

Results, Review and Reform: Delivering programme objectives while preparing for the post-2020 Cohesion policy



IQ-Net Review Paper 43(1)



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PREFACE

The IQ-Net Network promotes exchange of experience on the management and implementation of Structural Funds programmes among managing authorities and intermediate bodies. The network is managed by the European Policies Research Centre Delft under the direction of Professor John Bachtler, Stefan Kah and Dr Laura Polverari. The research for this paper was undertaken by EPRC in preparation for the 45th IQ-Net meeting held in Bilbao, Spain on 21-23 November 2018. The paper was written by Rona Michie, Carlos Mendez and Fabian Gal.

The paper is the product of desk research and fieldwork visits during Autumn 2018 to national and regional authorities in EU Member States (notably partners in the IQ-Net Consortium). The field research team comprised:

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The partners in the IQ-Net network are as follows:

Austria

- ÖROK Secretariat

Belgium

- Enterprise Agency Flanders

Croatia

- Ministry of Regional Development & EU Funds

Czech Republic

- Ministry of Regional Development

Denmark

- Danish Business Authority

Finland

- South and West Finland (Etelä- ja Länsi-Suomi)

France

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

Germany

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

Greece

- Management Organisation Unit of Development Programmes S.A.

Poland

- Marshal Office of the Pomorskie Region
- Marshal Office of the Warmińsko-Mazurskie Region

Portugal

- Agency for Development and Cohesion (ADC)

Spain

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

Slovenia

- Government Office for Development and European Cohesion Policy

Sweden

- Swedish Agency for Economic and Regional Growth (Tillväxtverket)

United Kingdom

- Ministry of Housing, Communities and Local Government
- Scottish Government
- Welsh European Funding Office

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Disclaimer

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

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COUNTRY/PROGRAMME ABBREVIATIONS

Country	Abbreviation
Austria	AT
Belgium	BE
Belgium (Vlaanderen)	Vla
Croatia	HR
Czech Republic	CZ
Czech Republic (Integrated Regional Operational Programme)	CZ IROP
Denmark	DK
Finland	FI
France	FR
Germany	DE
Germany (Nordrhein-Westfalen)	NRW
Greece	GR
Poland	PL
Poland (Pomorskie)	Pom
Poland (Warmińsko-Mazurskie)	WM
Portugal	PT
Slovenia	SI
Spain	ES
Spain (Bizkaia, País Vasco)	Biz
Sweden	SE
United Kingdom	UK
United Kingdom (England)	Eng
United Kingdom (Scotland)	Sco
United Kingdom (Wales)	Wal

EXECUTIVE SUMMARY

- Average rates of programme commitment and spend continue to increase. The **average EU and IQ-Net commitment rate at the end of June 2018 was 62 percent**. Spending (reported expenditure eligible for reimbursement) is increasing more slowly, with the **EU average rate being 15 percent**. (The IQ-Net average is slightly higher at 18 percent.) The average payment rate has increased **to an EU average of 20 percent** (the IQ-Net average has increased to 22 percent).
- Ongoing developments with a potential impact on ESIF programmes include **regional reform, changing economic conditions and new policy initiatives**. In the UK, programmes continue to be implemented under a great deal of uncertainty.
- Programme **revision and modification is still an ongoing process**, with changes relating to the performance framework, to address absorption challenges or to address new priorities and targets. Further modifications are expected next year.
- **Project uptake is considered satisfactory** by most programmes although there is variation between priority axes. The ‘usual suspects’ remain where uptake is more challenging – particularly low-carbon (TO4) and climate change (TO5). New implementation mechanisms (ITI, CLLD) also continue to challenge implementation progress.
- Among IQ-Net programmes, **experience with annual closure** has varied from the straightforward and relatively routine to more challenging and time-consuming.
- The omnibus regulation came into force from 2 August 2018, including revisions intended to simplify the use of financial instruments. In the IQ-Net programmes which implement FIs, there is a **wide range of implementation status** – from ‘up and running’ and investing to still at ex ante assessment stage.
- The most **urgent priorities** for programme managers are: meeting n+3; focusing on the performance framework; progressing claims and payments; and accelerating implementation (while juggling many other ongoing priorities).
- Progress has been made towards achieving the **mid-term performance review targets** at the end of 2018. Several programmes have or are aiming to modify programmes to ensure that targets can be met, although the Commission has not always accepted the justifications given.
- The debate on the post-2020 Cohesion policy has intensified following the **tabling of Commission proposals on the 2021-27 Multiannual Financial Framework and Cohesion policy. A reduced budget is foreseen** with significant cuts in Central and Eastern European countries, while some countries, mainly in southern Europe, will receive increased funding.
- **Key regulatory concerns** relate to stricter thematic concentration and financing conditions especially for less-developed countries and the extent of genuine simplification.

1. INTRODUCTION

Within Structural Funds programmes, the operational focus of programme managers remains on ensuring timely absorption of funding and meeting challenging targets for both spending and results, notably in the context of 2019's performance review. At the same time, the future shape of Cohesion policy continues to be debated at a strategic level. This paper discusses progress in implementation of IQ-Net programmes over the last six months. The paper is structured as follows:

- **Section 2** reviews the latest financial data at EU level and at programme level on commitments and payments;
- **Section 3** examines current programming challenges, including contextual changes with an impact on ESIF implementation, changes to programmes which are planned and underway, and some of the issues currently facing project generation and selection;
- **Section 4** reviews progress with annual closure, financial instruments and evaluation and summarises priorities for programme managers over the next six months;
- **Section 5** reviews progress against performance framework targets and preparations for the performance review, due to be carried out by DG Regio in the second half of 2019; and
- **Section 6** closes the paper with an overview of the current debate on the post-2020 reform of EU Cohesion policy and the new legislative proposals.

2. FINANCIAL PROGRESS OF THE 2014-20 PROGRAMMES

Despite some limitations, the data currently available from the Open Data Platform provide the best available picture of EU level progress. Over the last six months, the rate of programme commitment across the EU has increased pace and the EU average at the end of June 2018 stood at 62 percent. Actual spending (total expenditure eligible for reimbursement as reported by beneficiaries) is still lagging, at an EU average of 15 percent, in some cases reflecting slow rates of claim submission by beneficiaries. The average EU payment rate (which includes pre-financing) stands at 20 percent. Programme-level data (see Section 2.2) can provide a more nuanced and up-to-date picture, including useful information on project pipelines.

2.1 EU-level data

2.1.1 Rates of commitment (selection) and spending

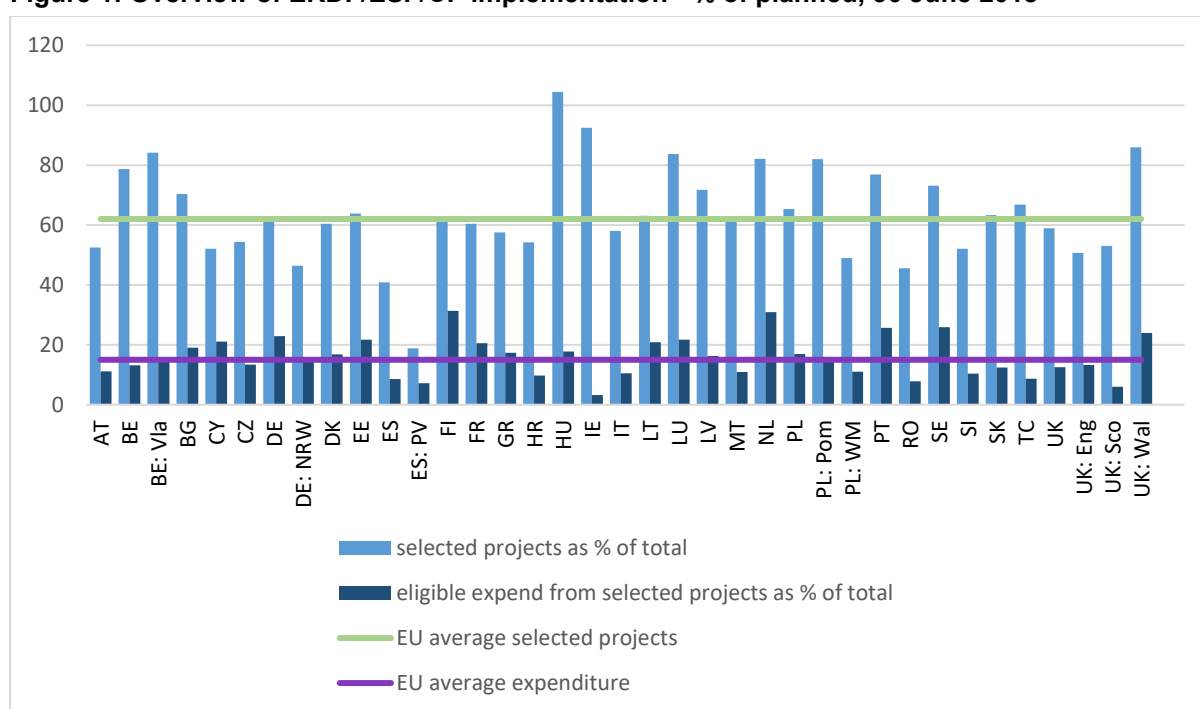
Information on the financial implementation of the ESIF programmes is available on the Commission's Open Data Portal.¹ Among other data, this platform collates the latest aggregate information on the total amount (EU plus national financing) allocated to projects (operations) selected by programme managers, and the total expenditure eligible for reimbursement as reported by beneficiary projects to the programmes (as a percentage of planned expenditure). These data are reported periodically by national and regional programmes to the Commission. There are limitations with the data, specifically, ERDF, ESF, CF and YEI financial data on selected operations, and on expenditure declared by them, are provided to the Commission by MAs three times a year - on 31 January, 31 July and 31 October. These data cover the periods up to 31 December, 30 June and 30 September. The latest data therefore

¹ <https://cohesiondata.ec.europa.eu/overview>

covers the period up to **30 June 2018** (see also Section □). More up-to-date information is available at programme level, but currently the Open Data Portal data provides the best available EU-level picture of implementation progress.

In terms of total amounts (EU plus national financing) allocated to selected projects (operations) (used as a proxy for ‘commitments’) selected by the programme managers, **the EU28 average at 30 June 2018 was 62 percent**, increased from 54 percent at the end of 2017 (see Figure 1). The average rate for IQ-Net programmes was also 62 percent. Using the EU-level data, among IQ-Net programmes, ‘commitment’ rates higher than the average can be seen in Vlaanderen (84 percent), Finland (63 percent); Pomorskie (82 percent), Portugal (77 percent), Sweden (73 percent) and Wales (86 percent). Note that programme-level data available to managing authorities records higher figures as it is more up to date (e.g. 69 percent for Finland). Note also that the data require caution when making comparisons – in particular, the IQ-Net programmes vary widely in programme size, type of intervention and Fund source.

Figure 1: Overview of ERDF/ESF/CF implementation - % of planned, 30 June 2018



Source: Open data portal for the European Structural and Investment Funds, ESIF 2014-20 Finance Implementation Details, data downloaded 7 November 2018.² <https://cohesiondata.ec.europa.eu/2014-2020/ESIF-2014-2020-Finance-Implementation-Details/99js-gm52>

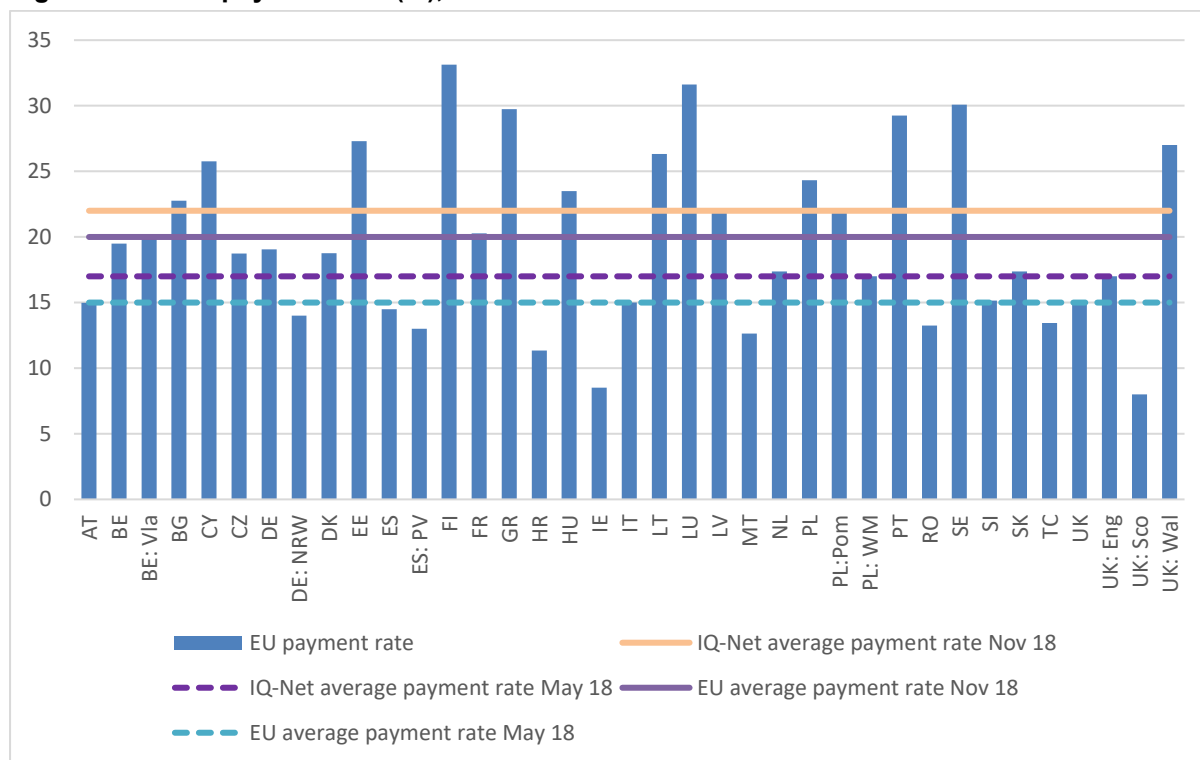
In terms of the total expenditure eligible for reimbursement as reported by beneficiaries to the programmes (a proxy for ‘spend’/ ‘programme payments’ by the programme to beneficiaries), the **EU average at 30 June 2018 was 15 percent**, increased from 12 percent at the end of 2017. The IQ-Net average was slightly higher at 18 percent. Several IQ-Net programmes were above the EU average

² Data has a reference date of 30 June 2018, except for ES Smart Growth ERDF (30 September 2017), FR Guadeloupe et St Martin, TC Interreg VA Mayotte-Comores-Madagascar, TC Urbact and RO SME Initiative (all 31 December 2017), and TC Interreg VA Saint Martin (31 December 2015).

rate, including Denmark (17 percent), Finland (31 percent), France (21 percent), Greece (17 percent), Portugal (26 percent), Sweden (26 percent) and Wales (24 percent).

2.1.2 EU payment rates

Figure 2: EU net payment rate (%), November 2018



Source: Open data portal for the European Structural and Investment Funds, EU payments daily update, data downloaded 8 November 2018. <https://cohesiondata.ec.europa.eu/2014-2020/ESIF-2014-2020-EU-payments-daily-update-gayr-92qh>

Figure 2 shows cumulative EU payments made by the Commission to 8 November 2018 to the Member States and INTERREG programmes from ERDF, CF, ESF and YEI for the 2014-20 period. The EU payment rate is the total net payments divided by the planned EU amount.³

The average payment rate has increased since May 2018 for both EU28 and for the IQ-Net programmes as a group. **The EU average has increased from 15 percent to 20 percent**; the IQ-Net programme average has increased from 17 percent to 22 percent. IQ-Net programmes with a payment rate currently higher than the EU average of 20 percent include Finland (33 percent), Greece (30 percent), Pomorskie (22 percent), Portugal (29 percent), Sweden (30 percent) and Wales (27 percent).

2.2 Programme-level data

Programme-level data on OP 'commitments' and 'payments' are more up to date than Commission data, but can be problematic to use to compare progress, as the data tend to cover different time periods and different OP types - national, regional, ERDF, ESF and multi-fund OPs. Programme-level

³ Total net initial pre-financing plus net annual pre-financing plus net interim payments. The planned EU amount data is reported from the System for Fund Management in the European Union (SFC2014) based on the latest adopted version of the programmes.

information can also provide up-to-date information on project pipelines which is not reflected in the Commission data, giving an insight on projects which are close to approval.

At programme level, the wide variation between OPs, priority axes and regions can be seen.

- **Variation between regions within countries/programmes**, for example in Austria, where commitment levels range between 74.9 percent in Upper Austria to lower ones in Burgenland (26.5 percent) and Carinthia (21.2 percent). In Sweden, financial progress of the Småland and Öarna OP lags slightly behind the other eight programmes (69 percent compared to 90 percent for the others) due to a more complex regional situation, with more complicated co-financing procedures and a lengthier implementation process. The situation was similar in 2007-13 and the OP caught up, so the MA does not have concerns. In Scotland, progress is better in the More Developed Regions than the Transition Regions.
- **Variation between priorities/themes**, for example, progress is slower under PA4 of the NRW ERDF OP (Sustainable urban development/Preventing social exclusion), which is largely implemented through ISUD led by local authorities. An additional challenge facing financial absorption under this priority is that domestic co-financing is provided under the federal-*Länder* urban development programme (*Bund-Länder Programm für Städtebauförderung*) and the federal funding for this programme was held up due to delays in establishing a federal government coalition after the election in late 2017. This meant that the local authorities were unable to commit funds in the earlier part of 2018, although commitments are now improving and federal funding is being made available more quickly for the coming year. In País Vasco, a reprogramming exercise is underway due in part to a delay in a large renewable energy project (TO4) which will no longer be co-funded.

More generally, programme-level data can illustrate how the speed of financial implementation is affected by the **type of operations** being funded under the OPs. Vlaanderen has taken the strategic decision to fund fewer, larger projects in 2014-20 (as in Wales). Larger investment projects each have a major impact on the commitments, but can take longer to develop (due to delay with planning regulations and permits).

Several IQ-Net programmes **expect an acceleration of financial progress** in the near future. Within Vlaanderen, the ITI West-Vlaanderen is lagging somewhat (compared to the rest of Vlaanderen) in terms of commitments, but calls for projects are still open and commitments are expected to catch up over the next month. The CZ IROP MA also foresees a pronounced acceleration of financial progress in the next six months. In Denmark, the MA expects the Regional Growth Fora to approve more ERDF and ESF co-financed projects than usual towards the end of the year due to the reform of the business support system, in order to allocate funds to as many suitable projects in the regions as possible before the Business Promotion Board takes over this responsibility.

In Finland, authorities have made a **strategic choice to leave a share of non-committed budget** for the remaining two OP implementation years. The Finnish MA is planning to allocate the annual budgets for implementing bodies for 2019 and 2020 at once, in 2019. Thus, the implementing bodies may commit much of the remaining funding in 2019, which should ensure satisfactory financial implementation during the remainder of the programme period.

Many programmes have **no real concerns about achieving n+3** or have already met the target (DK, Eng FI, NRW, PV, Pom, PT, SE, Vla, Wal, WM). Others acknowledge that meeting n+3 will be challenging, but hopefully achievable (AT, CZ OP Prague - Growth Pole, HR, FR Paris Region OP).

Audit findings have caused concern in some programmes (CZ OP Enterprise and Innovations for Competitiveness, Pomorskie, Slovenia) but are not ultimately expected to pose major problems. Calculation of VAT is the source of a complex issue in Poland (see Box 1).

Box 1: Audit and VAT issues in Poland

However, there is currently a complex issue for programmes in Poland concerning VAT. A Commission audit has found problems with the calculation of VAT for final beneficiaries, particularly in relation to some types of ESF project where regional labour market offices are implementing bodies. The process of certification for these projects has been suspended pending a resolution of the issue between the Polish authorities and the Commission. In the meantime the associated funding has been blocked.

3. CURRENT PROGRAMMING ISSUES

3.1 Changes to the implementation environment

Developments with a potential impact on ESIF programmes include regional reform, institutional changes, changing economic conditions and new policy initiatives. **Regional reform** is ongoing in Denmark and Finland.



In **Denmark**, the role of the regional level in business development has changed and responsibilities are moving to national level (see Box 2). There will be an impact on the MA, with the secretariat function previously located in the RGF moving to the DBA from January 2019. Preparations are already underway with staff recruitment. Around 40 new staff members are expected to join the Danish Business Authority by the start of 2019.



In **Finland**, the planned regional reform is experiencing delay and is still in parliamentary discussion, despite its intended entry into force in 2021.

Box 2: Reform of the business support system in Denmark

The Committee for Simplification of the Business Support System was set up in 2017 to develop a new model for the Danish business support system. In April 2018 the Committee presented its recommendations, and political agreement to simplify the business promotion system was reached in May 2018.^{4,5} The Agreement, which will enter into force on 1 January 2019, has four overall priorities:

- Seven cross-municipal business support centres and five branches (building on the current regional business support centres/*Væksthuse*), and a digital business support platform will be established;
- The Business Promotion Board will take over the responsibilities of the Regional Growth Fora, and cluster initiatives will be merged;
- Measures to support knowledge-based entrepreneurship will be strengthened through the Growth Fund and the Innovation Fund, creating one point of entry for loans and equity investments, and one point of entry for grants for innovation, development and demonstration;
- Municipal tourism promotion initiatives are being consolidated in destination management organisations, and funds will be earmarked for tourism development under the Business Promotion Board.

The Regional Growth Fora (RGF) established in 2007 are to be abolished. The six RGF (one per region and one for Bornholm) are currently responsible for deciding the regional development and growth strategies and the allocation of ERDF and ESF, as well as domestic regional development funding. The RGF are also responsible for monitoring and ensuring development in the peripheral areas. The RGF comprise 21 members, including local government representatives, industry associations and higher education institutions.⁶ The RGF will be replaced by Denmark's Business Promotion Board (comprising 15 members).

The bill for the reformed business promotion system is expected to be formally decided by mid-October. There are indications that the Business Promotion Board will have a more demand-driven focus, potentially working more with calls for tenders and setting higher requirements for co-financing, with a focus on attracting more private actors. The Board will launch a national strategy contain regional chapters, to replace the regional business development and growth strategies.

⁴ <https://em.dk/nyheder/2018/04-06-forenkling-af-erhvervsfremmesystemet>

Institutional changes have been taking place in Greece:



In Greece, a series of institutional changes have been adopted including legislation to speed up and simplify the process of concluding public contracts. In line with EU public procurement legislation, new digital tools such as the National System for Digital Public Contracts and the Central Digital Registry of Public Contracts, have become operational. A central electronic system for the monitoring of technical works has also been set up in 2018. Measures have also been taken towards simplification of administrative procedures and organisational structures involved in project implementation. A registry of experts to aid smaller beneficiaries has been created.

New policy initiatives have been launched in the Czech Republic and Poland



A new territorial instrument has been launched in the **Czech Republic**, accompanied by a national strategy for three structurally damaged regions (Karlovarský, Ústecký, Moravskoslezský). The plan is to incorporate the territorial dimension into national and ESIF programmes to concentrate financial resources in these regions to address structural problems. Implementation is at an early stage. OPs must earmark financial resources for the targeted regions within the remainder of their allocations. Similarly, a range of national grant programmes will have to incorporate this new territorial dimension.



In **Poland**, new legislation relating to higher education and science could have an impact on the implementation of the Pomorskie ROP, depending on how it changes the role of the Ministry of Science and the funding of universities and R&D.

The **improving socio-economic situation** in Poland has seen declining demand for projects in the field of social, professional and vocational activation of the unemployed in Pomorskie, while demand for supporting social services has increased. In both Pomorskie and Warmińsko-Mazurskie, the overheated construction market is making it difficult to contract firms to carry out project work; there has been a sharp rise in prices (for services and materials) and a lack of interest by contractors in participating in tenders. In Warmińsko-Mazurskie, changes in the social assistance market are causing difficulties in acquiring project participants for social inclusion projects.

Local and regional elections have so far only had a limited impact on IQ-Net programmes, although communal elections in October 2018 have had an impact on the CZ IROP, as municipalities represent a substantial proportion of beneficiaries and there have been delays in the implementation of projects, with an impact on the progress of the programme as a whole.

⁵ <https://em.dk/nyheder/2018/05-24-politisk-aftale-giver-et-enklere-og-mere-effektivt-erhvervsfremmesystem>

⁶ <https://regionalt.erhvervsstyrelsen.dk/regionale-vaekstfora-0>

For UK managing authorities, some reassurance with regard to **Brexit** was provided by the extension of the UK 'Treasury Guarantee', but uncertainty continues over the detail, as well as the governance and priorities for future funding (see Section 3.2).

3.2 Impact of Brexit on UK managing authorities

The UK Government announced in 2016 that they would guarantee EU projects agreed before the UK leaves the EU. In July 2018, this guarantee was extended to cover:⁷

- the full 2014-20 Multiannual Financial Framework allocation for ESIF;
- the payment of awards where UK organisations successfully bid directly to the EC on a competitive basis while the UK remains in the EU;
- the payment of awards under successful bids where UK organisations are able to participate as a third country in competitive grant programmes from exit day until the end of 2020;
- the current level of agricultural funding under CAP Pillar 1 until 2020.

The **extension of the Treasury guarantee** means that ESIF MAs can continue to sign new projects after EU exit until programme closure.⁸

Implementation of the ESIF programmes has continued under **considerable uncertainty**, for example relating to the point at which (and extent to which) survivable obligations come into existence, the fact that the guarantee covers individual projects rather than programmes as a whole, the exchange rate at which the programmes' value is set by UK Treasury and the future of the PMCs. Crucially, **Technical Assistance** is not covered by the Treasury guarantee.

On 14 November 2018, the **draft Withdrawal Bill** published seems to confirm that programme management can continue as usual, at least during 2019 and 2020.⁹ The Bill states:

"the Union programmes and activities committed under the multiannual financial framework for the years 2014-2020 ("MFF 2014-2020") or previous financial perspectives shall be implemented in 2019 and 2020 with regard to the United Kingdom on the basis of the applicable Union law." (Article 137(1))

The Withdrawal Bill goes on to say that the UK programmes would be closed as normal (presumably including audit)....

"In respect of the implementation of the Union programmes and activities committed under the MFF 2014-2020 or previous financial perspectives, applicable Union law, including the rules on financial corrections and on clearance of accounts, shall continue to apply to the United Kingdom after 31 December 2020 until the closure of those Union programmes and activities. (Article 138(1))

⁷ <https://www.gov.uk/government/news/funding-from-eu-programmes-guaranteed-until-the-end-of-2020>

⁸ <https://www.gov.uk/government/publications/european-regional-development-funding-if-theres-no-brexit-deal/european-regional-development-funding-if-theres-no-brexit-deal>

⁹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/756374/14_November_Draft_Agreement_on_the_Withdrawal_of_the_United_Kingdom_of_Great_Britain_and_Northern_Ireland_from_the_European_Union.pdf

...although Article 138(5) says that the UK programmes may be subject to a simplified closure process...

"On a proposal from the Committee on the financial provisions referred to in point (f) of Article 165(1), the Joint Committee may adopt, in conformity with the rules established in Article 166, technical measures to facilitate the closure of the programmes and activities referred to in paragraph 1 of this Article or to exempt the United Kingdom from obligations to take actions, during or after the closure of those programmes and activities, which are not relevant for a former Member State, provided that such technical measures respect the principle of sound financial management and do not result in an advantage in favour of the United Kingdom or the United Kingdom beneficiaries compared to Member States or third countries participating in the same programmes and activities financed by the Union budget."

On ETC, there is a commitment to co-funding the PEACE and INTERREG programmes for Northern Ireland/Ireland in the current and next period. Other INTERREG programmes are not mentioned. (Note that the Commission's draft INTERREG regulations for 2021-27 include UK regions as eligible to take part in cooperation programmes, and that PEACE PLUS will be implemented under shared management both in Ireland and the UK).

"RECALLING the Union and the United Kingdom's commitments to the North South PEACE and INTERREG funding programmes under the current multi-annual financial framework and to the maintaining of the current funding proportions for the future programme.."

The uncertainty looks set to continue. Meanwhile work has been continuing **preparing for future regional policy**. At national level, the UK is preparing a Shared Prosperity Fund as a national replacement for Structural Funds, although the objectives, funding allocation mechanisms and spatial coverage are still unclear. A public consultation on Shared Prosperity Fund proposals is expected in December 2018.¹⁰

At sub-national level, the Devolved Administrations are also developing policy proposals. In Wales, for example, the Wales Audit Office recently reported on how the impact of Brexit on ESIF is being managed by the MA (WEFO).¹¹ The report notes that the future for the MA is uncertain until there is clarity on what will replace the Structural Funds in Wales, and recommends **retaining the positive benefits of rigour in project appraisal and monitoring, and the skills and experience** of WEFO staff. A Welsh Assembly report on 'Preparations for Replacing EU Funding for Wales' also recognises and endorses the work of the MA, and mentions the need for an **ongoing central unit** to deal with whatever comes next (on the assumption that regional development funding is devolved to Wales).¹²

¹⁰ <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-07-24/HCWS927/>

¹¹ <http://www.audit.wales/system/files/publications/eu-structural-funds-english.pdf>

¹² <http://www.assembly.wales/laid%20documents/cr-ld11748/cr-ld11748-e.pdf>

3.3 Programme evolution

As reported in previous IQ-Net review papers,¹³ programme revision and modification has been an ongoing process over the last year. Recent and anticipated changes to programmes fall mostly within the following categories:

- changes related to **performance framework** requirements – most programmes have been or are in the process of adjusting targets and milestones (see also Section 5);
- **transferring funding** within priorities, between priorities or between OPs, reflecting absorption issues, as a result of the adjustment of allocations to Member States or following more extensive reprogramming (as in Portugal, where a ‘global’ re-programming has been underway to reinforce strategic alignment of Portugal 2020 with the NRP, to maximise ESIF support through exploration of complementarities with other sources of financing, and to concentrate ESIF resources to promote greater selectivity);
- **technical adjustments** to reflect updates in implementation procedures or descriptions of processes;
- transferring funding to address **new target groups, new priorities and new foci**. Notable examples are in Pomorskie, where changes have been made to Priority 1 (RTDI) to increase the focus on the implementation phase of R&D projects, related to the Smart Specialisation Entrepreneurial Discovery Process. Also in Pomorskie, new target groups have been included in ESF priority axes, with the main aim being to include migrants (there is a substantial population of economic migrants from the Ukraine in the region). In Wales, as a result of changes in the exchange rate since the OPs were agreed, a new priority axis for capacity building has been introduced in to both ESF OPs, to help support the reform local government in Wales.

Further changes are planned, after the performance review and after wider mid-term programme reviews. In Vlaanderen, for example, changes are anticipated after the results of the mid-term review, which will be available early November. In Nordrhein-Westfalen, the MA is considering making a change to the OP in 2019, depending on the outcome of the performance framework review. Finland will submit an OP amendment in 2019 concerning increasing TA from three percent to four percent for the last two years of the programme period.

3.4 Project generation issues

Project uptake is considered satisfactory in most programmes although there is variation between priority axes. The ‘usual suspects’ remain where uptake is more challenging – particularly low carbon (TO4) and climate change (TO5). These have been joined by TO2 (relating to broadband) and TO1 (RTDI). New implementation mechanisms (ITI, CLLD) also continue to challenge implementation progress.

¹³ Michie R and Gal F (2018) *Reaching cruising speed? Programme progress, performance targets & policy reform*, IQ-Net Review Paper 42(1), European Policies Research Centre Delft; Michie R and Dozhdeva V (2017) *Halfway there? Taking stock of ESIF programme implementation*, IQ-Net Review Paper 41(1), European Policies Research Centre.

Box 3: Challenges to progress under Thematic Objective 4 (Low-Carbon)

Under the **CZ IROP**, the theme of thermal insulation of housing has proven to be cumbersome, as eligible applicants represent very small organizations of flat owners with limited capacities to prepare project proposals. A very high number of small projects with high levels of co-financing is needed to cover the OP allocation and demand is low. To address this, the MA, in cooperation with the IB, has simplified requirements for project applicants (e.g. number and content of compulsory annexes, adjustment of eligible costs) and finance has been reallocated twice. The theme is included in five CZ OPs. To stimulate uptake by the public sector, all ministries have been asked to conduct energy audits for buildings in their ownership to identify suitable projects.

In the **Paris Region OP**, solar power-related projects were originally envisaged but have been dropped as accompanying requirements were too complicated. Moreover, demand for other 'easier' projects was high enough to withdraw solar power related projects from the list of eligible projects.

In **Pais Vasco**, TO4 has the slowest absorption rate, which is largely due to a delayed infrastructure project involving lengthy procurement processes and a longer implementation period.

Providing a contrasting experience, energy efficiency and renewable energy is going well in **Croatia**, where the entire allocation available for the energy renovation of buildings (public, industrial, multi-apartment) has been contracted i.e. projects selected and approved with the majority of projects being in the implementation phase. Additional funding for the TO is being planned.

Other problematic areas include **broadband** (for example, delays in Scotland due to the Scottish Government reviewing their strategy, difficulties in CZ where an action plan has now been agreed and coverage has been extended beyond the internet (e.g. for the building of digital maps), and in Slovenia, where the call for proposals did not find enough interest from potential investors in the so-called white spots. The MA analysed the first call and then altered and republished it).

In both Pomorskie and Warmińsko-Mazurskie, TO1 (**RTDI**) has been most difficult. In Pomorskie, there is very limited demand for R&D projects, as there is a relatively small population of enterprises capable of implementing R&D projects in the region. The national OP 'Smart Growth' attracts applications that could otherwise be funded under the ROP. Further, this type of project is traditionally considered as very risky and the demands on entities applying for funds are relatively high. In WM, the main problem is the limited culture of cooperation between science centres and firms in the region. The MA has made some changes in PO1 and there will be an initiative in 2019 to create new, quality project plans.

Box 4: Challenges to progress under Thematic Objectives 5 (Climate change) and 6 (Environment)

In **England**, the major flooding of 2015 has had a knock-on effect on implementation of this TO. The relevant national agency had to review their strategy completely, which took a year. Hence, the MA was only able to start discussion with them a year after the programme started, which delayed implementation.

In **Croatia**, investments in flood protection have proven to be very difficult, mainly due to the low level of project preparation since these projects require careful and long term planning (especially vis-a-vis environmental impacts). Croatia is trying to address this problem by spreading the potential activities to the other natural risks identified in the risk assessment, such as forest fires and not focusing as much on flood protection.

In **Slovenia**, a task force consisting of the MA, IB and potential beneficiaries has been established to enhance communication and to reduce administrative obstacles under this TO, particularly in the context of environmental permits.

In **Warmińsko-Mazurskie**, the priority axis 'natural environment' could not begin until the National Waste Management Plan and the National Programme for Municipal Wastewater Treatment were approved. These were not ready until August 2017, meaning that €55 million was blocked during the interim – around half of the funding under that Priority in the ROP.

Territorial instruments (ITI, CLLD) have affected the speed of uptake (CZ, PT, SI, Vla). Progress is varied in CZ - out of 178 approved CLLD strategies, four have not yet opened call for projects. On the other hand, some holders have opened calls for their entire allocation. In Vlaanderen, there are concerns about the number of calls that are being progressed. Currently, the MA has had 58 calls for projects. As it is the MA that is ultimately responsible for the calls, this has increased the administrative pressure considerably. For example West-Vlaanderen wishes to launch an additional five calls (after already having had a number of calls). Considering the small budget this is a relatively heavy burden as it also requires consultation of the steering group which is time consuming and of limited use. Additionally, the projects in the ITI (with the exception of Limburg) tend to be smaller.

Other challenges include competition from domestic programmes (Vla, WM), a lack of skilled labour force and potential contractors (construction companies) leading to an increase in the prices of works i.e. costs of the projects (HR Pom, WM), and decreasing levels of bank lending in Greece, with a negative impact on entrepreneurship.

3.5 Other implementation issues

Other **implementation-related issues** raised by IQ-Net programmes concern, at EU level, the long-awaited adoption of the Omnibus Regulation, State aid, anti-fraud activity, and communications activity:

- **Omnibus Regulation:** Adoption of the Omnibus Regulation is viewed as having had a positive impact in the **Czech Republic**, especially for the implementation of financial instruments, and under the CZ IROP, related to small scale infrastructure and limits for total costs. However, in **Pomorskie**, the Omnibus Regulation has made it more challenging to implement innovative, complex projects. The MA has also had to reconsider the definition of beneficiaries for its 'flagship' projects (which include some undertaken in conjunction with the Baltic Sea Region Programme), taking into account the *de minimis* threshold of €200,000 for grant aid. In Denmark, the MA has made changes to the eligibility rules, which entered into force on 1

September 2018. **Bizkaia** is considering the feasibility of using Simplified Cost Options, as proposed in the Omnibus Regulation.

1. **State aid:** In the **Czech Republic**, State aid rules are found to severely hinder the theme of broadband, as the rules do not reflect dynamics in technological development (e.g. in robotics, artificial intelligence). In **Greece**, lack of experience with the new State aid information system has hindered approval of RTDI projects in the regions.
- **Anti-fraud:** In **Slovenia**, the MA is in the process of setting up the ARACHNE tool for the mainstream ERDF/ESF/CF OP. It is already in use for ETC programmes and so far the experience has been positive. However, there is still no legal basis or normative background for the use of information collected from ARACHNE.
- **Audit:** The Paris Region OP had difficulties with audits linked to management issues at Intermediate Body level. A number of corrective measures had to be taken such as withdrawal of IB status of some authorities and increased staff for interaction with IBs, plus increased guidance. In the context of ESF it proved difficult to gather personal data from participants as in some cases anonymous participation was an essential condition for the success of the activity (e.g. help for family violence, or the integration of Roma).

4. NEW DEVELOPMENTS IN PROGRAMME IMPLEMENTATION



4.1 Experience with annual closure

Among IQ-Net programmes, **experience with annual closure** has varied from the straightforward and relatively routine (for example in AT, CZ, DK, Pom, SE, Vla) to more challenging and time-consuming. Sometimes the process was quite simple as few operations had so far been completed (zero or few returns in the reports), although the expectation is also that there will be more corrections year on year as more projects will be included (Vla). No requirement to reconcile payments with previous years was considered a positive in Vlaanderen, and in Sweden the procedure is expected to make closure easier at the end of the programme period.

The main difficulties experienced with the procedure have related to: timing and timetabling, due in part to the **additional time required by the audit authority** (AT, DK, Vla) and by the need to address issues arising from audits (NRW, Vla); the impact on the **certification period** (SI, PT); and the increased need for coordination (with associated resources issues). The process is also viewed as **very complicated** in WM.

Annual closure has **shortened the certification period in Slovenia and interrupted the submission of claims** to the Commission (and thus the cash flow from the Commission to the Slovenian budget). To allow sufficient time for the AA to perform all necessary audits of operations before 15 December each year, an agreement has been signed between AA, MA and CA setting out a revised timetable as follows:

- the certification period for the current accounting year ends on 30 March;
- the next accounting year begins on 1 July, but as the deadline for submission of the Final Interim Payment is 31 July, the first Interim payments for the next accounting year can only be sent to the Commission in August (SFC blocks the submission of first Interim before Final Interim);
- no certification of new expenditure is therefore possible between the beginning of April and the end of July. Therefore, there are no payments between June and October.

The annual closure process has also resulted in a substantial change to the certification process in Portugal compared to the 2007-13 period, with the inherent impacts on the information systems and audit trail.

A number of lessons have already been identified from the process, particularly in Croatia and Wales. These include (see also Table 1):

- the importance of coordination of activities which are performed in parallel by the relevant stakeholders (CA, MA and AA); and
- timely exchange of all relevant information (audit findings, measures undertaken, corrections proposed and implemented) is crucial for efficient implementation of the closure procedure which has to be finalised in relatively short period of time.

Table 1: Lessons learned: Submission of Annual Accounts 2018

What went well?
<ul style="list-style-type: none"> • Documents uploaded onto SFC on time. • Great team effort to finalise the documents for submission. • Good communications between teams.
What did not go well and why?
<ul style="list-style-type: none"> • Annual Summary had to be redrafted, as the raising of irregularities at a late stage meant changes to the Accounts needed to be reflected. • Delay in sign off of Annual Summary. • Scheduling of some activities outside of the year end process did not consider the resource impacts on the AA, for example Submission of the Art 72 Statements. • Impact of some issues raised within audit reports was not always appreciated at draft stage, resulting in some delays in raising irregularities and subsequently actioning them. • Audit reports were still being received in February. As a result irregularities were being raised much later than anticipated. • Full understanding/appreciation of the process for uploading on SFC2014; including access to the system, named individuals to sign off documents etc. • Errors on the count of irregularities resulted in the need to amend and resubmit the Annual Summary to the AA. • CA and MA working from different versions of the same spreadsheet – caused issues with reconciliation. • Some Euro/Sterling exchange reconciliations required as part of the submission process were not anticipated.
What could be done differently?
<ul style="list-style-type: none"> • A cut off of 31 May for including claims in the final interim payment claim has been agreed between all Authorities to ensure that the figures included within the Annual Accounts can be reconciled and the AA can start sampling earlier. • Reports will be run 1 June to provide the base line for the submitted position (in Sterling and Euros where appropriate). • A project plan for the submission of documents is being produced, setting out the agreed date for uploading of documents (prior to the regulatory deadline). This will allow for some contingency time around the submission to be included. It will also ensure that cut off points for actions can be agreed by all and that there is clarity on the roles and responsibilities. Sitting alongside the project plan it would be useful to develop a checklist of tasks/roles/responsibilities so that these can be tracked alongside the plan action points. AA to inform MA of any problematic issues found within operations as soon as possible after the initial fieldwork visit, but definitely before the draft audit reports are issued. • The impact of closing Administrative Verifications and On the Spot Reviews close to the Annual Account deadline needs to be assessed and any necessary restrictions implemented in the timing of these functions. • The suite of reports used in the preparation of the Annual Accounts need to be refined and tested before the end of May.

Source: Welsh European Funding Office

4.1 Financial instruments update

The omnibus regulation came into force from 2 August 2018, including revisions intended to simplify the use of FIs.¹⁴ In the IQ-Net programmes which implement FIs, there is a wide range of implementation status – from up and running and already having been investing for several years to still at ex ante assessment stage (see Table 2). Some operational FIs have been affected by low

¹⁴ <http://data.consilium.europa.eu/doc/document/PE-13-2018-INIT/en/pdf>

demand and several have been discontinued. On the other hand, there are also areas of high demand and success in terms of revolving funding and leverage achieved.

Although adoption of the Omnibus Regulation has provided some relief, **frustration with the regulatory framework continues**, especially around the selection of financial intermediaries (public procurement), requirements around funding tranches and thresholds for management costs and fees. Significant barriers and lengthy delays have been experienced, especially when procuring fund managers. One particular issue faced in Warmińsko-Mazurskie relates to requirements regarding confirmation of eligibility of expenditure in guarantee products. According to the Commission interpretation, to justify the compliance of the guarantee with the rules for financial instruments, the managing institution must ensure verification with regard to the purpose of the base loan granted by the crediting bank. This is a novelty compared to the 2007-13 period and is found to be an obstacle for the guarantee fund and the bank providing the base loan. It also discourages banks from cooperating with the funds. All invoices are now required for eligibility checks but some banks are reluctant to provide these.

Table 2: Selected updates on FIs in IQ-Net programmes

AT	Implementation of the only ERDF-funded Austrian FI (<i>OÖ Hightechfonds</i>) is going well. Of a total of €3 million ERDF, commitments and payments stood at 17 percent (€507,518) at the end of 2017. This was based on four funding agreements and the total value of investment created was €2,757,865.
CZ	There are two FIs operational in the OP Enterprise and Innovations for Competitiveness, with other FIs in set-up or planning phase. MAs that have been planning to introduce FIs were waiting for approval of the Omnibus Regulation to continue with the set-up stage. Under the Integrated ROP, implementation has been delayed due to the administrative burden relating to a tender for a fund manager. The FI is expected to be launched during the Spring of 2019. Recently, the Czech National Bank has increased interest rates. Consequently, FIs may now be more competitive than commercial loans.
Eng	Funds approved include: Mayor of London Energy Efficiency Fund; Northern Powerhouse Investment Fund; North East Fund; Greater Manchester Urban Development Fund; Midlands Engine Fund; Cornwall & Isles of Scilly Fund. London SME fund is expected to be approved soon. Some additional possible funds have been under discussion. Procurement has slowed things down along with issues around EIB funding post-Brexit.
FI	The city of Kuopio in Northern Savonia has submitted an application to establish a fund; the ex-ante assessment has now been finalised.
GR	EquiFund is already operational and has provided financing to a number of SMEs. According to initial plans, the EIB intended to contribute further €60m under EFSI but their contribution has not yet been defined and will depend on the fund-raising of individual sub-fund managers. With regard to Energy Saving at home, the deadline for applications was extended to cover high demand. The Ministry of Environment and Energy has announced the doubling of funding, which will double expected beneficiaries (households) to c.95,000. Available total funding is expected to reach €1 billion.
HR	Implementation of FIs progressing well (especially for SMEs). Challenges are mainly related to the implementation of FIs in the public sector (as the public sector mostly prefers grants).
NRW	The NRW ERDF OP is co-financing a district heating infrastructure FI and an urban development FI,

	<p>both implemented by NRW.Bank. Both FIs continue to be affected by a lack of demand, despite significant work to publicise funding opportunities; this is because of the low interest rates available on commercial loans. To date, there are no potential applicants for the district heating infrastructure FI. There is some interest in the urban development FI but no applications have yet been received. The NRW MA expects to have a clearer idea in the next six months of whether or not it will be possible for the FI to absorb the available funding.</p>
PT	<p>In the context of the global re-programming, it has been proposed to reduce the allocation to FIs, due to a more favourable macro-economic situation, making FIs less competitive. FIs are mainly focused on business support (now including a new area of social innovation), and in the area of urban regeneration. The FI for Energy will be discontinued, as will the FI for efficient water and waste management. Loans to students of higher education are almost operational. Apart from the ESIF co-funded FIs, a range of other funding streams also involve support via FIs (e.g. EFSI, EIB).</p>
Pom	<p>Under the framework of the Pomorskie Development Fund, there are FIs for knowledge commercialisation (innovation loans and seed capital) and enterprises (micro-loans and guarantees for SMEs), both through BGK, and FIs for urban revitalisation, energy efficiency and RES, through the EIB.</p>
Sco	<p>Procurement for fund managers for the second phase of the SME Holding Fund is underway, with applications invited for microfinance, debt and equity FIs. There are uncertainties around SME demand, lack of confidence and risk aversion of commercial bank sector. Work is progressing on setting up a new Scottish National Investment Bank.</p>
SE	<p>Recruitment has taken place for the Green Fund team, which is now complete. Three investments have been carried out and the inflow of proposals has been good. Three sub-funds have been selected by the EIF under the Swedish Venture Initiative (Brightly Ventures, Luminar Ventures and Spintop Ventures). All three have funded their funds and have started the process of finding investments, with Luminar Ventures and Spintop Ventures already having made investments. The eight regional funds are implemented by ALMI Invest AB. All funds have been making investments since the fourth quarter of 2015. Challenges are faced in three programme areas as well as in the OP Småland och öarna to find investments.</p>
Wal	<p>The Wales Business Fund is performing very strongly, and has already invested £49.5 million (130% of profile). Performance has been stronger in East Wales than West Wales.</p>
WM	<p>A total of €60.2 million was allocated in the ROP for financial instruments. Products are: loans (€48.5 million), guarantees (€8.5 million) and equity (€3.2 million). The manager of the Fund of Funds is BGK (Bank Gospodarstwa Krajowego). Seven loan funds and one guarantee fund have so far been selected.</p>

4.2 Evaluation activity



There has been a surge in evaluation activity among IQ-Net programmes. The Table in Annex I provides an overview of the many studies already completed or underway. Highlights include the following.

- **Mid-term evaluations** are planned or underway in DK, Eng, FI, Pom, Vla and WM. The mid-term review in Vlaanderen will focus on the ITI approach, but will also look ahead to the

development of the programme for the next period. Considering most of the funding has been allocated in the current period there is little incentive to change the programme at this stage. Furthermore, the mid-term review in Vlaanderen emphasises the intensive resources that are required for State-aid issues within the MA and among stakeholders.

- In **Finland**, an evaluation is reviewing the ERDF OP from three perspectives: administration and implementation; results-orientation; and, impacts. In terms of administration and implementation, the model, where one county is taking a lead on ESIF administration in each of the four macro regions (South, West, North, East) is assessed as good. The administration is assessed as efficient, at least when measuring with processing of payments. In terms of results-orientation, the OP has been successful in supporting the development and internationalisation of SMEs. The OP has been successful in supporting already existing businesses, but less so in generating new ones. Employment targets have also been challenging to meet. However, the employment and education projects have been successful in developing skills. Projects have contributed to poverty alleviation and social cohesiveness but projects have not reached long-term unemployed and persons outside of job-markets. Achieving low carbon targets are a challenge to the implementing bodies and projects.
- In **Portugal**, an impact evaluation of the contribution of the ESIF to the dynamics of transfer and valorisation of knowledge seeks to perceive the degree of effectiveness and impact of the support granted under the NSRF, through the different instruments and in different territorial contexts, explaining how the interventions supported produced the results. The evaluation also seeks to identify, in the light of the results of the NSRF assessment, the adequacy of the expected support instruments under Portugal 2020 and the necessary adjustments that favour the effectiveness, efficiency and sustainability of the interventions to be supported.

4.3 Short- and medium-term priorities



For IQ-Net programmes, priorities are immediate, ongoing, or slightly longer-term (but still requiring action):

Immediate priorities include:

- ✓ meeting n+3 (everywhere that it hasn't already been met);
- ✓ the performance framework (AT, Eng, GR, Vla, Wal, WM);
- ✓ related, progressing claims and payments (Sco, SE, SI, Pom, Vla, Wal (with a preference of those applications that will feed the indicators of performance framework in CZ IROP); and
- ✓ accelerating implementation (SI, Sco).

Slightly less urgent but still a high priority:

- ✓ preparing the next OP amendment (AT, possibly NRW ERDF OP, Vla);
- ✓ preparing 2019 Progress Reports (CZ national level) and AIRs (Wales, where results indicators are an issue);
- ✓ finalising the mid-term review (Vla);
- ✓ addressing the issue of IT systems (SI); and
- ✓ addressing the target of allocating 25 percent to low carbon projects in Finland – the target is seen as a challenging, but attainable. Achievement of this goal is prioritised on the national level, as well as in Helsinki-Uusimaa and Pirkanmaa regions.

High priority is being given on an ongoing basis to:

- ✓ ongoing financial planning – in NRW, the MA will do an internal review of the financial plan at the end of 2018 and see what funding remains available to be re-allocated;
- ✓ implementing the changes resulting from the reprogramming process, including operationalisation of the new blending instrument and the required regulatory changes (PT);
- ✓ publicity related to the programme's results (CZ IROP); and
- ✓ establishing the role of the MA in the ongoing reform process (DK), which will result in abolition of the Regional Growth Fora and establishing the national Business Promotion Board, of which the secretariat function is being taken over by the MA. The organisational challenges ahead regarding balancing the secretariat and MA function within the Danish Business Authority, and the process of taking over the responsibilities from the regions are still unclear.

Over the longer-term, preparatory work is being put into:

- ✓ preparations for 2021-27 (AT, CZ national level, CZ IROP, GR, NRW);
- ✓ planning for the impact of different possible Brexit scenarios, and how to best commit/manage the remainder of the programme in the best way under the different scenarios (Eng, Sco, Wales). An important issue is that the guarantee from UK Treasury currently does not currently cover Technical Assistance (see **Error! Reference source not found.**); and
- ✓ preparations for programme closure (Wales).

5. THE PERFORMANCE FRAMEWORK

Given the importance of the performance review as an important step in the implementation of the 2014-20 programme period,¹⁵ previous IQ-Net research has covered the framework in some detail.

- The IQ-Net Thematic Paper¹⁶, presented at the IQ-Net conference in Zagreb in December 2017, identified **agreement with the underlying logic of the performance framework among IQ-Net programme managers**. However, it also noted some implementation challenges linked to quality and availability of data, complicated indicators as well as timing and a lack of flexibility and uncertainty.
- The IQ-Net Review Paper¹⁷, presented at the IQ-Net conference in Vienna in June 2018, drew attention to the **risk of not meeting the mid-term targets in a number of programmes** and specific measures taken by programme managers to remedy those risks.

As the cut-off date to achieve the targets for the performance review at the end of 2018 is moving closer, this section will look at whether the risk of not meeting the performance framework targets persists. It will also provide an update on measures taken to remedy the risk, in particular the modification of programmes.

Meeting the targets ...

IQ-Net programme managers highlighted the significant **progress made in the last six months** towards achieving the mid-term review targets at the end of 2018. Many IQ-Net partners stated that the targets were already fulfilled or very close to being fulfilled (Bizkaia), Czech Republic, Finland, Pomorskie, Sweden, Vlaanderen, Wales, Warmińsko-Mazurskie (except one indicator in the area of the environment). In a number of programmes, however, a risk of not meeting some targets remains and further efforts are required (Austria, Croatia, Czech republic regarding broadband, Denmark, England, Paris Region OP, NRW, Scotland, Slovenia).

Most thematic areas are progressing satisfactorily in terms of performance. For example, Croatia expects to meet the performance indicators under TO 3 and TO 9. Measures linked to low carbon economy are also performing well in Paris Region OP. Other thematic areas are showing slower progress. Finland, for example, reported somewhat slower progress in employment and support for labour mobility. In the Czech Integrated ROP, the target values for social housing are a concern. An indicator on low carbon was somewhat lagging in Vlaanderen. NRW has set a target for the number of integrated action strategies with funded projects, which will potentially not be met. In Scotland, the targets are difficult overall, but priority axes linked to SME support (TO 3), low carbon economy (TO 4) and environmental protection (TO 6) are performing better than TO 1 (research, technological

¹⁵ The review consists of comparing achievement of the OP Priorities with the milestones set to be achieved by the end of 2018. The review will be carried out by DG Regio in the second half of 2019 on the basis of the Annual Implementation Reports (AIRs) for 2018. If positive, this will result in the payment of the Performance Reserve, which is six percent of OP funding, ranging from 5 to 7 percent for each Priority Axis.

¹⁶ McMaster I and Kah S (2017) The Performance Framework in Cohesion Policy: Expectations and Reality, *IQ-Net Thematic Paper 41(2)*, European Policies Research Centre Delft.

¹⁷ Michie R and Gal F (2018) Reaching cruising speed? Programme progress, performance targets & policy reform, *IQ-Net Review Paper 42(1)*, European Policies Research Centre Delft.

development and innovation). Absorption is better in the more developed regions than in transition regions. In Greece, TOs 1, 2, 3 and 4 (partially) are at risk; in Austria and Portugal this is the case only for TO 4, and for TO 2 in Croatia. In Slovenia, the milestones will not be achieved under TO 2 and TO 5, and the performance reserve will be allocated to other TOs. The performance framework targets (i.e. at the end of the programme period) are still seen as achievable. Austria noted that any lower performance in parts of the more developed regions can be absorbed or compensated by better performance in other more developed regions. However, this was not the case in the only transition region of Burgenland, where Priority Axis 3 (TO 4) is likely to miss its financial milestones.

In June 2018 the Commission published an **updated guidance note** on the performance framework.¹⁸¹⁹ In this respect, Vlaanderen regards the move to not only count closed projects but to also count achieved outputs in ongoing projects as positive. If this had not been the case, it would have been difficult to achieve the targets as there were very few closed projects.

Pomorskie, however, reported **continued uncertainty** at project-level with regard to when exactly the managing authority can declare an indicator as fulfilled. Within Poland there were different views and interpretations of the matter. Sweden noted that the guidance from the Commission could be somewhat clearer. The guidance did not provide detail on what would happen if the milestones were not reached, and how the assessment would be done. Although no challenges are anticipated in Sweden, it would have been helpful to have clearer guidance in place. Warmińsko-Mazurskie stated that the Commission's current approach, which allows demonstrating achievement of targets with the beneficiaries' expenses incurred by the end of 2018 and allowing for certification of those expenses in by June 2019, will certainly help with achieving targets.

... or moving the targets?

In spring 2018,²⁰ IQ-Net programmes reported that 'modifying OPs is the most common measure to help achieving the targets of the performance review'. However, diverging experiences in engaging with the Commission were experienced. In autumn 2018, IQ-Net programmes confirm these findings.

Specific preparations for the performance review are not considered necessary where the work is not seen to deviate significantly from the routine work of preparing the Annual Implementation Report. This is the case in Finland, where no problems/issues with the review are expected. In other cases, evaluation work will contribute to the performance review. In País Vasco, an external evaluation is planned in June 2019 on the achievement of programme objectives and results by end-2018, to feed into the 2018 AIR and the performance review.

Several IQ-Net programmes sought to **modify programmes** before the performance review to meet the targets with varying experiences (Czech Republic, Denmark, England, Pomorskie, Slovenia, Wales). England for example reported that programme modification formed a major part of the preparations for the performance review, which was done with strong involvement of the European

¹⁸ http://ec.europa.eu/regional_policy/en/information/legislation/guidance/ (accessed 08 November 2018).

¹⁹ Further to the adoption of Commission Implementing Regulation (EU) 2018/276 of 23 February 2018.

²⁰ Michie R and Gal F (2018) Reaching cruising speed? Programme progress, performance targets & policy reform, *IQ-Net Review Paper* 42(1), European Policies Research Centre Delft.

Commission. The Czech Republic (for the theme of broadband) and Pomorskie are currently seeking to alter financial milestones, which would allow them to meet the targets.

The process of modifying the programme was perceived positively in Denmark - but complex in England, Wales and Greece.

- Slovenia found that a modification with a solid basis and rationale ensured the Commission accepting the proposal.
- Greece, however, reported that the Commission did not respond to their proposals for a review of the performance framework. In Portugal, programme modification is not caused by the performance framework, as more fundamental issues are driving the changes. However, the programme update will indirectly affect the performance framework.
- Similarly in Sweden and País Vasco, the performance framework indicators are undergoing revision as part of the overall programme revision submitted to the Commission.
- Wales found the Commission unwilling to accept their argument for modification of the targets which were had been set at an equal rate across programme priority axes, despite the different rates of spend expected (with, for example, business and RTDI priorities spending faster than infrastructure and energy-related interventions).

In view of the performance review next year, Austria and Greece are already **preparing for programme modifications** to move resources between priority axes where the targets will not be achieved. Slovenia questioned how the reallocation of funds between priority axes will work in practice.

Table 3: ECA Special Report

In September 2018 the European Court of Auditors (ECA) published a special report entitled 'Selection and monitoring for ERDF and ESF projects in the 2014–2020 period are still mainly outputs-oriented'.

The audit finds that:

- **The focus on results when assessing project applications was weak, and seldom included quantified results:** The vast majority of the indicators used in the performance framework under Cohesion policy related to outputs (57%), key implementation steps (9%) and financial indicators (33%), with the use of result indicators remaining marginal. The release of the reserve will therefore to a large extent remain input- and outputs-oriented, and not focused on results.

- **The quality of monitoring data is at risk, and is mostly outputs-oriented:** in the OPs visited the ECA notes that there were already cases where OPs had achieved the targets set for 2023, as well as risks of underachievement. According to the Commission, however, by February 2018 out of the 17,480 indicators used in the existing 430 OPs, the target value for 2023 had already been modified upwards in 1,445 instances and downwards in 941 instances.

- **The performance review may not be based on realistic milestones:** the ECA considered that this indicates that a number of performance framework milestones are no longer realistic. As the OP revision procedure is lengthy, there is a risk that the values reached at the end of 2018 by performance framework indicators are not compared with realistic milestones.

In this respect, the Court recommends:

- a strengthened focus on result indicators in upcoming calls and the selection of projects
- to strengthen results-oriented monitoring by including quantified result indicators in upcoming calls
- that the Commission defines common result indicators based on a common definition of results in the next programming period
- that the Commission addresses weaknesses in cooperation with Member States before the performance review.

Source: European Court of Auditors (2018) *Selection and monitoring for ERDF and ESF projects in the 2014–2020 period are still mainly outputs-oriented*, Special report 21/2018, <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=46681>

6. PREPARING THE REFORM OF COHESION POLICY 2021-27

The negotiations of the Cohesion policy 2021-27 have been launched following the tabling of Commission proposals for the 2021-27 EU Multiannual Financial Framework (MFF) on 2 May 2018,²¹ and legislative proposals on Cohesion policy on 29 May 2018. The MFF for 2021-27 was presented as being both ambitious for the EU but also pragmatic given the restrictive budget circumstances associated with Brexit. It was also framed as a future-oriented budget reflecting the pressures of rapid developments in innovation, the economy, the environment and geopolitics, while retaining a strong commitment to solidarity.

The Commission presented the proposals to Member States in a tour of capitals during June and early July 2018. European institutions exchanged views publicly on the future MFF on 12 October 2018 at a key conference entitled “EU Budget for the Future – the road ahead” gathering members from the Parliament, the Council and the Commission. Also, the European Parliament and the Committee of the Regions have issued general reactions to the Commission’s proposals, drafted opinions and launched consultations among their members. In the Council, the ad hoc Working Party on the MFF 2021-27 has been meeting regularly since June 2018 to examine the technical detail of the Commission’s proposals and to exchange Member State views behind closed doors. The first public debate in the Council of Ministers (General Affairs) on the MFF 2021-27 took place on 18 September 2018.²²

Reactions to the Commission’s legislative proposal for the 2021-27 Cohesion policy in IQ-Net countries and regions are emerging, although there are only a limited number of formal position papers on the proposals.

- In Germany, there is a *Bundesrat* position on the draft Structural Fund regulations, with Nordrhein-Westfalen (Ministry for Economic Affairs) taking a leading role (October 2018).
- In Finland, the Region of Helsinki-Uusimaa has drafted a position (on 20 August 2018) for the MFF and CP reform regulation.
- In Poland, a Working Group of Directors of Regional Policy in the Polish regions work on common positions. Two thematic positions have been presented so far, concerning Territorial Cooperation programmes (published in June 2018) and the implementation system for rural development programmes.
- National policy positions or informal reflection papers on the Commission proposals have been prepared in the Czech Republic, Greece and Portugal.
- Workshops, informal meetings and discussions including with the Commission have been organised where post-2020 issues have been discussed, albeit not as the main theme (Nordrhein-Westfalen, Portugal).

There is far **greater emphasis on achieving a timely approval of the MFF and Regulations** for the post-2020 period, particularly by the European Parliament, although whether this will be achieved is open to question. A lesson learnt in the current period is the importance of having the regulatory framework, including delegated and implementing acts, prepared in a timely manner to allow a

²¹ *A Modern Budget for a Union that Protects, Empowers and Defends – the Multiannual Financial Framework for 2021-2027*, COM(2018) 321 final, 2 May 2018.

²² This review of developments and debates draws on: Bachtler J, Mendez C and Wishlade F (2018) *Reforming the MFF and Cohesion Policy 2021-27: pragmatic drift or paradigmatic shift?*, *European Policy Research Papers* (forthcoming), European Policies Research Centre, University of Strathclyde, Glasgow.

successful launch and avoid absorption pressures. This is particularly important in the context of a results oriented shift towards innovative and high-quality projects which require long-term planning, as argued by Slovenian authorities. A related concern for the Nordrhein-Westfalen ERDF MA is that the Commission proposals are perceived to be somewhat theoretical and not realistic or based on actual experiences of programme implementation. There is also scepticism over how the regulations and guidelines will evolve or be applied in practice, particularly in terms of achieving genuine simplification that facilitates a smooth launch and delivery over time.

6.1 Eligibility and allocations

The Commission's proposals for the 2021-27 MFF foresee a budget of €1,135 billion in commitments (2018 prices), equivalent to 1.11 percent of EU27 GNI. Initial reactions from some net payers (Austria, Denmark, Netherlands, Sweden) is that the size of the budget is unacceptably high, compounded by the proposed phasing-out of rebates, which could lead to steep increases in some net payments. At the other end of the spectrum, several net recipients are critical of the 'lack of ambition' of the EU budget (Greece, Hungary, Poland, Portugal) as are the European Parliament and Committee of the Regions.

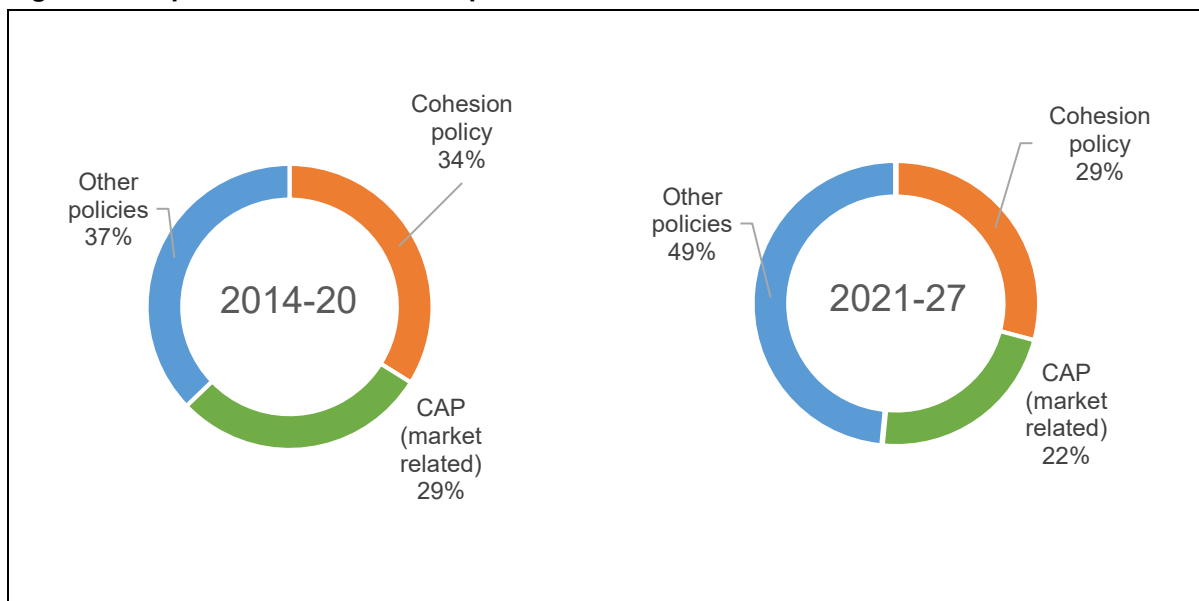
Changes in the composition of headings are significant because they conceal shifts in expenditure. This is particularly so for Headings 1b and II – Cohesion policy. The Cohesion policy budget appears to increase, but the new Cohesion and Values heading includes Erasmus+, transferred from Heading 1a (€26,368 million), and the new EMU reform support tool (€22,282 million), as well as a number of smaller items from Security and Citizenship. Taking account only of the ERDF, the Cohesion Fund and the ESF+, the proposed Cohesion policy budget is around €331 billion for 2021-27 compared with €374 billion for 2014-20. The budget lines for agricultural policy (Heading 2 and III) also show a pronounced reduction in proposed spend on agriculture, fisheries and rural development.

Compared to 2014-20, the Commission proposes a **significant shift away from Cohesion policy** and market-related expenditure and direct payments towards other areas of spend, notably the single market innovation and digital heading (Figure 1).²³ Overall, the new proposals envisage that other EU policies would account for almost half of spend, rather than just over a third in 2014-20.

Within the Cohesion policy heading, there are major implications for individual Member States. Although the Commission has proposed changes to the Berlin formula, the allocations are primarily determined by 'adjustments': a safety net (to limit cuts); and a reverse safety net capping (to limit increases). Increases in Cohesion policy allocations are concentrated in southern Europe – especially Greece, Italy and Spain - which would see gains of over ten percent relative to 2014-20. Seven countries would see decreases in Cohesion policy allocations exceeding 20 percent of initial 2014-20 allocations – mainly in Central and Eastern European countries (especially Czech Republic, Poland, in absolute terms), but also Malta and Germany.

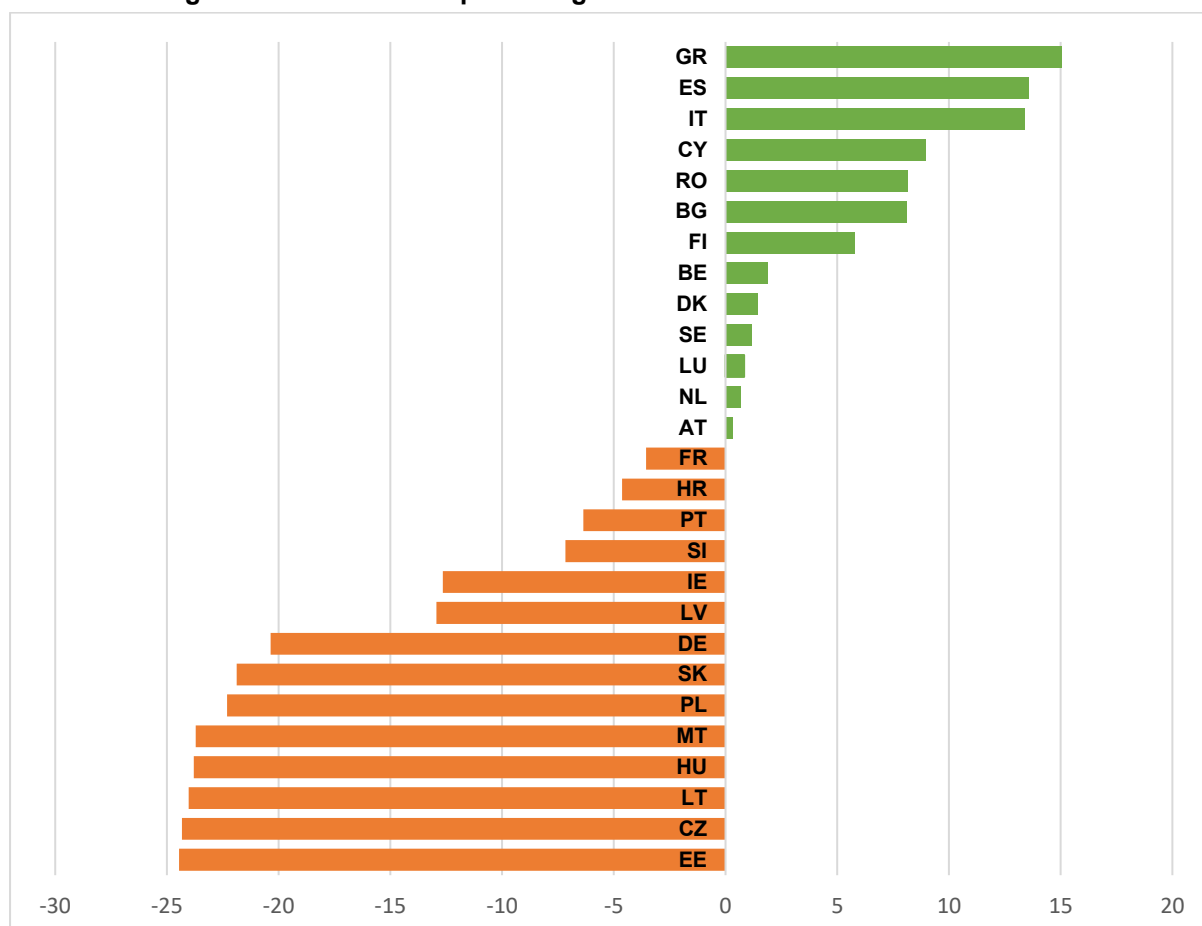
²³ Bachtler *et al.* (2018) *Op.cit.*

Figure 3: Proposed shifts in the composition of the MFF



Source: Bachtler *et al.* (2018)

Table 4: Change in allocations as a percentage of initial allocations for 2014-20



Source: Bachtler *et al.* (2018)

Member State positions on the Cohesion budget are divided and unsurprisingly informed by their position on the MFF and status as net payers or beneficiaries. On the one hand, a number of net payer countries (including Germany, Denmark, Netherlands) argue that the proposed budget for the MFF and Cohesion Policy remains too high and should be further reduced. On the other hand, many net beneficiary states (as well as the European Parliament and Committee of the Region) are calling for a more ambitious MFF and Cohesion Policy budget. For instance, Greece argues that it is critical to maintain if not increase the level of cohesion funding to deliver on treaty objectives and because the mitigation of inequalities is increasingly important to the future of Europe. Warmińsko-Mazurskie views the budget proposals as disappointing given the credible evidence of the pro-growth, anti-cyclical and pro-solidarity character of the policy. Further, there is an expectation of further cuts by the Council of Ministers. For Croatia (and other less-developed countries), the importance of Cohesion funding relative to public investment (80 percent in Croatia, compared with 8.5 percent EU28 average) clearly demonstrates the socio-economic and political significance of the policy and explains why it will continue to advocate maintaining the same financial envelope in the post-2020 period.

The shifts in funding reflect changes in the MFF parameters, in the socioeconomic situation of Member States as well as **changes to the distribution criteria and mechanisms for allocating funds**. Developing the so-called Berlin formula, the Commission's proposals include additional criteria (on youth unemployment, educational attainment, greenhouse gas emissions and migration) and lower caps on allocations. The key concerns among IQ-Net authorities relate to the following.

- **Crisis.** The allocation of resources should take into account the impact of the crisis on the societies of the member states which were most affected, particularly in terms of unemployment levels, poverty and risk of poverty, material deprivation and social exclusion (Greece).
- **Migration.** Greece also argues that the migration criteria should lead to meaningful results especially in relation to the challenges of the refugee crisis. It cannot accept that the migration criterion proposed by the Commission does not lead to additional resources.
- **Capping.** A concern for many new Member States is the capping proposal. The arguments for a significant reduction in the maximum level of the Member State allocation (capping) from 2.35 percent to 1.55 percent of GDP are unacceptable for Warmińsko-Mazurskie, given that it penalises less-developed countries and regions. Central European countries will bear disproportionately greater consequences of cuts in the Cohesion policy budget than other countries. For Pomorskie, there is a paradox in that the Commission emphasises the value of Cohesion policy as a pro-solidarity instrument while at the same time is reducing its size and constraining its scope in less developed regions. Greece opposes the new capping proposals because they imply a reduction in funding compared to the previous arrangements despite a reduction in GDP per capita.
- **Safety nets.** Slovenia considers that sudden substantial reductions of funding can have counterproductive effects, as these may lead to a halt and even reversal of already achieved positive trends of convergence. Achieving convergence is a long-term process, which should be accompanied by a gradual and linear decrease in aid intensity. Accordingly, Slovenia will oppose sharp reductions in funding which are politically unacceptable and economically damaging with negative consequences for the EU as a whole.

- **Cohesion Fund.** The Polish regions emphasise the importance of maintaining the Cohesion Fund, and are disturbed by the proposal to reduce it by more than 30 percent compared to the level in 2014-2020. The cut is perceived to be representative of a shift from 'shared management' instruments to 'centralised instruments' in the Commission.

Reactions to the impact of funding shifts are mixed reflecting the direction and magnitude of change. In those countries and regions seeing reduced funding there is regret at the prospect of lower ESIF allocations post-2020, although there are no major surprises given the climate of budgetary discipline, new EU financial priorities and the implications of UK withdrawal (Croatia, Nordrhein-Westfalen). In the case of the Czech Republic, it is the combination of other financially-restrictive proposals (decreased co-financing, advance payments, changes in eligibility of VAT, reverting to n+2) with the reduced allocations that are viewed as problematic because they imply downward pressure on investment, potentially fewer programmes/projects, and greater demands on national funding.

Countries benefiting from increased funding naturally welcome the additional financial support (e.g. Austria, Belgium, Finland). Finland expects a five percent increase compared to the current period, which is viewed favourably. This is due to allocations for sparsely populated areas and Transition Regions. Additional funding is seen as important as current resources are not sufficient for meeting the high demand (Helsinki-Uusimaa) and because national funding for regional development is already scarce and expected to decrease (Pirkanmaa). Belgium will also see increased funding, most of which will be allocated to Wallonie as a Transition Region. There will be more funds available for Vlaanderen and Limburg is expected to be (but not confirmed) a Transition Region. This implies a separate budget for Limburg and means that there would be separate programmes for Limburg and Vlaanderen. This may lead to discussion about the governance and role of Limburg in decision-making. Vlaanderen hopes to continue the ITI Limburg in this context.

Uncertainty remains over the final Cohesion budget and the distribution across countries, regions and Funds, which are dependent on an EU inter-institutional agreement. Discussions about the division of funds between the ERDF and ESF are expected (e.g. Austria, Vlaanderen). A major preoccupation for the Paris Region programme is how the available resources will be distributed within France. In this context, the German authorities are awaiting Commission proposals on the proposed distribution of financial resources between regions. Depending on the proposals, the federal and *Land* authorities could agree on an additional domestic agreement on the methods to be used for allocating ESIF funding between *Länder*.

6.2 Thematic concentration

The Commission has proposed a smaller but broader menu of five Policy Objectives to replace or recategorise the previous 11 Thematic Objectives.

Table 5: Changes to thematic objectives

2014-20 Thematic objectives	2021-27 Policy objectives
<ol style="list-style-type: none"> 1. strengthening research, technological development and innovation; 2. enhancing access to, and use and quality of, ICT; 3. enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFranceD) and of the fishery and aquaculture sector (for the EMFF); 4. supporting the shift towards a low-carbon economy in all sectors; 5. promoting climate change adaptation, risk prevention and management; 6. preserving and protecting the environment and promoting resource efficiency; 7. promoting sustainable transport and removing bottlenecks in key network infrastructures; 8. promoting sustainable and quality employment and supporting labour mobility; 9. promoting social inclusion, combating poverty and any discrimination; 10. investing in education, training and vocational training for skills and lifelong learning; 11. enhancing institutional capacity of public authorities and stakeholders and efficient public administration 	<ol style="list-style-type: none"> 2. a smarter Europe by promoting innovative and smart economic transformation; 3. a greener, low-carbon Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate adaptation and risk prevention and management; 4. a more connected Europe by enhancing mobility and regional ICT connectivity; 5. a more social Europe implementing the European Pillar of Social Rights; 6. a Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives.

Thematic concentration will continue to require **spending to focus on areas that are considered to have high added value**. The majority of the ERDF would be concentrated on the innovation (PO1) and low-carbon economy (P2) objectives with more flexibility for less developed countries. The mechanism is applied at national level (rather than OP / category of region level, as in 2014-20) with varying flexibility for three country groupings on a sliding scale (**Error! Reference source not found.**).

Table 6: Thematic concentration in ERDF/CF Priority Objectives

Country Group	PO1: Smarter Europe (minimum share)	PO2: Greener, low-carbon Europe (minimum share)
1. GNI above 100%	60%	<i>PO1 + PO2 = min. 85%</i>
2. GNI 75-100%	45%	30%
3. GNI below 75%	35%	30%

Source: COM(2018) 372

There is a general support for the principle of thematic concentration and a simplified structure of 5 Policy Objectives, especially in cases where no significant adjustment is anticipated and there is a close fit with domestic priorities (Austria, Bizkaia, Finland, Nordrhein-Westfalen, Portugal, Vlaanderen). The flexibility implied by the new broader structure of objectives is welcomed (Croatia, Denmark, Nordrhein-Westfalen) and the increased salience of PO5 “A Europe closer to citizens” to promote integrated territorial development is highlighted as a positive development to promote territorial instruments (Croatia, Vlaanderen).

However, there is widespread opposition to the new thematic concentration requirements and restrictions on eligibility providing **insufficient flexibility to address needs** (Czech Republic, Greece,

Warmińsko-Mazurskie, Sweden, Slovenia, Portugal). The proposals are considered to be demanding and limit flexibility to tailor funding to policy priorities, even in cases where current concentration is in line with the new proposals (Denmark, Portugal, Sweden). Many programme authorities are calling for more flexibility to address potential challenges relating to absorption, alignment with development needs, management and implementation issues.

The shifts in thematic concentration will be most pronounced in less-developed countries and regions which can lead to absorption challenges. Warmińsko-Mazurskie call for thematic concentration mechanisms to be accompanied by a flexible approach to implementation to take account of needs. Applying ring-fencing thresholds at the national level provides a margin of flexibility, but can still create absorption pressures in less developed regions. In the Czech Republic, the national and IROP authorities consider that compulsory concentration of 75 percent of funding on Policy Objectives 1 and 2 will be challenging to achieve and thus propose lowering earmarking (i.e. 60 percent for PO1-2), especially when considering the division of eligible activities under specific policy objectives, e.g. a shift of low-carbon transport from PO3 to PO2 will be required.

The greater emphasis on research and innovation requires flexibility and sensitivity to basic development needs in infrastructure. R&D and innovation should be supported with flexibility and should not be 'prisoner' of NUTS II-based allocations and restrictions in implementation (Slovenia). Even though thematic concentration is in line with Portugal's current priorities and future agenda, it is still not tailored to the specific needs of the regions and Member States. The focus on the Policy Objectives 1 and 2 could jeopardise the implementation of traditional priorities in infrastructure.

The top-down approach implicit in ring-fencing raises multilevel governance challenges. The requirements on eligibility are considered too restrictive in the Paris Region OP, which fears that thematic priorities could be imposed by higher levels without the possibility to fund bottom-up needs. For instance, major cities are concerned that funding for important priorities such as urban mobility will be restricted. Similarly, Warmińsko-Mazurskie hope that that ring-fencing will be applied with some flexibility at the national level, taking into account the varied socio-economic needs in Polish regions.

The proliferation of thresholds increases management complexity. The complexity and limits of ring-fencing thresholds reduces programming flexibility, makes implementation more difficult and can potentially inhibit effectiveness (Portugal). Concerns have been raised that in addition to the requirement for thematic concentration within PO1 and PO2, there is also a requirement to earmark funds for sustainable urban development and social inclusion (Sweden, Denmark), although this is not entirely new. Questions have also been raised about the logic of combining minimum thresholds, one for PO1 and a second for PO1 and PO2 combined, given the overlap between the two objectives (Slovenia). While supportive of concentration, Nordrhein-Westfalen has concerns that more constraints and difficulties may emerge at a later date, either during the negotiations of the regulations or (as in the past) during negotiation of the OP or even during audits.

There are also Fund-specific concerns relating to the Cohesion Fund and European Social Fund. It is not clear why the CF is not included as contributing towards thematic concentration thresholds as is currently possible (Portugal). There is also the issue of whether some fields from POs could also contribute to thematic concentration, e.g. whether sustainability measures under PO3 could be counted towards thematic concentration threshold under PO2. Slovenia is sceptical about a one-size-fits-all

solution for social inclusion measures (with a threshold set at 25 percent). How the ESF will contribute to PO1 and PO2 is also considered to be unclear.

Restrictions on the eligibility of large companies will compound the lack of flexibility arising from thematic concentration in some cases. In Portugal, large companies have an important multiplier effect on SMEs and on the productive structure in some sectors, and have greater capacity to contribute to overall competitiveness in the country. Similarly, Slovenia argues for more flexibility for support to large firms, especially when these are involved in wider development contexts (e.g. Smart Specialisation). The Czech Republic calls for maintaining support to large firms but through a more selective approach, as supported by the Commission's own evaluation studies. The exclusion of large firms from the support will be problematic for meeting national needs. By contrast, Nordrhein-Westfalen do not view this restriction as being problematic as the current ERDF programme does not fund large firms.

Proposals for more flexibility in thematic concentration requirements include: incorporating a decrease of at least 15 percent in the concentration threshold (Czech Republic); focusing bilateral Commission-Member States negotiations on identifying needs justifiable deviations from the concentration rules (Poland); adding a public sector theme to PO1 (Czech Republic); and more proportionality through flexibility where allocations are low (Denmark).

6.3 Conditionality

The Commission has proposed to relabel ex-ante conditionalities as 'enabling conditions' and introduce a simplified approach by halving the number of conditions to 20, providing more precise criteria, and discontinuing action plans for non-compliance. However, fulfilment will need to be respected and checked through the entire period, not just at the start.

Ex-ante conditionality is not perceived to be a salient or problematic issue where challenges were not experienced in 2014-20 (e.g. Bizkaia, Finland, Vlaanderen), although a simplified approach is still supported. The decreased number of enabling conditions is especially welcome (e.g. Portugal, Croatia, Sweden, Vlaanderen), as is the ending of obligatory action plans (Croatia). For Warmińsko-Mazurskie, a positive development is the formulation of conditions in such a way that responsibility for implementation rests with the institution managing the programme. As a result, managing authorities will not bear the consequences of any delays at the national level.

The main concerns expressed by IQ-Net authorities are as follows.

- **Increased uncertainty and administrative burden.** Ongoing monitoring of conditionality throughout the entire period of implementation will cause MAs to operate under conditions of high uncertainty with a constant threat of financial suspensions (Warmińsko-Mazurskie, Czech Republic, Greece). Institutions will try to pass this risk, at least partly, on to beneficiaries, and that will not be a change for the better (Warmińsko-Mazurskie). For Portugal, a discussion is needed about how conditionality fulfilment will be monitored – how and by whom. Continuous verification of compliance annually is likely to lead to additional administrative burden and will incur administrative costs (Croatia, Czech Republic, Greece, Vlaanderen). Despite conditionalities being simplified on paper, it is unlikely that administrative burden will decrease (Sweden).

- **Legislative overreach.** Portugal agree that enabling conditions have a useful role to play in principle, but implementing conditions in a more demanding manner than the Directives they are supposed to address is highly questionable. Further, the Commission appears to be using conditionality as a tool to impose changes in Member States that are not integrated in the regulatory framework. First impressions highlight additional requirements compared to sectoral regulation demands, which are not acceptable (Czech Republic, Slovenia). The conditionalities touch on areas of national competence where ESIF represent a small proportion of investment and are problematic from a subsidiarity perspective (Wales). A lot of conditions were very detailed in 2007-13, and they require more discretion and discussion in the future (Portugal, Wales). In this context, the Czech and Greek authorities are strongly against linking payment claims with the fulfilment of conditionalities.
- **Lack of clear criteria and deadlines.** It is necessary to define an unambiguous interpretation of the criteria for assessing conditionality fulfilment, and a reasonable time for the assessment of the fulfilment to avoid restrictions on implementation activity (Croatia, Czech Republic, Greece). Further, since the CPR requirements are linked to priorities and not necessarily linked to all specific objectives, it is necessary to clarify whether each specific objective must meet the enabling condition (Croatia).
- **Weak coordination and capacity in the Commission.** In the past conditionalities emerged from the initiative of specific DGs, while discussions with Member States was led by DG REGIO, which sometimes was not sufficiently prepared or informed (Portugal). Future discussions should be organised in a different manner, with specific units/staff focusing on specific issues for each Member State, rather than in a generalised manner for all. More capacity on the Commission side is needed for this to work effectively and efficiently.

6.4 Budget flexibility

The Commission has proposed three main ways to support budgetary flexibility including a mid-term review in 2024-25 and the flexibility to transfer funds, both across priorities within programmes, and to other EU funding programmes and instruments.

6.4.1 The Midterm Review in 2024

A mid-term review is proposed by the Commission to provide flexibility to adjust programmes at the end of the period. Allocations for the first five years will be programmed, while the budget for the remaining two years – 2026 and 2027 – will be allocated following a review in 2024. The programming period will essentially become a 5+2 period with a reprogramming in 2025 to take account of challenges identified in the European Semester, the socio-economic situation, achievements and the technical adjustment of funding base don updated statistics.

Most IQ-Net authorities expressed concern or reservations about the proposed review, although there is **support for the principle of budgetary flexibility** (Croatia, Denmark, Finland, Pomorskie). Finland views that the review is not about the performance of the OP but about providing a possibility for updating the OP. This possibility is seen as valuable because the operating environment of the programmes is likely to change during the seven year programme period. The proposal for budget

flexibility is seen as unproblematic from a Danish perspective, and the MA to some extent sees an advantage in the possibilities for making programme adjustments towards the end of the period.

The main criticism is the **additional administrative burden and potential implementation delays** arising from a review. The 5+2 programming principle requires two rounds of programming within one financial perspective, implying additional administrative burden and potentially difficult negotiations with the Commission (Austria, Nordrhein-Westfalen). Due to the length and complexity of this process, delays in implementation will be a real danger towards the end of the period, also because some of the staff will have to be involved in the review process instead of actual implementation, and the review will constitute additional administrative burden (Warmińsko-Mazurskie, Croatia). The approach will lead to uncertainties in project selection in 2024/25 as budget allocations will not be clear, hampering long-term planning (Croatia, Vlaanderen) with negative effects on implementation if programmes are approved late (Czech Republic, Nordrhein-Westfalen, Sweden). Further, programming for five years means that the MA cannot approve projects that are implemented over a period longer than five years (Sweden). Vlaanderen considers the current approach of programme amendments approved by the Commission as more appropriate.

The absence of operational detail regarding operational modalities and funding envelopes is a second area of concern. It remains unclear how the review will be operationalised and work in practice (Austria, Portugal). For instance, it is not clear what would happen to the reprogrammed funds (Nordrhein-Westfalen). Croatia would only support the midterm review if national financial allocations throughout the whole duration of the MFF would be ensured and relevant provisions included in the legislative framework. Similarly, Pomorskie argues that indicative funding should be set out for priorities in 2026 and 2027 and that this funding should be reallocated within programmes/priorities and not across programmes. In Sweden, there is a preference for the full allocation to be decided from the outset although no particular problems would be expected in implementing a mid-term review. The Greek authorities would object to transfer of Cohesion policy resources to instruments that lack a spatial dimension.

6.4.2 Transfers across priorities

The second main aspect of budgetary flexibility proposed by the Commission is allow Managing Authorities to transfer five percent of a programme priority's budget to other priorities without Commission approval.

Most IQ-Net authorities **welcome the possibility of increased financial management flexibility** by enabling transfers between priorities without formal approval by the Commission (Finland, Croatia, Warmińsko-Mazurskie). However, it was also noted that, although this proposal appears to offer greater flexibility, a lot will depend on how it will be implemented in practice, once all the rules are seen and once audits have been undertaken (Nordrhein-Westfalen).

Increasing the proposed transfer limit would be desirable to ensure greater flexibility in implementation and financial management (Warmińsko-Mazurskie, Pomorskie, Sweden). Specific transfer caps proposed range from ten percent of a priority (Warmińsko-Mazurskie, Vlaanderen, Slovenia) to 15 percent (Pomorskie) or 20 percent (Czech Republic). A ten percent minimum is justified as the threshold is already used in the closure process (Slovenia). By contrast, the Nordrhein-Westfalen MA note that there is a positive aspect of rules which make it difficult to transfer funds between priority

axes insofar as the rules protect funding for priority axes which are slower or more difficult to implement but are nevertheless important.

6.4.3 Transfers to other EU Funds

The final proposal for budgetary flexibility is to allow voluntary transfers of ESIF funds towards the InvestEU instruments or to any instrument under direct or indirect management, including the Reform Support Programme.

There is some **support for the Commission's proposals**, which build on the Omnibus regulation. For instance, Finland is currently exploring the possibilities for transferring funds to EU Invest. However, it is also recognised that such instruments are not always appropriate e.g. traditional grants through Cohesion policy can be effective in supporting early-stage innovations.

The majority of opinion across IQ-Net authorities **oppose transfers to other EU Funds**. Vlaanderen is not in favour of extensive possibilities for transfers to other EU instruments, particularly as the Cohesion policy budget is already relatively small. A key concern in less-developed countries is that cohesion objectives would be undermined (Portugal, Warmińsko-Mazurskie) as instruments under central management are spatially blind (Greece). Centrally-managed EU instruments do not pursue cohesion objectives and would hamper efforts to reduce EU regional disparities or to promote multilevel governance (France, Portugal, Warmińsko-Mazurskie).

6.5 Strengthening the links with economic governance

To reinforce the links between Cohesion policy and economic governance, the Commission proposes to continue macro-economic conditionality and Country-Specific Recommendations (CSRs) under the European semester will be taken on board during programming (as before) and during the new mid-term review in 2024. Coordination will also be pursued with the new Reform Support Programme mechanism.

Several IQ-Net Member States and regions have voiced **support for a stronger link between Cohesion policy and economic governance** with greater emphasis on structural reforms (Germany, Netherlands, Sweden, Vlaanderen). Yet, there is also scepticism within Member States irrespective of the national position. For instance, the Nordrhein-Westfalen ERDF MA notes that, in principle, each Member State is best placed to understand the problems it faces and how to address them. There is a risk that Commission proposals could lead to greater interference in national sovereignty. In addition, the ESIF programming approach does not fit well with the CSR approach. In particular, the proposal to take the CSR on board during the midterm review are unlikely to work in practice because the programmes are based on a complex programming approach – how and why changes should be introduced in midterm in response to the parallel CSR process is not clear.

Many Central, Eastern and Southern Member States either have **concerns or are opposed to strengthened links between Cohesion policy and economic governance**. The Czech Republic, for example, is against the linkage of Cohesion policy and Country-Specific Recommendations (CSR) throughout the whole implementation period but in favour of 'positive incentives' for fulfilment of enabling conditions. Portugal is more supportive of economic governance links, although it also has a preference for positive incentives. Slovenia is supportive of stronger links with structural change but is concerned about the perverse logic of incoherent regulatory proposals. On the one hand, punitive measures for

non-fulfilment of deficit requirements are maintained, yet more restrictive financing conditions are proposed (such as EU co-financing) that increase the pressure on public budgets and deficits.

The annual and national logic of the CSR approach is also **not coherent with the multi-annual and regionalised character of Cohesion policy** programming and decision-making (Czech Republic, Warmińsko-Mazurskie, Pomorskie). Concerns about the centralising influence of the European Semester on Cohesion policy are also salient in France (Paris OP). In this context, Slovenia believes that the new Reform Support Programme for structural reforms would be better implemented under shared management rules.

Insufficient clarity between the European Semester and Cohesion Policy is Croatia's key concern, which is dependent on the new form of Country Specific Recommendations being developed by the Commission. A fiche explaining these links by the Commission is needed and expected. Portugal (and other Member States) requires clarification on the process, including how the two special semesters (2019 and 2024) will work and how the interlinkage with CSRs can ensure adequate responses, also to more global, structural challenges faced by the Member States.

The Greek position is the most critical of conditions on funding, and advocates the abolition of macroeconomic conditionality and any linkage of Cohesion policy with the European Semester and CSRs, except in duly justified cases and only if the recommendations are clear and closely linked with the objectives of Cohesion policy.

6.6 Simplification of shared management

Responding to ongoing concerns about the complexity of Cohesion policy administration, the Commission has proposed 80 simplification measures for 2021-2027. The detailed measures are set out in a Simplification Handbook. Key financial management simplifications include:²⁴

- **relying on existing management arrangements without a new designation process** with simpler rules for designating new bodies;
- **fewer layers of control** involving Certifying Authorities (CA) being replaced by an accounting function, which will not duplicate controls; however, in some countries the existing arrangements are valued, with a CA as part of the MA or as a separate body,²⁵ and there is an open question about whether this will imply a new designation with additional administrative effort;
- **a risk-based sampling method for administrative verifications**, instead of verifying 100percent of payment claims; and
- **a more proportionate system for low error rate programmes** involving reliance on national systems, no system audit, and a maximum audit sample of 30 operations.

Overall views on the simplification proposals are mixed. On the one hand, **simplification proposals are perceived to be genuine and useful**. Major French cities consider that real progress has been made in the field of simplification, while the Czech Republic IROP MA perceives the proposal as positive

²⁴ von Breska E (2018) *EU Budget for the future, CPR ERDF/CF ETC & ECBC*, CoR COTER meeting, 6 June 2018

²⁵ Joint Statement discussed by the Visegrad Group (Czech Republic, Hungary, Poland, Slovakia), Bulgaria, Croatia, Romania and Slovenia, 24th October 2018, Bratislava.

and providing simplification (such as omitting IB level for ITI authorities or non-compulsory ex-ante evaluations, amongst other issues)

However, there are also grounds for **scepticism that simplification will be achieved in practice**. The Nordrhein-Westfalen ERDF MA is concerned that the proposals offer the appearance of simplification but not actual simplification, for a number of inter-related reasons. Current and past experience shows that even when the ESIF regulations and OP negotiations have allowed simplifications, difficulties have subsequently arisen during audits requiring changes to simplification measures. Further, the legal terms used in the EU regulations are often unclear or underspecified and need to be interpreted by MAs. These interpretations can be contested by audit bodies and require retrospective changes. Lastly, efforts to reduce the number and detail of EU rules may lead to uncertainty, which affects the work of the MA and other authorities – because they know that audits may then generate problems. This is partly because, the less that is written, the stricter the AA / other audit authorities are.

Turning to specific measures, the proposed **reliance on existing management and control system is viewed positively** given the disproportionate burden created by the current designation process (Austria, Bizkaia, Czech Republic, Denmark, Finland, France, Croatia, Nordrhein-Westfalen, Pomorskie, Warmińsko-Mazurskie, Portugal, Sweden, Vlaanderen). While supportive, Finland will not be able to make use of the rule as the regional governance reform will come into force in 2021 leading to a restructuring of management and implementation responsibilities. However, there are some reservations about the extent of simplification that this will entail. First, Vlaanderen notes that the current period was also already a ‘light’ approval procedure but this did not work in practice, partially due to audit authority interpretation of the rules. Vlaanderen hopes that in post 2020 period the rules will be clearer and the process can be enforced. Second, the proposal to replace the Certification Authority implies major change to the management and control systems and it is unclear how this will be dealt with (Austria).

There is also appreciation for the proposal to **reduce the layers of control**, involving Certifying Authorities (CA) being replaced by an accounting function, which will not duplicate controls (Finland, Sweden, Vlaanderen). The proposed reduction in the number of inspections and audits is welcomed, but it should be noted that the draft regulation contains provisions allowing for derogation from the principle of one audit based on subjective criteria (i.e. “professional judgement”), which may invalidate this concept (Warmińsko-Mazurskie). In the current period, there are situations in which single projects are audited many times over a year, which causes unnecessary administrative burdens for both the Managing Authority and beneficiaries, even though the regulation allows this on an exceptional basis.

However, the importance of **maintaining existing Certifying Authority functions and roles** is stressed by several IQ-Net partners (Czech Republic, Croatia, Portugal, Slovenia). Portugal acknowledges the major importance of the CA function and the prospect of the CA not being maintained in the current form is of concern. It is believed that to a large extent the successful financial implementation (including low error) is due to the well-managed control of expenses sent to the Commission. This function is very important and should be reinforced. Croatia and Slovenia propose to keep the role and functions of the CA. By performing this function independently from the MA, the proper use of EU funds is better protected and safeguarded. Additionally, in Croatia there is currently one CA responsible for ERDF, CF and ESF, whose role is also to ensure unified approach in dealing with similar cases of potential and real irregularities, especially of those of systemic nature, and coordinate the responsible authorities in application of adequate proportionate corrective measures.

Others view the accounting function proposal as a **presentational simplification**, consisting only in a change of the CA name without significance for the functioning of the current mechanism (Warmińsko-Mazurskie). In the Danish context, this will not have a great effect because the CA is based within the Danish Business Authority which hosts the MA, and in practice much of the function is carried out by the MA itself. Similarly, in Nordrhein-Westfalen, the ERDF MA does not see that this change would make any real difference because the CA is already based in the same *Land* ministry as the MA and the two authorities work well together.

A risk-based sampling method for administrative verifications, instead of verifying 100 percent of payment claims, is supported and appears to be a positive simplification (Czech Republic, Denmark, Sweden, Pomorskie, Slovenia, Vlaanderen). This is currently already possible and is considered best-practice (Denmark, Vlaanderen), although in practice a 100 percent control regime is preferred (Pirkanmaa, Vlaanderen). Yet, questions remain about the operation of risk-based sampling in practice: How will “risk” be defined? Who will define “risk”? Who will assess “risk”? How will risk be assessed? There are some concerns that it could in fact lead to greater complexity. Further, there is a need to clarify what is meant by representative sample (Czech Republic), or to provide a uniform methodology to member states stipulating at least the minimum sample applicable for all forms of verifications (Croatia). It is not yet clear whether the risk management strategy is to be developed by the MA, or the Commission to ensure standardization for national and EC auditors. The latter is preferable for Croatia because a risk-based approach could lead to errors occurring in the population that is not checked by the MA but is later detected by the AA or EC auditors, who might select a different sample.

A more proportionate system for low error rate programmes involving reliance on national systems, no system audit, and a maximum audit sample of 30 operations, is supported in principle (Austria, Denmark, Finland, France, Warmińsko-Mazurskie, Vlaanderen, Sweden, Slovenia, Portugal). Again, the Nordrhein-Westfalen ERDF MA agrees that this sounds positive but is scepticism about what it would mean in practice. There are concerns that it could in fact lead to greater complexity. There is uncertainty about how errors will be defined, and who will define errors. At present, errors are often defined only during audits and then applied retrospectively. This leads to a serious increase in the administrative burden. Moreover, this approach leads to a bad name for the ESIF among potential recipients i.e. it is seen as relatively easy to obtain EU funding but as very difficult to retain this funding.

Regarding the sample of operations, Vlaanderen notes that a maximum of 30 projects annually remains fairly large for a small programme with a limited number of (ca. 200) projects. Croatia argues that the proposal should be changed to a non-statistical sampling method covering a minimum of five percent of the sampling units in the population comprising less than 300 sampling units and ten percent of the expenditure in the population of the accounting year, selected randomly. In this way, the approach for non-statistical sampling would be equal to the approach prescribed for the current programming period. Croatia considers that even with this minimum of coverage during the audit of operations, the purpose of conducting this audit would be achieved.

Finally, **a simpler process for acceptance of accounts** is supported to reduce administrative burden of the MA (Portugal, Pomorskie, Sweden, Slovenia, Warmińsko-Mazurskie). Potential drawbacks in some specific aspects regarding timing and deadlines have been raised (Czech Republic), while Nordrhein-Westfalen sees this change as an additional risk rather than simplification. Similarly, Vlaanderen argues that this simplification should go beyond the obligation to submit “zero accounts”. The complete procedure for closure of accounts should be simplified.

6.7 Financing conditions

The slow launch of programmes and pace of spending in 2014-20 has been a challenge for implementation with negative political implications for debates on the performance of EU Cohesion policy in the context of the MFF review and reform. To speed up absorption the Commission has proposed to **return to the n+2 decommitment rule** whereby committed funding can be lost to the programme if it is not spent within two years as opposed to the three-year rule used in 2014-20.

A number of IQ-Net authorities consider that **a return to the n+2 rule could be counterproductive** with damaging consequences for spending and results (Czech Republic, Croatia, Portugal, Warmińsko-Mazurskie, Pomorskie). Project most at risk of non-compliance with n+2 targets include large and complex infrastructure projects with lengthy planning and implementation schedules (Greece, Croatia, Warmińsko-Mazurskie), INTERREG projects (Portugal), smart specialisation projects and territorial instruments (Greece). Nordrhein-Westfalen note that if n+2 were in place in 2014-20, the OP would have failed to meet targets, whereas there have not been any difficulties in meeting n+3 to date.

Overall, the expected impacts are strong financial pressure at the launch phase that may penalise project quality; overlap with the 2014-20 programmes in 2023, which adds to financial pressure and can reduce project quality; and a loss of liquidity if the reduction of pre-financing is maintained. Moreover, slow take-off in the current period is the strongest argument against an n+3 rule, given that a key contributory factor was delays in EU legislation and supporting documents; and there is no evidence that stricter rules would result in quicker implementation especially if regulations or programme approval is delayed (Czech Republic, Greece, Croatia, Slovenia)

A reduction in pre-financing levels is a second Commission proposal aiming to speed up absorption, which would in the future constitute 0.5 percent of programme resources to be paid each year except for the final year 2027. Again, the risk is that less pre-financing will lead to liquidity challenges and constrain implementation especially in less-developed countries with fiscal constraints. For Warmińsko-Mazurskie, the delays in advances will be particularly challenging for Technical Assistance (e.g. staff costs) leading to a lack of financial liquidity for the institutions responsible for implementing the programmes. Portugal foresees a number of negative effects arising:

- reduced liquidity impacting on launch and N+2 achievement;
- insufficient pre-financing to guarantee advances, especially to Financial Instruments, State aid schemes and ESF+;
- hindered implementation of Simplified Costs in national terms, including for Technical Assistance; and
- eligibility of expenditure up to 31 December 2029 and annual advances planned only until 2026.

Similarly, Croatia believes that the current yearly pre-financing provides significant benefits for the programme beneficiaries when starting their projects, especially in less developed regions. The proposed decreased amounts of pre-financing will also have unfavourable impact on the decommitment limits and will affect the liquidity. In the period 2021-24, significant pressure will be on national level (both on the national budget and on the beneficiaries) to ensure liquidity for payments for projects, and this pressure will be especially high on Croatia. There are also potentially negative consequences in more developed countries and regions. For instance, Vlaanderen notes the proposals

could have a negative impact on the programme's drive to provide more funding for larger investment projects which generally are slower to spend funds.

Finally, reduced EU co-financing rates are proposed. The Commission argues that high EU co-financing rates are no longer necessary, since they were a temporary response to the crisis, and lower rates promote "ownership" and increase the overall Cohesion policy budget. The rationale is considered reasonable by some Member States (Finland, Slovenia, Sweden). However, there are strong concerns about:

- increasing financing capacity obstacles for beneficiaries and state budgets (Czech Republic, Croatia, Portugal) potentially blocking or delaying investment (Greece, Portugal), especially in countries under tight fiscal discipline (Greece);
- limiting the possibility of implementing projects by non-governmental organizations and local self-governments (Czech Republic IROP, Pomorskie);
- reduced flexibility to vary co-financing rates across project typologies and lower project quality (Czech Republic, Portugal);
- fewer incentives for participation (Austria), as EU co-financing of at least 50 percent is considered necessary to justify the additional administrative tasks and the orientation towards EU-level priorities (Nordrhein-Westfalen).