

## REACHING CRUISING SPEED? PROGRAMME PROGRESS, PERFORMANCE TARGETS & POLICY REFORM



**IQ-Net Review Paper 42(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 44th IQ-Net meeting held in Vienna, Austria on 13-15 June 2018. The paper was written by Rona Michie and Fabian Gal.

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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	EL
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

- The **implementation of ESIF programmes has accelerated**, although some thematic areas lag behind, as do payments.
- The average percentage of the total allocated to selected projects/operations under ESIF programmes is **54 percent** (EU and IQ-Net average). EU average expenditure eligible for reimbursement stands at **12 percent** (IQ-Net average 14 percent).
- Changing market conditions, institutional reform, new domestic legislation and new policy initiatives continue to impact on ESIF programme implementation. The **process of programme revision has become almost continuous**, especially in the run-up to the Performance Review.
- Project **uptake is improving** in most programmes, and peak project flow has already been passed in several. Regional and thematic variation continues especially under low carbon, environment, climate change and RTDI themes, and where labour market changes have been experienced. New implementation mechanisms introduced in 2014-20 continue to affect uptake e.g. around implementation of ITI.
- Other **implementation issues are still posing challenges**, including approval of the MCS, audit burden, State aid, public procurement and delays in certification.
- Varied use is made of **Article 70** but it appears to be most useful where a Member State has several OPs each covering different regions within the country.
- Good progress is reported in implementation of **financial instruments**, although funds have often been slow to reach final recipients and many implementation challenges still exist, relating to administrative complexity and unpredictable demand.
- **Evaluation** activity is underway in most programmes, especially with a view to informing future policy and the Performance Reserve.
- The main priorities for programme managers over the **next six months** include n+3, meeting the Performance Reserve milestones, progressing OP modifications and accelerating programme implementation.
- While achieving the mid-term targets set for the **Performance Reserve** is not expected to cause difficulties for several IQ-Net programmes, most report being at risk of not meeting targets, due to for example:
  - the progress of individual thematic areas varying widely
  - implementation delays
  - difficulties concerning indicators and targets
  - lack of demand under some areas.
- Various approaches are being taken to address these challenges, including **modifying OPs**.
- Discussion on the post-2020 reform of Cohesion policy has been ongoing, and recent publication of the **concrete legislative proposals for 2021-27** now provides a focus for continued engagement and debate on this topic by IQ-Net programmes





## 1. INTRODUCTION

While at strategic level the future shape of Cohesion policy is being debated, at programme level the day to day work of managing programme implementation continues. Four years in to the 2014-20 programming period, the Commission's strategic report for 2017 asserts that the implementation of ESIF programmes has now reached 'cruising speed'. This paper examines the experience of IQ-Net programmes over the last six months, and finds that although implementation is certainly gathering speed, some important challenges remain. While some of these have been externally imposed (such as changes to the economy and labour market, Brexit), others are a legacy of the regulatory changes introduced for this programming period.

This paper reviews progress in the implementation of ESIF programmes in the IQ-Net countries and regions over the last six months, and is structured as follows:

- Section 2 reviews the latest financial data at EU level and at programme level on commitments and payments, and discusses some of the known issues with this data.
- 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 main issues currently facing project generation and selection.
- Section 4 reviews developments in programme implementation, including use of Article 70, financial instruments and evaluation, as well as looking at programme priorities for the next six months.
- Section 5 provides an update on the Performance Review for which ESIF programmes are preparing, due to be carried out by DG Regio in the second half of 2019.
- 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

The Commission's Strategic Report 2017 provided the first strategic overview of the implementation of 2014-20 ESIF programmes.<sup>1</sup> Published in December 2017, the report summarises Member States' implementation and progress reports, covering the period from 2014 to the end of 2016. The report concludes that programme implementation has now 'taken off and is reaching cruising speed'....but warns that the **accelerated pace of implementation** must now be followed by '**a strong and quick increase in actual spending**'.

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<sup>1</sup> European Commission (2017) Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *Strategic Report 2017 on the Implementation of the European Structural and Investment Funds*, SWD(2017) 452 final, Brussels 13.12.2017, COM (2017) 755 final.

### Box 1: Main findings: Strategic Report 2017

- Despite gradual economic recovery in the EU, **regional disparities persist** in growth and unemployment rates, alongside **increasing inequality in disposable incomes**. The profound impact of the crisis on public sector budgets and on investment has granted more importance to the co-financing provided by ESI Funds.
- **New challenges** have arisen since the start of the programming period, including large numbers of refugees and migrants, and natural disasters. These have had an uneven impact on EU Member States, regions and cities.
- Under ESIF, project selection rates in 2014-20 are comparable to same time during the previous period, with a high (although variable) **acceleration reported during 2016**.
- Satisfactory implementation rates are reported under most key areas. A few **lagging areas** are mentioned – these include: the modernisation of labour market institutions; measures for the socio-economic integration of marginalised communities; health-related measures; social inclusion in deprived urban areas; life-long learning activities; waste recycling projects; and on-the-ground investment under major projects.
- The report provides an update on 2016 data, stating that recent reports indicate **stronger progress in 2017**, with 44% of funds allocated to projects and 13% of payments by the end of October 2017, with payments expected to further accelerate in the coming months.
- Overall, **progress in ESIF implementation is considered to have been significant**, but remaining challenges are highlighted – particularly in ICT investment, the low carbon economy and support for administrative capacity-building for MAs and beneficiaries.

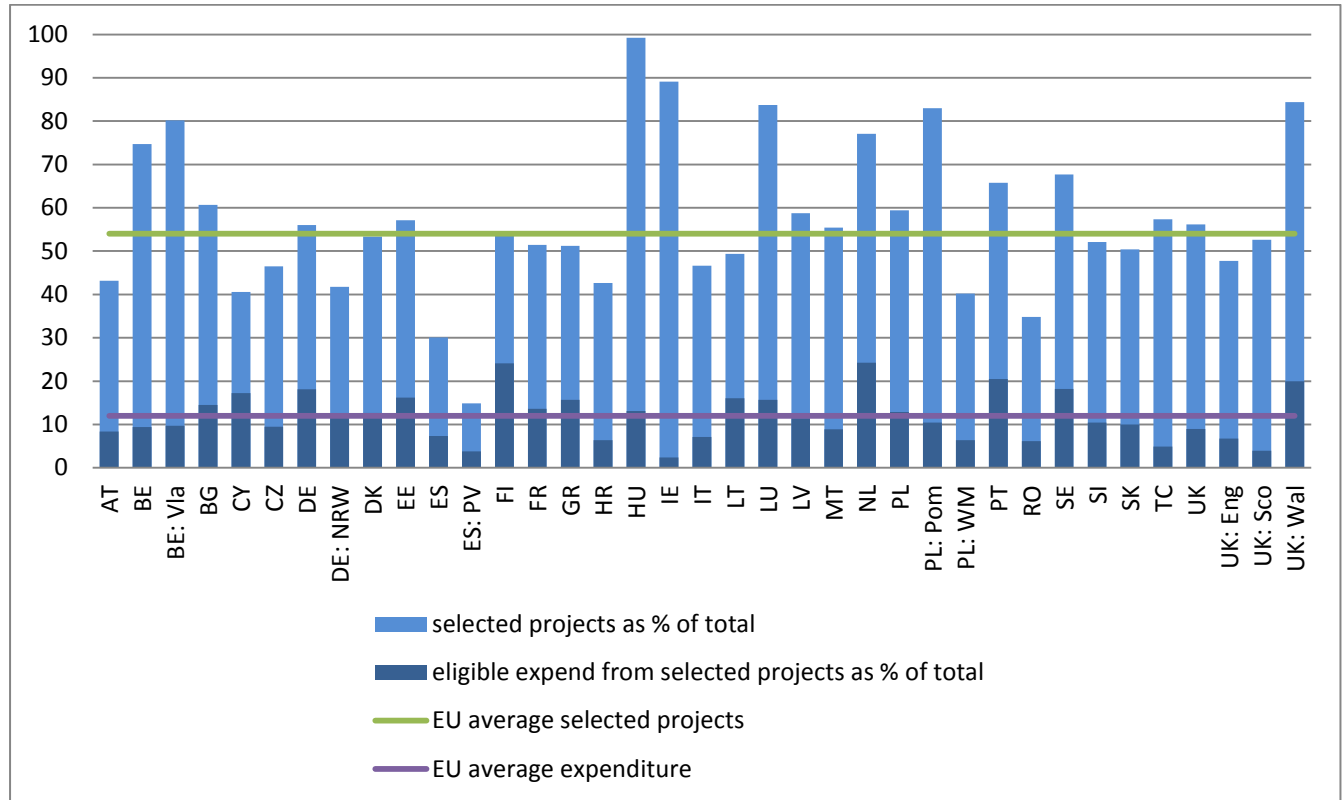
**Source:** European Commission (2017) *Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions*, Strategic Report 2017 on the implementation of the European Structural and Investment Funds, SWD(2017) 452 final, Brussels 13.12.2017, COM (2017) 755 final.

## 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 opendata platform. Among other data, this platform collates the latest aggregate information on the total amount (EU plus national financing) allocated to selected projects (operations) selected by the programme managers, and the total expenditure eligible for reimbursement as reported by the 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 covers the period up to the end of 2017 (see also Section 2.3) More up to date information is available at programme level, but currently the opendata platform 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 the end of 2017 was 54 percent (see Figure 1), increased from 39 percent at the end of September. The average rate for IQ-Net programmes was also 54 percent, up from 40.6 percent. Among IQ-Net programmes, 'commitment' rates higher than the average can be seen in Vlaanderen (80 percent), Pomorskie (83 percent), Portugal (66 percent), Sweden (68 percent) and Wales (84 percent).

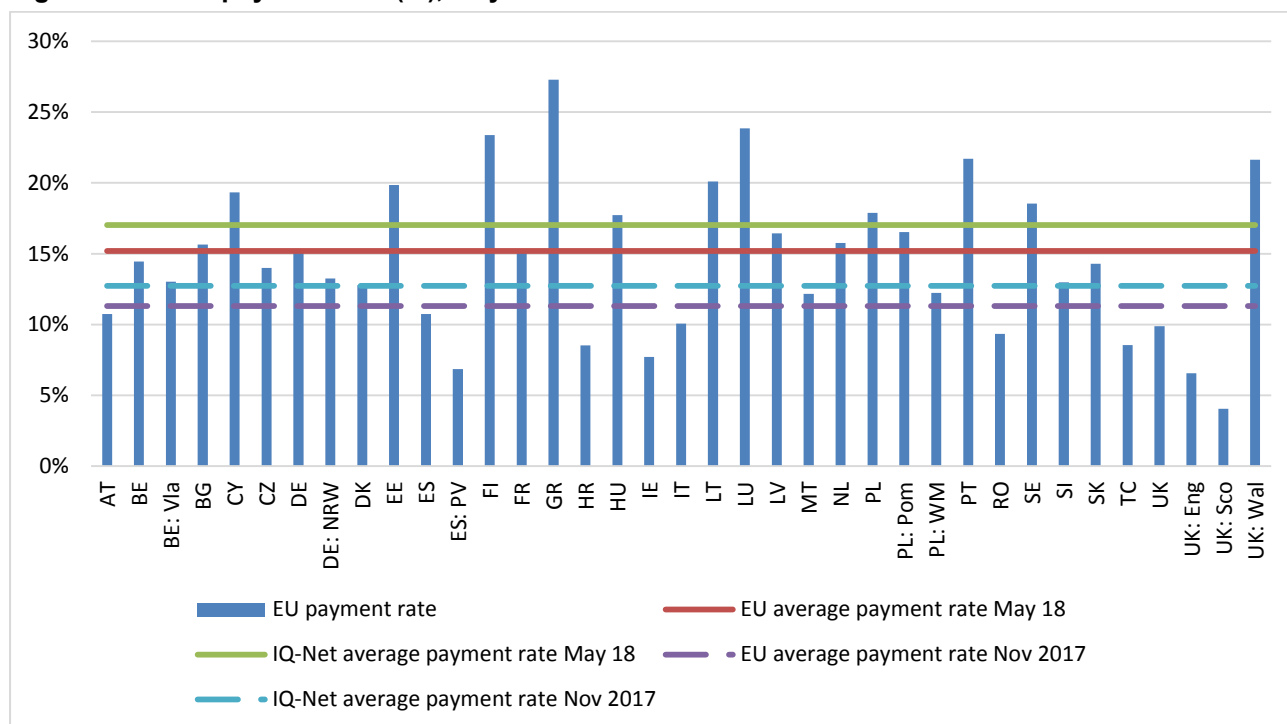
**Figure 1: Overview of ERDF/ESF/CF implementation - % of planned**


**Source:** opendata platform, data accessed 29 May 2018. Data is for the period up to 31 December 2017.

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 end 2017 was 12 percent. The IQ-Net average was slightly higher at 14 percent (as compared to the average for non-IQ-Net programmes of 11 percent). Several IQ-Net programmes were above this rate, including Denmark (13 percent), Finland (24 percent), France (14 percent), Greece (16 percent), Portugal (21 percent), Sweden (18 percent) and Wales (20 percent).

## 2.1.2 EU payment rates

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



Source: opendata platform 18 May 2018.

The opendata platform also presents data on cumulative EU payments made to date to the Member States from ESIF for 2014-20 ('EU payments') as a percentage of total available funds (see Figure 2). Both the EU and the IQ-Net averages have increased since November 2017 – from 11 percent to 15 percent for the EU average, and from 13 percent to 17 percent for the IQ-Net average. Note that these figures include advance payments. Among IQ-Net programmes, Finland, Greece, Pomorskie, Portugal, Sweden and Wales have payment rates above the EU average.

## 2.2 Programme-level data

Programme-level data on OP 'commitments' and 'payments' may be more up to date than Commission data, but are problematic to use to compare progress; they tend to cover different time periods and a range of different OP types - national, regional, ERDF, ESF and multi-fund OPs. At programme level the wide variation between OPs, priority axes and regions can be seen.

- There is wide **variation between priorities** e.g. in Austria commitments range from 24 percent under low carbon to over 70 percent for SMEs, and payments range from nearly 7 percent for city-regional cooperation and CLLD to over 12 percent for SMEs. Similarly in Nordrhein-Westfalen, commitment rates vary between priority axes, from 14 percent in sustainable urban development / preventing social exclusion to over 50 percent for RTDI.
- There is **variation between priority axes and regions** e.g. commitments range from 28 percent for entrepreneurship in West-Vlaanderen to 100 percent in Limburg for the low carbon economy.

- Rates **vary between Funds** – e.g. in Slovenia, the ERDF part of the OP has rates of 50 percent selected; 8 percent paid. The ESF part of the OP has rates of 82 percent selected and 16 percent paid. The Cohesion Fund part of the OP has rates of 58 percent selected and 19 percent paid.

## 2.3 Data issues

Several issues should be kept in mind when viewing data on the progress of financial implementation of ESIF programmes. The dataset on the opendata platform provides time series information on the financial implementation of the ESIF programmes, in current prices and in cumulative form. 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.

One of the opendata platform datasets (see Section 2.1) describes financial implementation data in terms of amounts (€) decided and spent, as a percentage of planned expenditure. This dataset refers to: (a) decisions on the selected projects to deliver the objectives of the programmes (selected operations; and (b) on the actual investment expenditure declared by the projects to the programmes.

After the submission deadline, the data are published on the opendata platform within 4-6 weeks of receipt. As there is a time lag between the EU-level and programme-level data, MAs have access to a more up-to-date picture on the financial implementation of their programmes. On the other hand, data on EU payments (cumulative payments made by the EU to Member States and Interreg programmes from ESIF) are updated daily.

There is no formal EU definition of 'selected operations'. The interpretation of this term in a selection of IQ-Net programmes can be seen in Table 1. Many of the interpretations are very similar, but, as operations are selected in different ways under different ESIF implementation systems (with different types of selection process and varied selection criteria), these are difficult to compare. Data on declared expenditure may be more reliable, but even these does not provide an insight into, for example, the existence of a pipeline of projects nearing approval.

**Table 1: Defining 'selected operations'**

<b>MS/region</b>	<b>What are 'selected operations'?</b>
<b>AT</b>	When a contract has been signed and data entered into the monitoring system
<b>BE: Vla</b>	Operations that are formally approved by the MA
<b>CZ</b>	Projects that are covered by a legislative act i.e. decision on grants provision
<b>DE: NRW</b>	Committed funding
<b>FR: Auvergne</b>	Amount which appears in the funding contract the MA signs with the beneficiary
<b>HR</b>	An operation for which a grant contract has been signed
<b>DK</b>	Expenditure from interventions
<b>FI</b>	Decisions made on the EU funding of a project
<b>PL: Pom</b>	Projects with signed co-financing agreements
<b>PI: WM</b>	Signed co-financing agreements with the beneficiary
<b>PT</b>	Operations approved by the MA
<b>SE</b>	No written definition - refers to projects that have been granted funding, but have not received or spent the funding
<b>SI</b>	The MA approves the instrument for selecting the operation, not the operation (unless it is directly approved). The actual selection of operations is done by the IB. "Selected operations" are understood as selected projects, programmes or groups of projects by the IB, on the basis of public calls for proposal or other mechanisms for selection, as defined in domestic legislation.
<b>UK: Eng</b>	Operations which have received full approval and the grant funding agreement has been signed and returned by the applicant
<b>UK: Sco</b>	Grant offer accepted and signed
<b>UK: Wales</b>	Use 'approved' rather than 'selected' projects – refers to when a grant offer letter has been issued. 'Committed' means the project sponsor has signed and returned the letter.

**Source:** IQ-Net research.

**Box 2: Defining commitments of EU funding and co-financing in Finland**

In Finland, commitments and funding (EU and national co-financing) is allocated to the regions via the Ministry of Employment and Economic Affairs (i.e. the MA) on an annual basis. The respective regional authorities (i.e. regional councils/the Centres for Economic Development, Transport and the Environment (ELY Centres)) in turn make decisions on the funding that will be awarded to projects. Therefore, 'selected operations' are decisions made on the EU funding of a project.

There are some additional procedures in place regarding 'commitments' of other co-financing (i.e. any other public and private co-financing) in some regions. For instance, in West Finland, it has been agreed that there needs to be a more rigorous approach by the individual regional councils when it comes to giving a go-ahead for other co-financing. In other words, it is not sufficient just to have an informal note from the project partners to say that they will commit to the project. Rather there needs to be a more formal commitment (e.g. letter of intent or a formal commitment by the projects to co-financing by email) by the project partners to ensure that funding is in place, or that they will cover any additional costs themselves. These procedures are in place to avoid problems in terms of final funding (i.e. so that the regional council cannot be held accountable for the final, 'missing' co-financing).

A related issue concerns the definition of 'selected operations'. In the 2007-13 programme period, these were called '*sidonnat*' (commitments), while in the current programme period another term '*varannot*' (reserved funding) is used. This is because the availability of municipal co-financing should be viewed as an expectation / wish that municipal co-financing will be available for projects, rather than a 'commitment'.

**Source:** IQ-Net research.

## 2.4 N+3 and automatic decommitment

While many IQ-Net programmes do not anticipate problems meeting n+3 in 2018, this is not universally the case. Meeting n+3 is expected to be very challenging for the Integrated Regional OP in the Czech Republic, due to the nature of the majority of projects i.e. large investment projects with a long period of completion and projects that require public procurement procedures. In addition, particular markets (building companies, IT companies providing IT solution for schools, and restoration companies) are overwhelmed with work due to the large concentration of ESIF projects being carried out within a short period of time. Consequently, approved projects are struggling with completion as suppliers of services and goods in high demand are overloaded. The National Coordination Authority welcomes that the n+3 rule is not connected to particular types of regions and thematic objectives, as this has helped many Czech OPs. Meeting n+3 will also be a challenge for the England ERDF OP, although the MA is anticipating spending around £224 million on Financial Instruments before the end of 2018, which should help them meet the target.

The Scottish programmes did not meet n+3 in 2017. Although the response by project sponsors to the MA's request to submit claims to minimise the risk of decommitment went well, the level of errors in claims meant that not all claims were paid by the cut-off date to submit a payment request to the EC. Automatic decommitment also took place for YEI funds, which proved difficult to spend as the unemployment rate fell, and there were fewer potential participants. In addition, available participants

faced multiple barriers and were better suited to support from a different source of ESF, via local authority employability pipeline projects. However, the change in the exchange rates between GBP and the Euro meant that this did not reduce the originally planned amount of funding for the programmes, and the MA is working with the EC on the required refinancing plan.

## **2.5 Suspensions of payment in 2017**

Among the IQ-Net programmes, there are currently suspensions of payment in the Czech Republic and Scotland. In the Czech Republic, the April 2018 suspension applies to the OP Enterprise and Innovations for Competitiveness due to a high error rate. The Scottish programmes are also currently in suspension, until issues identified by the Audit Authority have been resolved. Three audits carried out on ESF processes identified issues and made a number of recommendations. In each, the audit trail was not complete enough to satisfy the EC. The MA is currently working with audit colleagues to address the EC concerns and checking all work carried out to date.



### 3. CURRENT PROGRAMMING ISSUES

#### 3.1 Domestic changes with an impact on ESIF programmes

The main domestic developments with a potential impact on ESIF programmes include changing economic conditions, domestic institutional reforms (ongoing and proposed) and new legislation and policy initiatives.

**Changing market conditions** are having an impact on demand in Poland, particularly at regional level. Large amounts of funding are available in the regions from the ROPs and national OPs but the market is weak, and this is causing ‘overheating’. For example, the availability and supply of construction companies to carry out infrastructure projects is limited and their costs are increasing. Labour market conditions are also having an impact, with unemployment at an historic low in Pomorskie, where a huge demand for workers is being experienced. Ukrainian workers are helping to fill this gap (Poland currently has one of the highest levels of in-migration of short-term economic migrants in the EU). This is affecting project demand under some OP priorities, and will impact on Performance Reserve targets, which were set under different conditions. In Scotland, a fall in the unemployment rate has affected the ability to find participants for YEI, making this money more difficult to spend. More austere conditions are being experienced in Vlaanderen, where **budget cuts and staff reductions** continue to be imposed across the public administration. In the 2007-13 period there have been cuts of 25 percent in personnel. However, the MA has recently been able to attract additional staff, relieving some of the pressures.

**Institutional reform** is an ongoing issue and several countries and regions are currently experiencing changes.

- **Proposed domestic institutional reform** may be significant for the future management and implementation of the ERDF and ESF 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, has recommended abolition of the six regional Growth Fora and Denmark's Growth Council, and their replacement with a single Business Development Board.<sup>2</sup> This would involve a **centralisation of business development policy** (including administration of Structural Funds), and would reduce the role of regional stakeholders' representation in the Monitoring Committee. Based on these recommendations, the Danish Government will start political discussions on how to simplify the business support system. The interest organisation Danish Regions has responded to the recommendations with a critical memo underlining that the proposal entails a substantial centralisation of both funds and strategy for regional development initiatives, weakening the Government's strategy of “a balanced Denmark”, as part of which they have in recent years relocated several state institutions away from the capital region.<sup>3</sup> Following a swift process, on 24 May 2018 a political agreement was presented that will abolish the role of the regional level in relation to business development and centralise the allocation of the ERDF and ESF funds to a national

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<sup>2</sup> Report and presentation in Danish: <https://em.dk/nyheder/2018/04-06-forenkling-af-erhvervsfremmesystemet>

<sup>3</sup> Danske Regioner (2018) Danske Regioners kommentarer til forslag fra Forenklingssudvalget. Notat. 06-04-18. p. 2.

Business Development Board.<sup>4</sup> Leading up to the agreement, the Government reached a mutual understanding with the interest organisation Local Government Denmark (KL) to strengthen the role of the municipalities in the business support system. The Government will develop legislative proposals to amend the Act on Business and Regional Development, the Act on tourism, and the administration of the ERDF and ESF in order to implement the changes.

- **A more pro-active approach to supporting businesses** is planned by the Enterprise and Innovation Agency in Vlaanderen. The agency will increasingly aim to assist businesses with identifying grants and support. Similarly, Tillväxtverket in Sweden have tried to **remove barriers between those working with national funding and those working with ERDF** funding, to support cross-over learning.
- In Finland, the key ongoing issue concerns the **regional reform**. As noted in the November 2017 review paper,<sup>5</sup> the reform has been delayed by a year (to be implemented in 2020). Although the implications for the regions are not yet significant, there has already been an effect on the Regional Council resources. For instance at the Council of Tampere region (West Finland), staff have been transferred to work with the unit dealing with the regional reform, and additionally new staff members have been employed for this purpose. There are some implications e.g. on ESIF payments due to the (more) stretched staff resources.
- **In Austria, federal responsibility for regional policy**, including EU Cohesion policy, was moved by the new Austrian government from the Federal Chancellery to the newly created Ministry for Sustainability and Tourism (which also includes agriculture and energy, amongst others) after the elections in October 2017.

The impact of **new and proposed domestic legislation** is anticipated:



In the Czech Republic, the Acts on Administrative Rules and on Budgetary Rules in response to the decision of the Highest Administrative Court on meeting the requirements of the national administrative rules - also for ESIF - are expected to have a significant impact, with the adjustment of all rules/guidelines at national level by the National Coordination Authority and individual MAs.



In Greece, a new legal framework on public contracts is expected to accelerate the ESIF implementation process.

**New policy initiatives** may also have an impact on ESIF programmes. For example, the new national 'Accessibility Plus' initiative in Poland aims to **improve accessibility for older and disabled people** (in terms of transport, public infrastructure etc.) to ensure Polish conditions meet legal requirements. This would be a substantial initiative (PLN 20 billion) and the source of the funds is not yet clear. Although supportive of this initiative, regional and local authorities are concerned that funding may be drawn from their budgets and from ESIF.

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<sup>4</sup> <http://em.dk/nyheder/2018/05-24-politisk-aftale-giver-et-enklere-og-mere-effektivt-erhvervsfremmesystem>

<sup>5</sup> Michie R and Dozhdeva V (2017) *Halfway there? Taking stock of ESIF programme implementation*, IQ-Net Review Paper 41(1), European Policies Research Centre.

Some uncertainty related to **Brexit** has been eased for the UK programmes. The UK is due to exit the EU on 29 March 2019, with a transitional period until 31 December 2020. Political agreement to date allows for UK continued participation in ESIF programmes until the end of the 2014-20 period.<sup>6</sup> In the meantime, the programmes are progressing 'business as usual', although some are adhering to a more compressed timetable of deadlines. While the transition arrangement has lifted some of the uncertainty, there is still uncertainty as to how it will work in practice, and some reluctance by applicants to enter into long-term projects has been noted. One result is the extension of existing projects (England, Scotland). In the meantime, preparations are ongoing at UK government level for 'replacement' funding, in the form of a 'Shared Prosperity Fund' (for which no concrete information is yet available).

### 3.2 Programme evolution

As reported in the November 2017 IQ-Net review paper,<sup>7</sup> the process of programme revision has become almost continuous in many, if not all, programmes. Six main 'triggers' for recent and anticipated change can be identified:

- changes needed in the context of the **Performance Reserve** (discussed in Section 5);
- changes resulting from **wide-ranging programme reviews** as in Greece, Portugal and Scotland;
- **transfers between underperforming priority axes** or investment priorities;
- revisions addressing changes in **economic or market conditions** (see Section 3.1);
- changes to address **additional funding** made available under the review of Cohesion policy budget 2017-20; and
- minor '**technical**' adjustments.

Most of these revisions are expected to have little or no impact on the balance between thematic objectives, with some exceptions. In the Czech Republic, for example, the principles of thematic concentration have been respected so far, but additional pressure on reallocations (due to low absorption in some themes) is expected to potentially threaten the rules for thematic concentration. TO1, TO2 and TO4 are found to be particularly challenging, and the National Coordination Authority plans to initiate debate at EU level on what approach will be taken by the Commission where the principles of concentration are broken. In the context of the planned global re-programming in Portugal, some alterations of boundaries between TOs are foreseen (e.g. affecting TO9, TO4), although such alterations will always follow the rules of thematic concentration.

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/665869/Joint\\_report\\_on\\_progress\\_during\\_phase\\_1\\_of\\_negotiations\\_under\\_Article\\_50\\_TEU\\_on\\_the\\_United\\_Kingdom\\_s\\_orderly\\_withdrawal\\_from\\_the\\_European\\_Union.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/665869/Joint_report_on_progress_during_phase_1_of_negotiations_under_Article_50_TEU_on_the_United_Kingdom_s_orderly_withdrawal_from_the_European_Union.pdf)

<sup>7</sup> Michie R and Dozhdeva V (2017) *Halfway there? Taking stock of ESIF programme implementation*, IQ-Net Review Paper 41(1), European Policies Research Centre.

Planned changes in IQ-Net programmes include the following:



In Denmark, the **regions are preparing a common proposal** for the MA suggesting OP changes. One of the expected recommendations involves ERDF PA 1 which currently requires the participation of two enterprises and one knowledge institution in each intervention. A proposal will be made to make it possible to only include one enterprise.



In Finland, discussions are being held regarding the option of increasing the **Technical Assistance** (TA) budget from three to four percent, covering the last two years of the programme period (2019-20). The additional funding would be used to cover expenses of the EURA2014 system. The TA budget increase is made possible by the additional national ERDF funding, which has not been used, so increasing TA is relatively straightforward for ERDF. However, a similar increase for ESF would require funding to be reduced from one of the other ESF OP Priority Axes.



In Portugal, one of the main lines of the planned global re-programming is the reinforcement of business support, accompanied by an **increase in non-repayable support**. A total of €1.6 billion was foreseen to finance businesses via FIs, but the original FI plans were made on the basis of an unfavourable macro-economic climate (poor access to credit for businesses etc.). The situation has since changed, so the FIs that are offered are less competitive and less attractive, and there has not been enough demand. A change is planned to be made to the current incentive scheme, with the introduction of a new, 'hybrid', instrument combining grants with FIs for the same projects to promote greater leverage of funds.

### 3.3 Project generation issues

Project uptake is generally found to be **improving/accelerating** in many programmes (AT, HR, CZ, CZ IROP, DK, FI, NRW, SI, PV, SE, Vla, Wal, WM), or at least the project pipeline is promising (Eng). In several programmes, peak project flow has already passed (NRW, Pomorskie, SE, Vla), as with high levels of contracting already achieved, it is natural for project uptake to start slowing down. In such cases, progress may be more challenging for the remaining small proportion of funding, if this allocation is dedicated to more 'difficult' topics. Even where uptake is satisfying overall, there is regional and thematic variation.



TO4 **low-carbon measures** are still found challenging (AT, CZ, DK, FI, NRW). In Burgenland (AT), for example, there is strong competition for this theme from domestic funding sources. In contrast, the situation with TO4 has improved in SE, where the MA has focused their efforts on improving the project uptake. In the East Wales OP, funds are being moved out of energy efficiency for housing and small-scale community energy.



The TOs for **Climate Change** (TO5) and **Environment** (TO6) are making slower progress in England, resulting in OP changes. Similarly, there are problems with large and complex projects in the field of climate change, risk prevention, and anti-flood measures in SI.



**R&D projects** under TO1 have been challenging in Pomorskie, due to the higher levels of inherent risk associated with R&D projects, and the need for highly-qualified, specialised personnel and enterprises with a certain level of maturity (such as an R&D budget and sufficient expertise). It has been more difficult for research and innovation cooperation projects that include SMEs as well and research centres in Auvergne (FR), as potential beneficiaries are found to not necessarily have the time and administrative capacity to manage the procedures that come with ERDF support. In Warmińsko-Mazurskie, there are a limited number of bodies involved in RTD to take up the funds offered by the ROP. However, the MA has benefited from the advice of an external expert working on behalf of the Commission, whose task was to identify activities that would contribute to accelerating the progress of OP implementation in the area of smart specialisation.



**Labour market changes** have affected demand for employment-related support (DK, Pom, Sco, WM). Under ESF in Denmark, there have been challenges with allocating funds for inclusion through education and employment, related to the current economic upturn meaning that enterprises prioritise competence development for their employees to a lesser extent.

**New implementation mechanisms** continue to affect project uptake. In Vlaanderen, for example, despite the good progress of project uptake in general, there are concerns about the number of calls that are being progressed due to the existence of ITI, which all require calls for each priority area. As the MA 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. Additionally, the projects in the ITI (with the exception of Limburg) tend to be smaller, whereas the quality and size of projects under the general programme calls are much larger and have a greater impact. In Scotland, Phase II of the programmes has been launched following the programme review. The MA launched in February a call for applications for the second phase of the programmes with the aim to fully commit

remaining funds by the end of the year. Extension of existing Strategic Interventions and operations will be considered provided there are no significant changes.

### 3.4 Other implementation issues

A wide range of other programming issues are still on the agenda, including the approval of the monitoring and control system, audit burden and State aid issues.

#### *(i) Monitoring and control systems (MCS)*

**Approval of the MCS** is still pending in Austria. The last description of the system was sent to the Commission in November 2017, together with an audit report by the domestic Audit Authority, which included a to-do list on which the MA has been working between November 2017 and April 2018. At the same time, the Commission has requested some documents and had questions for clarification, to which replies were sent in April 2018.

#### *(ii) Audit*

The **audit burden** is considered to have increased significantly as compared to the previous programming period in Auvergne (FR). Auvergne is the most audited OP in France - most audits were executed by the AA but the Commission has also audited the OP. A total of 30 operation checks are scheduled and beneficiaries are also checked, although the error rate is lower than one percent. The main problem reported is that there is a lack of time for preparing and responding to audit requests. The reasons for this comparatively high burden might be that the OP certified a very large project at the start of the programming period. Given that in France all OPs rely on one centralised AA, the AA's statistical sampling methodology may have required checking the Auvergne OP more frequently.

#### *(iii) State aid*

State aid issues have been highlighted in several programmes. There have been issues around interpretation of State aid rules, in particular the eligibility of projects under the General Block Exemption Regulation (GBER) in England, although these have not had a major effect on programme delivery. For example, marketing is allowed under the ERDF rules but one of the GBER articles does not allow it as an eligible expense, so it cannot be approved if a project is deemed to be State aid. The Commission definition of entities receiving grants has created some problems in Pomorskie. This relates primarily to measures where the Pomorskie Development Agency has used EU funds to purchase and develop sites for business investment (business zones). In these cases, the MA would see the Development Agency as a beneficiary and the firms that locate in these zones as 'end users'. According to the Commission, in these cases the Development Agency is an IB and the firm that locates in the zone is a beneficiary and is thus subject to State aid rules (over a specific threshold that is likely to be superseded by firms in the zone). This will create problems in terms of demand and the need to revise the initiative as it was not open to public procurement.

State aid also remains an important issue in Vlaanderen. The ERDF programme has challenges in this area as it directly targets innovation projects that aim to assign value to knowledge which is State aid sensitive. Vlaanderen usually uses the GBER but it is often unclear which article should apply. When the Commission is consulted the response is often very diverse. There are also concerns about how the AA will treat State aid - the State aid capacity of the AA is currently limited, and a

conservative approach is often taken. This can lead to uncertainty for the programme and beneficiaries. The MA has invested heavily in building capacity and has set up a State aid workgroup in the agency. This knowledge and capacity are now also being shared with the AA. There are also concerns that the project proposal and actual activities are not always congruent and may lead to State aid issues later.

#### *(iv) Other implementation-related issues*

A range of other implementation issues have been identified in IQ-Net programmes:

- **Public procurement** (HR, Pom, SI, WM). This is identified as one of the main current challenges in Warmińsko-Mazurskie, relating to the availability and increasing costs of service providers to carry out construction of regional roads etc, and in Slovenia, where the centralisation of public procurement for certain purchases (such as IT) are found to take a lot of time and create delays, e.g. in TO11. Beneficiaries in Pomorskie have also reported difficulties with projects where public procurement is involved.
- The **combination of different forms of financing** for project support continues to be challenging in Portugal, particularly with regards to FIs, where the combination of FIs with grants is administratively complicated.
- **Limited capacity among beneficiaries** to develop quality applications and a lack of interest in competitions is hindering uptake in Warmińsko-Mazurskie. A number of improvements to the application process were already introduced in 2017 – the MA now plans to organise meetings with applicants to address key issues/ questions which can be submitted in advance. Related to calls, the MA is planning to announce further calls in areas where uptake has been low, preceded by information and promotion activities and review of application documentation with a view to further simplification. However, the scope to accelerate implementation is limited by rules surrounding the launch of competitive calls which prevent the schedule of repeat calls for proposals from starting within three months of a previous call. This limitation prevents a quick response if: no application for co-financing has been submitted in the previous competition; no project for co-financing has been selected as a result of the recruitment; or the total amount of co-financing applied for does not exhaust the allocation allocated to the competition.

Even when project approvals are going well, there is often a discrepancy with **certification and payments, which are delayed in many programmes**. In Pomorskie, incomplete transfer of materials necessary for the eligibility assessment by beneficiaries is causing delays. The MA must repeatedly ask beneficiaries to improve the documents due to weaknesses included in the accounts, which translates into a lower level of expenditure certification. The MA organizes meetings with those beneficiaries who regularly file payment requests that require additions, and telephone and e-mail consultations are carried out in order to properly prepare billing documents. Problems with the submission of required evidence with claims is also an issue in Scotland. In Bizkaia (País Vasco), the main administrative issue is that project checks are taking a significant amount of time to complete. One reason is that there is more funding dedicated to aid schemes in this period which require more time to do checks than infrastructure projects given the higher number of beneficiaries. Another reason is the need for controls to be more comprehensive to ensure that there are no problems because non-compliant expenditure can no longer be transferred to other eligible projects and would involve a net loss.

## 4. NEW DEVELOPMENTS IN PROGRAMME IMPLEMENTATION

### 4.1 Article 70 operations

Article 70 of the CPR concerns the 'eligibility of operations depending on location'. Operations supported by ESIF must generally be located in the programme area, but operations implemented outside the programme area may be accepted if they satisfy certain conditions.

Only five IQ-Net partners reported **formal use of Article 70** (CZ, NRW, PT, SE, Wal). This provision appears to be particularly useful where a Member State has separate each OPs covering different regions within the country, including where these regions have different status (i.e. More Developed, Less Developed, Transition). Article 70 has been used by IQ-Net partners for the following:

- **International cooperation in research projects** across developed and less developed regions under the Czech Republic OP Science, Research and Education.
- **E-government projects** under the Czech Integrated ROP.
- **Administrative modernisation projects** under the Competitiveness and Internationalisation OP (POCI) in Portugal (under ERDF). These projects benefit the whole country; the OP only has eligibility in less developed regions on the mainland, but many projects are carried out outside the programme area, so the population criterion is used to allocate the share of the total project.
- **Activities carried out by social partners for projects where residents are in a more developed region** (not eligible under the OP), but the operations will benefit the whole country, under the ESF Social Inclusion and Employment OP (POISE) in Portugal.
- Projects covering a range of areas including **innovation, biotech, culture and tourism**, and also for the EIF co-funded **Swedish Venture Initiative** in Sweden. All Swedish programmes have at least one project that uses Article 70 (in total 35 operations out of 612 have used this option). The use is most common in Övre Norrland and in Skåne-Blekinge OPs.
- **R&D&I and energy** in the West Wales and the Valleys ERDF OP (a Less Developed Region) in Wales. In Wales, there are separate OPs for the two different status regions (less developed and more developed). Energy projects have had to use test facilities outside the West Wales and the Valleys OP area. Similarly, a major university in East Wales has done a lot of RD&I work with West Wales: the project was approved under the East Wales OP but some of the expenditure is in the West Wales OP area.
- Finance Wales has also made several ERDF co-funded **financial instrument investments** outside Wales, but this is straightforward so long as the business case demonstrates and provides clear evidence that there is a benefit to Wales.
- **Competitive calls relating to climate protection and to future markets** (*Leitmärkte*) in Nordrhein-Westfalen, where collaborative projects can include a partner from outside NRW. The project needs to demonstrate why this is necessary and what the benefits to NRW are from including an external partner. Several projects are now underway with external partners (based in other parts of Germany).

Use the Article 70 has been found challenging, particularly the use of pro-rata population share formulae, relating to, for example, uncertainty how to calculate this and what can be incorporated. Use of Article 70 is perceived to be very complicated in terms of its interpretation, as in reality many various combinations and possibilities of projects may occur and assessment of what part of a project



is eligible for application of Article 70 is difficult (CZ). Commission guidelines have never been approved, and the National Coordination Authority in the Czech Republic has tried to provide its own interpretation (e.g. an understanding of paragraph 2 – what is the “programme area”). Use of the Article is also found to be a long, administratively difficult process (support only can be provided if it has been foreseen and approved by the Monitoring Committee); this restricts using it to react quickly to a new emerging situation (PT).

In Denmark, although Article 70 has not been used to involve other Member States in interventions, the difficulties in **cooperating across internal boundaries remain relevant**. In Denmark, many ERDF and ESF projects are implemented across regional boundaries. This generally works well. However, there is a challenge with the Zealand region due to its status as Transition region. The Zealand region (Transition) and the Capital region (More Developed) cooperate closely on business promotion projects. The MA would like this process to be as administratively simple as possible. However, there are already projects where the beneficiaries are in the wrong region, and there are rules where they need to have a pro-rata allocation when the allocation comes from both regions. This is proving to be complicated, highlighting a need to simplify the implementation of cross-border interventions involving different region types. This has been less of a problem in Scotland. Although Article 70 has not formally been used in Scotland, there is **an element of geographic flexibility** within the Scotland-wide ERDF and ESF OPs, which cover a More Developed and a Transition region. The MA is able to use the 15 percent flexibility to charge the budget of the Lowlands and Uplands Scotland OP (More Developed Region) for activity in the Highlands and Islands (Transition region).

## 4.2 Financial instruments

Early in 2018, the Commission published the **second annual report on the implementation of FIs** in 2014-20. This covered the period to the end of 2016.

- €10.3 billion in OP contributions (ESIF amounts only) had been committed to FIs. Of this, €9.9 billion was under ERDF and CF, with just €320 million under ESF and €52 million under EAFRD. This is around half the ‘planned’ contributions indicated in the OPs themselves.
- Overall, progress appeared to be limited: of the €9.9 billion committed under ERDF, less than a third had been paid to funds, and less than a third of that had, in turn,<sup>8</sup> been paid to final recipients.
- Less than **five percent** of the sums planned in the form of FIs had actually been invested by the end of 2016. The situation varies considerably between countries – and there are some anomalies in the data - but significant progress in funds reaching final recipients compared to the original plans only appears to have been made in Spain, Estonia and Lithuania.

IQ-Net programmes have reported mixed progress in implementing financial instruments over the last six months. **Good progress is reported** by several programmes.

- The implementation of FIs in **Croatia** is considered to be going very well despite this being their first period of ESIF FI implementation. Leverage on guarantees has already exceeded

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<sup>8</sup> Wishlade F (2018) EPRC Policy Briefing March 2018, based on Commission data  
[http://ec.europa.eu/regional\\_policy/sources/thesfunds/fin\\_inst/pdf/summary\\_data\\_fi\\_1420\\_2016.pdf](http://ec.europa.eu/regional_policy/sources/thesfunds/fin_inst/pdf/summary_data_fi_1420_2016.pdf)

expectations (which were quite conservative). The quality of projects is satisfactory, with no defaults yet. The revolving effect could be realised soon through micro and small loans which were disbursed swiftly (even though the initial allocation has already been increased by an additional €20 million, disbursement is four years ahead of schedule), while for other FIs that had a later start due to legal uncertainty, a revolving effect is not expected.

- FIs in UK programmes are spending successfully. Progress in **England** is now better after a slow start. There were initially considerable problems getting FIs underway due to delays in the Commission issuing guidance, plus issues around the EIB withdrawing match funding following the UK's decision to leave to EU. However, these have now largely been resolved and FIs with £337 million ERDF have been approved, with a further £107m ERDF in FIs due to be approved in the first half of 2018. In **Wales**, interest in the Wales Business Fund has exceeded expectations, and more money ERDF may be put into the Fund after the ex ante assessment has been refreshed. Similarly in **Scotland**, the SME Holding Fund has been very active with higher than expected levels of demand for equity funding, leading to an additional award of ERDF. The Scottish Government is currently looking to increase investment activity in the Highlands and Islands area.
- The FI for SMEs in **Pomorskie** is the most advanced FI in Poland: 400 SMEs are already being supported by the financial intermediary and a new contract providing support under TO1 will be signed in May/June 2018.
- FIs are also performing well in **Sweden**, helped by the fact that the structures were in place from the 2007-13 programme period.
- Due to high demand, the deadline for submission of applications for Energy Saving at Home FI in **Greece** has been extended. The Ministry of Environment and Energy has announced the doubling of the funding of €158.5 million, which is expected to lead to an increase to the number of recipient households from 40,000-45,000 to 90,000-95,000. Provided that the regions increase their own level of funding and taking into account the bank lending of €250 million, total programme funding is expected to reach €1 billion.
- The city of Kuopio in Northern Savonia, **Finland** has submitted an application to set up a new FI. This will be supported with ERDF and is viewed to respond to a 'real' need. FIs were implemented in the 2007-13 programme period in Oulu, and there are some discussions for their use in 2014-20.

However, in many programmes, FI implementation has been slower and funding is not yet reaching final recipients, due in part to lengthy procedures required to select financial intermediaries and fund managers. Changes are now being made to planned FI interventions.

- A project aiming at the provision of national-level venture capital has been cancelled in **Czech Republic**, due to a political decision. There has been no absorption in energy savings, and there is limited absorption in the general SME expansion support scheme (€4.5 million out of c. €80 million tranche).

- Changes to FIs are foreseen in the context of re-programming in **Portugal**, including dropping FI related to energy efficiency in private housing or efficient water and waste management. The allocation to FI that has not yet been implemented related to energy efficiency in enterprises may also be reduced. On the other hand, a new mode of financing will be proposed (a 'hybrid' instrument) for business support which combines grant and FI support for the same project.

Programme managers have noted many challenges associated with FI implementation in 2014-20, despite the steep learning curve experienced in 2007-13.

### Box 3: FI implementation 2014-20: progress being made, but many challenges identified

#### FIs still bring implementation challenges....



- **Management costs** can consume a large part of the funding (FR/ Auvergne).
- Implementation has been delayed due to **delays** in adoption of the Omnibus proposals (CZ).
- There is **low demand** for FIs – firms are not interested in ESIF loans as financial market loans are available at the same rate; also, due to positive economic development, companies prefer investments into enlargement capacities or new technologies to boost production and development, rather than into the energy savings activities of the FI (CZ).
- ESIF FIs are not used since review of business promotion showed that there were **too many actors** already providing repayable finance at both the national and regional level (DK).
- There were initially considerable problems getting FIs underway due to **delays** in the Commission issuing guidance, plus issues around the **EIB withdrawing match funding** following the decision to leave to EU (Eng).
- There is only limited interest for two FIs because of the **low interest rates available on commercial loans** (NRW).
- The system of FI implementation is **very rigid, highly administrative and prevents effective reaction** to a changed environment, whereas changes in the market are quick and require fast reactions (SI).
- **Geographical limitations** set out in the CPR need to be adjusted to better suit financing of enterprises, as their organisational structure does not conform to programme areas the way that 'regular' projects do (SE)
- Special provisions regarding FIs **need to be differentiated** between equity, loans and guarantees. Regulations appropriate for loan instruments are not necessarily appropriate for equity instruments (SE)
- Challenges relate to **public procurement** law for selecting Fund managers and Financial Intermediaries as the process is so long and inflexible (WM).

Source: IQ-Net research.

## 4.3 Evaluation activity

Evaluation activity is now underway in most programmes and advanced in some. For example, in the Czech Republic, 60 evaluations have been completed so far out of the over 100 mostly process-

related evaluations started. As reported in the November 2017 IQ-Net review paper,<sup>9</sup> several programmes are taking a ‘framework’ approach to evaluation with a single evaluator or consortium commissioned to undertake all evaluations in the period (AT, DK, NRW). In a few programmes, evaluation will be starting soon (AT, Eng, NRW, SI, Vla). A prominent theme of the planned evaluation work in all programmes is a focus on **impact evaluation**.

#### Box 4: Impact evaluation: Infrastructure in Wales



In Wales, the MA recently undertook a procurement exercise for their evaluation of infrastructure funded by ERDF in the 2000-06 and 2007-13 programmes. The aims of the evaluation are:

- to investigate the usage and maintenance of the new/improved infrastructure;
  - to investigate whether, and if so how, new and improved infrastructure within the three regions of Wales (North Wales, South West and Mid Wales, and South East Wales) work together, for the benefit of the region in terms of the local economy, residents, and businesses; and
- to consider the feasibility of undertaking an impact evaluation of infrastructure and set out recommended methods.

**Source:** Photo of Heads of the Valleys Road near Tafarnaubach, Wales, courtesy of Wikipedia, [https://en.wikipedia.org/wiki/A465\\_road#/media/File:Heads\\_of\\_the\\_Valleys\\_Road\\_nr\\_Tafarnaubach\\_\(3252820\).jpg](https://en.wikipedia.org/wiki/A465_road#/media/File:Heads_of_the_Valleys_Road_nr_Tafarnaubach_(3252820).jpg)

Another focus of evaluation is helping to **influence future policy** e.g. in Scotland, where an impact evaluation can help shape post-Brexit policy, and in Vlaanderen, where the mid-term review will evaluate the whole programme with a particular focus on how the ITI strategies are functioning. The mid-term review will mainly be used for the post-2020 programme, as the current programme is almost fully committed.

The **Performance Review** is the current main focus of evaluation in Pomorskie. Three studies are already planned, to be completed in time for the Performance Review (by March/April 2019):

- a review of result indicators, including a qualitative element;
- an assessment of implementation (including ITI, administrative issues etc.);
- a specific study on performance against ESF indicators (which is needed to inform the AIR).

In Wales, the MA’s ESF Participant Survey (launched in February 2018) experienced lengthy delays due to having to produce a Privacy Notice consistent with the **new General Data Protection Regulation (GDPR)** but which can also be accommodated in a telephone script. A ‘layered’ approach was adopted where key information is read out at the start of the interview and participants are given a link to a webpage with more information. The main purpose of the survey is to collect data to allow the MA to report against the ESF longer-term result indicators, but the survey is also collecting data to

<sup>9</sup> Michie R and Dozhdeva V (2017) *Halfway there? Taking stock of ESIF programme implementation*, IQ-Net Review Paper 41(1), European Policies Research Centre.

be used in operation level evaluations and analysis at programme / priority level. By late April 2017, 6,355 interviews had been completed; data analysis will start later in 2018.

An evaluation of the initiatives of the Regional Growth Fora for the **peripheral areas** is planned in Denmark. The evaluations will be used as a starting point for benchmarking and knowledge sharing about the initiatives for peripheral areas across the Growth Fora. The first evaluation was completed in February 2018 by COWI.<sup>10</sup> The evaluation concludes that overall through regional growth initiatives the Growth Fora create value for the municipalities based in the periphery. Except for the South Denmark region, the regions do not have distinct/earmarked initiatives for peripheral areas. Rather they adopt a holistic approach to urban-rural cohesion. Across the regions there is consensus that challenges cannot be delimited to what is geographically defined as peripheral areas. Therefore, challenges are generally addressed through broader interventions, which are in turn often particularly relevant for peripheral areas, e.g. maintaining young people in the education system or firms' access to qualified labour.

#### 4.4 Omnibus proposals

Although most IQ-Net programme managers have repeatedly reported a positive view of the proposed simplifications introduced in the Commission's 2016 'Omnibus' proposals, the **lengthy delay in adoption** has caused some frustration, as well as uncertainty over the diluted content, the date of entry into force and whether there will be retrospective application. Managing authorities are anticipating the changes that will be required.

- The reporting of disaggregated ESF indicators is an important issue in Portugal.
- Changes concerning use of Simplified Cost Options (project limits) will require amendment to the current way of working in Portugal and Bizkaia (País Vasco). In Bizkaia (País Vasco), meetings have been held with project promoters to discuss Simplified Cost Options, but they are not particularly keen on changing existing practices and would need reassurance that any changes to would not add administrative burden to firms participating in aid schemes and discourage participation. The changes are also expected to have implications in Portugal.
- Eligibility rules will be adjusted immediately in Denmark. To simplify project reporting, the MA will add the opportunity to include part-time employees in addition to full-time employees instead of registering hours spent on a given intervention. In time, the MA will also investigate the possibility of honouring beneficiaries according to results as well as standard hourly rates.
- The possibility of a natural person being a beneficiary and regarding energy savings no longer being treated as revenues is a potential issue for concern in Slovenia.

The timing of the amendments (and usefulness for the remainder of the 2014-20 period) is questioned – due to the additional work involved in examining at how procedures could be simplified (NRW) and where programmes are already almost fully committed (e.g. Vlaanderen).

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<sup>10</sup> Cowi (2018) *Evaluering af de regionale vækstforas yderområdeindsats*. Rapport, februar 2018. Erhvervsstyrelsen, regionerne og Bornholms regionskommune.

#### 4.5 Short and longer-term priorities....the next six months at a glance



Short-term priorities for programme managers include **meeting n+3** at the end of 2018 (CZ), and the mid-term review and meeting the milestones for the **Performance Framework** (AT, CZ national level, DK, SI, Vla). Progressing OP modifications where required is also high on the short-term agenda (DK, HR, SI).

**Accelerating programme implementation** remains a top priority for most programmes (Eng, HR, PT, Sco, SI, Vla, Wal), including fully committing programmes and speeding up the processing of claims and payments, for example:

- In Slovenia, attention will focus on **further approval** of instruments, including projects, programmes, call for proposals and FIs. In Wales, due to Brexit pressure and uncertainty over how transition arrangements will work in practice, the MA aims to have the programmes fully committed by March 2019. In Portugal, following the **re-programming** exercise, the priority will be to launch calls under new measures, or for measures which have been allocated increased funding. In Scotland, the **second phase of the ERDF and ESF programmes** has been launched. The MA issued a call for applications in February 2018 inviting both new applications and extension requests, aiming to fully commit remaining funds by end 2018.
- In some cases, efforts will focus on **particular themes** e.g. increasing business aid projects related to low carbon in Finland, and trying to solve challenges around areas such as thermal insulation, energy savings and high-speed internet in the Czech Republic. A communication campaign presenting good practice in thermal insulation will be launched to show that it is possible to undertake successful projects in this sphere and to encourage potential project applicants to submit proposals (CZ IROP).
- **Encouraging and processing claims** will be a priority in both Pomorskie and Scotland. In Scotland, MA staff are working through claims to get them processed, verified and paid as quickly as possible. First claims are taking longer to process and pay as Lead Partners adapt to the requirements of the new Management and Control System and the increased level of checks required. Similarly, in Pomorskie, the MA will focus heavily on processing payment claims and, by extension, certification, in line with the upcoming mid-term review and Performance Framework check. Certification will also be a priority in Bizkaia (País Vasco).

Technical issues will also be the focus of attention, including revision of the **evaluation plan** (HR), **communications** activity promoting successful projects related to the renovation of cultural real estate to showcase the success of the CZ Integrated ROP (as well as the former Integrated OP 2007-13); **preparation of the AIR** and its approval by the monitoring committee (AT); **control activity** and on the spot checks (SE, SI, PV) and forthcoming **system audits** (AT). Finally, simultaneously with managing the current programmes, attention will be paid to developments at EU level in the context of the **post-2020 debate** on Multiannual Financial Framework and the future of Cohesion policy.

## 5. UPDATE ON THE PERFORMANCE REVIEW

The Performance Review is an important step in the implementation of the 2014-20 programming period. Part of the Performance Framework (PF), 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.

### Box 5: The Performance Framework: IQ-Net findings



The Performance Reserve was the topic of the IQ-Net Thematic Paper presented at the IQ-Net conference in Zagreb in December 2018. The main findings were:

- IQ-Net programme managers **agree with the underlying logic** of the Performance Framework;
- the Performance Framework yields specific benefits linked to **strengthened strategic management** and contributes to **building commitment to and awareness of targets**;
- **Implementation challenges** are linked to identifying appropriate, good quality and reliable data for highly complicated indicators as well as a perceived lack of flexibility and uncertainty.

These findings were reinforced in the IQ-Net Conference workshops, and the discussions on lessons learned highlighted several themes.

- **Timeliness** - it is important to have an early understanding of the requirements, overall logic and consequences. More time is needed for elaborating PF elements and targets were set too early – there is a need for experience resulting from implementation.
- **Coordination** - important both (i) across all implementing bodies, and (ii) between actors involved in the preparation and implementation stages.
- Rigid rules and the punitive nature of the PF **limit the scope for experimentation**.
- There is **variation across Funds** / areas (e.g. it is easier to set targets under ESF than ERDF), and there is a **need for greater harmonisation** of rules across Funds.

**Source:** 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.

This section provides an overview of developments since the December 2018 IQ-Net conference. It reviews the period November 2017 to May 2018, and analyses the performance of individual thematic areas, reasons for variation in meeting the implementation targets and measures taken to achieve targets. The section concludes with a discussion of reactions to recent proposals to strengthen links between Cohesion policy programmes and the Country-Specific Recommendations (CSR).



## 5.1 Overview of recent developments in the run-up to the Performance Review

Achieving the mid-term targets set for the Performance Review is not expected to cause any difficulties for several IQ-Net programmes - the vast majority, however, reported that they risk not meeting the targets. The risk of not achieving the targets usually concerns only some parts of the Operational Programme. In Finland, Bizkaia (País Vasco) and Vlaanderen, achievement of the mid-term target for the Performance Review is on track and no challenges are expected. Austria is experiencing regional variation, with Burgenland progressing slower in comparison with other regions. Most IQ-Net programmes, however, reported thematic variation with some thematic OPs or some Priority Axes performing better than others.

### 5.1.1 Performance of individual thematic areas

As outlined in Section 3.3 in the discussion of project generation issues, the performance of individual thematic areas varies widely between IQ-Net programmes.

- Good progress was reported for TO1 and TO3 in England and Wales. In Croatia, TO3 was also performing well and will be meeting its target. By contrast, in Greece, TO1 and TO3 experience very slow progress. Similarly in Pomorskie, TO3 is also experiencing slow implementation.
- TO8, TO9, and TO11 are making good progress in the OP Employment in the Czech Republic. However, slower progress is experienced with TO8 and TO9 in Pomorskie.
- Targets under TO4 are considered at risk of not being achieved by some IQ-Net programmes (England, Slovenia, NRW).
- TO5 was seen at risk of not achieving targets in both Slovenia and Warmińsko-Mazurskie.
- Sustainable Urban Development has not made sufficient implementation progress to meet the targets in NRW, Slovenia and Auvergne OP (France).

### 5.1.2 Reasons for variation in meeting implementation targets

**Implementation delays** in various forms are one of the main reasons for encountering difficulties in meeting targets. Implementation of integrated territorial instruments has been delayed in the Czech Republic and the Auvergne OP (France) due to a lengthy preparatory phase involving multiple actors and multiple funds. Large infrastructure-related projects are noted by Wales and the Czech Republic to take longer to implement, due to additional administrative requirements linked to public procurement and State aid. In Greece, the impact of the financial crisis has affected liquidity, which has led to challenges in meeting the targets related to TO1 and TO3.

IQ-Net programmes frequently reported **difficulties in selecting indicators and setting targets**. England noted that the Performance Framework financial targets have been set too high and give no consideration of the late start of the programme. The challenge of setting realistic targets for the Performance Framework at the beginning of the 2014-20 period was also a fundamental issue in Pomorskie. The Managing Authority based its approach on experience gained in 2007-13 but circumstances have changed markedly since then, in terms of new market conditions (strong labour market, costs and availability of contractors), new Polish legislation, new OP instruments (e.g. ITI) etc.



Uncertainty in reporting the realized values of indicators related to **partially completed operations** was a challenge reported by both Warmińsko-Mazurskie and Pomorskie. In some cases, actual progress has been significant as evidenced by payment claims, but the Managing Authority has been unable to show this progress in terms of physical indicators because showing partial completion seemed not to be permissible. The Commission removed this limitation by amending the relevant implementation regulation (see Box 6). However, some uncertainty persists related to the precise interpretation of the rules.

#### **Box 6: Regulatory amendment relating to partially completed operations**

New Article 5(3): 'The milestone and target for an output indicator shall refer to the values achieved by operations, where all the actions leading to outputs have been implemented in full, but for which not all the related payments have necessarily been made, or to the values achieved by operations which have been started, but where some of the actions leading to outputs are still ongoing, or to the both.'

**Source:** COMMISSION IMPLEMENTING REGULATION (EU) 2018/276 of 23 February 2018 amending Implementing Regulation (EU) No 215/2014 with regard to changes to the determination of milestones and targets for output indicators in the Performance Framework for the European Structural and Investment Funds, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018R0276>

**Reliability of indicators** is a major issue identified by the Auvergne OP (France). For example, indicators concerning energy efficiency are considered too technical, and beneficiaries have no means of providing such technical information reliably. Moreover, some results are only visible years after the end of the project, after the results had to be reported. In Scotland, evidencing of outputs is a major challenge for project sponsors in the new 'results orientation' approach. The value of setting financial targets at priority level is questioned in Wales, as project performance is not dependent on financial performance.

**A lack of demand for investment** is reported by some IQ-Net programmes, which affects project generation. Demand has been low for projects contributing to energy savings in the business sector due to the economic upturn and high speed internet due to changes at the market in the Czech Republic, while Denmark noted the challenge in attracting participants for ESF-supported activities. Similarly, in Pomorskie under the ESF, the achievement of targets related to TO8 and TO9 have been influenced by falling levels of unemployment which meant that demand in these areas is limited and initial targets have proven to be unrealistic.

### **5.1.3 Measures taken to achieve targets**

**Modifying OPs** is the most common measure to help achieving the targets of the Performance Review. In most cases this implies **modifying the indicators and targets** (Austria, Croatia, Czech Republic, England, Greece, NRW, Portugal, Scotland, Slovenia, Vlaanderen, Wales, Warmińsko-Mazurskie, Sweden). In Scotland, the Managing Authority is seeking to revise baselines, as better data are now available.

Portugal applies a systematic approach and prepared a preliminary analysis for the annual review meeting with the Commission in November 2017, seeking to understand which of the indicators it was desirable to change. A list of all indicators was prepared, with an indication of whether a change was intended in the context of re-programming (by unit cost, by negotiating conditions), whether the proposed changes stem from methodological questions or assumptions, or are due to external factors

and change in demand. Relying on this systematic approach, Portugal hopes to get the proposed modifications approved, but the degree of Commission flexibility [with regards to these alterations] is not known yet.

In England, the Managing Authority is planning to use the Annual Implementation Report to set out what they see as being the issues in achieving 2018 targets, demonstrate they have been taking remedial action and provide assurances that the programme is on track to deliver the 2023 targets.

Related to project selection, in the Auvergne OP (France) the Managing Authority **prioritises the implementation of those projects which count towards the Performance Framework** even if that means delays for other projects. This leads, however to an effect in which a project is implemented as a priority not based on its value but based on whether or not it contributes measurably towards achieving the indicators of the Performance Framework. Similarly in Scotland, claims and payments including as much data as possible are treated as a priority.

Portugal intends to prepare a **guidance document** (at the national level), to be discussed with Managing Authorities, to guarantee that the same principles and methodology are followed when it comes to reallocating the Performance Reserve.

The Commission must approve any changes to OPs. IQ-Net programmes, however, reported **diverging experiences** with engaging with the Commission.

- Vlaanderen noted that that the Commission applies **considerable flexibility** when it comes to meeting targets. First, not all targets have to be strictly met. If a Member States can explain why a small number of targets have not been met and explain how they intend to improve them then this would be accepted. Second, it seems possible to readjust the values of the indicators if there is a need to do so. Third, the Commission had to comment on challenges prior to 2019 and suggest a way forward.
- In England, by contrast, the Commission is reluctant to approve suggested modifications of the OP, arguing that the **engineering of achievable targets must be avoided**. Moreover, the Managing Authority felt that it was not clear what 'serious failure to meet milestones' meant in practice.
- Nordrhein-Westfalen considers that the Commission is **treating ESF and ERDF differently** with ESF-related proposed changes being more likely to be accepted than ERDF related changes.

Apart from changes to OPs, IQ-Net programmes have applied a wide range of other measures in view of improving performance. In Denmark, the Managing Authority has developed an **action plan** and started a separate project to identify the main issues and address these in the implementation of projects. Furthermore, the Managing Authority has institutionalised bi-annual meetings with the Intermediate Bodies, who are expected to follow up with beneficiaries. Similarly, Scotland is engaging lead partners to build a strong cooperation. Close monitoring of implementation has been applied also in Slovenia and Vlaanderen.

In relation to a legislative proposal setting up a new tool, which would allow the voluntary transfer of the Performance Reserve to a new tool of budgetary support for structural reform (see Box 7), most IQ-Net programmes were sceptical. The Managing Authority of the Auvergne OP (FR) argued that changing the rules during implementation was not a good idea. In particular, under the sustainable urban development priority axis, financial support has been assigned to urban authorities and these are counting on the amounts. Even if amounts are at risk, such a decision should not be taken before 2019. NRW sees the proposal as lacking transparency, and likely to have deadweight effects.

**Box 7: Proposed new tool of budgetary support for structural reform**

A legislative proposal (COM(2017) 826 final) envisages testing a new tool of budgetary support for structural reform in a pilot phase for the period 2018-20. This proposal takes the form of targeted amendments to the CPR. Its aim is to offer additional flexibility in the use by Member States of the ESIF Performance Reserve. It will be up to each Member State to decide whether it intends to allocate parts of its Performance Reserve to this new scheme. The aim of this tool will be to support the implementation of national reforms, which will be identified through the European Semester of economic policy coordination and built into the National Reform Programmes presented by the Member States. Once the reform commitments of a Member State are agreed, with clearly defined targets and milestones, the Commission will monitor and evaluate their implementation before the disbursement of support. The proposal does not modify the overall level of expenditure for ESIF in the current MFF.

**Source:** [https://ec.europa.eu/info/sites/info/files/economy-finance/com\\_826\\_0.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/com_826_0.pdf)

## 6. DEBATE ON POST-2020 COHESION POLICY

### 6.1 Summary of positions of IQ-Net programmes

In anticipation of publication of the legislative proposals, IQ-Net programmes expressed their position on the reform during fieldwork for this paper.

#### 6.1.1 Preparations for the next programming period

Most IQ-Net programmes reported that much thought and preparation has been put into reflection on how Cohesion policy post-2020 can be improved. In Warmińsko-Mazurskie, for example, the Managing Authority is involved in direct contact with the European Commission as well as national platforms (including the platform of Polish regions). The President of Pomorskie was appointed rapporteur of the Committee of the Regions opinion on 'The cost and risk of non-cohesion: The strategic value of cohesion policy for pursuing the Treaty objectives and facing new challenges for European regions'.<sup>11</sup>

Even in the UK, which is due to exit the EU on 29 March 2019 (with a transitional period until 31 December 2020), a position paper has been produced which focuses on lessons learnt. At the same time, preparations to replace Cohesion policy with domestic schemes are at an early stage in England, Wales and Scotland. In Wales, a policy paper on 'Regional Investment in Wales after Brexit' was published in December 2017, as one in a series of planned 'Future' papers, and as a first step in the process of designing a new approach to regional economic development and investment in Wales. A stakeholder engagement exercise was carried out after publication of the paper, including a questionnaire, online survey and events in north and south Wales. Scotland Europa also produced a position paper, which builds on the lessons learnt from the current programme cycle and focuses on European Territorial Cooperation in a future perspective.

Most IQ-Net programmes have been involved in the preparation of national or regional position papers. The following issues have been cited most frequently.

#### 6.1.2 Geographical coverage and financial amounts

**Cohesion policy that benefits all regions** received widespread support from IQ-Net programmes (Austria, País Vasco, Greece, Portugal, Sweden, Vlaanderen). Some geographical considerations should, however, be included. Finland programme managers suggested considering the funding of sparsely populated areas and areas with large immigration flows in future Cohesion policy allocations, while programme authorities in Portugal would like to see specific provisions for outermost, rural and cross-border regions. Strong financial support to cross-border regions is also favoured by the IQ-Net programmes in Czech Republic and Vlaanderen. In Sweden, programme managers advocated for support for regions with the greatest need, and consequently a significant reduction of support for more developed regions. Moreover, the urban dimension should be strengthened (País Vasco). Special attention should also be given to the regions referred to in Article 174 of the Treaty on the Functioning of the EU; in particular, those undergoing serious and permanent natural or demographic disadvantages such as insular, transboundary and mountain regions (País Vasco).

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<sup>11</sup> Adopted at the CoR plenary session on 22-23 March 2018.

The potential **impact of less available funding** on regional development concerns a number of IQ-Net programmes. Finnish programme managers noted that EU programmes are important for regional development and for growth policies. In this respect, cuts to the overall Cohesion policy budget would primarily lead to lower levels of public investment, which would have a negative impact on the domestic economy because of the significant positive effect which EU funds produce (IQ-Net programme authorities in Croatia and Czech Republic). In Slovenia, programme authorities noted that there was a risk that the positive economic and social trends would be reversed. Ultimately, a decrease in funding for Cohesion policy could hamper growth, aggravate inequalities between and within EU Member States, exacerbate poverty and social exclusion and leave regions and peripheral countries more vulnerable to economic shocks (Greece programme authorities).

It seems unlikely that likely cuts in resources will be replaced by either state or regional support. Less support and thus less development would be the consequence (Auvergne OP (FR)). Programme authorities in the Czech Republic noted that a decrease in public investment would lead to a lower thematic spread and to increased thematic and spatial concentration of available funding. In order to maintain public support levels, an increase in national co-financing and a reduction in EU co-financing was suggested by IQ-Net programmes in Austria and Finland.

The Auvergne OP (FR) reported a specific impact linked to domestic reforms. In the 2007-13 programming period Auvergne is classified as a Transition Region. However, further to domestic territorial reform, Auvergne was merged with the Rhone-Alpes region, which is a More Developed Region. It is expected that if OPs were also to be merged in the 2021-27 programming period then it would surely be classified as a More Developed Region, which means less EU support. Together with a reduced budget as a consequence of Brexit, Auvergne risks losing twice.

For Danish programme managers, budgetary cuts to Cohesion policy seem acceptable and Finnish programmes also see the necessity for cuts, but hope to safeguard funding for regions in East and North Finland.

Some Member States with relatively small OPs or low ESIF contribution were concerned that possible cuts would make the relationship between the administrative requirements and the support received out of proportion (IQ-Net programmes in Austria, NRW, Vlaanderen).

### **6.1.3 Thematic focus/concentration**

In terms of thematic concentration, IQ-Net programmes cited a wide range of funding areas on which Cohesion policy should concentrate. Most of these areas have the objective of contributing to **regional development and economic growth**. They include:

- innovation and industry policy, competitiveness, digitalisation, circular economy, knowledge, high value products and rising technologies including Artificial Intelligence (Finland);
- innovation and qualifications as the engines of development (Portugal);
- innovative entrepreneurship, circular economy, transport including completion of basic infrastructure, ICT, energy, tourism (Greece);
- competitiveness and employment, research and innovation, SMEs, digitalisation (Sweden); and
- SMEs, competence development (Denmark).

The second broad area concerns **social themes** with a focus on people:

- social dimension in general (Vlaanderen);
- demography, social inclusion and fight against inequalities (Portugal);
- social inclusion (Greece, Slovenia);
- migration (Finland, Sweden);
- unemployment and poverty, education, healthcare, (Greece); and
- accessibility and provision of services (Finland).

The third broad category relates to **climate change and environmental protection**:

- sustainable use of energy, sustainable mobility, waste water treatment, flood protection, and biodiversity (Slovenia);
- sustainable growth including a focus on climate and energy (Sweden);
- the green transition (Denmark);
- the environment (Greece); and
- energy renovation, energy efficiency and renewable resources (Auvergne OP (FR)).

The Auvergne OP (FR) noted a need for digitalisation, or SME support. These areas, however, can already benefit from other EU and domestic programmes. In order to simplify overlaps should be avoided in the future.

Given the broad range of potential investment areas, IQ-Net programmes highlighted the need to **apply a place-based approach**. In practice this means ensuring enough flexibility within thematic concentration requirements of the legislation to decide locally on investment priorities (País Vasco), along with programmes in Czech Republic, Denmark, Greece). Finnish programme managers believe that flexibility with the themes is important, particularly with regards to the smart specialisation objectives of the regions. It is necessary to find a balance between pre-defined requests for concentration on the limited number of thematic areas and the needs of the Member States, including the possibility of a flexible response to specific (national and regional) challenges, which cannot be predicted during the programming period (programme authorities in Croatia).

Fewer TOs but allowing for broader interpretation was suggested by Danish programme managers. Programme authorities in Croatia, however, believe that the 11 thematic areas within the 2014-20 programming period should remain in the next period after 2020, and programme authorities in Portugal stress the need for continuity. IQ-Net programmes in NRW and Denmark see the obligatory financial allocations to TOs as constraining and difficult to implement and manage. Programme managers in Sweden wish that horizontal principles such as equality between men and women, integration and environment should continue to have high priority.

Programme authorities in Portugal believe that, if the OP follows a coherent and logical framework on the basis of objectives and results, there should not be a need for strict eligibility. The País Vasco position paper sees a need for a strategic framework successor of the Europe 2020 strategy. It should reflect the common priorities for the Union and align the national and regional policies towards common objectives.

#### **6.1.4 Strengthened links between Cohesion policy programmes and Country-Specific Recommendations (CSR)**

IQ-Net programmes have mixed views on the proposals to strengthen the links between Cohesion policy programmes and Country-Specific Recommendations (CSR). Programme authorities in Croatia, Denmark and Vlaanderen are in favour of strengthening the links with CSRs. In Croatia, the programme authorities see an advantage in a strategic link between the two areas, which would ensure a sound investment environment. Programme managers in NRW, Portugal and Slovenia are in favour in principle but have concerns how to apply the link in practice. In Portugal, the programme authorities stress the need to prioritise positive incentives over punitive action, and in Slovenia, programme managers are in favour of a stronger link but are concerned that this would imply more central management. Warmińsko-Mazurskie voiced similar concerns.

Some IQ-Net programmes are sceptical about strengthening the links for several reasons:

- The **different time frames** of the processes would make strengthening the links difficult in practice (Croatia, Czech Republic, Pomorskie). The CSR follow an annual cycle with annual objectives, while Cohesion policy establishes medium and long-term objectives (seven year framework). Therefore Cohesion policy allows little flexibility to react annually to changing CSR.
- In Croatia, programme authorities indicated the importance of taking into consideration **consistency and coordination** between these two processes.
- **Thematic mismatch** – IQ-Net programmes in Czech Republic, Finland and Greece noted that some CSRs are not supportable by Cohesion policy (e.g. pension reform, labour market agreements).
- **Flexibility** - the Auvergne OP (FR), and programme authorities in Czech Republic and Warmińsko-Mazurskie believe that if the link were to be strengthened then this would need to be accompanied by more flexibility.
- In Czech Republic, the programme authorities were concerned that a strengthened link would lead to **increased administrative burden**.
- A mismatch between CSR and Cohesion policy's **logic of the Performance Framework** was noted (IQ-Net programmes in Czech Republic and England).

#### **6.1.5 Programme implementation**

Many IQ-Net programmes expressed strong support for the **results orientation** in general (Austria, Croatia, Denmark, Finland, Sweden, Vlaanderen). Specifically, however, the constituent elements of a focus on results were seen in a more critical light. As discussed in the Performance Review section some IQ-Net programmes find the selection and reporting of indicators too complex (Denmark, Finland, Portugal).

Moreover, programme authorities in Portugal noted that the **link between Cohesion policy and economic governance** has been important for improving the result-orientation of the policy, but is based exclusively on negative and punitive conditionality. In future, a link between Cohesion policy and economic governance and structural reform should instead be based on positive incentives (País Vasco, and programmes in Greece, Portugal, Slovenia).

**Ex ante conditionalities** are seen to have improved the policy's effectiveness (Croatia, Czech Republic, Sweden) but the overall number of conditions are too high (Croatia, Czech Republic, Portugal). In Vlaanderen, programme managers experience ex-ante conditionalities as a theoretical exercise with many of the action plans looking like a paper based exercise without improving projects in practice. In order to be effective, ex-ante conditionalities should be less numerous, and more focused on the most essential elements. Programme authorities in the Czech Republic see some difficulties in the specific case of rapid developments in technologies, which cannot be captured in strategies or action plans. As a consequence, strategic documents that were required by the ex-ante conditionalities hinder the implementation at a later stage, as they contain outdated technological requirements (e.g. field of high-speed internet).

The **simplification of implementation** is a very widely used term. IQ-Net programmes, however, have raised the consequences of complexity and suggest practical measures that would lead to simplification.

Due to complexity the Auvergne OP (FR) reported a widespread feeling among citizens and potential beneficiaries that ESIF is only for large beneficiaries with significant financial means. Given the administrative requirements and the capacity needed to apply for funding, small beneficiaries, such as small associations who rely on volunteers for their functioning cannot apply effectively for funding. Allowing for funding of more small projects would increase visibility and improve citizen's perception and opinion of the funds.

Programme managers in Finland noted that Cohesion policy should not be used as a general additional or flexible source of funding for unforeseen circumstances. The use of Cohesion policy funding should always follow its original objectives. Trying to combine too many elements and policy areas (such as fiscal adjustment, structural reforms, refugee/migration crisis, security and defence etc.) risks complicating the implementation of Cohesion policy (programme authorities in Greece).

Harmonisation of rules is a matter of priority for IQ-Net programmes (Czech Republic, Finland, Portugal) and regions (País Vasco position paper). Programme authorities in the Czech Republic would like to see harmonization of rules for all funds used within Cohesion policy and harmonisation of rules between centrally managed and programmes under shared management. Moreover, additional rules imposed by domestic authorities are a real burden (Auvergne OP (FR)).

Financial instruments should be voluntary (País Vasco, Vlaanderen). In Vlaanderen they are not relevant given that the programme is small and extensive domestic instruments are available. Programme managers in NRW noted that ITI and CLLD should not be obligatory as Germany already has existing structures for similar goals. Austrian programme authorities consider that new initiatives frequently result in more administrative burden and complexity and authorities in the Czech Republic noted that stability of rules avoiding radical changes of the regulatory framework can also contribute



to simplification. The possibility to use technical assistance was seen as really useful to help small structures prepare good projects by the Auvergne OP (FR).

The management and control system should be simplified (Denmark, Portugal). More trust should be placed in national control and audit systems in particular if there is a good track record of managing ESIF (Croatia, Finland, NRW, Sweden, Vlaanderen). Therefore, the single audit principle should be strengthened.

In terms of simplification measures, fewer, shorter and clearer rules based on shorter regulations, fewer guidelines, concise OPs and meaningful strategic documents should be the guiding principles (programme authorities Croatia). Concrete and specific simplification measures mentioned by IQ-Net programmes include the following:

- clarification of the relation between the MA, CA and AA (Vlaanderen);
- abolition of Article 70 and its territorial dimension as well as Article 61 on revenue generating projects as they are very complicated in practice (Czech Republic);
- simplification of eligibility rules, including the issues of time reporting, the development of standard rates, salary categories, etc. (Denmark);
- rules on statistical sampling should also be reviewed (Auvergne OP (FR));
- retention of the n+3 rule in order to allow sufficient time for more complex projects with higher added value (Czech Republic, Slovenia); and
- guidelines by the Commission should only contain best practice examples and not interpretations of the application of rules (Sweden).

## **6.2 Summary of the new legislative proposal in light of the positions expressed by IQ-Net programmes**

On 29 May 2018 the Commission presented the Cohesion policy legislative proposals for the upcoming programming period 2021-27,<sup>12</sup> after the budgetary share for Cohesion policy had already been published by the Commission's proposal for a new Multi-annual Financial Framework (MFF) on 2 May.<sup>13</sup> The MFF proposal envisages a budget of €373 billion<sup>14</sup> in commitments for the future Cohesion policy in 2021-27, and according to the Commission's statements, the main features of the reformed Cohesion policy will be:

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

The following sections review the legislative proposal in light of the positions expressed by IQ-Net programmes.

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<sup>12</sup> [https://ec.europa.eu/commission/publications/regional-development-and-cohesion\\_en](https://ec.europa.eu/commission/publications/regional-development-and-cohesion_en)

<sup>13</sup> [https://ec.europa.eu/commission/publications/factsheets-long-term-budget-proposals\\_en](https://ec.europa.eu/commission/publications/factsheets-long-term-budget-proposals_en)

<sup>14</sup> Current prices – taking inflation into account.

## 6.2.1 Geographical coverage and financial amounts

Budgetary cuts to Cohesion policy were widely expected by IQ-Net programmes due to the financing gap left by the UK leaving the EU and due to the need to finance new initiatives. However, even after the publication of the figures, some uncertainty remained about how big the proposed cuts really were. At the presentation of the MFF proposal, Commissioner Oettinger announced a seven percent cut for Cohesion policy. The difficulty, however, is to find a common base for comparison taking inflation into account and accounting for the changed number of Member States. Responding to criticism of the Commission's calculations, Commissioner Crețu confirmed on 31 May in the European Parliament's REGI committee that the **cuts concerning Cohesion policy amount to 10 percent** when 2018 prices rather than current prices are used for the comparison.<sup>15</sup> Conversely, the EU co-financing rate is suggested as decreasing (CPR Article 106.3)<sup>16</sup>:

*'The co-financing rate for the Investment for jobs and growth goal at the level of each priority shall not be higher than:*

- a) 70 % for the less developed regions;
- b) 55 % for the transition regions;
- c) 40 % for the more developed regions.'

In addition to the above cuts, a number of **policy measures might reduce further the overall available financial allocations** within OPs under the shared management principle:

- Article 5 of the CPR proposal allows for the possibility of transfer of resources: *'However, the Commission shall implement the amount of support from the Cohesion Fund transferred to the Connecting Europe Facility ('CEF'), the European Urban Initiative, Interregional Innovative Investments, the amount of support transferred from the ESF+ to transnational cooperation, the amounts contributed to InvestEU37 and technical assistance at the initiative of the Commission under direct or indirect management in accordance with [points (a) and (c) of Article 62(1)] of the Financial Regulation. The Commission may implement outermost regions' cooperation under the European territorial cooperation goal (Interreg) under indirect management.'*
- Article 104 gives an overview of the amounts concerned:
  - o Article 104.4: *'The amount of support from the Cohesion Fund to be transferred to the CEF shall be EUR 10 000 000 000'*
  - o Article 104.5: *'EUR 500 000 000 of the resources for the Investment for jobs and growth goal shall be allocated to the European Urban Initiative under direct or indirect management by the Commission.'*

<sup>15</sup> For a discussion on the methodology see for example [https://cpmr.org/wpdm-package/cpmr-briefing-note-making-sense-of-the-eu-budget-proposal-for-2021-2027-focus-on-cohesion-policy/?wpdmdl=17408&ind=GHCyVkyWHWd9iZwfhz7NBjXEi14ZO18HMYVL9ROsndS3h-lupV3ruJG6Y01glh\\_ocEYgpvdF5UD-4JXmI\\_UnNR1SIXeJLPH-nD7ARhQPvQoO3s5ujnIOB-aTz26inH1tun8VgXwMbNzdG15MbpsqWA](https://cpmr.org/wpdm-package/cpmr-briefing-note-making-sense-of-the-eu-budget-proposal-for-2021-2027-focus-on-cohesion-policy/?wpdmdl=17408&ind=GHCyVkyWHWd9iZwfhz7NBjXEi14ZO18HMYVL9ROsndS3h-lupV3ruJG6Y01glh_ocEYgpvdF5UD-4JXmI_UnNR1SIXeJLPH-nD7ARhQPvQoO3s5ujnIOB-aTz26inH1tun8VgXwMbNzdG15MbpsqWA)

<sup>16</sup> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument; COM(2018) 375 final.

- Article 104.6: *'EUR 175 000 000 of the ESF+ resources for the Investment for jobs and growth goal shall be allocated for transnational cooperation supporting innovative solutions under direct or indirect management.'*
- Article 10 and 21 of the CPR proposal open the possibility to transfer a maximum of five percent of national allocations to the new EU Invest fund or any other any instrument under direct or indirect management.

In relation to geographical coverage, IQ-Net programmes have expressed the importance of maintaining Cohesion policy support for all regions. This has been maintained and **all regions are eligible for support from Cohesion policy**. Outermost regions will continue to receive additional funding according to the CPR proposal.

At present it is unclear whether **European Territorial Cooperation (Interreg)** allocations were reduced or increased. Nominally, Interreg allocations amount to 2.5 percent of the global resources from the funds (Article 104.7), while as in 2014-20 the Interreg share amounted to 2.75 percent. As overall amounts were cut, the reduced share implies an even bigger cut for Interreg. However, the CPR proposal removes the geographic limitation to fund operations only within the programme area and transnational and interregional actions would be possible in all OPs and under all policy objectives. Article 57.4 states in this respect, *'All or part of an operation may be implemented outside of a Member State, including outside the Union, provided that the operation contributes to the objectives of the programme.'*<sup>17</sup> Potentially, Interreg cooperation could therefore be much strengthened, if Member States choose to do so.

The allocation criteria for Member State support from Cohesion policy (Berlin formula) was extended with GDP per capita still being the main criteria but now also including unemployment, youth unemployment, education levels, CO2 emissions and migration (Annex XXII). Moreover, it is noteworthy that for the first time national envelopes were published within Annex XXII of the CPR proposal.

### **6.2.2 Thematic focus/concentration and strengthened links between Cohesion policy programmes and Country-Specific Recommendations (CSRs)**

IQ-Net programmes expressed the need for Cohesion policy support across a broad range of topics and stressed the need for enough flexibility within thematic concentration requirements of the legislation to decide locally on investment priorities.

In Article 4, the CPR proposal establishes the following policy objectives:

1. a smarter Europe by promoting innovative and smart economic transformation;
2. 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;
3. a more connected Europe by enhancing mobility and regional ICT connectivity;
4. a more social Europe implementing the European Pillar of Social Rights; and

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<sup>17</sup> see also Article 17.3. d (v).

5. a Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives.

The ERDF and Cohesion Fund legislative proposal<sup>18</sup> and Annex I to the CPR proposal specify and codify individual actions and operations which can be funded under the above policy objectives. The list appears quite extensive and seems to cover the investment needs expressed by IQ-Net programmes. Minimum allocations are determined by the Fund-specific rules. For the ERDF and Cohesion Fund, *'the majority (65% to 85%) of resources will be concentrated on contributing to the policy objectives which evaluation evidence and the impact assessment suggest have the highest added value, as well as the greatest contribution to EU priorities'*.

A new element in the CPR proposal concerns a profound **mid-term review in 2025** (Article 14), which aims to adapt programmes and financial allocations to changed socio-economic contexts and take implementation progress into account. Moreover, the mid-term review is the second occasion after the initial programming phase during which relevant Country-Specific Recommendations should be taken into account. IQ-Net programmes expressed scepticism about the practicability of considering CSRs in the context of Cohesion policy, given its different time scales (annual and multi-annual). The question is whether the current proposal satisfies this scepticism.

The link between Cohesion policy and **sound economic governance**, including the possibility of suspension of payments, is suggested to remain (Article 15).

### **6.2.3 Programme implementation**

Many IQ-Net programmes expressed strong support for **results orientation** in general, but argued for the constituting elements of the **Performance Framework** to be modified. Article 12 of the CPR sets out the proposed Performance Framework for the programming period 2021-27.

The Performance Framework will consist of:

1. the output and result indicators linked to specific objectives set in the Fund-specific Regulations;
2. milestones to be achieved by the end of the year 2024 for output indicators; and
3. targets to be achieved by the end of the year 2029 for output and result indicators.

In terms of methodologies for setting up the Performance Framework, the CPR proposal seems to leave significant scope to domestic authorities. However, it requires the Performance Framework to include:

- the criteria applied by the Member State to select indicators;
- data or evidence used, data quality assurance and the calculation method; and
- factors that may influence the achievement of the milestones and targets and how they were taken into account (Article 13).

The **Annual Implementation Report** is to be replaced by an '**annual Performance Review**' (Article 36).

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<sup>18</sup> COM(2018) 372 final.

According to IQ-Net programmes, **ex ante conditionalities** should be less numerous, and more focused on the most essential elements. The CPR proposal continues ex-ante conditionalities under the name '**enabling conditions**' (Article 11) and distinguishes between 'horizontal' (Annex III) and 'thematic enabling conditions' (Annex IV).

In addition, several articles have the potential for **simplifying implementation** in 2021-27 (see Box 8 for a non-exhaustive list).

### **Box 8: New legislative proposals with potential for simplification**

#### **Complementarity and flexibility:**

1. Article 19.5 'The Member State may transfer during the programming period an amount of up to 5 % of the initial allocation of a priority and no more than 3 % of the programme budget to another priority of the same Fund of the same programme. (...) They shall be considered to be not substantial and shall not require a decision of the Commission amending the programme.'
2. Article 20: '...The ERDF and the ESF+ may finance, in a complementary manner and subject to a limit of 10 % of support from those Funds for each priority of a programme, all or part of an operation for which the costs are eligible for support from the other Fund on the basis of eligibility rules applied to that Fund, provided that such costs are necessary for the implementation.'
3. Article 22 offers the possibility to support existing territorial tools designed by the Member State.

#### **Continuity:**

1. Articles 49-51: simplification of simplified cost options including to re-apply established rates applicable in the 2014-20 programming period.
2. Roll-over of the established management and control system of the 2014-20 period possible (Article 78.2)

#### **Financial management and audits:**

1. Article 73.2 allows for the application of non-statistical sampling method for populations consisting of less than 300 sampling units.
2. Article 74.2: 'For programmes for which the Commission concludes that the opinion of the audit authority is reliable and the Member State concerned participates in the enhanced cooperation on the European Public Prosecutor's Office, the Commission's own audits shall be limited to auditing the work of the audit authority.'
3. Article 74.3: 'Operations for which the total eligible expenditure does not exceed EUR 400 000 for the ERDF and the Cohesion Fund, EUR 300 000 for the ESF+, (...) shall not be subject to more than one audit by either the audit authority or the Commission prior to the submission of the accounts for the accounting year in which the operation is completed.'
4. Revenue generating investments are suggested to no longer having to comply with specific rules.

#### **Reliance on national management systems (Title VI Chapter III)**

1. Article 77: by way of derogation from Article 68(1)(a) and 68(2), the managing authority may apply only national procedures to carry out management verifications;
2. Article 78.1: The Member State may apply the enhanced proportionate arrangements set out in Article 77 at any time during the programming period, where the Commission has confirmed in its published annual activity reports for the last two years preceding the Member State's decision to apply the provisions of this Article, that the programme's management and control system is functioning effectively and that the total error rate for each year is below 2 %.

Several open questions remain as well as the potential for administrative burden:

- Article 36: transmission of data to the Commission six times a year;

- Article 43: communication activities are strengthened through dedicated 'communication coordinators' (at Member State level) and 'communication officers' (at Managing Authority level); the Commission envisages running a communicators network;
- Article 99: the automatic decommitment rule is proposed to be shortened from three years in the period 2014-20 to two years in 2021-27.

Finally, it should be noted that the overall size of the CPR was significantly reduced and the Commission's stated aim was to '*make the rules less complex in the next long-term EU budget, with less red tape and lighter control procedures for businesses and entrepreneurs benefiting from EU support*'. In an effort to reduce subsequent implementing, delegated acts and guidance notes, the CPR proposal is accompanied by 22 annexes providing templates, implementation requirements, codes, etc., which in the previous period were published in separate acts. The risk of shortened legislative provisions is that implementation is not sufficiently clear, which would then again lead to increased implementing/delegated acts and guidance notes.