IQ-Net

Improving the quality of Structural Funds management

Report to the 57th IQ-Net Conference, 11 – 13 November 2024, Eindhoven, Netherlands

Stichting EPRC Delft
Faculty of Architecture and the Built
Environment,
Technische Universiteit Delft
Julianalaan 134
2628 Delft
Netherlands

T: +44-141-548-3908
E: info@eprcdelft.eu
W: https://eprc-strath.org/eu/

Stichting EPRC Delft is a non-profit foundation registered in the Netherlands (No. 69203288)

PREFACE

The IQ-Net Network promotes exchange of experience on the management and implementation of Structural Funds programmes among Managing Authorities, Intermediate Bodies and coordinating authorities. The network is managed by the European Policies Research Centre Delft under the direction of Professor John Bachtler and Heidi Vironen. The research for this report was undertaken by EPRC Delft in preparation for the 57th IQ-Net Conference on 11 – 13 November 2024, Netherlands. The report was written by Odilia van der Valk.

The report is the product of desk research and fieldwork carried out during Autumn 2024 to national and regional authorities in EU Member States (notably partners in the IQ-Net Consortium). The field research team comprised:

- Stefan Kah (Austria)
- Odilia van der Valk (Belgium)
- Odilia van der Valk (the Netherlands)
- David Špaček (Czechia)
- Professor Henrik Halkier (Denmark)
- Heidi Vironen (Finland)
- Dr Eleftherios Antonopoulos (Greece)
- Fabian Gal (Hungary)
- Rona Michie and Dr Irene McMaster (Ireland)
- Dr Martin Ferry (Poland)
- Viktoriya Dozhdeva (Portugal)
- Dr Carlos Mendez (Spain))
- Eléna Jabri (France)

EPRC Delft thanks all those respondents from national and regional authorities who participated in the research. Thanks also to Marina Murray, Rachel Maguire, Heidi Vironen and John Bachtler for editorial and research assistance. Additionally, EPRC Delft gratefully acknowledges the financial support provided by participating national and regional authorities, whose contributions are partly co-financed by Technical Assistance from the European Structural and Investment Funds.

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

Austria

- ÖROK Secretariat – Austrian Conference on Spatial Planning

Belgium

- Flanders Innovation & Entrepreneurship

Czechia

- Ministry of Regional Development

Denmark

- Danish Business Authority

Finland

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

Greece

- Management Organisation Unit of Development Programmes S.A., Ministry of Economy and Finance

Hungary

- National Development Centre

Ireland

- Southern Regional Assembly, EU and Corporate Affairs Division
- Northern & Western Regional Assembly

Netherlands

- Managing Authority Kansen voor West
- Managing Authority Noord, Northern Netherlands Alliance (SNN)
- Managing Authority Stimulus (OP Zuid)

Poland

- Marshal Offices of the Warmińsko-Mazurskie and the Pomorskie Regions

Portugal

- Agency for Development and Cohesion (ADC)

Spain

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

For further information about IQ-Net, and access to the full series of IQ-Net Papers, please visit the IQ-Net website at: https://eprc-strath.org/iq-net/login/

To cite this paper, please use the following: van der Valk, O.T. (2024) "Reflecting on Progress and Preparing for the Future: An EU Cohesion Policy Overview", IQ-Net Review Paper 57(1), European Policies Research Centre Delft.

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.

LIST OF ABBREVIATIONS

AI	Artificial Intelligence
CF	Cohesion Fund
CLLD	Community-led Local Development
CPR	Common Provisions Regulation
DG	Directorate General
DNSH	Do No Significant Harm
EC	European Commission
ERDF	European Regional Development Fund
ESF / ESF+	European Social Fund / European Social Fund Plus
ESIF	European Structural and Investment Funds
GINOP	Economic Development and Innovation Operational Program
IB	Intermediate Body
IROP2	Integrated Regional Operational Programme (Czechia)
ITI	Integrated Territorial Investment
JTF	Just Transition Fund
MA	Managing Authority
MC	Monitoring Committee
MS	Member State
OP	Operational Programme
PA	Partnership Agreement
PO	Policy Objective
R&I	Research and Innovation
REACT-EU	Recovery Assistance for Cohesion and the Territories of Europe
ROP	Regional Operational Programme
RRF	Recovery and Resilience Facility
RTDI	Research, Technological Development and Innovation
(N)RRP	(National) Recovery and Resilience Plan
SME	Small and medium sized enterprises
SO	Specific Objective
SUD	Sustainable Urban Development
TJTP	Territorial Just Transition Plan

COUNTRY/PROGRAMME ABBREVIATIONS

Country	Abbreviation
Austria	**AT**
Belgium (Vlaanderen)	**BE (Vla)**
Czechia	**CZ**
Denmark	**DK**
Finland	**FI**
France	**FR**
Greece	**EL**
Hungary	**HU**
Ireland	**IE**
Ireland (Southern Regional Assembly)	**IE (SRA)**
Ireland (Northern and Western Regional Assembly)	**IE (NWRA)**
Netherlands	**NL**
Poland	**PL**
Poland (Warmińsko-Mazurskie)	**PL (W-M)**
Poland (Pomorskie)	**PL (Pom)**
Portugal	**PT**
Spain	**ES**
Spain (Bizkaia, País Vasco)	**ES (Biz)**

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EXECUTIVE SUMMARY

As the final **closure of the 2014-20 programmes** draws near, attention has increasingly shifted towards the **implementation of the 2021-27 programmes** and the development of **strategies for the post-2027 period**.

Managing Authorities face the complex challenge of ensuring compliance with regulatory frameworks while simultaneously addressing the issues that have arisen during **implementation of the 2014-20 programmes**. The **introduction of the STEP regulation** has provided essential extensions and flexibility, enabling the re-evaluation of projects and the fulfilment of outstanding obligations.

Financial implementation progress of the 2021-27 programmes across all EU Member States has been relatively slow. Both external and internal challenges have impacted the implementation of these programmes in IQ-Net countries and regions. Despite this, programme authorities maintain a positive outlook regarding the current status of financial implementation, noting that the challenges and successes often vary based on the types of projects involved.

Many programme authorities finalised their **territorial instrument plans** early in the 2021-27 programme period, resulting in limited progress over the past six months regarding Integrated Territorial Investments (ITIs) and Sustainable Urban Development (SUD).

Although the Open Cohesion Data platform reports that only 26 percent of the financial resources have been allocated to selected projects, with a mere two percent of expenditure reported for the **Just Transition Fund (JTF)**, IQ-Net programme authorities are generally positive about the fund. The introduction of STEP has alleviated some challenges associated with the JTF.

Some IQ-Net programme authorities are engaged in ongoing discussions about the potential use of options under the **STEP regulation for the 2021-27 period**, while others have opted not to incorporate STEP into their programmes or only incorporate the regulation in JTF.

Preparations for the next phase of Cohesion Policy have commenced at various levels, with multiple IQ-Net countries and regions advancing their internal discussions and positions on the future direction of Cohesion Policy.

1 INTRODUCTION: A CHALLENGING PERIOD

As the closure of the 2014-20 programmes approaches, attention has increasingly shifted toward the implementation of the 2021-27 programmes and the development of strategies for the post-2027 period. Cohesion Policy remains a focal point for policymakers, politicians, and academics alike. In 2024, discussions regarding the impact and absorption of Cohesion Policy advanced significantly, particularly with the availability of more comprehensive data from the complete 2014-20 period.

Reviews of the implementation of the 2014-20 programmes conclude EU investments have had a significant impact on regional development,[1] despite implementation challenges.[2] Research shows that programme-specific and regional characteristics play important roles in explaining the different levels of fund absorption, as well as the quality of government.[3] This indicates that greater flexibility in spending rules and the implementation of more customised strategies could be key to enhancing fund absorption.[4] The COVID-19 pandemic fallout and the war in Ukraine have increased the salience of cohesion given the differential economic, social and territorial consequences of the crisis.[5]

This paper adds to the discussion on implementing the 2014-20 programmes, as well as the progress of implementation in 2021-27 while preparing for the next phase of Cohesion Policy. It draws on Cohesion Open Data and fieldwork interviews with programme authorities over the period August - October 2024. The first section of the paper provides details on the almost closing chapter of the 2014-20 programme. The second section provides an overview of the 2021-27 period, that is currently at the halfway point – in time if not in absorption - and programme authorities are slowly getting up to speed in terms of implementation. Although there is concern at the EU level with the pace of commitment, and even more so with spending, many programme authorities report that implementation is running reasonably well, though with variation across Member States and regions.

These sections are followed by an update on the state of play with the Mid-term Review (MTR) and consecutively the progress on JTF. The paper ends with an overview of the preparations for the next phase of Cohesion Policy, and the (preliminary) position papers by different Member States (MS).

2 2014-20: ALMOST CLOSING THE CHAPTER

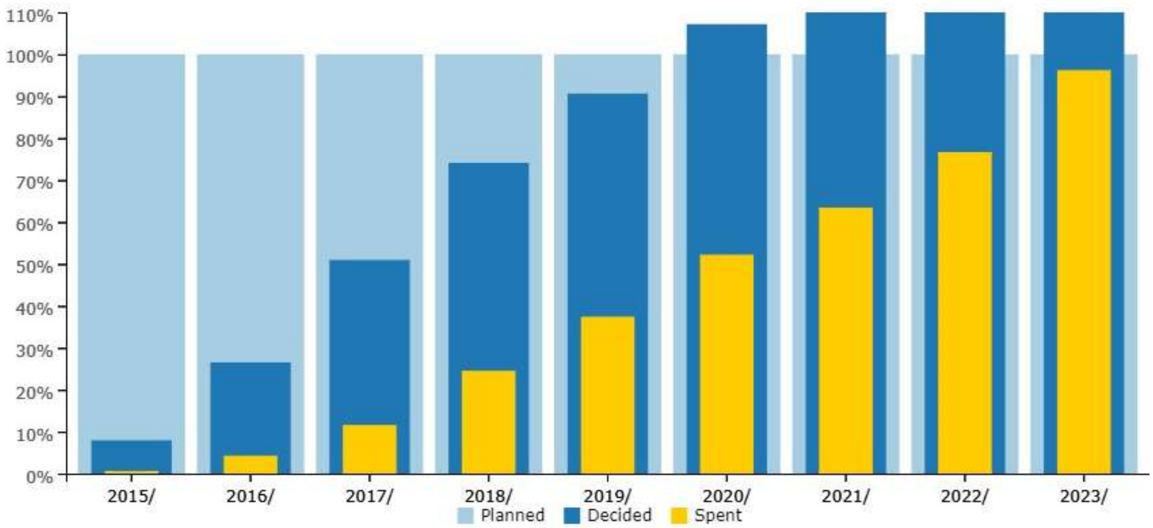
As the closure phase of the 2014-20 programmes draws towards the end, Managing Authorities face the complex task of ensuring compliance with regulatory frameworks while simultaneously addressing the challenges that have emerged during implementation. The introduction of the STEP regulation has provided vital extensions and flexibility, allowing for the re-evaluation of projects and the completion of outstanding obligations.

2.1 Financial implementation: path to full absorption

The date of eligible expenditure for the 2014-20 programmes has now passed (31 December 2023). The financial implementation data for the end of 2023 recorded **123 percent resources allocated to selected projects**, and the **total expenditure reported by selected projects at 96 percent** of the decided projects by the end of December 2023 (See Figure 1).

All IQ-Net programmes report or expect to report an (almost) full absorption of the 2014-20 programmes, including REACT-EU resources. Across all IQ-Net partner countries, a significant portion of the allocated funding has either been certified or reimbursed, although the situation varies amongst programmes. For instance, **ES (Biz)** has fully certified expenditure and are able to absorb additional funding if other provinces or the Basque government are unable to fully certify their allocations, although this may not be necessary. In **BE (Vla)**, the majority of spending has been certified, with the final outcome of the programme expected to reach around 95 percent. Similarly, **CZ** is on track to fully utilise its resources, having already reimbursed 100 percent of the support to beneficiaries, with minor exceptions in cross-border collaboration. Other countries and regions also report smooth progress toward closure. For example, **IE's** programme authorities are working intensively on finalising projects, though **NWRA** faces challenges linked to large capital infrastructure projects.

Figure 1: Financial implementation (period covered up to 31 December 2023)



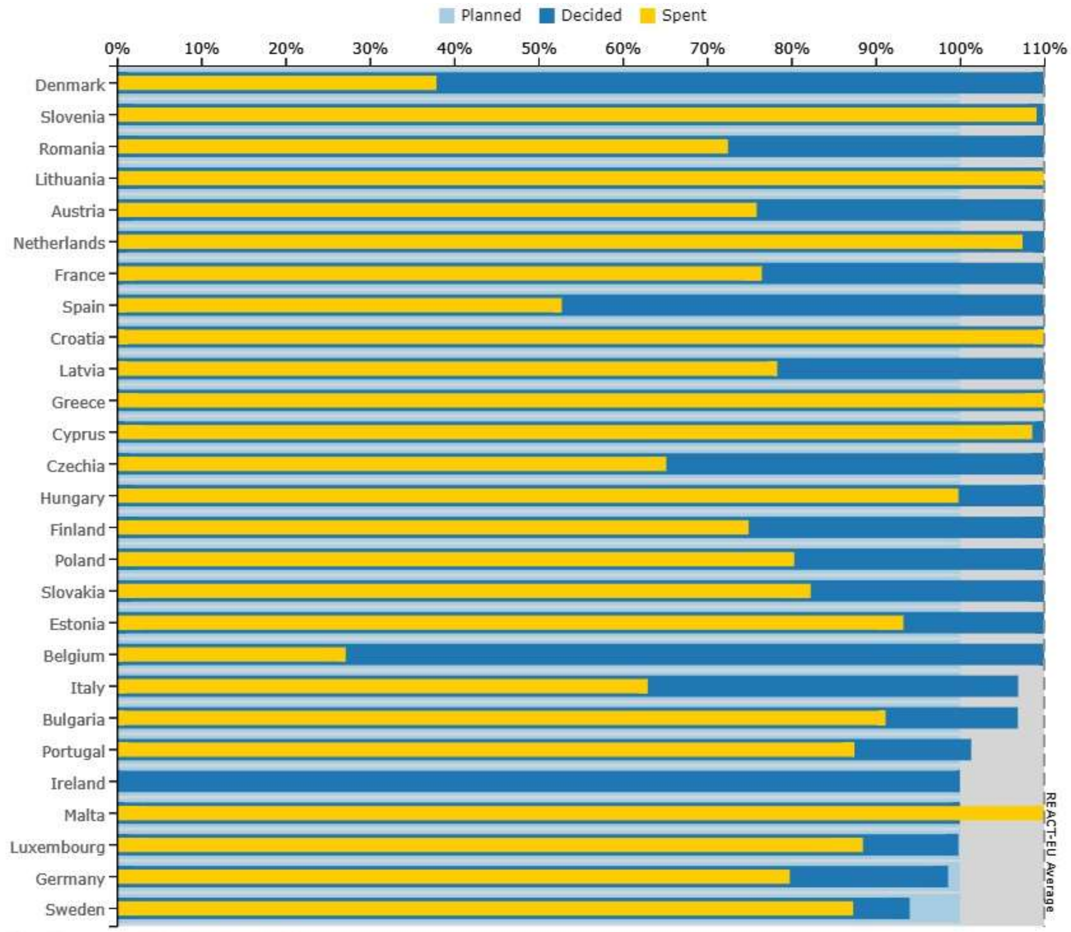
Source: European Commission. (n.d.). ESIF 2014-2020 finance implementation details [Data set]. Cohesion Open Data. Retrieved October, 2024

2.1.1 REACT-EU: balancing success with implementation challenges

The implementation of REACT-EU has, in most cases, served as a bridge between the two programme periods. The short timeline and the subsequent pressure on the capacities of MAs has been a challenge since the start. However, now that the REACT-EU programme has come to an end, the first evaluations reveal generally positive results (e.g. **CZ, FI, HU**, **NL**).

The latest overview of the implementation data (period covered up to December 2023) (see Figure 2) indicates that some Member States are behind in implementation of REACT-EU. However, this is largely due to administrative or practical factors. For example, the Danish programmes are based on large and long-running projects. Payments from the programme authority to these operators typically fall late in the programme period cycle when the activities are already completed. The MA has credit with the Ministry of Finance through the annual national government Finance Acts, and thus the need to reclaim relatively small amounts of money from the European Commission on an ongoing basis is limited.

Figure 2: 2014-20 Financial implementation REACT-EU (period covered up to 31 December) 2023)



Source: European Commission. (n.d.). ESIF 2014-2020 finance implementation details [Data set]. Cohesion Open Data. Retrieved October, 2024

2.1.2 STEP: resolving outstanding issues

The STEP regulation has significantly influenced closure processes by extending closure deadlines, leading to a more manageable workload and enabling better project re-evaluation. Overall, it has provided countries with the necessary tools to effectively manage the complexities associated with programme closure, especially while balancing multiple programme periods.

The extension of the closure deadline allowed multiple IQ-Net programmes to deal with issues such as the closure of significant or complex projects before the deadline **(HU, IE),** reducing potential financial corrections. In **PL**, the STEP regulation provided administrative relief during closure and allowed for more time to respond to audit processes. In **PT,** the extension allowed for better planning and preparation of closure documents.

Despite having the STEP regulations helping the programme authorities to close the programmes in an orderly manner, there are various outstanding tasks across the Member States and regions:

- **Capacity constraints** due to handling multiple programmes **CZ,** a high volume of tasks as many projects concluded near the closure deadline **PL (Pom),** challenges with strategic ERDF projects **PL (W-M)** and the need for additional guidance on procurement and financial management, as well as challenges in the closure of large infrastructure projects **IE (NWRA).**

- **Contact with beneficiaries** to ensure that the closure process and requirements are understood **BE (Vla).** In **IE (NWRA),** beneficiaries did not fully appreciate the documentation needed for closure, making the process of finalising declarations time consuming and labour intensive.

- **Monitoring and auditing** are impacting **CZ** with ongoing audits and financial corrections. Dealing with unfinished projects or projects at risk is crucial, and ongoing audits require responses that complicate the closure process **HU, PL (Pom).** The complexity of auditing a significant portion of projects requires additional time and resources in the **NL (West).**

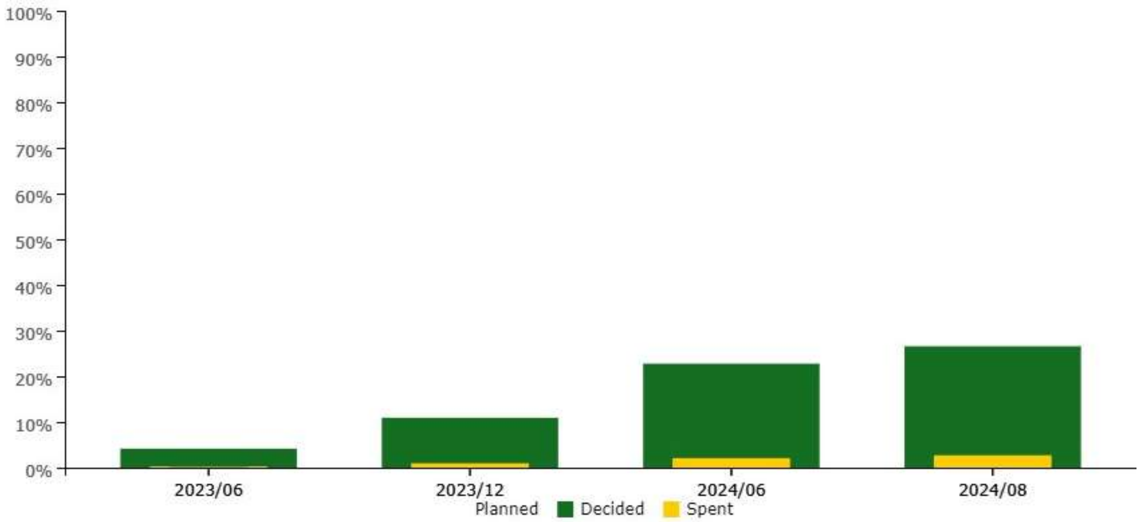
3 2021-27: HALFWAY THROUGH

The 2021-27 programme period is now at the halfway point with mixed performance across objectives and themes. The programmes are dealing with multiple challenges and changes, both external and internal. Territorial Instruments are being implemented without many changes or challenges, and there is still ongoing discussion about the use of STEP. The upcoming Mid-term Review for the 2021-27 programmes will be discussed in Section 4.

3.1 Overview of implementation progress: a slow start

The financial implementation progress of the 2021-27 programmes across all EU Member States appears to be slow when assessing the data of the Cohesion Open Data Platform. Taking into account CF, ERDF, ESF+, Interreg and JTF, the **total spending rate in the 2021-27 period is at three percent** and the total resources **allocated to selected projects is at 27 percent** (see Figure 3). This is significantly less in comparison to the same point in the 2014-20 programme period, where twelve percent had been spent by the fourth year of the programme period (2017), and 51 percent allocated to selected projects.

Figure 3: Implementation progress 2021-27 programmes (period covered up to 31 August 2024)



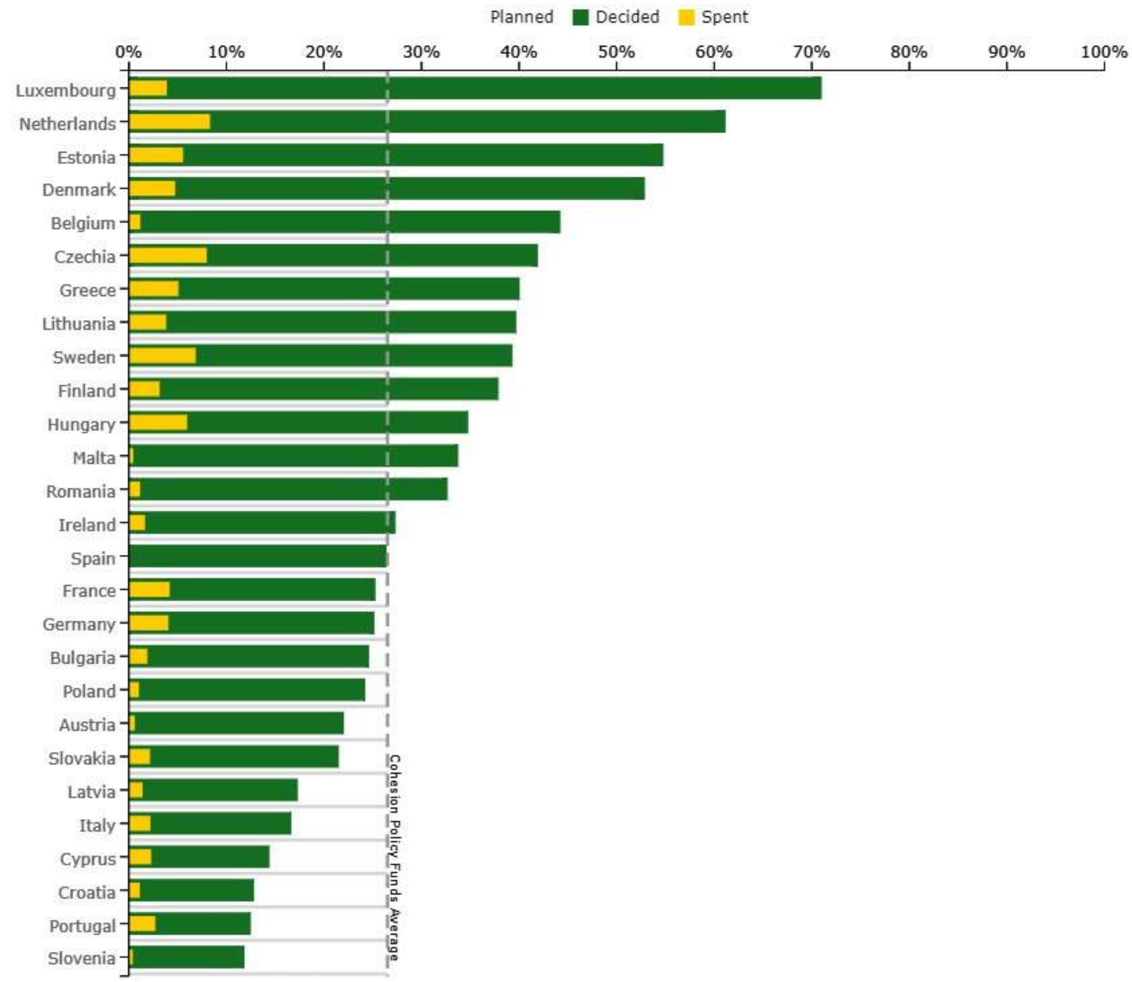
Source: European Commission. (n.d.). 2021-2027 finances: Detailed planned vs. implemented [Data set]. Cohesion Open Data. Retrieved October, 2024

Looking at individual Member States, the allocation of funding varies from 70 percent in Luxembourg to twelve percent in Slovenia, and the spending rate from zero **(ES)** to eight percent **(CZ, NL)** (see Figure 4). There are also delays in obtaining the physical implementation data from beneficiaries, notwithstanding increased pressure from the Commission to provide this.

IQ-Net field research indicates that the EU data does not give a complete picture of implementation progress. France, **PL** and **PT** are, according to the implementation data (see Figure 4), below the EU average in terms of resources allocated to selected projects. However, the MAs in these countries note that implementation is progressing according to plan. The main factor for delayed spending is the late start of the programmes (e.g. France, **PL (Pom)** and **PL (W-M)**) with priority having been given to RRF planning and spending in some of these countries.

Some programmes are also dealing with outstanding issues concerning their IT and monitoring systems (see Section 2.2) which in turn affects the transfer of data to the Cohesion Open Data Platform. Overall, IQ-Net programme authorities have a more positive outlook regarding the state of play of financial implementation than Figure 3 and Figure 4 suggest.

Figure 4: Implementation of 2021-27 programmes by country

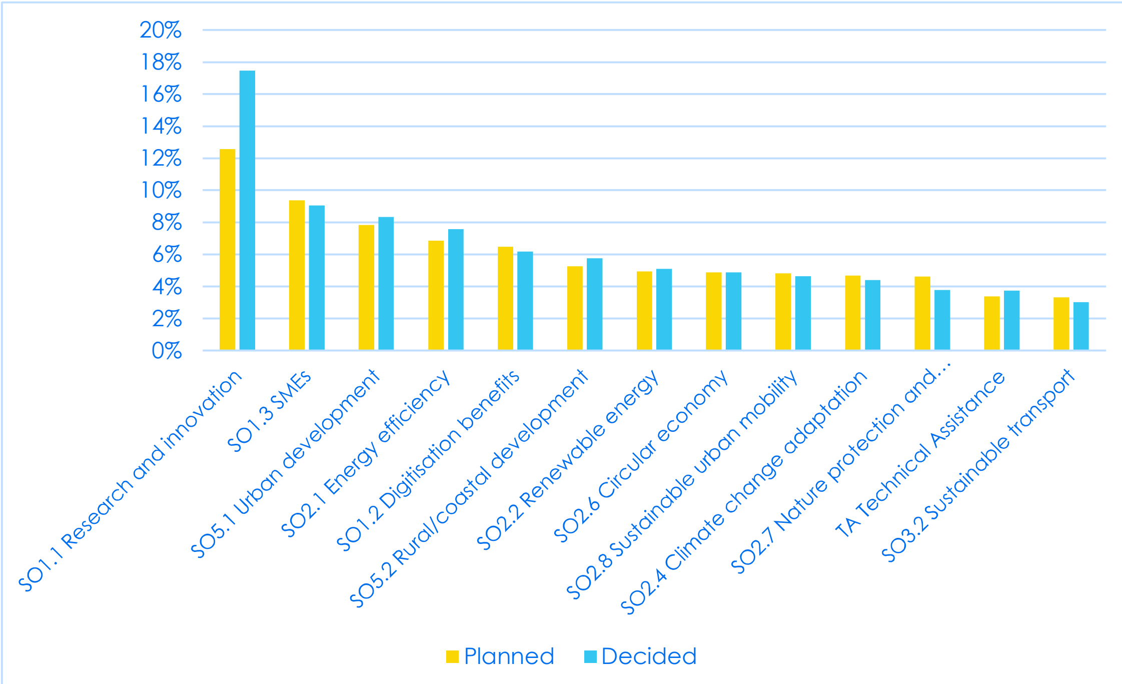


Source: European Commission. (n.d.). 2021-2027 finances: Detailed planned vs. implemented [Data set]. Cohesion Open Data. Retrieved October, 2024

3.1.1 Mixed performance across objectives and themes

When comparing the planned and decided projects per Specific Objectives (SO) (in ERDF) across all programmes, the differences are very minor. Percentage-wise there are more projects decided for Research and Innovation (SO 1.1), Urban Development (5.1) and Rural/Coastal Development (5.2), Energy Efficiency (2.1) and Renewable Energy (2.2), than has been planned in the programmes (see Figure 5). The figure shows that, although some programmes might experience difficulties with certain themes or Specific Objectives, overall, the implementation per SO is in line with the planned budgets per theme.

Figure 5: Planned vs. decided per Specific Objective in ERDF (2021-27)



Source: data compiled by author, European Commission. (n.d.). 2021-2027 planned finances: Detailed categorisation [Data set]. Cohesion Open Data, and European Commission. (n.d.). 2021-2027 finances: Detailed planned vs. implemented [Data set], both retrieved October, 2024

In addition to the graph, IQ-Net programmes report different challenges and successes in terms of type of projects. **Research and innovation is progressing well** in most cases. Indeed, in **AT** there is overfunding in the research sector with a broad range of domestic alternatives, which also have clearer audit criteria than the ERDF. In **IE (NWRA and SRA),** research and innovation schemes are implemented by Intermediate Bodies (IBs), with mixed progress reported across regions and schemes. Particular challenges have been experienced in both programmes with uptake of a funding call under Enterprise Ireland's Smart Regions scheme which makes use of GBER Article 56. This has been found to be very complex to implement and not attractive to potential enterprises.

Energy efficiency projects are working well in **PL (Pom)** and **EL**, however they are challenging in **BE** due to issues with conditionalities and in **IE (NWRA).** This is due not only to a lack of contractors to carry out the work and the dispersed nature of the settlements in the region making it difficult to build up numbers quickly, but also due to eligibility issues. The type of housing stock (e.g. old traditional stone cottages) makes it harder to reach the required 'uplift' in energy efficiency ratings to qualify for the deep retrofits funded by ERDF.

Circular economy projects are working well in the **NL (West),** partly due to the emphasis on this topic at national level, and in **PL (Pom). EL** reports a high interest level for action supporting new businesses under the Competitiveness OP.

3.2 Where are the implementation challenges?

Despite the fact that implementation in most cases is progressing as expected, it has been impacted by some internal and contextual factors . Contextual changes and challenges such as elections, institutional changes, new legislation and thematic challenges and programme amendments, as well as internal issues within programme authorities, have affected the implementation of the programmes across the IQ-Net countries.

3.2.1 Programme amendments are underway or planned

Most IQ-Net programmes indicate that the Mid-term Review will determine whether and what amendments of the programmes should be undertaken **(FI, IE, NL (West), PT).** In some cases, change is already happening. In **AT,** for example, a new version of the ERDF/JTF programme has been approved, including small adjustments of the text and in the financial plan (but without reallocations). In **EL,** proposals to revise two programmes were approved by the Monitoring Committee of the programmes and submitted to the European Commission. A Specific Objective (RSO2.3) was added entailing expenditure of €14 million, with a corresponding reduction in expenditure in two of the other programme priorities. Both **IE (SRA)** and **PT** have planned or have submitted programme changes related to simplified cost options (SCO).

Some small changes in programmes have taken place or are planned which do not require an official amendment, as they either fall below the threshold for an official request or because the reallocations cancel each other out **(BE, HU).**

3.2.2 Contextual challenges and changes impacting programme implementation

Not only are programme amendments affecting programme implementation, contextual challenges and changes also play a role in implementation:

In AT, one of the federal Intermediate Bodies, the Austrian Hotel and Tourism Bank (ÖHT), decided to no longer **make use of ERDF financing**. The reason was the disproportionate audit effort in relation to amount of ERDF funding used, which only represented a small part of their overall portfolio. Other Intermediate Bodies in Austria have also been dealing with audit issues, some of which have not yet been resolved. Additionally, **liability issues** also occur for some private beneficiaries and the overall **economic situation** is causing some resistance in the willingness to invest.

Key implementation challenges in **IE (SRA and NWRA)** in the past six months relate to **State Aid requirements** and their implications for the signing of Grant Agreements and attractiveness of funding calls. Particular challenges surround the uptake of one funding call that makes use of Article 56 of the GBER.

Elections at provincial and municipal levels in **BE (Vla)** have had some impact on their ITIs. Calls that were originally planned for 2024 will be delayed to the beginning of 2025 after the elections taken place.

The main challenge concerning programme implementation in **HU** is linked to issues with the fulfilment of **enabling conditions**. Additionally, the **economic situation** affecting the implementation of financial instruments is challenging. A recently launched financial instrument providing grants for business investments has met lower demand than anticipated given that businesses do not currently seem to be willing to spend on investments.

The development and approval procedure of operational documents has remained challenging in PL (POM). These documents enable the announcement of recruitments and the conclusion of co-financing agreements with beneficiaries and the implementation of projects.

In PT, there is still some learning in relation to the relatively recently published **specific regulations** and the annual plan of calls. In addition, some requirements, for example, in terms of **climate tagging**, and some uncertainty that exists in this context, have created difficulties in the construction of calls. However, progress has been made in terms of preparing guidelines for the MAs regarding the operationalisation of horizontal principles in the implementation of PT 2030, including regarding the environmental requirements.

In **CZ,** insufficient administrative capacities of some Managing Authorities still exist, which has led to overload and increased fluctuation of employees. This may impact quality of the work (especially with regard to the JT OP). Also, potential impacts of changes in the construction procedure law and related digitalisation are still not clear (a new system has recently been launched, which may cause delays in decisions on construction).

3.2.3 Challenges and changes in internal processes affecting implementation

The primary factor influencing implementation, surpassing external considerations, is the **effectiveness of IT and digital management systems**. Multiple Member States indicate outstanding issues in terms of IT systems, including monitoring and digital management systems. In **IE, FI,** and **ES** the IT systems at national level are not fully operational, and in **PL (W-M)** there is a lack of appropriate data structures in the reporting system.

Additionally, in **FI** the **wide range of SCOs** available in the 2021-27 period, and the need to adopt new ways of working, has been a challenge. Programme authorities are still very much 'in the mind-set' of using the traditional cost-based reimbursement approaches. Consequently, issues such as fraud prevention have risen in importance as performing verifications of the expenditure incurred and paid by beneficiaries has become a more difficult task with the use of SCOs.

Some IQ-Net programmes also report specific improvements in terms of **(administrative) capacity**. In **HU,** all development-related programmes, including all Cohesion Policy programmes, have been externalised from ministerial structures and integrated into a newly created **national development centre**. This new centre undertakes the management of six Cohesion Policy programmes with a total of 2,000 staff. Temporary **capacity shortages** on financial management can now be addressed more rapidly through the temporary transfer of staff from other services and from other MAs. In **CZ,** stable staffing within MAs and consistent management structures contribute to more effective programme implementation. Additionally, beneficiaries are better prepared to participate in the programmes. Lastly, **IE (SRA)** experienced some increased capacity within the MA and IBs, with staff returning from leave and the filling of vacancies which helped with the work programme. MA staff have also proactively engaged in capacity building in a wide range of areas such as evaluation, procurement, DNSH, fraud, SCOs, State Aid, S3, and risk-based management verifications in different (peer-to-peer) networks. Linking up with colleagues at other programmes and funds in Ireland has also been found to be beneficial for implementation, for example, through the recently established 'practitioners network' for the CPR funds and RRF in **IE.**

There are outstanding capacity issues in **PL (Pom),** where the MA had not been able to announce many competitions at the same time due to staffing issues and the time-consuming audit process of the ROP 2014-20.

3.2.4 Communication efforts across programmes

The increased emphasis on communication is another factor that impacting implementation. In the 2014-20 period, the regulations took a step forward in acknowledging communication as a strategic function of the programmes, which continued in the 2021-27 period.[6]

Among IQ-Net programmes, there is a renewed emphasis on communicating and announcing calls. In **NL (South),** active communication about the programme and outreach activities to potential beneficiaries have become increasingly important to address (slight) delays in implementation.

A creative example in the MA in **PL (W-M)** is a virtual (AI) influencer on Instagram, called Miko Kopernik (@miko_kopernik) who presents the attractiveness of the region through the prism of European funds. The Instagram account is in addition to the MA's website, a Facebook page and YouTube channel.

Source: Miko Kopernik [@MikoKopernik]. (2024, October). Screenshots of the Warmińsko-Mazurskie Instragram account [Photograph]

By contrast, in **IE (NWRA)** the MA has returned to increasing more traditional communications with local newspapers **to improve communication with people who are not online**. Online communications will continue alongside, and, related, the MA has been building a new website which is due to launch in October 2024. Communication and contact with beneficiaries in **IE (SRA)** are working well for schemes directly managed by the MA. The MA is also providing targeted training on a range of topics and other schemes that are managed by IBs are steadily building capacity. The cooperation for capacity building between the MA and the IB has been positive and productive.

The coordination of communication activities is another prominent priority. In **EL**, programmes are taking into account the recommendations of the 2014-20 evaluations on communication. For OP Kriti, a communication consultant has been hired, and on the national level a communication guide has been issued with the aim to **ensure a unified format of**

communication efforts across programmes. In similar vein, the centralised Structural Funds website (www.rakennerahastot.fi) serves as a key communication platform in **FI** and has generally improved communication with potential project applicants, especially regarding planned calls across Finland. Potential project applicants are provided with sufficient information ahead of the planned calls. In addition to the central-level information, individual IBs also hold (online) events to disseminate information to potential project applicants.

3.3 Update on the Territorial Instruments & SUD in 2021-27 programmes

There has been limited progress over the past six months on ITIs and SUD, as many programme authorities finalised their Territorial Instrument plans relatively early in the 2021-27 programme period. Some key details from the IQ-Net programmes regarding Territorial Instruments and Sustainable Urban Development include:

Progress is reported in **DK** regarding implementation of a small SUD priority. The committee has started work, and a call is expected to be announced soon.

In **CZ**, the implementation of ITIs has been delayed due to the time-consuming process of adopting formal documents on the territorial level. However, the delays are not considered to be problematic.

EL has approved and revised multiple ITIs across the country, both urban and non-urban. A special unit for the coordination of territorial investments has been established in the framework of the Special Service for the Support to Regional Operational Programmes to ensure cohesive strategies and visions as well as coordination on the local and regional level.

In **IE (NWRA & SRA),** the implementation of THRIVE (the Town Centre First Heritage Revival Scheme) is going well. The MAs have been coordinating work on drafting grant agreements and terms of references for approved projects under Strand 1. In **NWRA**, the MA plans to meet with scheme beneficiaries (town councils/local authorities) each month to record any issues and action points and support and guide them through to applications for the forthcoming Strand 2 call. A lesson learned from the 2014-20 programme has been that town councils are lacking both time and money, that they need guidance and support on the finances, and a higher level of training, coaching and 'hand holding'.

3.4 Ongoing discussions about the use of STEP

Since the STEP initiative was launched in early 2024, Member States have proposed investments exceeding €6 billion through Cohesion Policy programmes to develop key technologies such as clean tech, deep tech and biotechnology, all crucial for the energy transition and future competitiveness of the EU. For example, Romania intends to allocate €261 million from Cohesion Funds for large-scale research projects in artificial intelligence and Cantabria (ES) is setting aside €15.5 million for a project aimed at producing green lithium for the automotive industry.[7]

IQ-Net programme authorities have ongoing discussions on the possible use of options under the STEP regulation. In **HU**, discussions have focused on whether STEP could be used if there are sufficient eligible projects that could benefit from the initiative. Additionally, there are discussions about creating a new STEP priority to transfer the currently blocked funding due to the challenges around enabling conditions. **PL (Pom)** and **PT** are considering using STEP to create an axis to support research and innovation **(PL-Pom)** and clean and efficient technologies **(PT).** The STEP process is also central to the Mid-term Review in **PT** (see Box 1).

Other programmes have decided not to use STEP in their programmes. In **NL** and **BE**, the focus of the programmes is already on themes connected to STEP and implementation is going well. In **DK**, the benefits were considered to be limited compared to the efforts that would have had to go into changing the programme.

Lastly, STEP is used in multiple JTF programmes **(AT, CZ, DK).** For example, in **CZ**, the option of 20 percent ex-ante funding will be used and in **AT**, large firms will be included into the target group of JTF funding under STEP (see Section 5).

Box 1: STEP and the Mid-term Review in Portugal

The process of implementing STEP in **PT** has been driven by an Interministerial Working Group set up in June 2024. The Working Group, coordinated by the Agency for Development and Cohesion (AD&C), includes:

a) A member of the Office of the Deputy Minister for Territorial Cohesion;

b) A member of the Agency for Development and Cohesion, I.P. (Agency, I.P.) – the national focal point for STEP;

c) Members of the Ministry of the Economy – representative of the Portuguese Trade and Investment Agency (AICEP), representative of the Competitiveness and Innovation Agency (IAPMEI), representative of the National Innovation Agency (ANI), representative of the Strategy and Studies Office (GEE), representative of the Managing Authority of the Thematic Programme Innovation and Digital Transition (COMPETE 2030);

d) Members of the Ministry of the Environment and Climate Action – representative from the Directorate-General for Energy and Geology (DGEG), representative from the Portuguese Environment Agency (APA);

e) A representative of the (NRRP's) Mission Structure 'Recover Portugal' (EMRP).

Work is being centred on mapping existing policy instruments relevant to promoting projects in the STEP sectors in Portugal and on assessing the need and opportunity for reprogramming RRF funds and Cohesion Policy funds for STEP. While this work is still in progress (and at relatively early stages), and the Working Group conclusions will be subject of political decision, **the STEP process represents a major component in defining how to proceed in the Mid-term Review**.

An important focus of this preparatory work is on knowledge sharing and coordination with the Managing Authorities, particularly with regard to coordinating tasks within the scope of the Mid-term Review (e.g. division of tasks between what can be developed by the AD&C due to the transversal nature of some issues, and what is specific to the individual programmes).

4 MID-TERM REVIEW 2021-27: A CHANCE TO TAKE STOCK

The CPR requires each Member State to review each programme and decide on the flexibility amount representing 15 percent of allocations. The deadline for the Mid-term Review (MTR) is March 2025, which should also include a proposal to allocate the flexibility amount. Compared to the 2019 performance review, the MTR is more qualitative in nature, and Member States take the lead rather than the Commission.[8]

The previous IQ-Net review paper[9] showed that the most important concern regarding the MTR related to the lack of data. Due to the slow start of the programmes, there are few finished projects, and limited data to make informed decisions on the flexibility amount (except for **DK**, where data is widely available due to the early start of the programmes). The Commission has stated that it does not encourage a wide reprogramming. Therefore, the MTR is an opportunity **take stock of what evolving circumstances mean for Cohesion Policy programmes**.

Preparations for the start of the MTR are ongoing. External support from consultants is used either for extra capacity or to conduct the MTR review in cooperation with authorities **(AT, BE (Vla), IE (SRA), NL).** Since the MTR is a labour-intensive process that will require robust information and data, the process has been pushed back to January 2025 in **IE (NWRA)** and France. Other updates on the progress of the MTR across Member States are:

Revision plans in **AT** include the **development of a new measure** on energy and the removal of a measure on tourism.

The Mid-term Reviews have started in **CZ**. In contrast to the 2014-20 programme period, individual Managing Authorities are required to prepare Mid-term Reviews, rather than the NCA (coordination authority). This impacts **requirements on related coordination and guidance** from the NCA.

IE (SRA) is currently working on the scope of the Mid-term Review. **The approach is to keep it simple**, use up-to-date reporting, involve MA, IB and Member State teams in workshops to feed into the review, as well as the Monitoring Committee. Regular contact with DG Regio is also considered to be important. An external consultant will be hired to provide additional capacity.

Preparations for the MTR in **HU** are ongoing. The process of submitting the Mid-term Review, together with a programme modification including the proposal for a new STEP priority, has been challenging. A preferred approach would have been to submit the Mid-term Review first, and then follow up with the programme modification and integration of STEP once the review has been completed.

Mid-term evaluation in **NL** will be mostly based on the expected outcomes of projects, since milestones will not be reached before the end of 2024.

In **PL (Pom)**, the MA anticipates that there will be limited change to the ROP (e.g. with little or no use of the flexibility principle). Nevertheless, work is currently underway to identify some programme amendments, including in the section devoted to the **estimated target values of indicators** which were, in some cases, too optimistic.

Proposals for changes to the programme have been collected from the implementing bodies in **PL (W-M).** Proposals are also being collected at the national level from Managing Authorities in order to agree on topics to be negotiated at Partnership Agreement level. The MA anticipates that **changes will be limited and will not amount to reprogramming**.

5 PROGRESS OF THE JUST TRANSITION FUND

The Just Transition Fund (JTF) is a key financial instrument within the EU's broader strategy to achieve climate neutrality by 2050. Part of the European Green Deal, the JTF aims to support regions and workers most affected by the shift to a low-carbon economy, particularly those reliant on fossil fuels and carbon-intensive industries. The fund focuses on mitigating the social and economic impacts of the green transition. This includes investments in economic diversification, reskilling workers, and fostering sustainable job creation in affected regions.

In combination with national co-financing, €27 billion is currently available from the adopted JTF programmes to support necessary investments (July 2024).[10] Of the planned amount in JTF:

- 31 percent is allocated to **projects related to enterprises and diversification**
- 18 percent to **clean energy**
- 16 percent to **skills, job-search and education**
- 10 percent to **RTDI**
- The remaining 26 percent goes to themes such circular economy, social infrastructure, TA and other smaller topics. [11]

5.1 Implementation of JTF is moving forward

Even though the Open Cohesion Data platform reports 26 percent of the financial resources allocated to selected projects and two percent expenditure reported by the selected projects for JTF, **IQ-Net programme authorities generally report positively on the fund**.

The implementation of JTF is progressing well in the **FI (West)**, **DK**, **NL**, **AT** and **PT**:

- At the start of the programme period there was some level of concern in **FI (West),** as to whether there would be sufficient demand for JTF given the newness of the instrument. Consequently, programme authorities placed a strong emphasis on project generation. The initial concerns have turned out to be unfounded. The fund has found its specific niche (such as enabling smaller-scale/grass-root type of projects), and implementation progress has been good. It has enabled, for example, projects by smaller municipalities and grassroot-type projects.

- All funds for the Local Business Beacons (*Erhvervsfyrtårne*) in **DK** have been committed, with the final thematic calls (PtX, Carbon Capture, Pyrolysis) under review. The only remaining call is for Green SMEs, requiring careful targeting due to the focus on green issues in the ERDF/ESF programmes. There is flexibility within the JTF to reallocate funding if necessary, depending on political will.

- As of August 2024, JTF in **PT** has released almost 60 percent of its programmed fund for competition.

- In **NL,** almost all of the JTF budget has been applied for. In **NL (West),** 10 percent has already been claimed from the EC in the first months of 2024.

At the time of writing, **CZ** is dealing with delays in JTF implementation due to varying issues. The use of the support relies heavily on individual regions and their strategic projects, their capacities and preparedness. Due to differences of the individual regions, the absorption capacity varies and there are delays in implementation of the OP. At the beginning of 2024, the JTF OP has committed 22 percent of its allocation, and two percent of the total has been paid to beneficiaries. It is expected that the STEP regulation will help with some of these issues (see Section 5.2).

5.2 STEP supports JTF, though challenges persist

The introduction of STEP has helped alleviate some challenges related to JTF:

In **DK**, STEP has made it possible to increase the level of support for projects from 50 to 80 percent of project costs, as well as facilitating support large firms. STEP has thus increased the room for manoeuvre for JTF, particularly important as the green sector of the Danish economy faces capital for investment constraints.

The foreseen amendment in **AT** to include large firms in the JTF programme will help absorb larger amounts of funding, which is useful in the light of N+3.

This also applies to **CZ,** where it is expected that the STEP regulation will help, at least partly, to overcome absorption issues. Due to STEP, some projects were pre-financed from EU sources, and this is included in fulfilment of the N+3 rule.

STEP has a significant impact **NL (South)** as it helps ease the challenging N+3 target. Additionally, STEP facilitates productive investments in large companies involved in STEP-related technologies, which is beneficial since energy suppliers are typically large firms. The support for energy suppliers is crucial for the industry's transition to electrification and other investments in green energy supply.

Although STEP supports JTF by alleviating challenges with N+3 and is able to support large firms, there are some outstanding challenges that persist. The high demand under JTF has in some instances led to uneven financial absorption across the funds, at least in the early phases of the programme period. For example, in **FI**, many projects have been primarily funded via JTF rather than via ERDF (e.g. under PO2). This can become problematic given that there is a 35 percent climate commitment under ERDF, and there has not been major progress in reaching this target in the past year. Similarly, many projects providing business support have been funded via JTF rather than via ERDF. While this is a challenge, the Finnish authorities expect that the situation will reverse as JTF funding depletes, and consequently more funding will be allocated via ERDF.

In terms of JTF themes, the demand has been limited for projects supporting the restoration of peatlands. These types of project proposals have not come forward in line with original expectations. Similarly, 'ESF+ type' of projects have been more limited on the JTF side. This is possibly because there are relatively large sums of ESF+ funding available, and therefore this is a natural source of funding to go for (rather than JTF).

In addition to the challenges in **PT** with overlap of eligibility between JTF and other EU funds, and with executing the *NextGenerationEU* tranche within the defined deadlines, there is a need to reprogramme some TJTPs. This is because of technical difficulties in the implementation of some projects or changes in eligibility due to some typologies having been eliminated in exchange for the focus on the promotion of economic activity.

In **CZ**, insufficient capacity of the MA for the OP JT remains an important risk factor. The risk related to this is even higher because the Just Transformation programme is rather complex in terms of number of complex topics that are to be addressed by the support.

The main challenge in **NL (South)** is to fit projects within the rules. The requirement not to process, produce or transport fossil fuels is a particularly important bottleneck. The 'undertakings in difficulty' definition is also challenging, as new innovative firms often qualify as undertakings in difficulty. For both regions (Rijnmond and IJmond) in **NL (West),** labour market projects are more challenging than other projects. There is an agreement on the national level to divide JTF 50-50 between investments and labour market projects, however in practice this comes down to a 70-30 divide in Rijnmond and 85-15 divide in IJmond, supporting thus more investments than labour market projects. The primary difference arises from the fact that large investments encompass substantial infrastructure essential for the energy transition. These large investments make the smaller training-type projects, which only take a small part of the budget, seem relatively insignificant in comparison.

6 PREPARING FOR THE NEXT PHASE OF COHESION POLICY

The preparations for the next phase of Cohesion Policy have started on different levels, including research, the new Commission, in the General Affairs Council, European Parliament and the European Committee of the Regions. Individual Member States are currently developing their positions on the post-2027 MFF and Cohesion Policy.

6.1 Cohesion Policy in context of EU competitiveness

A recurring theme of European debates has been the need to strengthen EU competitiveness through a comprehensive industrial strategy. Strengthening the **EU's competitiveness will require targeted investments, particularly in Cohesion Policy**, according to two recent reports by Mario Draghi[12] and Enrico Letta[13]. Both reports focus on what needs to be done to improve EU competitiveness on a global level (Draghi report) while recognising the need for social justice and addressing the perceived unequal distribution of benefits among individuals and companies (Letta report). The reports agree that strengthening the **EU's competitiveness will require targeted investments, particularly in Cohesion Policy**.

The **Draghi report** highlights the growing 'productivity gap' due to weaknesses in emerging technologies, advocating for investments in infrastructure, education, and technological capabilities. **Regarding Cohesion Policy, the report stresses the critical need to reduce regional disparities to achieve more balanced growth throughout the EU**. Draghi advocates for strategic investments in less developed regions, focusing on improving infrastructure, education, and technological capabilities. This strategy seeks to foster an inclusive economy where all regions can actively contribute to and benefit from Europe's broader competitiveness. More specifically, **Cohesion Policy will need to prioritise areas such as education, transport, housing, digital connectivity, and urban planning** to enhance the attractiveness of diverse regions and cities.[14]

The **Letta report**, while also supporting these competitiveness goals, **puts greater emphasis on social justice and the unequal distribution of benefits across the EU**. It suggests that Cohesion Policy should be used to mitigate economic and social imbalances, but it also stresses that many of the issues inhibiting growth in certain regions are not solely within the control of local or regional governments. **Additionally, the Letta report stresses that EU Cohesion Policy is too focused on national or regional objectives and calls for more proactive policy cooperation across borders**. It highlights the importance of cross-border projects and inter-regional cooperation, particularly in innovation, to help less developed regions tap into more advanced ones.

6.2 Future of Cohesion Policy: forming positions

An overview of the development of positions on post-2027[15] shows that IQ-Net countries and regions are advancing with their (internal) debates and positions on the future of Cohesion Policy. Recent (preliminary) position papers are available from **NL**, **CZ** and **IE** (Table 1). These three Member States share the idea that Cohesion Policy should continue to cover all regions and maintain the shared management and place-based approach as fundamental principles of Cohesion Policy.

Another shared issue concerns the call for simplification of rules and the reduction of administrative burden for both authorities and beneficiaries. The importance of European Territorial Cooperation (ETC) has also been emphasised. **IE** does not state specific focus areas for Cohesion Policy, while **NL** highlights the importance of transitions — digital, social (labour market), and green — with innovation and research as cross-cutting themes. **CZ** focuses on addressing climate and demographic challenges in the regions.

Table 1: Overview of positions on the future of Cohesion Policy

Country	Key Points
Netherlands	1. Focus on **Convergence** by revitalizing economically and socially lagging regions, while allowing potential funding access for all EU regions. 2. Enhance **Competitiveness** through innovative ecosystems, sustainability, and a skilled workforce. 3. Prioritize **Digital, Social, and Green Transitions** with research and innovation as core themes. 4. Emphasize the **Partnership Principle** and **Place-based Approach** to leverage regional strengths. 5. Invest in people to support fair, inclusive transitions. 6. Encourage **Interregional Collaboration** to drive innovation and projects.
Czechia	1. Maintain a strong **Cohesion Policy** applying the "do no harm to cohesion" principle. 2. Focus on **Long-term Investment** to reduce regional disparities and address climate and demographic challenges. 3. Ensure an **Adequate Budget** and maintain current regional categorization. 4. Link **Reforms with Strategic Investments**. 5. Emphasize **Partnership and Mutual Trust** between the European Commission and Member States. 6. Simplify administrative requirements, support **Interreg Programs**, and ease burdens on final beneficiaries and fund managers.
Ireland	1. Preserve **Cohesion Policy** as the primary EU investment tool for regions. 2. Strengthen the **Place-based Approach** with a focus on less developed regions. 3. Ensure all regions are **Eligible for Funding**, with attention to rural and urban dimensions. 4. Retain **Shared Management** as a fundamental principle. 5. Avoid a "one size fits all" approach, maintaining flexibility in Cohesion Policy. 6. Simplify rules, reduce administrative load, and foster **Political Leadership and Administrative Capacity** in the next European Commission.

Source: *ERPC research, October 2024*

Notes

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