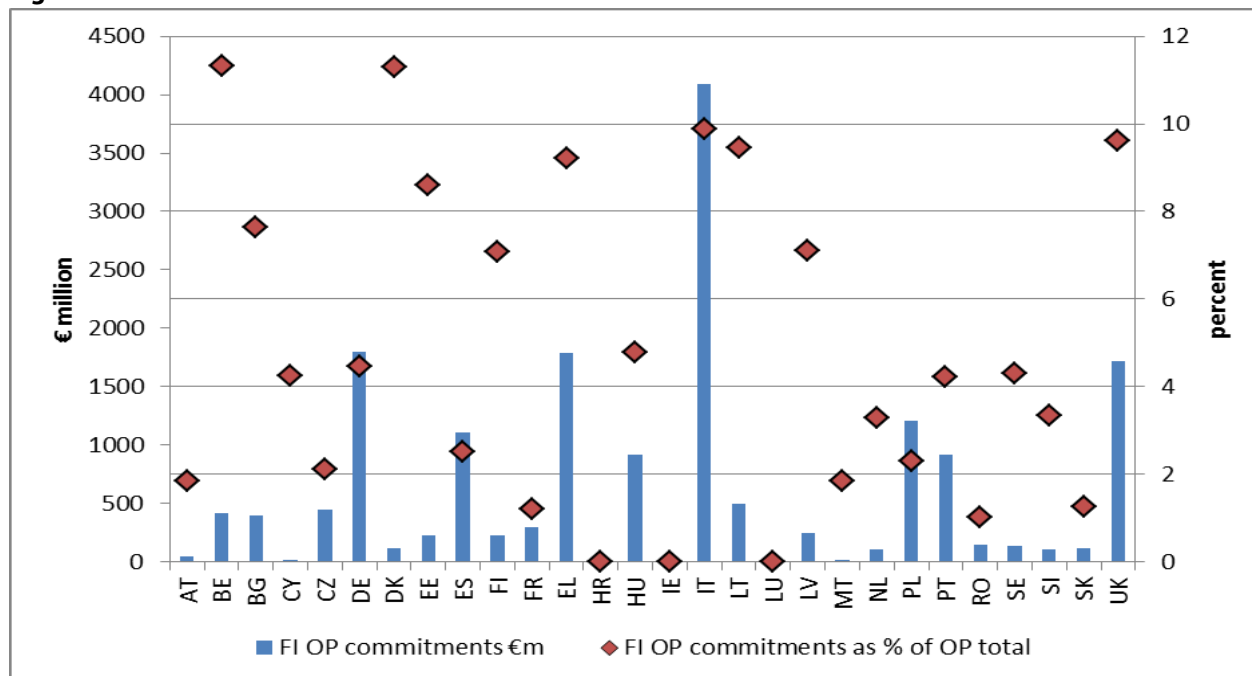
The role of non-grant-based instruments has increased significantly over successive programming periods. Allocations to financial instruments (FIs, such as loans, equity and guarantees) has increased over successive programming period from an estimated investment of EUR 0.6 billion in 1994-1999 to EUR 1.3 billion in 2000-2006 and to over EUR 17 billion in 2007-2013. However, the amounts committed to FIs varied widely between MS (see Figure 8).

⁵¹ European Commission (2013) *op. cit.*

⁵² European Commission *Strategic report 2017 on the implementation of the European Structural and Investment Funds*. COM(2017) 755 final.

⁵³ European Commission (2015b) *Ex-post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and Cohesion Fund (CF) – Work Package Zero: Data collection and quality assessment, Final Report.*

Figure 8: Absolute and relative commitments to FIs in 2007-2013



Source: Wishlade F & Michie R (2014) Financial Instruments in 2014-20: Learning from 2007-13 and adapting to the new environment. Paper presented at 'Challenges for the New Cohesion Policy 2014-20: an Academic and Policy Debate', Riga, 4-6 February 2014.

Increased allocations for FIs were cited as a solution to absorption pressures and closure issues by the Commission during 2007-2013. For instance, it urged the MA of the Integrated OP in the Czech Republic to look into the possibility of using some of its remaining allocation for FI activities.⁵⁴ However, they involve specific technical requirements and challenges, especially at the closure stage. In 2016, the Commission noted that, as closure approached, there was an increased risk that amounts committed to FIs would not be fully spent at the end of the programming period and that continued efforts would be needed to improve implementation in order to avoid losses at the end of the period.⁵⁵ This pressure was exacerbated where knowledge, experience and administrative capacity in managing FIs were low.

4.2.6. Conclusions

In summary, studies of variation in ESIF financial implementation have produced a series of explanatory factors that can inform a framework for analysing implementation in 2014-2020. These consist of 'external' factors related to the institutional context within which programmes are implemented and factors specific to ESIF management and implementation structures and systems (see Table 1).

⁵⁴ European Commission (2016) *Task Force promotes better use of EU funding*. DG Regio Newsroom item 31 March 2016, http://ec.europa.eu/regional_policy/en/newsroom/news/2016/03/31-03-2016-task-force-promotes-better-use-of-eu-funding

⁵⁵ European Commission (2016) *Annual Activity Report 2015 - Regional and Urban Policy*, 27 April 2016, p. 31.

Table 1: Summary of factors influencing the implementation of ESIF

	Factor	Implementation issues
External context	Economic factors/ financial crisis	Unanticipated variation in demand under some programme priorities Limited availability of co-financing
	Quality of governance	ESIF implementation relies on accountability, government effectiveness, regulatory quality confidence in institutions and absence of violence and control of corruption
	ESIF implementation capacity, experience	Administrative stability, fluctuation, staff turnover
	MS institutional settings	Degree of decentralisation in policy governance Timing and direction of administrative reforms
Cohesion Policy context	Regulatory and procedural complexity	New requirements delay launch, focus on alternative, national programmes Multiplication of controls, inconsistent interpretation of rules
	Type of fund	ERDF, CF, ESF associated with different implementation timescales
	Regional classification	Different potentials for financial absorption in more-developed regions, less-developed regions
	Thematic orientation	Implementation varies according to demands of specific sectors and authorities' experience under specific themes
	Type of interventions, instruments	Project types with specific implications for implementation (e.g. major projects, FIs)

Source: Authors' elaboration.

5. FINANCIAL IMPLEMENTATION IN 2014-2020

This section presents the current state of payments from Cohesion Policy funds (ERDF, ESF, CF) in the 2014-20 programming period and identifies absorption patterns, including comparison with the level of payments in the previous programming period at the mid-point.

5.1. PAYMENT RATE COMPARISON OVER FUNDING PERIODS

According to European Commission data, the payment rate, understood as the payments made to projects funded under the ERDF, ESF and CF, stood at 11 percent at the end of 2017.

5.1.1. Overall financial implementation

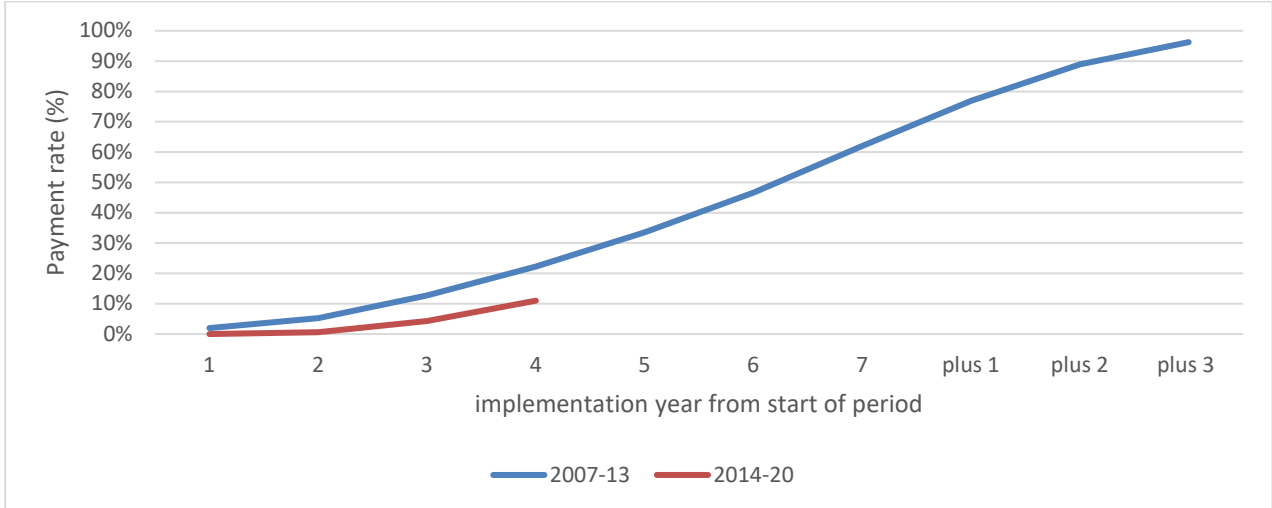
It is normal in the first years of implementation that payment rates are low, as Operational Programmes (OP) need to be prepared and negotiated, and institutional arrangements established, designated and agreed. Potential beneficiaries can only prepare and submit a payment request for eligible projects after the OPs are in place. Moreover, in the early stages of programme periods, national and regional authorities experience difficulties in the management of the two overlapping programming periods.

Recent research demonstrates that closure represents a key stage in the lifecycle of OPs, which requires significant administrative efforts and time. Often, the same authorities are responsible for preparing the new programming period and closing the previous one, which means that implementation authorities need to divide human resources between the two parallel tasks. As the risk of losing available funding is higher at the end of a programming period than at the start of a new one, Managing Authorities often treat closure as a priority at this stage, even at the expense of implementation delays at the start of the following programming period.⁵⁶

Bearing this in mind, a comparison of the 2014-17 programming period with the 2007-13 programming period reveals that current rates of payment are lower: the 2014-20 period seems to be one year later as compared to 2007-13 (see Figure 9).

⁵⁶ Ferry M & Kah S (2017) *Lessons learnt from the Closure of the 2007-13 Programming Period*. Research for REGI Committee, European Parliament, Policy Department for Structural and Cohesion Policies. Brussels.

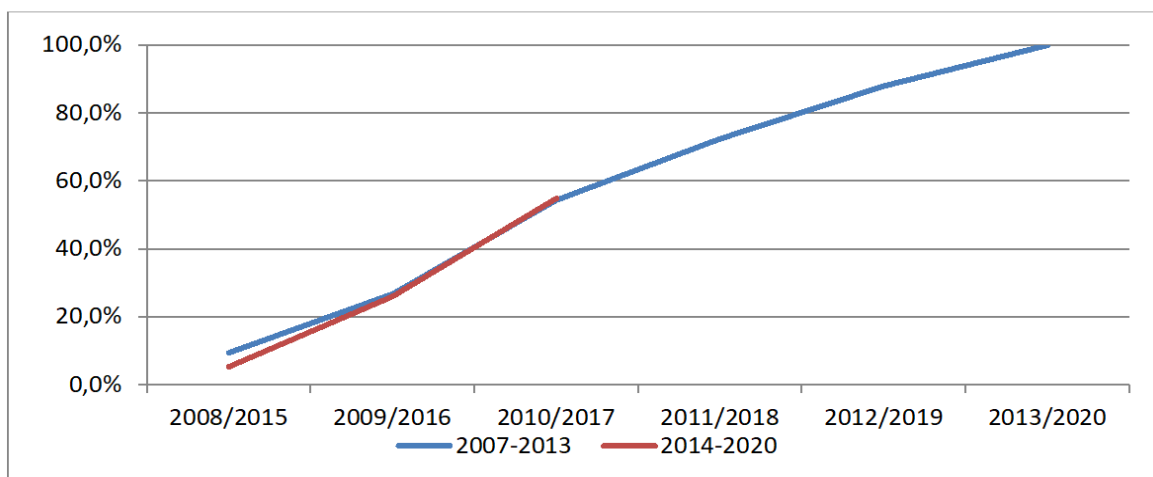
Figure 9: Payment rate comparison, 2007-2013 and 2014-2020



Source: Authors’ calculations based on data from the Open Data Portal <https://cohesiondata.ec.europa.eu/browse>. Dataset extracted on 08 June 2018.

It is important to note, however, that with respect to financial commitments, implementation in the 2014-20 programming period seems to have already caught up with the 2007-13 progress made in the previous programming period. Financial commitments, as opposed to payments, refer to the selection of projects and future payments that should occur through the implementation of the project.⁵⁷ According to the Commission, while starting more slowly than in the 2007-13 period, the rate of commitments in the 2014-20 programming period has now caught up with 53.4 percent of the funding being allocated to projects by January 2018 (see Figure 10 below). This level of project selection over 2014-2016 is comparable to the early years of the 2007-13 period.

Figure 10: Funding committed to selected projects as percentage of available total (2007-2013 and 2014-2020 comparison)



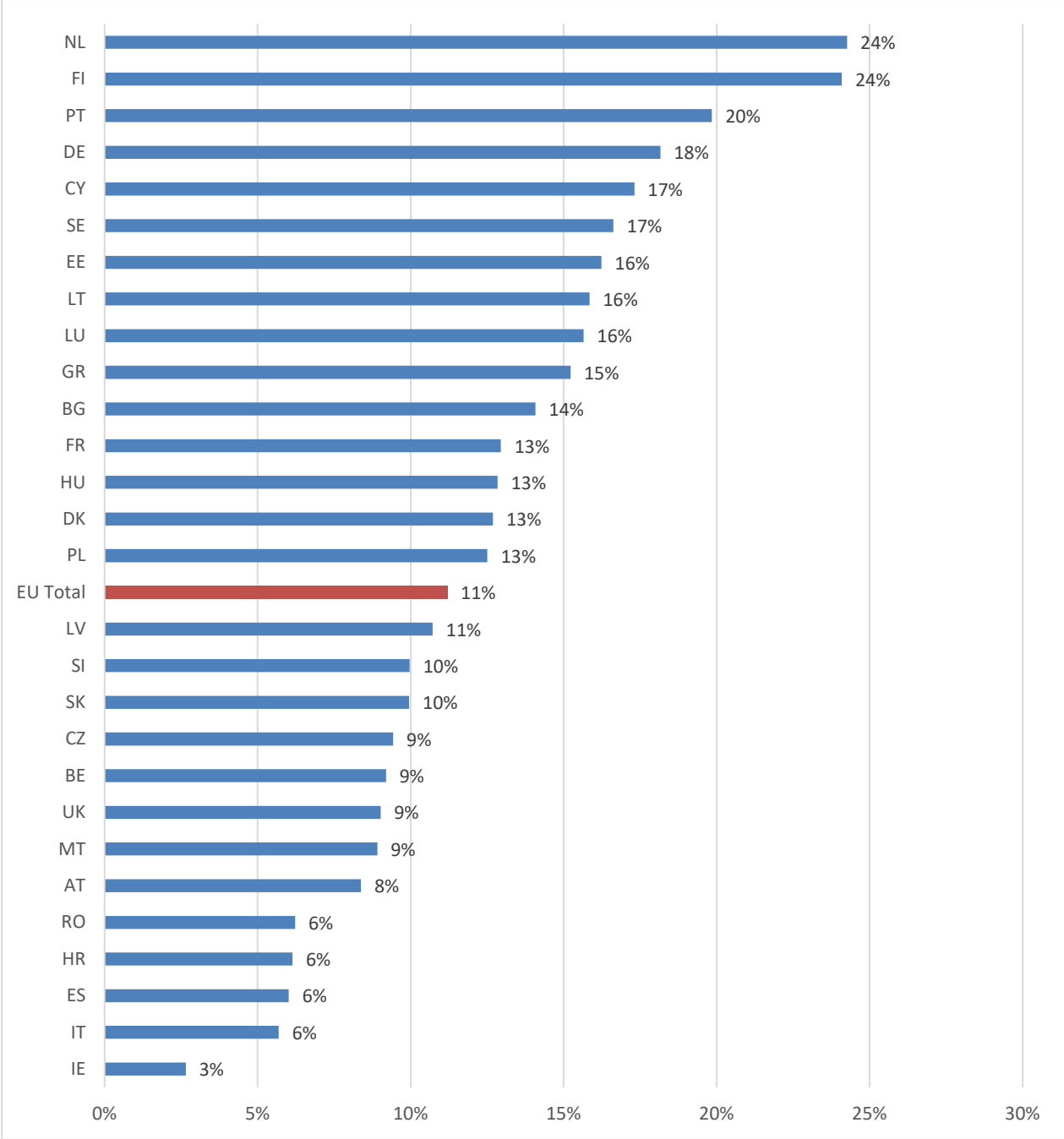
Source: DG Regional and Urban Policy, based on monitoring data provided by Member States in Commission Staff Working Document (SWD (2018) 171 final) Spending Review.

⁵⁷ As noted earlier, though, there is uncertainty in definition of the commitment rate, given the lack of harmonised definition and reporting across Member States.

5.1.2. Payment rates by Member State

An assessment of individual payment rates of EU Member States sheds light on whether the overall EU payment rate of 11 percent is determined by a few lagging countries or whether the overall EU-level payment rate represents a general trend. Figure 11 shows a slow rate of financial implementation across Member States. Within this, the difference between the fastest-spending country (Netherlands, 24 percent) and the lowest (Ireland, 3 percent; Italy, Spain, Croatia and Romania, 6 percent) is significant.

Figure 11: Payment rates by Member State, 2017 (2014-20 period)



Source: Authors' calculations based on data from the Open Data Portal <https://cohesiondata.ec.europa.eu/browse>. Dataset extracted on 08 June 2018.

The low payment rates suggest that several Member States might be facing difficulties in complying with the automatic decommitment rule and parts of the allocations might be lost. The commitment rate (see Figure 10), however, suggests that many projects may be ready to be implemented and automatic decommitments might be avoided. However, the exact project pipeline within the Operational Programmes, which determines whether or not automatic decommitments will take place, is known only to the Managing Authorities and cannot be estimated based exclusively on the payment rate.

A direct comparison between the 2007-13 and 2014-20 programming periods four years after their start (see Table 2) shows that, with the exceptions of the Netherlands and Luxembourg, all Member States were more advanced in the 2007-13 programming period. Comparing the two programming periods also shows that there is significant variation in the absorption ranking of Member States. Some Member States that were comparatively slow in the 2007-13 programming period are doing much better in the 2014-20 programming period. Others, however, have a significantly slower pace of implementation.

- The Netherlands, Luxembourg and Bulgaria stand out, as they have improved their comparative payment rate ranking most significantly compared to other Member States.
- By contrast, Ireland, Austria and the United Kingdom are significantly poorer in performance compared to the 2007-13 programming period.

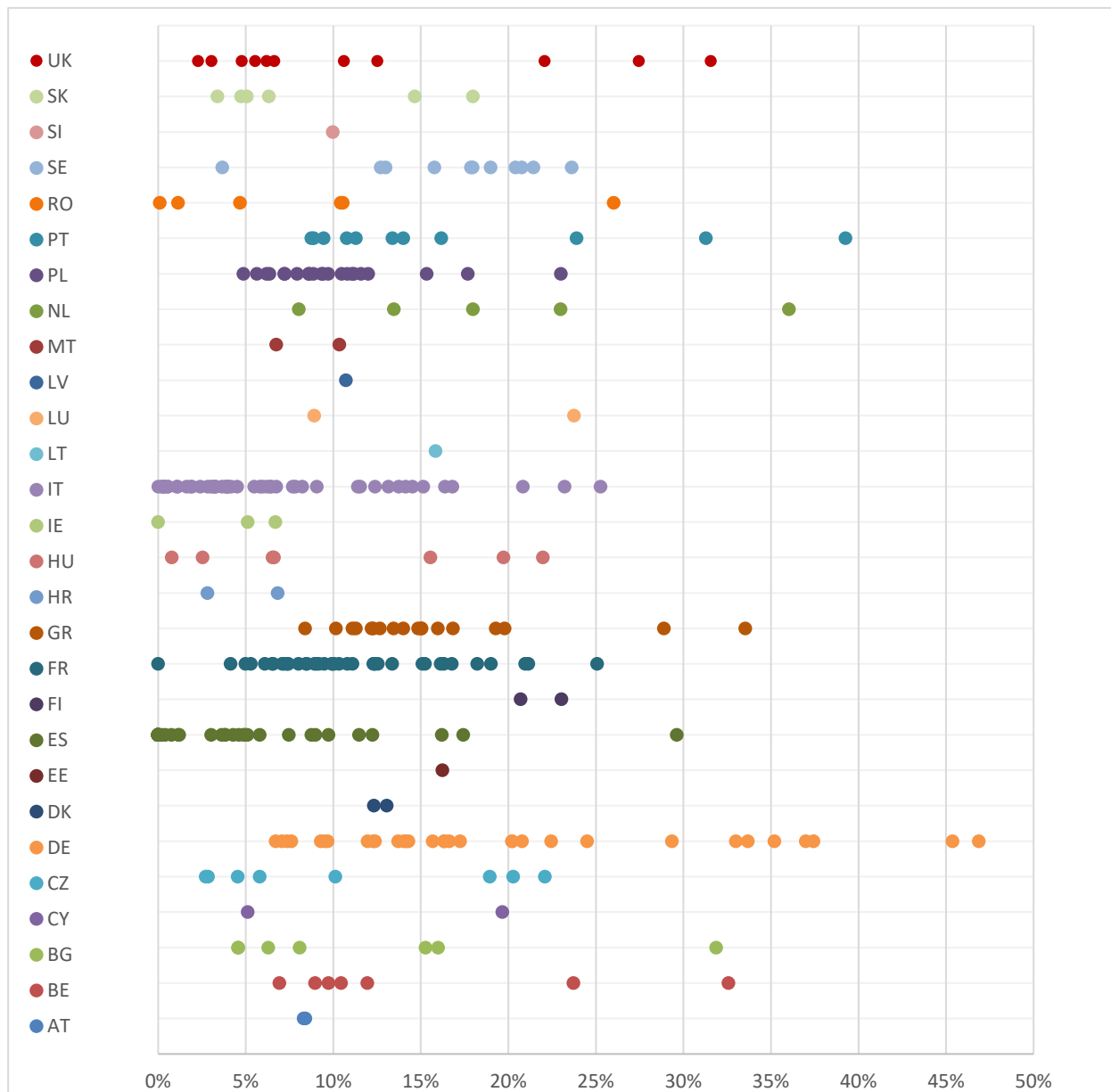
Table 2: Payment rate by Member State, comparison of 2007-13 (at end 2010) and 2014-20 (at end 2017)

Member State	Payment rate at end 2017 (2014-20 period)	Rank at end 2017	Payment rate at end 2010 (2007-13 period)	Rank at end 2010	Comparison percentage (change in percentage points)	Comparison rank (change in position)
NL	24%	1	17%	23	7	22
LU	16%	9	16%	24	0	15
BG	14%	11	16%	25	-2	14
PT	20%	3	25%	10	-5	7
EL	15%	10	22%	17	-7	7
FI	24%	2	27%	8	-3	6
DK	13%	14	20%	20	-7	6
HU	13%	13	21%	18	-8	5
CY	17%	5	26%	9	-9	4
SK	10%	18	19%	21	-9	3
RO	6%	24	13%	27	-7	3
HR	6%	25	5%	28	1	3
DE	18%	4	29%	5	-10	1
SE	17%	6	27%	7	-10	1
FR	13%	12	24%	13	-11	1
CZ	9%	19	20%	19	-11	0
MT	9%	22	18%	22	-9	0
PL	13%	15	23%	14	-11	-1
IT	6%	27	15%	26	-9	-1
EE	16%	7	35%	2	-19	-5
LT	16%	8	34%	3	-18	-5
LV	11%	16	25%	11	-14	-5
SI	10%	17	25%	12	-15	-5
BE	9%	20	23%	15	-14	-5
ES	6%	26	22%	16	-16	-10
UK	9%	21	28%	6	-19	-15
AT	8%	23	29%	4	-21	-19
IE	3%	28	36%	1	-34	-27

Source: Authors' calculations based on data from the Open Data Portal <https://cohesiondata.ec.europa.eu/browse>. Dataset extracted on 08 June 2018.

5.1.3. Payment rates by Operational Programme

As noted in Section 4, several of the factors identified as potentially important in explaining financial implementation rates vary across programmes. Figure 12 illustrates the payment rates within Member States (with each dot representing one OP) indicating significant variation in the pace of implementation of OPs within Member States.

Figure 12: Payment rate of OPs by Member State

Source: Authors' calculations based on data from the Open Data Portal <https://cohesiondata.ec.europa.eu/browse>. Dataset extracted on 08 June 2018.

In general, the variation depends on programme architecture and implementation models in Member States: the scope to identify variation is stronger in MS implementing several programmes and including decentralised delivery arrangements. Indeed, the variation between OPs within a single Member State seems to be widest where implementation is decentralised to the regional level, such as in Germany, Italy and Spain. However, it is important to explore explanations for this variation, particularly as significant differences in payment rates can also be identified in countries with fewer programmes and more centralised arrangements (such as Romania and Hungary).

6. ANALYSIS OF FACTORS INFLUENCING IMPLEMENTATION IN 2014-2020

6.1. EXTERNAL CONTEXT

6.1.1. Economic factors/ impact of the financial crisis

The current state of cohesion in the EU continues to be dominated by the financial crisis of 2008-2009 and the subsequent economic downturn. In 11 Member States (including Denmark, Finland, Greece, Italy, Portugal and Spain), GDP in 2015 remained lower than in 2007 (at constant prices). Although most EU countries have seen positive economic growth since at least 2014, rates of growth and job creation remain subdued.⁵⁸ A recent Commission report stressed the adverse effects of the economic and financial crisis, especially for low-growth regions.⁵⁹ For programme authorities, challenges in maintaining implementation rates include the following factors.

- **Dealing with shifting demand.** Programme modifications are being considered where the effects of the crisis include structural and labour market changes, leading to shifts in demand under specific priorities. In certain regions, the announcement of closures of major firms and potential job losses may require funds to be redirected. This often requires adjustments to both the scope of projects and allocations and adjustments to the financial tables between the use of FIs, repayable assistance and grants.
- **Accessing co-funding.** The Commission report noted the reduced margins of budgetary policies, leading to public investment cuts, especially for low-growth regions. Reduced public investment levels diminish the available public resources to match (co-fund) ESIF projects.

6.1.2. Quality of governance

Recent data on quality of governance provides insights into changes in EU regions that may influence ESIF implementation.⁶⁰

- **The east-west split in QoG is not as clear as previously.** In 2010, all former socialist countries and regions were below the EU28 mean for QoG, with southern EU15 states and regions (albeit more spread out in some cases) in the next group, followed by a group of strong-performing northern countries and regions. Although this overall pattern is still discernible, there are several cases where EU12 Member States / regions have risen to or above the mean score (Estonia and some Czech regions). Moreover, several other countries/regions have made considerable progress in moving towards the EU28 average (e.g. Lithuania, Prague, Pomorskie). Several Bulgarian and Romanian regions have also recorded positive increases in their QoG scores over time, albeit from low starting positions.

On the other hand, while the northern parts of the EU28 have retained high QoG scores, the south of Europe has fallen back, led by declines in QoG in Italian, Greek and many Spanish regions. The regions with a significant decline in governance assessments include several Italian regions, mostly in the northern and central parts of the country. In addition, Hungary,

⁵⁸ European Commission (2016) *European Economic Forecast*. Institutional Paper 038, Statistical Annex, Luxembourg: Publications Office of the European Union.

⁵⁹ European Commission (2017) *Competitiveness in Low-income and Low-growth Regions: The Lagging Regions Report*. Commission Staff Working Document SWD(2017) 132 final.

⁶⁰ Charron N & Lapuente P (2018) *Quality of Government in EU Regions: Spatial and Temporal Patterns*. Working Paper Series 2018:1.

Spain and France (overseas regions) and the Greek capital region of Athens have seen a significant decline in their QoG scores over time.

- **Countries with lower QoG tend to have wider divergence of QoG at the sub-national level.** Top performers, such as Finland, Denmark, Sweden and the Netherlands show no significant regional variation. Despite being federal countries, Germany and Austria have much less regional variation in their QoG than countries such as Bulgaria or the Czech Republic, which are more centralised.
- **Some countries have persistent and large gaps in QoG over time.** In Belgium and France, for instance, there is a clear geographic divide – such as the north-south divide in Belgium – that persists over years.
- **Some countries have demonstrated a growing divergence in QoG.** The 2017 data show a widening gap in the regions of the Czech Republic, and even more so in Spain. For the latter, Spain is now the country with the second-largest regional variation in terms of dispersion in the data (behind Italy).

6.1.3. ESIF implementation capacity, experience

The Commission's ex-post evaluation of ERDF/Cohesion Fund in 2007-2013 provides important insights into capacity-building effects in 2014-20.⁶¹

- **By the end of the 2007-13 period, there was still a lack of capacity in MAs in a number of countries,** due partly to inexperience in several EU12 Member States but also to high staff turnover and institutional inefficiencies.
- **On the other hand, case studies from the evaluation also found evidence that managing ERDF support had generated additional added value in the form of an improvement in the capacity** of the authorities to implement policy. The support appeared to have triggered a modernisation of procedures in regional and local authorities in Member States by encouraging the spread of standards of 'good governance' in the form of practices such as partnership-building, multi-annual programming and place-based policies, as well as the implementation of better monitoring and evaluation systems.
- **Support from ESIF technical assistance and capacity-building may be crucial to improving the capacity of the authorities to manage Cohesion Policy programmes** and to increasing the effectiveness with which the funding is spent and, accordingly, improving the results of the projects carried out.
- **These findings are supported by Member State evidence of ESIF capacity-building through experience, over time.** The experience of implementing ESIF over successive programming periods can improve capacity and implementation efficiency, particularly where initial administrative capacities were low. For instance, research in Poland has noted a clear learning process among public administration over the 2004-06 and 2007-13 periods,

⁶¹ European Commission (2016) *Ex-post evaluation of the ERDF and Cohesion Fund 2007-2013*. Commission Staff Working Document SWD(2016) 318 final.

indicating administrative capacity-building processes among staff dealing with EU funds (regional Managing Authorities and local governments applying for funds).⁶²

- **Variation in capacities of ESIF beneficiaries can also explain absorption challenges in 2014-2020.** Some programme authorities have proposed transfers of funding between OP priorities in the first half of the 2014-20 period because of limitations in beneficiary capacities (e.g. after experiencing delays in the implementation of business support measures due to limitations in business environment institutions and investor services, lack of experience and demand among beneficiaries in implementing low-carbon projects etc.).⁶³

6.1.4. Member State institutional settings

Domestic institutional reforms continue to influence implementation arrangements. Although in the long term these reforms can create efficiency savings, they may involve significant reorganisation of OP implementation structures. Examples of ongoing reform processes with potential implications for ESIF financial implementation include the following.⁶⁴

- In **Finland**, the implementation of ESIF continues to be influenced by regional government reform, initially expected to come into force in 2019 but eventually postponed until the beginning of 2020. The reform is expected to affect regional governance and development, with the responsibility for providing public healthcare and social services to be assigned to newly established regional governments. A more direct effect on the OP implementation is expected at a later stage, when the new regional governments should take on the role of Intermediate Bodies.
- In **Poland**, an amendment of the Polish Act on the Implementation of Cohesion Policy 2014-2020 introduced regulations strengthening the role of centrally appointed regional governors (*voivods*) in the implementation of Regional OPs. The amendments have expanded the scope of involvement of the *voivods* in ESIF delivery, including through a newly acquired role in the OP designation process, the role of observer in monitoring committee meetings, and the option to join project evaluation committees. The amendment seeks to provide greater simplification, transparency and effectiveness in EU grants delivery, but the initiatives are seen by some Marshall Offices and regional governments as undermining the competences of MAs, complicating project selection, blurring responsibility, and impeding implementation.
- In **France**, the merger of regions in 2016, which led to institutional changes and reallocation of competences, has involved the integration of new tasks into existing structures, strengthening of cooperation between the State and the regions, and the merging of Managing Authorities, although OPs remain separate.
- Related to Brexit, programme authorities in the **United Kingdom** see the potential need for further flexibility within programmes as end-March 2019 approaches, as well as the need for a

⁶² Swianiewicz P, Krukowska J & Lackowska-Madurowicz M (2013) *Profesjonalizacja absorpcji funduszy. Beneficjenci samorządowi centralnie zarządzanych programów operacyjnych w okresie 2007-2013*. Warszawa: Ministerstwo Rozwoju Regionalnego.

https://www.ewaluacja.gov.pl/Wyniki/Documents/Profesjonalizacja_absorpcji_funduszy_beneficjenci_samorzadowi_40220_13.pdf

⁶³ Michie R & Dozhdeva V (2017) Halfway there? Taking stock of ESIF programme implementation. *IQ-Net Review Paper* 41(1), European Policies Research Centre.

⁶⁴ *Ibid.*

meaningful transition period, to enable adaptation of programmes and projects to the changed circumstances.

6.1.5. Legislative context and applicable rules

Sector-specific rules and regulations as well as general rules apply to the implementation of ESIF. In this respect, EU State aid and public procurement rules are frequently cited as having an impact on ESIF implementation. State aid rules are applicable whenever ESI Funds support economic activities that potentially distort the EU's single market. Recent research on the evolution of the application of State aid rules in ESIF notes their increasing influence for two reasons.⁶⁵ First, the notion of State aid has expanded along with the concept of economic activities. Second, ESI Fund interventions have extended their investment areas beyond basic infrastructure and grants to firms, which in the past either did not entail aid or could be accommodated within the regional aid rules. In the 2014-20 programming period, however, a number of problematic issues are influencing the financial implementation of ESI Funds. These include definitional issues, financial instruments and the treatment of Simplified Cost Options (SCOs, designed to ease the burden of financial control requirements on beneficiaries).⁶⁶

Public procurement rules need to be followed whenever public authorities use public resources (such as ESI Funds) to acquire goods or services from private providers. The level of errors in the area of public procurement is very high and the list of potential causes of errors is long.⁶⁷ It includes:

- a high volume of legislation and/or guidelines;
- the difficulty of applying them in practice and a lack of expertise in carrying out the public procurement procedure;
- lack of knowledge of the rules and of technical expertise concerning the specific works or services being procured;
- insufficient planning of projects;
- incorrect transposition of the EU directives by Member States;
- inconsistent interpretation of the legislation;
- Member States complicating the framework with additional rules ('gold-plating'); and
- fraud.

The consequences of the errors resulting from the difficulties in the implementation of both State aid and public procurement rules are financial corrections. They in turn may lead to implementation delays, as errors are corrected. In public procurement, this may include re-opening the whole tendering procedure, which is very time-consuming. In other cases, the recouped amounts need to be reassigned to new projects, which need to be evaluated, selected and implemented. Moreover, the complexity

⁶⁵ Wishlade F (2017) State Aid Control of Regional Development Policy at 60: Harder and Sharper, but not yet Crystal Clear? *EoRPA Paper 17/4* prepared for the 38th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 1-3 October 2017.

⁶⁶ Committee of the Regions (2016) *Simplification of the Implementation of Cohesion Policy*. Workshops on 27 January and 10 March 2016, Final Report.

European Court of Auditors (2016) *More Efforts needed to raise Awareness of and enforce Compliance with State Aid Rules in Cohesion Policy*. ECA Special Report (24).

⁶⁷ European Court of Auditors (2015) *Efforts to address Problems with Public Procurement in EU Cohesion Expenditure should be intensified*. ECA Special Report (10).

and risk of corrections present threats for the final beneficiaries, who might not apply for funding because of a lack of capacity to comply with the procedures or out of risk-awareness calculations.

6.2. COHESION POLICY CONTEXT

6.2.1. Regulatory and procedural complexity

Specific issues concerning the ESIF regulatory framework were instrumental in explaining the delayed start to programme implementation in 2014-2020.

First, the **adoption of the legislative and regulatory framework**, the Common Provision Regulation,⁶⁸ and associated fund-specific regulations were late. Compared to the 2007-13 Multiannual Financial Framework, the Cohesion Policy regulatory framework for 2014-2020 was adopted about six months later.⁶⁹ This late adoption of the legal acts together with new requirements seeking to enhance the performance of the policy and the quality of delivery (e.g. annual accounts, designation of programme authorities) led to a delayed start of implementation of the 2014-20 programmes.⁷⁰ Although large parts of the text were known and agreed beforehand, the final legislation was adopted on 17 December 2013, only a few working days before its official start in January 2014. This delayed the formal negotiations on the Partnership Agreements and Operational Programmes, and it also meant that related guidance documents and clarifications of interpretation of legal provisions were only available after implementation had already started.

Table 3 illustrates the timelines of adoption of the Partnership Agreements. The table shows that, due to the late adoption of the regulation, the adoption of the central strategic documents for implementation (the Partnership Agreements) was delayed by five-to-nine months. However, there does not seem to be a link between the time of adoption of the Partnership Agreement and the pace of the payment rate at Member State level. For example, the Danish Partnership Agreement was the first to be approved, but Denmark had only the 14th most-advanced payment rate at the end of 2017. Conversely, Finland's and Sweden's Partnership Agreements were approved comparatively late, but their payment rates at the end of 2017 attained the second and sixth rankings respectively.

⁶⁸ Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down Common Provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down General Provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

⁶⁹ European Commission *Strategic Report 2017 on the Implementation of the European Structural and Investment Funds*. COM(2017) 755 final.

European Court of Auditors (2017) *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*. Special Report.

⁷⁰ European Commission (2018) *Spending Review - Accompanying the document: A Modern Budget for a Union that Protects, Empowers and Defends; The Multiannual Financial Framework for 2021-2027*; SWD(2018)321.

Table 3: Submission and approval of PAs, 2014

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
DK			4 th	→	5 th							
DE		26 th	→	→	22 nd							
PL	10 th	→	→	→	23 rd							
GR				17 th	→	23 rd						
LV		15 th	→	→	→	20 th						
LT			4 th	→	→	20 th						
EE			28 th	→	→	20 th						
CY				17 th	→	20 th						
SK		14 th	→	→	→	20 th						
PT		4 th	→	→	→	→	30 th					
RO				1 st	→	→	→	6 th				
BG				2 nd	→	→	→	7 th				
FR	14 th	→	→	→	→	→	→	8 th				
NL			10 th	→	→	→	→	22 nd				
CZ					17 th	→	→	26 th				
HU			7 th	→	→	→	→	29 th				
FI		17 th	→	→	→	→	→	→	→	17 th		
AT				17 th	→	→	→	→	→	17 th		
SE				17 th	→	→	→	→	→	29 th		
MT				1 st	→	→	→	→	→	29 th		
UK				17 th	→	→	→	→	→	29 th		
IT				22 nd	→	→	→	→	→	29 th		
BE				23 rd	→	→	→	→	→	29 th		
LU				30 th	→	→	→	→	→	29 th		
ES				22 nd	→	→	→	→	→	30 th		
SI				10 th	→	→	→	→	→	30 th		
HR				22 nd	→	→	→	→	→	30 th		
IE				22 nd	→	→	→	→	→	→	18 th	

Source: Kah S, Mendez C, Bachtler J & Miller S (2015) *Strategic Coherence of Cohesion Policy: Comparison of the 2007-13 and 2014-20 Programming Periods*. Study for the European Parliament REGI Committee.

Second, the **content of the regulatory framework** created delays. Some rules were complex and administratively burdensome, prompting regular calls for simplification from both EU and national actors and stakeholders.

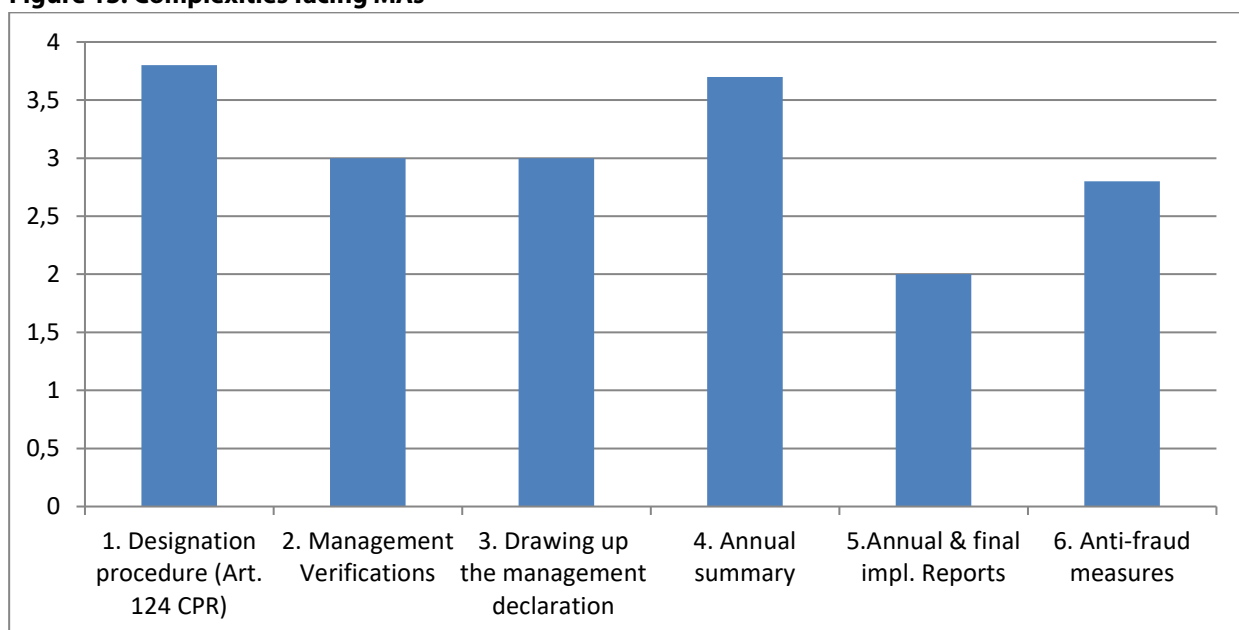
- In terms of **financial audit and control** in 2014-2020, MS have been required to provide ex-ante assurance on the set-up and design of the management and control system, confirming that programme authorities are in a position to fulfil their responsibilities. This required the

designation of a Managing Authority, a certifying authority and an audit authority for each OP, describing the relative responsibilities and functions in dedicated documents, and outlining the management and control systems in place for the programme. Designation has taken a long time across all EU Member States, which in turn is leading to delays in financial implementation because only advance payments can be made until designation is complete.

The drafting of an annual management declaration and summary of the final audit reports and of controls carried out is a new responsibility for MAs. This offers a structured approach to creating assurance over the programming period and addresses some of the complexity encountered at programme closure, as there is a tendency for issues to accumulate at the end of the period. Nevertheless, it is challenging for programme authorities to implement, as it has a rigid logic and timeframe that does not follow the ‘real’ timeline of projects.

Management verifications (including administrative verifications of documentation for each operation in an OP and ‘on-the-spot’ checks for a sample of operations) create considerable burdens and complexity and could be made more proportionate; MAs have also struggled to comply with new anti-fraud responsibilities, which have been cumbersome to deliver and required training and resources. Based on recent research for the European Parliament, Figure 13 provides a summary of the views of the actors interviewed from the MAs of the seven case study OPs in relation to the level of complexity associated with these tasks. Interviewees were asked to rate the perceived complexity of each task on a scale of 1 (limited complexity) to 5 (extreme complexity) and to discuss the reasons for their assessments.

Figure 13: Complexities facing MAs



Source: Ferry M & Polverari L (2018) *Control and Simplification of Procedures within ESIF*. Study for the European Parliament REGI Committee. Assessment based on selected case studies.

- Beyond this, the 2014-20 period is placing new demands on Managing Authorities, other implementing bodies and beneficiaries, through the introduction of new regulatory requirements in line with the increased focus on performance and results. One component of the focus on results comprises the so-called **ex-ante conditionalities** (Art 19 CPR +Annex XI), which are a list of general and thematic-specific requirements that need to be in place before

ESI Funds can be spent. For a number of ex-ante conditionalities, multiple actors from different administrative levels and a wide range of stakeholders need to be involved. In this respect, delays occurred when the mobilisation of stakeholders proved difficult or when other administrative levels did not implement the necessary measures in time. For example, general ex-ante conditionality number 4 (CPR, Annex XI) requires the 'existence of arrangements for the effective application of Union public procurement law in the field of the ESI Funds'. In order to fulfil this condition, in some Member State contexts it was necessary to pass or modify national legislation, which evidently can be a lengthy process beyond the control of ESIF implementation authorities.⁷¹ For example, in one Member State, fulfilling ex-ante conditionality 7.1 on transport has been a long process, because a wide range of stakeholders have had to be involved and coordinated.⁷²

- Another component of the focus on results is the **performance framework** (Arts. 20-22 CPR), which is a set of requirements linked to effective planning and monitoring of progress that aim to improve the quality and impact of supported projects. Setting up the performance framework proved lengthy because of the preparatory work including data collection, ex-ante evaluations, selection of indicators, etc. Overall, programme authorities found it difficult to identify appropriate, good-quality, reliable data for highly complicated indicators.⁷³ In many cases, contracts with external consultants had to be set up to provide analyses and studies. This is time-consuming, as terms of reference need to be prepared, contractors selected and quality of work assured. Moreover, the extent to which these frameworks are flexible enough to meet changing circumstances as programmes are rolled out has been questioned, and in some Member States different provisions in the rules on reporting of outcome indicators under ERDF and ESF has created uncertainty and potential delays in multi-fund programmes that combine these funds.⁷⁴

6.2.2. Type of fund

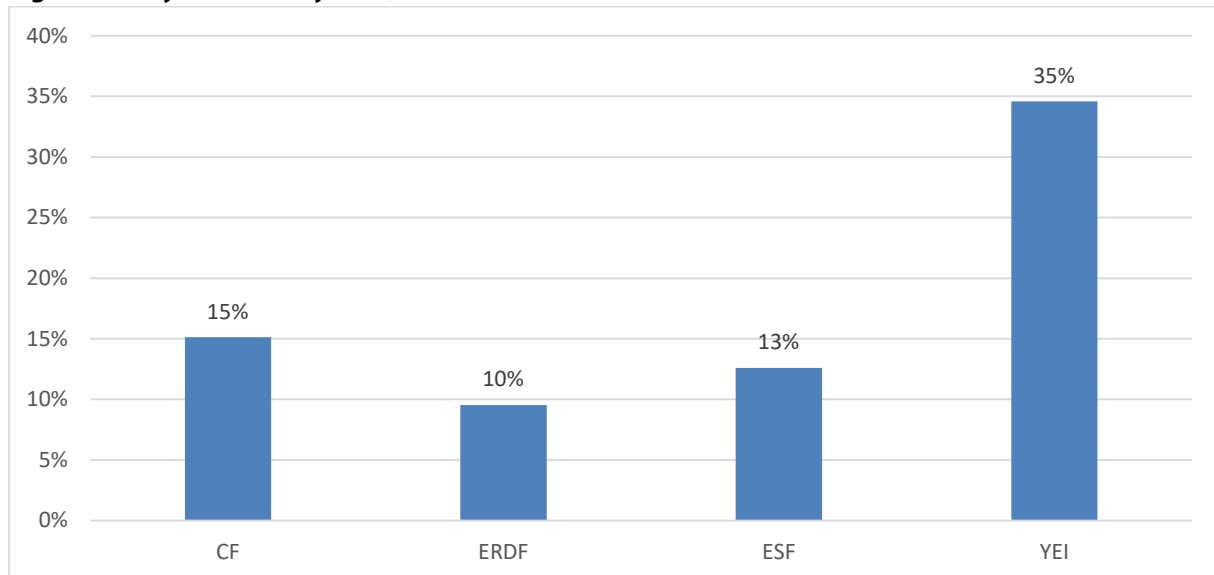
While there is an overarching legislative framework (the Common Provision Regulation), every Fund has specific rules in place. In theory, such differences in implementation rules could lead to varying paces of absorption. Moreover, the European Commission's Directorate-General for Regional and Urban Policy follows implementation of the ERDF and the CF, while the Directorate-General for Employment, Social Affairs and Inclusion is responsible for the ESF and the YEI. However, the choice of implementation fund does not seem to affect the payment rate, as the ERDF has an implementation rate of 10 percent, the ESF 13 percent and the CF 15 percent (see Figure 14). The significantly higher payment rate of the YEI (35 percent) can be traced back to a political decision to frontload its implementation.

⁷¹ Vironen H & Lehuraux T (2016) First Signs of Growth: Progress with the 2014-20 Programmes. *IQ-Net Review Paper* 38 (1). Glasgow: European Policies Research Centre, University of Strathclyde.

⁷² *Ibid.*

⁷³ McMaster I & Kah S (2017) The Performance Framework in Cohesion Policy: Expectations and Reality. *IQ-Net Thematic Paper* 41(2), European Policies Research Centre Delft.

⁷⁴ Vironen H & Lehuraux T (2016) First Signs of Growth: Progress with the 2014-20 Programmes. *IQ-Net Review Paper* 38 (1). Glasgow: European Policies Research Centre, University of Strathclyde.

Figure 14: Payment rate by fund, end 2017

Source: Authors' calculations based on data from the Open Data Portal <https://cohesiondata.ec.europa.eu/browse>. Dataset extracted on 08 June 2018.

6.2.3. Regional categorisation

As noted earlier, the pace of implementation is affected by the categorisation of region as LDR, TR or MDR. The highest aid intensity and level of EU co-financing are in LDRs.⁷⁵ Projects in less-developed regions can rely on EU support of up to 85 percent of total project costs, whereas projects in TR and MDRs are eligible for lower EU funding rates and correspondingly need to provide higher national co-financing.⁷⁶ National co-financing can be national resources from public authorities at any administrative level and/or contributions from private financing.

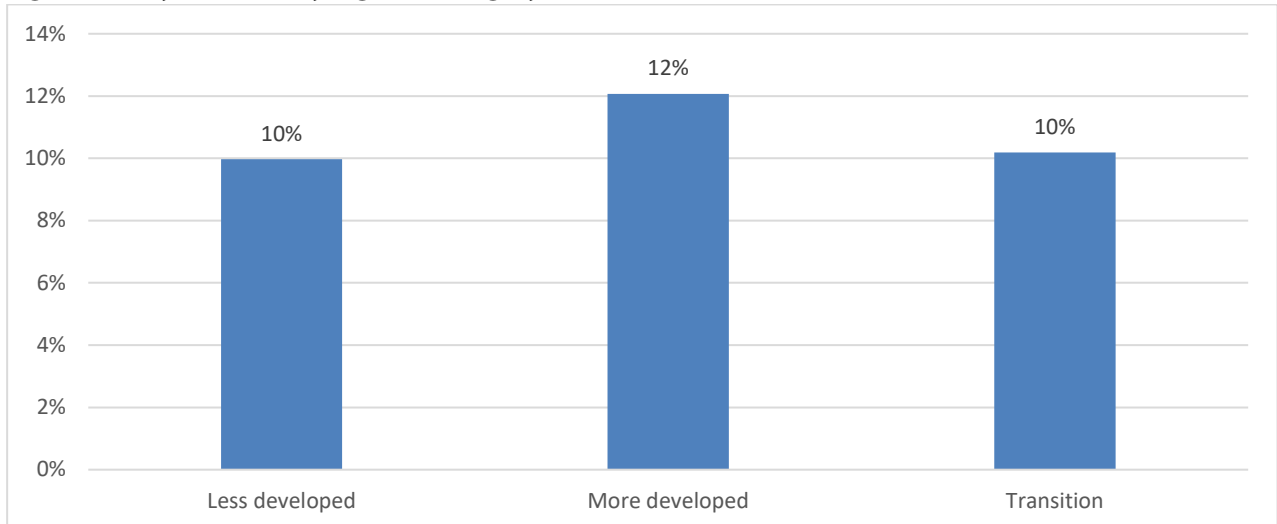
In several instances, the implementation of programmes in 2014-2020 has been delayed due to budget cuts among applicant organisations in some sectors and problems obtaining match funding.⁷⁷ Moreover, beneficiaries might not be willing to co-finance projects if they feel that the administrative requirements are not worth the effort in comparison to the financial support received and if there are alternative sources of support available that are easier to access. The lower the EU contribution to a project, the higher is the likelihood that such considerations affect the implementation of programmes.

Figure 15 sets out the rate of financial implementation across different classifications of regions at the end of 2017. This indicates that, at this stage in implementation, regional categorisation is not playing such a significant role in the variation in payment rates. These rates are close to 10 percent in all three categories of regions, although slightly stronger absorption can be observed in more-developed regions (note that this covers only regional programmes funded under ERDF and ESF).

⁷⁵ Transition regions = < 90% of average EU GDP, more-developed regions > 90% of average EU GDP.

⁷⁶ See CPR Art. 120. More-developed regions can receive no more than 50% of EU co-financing, transition regions no more than 60%.

⁷⁷ Ferry M (2015) New OPs, New Instruments: Progress with the 2014-20 Programmes. *IQ-Net Review Paper 37(1)*, European Policies Research Centre, University of Strathclyde, Glasgow.

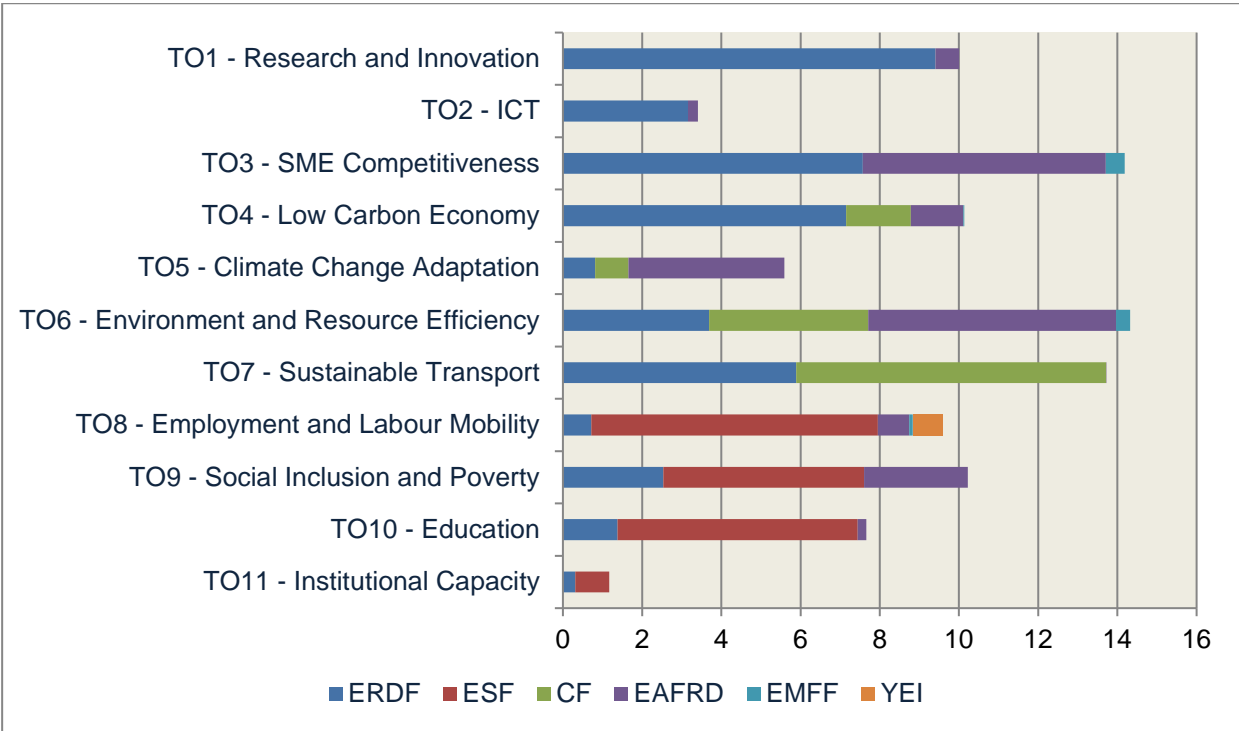
Figure 15: Payment rate by regional category

Source: Authors' calculations based on data from the Open Data Portal <https://cohesiondata.ec.europa.eu/browse>. Dataset extracted on 08 June 2018.

6.2.4. Thematic orientation

Turning to financial implementation across ESIF themes, the CPR defines 11 Thematic Objectives (TOs) for Operational Programmes. Figure 16 shows the ex-ante allocation of Cohesion Policy funding by Thematic Objective across the EU28 (including all ESI Funds). The funding allocation is highest for TO3 SME Competitiveness and TO6 Environment and Resource Efficiency, followed by TO7 Sustainable Transport, TO9 Social Inclusion and Poverty, and TO1 Research and Innovation. The lowest level of funding is for TO11 Institutional Capacity and TO2 ICT.

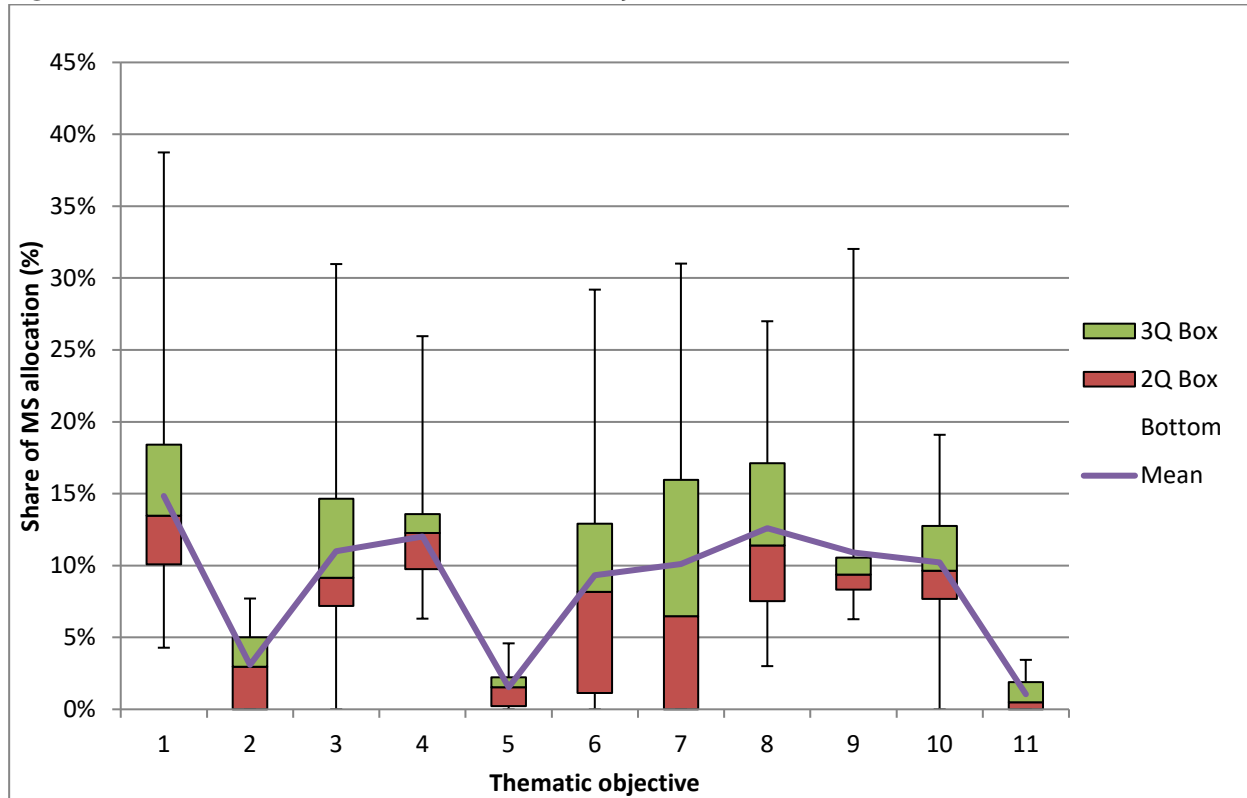
Figure 16: EU28 ESIF funding allocations by Thematic Objective, percentage of EU total



Source: Davies S, McMaster I, Vironen H, Ferry M & Vernon P (2016) New European Territorial Challenges and Regional Policy: Annual Review of Regional Policy in Europe. *EoRPA Paper* 16/1. EPRC calculations based on Partnership Agreements. Data for the EMFF are not included for Germany, Denmark, Greece, Poland or Sweden.

Although there are requirements for minimum allocations to certain TOs (through ‘earmarking’), Member States are free to choose from the 11 Thematic Objectives based on the context as well as national and regional needs for investment. In terms of the percentage of funding for each Thematic Objective by Member State, a wide spread can be observed (Figure 17).

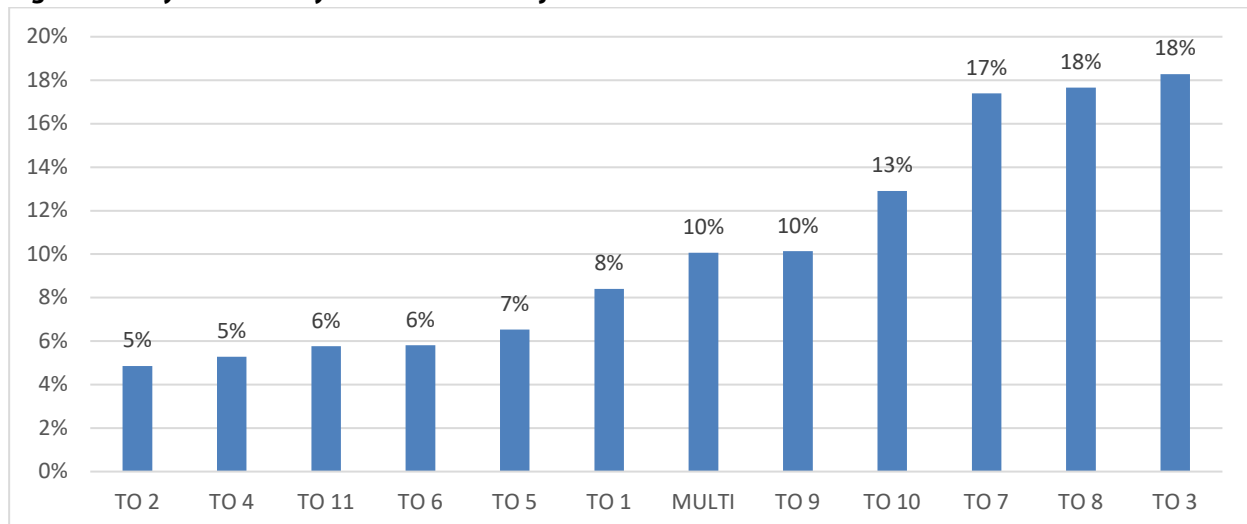
Figure 17: Member State allocations to Thematic Objectives



Source: Authors' calculations based on data from the Open Data Portal <https://cohesiondata.ec.europa.eu/browse>. Dataset extracted on 08 June 2018.

In terms of payment rates, TO2 'Enhancing access to, and use and quality of information and communication technologies (ICT)' and TO4 'Supporting the shift towards a low-carbon economy in all sectors' are significantly lower than the payment rates of TO3 'Enhancing the competitiveness of small and medium-sized enterprises (SMEs)' and TO8 'Promoting sustainable and quality employment and supporting labour mobility' (see Figure 18).

Figure 18: Payment rate by ESIF Thematic Objective



Source: Authors' calculations based on data from the Open Data Portal <https://cohesiondata.ec.europa.eu/browse>. Dataset extracted on 08 June 2018.

Some Thematic Objectives have clearly experienced more implementation difficulties than others, notably where the theme has been newly introduced, programme authorities have limited experience of implementing projects under that heading, and potential beneficiaries are not yet aware of the funding opportunities and application procedures and requirements.

Implementation evidence to date suggests that Thematic Objectives 1 (RTDI) and 3 (SME competitiveness) have triggered many project applications, as they were already important investment priorities in previous programming periods. By contrast, low-carbon economy (TO4) and ICT (TO2) have thus far generated less demand 'on the ground'. These Thematic Objectives, therefore, are showing less immediate financial progress and might need awareness-raising and active communication efforts for potential beneficiaries to develop eligible projects.⁷⁸ Bearing in mind that the share of TOs varies significantly from one Member State to another, and also taking into account that the implementation of the different TOs varies in the degree of complexity, the choice of TO may affect the payment rates of Member States.

6.2.5. Type of interventions, instruments

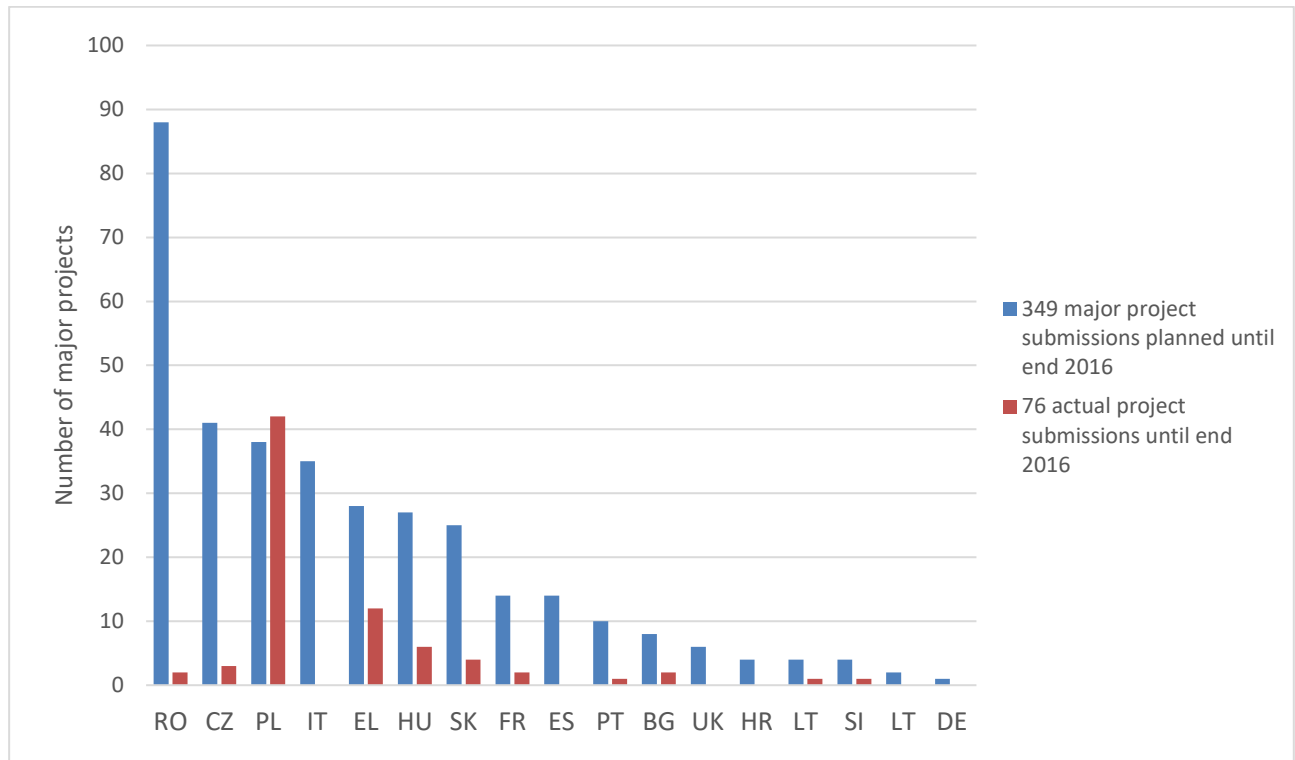
As noted in Section 4, a potential factor for delays in financial implementation is the use of specific types of interventions and instruments.

- **Major projects.** Large infrastructure projects require wide-ranging technical expertise and are more frequently subject to delays.⁷⁹ For the 2014-20 period, the majority of major projects, funded under ERDF and CF, are planned in Romania, Poland and the Czech Republic. In this context, a recent European Court of Auditors report noted that in January 2015, the Commission had estimated that 582 applications for major projects would be submitted during the whole 2014-20 programming period. Of the 582 major project applications, 349 were expected to be submitted by the end of 2016. However, only 76 had actually been submitted by 19 April 2017 (see Figure 19).⁸⁰

⁷⁸ Vironen H & Lehuraux T (2016) First Signs of Growth: Progress with the 2014-20 Programmes. *IQ-Net Review Paper* 38 (1). Glasgow: European Policies Research Centre, University of Strathclyde.

⁷⁹ European Commission (2017) *Strategic Report 2017 on the implementation of the European Structural and Investment Funds*. COM(2017) 755.

⁸⁰ European Court of Auditors (2018) *Joint Assistance to Support Projects in European Regions (JASPERS) – Time for Better Targeting*. Special Report No. 01/2018.

Figure 19: Overview of planned and actual major project submissions from 2014 until the end of 2016 by Member State

Source: European Court of Auditors (2018) *Joint Assistance to Support Projects in European Regions (JASPERS) – Time for Better Targeting*. Special Report No. 01/2018.

- Financial instruments.** In the context of the economic crisis occurring at the time, EU decision-makers took the strategic decision to strengthen the use of financial instruments⁸¹ in the 2014-20 programming period in an effort to mobilise private capital and leverage ESI Fund investments.⁸² At the same time, related regulatory provisions and implementation prescriptions were largely extended to be covered in an entire title (CPR, Title IV). The implementation of FIs, however, is a lengthy process that takes significant preparation. Experience of implementing financial instruments⁸³ indicates that it typically takes two years before spending can occur and the first two elements of the financial instrument 'lifecycle' (design and set-up of the instruments) are finalised. The time is usually spent on the ex-ante assessment process, securing human resources, clarifying questions concerning legal provision and selecting implementation bodies. Once operational, the financial implementation may run into difficulties when the demand for financial instruments is confronted with changing contexts, such as improved liquidity on private markets, the emergence of potential rivalries and tensions with other sources of funds.⁸⁴ Early in 2018, the Commission published the second annual report on the implementation of FIs in 2014-2020, covering the period to the end of 2016.⁸⁵ From this, it can be seen that:⁸⁶

⁸¹ Implementation instruments relying on repayable loans and guarantees rather than traditional grants.

⁸² European Commission (2015) *Investing in Jobs and Growth – Maximising the Contribution of European Structural and Investment Funds*. COM(2015) 639 Final.

⁸³ Ferry M (2015) New OPs, New Instruments: Progress with the 2014-20 Programmes. *IQ-Net Review Paper* 37(1).

⁸⁴ Vironen H & Lehuraux T (2016) First Signs of Growth: Progress with the 2014-20 Programmes. *IQ-Net Review Paper* 38 (1). Glasgow: European Policies Research Centre, University of Strathclyde.

⁸⁵ http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/summary_data_fi_1420_2016.pdf

⁸⁶ EPRC (2018) *Financial Instrument Network (FINE) Policy Briefing*, March 2018.

- some EUR 10.3 billion in OP contributions (ESIF amounts only) were committed to FIs by the end of 2016; of this total, EUR 9.9 billion is under ERDF and CF, with just EUR 320 million under ESF and EUR 52 million under EAFRD (around half of the 'planned' contributions indicated in the OPs);
- overall progress appears to be rather modest: of the EUR 9.9 billion committed under ERDF, by end 2016 less than a third had been paid to funds, and less than a third of that had, in turn, been paid to final recipients (see Table 4).

Table 4: FI plans and progress at end 2016 – ERDF and CF (EUR million, EU amounts)

	FIs planned in OPs	Commitments	Payments to funds	Payments to final recipients
AT	3.0	3	3	
BE	98.2	29.3	7.3	
BG	586.9	462.4	185	
CZ	521.0			
DE	1109.0	661.4	277.3	63.3
EE	240.3	133	33.4	35.2
EL	1048.2	522.4	130.6	
ES	1485.6	800	715.3	679.7
FI	29.5	1.5	0.2	0.2
FR	665.8	125.7	37.4	3.1
HR	511.8	214	37	2
HU	2339.4	2265.9	478.3	23.6
IT	1992.0	370.8	66.9	0.1
LT	688.8	583.2	287.9	173.8
LV	245.1	143.9	34.3	13
MT	34.0	15	13.8	
NL	85.7	20.3	1.5	0.7
PL	3629.7	1983.6	482.9	
PT	2504.5	322.9	54.4	
RO	377.5	100		
SE	131.8	134	33.5	
SI	438.0			
SK	278.3	409.2	102.3	2.9
UK	1194.1	605	23.7	
Total	20238.1	9906.5	3006.0	997.6

Source: Open Data Portal <https://cohesiondata.ec.europa.eu/EU-Level/ESIF-2014-2020-categorisation-ERDF-ESF-CF-planned/9fpg-67a4> and 2014-20 Summary Report.

Note: Blank cells in the table were left blank by MAs in the original source data provided to the Commission.

- Although the reporting only covered the first three years of the period – and FIs are particularly slow to establish – it is noteworthy that less than 5 percent of the sums planned in the form of FIs had actually been invested by end 2016. The situation varies considerably between countries, but with regard to funds reaching final recipients compared to the original plans, significant progress appears to have been made only in Spain, Estonia and Lithuania (see Table 5).

Table 5: FI plans and progress at end 2016 – ERDF and CF (percentages)

	Commitments as % of plans	Payments to funds as % of commitment	Payments to final recipients as % of payments to funds
AT	100.0	100.0	0.0
BE	29.8	24.9	0.0
BG	78.8	40.0	0.0
CZ	0.0		
DE	59.6	41.9	22.8
EE	55.4	25.1	105.4
EL	49.8	25.0	0.0
ES	53.9	89.4	95.0
FI	5.1	13.3	100.0
FR	18.9	29.8	8.3
HR	41.8	17.3	5.4
HU	96.9	21.1	4.9
IT	18.6	18.0	0.1
LT	84.7	49.4	60.4
LV	58.7	23.8	37.9
MT	44.1	92.0	0.0
NL	23.7	7.4	46.7
PL	54.6	24.3	0.0
PT	12.9	16.8	0.0
RO	26.5	0.0	
SE	101.7	25.0	0.0
SI	0.0		
SK	147.0	25.0	2.8
UK	50.7	3.9	0.0
	48.9	30.3	33.2

Source: EPRC calculations from Table 4.

- Integrated territorial investment (ITI, CPR Art. 36)**, a new instrument introduced in 2014-2020, aims at strengthening the integrated place-based approach. In practice, ITIs serve to combine different investment objectives and sources of funding into one coherent territorial strategy, frequently at urban level. The setting-up of this instrument allows the delegation of implementation tasks to authorities at lower administrative levels. A recent review of territorial strategies in the EU⁸⁷ found that they have significant added value, with the potential to strengthen strategic frameworks and provide integrated governance and thereby strengthen capacities of actors and stakeholders. Moreover, territorial strategies have encouraged a degree of innovation and adaptation in both thinking and practice. However, the implementation of territorial strategies entails some challenges, which might have an impact

⁸⁷ Van der Zwet A, Bachtler J, Ferry M, McMaster I & Miller S (2017) *Integrated Territorial and Urban Strategies: How are ESIF Adding Value in 2014-2020?* Report for the European Commission (DG Regio), European Policies Research Centre, University of Strathclyde, Glasgow.

on the timely financial absorption of funds. Globally, implementation challenges can be grouped into capacity challenges, regulatory challenges and governance challenges.⁸⁸ Delays may occur in each of these groups, for example when one or more of the implementation actors (implementation authorities or stakeholders) lacks the capacity to implement the strategy, when regulatory requirements are unclear or are interpreted inconsistently, or when the organisation and coordination of multiple actors proves more difficult than envisaged.

- **European Territorial Cooperation (ETC)**⁸⁹ should also be highlighted as an area in which delays can occur due to its specific implementation model. The main cause of delay in ETC is the fact that implementation authorities and project partners from more than one Member State work together in implementing the Operational Programme. This may create a situation in which any of the factors described in this report occurring in one Member State affect the implementation of the same programme in another Member State. Moreover, the fact that ETC programmes are usually smaller in scale means that the regulatory requirements of the overarching CPR regulation pose a proportionally higher administrative burden. This aspect is particularly salient in financial control and audit arrangements, as well as evaluation and impact assessment.⁹⁰

6.2.6. Conclusions

In summary, after a delayed start, ESIF financial implementation has gained momentum over the 2017-18 period. However, payment rates are still at low levels. Given that the commitment rate (project selection rate) significantly improved in 2017, it is reasonable to assume that the payment rate will follow suit. There is significant variation in financial implementation rates across Member States but also at programme level within Member States.

This paper has identified and analysed a range of factors external and internal to ESIF. In terms of **factors external to Cohesion Policy**, the influence of the financial crisis is still visible but declining. The influence of quality of governance in MS on implementation is evident, however, the east-west split between Member states in QoG is not as clear as before (as several regions from Central and Eastern Europe have significantly improved their position), while the north-south divide has increased. Specific MS institutional settings (including the extent of decentralisation of policy governance) can have an impact on ESIF implementation. However, this often concerns the timing of reforms and the extent to which ESIF implementation arrangements can adapt to new circumstances.

In relation to **factors specific to Cohesion Policy**, it is clear that regulatory and procedural complexity have had a significant influence on delayed financial implementation so far in 2014-2020. Reforms introduced for 2014-2020 have added new rules that generated more complexity, undermining gains resulting from simplification initiatives. The capacity and experience of staff in dedicated ESIF management and implementation bodies is also important in explaining variation in financial implementation. Moreover, specific implementation challenges are associated with certain types of ESIF interventions or instruments, often the result meeting specific regulatory requirements or procedural aspects related to the novelty and/or complexity of the intervention. These challenges refer

⁸⁸ *ibid.*

⁸⁹ INTERREG: transnational, interregional and cross-border cooperation.

⁹⁰ SWECO, t33, Politecnico di Milano & Nordregio (2016) *Collecting Solid Evidence to assess the Needs to be Addressed by INTERREG Cross-border Cooperation Programmes*. Report Prepared for the European Commission.

notably to major projects, FIs, integrated territorial investments and European territorial cooperation programmes.

Overall, the list of external factors and those specific to Cohesion Policy is long. However, the identified factors vary in their significance from one implementation context to another, for example resulting in lengthy implementation delays in one Member State and OP but with no impact in other Member States. The Commission's analysis of the budgetary implementation of the European Structural and Investment Funds in 2017 reveals a significant difference between the forecasts for payments by Member States and the actual payment requests submitted to the Commission (Table 6). Such a wide gap indicates the difficulty of reliably predicting which factors will affect the financial implementation of Cohesion Policy.

Table 6: Implementation rate of Member States' July forecasts for 2014-20 programmes in 2017 (EUR million)

2014-2020 period		Year 2017			
		(a) Payment forecasts	(b) Interim payments applications	(c) = (b) – (a) Difference	(d) = (b)/(a) Implementation rate
AT	Austria	55	76	21	139 %
BE	Belgium	204	169	- 35	83 %
BG	Bulgaria	601	530	- 70	88 %
CY	Cyprus	139	107	- 33	77 %
CZ	Czech Republic	1 722	1 632	- 90	95 %
DE	Germany	2 317	1 573	- 744	68 %
DK	Denmark	38	37	0	99 %
EE	Estonia	387	310	- 77	80 %
EL	Greece	2 106	1 151	- 956	55 %
ES	Spain	2 974	1 469	- 1 505	49 %
FI	Finland	166	158	- 9	95 %
FR	France	1 469	1 379	- 90	94 %
HR	Croatia	416	456	40	110 %
HU	Hungary	2 434	2 361	- 72	97 %
IE	Ireland	166	26	- 140	16 %
IT	Italy	1 888	1 483	- 406	79 %
LT	Lithuania	623	510	- 113	82 %
LU	Luxembourg	5	6	0	109 %
LV	Latvia	301	219	- 82	73 %
MT	Malta	40	41	1	103 %
NL	Netherlands	113	119	5	105 %
PL	Poland	6 050	5 851	- 199	97 %
PT	Portugal	2 299	2 041	- 258	89 %
RO	Romania	1 542	1 309	- 233	85 %
SE	Sweden	150	159	9	106 %
SI	Slovenia	331	132	- 199	40 %
SK	Slovakia	936	754	- 182	81 %
UK	United Kingdom	1 203	565	- 638	47 %
CB		437	266	- 171	61 %
TOTAL		31 113	24 888	- 6 225	80 %

Source: European Commission (2018) *Analysis of the Budgetary Implementation of the European Structural and Investment Funds in 2017*, http://ec.europa.eu/budget/library/biblio/publications/2018/AnalysisBudgImplem_ESIF_2017_EN.pdf

7. STRATEGIES AND MEASURES FOR MANAGING IMPLEMENTATION

This section explores the different initiatives, strategies and management methods applied in order to address these challenges and improve the implementation rate of ESI Funds in 2014-2020. These strategies and initiatives can be identified at EU and MS levels.

7.1. EU-LEVEL INITIATIVES

7.1.1. Simplification

As with previous regulatory packages, the CPR for 2014-2020 introduced a number of measures intended to simplify procedures and reduce complexity associated with financial implementation.⁹¹ Simplification was a major theme during the debate on the reform of Cohesion Policy for the 2014-20 period and in the new regulations. As well as supporting the extended application of the 'single audit' principle and SCOs, the following key changes were introduced.

- **More flexibility.** Scope for multi-Fund programmes and monitoring committees; option to merge the MA and CA; and more varied options for FIs.
- **Improved clarity on tasks and responsibilities of different authorities.** Assignment to MAs of the responsibility for carrying out proportionate and effective anti-fraud measures, based on risk assessment, and the possibility for programmes with financial allocations less than EUR 250 million to subsume the Audit Authority within the same authority that acts as Managing Authority.
- **Increased proportionality of controls.** This included: the use of risk-based methods of sampling for controls; the decision that smaller projects would be audited only once before closure; and scope to reduce controls and audit intensity, including through the extended application of the 'single audit' principle.
- **Simplified designation of control and audit systems.** The aim was to move to national designation instead of Commission approval of management and control systems (review by the Commission only in specific cases).
- **Legal certainty through clearer rules,** for instance through the use of flat rates for revenue-generating projects.
- **Simplified audit arrangements for Financial Instruments.**
- **Lighter reporting requirements,** for example for annual reports.
- **Reducing the administrative burden for beneficiaries,** for example through increased use of Simplified Cost Options.
- **Easing audit burden at closure,** including through mandatory annual closure of operations in the annual clearance of accounts.

⁹¹ For a review see Davies S (2015) *op. cit.*; and EPRC (2016) *The simplification of EU Cohesion Policy: Problems and Priorities for Change. IQ-Net Briefing*, January 2016, European Policies Research Centre, University of Strathclyde, Glasgow.

- **E-Cohesion**, meaning the electronic management and submission of documents.
- **Simplification of European Territorial Cooperation**, through a separate legislative act taking into account the specificities of those programmes.

In the course of the 2014-20 period, the European Commission and the European Parliament have both restated the need to reconsider arrangements for simplifying control and audit.⁹² This commitment has been reflected in the introduction of a series of initiatives.

- **A High-level Group on Simplification**, established by the Commission in July 2015,⁹³ has formulated a number of recommendations on simplification in a number of areas,⁹⁴ including control and audit.
- The European Commission's **Better Regulation Agenda**, a package of reforms adopted in 2015 aims to boost transparency in the EU decision-making process, improve the quality of new laws through better impact assessments of draft legislation, and promote constant and consistent review of existing EU laws, so that EU policies achieve their objectives in the most effective and efficient way.
- **Omnibus Regulation**. At the end of 2016, the Commission, in the framework of the mid-term review/revision of the multiannual financial framework (MFF) 2014-20, proposed a new Omnibus regulation, amending several regulations on the implementation of EU policies in 2014-20 (including the CPR applicable to Cohesion Policy) and the financial rules applicable to the general budget, with the stated goal of pursuing further simplification and flexibility for the remainder of the programming period (2017-2020).⁹⁵ This includes simplification measures for specific types of operation (including FIs), extends the scope for using SCOs and strengthens the 'Single Audit' principle to simplify financial control procedures.

However, it should be noted that the initial experiences of the implementation of these measures have highlighted the need for further fine-tuning.⁹⁶ Programme authorities have queried whether there has been genuine simplification if the whole package of regulations, acts and guidelines is taken into account, and argued that simplification has benefited beneficiaries but not OP authorities. According to some programme authorities, reforms introduced for 2014-2020 also added new rules that generated more complexity, undermining gains resulting from simplification initiatives. As already

⁹² European Commission (2016a) *Strategic Plan 2016-2020*, DG Regional and Urban Policy, May 2016, Brussels; European Parliament (2017a) Resolution of 16 February 2017 on investing in jobs and growth – maximising the contribution of European Structural and Investment Funds: an evaluation of the report under Article 16(3) of the CPR (P8_TA-PROV(2017)0053); European Parliament (2017b) Resolution of 16 February 2017 on delayed implementation of ESF Operational Programmes – Impact on Cohesion Policy and the way forward (P8_TA-PROV(2017)0055); European Parliament (2016a) Resolution of 11 May 2016 on acceleration of implementation of Cohesion Policy (P8_TA(2016)0217); European Parliament (2016b) Resolution of 6 July 2016 on synergies for innovation: the European Structural and Investment Funds, Horizon 2020 and other European innovation funds and EU programmes (P8_TA(2016)0311); and European Parliament (2015) Resolution of 26 November 2015 'Towards simplification and performance orientation in Cohesion Policy 2014-2020' (P8_TA(2015)0419).

⁹³ High Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of the European Structural and Investment Funds.

⁹⁴ These include e-governance, SCOs, easier access to EU funding for SMEs, financial instruments, gold-plating, and control and audit.

⁹⁵ European Commission (2016b) *Proposal for a Regulation of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union*, Brussels, 14.9.2016, COM(2016) 605 final, 2016/0282 (COD).

⁹⁶ Ferry M and Polverari L (2018) *Control and Simplification of Procedures within ESIF*. Study for the European Parliament REGI Committee.

noted, programme authorities have experienced additional complexity from the introduction of ex-ante conditionalities and the Performance Framework.⁹⁷

7.1.2. Capacity-building

In 2014-2020, the Commission is providing extensive support for capacity-building. This is reflected in a series of European Commission funding streams, strategies and initiatives.

- **Technical Assistance at the initiative of the Commission.** The 2014-20 legislative framework establishes common provisions on TA to support the implementation of programmes and projects under the ESI Funds (i.e. CPR, Article 58 and Article 59). In addition to the 2007-13 TA actions, the 2014-20 provisions have introduced certain innovations, in particular: support for institutional strengthening and administrative capacity-building; and measures to identify, prioritise and implement structural and administrative reforms in response to economic and social challenges in certain Member States. Technical Assistance can be divided into TA at the initiative of the Commission and TA at the initiative of MS (see Section 7.2.). According to CPR Article 118, which applies to the ERDF, the ESF and the Cohesion Fund, the resources allocated to TA at the initiative of the Commission in the 2014-20 programming period amount to 0.35 percent of the Funds' annual allocation, and around 60 percent of the budget has been allocated to provide support for effective implementation of Operational Programmes, financial instruments and administrative capacity-building measures (focusing on public procurement, State aid, anti-fraud and anti-corruption measures; professionalisation of the management of the funds and training; and exchange of good practice).
- **The JASPERS initiative.** Targeting large infrastructure projects funded through ERDF/CF, JASPERS was established in 2006 by the Commission and the European Investment Bank (EIB) to provide independent free-of-charge advice to help Member States with limited experience or capacity in certain areas. A basic aim is to improve financial implementation: JASPERS provides individual support to major projects and non-major projects, horizontal support, capacity-building measures and reviewing functions to strengthen the quality, timely submission and efficient implementation of these projects. According to a recent ECA report, the actual cost of JASPERS, between commencing operations in 2006 and the end of 2016, was EUR 284.2 million, covering 1,147 assignments around two-thirds of which concerned major projects. Nearly 50 percent of all completed JASPERS assignments concerned activities in Poland (307) and Romania (246). The ECA report made the following observations.⁹⁸
 - JASPERS had an impact on the quality of projects, including their underlying project documentation. Major projects assisted by JASPERS had been less frequently affected by legality and regularity errors during the 2014 and 2015 compliance audit exercises, and in the 2007-13 programming period the Commission needed less time overall to approve major projects if they had been assisted by JASPERS.
 - JASPERS generally could not impact on the absorption of EU funds. This was mainly due to changes in legislation in 2009 that allowed EU funds to be disbursed before the Commission had issued its formal approval of a major project: expenditure claims could be submitted to the Commission before its approval had been issued, thus rendering the intended benefit of JASPERS's support less relevant. In several audited cases,

⁹⁷ Bachtler J, Mendez C and Polverari L (2016) Ideas and Options for Cohesion Policy Post 2020. *IQ-Net Thematic Paper 38(2)*, European Policies Research Centre, University of Strathclyde, Glasgow; European Court of Auditors (2017) *Ex-ante Conditionalities and Performance Reserve in Cohesion: Innovative but not yet effective Instruments*. Special Report N°15/2017.

⁹⁸ ECA (2018) *op. cit.*

implementation delays at project level had resulted in the postponement of the first expenditure.

- National authorities and project beneficiaries stated that JASPERS had a positive impact on their administrative capacity, although tangible evidence was limited and some of them stated that they remained strongly dependent upon JASPERS support.
- **Dedicated capacity-building units and platforms.**
 - DG REGIO's Competence Centre for Administrative Capacity-Building is involved in a range of activities, such as exchange of experience via its **TAIEX-REGIO PEER 2 PEER initiative**.
 - The S3 **Smart Specialisation Platform** aims to strengthen knowledge transfer and capacity development on RD&I across the EU.
 - The **TFBI initiative** was set up in 2014 to deliver a range of capacity-building exercises for eight MS (Bulgaria, Croatia, Czech Republic, Hungary, Italy, Romania, Slovakia, Slovenia), involving seminars, workshops and technical meetings with national authorities.

7.2. DOMESTIC INITIATIVES

7.2.1. Capacity-building

Member States are engaged in a series of capacity-building initiatives to improve implementation, largely funded through TA. Over EUR 19 billion have been allocated to TA at the initiative of Member States under ESIF for the 2014-20 programming period, about 80 percent of which (according to Cohesion data) are accounted for by the ERDF (EUR 7.6 billion), ESF (EUR 5.2 billion) and Cohesion Fund (EUR 2.5 billion). By the end of 2017, just under half had been implemented, with more under CF (26 percent) than under ERDF (15 percent) and ESF (19 percent). The aggregate EU figures mask significant differences among Member States, programmes and Thematic Objectives; Denmark, for example, has implemented 70 percent of its TA allocation, compared to only 4 percent in the Slovak Republic. Capacity-building initiatives at MS level, including the use of TA, is wide-ranging, encompassing many different actions to establish or improve organisational structures, the use of systems and tools and human resource development.⁹⁹

- TA investment in **organisational structures** includes the establishment and running costs of bodies, groups or networks, especially at regional and local levels, or for particular themes or mechanisms to improve coordination between different levels and ensure harmonisation of procedures. This category also includes the subcontracting or outsourcing of programme management tasks.
- Spending through TA on **systems and tools** focuses mainly on management, monitoring and reporting capacities, with substantial investment in the development of IT systems and acquisition of hardware/software and specialised equipment, such as the digitalisation of

⁹⁹ Michie R and Dozhdeva V (2017) Halfway There? Taking Stock of ESIF Programme Implementation. *IQ-Net Review Paper* 41(1), European Policies Research Centre; Lehuraux T (2017) Gathering Implementation Speed: The Progress of Structural Funds Programmes. *IQ-Net Review Paper* 40(1), European Policies Research Centre, University of Strathclyde, Glasgow.

records. Specific tools funded through TA include situation analysis, forecasting, environmental impact analysis, cost-benefit analysis, energy efficiency assessment and evaluation models. Other foci are the development of systems for the active monitoring of funding flows in order to identify strong and lagging areas of programme implementation, project pipelines and advisory support systems for applicants, and communication systems such as websites, contact points and marketing or publicity materials.

- With respect to **human resource development**, all Member States commit significant TA to co-finance salaries, a particularly important category of spend in newer Member States where top-ups and bonuses have been used to improve staff retention rates. Staff training and related professional development actions were also co-financed by TA at all levels – from central government coordinating bodies, through Managing Authorities and Intermediate Bodies to beneficiaries and other relevant stakeholder groups involved in the implementation process.

7.2.2. Other strategies and management methods

Member States and their Managing Authorities employ a wide range of strategies and management methods in order to ensure the timely absorption of funds. Implementation evidence points to a number of specific strategies:¹⁰⁰

- **Active monitoring of funding flows – identifying strongly performing and lagging areas of programme implementation.** For example, in the Czech Republic implementation issues arose related in part to exchange-rate issues. The MA reacted by closely monitoring projects, and intensive communication and ‘micro-management’ has been applied to ensure proper implementation of those projects, which were considered risky.
- **Communication of funding opportunities and provision of support to beneficiaries** (e.g. targeting beneficiaries, development of calls that respond to demand). In Denmark, for example, it is now obligatory that representatives from projects granted support take part in a course held by a project accountant from the Managing Authority. In the previous period, this was paid for by project funds. It is now financed by Managing Authority funds in order to strengthen accounting and reduce errors. In Belgium (Flanders), additional support for beneficiaries has been made available to raise awareness of State aid rules and the limitations they impose. This has required additional capacity-building activities among MA staff through inviting internal and external experts as well as Commission experts. Support to beneficiaries addressing the implications of State aid has also been provided in Poland (Pomorskie).
- **Simplifying and speeding up implementation procedures** (e.g. application and payment processes, IT systems). In Finland, improvements introduced to the Cohesion Policy monitoring system relate to a number of perceived needs. First, better links were developed between Cohesion Policy and domestic business-aid monitoring systems, to avoid duplication of effort and the risk of inaccuracies/mismatches. Second, e-Cohesion was fully embraced to make the monitoring system an integrated platform for all communication and documentation exchange between applicants/beneficiaries and the MA. Third, the monitoring platform was utilised in order to reduce error rates and to improve the efficiency of implementing bodies in managing applications.

¹⁰⁰ Michie R and Dozhdeva V (2017) *op. cit.*

Lehuraux T (2017) Gathering Implementation Speed: The Progress of Structural Funds Programmes. *IQ-Net Review Paper* 40(1), European Policies Research Centre, University of Strathclyde, Glasgow.

- **Administrative capacity-building.** For example, a Managing Authority in Finland is currently considering the possibility of increasing the share of funding for Technical Assistance from 3 percent to 4 percent for 2019-20. Pressure to increase funding for technical support has increased because regional reform has implied changes to the OP implementation and monitoring system, and preparations for these changes will require time and personnel.
- **Reallocation of funding and reprogramming.** In the UK (Scotland), there will be a major programme modification following the programme review that took place in 2017. A decision was taken at the start of the programming period to implement the OPs in two 3-year tranches, after which a review would take place. The original intervention logic for both programmes (ERDF and ESF) was assessed as sound, although strategic and labour market changes require adjustments to the scope and the allocations. Proposed changes involve increasing intervention rates to address match-funding issues, adding a new Investment Priority for the Highlands and Islands for culture and heritage due to demand and a lack of absorption under green infrastructure, and adjustments to the financial tables between the use of FIs, repayable assistance and grants.

8. CONCLUSIONS AND RECOMMENDATIONS

8.1. CONCLUSIONS

Financial implementation

- After a delayed start, ESIF financial implementation has gained momentum over the 2017-18 period. Broadly speaking, this follows a similar pattern of accelerating rates of absorption over time in 2007-2013.
- Financial implementation of ESIF at the end of 2017 was approximately one year behind as compared to financial implementation at the mid-point in the 2007-13 period (when delays were perceived as a problematic issue). However, project selection and financial commitments seem to be picking up, and payment rates are expected to follow this trend. Nevertheless, the low payment rate is a cause for concern, given the implications of delayed spending in terms of absorption pressures on programme authorities in the second half of the programme, the potential impact on successful implementation and closure, and the scrutiny of implementation in the context of the ESIF post-2020 debate.
- There is significant variation in financial implementation rates across Member States. Again, this generally repeats patterns in the first half of the 2007-13 period: those MS that performed well at this stage in 2007-13 are usually among the top performers currently, and the same consistency applies to 'lagging' MS. However, there are notable examples of MS whose position has changed significantly, in both directions.
- There is substantial variation in implementation rates at programme level also within MS. This paper has identified and analysed a range of factors external and internal to ESIF. However, a full understanding of the extent of variation would require further research.

Assessing and explaining variation

- Based on a review of the quantitative and qualitative data resources and available literature, this paper has highlighted issues that are influencing implementation to varying degrees.
- In terms of **factors external to ESIF**, the influence of the financial crisis (in terms of variation in demand, access to national co-funding, etc.) has broadly declined in comparison to 2007-2013. However, it is important to bear in mind that the impact of the crisis continues to be experienced in specific territories, and the implementation of some programmes is being affected (e.g. in localities with sudden job losses resulting from the closure of large enterprises).
- The influence of quality of governance in MS on implementation is evident: a low level of financial execution is often associated with administrative problems, several of which stem from the broader governance environment. They can vary at sub-national levels. In this context, it is important to note recent updates to QoG data in 2018: the east-west split between MS in QoG is not as clear as before (as several regions from Central and Eastern Europe have significantly improved their position), while the north-south divide has increased (as the ranking of some southern European regions has fallen); countries with lower QoG tend to have wider divergence of QoG at the sub-national level; and some countries have persistent and large internal variation in QoG while others are showing a growing divergence.
- Specific MS institutional settings (including the extent of decentralisation of policy governance) can have an impact on ESIF implementation. However, this often concerns the

timing of reforms and the extent to which ESIF implementation arrangements can adapt to new circumstances.

- Turning to **factors specific to ESIF**, it is clear that regulatory and procedural complexity have had a significant influence on delayed financial implementation so far in 2014-2020. Reforms introduced for 2014-2020 have added new rules that generated more complexity, undermining gains resulting from simplification initiatives. For instance, programme authorities have experienced additional complexity from the introduction of new provisions for financial control and audit, ex-ante conditionalities and the Performance Framework. Adapting to these requirements has inevitably taken time and resources that might have been spent on implementation.
- The capacity and experience of staff in dedicated ESIF management and implementation bodies is also important in explaining variation in financial implementation. Here, it is important to note some substantial strengthening in those MS (from Central and Eastern Europe) that are now implementing the third generation of ESIF OPs. Conversely, it is important to assess the capacity of ESIF authorities where funding has been reduced over successive periods and where the priority attached to ESIF is declining.
- Financial implementation varies considerably according to different ESIF Thematic Objectives. Where a theme has been newly introduced, some TOs have led to implementation difficulties, as programme authorities have limited experience of implementing projects under that heading and potential beneficiaries are not yet aware of the funding opportunities and application procedures and requirements.
- Specific implementation challenges are associated with certain types of ESIF interventions or instruments. This is often the result of the challenges in meeting specific regulatory requirements or procedural aspects related to the novelty and/or complexity of the intervention. These challenges refer notably to major projects, FIs, integrated territorial investments and European Territorial Cooperation programmes.
- Finally, it should be noted that the identified factors vary in significance between contexts. A particular factor that leads to serious implementation delays in one OP might not cause any delay in another. Drawing a full map of delays occurring in specific circumstances would require further research.

8.2. RECOMMENDATIONS

This paper has not involved primary research from which to derive recommendations. Nevertheless, the review of the influence of a range of factors and the strategies and measures used by implementing bodies suggests a number of good practices that have wider relevance.

- The impact of rules and requirements on the implementation of ESIF, and the evolving external environment, must be continuously monitored and assessed. Programmes and programme management arrangements require flexibility without compromising predictability and stability.
- Given the many requirements and conditions linked to the implementation of ESIF, policy-makers need to prioritise between essential requirements and other requirements that could be weakened or abolished. Such prioritisation should start with a decision on whether the focus of ESIF implementation is on achieving long-term performance including capacity-building and policy-learning, or whether rigid budgetary planning and financial control are more

important. It is important that budgetary authorities and implementation bodies coordinate their approaches and apply the same requirements.

- A number of EU-level and domestic initiatives and strategies have been launched to address issues with financial implementation. Some of these require further development in response to experience.
- Substantial simplification has yet to be realised. A significant problem is the lack of stability and consistency in regulatory frameworks, and there is a need for harmonisation of rules across Commission services, funds and instruments.
- The increased focus on support of ESIF capacity-building at EU level is beneficial, but there is a need for more coordinated efforts, developing synergies between different sources of support (e.g. TA, JASPERS, Commission capacity-building networks and platforms). This is necessary to tailor support to the specific needs of programmes that experience different challenges arising from combinations of the factors identified above.
- Member States also continue to develop a range of activities to improve financial implementation. TA is used to strengthen capacity in terms of structures, systems and tools and human resources. Nevertheless, there are concerns about whether sufficient resources are made available for these activities. TA funding is often limited and in the past has sometimes been reallocated to other OP priorities. Given the range of obstacles facing efficient implementation, programme authorities have to clearly target TA investment and ensure close monitoring of actions and results. A rigorous approach to the use of TA is crucial.¹⁰¹

8.3. DISCUSSION OF THE FINDINGS IN LIGHT OF THE MFF PROPOSAL FOR THE 2021-2027 PROGRAMMING PERIOD

On 2 May 2018, the European Commission published the proposal for a new Multiannual Financial Framework (MFF)¹⁰² and a staff working document including a spending review of EU funding programmes.¹⁰³ In addition to the allocations, the documents include a number of guiding principles and implementation provisions with an impact on the absorption of ESIF.

- **More flexibility:** The MFF proposal envisages more flexibility to adapt to unforeseen changes. In view of the speed of financial implementation, this paper found that more flexibility is indeed necessary in order to adapt to changing situations. On the other hand, it should be noted that ESIF programmes are long-term plans and that amendments to the programmes can also lead to delays, as changes need to be agreed with a potentially large number of stakeholders. Moreover, beneficiaries and project promoters need to be made aware in order to prepare new projects.

¹⁰¹ Bachtler J, Olejniczak K, Smeriglio A & Śliwowski P (2016) Administrative Capacity-building and EU Cohesion Policy Working Paper: The Use of Technical Assistance in EU Cohesion Policy – Preliminary Review, European Policies Research Centre, University of Strathclyde, Glasgow.

¹⁰² European Commission (2018) *Proposal for a Council Regulation laying down the multiannual financial framework for the years 2021 to 2027*, COM (2018) 322.

¹⁰³ European Commission (2018) Spending Review Accompanying the document Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions (SWD (2018) 171).

- **Focus on results:** Cohesion Policy already has an elaborated performance framework (Arts. 20-22 CPR) in place. Setting up current performance frameworks proved lengthy because of the substantial preparatory work including data collection, ex-ante evaluations, selection of indicators, etc. Further increasing the focus on results would require allowing for sufficient preparatory work, and providing methodological guidance at an early stage while allowing enough flexibility to adapt to specific contexts and situations. Accordingly, the reporting requirements necessary for increasing the focus on results should be clarified, and other requirements should be reduced.
- **Simplification:** The paper highlighted the number of requirements that need to be fulfilled in order to receive ESIF support. Reducing complexity by simplifying procedures and reducing requirements can potentially have a significant beneficial effect on financial implementation (notably through the use of SCOs and the 'single audit' approach).
- **Coherence and Synergies:** The MFF proposal suggests reducing the number of, and avoiding overlaps between, different EU funding programmes. This paper has drawn attention to various difficulties arising from the co-existence of different sources of funding, each with its own regulatory and strategic framework and operating system. In some instances, these may overlap, creating confusion, complexity and potential competition or rivalry. There is significant scope for a strengthened pursuit of synergies to improve implementation efficiency. Greater clarity and coherence in regulatory provisions, strategic frameworks and implementation systems would have a positive impact in this respect.¹⁰⁴

Further, the MFF papers propose a series of changes that may pose challenges for at least some Member States.

- Separation of the Rural Development Fund from ESIF runs counter to the principle of coherence and integration that has been a cornerstone of Cohesion Policy since 1988. This may seriously undermine the pursuit of a strategic approach, integrated funding and efficient project generation and selection.
- Conditionalities have been intensified, including the contentious proposal of compliance with the rule of law and linkages to the European Semester, which may slow down or even halt implementation in some cases.
- The need to draw up structural reform programmes and have them adopted by the Commission should improve the quality of governance and administrative capacity in the medium term, but again it might lead to delays in the early years of implementation.
- Reductions in the percentage of funding allocated to Technical Assistance could substantially impede staff resources and administrative capacity-building.

¹⁰⁴ Ferry M, Kah S and Bachtler J (2016) *Maximisation of synergies between European Structural and Investment Funds and other EU instruments to attain Europe 2020 goals*. Report to the European Parliament's Committee on Regional Development, Brussels.

8.4. DISCUSSION OF THE FINDINGS IN LIGHT OF THE LEGISLATIVE PROPOSALS FOR COHESION POLICY IN THE 2021-2027 PROGRAMMING PERIOD

On 29 May 2018, the Commission presented the Cohesion Policy legislative proposals for the forthcoming 2021-27 programming period. The main features of the reformed Cohesion Policy are intended to be:

- a focus on key investment priorities, where the EU is best placed to deliver;
- a Cohesion Policy for all regions and a more tailored approach to regional development;
- fewer, clearer, shorter rules and a more flexible framework; and
- a strengthened link with the European Semester to improve the investment environment in Europe.

The aim of 'fewer, clearer, shorter rules and a more flexible framework' can potentially have a major beneficial effect if followed through. In this respect, it should be noted that the overall size of the CPR proposal was significantly reduced. Moreover, in an effort to reduce subsequent implementing, delegated acts and guidance notes, the CPR proposal is accompanied by 22 annexes providing templates, implementation requirements, codes, etc. In the 2007-13 period, these were published in separate acts, in some cases after the official start of the programming period.

Early assessment has identified three features of the reform proposals that are likely to be problematic for the pace of implementation in the 2021-27 period.

- Reduction of the co-financing rate and reduction of advance payments are likely, in tandem, to create serious liquidity problems for some Member States. Beneficiaries in some countries are unlikely to have the domestic co-financing to fund projects.
- Reduction of the automatic decommitment rule (Article 99) from three years in the 2014-20 period to two years in the 2021-27 period will be difficult for major projects that have long preparation times and are often subject to unplanned delays.
- The continuation of earmarking, and its differential application to different categories of region, will be difficult for some countries which have large new areas of Transition Region coverage, with a lack of experience and potential projects to absorb the level of TO spending expected.

Other proposed reforms relevant for implementation are as follows.

- Complementarity and flexibility. Article 19.5 introduces new flexibility by offering the possibility during the programming period for the Member State to transfer an amount of up to 5 percent of the initial allocation of a priority without the need for formal approval by the Commission. This measure would allow MAs to adjust programmes to meet the real demand experienced during implementation and thus avoid lengthy procedures to modify the programme.

In terms of increased complementarity, Article 20 allows for the ERDF and the ESF+ to finance all or part of an operation for which the costs are eligible for support from the other Fund on the basis of eligibility rules applied to that Fund. This measure simplifies implementation, as it reduces the number of rules that need to be considered, thereby freeing up administrative resources and reducing the risk of errors. Article 22 offers the possibility to support existing territorial tools designed by the Member State, in order to avoid lengthy procedures to set up new instruments where similar ones already exist.

- Continuity. This report has pointed to difficulties arising from the overlap of programming periods and the administrative burden of having to adapt to new rules. The possibility to continue applying established elements within the 2021-27 programming period would have a beneficial effect on financial implementation at the start of the programming period. Such continuity is envisaged by Articles 49-51, with simplified cost options, including re-applying rates applicable in the 2014-20 programming period, and Article 78.2, which allows for the roll-over of the established management and control system of the 2014-20 period.
- Financial management and audit. Several articles aim at reducing the administrative burden of financial management and audit requirements, which would free up administrative resources for project implementation and thus increase the pace of financial implementation. Examples include:
 - Article 73.2 (non-statistical sampling method for populations with fewer than 300 sampling units);
 - Article 74.2 and Article 74.3 (implementation of the single audit principle);
 - the suggestion that revenue-generating investments should no longer have to comply with specific rules; and
 - subjecting major projects to the same rules as other projects.
- Reliance on national management systems (Title VI Chapter III). The proposals to rely on national systems for the implementation of Cohesion Policy would avoid administrations having to deal with two separate sets of rules and, as in the above examples, would free up administrative resources and reduce the risk of committing errors (for example, Article 77).

The CPR proposal also includes elements that introduce new administrative requirements that might potentially delay implementation by engaging administrative resources. They concern:

- Article 36, regarding more frequent transmission of data to the Commission (six times a year); and
- strengthening communication activities through dedicated 'communication coordinators' (at Member State level) and 'communication officers' (at Managing Authority level). The Commission envisages running a communicators network (Article 43).

Finally, the implications of the accelerated reform timetable should be noted. The Commission has produced a huge body of proposals, together with a spending review and impact assessment in a short space of time, limiting the opportunity for reflection within the Commission services. Further, the EU institutions are pressing Member States to agree the reforms to the MFF before the 2019 European Parliament elections. The advantage of this accelerated process would be more time for managing authorities to prepare the new round of programmes and a greater likelihood of the programmes

starting on time. Equally, the condensed timetable may mean shortcuts in the scrutiny of the detailed reforms; shorter regulations may also require more interpretation; and new provisions (proportionality, simplification) will inevitably produce new challenges as they encounter the reality of implementation in practice.

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This research paper provides an informative overview of the state of play of the financial implementation of European Structural and Investment Funds (ESIF), with an assessment of the reasons for the state of implementation and the implications. The report is based on desk-review research. It considers financial implementation in the 2007-2013 funding period, before focusing on implementation thus far in the 2014-2020 period. It identifies and analyses factors that influence the pace of ESIF financial implementation. The final section draws together conclusions and recommendations.

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