A new dawn for Cohesion policy? The emerging budgetary and policy directions for 2014-20
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Preface

This report has been prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. Over the past year, EoRPA members have comprised the following partners:

Austria
- Bundeskanzleramt (Federal Chancellery), Vienna

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- Työ- ja elinkeinoministeriö (Ministry of Employment and the Economy), Helsinki

France
- Délégation à l'aménagement du territoire et à l'attractivité régionale (DATAR), Paris

Germany
- Bundesministerium für Wirtschaft und Technologie (Federal Ministry for the Economy and Technology), Berlin
- Ministerium für Wirtschaft, Bau und Tourismus, Mecklenburg-Vorpommern (Ministry for the Economy, Construction and Tourism, Mecklenburg-Western Pomerania), Schwerin

Italy
- Ministero dello Sviluppo Economico (Ministry of Economic Development), Dipartimento per lo sviluppo e la coesione economica (Department for Development and Economic Cohesion), Rome

Netherlands
- Ministerie van Economische Zaken (Ministry of Economic Affairs), The Hague

Norway
- Kommunal-Og Regionaldepartementet (Ministry of Local Government and Regional Development), Oslo

Poland
- Ministerstwo Rozwoju Regionalnego (Ministry of Regional Development), Warsaw

Sweden
- Näringsdepartementet (Ministry of Enterprise, Energy and Communications), Stockholm

Switzerland
- Staatsssekretariat für Wirtschaft (SECO, State Secretariat for Economic Affairs), Bern

United Kingdom
- Department for Business, Innovation and Skills, London
- The Scottish Government, Enterprise, Transport and Lifelong Learning Department, Glasgow
The research for this report was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries during the first half of 2013. The EoRPA research programme is coordinated by Professor John Bachtler, Fiona Wishlade, Dr Sara Davies and Stefan Kah.

The report was drafted by Carlos Mendez, Fiona Wishlade and John Bachtler. The report draws on country-specific research on EoRPA countries contributed by the following research team:

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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 EoRPA Consortium.
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Executive Summary

This paper provides a review and assessment of the EU Budgetary and Cohesion policy reform developments over the past year and the preparations for the 2014-20 period.

Eligibility and allocations

The European Council agreement on the long-term EU budget for 2014-20 (in February 2013) and the subsequent ‘political’ agreement with the European Parliament (July 2013) contained significant changes in EU spending. For Cohesion policy, there is now some certainty on national allocations for 2014-20. Comparing the 2014-20 allocations with the current allocations reveals marked shifts across EU Member States. Although the overall cohesion budget falls, in six countries there is an increase in funding. Three of these countries gain significantly in absolute terms: Poland (+€3.7 billion), Romania (+€2 billion) and Slovakia by (+€1.2 billion). At the opposite end of the spectrum, there are very significant reductions in expenditure both in absolute and relative terms in a number of countries. These include Spain and Germany which each lose in excess of €9 billion in Cohesion policy receipts, equivalent to well over a quarter of their current allocations. It is also noteworthy that Greece and Hungary also see major reduction in their allocations, even though these two countries did well from the negotiations.

The new Partnership Agreements and Operational Programmes

With Inter-Institutional negotiations on the Cohesion policy budget and regulations almost concluded, strategic planning for the next period has accelerated. Attention in all Member States is now firmly focused on the preparation of the Partnership Agreements and Operational Programmes for 2014-20. Extensive consultation process have been launched or finalised and discussions with the European Commission have intensified during 2013. Progress with the drafting of Partnership Agreements and Operational Programmes is variable across EU countries, but the aim is to formally submit the majority of PAs towards the end of 2013.

A review of the content and delivery arrangements of the new strategies reveals several trends. First, there is evidence of closer strategic alignment across ESI Funds and with Europe 2020 themes, the latter being driven by the thematic concentration and ring-fencing requirements. Second, major changes in the programme architecture are planned in several Member States involving a considerable reduction in the number of programmes and/or the use of multi-fund programmes. Third and related, there are shifts in the allocation of Cohesion policy competences across different levels of governance in response to shifts in the policy architecture, efficiency considerations and political priorities. Fourth, there is evidence of increased attention to performance issues, but it remains to be seen whether a qualitative shift in the performance orientation will be achieved and delivered on the ground. Fifth, the most tangible innovation with respect to the territorial dimension is the reinforced sub-regional or local agenda through the new provisions on Community-Led Local Development, Integrated Territorial Investments and sustainable urban development. However, the degree to which these options will be used in practice is still unclear.
The implications of economic governance changes for Cohesion policy

Looking forward, there are some radical developments in the EU’s economic governance agenda with potentially profound implications for the rationale of Cohesion policy. The pressure to move towards a Genuine Economic and Monetary Union involving a more integrated financial, budgetary and economic policy framework. Tighter fiscal discipline on Member States could affect their capacity to co-finance Cohesion Policy, especially in countries with large Cohesion allocations and public expenditure constraints, while the proposals for a new fiscal capacity at EU level through a Convergence and Competitiveness Instrument may overlap with Cohesion Policy. Moreover, in using Cohesion policy as an economic governance tool to implement wider EU objectives, notably through macroeconomic conditionality and in supporting the implementation of Country-specific Recommendations, the policy's traditional Treaty commitment to cohesion and the reduction of regional disparities is arguably being weakened.
1. INTRODUCTION

The European Council Agreement on the EU’s Multi-annual Financial Framework (MFF) for 2014-20 (in February 2013) and the subsequent ‘political’ agreement with the European Parliament (July 2013) has brought to an end two years of intense negotiations on the size and shape of the long-term budget of the EU. The upper limit of budget commitments was set at 1.0 percent of EU GNI (€959 billion), with payments expected to be 0.95 percent of EU GNI (€908 billion). These are reductions compared to the current limits in 2007-13 – 1.12 percent (€994) and 1.06 percent (€942 billion) respectively – of around three percent in real terms.

The Cohesion policy budget for 2014-20 – €325 billion - will decline by 8.4 percent, bringing its share to a third of the overall budget on a par with the Common Agricultural Policy. The official publication of national allocations in August 2013 confirms a significant shift in the allocation of Cohesion policy resources across Member States. Although the overall cohesion budget falls, there is an increase in funding in six countries and a very significant reduction in a number of countries.

In parallel to the negotiations on the multi-annual financial framework, further progress has been made on the negotiation of the Cohesion policy regulations although the adoption of the legislative framework is still pending. The European Parliament has particular concerns about macroeconomic conditionality and the performance reserve which, alongside wider economic governance developments, may have profound implications for the rationale and operation of Cohesion policy in the future. Nevertheless, the adoption of the regulatory package is anticipated to take place in mid-October.

In parallel with the negotiations, the preparations for the new Partnership Agreements and Operational Programmes have accelerated throughout 2013. Extensive consultations are underway or have been finalised, and successive drafts of the strategies have been developed in many countries. While final versions of the Partnership Agreements are expected to be submitted to the Commission towards the end of 2013, approval of the majority of Operational Programmes is unlikely to take place till the second quarter of 2014. The design of the strategies envisage more strategic coordination, strong concentration on Europe 2020 objectives and, in some cases, major changes in the programme architecture and governance arrangements.

The aim of this paper is to provide a review and assessment of the EU Budgetary and Cohesion policy reform developments over the past year and the preparations for the 2014-20 phase in the EoRPA Member States. It begins by reviewing the context for reform with respect to the fallout of the crisis, economic governance developments and the implications for Cohesion policy. The next section examines the progress achieved in the EU budget negotiations, notably the outcome of European Council agreement achieved in February 2013, and the negotiations of the Cohesion policy regulations. An assessment of the shifts in eligibility and financial allocations under the Structural and Cohesion Funds is taken up in the next section, followed by a review of the preparations under way on the design, content and management of the new round of Partnership Agreements and programmes for 2014-20. Finally, the paper presents some conclusions and issues for discussion.
2. THE CRISIS, ECONOMIC GOVERNANCE REFORM AND COHESION POLICY

The reform of EU Cohesion policy has been taking place against a turbulent European economic and political background. The Eurozone has been in recession throughout 2012 and early 2013, unemployment and public debt have risen to unprecedented levels and anti-euro sentiment has been growing in many countries. In 2013, Cyprus became the fifth country to request a bail-out due to its troubled financial sector and over-exposure to Greek debt, which was granted in March 2013 and set the precedent of extending burden sharing to insured bank deposits and required capital controls. The deal was widely recognised as being problematic and brought other small economies with large financial sectors into the spotlight of financial speculation, notably Malta and Slovenia. It also highlighted the on-going political challenges faced by EU leaders in addressing the key institutional design flaws of EMU, progress on which was stalled by the sensitivities of the national elections in Germany in October 2013.

There was, however, some positive economic news. The Eurozone emerged from the double dip recession in the second quarter of 2013 and EU institutions have put forward several proposals for a so-called 'Genuine Economic and Monetary Union' (GEMU). The European Commission’s December 2012 report, A Blueprint for a Deep and Genuine Economic and Monetary Union, provided the most comprehensive outline of how greater integration amongst euro area countries might be designed.¹ In addition, a vision for GEMU was set out by the President of the European Council, Herman Van Rompuy, in the earlier ‘Four President’s Report’ subtitled ‘Towards a Genuine Economic and Monetary Union’.² These proposals set out several building blocks for the future of EMU, some of which have potentially important consequences for EU Cohesion policy.

Proposals for an integrated budgetary framework encompass the stricter fiscal rules already agreed as part of the six-pack, two-pack and Fiscal Compact and potentially a new fiscal capacity separate from the existing EU budget (Box 1). The main role would be to provide temporary support for structural reforms on a case-by-case basis and a shock-absorption function over the longer-term to support macroeconomic stabilisation. The implications for Cohesion Policy are two-fold: tighter fiscal disciplines on Member States could affect their capacity to co-finance Cohesion Policy especially where EU funds account for a large share of domestic development expenditure; and the new fiscal capacity could overlap with Cohesion policy interventions. The Commission Communication proposals state that ‘the new financial instrument would need to be consistent, coherent and complementary to the existing instruments, such as the Structural Funds, and in particular the European Social Fund.’

² European Council (2012) Four President’s Report, Towards a Genuine Economic and Monetary Union, Report by President of the European Council Herman van Rompuy, 26 June 2012, Brussels.
Box 1: Proposals for a Convergence and Competitiveness Instrument

A Commission Communication on a Convergence and Competitiveness Instrument (CCI) sets out options for two instruments - contractual arrangements for Member States to undertake specific reforms and financial support to help Member States implement these reforms:

- **Contractual arrangements** would lay down the key measures a Member State commits to put in place with agreed timelines. The measures would be designed to implement the Country Specific Recommendations agreed as part of the European Semester, in particular those emanating from the Macroeconomic Imbalances Procedure.

- A **financial instrument** would complement the contracts, in principle within the EU budget but outside the ceilings set in the MFF, to promote and support the reforms when an individual Member State is under stress.

The rationale for the CCI is to support the rebalancing, adjustment and growth of the euro area economies and serve as a first step towards a stronger fiscal capacity – which would entail more deeply integrated economic policies.

The Commission will also examine ways for Member States that are not part of the euro area, and in particular those preparing for euro accession, to enter a contractual arrangement.

A range of consultation questions are put forward in the document concerning whether the instrument would be available to all or only ‘by invitation’, what sort of reforms it should support, how it should be negotiated (the Commission does not mention the European Parliament in this regard), how parliaments and other stakeholders are involved in consultations regarding contracts, and how it should be funded.

On the basis of further discussion with the European Parliament and the Council, the Commission will make a proposal in the course of 2013.


Another key building block in the path towards a genuine EMU is an integrated economic policy framework which envisages closer coordination of national economic policies. An implication of this for Cohesion Policy is that the rationale for policy intervention will include not just the benefits for the regions receiving support, but also wider common goals of the EU. This orientation was already visible in the expectation during the current programming period that Lisbon agenda goals would be prominent in Cohesion policy. This coordination element has been reinforced in the draft Cohesion policy Regulations for 2014-20, particularly the requirement to take account of Country-specific Recommendations (CSR) issued under the European semester cycle in the programming of the new Partnership Agreements and Operational Programmes. The 2013 CSRs were issued in May 2013, the most relevant ones to Cohesion policy being in the areas of structural reform (notably, R&D and innovation, resource efficiency, network industries) and employment and social policy (excluding wage-setting mechanisms).

Aside from these broader economic governance developments, the crisis has had severe and varied impacts on regional development across the EU with consequences for spending under the current programmes and the design of the next generation of programmes. The key finding of the recent Progress Report on Cohesion examining the urban and regional dimension of the crisis in the EU is one of growing regional disparities and a halt in the pre-crisis convergence process across EU regions. Key conclusions of the analysis were as follows:

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two thirds of EU regions suffered a contraction of their GDP between 2007 and 2010;
the ten regions with the weakest performance are in the three Baltic States and one of the two Irish regions, while the strongest regional performance was seen in Poland, Germany, Sweden, Slovakia and the Czech Republic;
four-fifths of EU regions saw unemployment rise between 2008 and 2010, including a doubling or tripling in the worst affected countries, especially in Spain, Greece, Ireland and the Baltic States;
increased youth unemployment was also marked in regions within most of these countries, while the share of people aged 15 to 24 not in employment, education or training (NEET) rose in almost four out of five regions, especially in Romania, Greece and the United Kingdom;
by contrast, unemployment fell in German regions, especially in the eastern Länder, as did youth unemployment in most German regions, in 5 Belgian regions and in 4 Austrian regions.

The report also examines the urban impact of the crisis, distinguishing between metro regions - NUTS-3 regions that represent urban agglomerations of more than 250,000 inhabitants – and EU cities defined at national level. Falls in GDP were witnessed in two thirds of metro regions between 2007-10, especially in smaller metros. By contrast, capital metro regions performed better. Employment was more resilient in the vast majority of metro regions over this period compared to non-metro regions (especially in Poland, Slovakia, the Czech Republic, Romania and Bulgaria). Again, employment performance was stronger in capital metros. Poverty and social exclusion is highly concentrated in cities, which has intensified by one percentage point across EU cities, although the risk of poverty and exclusion for people living in cities in EU12 countries is much lower on average. Cities in the more developed Member States tend to have lower employment rates and higher unemployment rates than towns, suburbs and rural areas, while the opposite is the case in less-developed Member States. The crisis has not altered this pattern.

Looking forward, the main policy implication highlighted by the Commission is the need for concentration of expenditure on the key areas of employment (particularly for young people), training and education, social inclusion, innovation and SMEs, energy efficiency and a low-carbon economy. It argues that in less-developed countries investments in innovation and smart specialisation could improve the performance of the export sector, which is seen as critical in contexts of low internal demand and business competitiveness. Lastly, as the fallout of the banking crisis is continuing to impact on the construction sector, investing in energy efficiency of buildings could help to restore some of the jobs lost in the sector.

A more immediate concern has been the impact of the crisis on financial spending under the current round of Cohesion policy programmes. This has led to the adoption of new measures at EU level to alleviate the impact on spending. During 2011-12, EU co-financing rates were increased in nine Member States (Spain, Greece, Ireland, Italy, Lithuania and Portugal and to a lesser extent Belgium, France and United Kingdom). Additional 'top-up' payments (increasing co-financing rates up to 95 percent) were made to countries with greatest budgetary difficulties (Greece, Ireland, Latvia, Portugal, Romania and Hungary). More recently, Commission proposals were issued in May 2013 to allow a continued extension of increased EU co-financing rates (by up ten percentage points) for countries receiving financial assistance under macro-economic adjustment programmes (currently,}

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Cyprus, Hungary, Romania, Latvia, Portugal, Greece and Ireland), which must be compensated by increased national co-financing at the end of the programme period. The draft legislation also proposes to allow a one-year extension of the automatic decommitment period of the 2011 and 2012 commitments for Romania and Slovakia. These proposals are currently being negotiated with the European Parliament and should come into force shortly.

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3. FINALISING THE 2014-20 BUDGET AND COHESION POLICY REGULATIONS

3.1 The Multiannual Financial Framework (MFF)

More than two years after the Commission published its proposals for 2014-20, the multi-annual financial framework has yet to be formally agreed. The starting point for the negotiations was the Commission’s budgetary proposals published in June 2011. As reviewed in a previous EPRC paper, the Danish Presidency issued the first so-called ‘negotiating box’, setting out financial and methodological provisions and options on all elements of the MFF, but the main substantive negotiations did not take place till autumn 2012 under the Cyprus Presidency, on the basis of a further two negotiation boxes. From November onwards, the lead coordination role was taken by the President of the European Council, Herman van Rompuy, culminating in a European Council agreement in February 2013 during the Irish Presidency.

The European Council agreement contained some significant changes in EU spending, including a new methodology for allocating Cohesion policy funding. The upper limit of commitments was set at 1.0 percent of EU GNI (€959 billion), with payments expected to be 0.95 percent of EU GNI (€908 billion). These are reductions compared to the current limits in 2007-13 – 1.12 percent (€994) and 1.06 percent (€942 billion) respectively – of around three percent in real terms.

The most significant shifts across budget headings are:

- **Common Agricultural Policy**: direct payments will fall by 17.5 percent compared to the last MFF, although the CAP will still account for a third of the overall budget.
- **Cohesion policy**: spending will decline by 8.4 percent, bringing its share to a third of the overall budget on a par with the CAP.
- **Smart and inclusive growth**: which includes Research & Innovation, Trans-European Infrastructure (the Connecting Europe Facility), education (Erasmus), will see the biggest relative increase in spending of 37.3 percent.
- **Security and Citizenship**: sees a significant increase of 26.8 percent.

Despite the reduction in the overall size of the budget compared to the Commission proposal, the structure proposed has been largely been preserved and the main direction of the shifts are in line with the Commission’s goals.

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Table 1: Comparison of 2014-20 and 2007-13 MFFs (2011 prices)

<table>
<thead>
<tr>
<th>Commitment appropriations</th>
<th>2014-20 MFF</th>
<th>2007-13 MFF</th>
<th>Change</th>
<th>Change, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ million</td>
<td>€ million</td>
<td>€</td>
<td>%</td>
</tr>
<tr>
<td>1. Smart and inclusive growth</td>
<td>450,763</td>
<td>446,310</td>
<td>+4.5bn</td>
<td>+1.0</td>
</tr>
<tr>
<td>1a. Competitiveness for Growth and Jobs</td>
<td>125,614</td>
<td>91,495</td>
<td>+34.1bn</td>
<td>+37.3</td>
</tr>
<tr>
<td>1b. Economic, social and territorial cohesion</td>
<td>325,149</td>
<td>354,815</td>
<td>-29.7bn</td>
<td>-8.4</td>
</tr>
<tr>
<td>2. Sustainable growth: Natural Resources</td>
<td>373,179</td>
<td>420,682</td>
<td>-47.5bn</td>
<td>-11.3</td>
</tr>
<tr>
<td>Of which: market related expenditure and direct payments</td>
<td>277,851</td>
<td>336,685</td>
<td>-58.8bn</td>
<td>-17.5</td>
</tr>
<tr>
<td>3. Security and Citizenship</td>
<td>15,686</td>
<td>12,366</td>
<td>+3.3bn</td>
<td>+26.8</td>
</tr>
<tr>
<td>4. Global Europe</td>
<td>58,704</td>
<td>56,815</td>
<td>+1.9bn</td>
<td>+3.3</td>
</tr>
<tr>
<td>5. Administration</td>
<td>61,629</td>
<td>57,082</td>
<td>+4.5bn</td>
<td>+8</td>
</tr>
<tr>
<td>6. Compensations</td>
<td>27</td>
<td>n/a</td>
<td>+27.0bn</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total commitment appropriations</strong></td>
<td>959,988</td>
<td>994,176</td>
<td>-35.2bn</td>
<td>-3.5</td>
</tr>
<tr>
<td><strong>As a percentage of GNI</strong></td>
<td>1.00%</td>
<td>1.12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total payment appropriations</strong></td>
<td>908,400</td>
<td>942,778</td>
<td>-34.4bn</td>
<td>-3.7</td>
</tr>
<tr>
<td><strong>As a percentage of GNI</strong></td>
<td>0.95%</td>
<td>1.06%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency Aid Reserve</td>
<td>1,960</td>
<td>1,697</td>
<td>+0.3bn</td>
<td>15.5</td>
</tr>
<tr>
<td>European Globalisation Fund</td>
<td>1,050</td>
<td>3,573</td>
<td>-2.5bn</td>
<td>-70.6</td>
</tr>
<tr>
<td>Solidarity Fund</td>
<td>3,500</td>
<td>7,146</td>
<td>-3.6bn</td>
<td>-51.0</td>
</tr>
<tr>
<td>Flexibility Instrument</td>
<td>3,300</td>
<td>1,429</td>
<td>+1.9bn</td>
<td>+130.9</td>
</tr>
<tr>
<td>EDF</td>
<td>26,984</td>
<td>26,826</td>
<td>+0.2bn</td>
<td>+0.6</td>
</tr>
<tr>
<td><strong>Total Outside</strong></td>
<td>36,794</td>
<td>40,670</td>
<td>-3.9bn</td>
<td>-9.5</td>
</tr>
<tr>
<td><strong>As a percentage of GNI</strong></td>
<td>0.25%</td>
<td>0.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total MFF + Outside</strong></td>
<td>996,782</td>
<td>1,035,031</td>
<td>-38.2bn</td>
<td>-3.7</td>
</tr>
<tr>
<td><strong>As a percentage of GNI</strong></td>
<td>1.04%</td>
<td>1.17%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: European Council.

The provisions on Cohesion policy eligibility and allocations will be reviewed in detail in the next section. It is worth highlighting, however, several other financial provisions that were agreed at the European Council with important consequences for Cohesion policy.

- **Macro-economic conditionality**: this provides for sanctions when macro-economic conditions are violated, namely 50-100 percent of the CSF Funds in the case of a breach under the ‘excessive deficit procedure’ and 25-50 percent in the case of an ‘excessive imbalance procedure’, rising to the higher level gradually in line with the seriousness of the breach and subject to nominal caps of GDP which also vary according to the two procedures: 0.25 percent of GDP for excessive imbalances and 0.5 percent for excessive deficits.

- **Performance reserve**: all Member States are required to establish a national performance reserve consisting of 7 percent of their total allocations (an increase on the four percent level initially proposed by the Commission).

- **Pre-financing rates**: set at one percent of total OP allocations each year between 2014-16, or 1.5 percent during 2014-15 for Member States receiving financial assistance programmes.

- **Automatic decommitment**: the rule is extend by one year to n+3 for all programmes, and a provision commits to finding a solution for decommitment challenges in Romania and Slovakia during the current 2007-13 period.

- **Appraisal**: The General Affairs Council will discuss every two years the implementation and results of the CSF funds and will provide input to the Spring Council's overall assessment of all EU policies to deliver growth and jobs. Projects over €50 million should be subject to more
extensive ex ante appraisal by the Commission. Ambitious targets must be agreed for the OPs, including financial and output indicators, and failure to meet these may lead to financial corrections.

- **Project selection:** Member States must ensure that the selection of projects is based on procedures and criteria, which are non-discriminatory, transparent and in full compliance with Union and national law so that only the best projects are chosen.

- **VAT:** this will not be eligible for a contribution from the Funds and from the €10 billion Cohesion Fund transfer to the Connecting Europe Facility. However, VAT amounts shall be eligible where they are not recoverable under national VAT legislation.

The next stage in the MFF negotiations is to reach an Inter-Institutional Agreement with the European Parliament, which is expected in October 2013. The Parliament’s formal mandate to negotiate was approved in a resolution on 13 March 2013 which rejected the European Council conclusions (of 8 February 2013) and called for more flexibility and efficiency within the budget. In particular, the resolution advocated flexibility to allow available funds to be used optimally and for a review of spending to give the next elected Parliament and the Commission to influence the MFF. Furthermore, the Parliament called for a system of genuine own resources to fund the EU budget and stressed that all EU expenditure should go through the budget. The resolution also highlighted the growing problem of payment shortfalls, which prevent commitments being paid and jeopardize EU Cohesion policy programmes in particular.

Subsequently, a ‘political agreement’ was reached with the European Parliament in late June 2013. The deal did not alter the total budget of €960 billion set by the European Council in February 2013, but provided for more frontloading of expenditure and increased flexibility for transferring unspent funds to other years and priority areas. The front-loading included increases in 2014-15 of: €200 million for research; €150 million for the Erasmus programme; and €50 million for the COSME Programme to help the competitiveness of smaller businesses. For the youth employment initiative, an extension of funding for the 2014-20 period was agreed, instead of the first two years of the period. It was also agreed that the Fund for European Aid to the Most Deprived would be increased from €2.5 billion to €3.5 billion, for use by Member States on a voluntary basis. Lastly, a new budgetary review clause will allow the budget to be revised in 2016 for implementation in 2017.

The final legally binding vote in Parliament will only take place when the €11.2 billion needed to balance the 2013 budget is confirmed by the Council, expected at the end of October 2013. This will allow the approval of the Inter-Institutional Agreement (IIA) on the MFF, a draft of which was published by the Commission on 4 September 2013 including six draft declarations on: own resources; best use of public spending; gender issues related to the annual budget; amounts for the Youth Employment, Horizon 2020, Erasmus and COSME; national management declarations; and the review of the MFF.
3.2 The Cohesion policy legislative framework

In parallel with the negotiations on the multi-annual financial framework, further progress has been made on the negotiation of the Cohesion policy regulations, associated secondary legislation and various guidance documents to inform programming. Nevertheless, the adoption of the legislative framework is still pending. The Regulations are likely to be approved during November 2013, which could lead to delays in adopting Partnership Agreements and programmes. Informal feedback from the European Commission suggests that the aim is to adopt Partnership Agreements by end of the year and all programmes before the European elections in May 2014 or before the summer break.

Table 2: Expected adoption of legislative framework for the 2014-20 period

<table>
<thead>
<tr>
<th>Legislative decisions and guidance for 2014-20</th>
<th>Likely adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-institutional legislation</td>
<td>Adoption of EU 2014-20 Legislative Package</td>
</tr>
<tr>
<td></td>
<td>Adoption of Delegated and Implementing Acts</td>
</tr>
<tr>
<td>Operational decisions</td>
<td>Adoption of Partnership Agreements</td>
</tr>
<tr>
<td></td>
<td>Adoption of Operational Programmes</td>
</tr>
<tr>
<td>Guidance</td>
<td>Guidance notes for the 2014-20 period</td>
</tr>
</tbody>
</table>

An important development in late 2012 was the launch of the inter-institutional negotiations between the Council, Commission and European Parliament. An intensive programme of meetings was organised. By mid-September, around 65 trialogues were held on the Regulations. Agreement was reached on key blocks - Performance Framework, Ex-ante conditionalities, Technical Assistance, Eligibility, Monitoring and Evaluation, Management and Control, Information and Communication, Major Projects and Revenue Generating Operations and PPPs. Considerable groundwork has been done on the remaining CPR blocks, but there are open issues still to be agreed.

The European Parliament claims that it has secured many improvements including greater involvement of local and regional authorities in planning and implementation, more flexibility with regard to thematic concentration and a particular focus on environmental issues in the Cohesion Fund Regulation. The most problematic provisions are all related to financial issues: macroeconomic conditionality; the performance reserve; co-financing; pre-financing; pre-financing; the ESF share of total allocations.

The Parliament is aiming to achieve a compromise by negotiating these issues as a package but is under strong time pressure because the MFF cannot be agreed till these outstanding issues are resolved. The Parliament's aim was to conclude the inter-institutional negotiations by the end of September 2013 with a view to adopting the Regulations in a plenary vote in October 2013. However, difficulties in agreeing to the macroeconomic conditionality provisions (notably relating to the Parliament's role in decision on financial suspensions) led to this vote being postponed till November 2013.

Aside from the primary legislation, there is a raft of secondary legislation to prepare for 2014-20. The Regulations foresee a wide range of Delegated and Implementing Acts relating to various programming and implementation issues (Table 3). An ‘Expert Group on the Delegated and Implementing Acts for the European Structural and Investment Funds’ has been meeting on a
A new dawn for Cohesion policy? The emerging budgetary and policy directions for 2014-20

monthly basis since the start of 2013 to assist and advise the Commission on the Delegated Acts and to provide informal advice on the preparation of the Implementing Acts before formal consideration at Council committee level. There have been contentious debates on the content of the Acts as well as procedural/competence disputes about which type of act should be used. To take one example, the Commission considers that an Implementing Act should be adopted for ‘Innovative Actions’, but the Council has argued for the use of a Delegated Act.

Table 3: Delegated and Implementing Acts in preparation (by end October 2013)

<table>
<thead>
<tr>
<th>Delegated Acts</th>
<th>Implementing Acts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• European code of conduct on partnership</td>
<td>• Categories of intervention and the methodology for tracking of climate change expenditure</td>
</tr>
<tr>
<td>• General rules on eligibility of expenditure for Cooperation Programmes</td>
<td>• Major projects</td>
</tr>
<tr>
<td>• Simplified cost options</td>
<td>• E-cohesion and data exchange</td>
</tr>
<tr>
<td>• EGTC indicators</td>
<td>• Financial Instruments</td>
</tr>
<tr>
<td>• Management and control systems</td>
<td>• Information and communication</td>
</tr>
<tr>
<td>• Financial Instruments</td>
<td>• Joint Actions Plans</td>
</tr>
<tr>
<td></td>
<td>• Monitoring and Reporting</td>
</tr>
<tr>
<td></td>
<td>• Management and control systems</td>
</tr>
</tbody>
</table>

In parallel with the development of the Regulatory package, the Commission has prepared various guidance documents to assist the Member States and regions in the programming for 2014-20. Of particular importance in the first two quarters of 2013 are the templates on the Partnership Agreement and programmes, along with guidance on ex-ante conditionalities, territorial instruments, the performance framework and fraud risk assessment.
4. COHESION POLICY 2014-20: ELIGIBILITY AND ALLOCATIONS

As noted in the previous chapter, the European Parliament has still to give its consent to the Multiannual Financial Framework, but following lengthy and tortuous negotiations, first in Council then with the European Parliament, political agreement was reached in July 2013. It therefore now seems unlikely that significant changes will be made to these spending plans; indeed, in late August 2013 DG Regio made public the indicative Cohesion policy allocations for each Member State.

The starting point for the negotiations were the Commission’s budgetary proposals published in June 2011 and the draft Cohesion Policy Regulation issued in October 2011. The first so-called ‘negotiating box’ that revealed some of the mechanics of the financial allocation processes was issued in spring 2012, but no substantive progress was made on budgetary matters during the Denmark Presidency. In July 2012 the Commission published revised proposals for the Multiannual Financial Framework (MFF), principally to take account of new data, but also to factor in the accession of Croatia.

The main substance of the budgetary negotiations took place in autumn 2012 with two negotiating boxes published by the Cyprus Presidency in September and October. Thereafter, the lead was taken by the President of the European Council Herman van Rompuy who produced two negotiating boxes in November 2012 and a third in February 2013 during the Ireland Presidency; this formed the basis for agreement by the European Council.

Having reviewed the main outcomes of the EU Budget negotiations, the main focus of this section is on the implications for EU Cohesion policy and how the outcomes compare with those for 2007-13. The remainder of this section is in four parts. First, it sketches out the new policy architecture. Second, it outlines the provisions on spatial coverage and how they differ from the current position.

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14 As in the past, the Commission made a number of points of clarification through so-called ‘fiches’; in 2007-13 these were available through the European Parliament Budget Committee website. For 2014-20 they were not made publicly available, but we are indebted to several of the EoRPA partners for providing these documents.


18 The negotiating boxes produced by Herman van Rompuy were not formally published at the time but were circulating widely on the internet.

Third, it reviews the financial allocation process, focusing on changes in relation to 2007-13. Last, it compares the outcomes from the recent negotiations with the position in 2007-13.

4.1 Policy architecture

In terms of overall policy architecture, the draft General Regulation identifies two ‘goals’ for Cohesion policy:

- **Investment for growth and jobs** in Member States and regions, to be supported by all the Funds; and
- **European territorial cooperation (ETC)**, to be supported by the ERDF.

In financial terms, the Commission proposals had allocated 96 percent of the total for these goals to investment for growth and jobs; this rose to over 97 percent in the final outcome, ETC being (in percentage terms) the main casualty of the negotiations. For investment for growth and jobs three categories of NUTS 2 region are defined:

- **Less-Developed Regions (LDR)**, where GDP is less than 75 percent of the EU27 average;
- **Transition Regions (TR)**, where GDP is above 75 percent, but below 90 percent of the EU27 average; and
- **More-Developed Regions (MDR)** where GDP is above 90 percent of the EU27 average.

The overall resources proposed for the Economic, Social and Territorial Cohesion sub-heading for 2014-20 are €325.149 billion (2011 prices) - including the Youth Employment Initiative (YEI) ‘top-up’ of €3 billion. This is a reduction of around four percent on the Commission's original proposal of €338.994 Billion.

This total is broken down between eligible areas as set out in Table 4, which also compares allocations for 2007-13 on the same price basis, along with the Commission’s original proposal. This shows an overall decrease in proposed expenditure from €351.7 billion in 2007-13 to €325.1 billion in 2014-20. In broad terms, the Commission proposals already involved a reduction of some €12 billion in Cohesion policy spending; the negotiations cut a further €14 billion from the Commission plans.

In absolute terms, the LDR budget is cut most – from €202 billion to €164 billion. In practice, however, the reduced coverage of LDR areas means that the decrease in per capita aid intensity is quite modest – from €188 to €185 per head per year. Moreover, the negotiating process barely affected the Commission’s proposals for LDR funding, at least in aggregate terms.

For the Cohesion Fund, disregarding the transitional arrangements for Spain in 2007-13 and those for Cyprus in 2014-20, the absolute amounts fall very slightly from €66.7 billion to €65.8 billion; the Commission had proposed a higher absolute amount (€70.7 billion) which would have resulted in a higher aid intensity (€78) than in 2007-13. However, this was downgraded in the course of the negotiations. Moreover, the accession of Croatia increases the population eligible for the Cohesion

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21 Note that, because Croatia had not acceded to the EU at the time of the negotiations, EU27 was used as the benchmark for eligibility and allocation criteria.

Fund, with the result that aid intensity falls from €76 in 2007-13 to €73 per head per annum in 2014-20 (again excluding Spain and Cyprus, respectively).

Allocations for the TR are not readily comparable with those for the Phasing-out and Phasing-in regions. This is mainly because they are defined in quite different ways. Phasing-out and Phasing-in regions were, by definition, regions which had (or should have had) Objective 1 status in the previous period, whereas TR are defined solely in relation to per capita GDP. Nevertheless, it is worth noting that the Commission proposals for TR funding were a major casualty of the negotiations in relative terms, with some 13 percent being trimmed from the Commission’s original plans.

For the same reason, allocations for the MDR are not directly comparable with those for Regional Competitiveness and Employment (RCE) areas in the last period. Again, however, the Commission’s original plans were curtailed, with the final outcome some €6 billion short of the initial proposal. Aid intensity is slightly higher in 2014-20 at €23 per head per annum, compared to €21.4 in 2007-13 for RCE; however, the MRD figure is inflated by the special provisions for former Convergence regions that will have MRD status in 2014-20.

Table 4: 2007-13 EU27 and 2014-20 EU28 commitment appropriations (2011 prices)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€ m</td>
<td>%</td>
<td>€ per head pa</td>
<td>€ m</td>
</tr>
<tr>
<td>Conv / LDR</td>
<td>202320</td>
<td>57.5</td>
<td>187.9</td>
<td>163561</td>
</tr>
<tr>
<td>Cohesion Fund</td>
<td>70331</td>
<td>20.0</td>
<td>60.6</td>
<td>70740</td>
</tr>
<tr>
<td>TR, of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phasing-out</td>
<td>14305</td>
<td>4.1</td>
<td>124.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Phasing-in</td>
<td>11865</td>
<td>3.4</td>
<td>89.2</td>
<td>0.0</td>
</tr>
<tr>
<td>RCE/MDR</td>
<td>44263</td>
<td>12.6</td>
<td>21.4</td>
<td>55419</td>
</tr>
<tr>
<td>Territorial coop/ETC</td>
<td>8626</td>
<td>2.5</td>
<td>2.5</td>
<td>11878</td>
</tr>
<tr>
<td>OMR &amp; LPD</td>
<td>925</td>
<td>20.0</td>
<td>925</td>
<td>1382</td>
</tr>
<tr>
<td>YEI</td>
<td></td>
<td></td>
<td></td>
<td>3000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>351710</td>
<td>100.0</td>
<td>338994</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes: (i) The 2007-13 figure for the Cohesion Fund includes the transitional arrangements for Spain otherwise per capita annual aid intensity would be c €76; the 2014-20 Cohesion Fund figure similarly contains the transitional sums for Cyprus; otherwise, aid intensity would be c €73. (ii) Commitment appropriations for Outermost regions and low population density regions were not disaggregated as such in 2007-13 (though they were calculated separately). (iii) The 2007-13 figures are drawn from the original regulation and do not include the later adjustments made in respect of the Czech Republic, Poland and Slovakia on account of the divergence between forecast and actual GDP – see European Commission Communication on the technical adjustment of the MFF for 2011, COM(2010)160 final, 16 April 2010. (iv) Prices are adjusted using DG ECFIN deflators. Source: Own calculations from Fiche no. 2 addendum, Eurostat data and DG ECFIN AMECO online and DG Regio provisional financial allocations between Member States – see footnote 10 above.
In relative terms, the ETC budget lost most from the negotiations, with almost a quarter being cut from the Commission’s plans. However, the overall budget is maintained at broadly comparable levels to 2007-13 in both absolute and per capita terms.

Last, in the 2014-20 MFF proposals, the additional funding for Outermost Regions (OMR) and Low Population Density (LPD) areas was presented as a separate strand; this was not done in the 2007-13 MFF. These regions appear as significant ‘winners’ from the negotiation process with the allocation increasing by around 50 percent on the original proposals. In practice, however, the aid intensity is still significantly lower for 2014-20 than in 2007-13 when aid intensity was slightly over €40 per head per annum (2011 prices).

4.2 Spatial coverage

In some respects the spatial coverage for 2014-20 represents continuity with, rather than change from, 2007-13. This is true of the designation criteria for the Cohesion Fund and the LDR, which remain the same; the MDR category retains the ‘residual’ character of the Regional competitiveness and employment (RCE) areas, but is rigidly defined in terms GDP criteria.

4.2.1 Structural Funds

The outcomes for Structural Funds coverage are shown in Figure 1 and Figure 2. As in 2007-13, the entire EU is covered (in contrast with the pre-2007 period); however, there are significant differences between the two periods in the definition of transition regions.
Figure 1: Less Developed, Transition and More Developed Regions 2014-20

Note: The map shows the NUTS 2006 boundaries for NUTS 2. NUTS 2010 altered the NUTS 2 boundaries for Finland. Germany, Italy and the United Kingdom. Under point 32 of the 7-8 February Council Conclusions (see footnote 19), where NUTS 2 regions had been merged under NUTS 2010 and where this led to a change in classification, Member States had the option to use the NUTS 2010 classification. This applied to Finland where eastern Finland would have had Transition status under the NUTS 2006, but where the NUTS 2010 classification was used. This enabled this part of Finland to benefit from the provisions for sparsely-populated regions under the More developed region strand – see below.

Source: DG Regio.
The criteria for defining the *Less-Developed Regions (LDR)* are essentially the same as for the Convergence regions in 2007-13, save for the shift in benchmark to EU27. However, there are some significant changes in coverage between the two periods. In particular:

- coverage falls from 31.7 percent of EU27 to 25.4 percent of EU28;
- Germany ceases to have any LDR regions;
- in Spain, coverage is significantly reduced (Extremadura only);
- Malta loses Convergence status;
- in Poland, Romania and Slovenia, the capital city regions not only lose Convergence status but are classified as More Developed Regions; and
- Croatia has LDR status in its entirety, following a reconfiguration of the NUTS 2 regions; it would otherwise have had part LDR and part TR status.

The criteria for so-called *Transition Regions (TR)* are markedly different from 2007-13. Whereas for 2007-13 transitional arrangements were made with reference to the status of a region in the previous funding period, under the 2014-20 texts, TR are defined as regions where GDP(PPS) per head is
between 75 percent and 90 percent of the EU27 average, irrespective of whether the region had Convergence status in 2007-13. Overall, TR cover 13.5 percent of the EU28 population, but the eligible regions are heavily concentrated in certain countries, notably Germany, Spain, France and the United Kingdom, which account for the bulk of the TR population. Within some countries – Malta, Belgium, Greece– TR coverage is significant (see Figure 2).

As noted, the More-Developed Region (MDR) category retains the residual character of its predecessor, RCE. Importantly, however, it includes four regions which had Convergence status in 2007-13 – namely Galicia (ES), the Warsaw region Mazowieckie (PL), Bucharesti-I Ilfov (RO) and the Ljubljana region, Zahodna Slovenija (SI). A significant change is that loss of Convergence status is handled through safety nets in the allocation mechanism with transition region designation.

### 4.2.2 Cohesion Fund

As in 2007-13, eligibility for the Cohesion Fund in 2014-20 is restricted to Member States where GNI(PPS) per head is less than 90 percent of the EU average; the only change is that eligibility is based on EU27 (in spite of enlargement to EU28). The changes in coverage for the 2014-20 period are that Cyprus loses eligibility and Croatia qualifies for the Cohesion Fund following accession.

**Figure 3: Cohesion Fund eligibility 2014-20**

![Source: DG Regio.](image-url)
4.3 Financial allocation mechanisms

Financial allocations for Cohesion policy comprise three main elements. First, there are specific methodologies for allocating the sums under each strand of policy (LDR, TR, MDR, CF, OMR/LPD). Second, a series of adjustments is made in the form of capping, safety nets, floors and ceilings. Third, there are provisions to address ‘special situations’ together with the Youth Employment Initiative which was added late in the negotiations, with an allocation methodology of its own, and unaffected by capping.

4.3.1 Allocations

(i) Less-Developed Regions

From the outset, the Commission proposal implied the retention of the basic principles underpinning allocations to Less-Developed Regions (LDR) – the so-called ‘Berlin formula’. In particular:

- the regional allocation is based on the ‘gap’ between GDP(PPS) per capita in the eligible regions and the EU average;

- the allocation (in euros) is calculated as percentage of that gap, the percentage varying according to national prosperity;

- an unemployment premium is added for each unemployed person in excess of the LDR average rate. The 2007-13 MFF allocated €700 per annum per person unemployed in excess of the Convergence region average rate. In the Commission proposal this was raised to €800, in line with inflation. The negotiations resulted in a substantial upgrading of the premium – to €1300 per annum per person unemployed in excess of the Convergence region average rate.

In addition, the Commission had proposed an urban premium calculated as a per capita allocation for the population of cities with population exceeding 250,000 at €4 per head per annum. This was dropped during the Cyprus Presidency.

Regarding the national prosperity coefficient, as Table 5 shows, the Commission proposals retained the ‘banding’ from the current period, although enlargement means that these bands are slightly different. The proposed coefficients also differed, with the Commission proposing lower rates across the board, but (proportionately) less of a reduction in the least prosperous Member States, albeit with no apparent logic to the reduction. Importantly, these bands were the subject of intense negotiations with the result that the middle group of regions improved their allocations significantly while the most and least prosperous regions saw further reductions in relation to the Commission proposal.

The LDR allocations are subject to capping.


25 Note that in 2007-13 the banding was changed to reflect enlargement. In the original Berlin formula which applied to 2000-6, the bands were 75 percent and 90 percent of the EU15 average.
Table 5: National prosperity coefficients 2007-13 and 2014-20

<table>
<thead>
<tr>
<th>GNI EU25=100</th>
<th>Member State</th>
<th>Coeff (%)</th>
<th>GNI EU27=100</th>
<th>Member State</th>
<th>Coeff (%)</th>
<th>Coeff (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;82</td>
<td>CZ EE EL LV LT HU MT PL PT SI SK</td>
<td>4.25</td>
<td>&lt;82</td>
<td>BG CZ EE LV LT HU PL PT RO SK</td>
<td>3.3</td>
<td>3.15</td>
</tr>
<tr>
<td>&lt;99</td>
<td>ES</td>
<td>3.36</td>
<td>&lt;99</td>
<td>EL SI</td>
<td>2.1</td>
<td>2.7</td>
</tr>
<tr>
<td>&gt;99</td>
<td>DE FR IT UK</td>
<td>2.67</td>
<td>&gt;99</td>
<td>ES FR IT UK</td>
<td>1.7</td>
<td>1.65</td>
</tr>
</tbody>
</table>


(ii) Transition Regions

The calculation of the TR allocation is complicated. The per capita allocation for each Transition Region (TR) is calculated with reference to a theoretical maximum intensity and a minimum intensity. The maximum intensity is based on the method for LDR. The formula assumes a region with GDP of 75 percent of the EU average, applies the LDR method outlined above, including the national prosperity coefficient (see Table 5) then takes 40 percent of the amount obtained by this method as the maximum. The percentage rate used to calculate the maximum intensity was the subject of intense negotiation and was lowered from the Commission’s initial proposal of 75 percent. The minimum intensity is the average aid intensity in the MDR for that Member State.

The actual aid intensity for each TR depends on the prosperity of the region and is calculated through a ‘linear interpolation’ of regional GDP per head along scale from the minimum and maximum calculated as outlined above. This means that the closer a region’s GDP to 90 percent of the EU average, the closer the aid intensity of the TR will be to that of the MDR in that country. An unemployment premium of €1100 per annum is added for each unemployed person in excess of the LDR average rate. The Commission proposal had been for the unemployment premium to be €400. In addition, a specific safety net is applied to ensure that no TR receive less than it would have it been a MDR. This was added late on in the negotiations and necessitated by the fact that the rate to calculate the maximum intensity was reduced from 75 percent to 40 percent, with the risk that TR allocations could be lower than MDR allocations – as would indeed have been the case for some regions in Germany, Italy, Finland and the United Kingdom.

An urban premium of €4 per head per annum had also been proposed by the Commission, but as for the LDR, this was dropped under the Cyprus Presidency.

Like the LDR, TR allocations are also subject to capping.

26 Before any regional safety net is applied. Note, however, that there is no national MRD figure to apply in the case of Malta.
27 According to EPRC calculations.
(iii) More-Developed Regions

The MDR methodology is similar to that for 2007-13. It is based on an initial financial envelope set on a per capita basis - €19.8 per head of eligible population per annum. This gives an initial budget of €42.5 billion for 2014-20. The Commission had originally proposed the initial per capita amount as €22.6 per annum, which would have yielded a budget of about €48.5 billion for 2014-20.

As for 2007-13, this initial sum is distributed on the basis of a key (see Table 6). The criteria proposed for 2014-20 differ from those used in 2007-13, and place less emphasis on total population, more on employment rates and significantly more on educational attainment, reflecting Europe 2020 priorities. However, direct comparisons between the two periods are complicated by the adjustments made to RCE allocations in respect of GDP and Objective 2 commitment appropriations in 2000-6.

Table 6: Criteria and weightings for MDR financial allocations 2014-20

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Weight (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total MDR population</td>
<td>25.0</td>
</tr>
<tr>
<td>Number of unemployed people in NUTS 2 regions with an unemployment rate above the average of all the more-developed regions</td>
<td>20.0</td>
</tr>
<tr>
<td>Employment to be added to reach the Europe 2020 target for regional</td>
<td>20.0</td>
</tr>
<tr>
<td>Number of people aged 30 to 34 with tertiary educational attainment to be added to reach the Europe 2020 target of 40 percent</td>
<td>12.5</td>
</tr>
<tr>
<td>Number of early leavers from education and training (aged 18 to 24) to be subtracted to reach the Europe 2020 target of 10 percent</td>
<td>12.5</td>
</tr>
<tr>
<td>Difference between the observed GDP(PPS) of the region and the theoretical regional GDP if the region had the same GDP per head as the most prosperous NUTS 2 region</td>
<td>7.5</td>
</tr>
<tr>
<td>Population of NUTS 3 regions with a population density of below 12.5 inhabitants per km²</td>
<td>2.5</td>
</tr>
</tbody>
</table>


For 2014-20, the initial share of the MDR allocation for each Member State is the sum of the shares of its eligible regions. These are determined on the basis of the criteria and weightings shown in Table 6. In passing, it is worth noting that the quality of the data relating to tertiary educational attainment and early leavers is extremely poor. Neither data set is available in Eurostat at NUTS 2, and although some information is published in DG Regio Country Factsheets it is incomplete.28 This raises a general issue about whether data of such poor quality (or unpublished data) should carry a 25 percent weighting in determining the allocation of MDR funding.

As for the LDR and TR, the Commission had initially proposed an urban premium, but again this was not retained.

Unlike LDR and TR, MDR allocations are not subject to capping.

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(iv) **European Territorial Cooperation**

European Territorial Cooperation (ETC) allocations are determined by a distribution key. This is based on the share of border regions in each Member State and its share of total population. The weighting given to each is determined by the share of the cross-border and transnational strands in the total ETC budget, this being set at 77.9 percent and 22.1 percent respectively.

ETC allocations are not subject to capping.

(v) **Outermost, sparsely-populated regions and islands**

Allocations to the Outermost regions and the northern sparsely-populated regions are based on a per capita amount and are in addition to any allocation under the relevant designated area strand (i.e. LDR, TR, MDR). In the 2007-13 period this amounted to about €40 per head per annum (at 2011 prices). The Commission proposed an allocation of €20 per head per annum; this was negotiated upwards to €30 in the course of the negotiations, but this is still substantially below the intensity in 2007-13.

(vi) **Cohesion Fund**

As for 2007-13, in 2014-20 there is an initial distribution of Cohesion Fund monies on the basis of a ‘theoretical envelope’. The initial theoretical envelope is calculated as €48 per annum per head of eligible population, which amounts to €43.2 million for 2014-20; the Commission had proposed a theoretical envelope based on €50 per head per annum.

The criteria for the distribution of the theoretical envelope are unchanged from 2007-13. This takes the form of an allocation key based on national shares of population and surface area, adjusted for prosperity. As in 2014-20, the Cohesion Fund is to account for one-third of total Structural and Investment Fund allocations for Member States which joined the EU after 1 May 2004. As a result, only the Cohesion Fund allocations for Portugal and Greece are actually determined by the distribution key – for the other eligible countries, Cohesion Fund allocations are determined by the interplay of the one-third rule with the provisions on capping, ceilings and safety nets.

Transitional arrangements are made for Member States losing Cohesion Fund eligibility - as noted, only Cyprus. This is set as per capita amount - €48 per head in 2014 - that tapers to zero over the period to 2020.

Cohesion Fund allocations are subject to capping.

### 4.3.2 Adjustments

The allocations resulting from the above methodologies are subject to a series of adjustments.

(i) **Capping**

Capping Cohesion policy allocations as a proportion of GDP – the ‘absorption cap’ - was in principle applied to all Member States in 2007-13. In practice it applied only to nine of the EU12 (all except...
Malta, Cyprus and Slovenia) and none of the EU15.\textsuperscript{29} The level of capping was calibrated to national levels of GDP and, among the countries affected, ranged from 3.7893 percent of GDP in Latvia to 3.4293 percent of GDP in the Czech Republic. Capping was applied to the annual allocations for the whole period on the basis of GDP forecasts.

For 2014-20 the Commission proposed a single capping rate of 2.5 percent of forecast GDP per annum. This was also the subject of intense negotiations which resulted in two absorption caps: (i) a general one set at 2.35 percent (i.e. even lower than that proposed by the Commission); and (ii) what might be termed a ‘low-growth’ cap for Member States joining the EU before 2013 (i.e. excluding Croatia), and where average real GDP growth in 2008-10 was less than -1 percent. This ‘low growth’ cap was set at 2.59 percent of GDP. In 2014-20, eight of the same Member States remain affected by capping, together with Croatia, while the Czech Republic ceases to be capped. The ‘low growth’ cap applies to Hungary and the three Baltic States.\textsuperscript{30}

(iii) **Ceilings (‘reverse safety net’)**

For 2014-20, Cohesion policy allocations are also limited by an overall ceiling on national allocations expressed as a percentage of 2007-13 allocations – this was sometimes termed a ‘reverse safety net’ and was designed to constrain spend notably in countries where growth had been high (so the cap bit at higher levels) but which retained significant LDR coverage and Cohesion Fund status. This mechanism was not included in the Commission’s initial proposals, but it was floated in the Denmark Presidency\textsuperscript{31} and introduced in concrete terms in the first of the van Rompuy negotiating boxes. This proposed that 2014-20 allocations should not exceed 115 percent of 2007-13 allocations, but the figure was reduced to 110 percent in the Council Conclusions. In practice, the ceiling applies to Romania and Slovakia.\textsuperscript{32}

(iii) **National safety net**

Conversely, the Council Conclusions provide for a national safety net of 55 percent of the 2007-13 allocation. This provision was included in the Commission’s initial proposals and is one of the few elements of those proposals to emerge unchanged from the negotiations. Cyprus was the sole beneficiary of the safety net.\textsuperscript{33}

(iv) **Regional safety set for former Convergence regions**

A specific safety net is applied to regions which do not have LDR status in 2014-20, but which were Convergence regions in 2007-13. This is set at 60 percent of their indicative annual allocation under the Convergence objective; the Commission had initially proposed that this safety net should be set at two-thirds. This was designed, in particular, to deal with situations where regions are losing Convergence status and becoming MDR.

\textsuperscript{29} According to EPRC calculations.
\textsuperscript{30} Ibid.
\textsuperscript{32} According to EPRC calculations.
\textsuperscript{33} Ibid.
4.3.3 Special arrangements

Two further sets of measures completed the financial package for Cohesion policy concluded by the Council in February. First, a number of disparate provisions were made for countries and regions considered to be insufficiently catered for by the general framework, all of which involve additional allocations. Second, the Youth Employment Initiative, which is not affected by capping, was added with an additional budget of €3 billion.

(i) Special allocation provisions

Various special provisions were justified by the need to provide extra funds to countries particularly affected by the crisis within the euro-area, to recognise the challenges facing island Member States and the remoteness of certain regions and to facilitate the adjustment of certain regions to changes in their stats or to the long-term impact of recent economic developments. In addition, an allocation of €150 million was made to PEACE.

Table 7: ‘Special allocation provisions’ € millions, 2011 prices

<table>
<thead>
<tr>
<th>Member States affected by the crisis in the euro area</th>
<th>€m</th>
</tr>
</thead>
<tbody>
<tr>
<td>GR: all for MDR</td>
<td>1375</td>
</tr>
<tr>
<td>PT: €450m for MDR; €150m for Madeira; €75m for TR; and €475m for LDR</td>
<td>1000</td>
</tr>
<tr>
<td>IE: for Border, Midlands and West region</td>
<td>100</td>
</tr>
<tr>
<td>ES: of which €500m for Extremadura</td>
<td>1824</td>
</tr>
<tr>
<td>IT: for LDR, of which €500m for non-urban areas</td>
<td>1500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Island situations and remoteness</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MT: in addition to the national safety net, and of which one-third for the Cohesion Fund</td>
<td>200</td>
</tr>
<tr>
<td>CY: in addition to the national safety net, and of which one-third for the Cohesion Fund</td>
<td>150</td>
</tr>
<tr>
<td>ES: for Ceuta and Melilla</td>
<td>50</td>
</tr>
<tr>
<td>FR: for Mayotte</td>
<td>200</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Adjustment to recent economic situations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BE: €66.5 for Limburg and €66.5 million for Wallonia</td>
<td>133</td>
</tr>
<tr>
<td>DE: of which €510m for former Convergence regions and €200m for Leipzig</td>
<td>710</td>
</tr>
<tr>
<td>HU: for LDR and notwithstanding capping</td>
<td>1560</td>
</tr>
<tr>
<td>CZ: for LDR and of which €300m to be transferred from the CZ rural development allocation</td>
<td>900</td>
</tr>
<tr>
<td>SI: for LDR</td>
<td>75</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PEACE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UK, IE</td>
<td>150</td>
</tr>
</tbody>
</table>

Total 9927

(ii) Youth Employment Initiative

The last van Rompuy negotiating box introduced the concept of a Youth Employment Initiative (YEI). The total value of the YEI is €6 billion, but only half of this is additional; the remainder is to be ring-fenced through targeted European Social Fund investment. The YEI is available to NUTS 2 regions where youth unemployment in 2012 exceeds 25 percent and the allocation is based on the number of young unemployed people in these regions. The impact of the YEI is discussed below, but it is worth noting that around one-third of the allocation would appear to be accounted for by Spain.
4.4 Outcomes

The crucial issue is what impact the interplay of these various mechanisms has on funding allocations at the national (and ultimately subnational) level. In late August 2013 the Commission published a breakdown by Member State for all strands of Cohesion policy, except the Youth Employment Initiative. This is replicated in Table 8 along with EPRC estimates for the YEI.

Table 8: Cohesion policy allocations by Member State 2014-20 (€m 2011 prices)

<table>
<thead>
<tr>
<th></th>
<th>Cohesion Fund</th>
<th>LDR</th>
<th>TR</th>
<th>OMR &amp; LPD</th>
<th>MDR</th>
<th>ETC</th>
<th>YEI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>BE</td>
<td>958</td>
<td></td>
<td></td>
<td>865</td>
<td>230</td>
<td>33</td>
<td></td>
<td>2,087</td>
</tr>
<tr>
<td>BG</td>
<td>2,376</td>
<td>4,607</td>
<td></td>
<td></td>
<td>145</td>
<td>60</td>
<td></td>
<td>7,188</td>
</tr>
<tr>
<td>CZ</td>
<td>6,539</td>
<td>13,599</td>
<td>78</td>
<td>297</td>
<td>15</td>
<td></td>
<td></td>
<td>20,528</td>
</tr>
<tr>
<td>DK</td>
<td>64</td>
<td></td>
<td></td>
<td>229</td>
<td>198</td>
<td></td>
<td></td>
<td>492</td>
</tr>
<tr>
<td>DE</td>
<td>8,719</td>
<td></td>
<td></td>
<td>7,583</td>
<td>845</td>
<td></td>
<td></td>
<td>17,146</td>
</tr>
<tr>
<td>EE</td>
<td>1,119</td>
<td>2,190</td>
<td></td>
<td></td>
<td>48</td>
<td></td>
<td></td>
<td>3,358</td>
</tr>
<tr>
<td>IE</td>
<td>866</td>
<td></td>
<td></td>
<td>148</td>
<td>71</td>
<td></td>
<td></td>
<td>1,084</td>
</tr>
<tr>
<td>GR</td>
<td>3,396</td>
<td>6,398</td>
<td>2,097</td>
<td>2,299</td>
<td>203</td>
<td>159</td>
<td></td>
<td>14,551</td>
</tr>
<tr>
<td>ES</td>
<td>1,851</td>
<td>11,735</td>
<td>430</td>
<td>10,471</td>
<td>540</td>
<td>1,026</td>
<td></td>
<td>26,054</td>
</tr>
<tr>
<td>FR</td>
<td>3,136</td>
<td>3,914</td>
<td>394</td>
<td>5,841</td>
<td>953</td>
<td>221</td>
<td></td>
<td>14,458</td>
</tr>
<tr>
<td>IT</td>
<td>20,262</td>
<td>1,000</td>
<td></td>
<td>6,982</td>
<td>994</td>
<td>358</td>
<td></td>
<td>29,596</td>
</tr>
<tr>
<td>CY</td>
<td>285</td>
<td></td>
<td></td>
<td>201</td>
<td>29</td>
<td></td>
<td></td>
<td>514</td>
</tr>
<tr>
<td>LV</td>
<td>1,407</td>
<td>2,732</td>
<td></td>
<td>82</td>
<td>40</td>
<td></td>
<td></td>
<td>4,261</td>
</tr>
<tr>
<td>LT</td>
<td>2,137</td>
<td>4,175</td>
<td></td>
<td>99</td>
<td>52</td>
<td></td>
<td></td>
<td>6,464</td>
</tr>
<tr>
<td>LU</td>
<td>39</td>
<td></td>
<td></td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td>56</td>
</tr>
<tr>
<td>HU</td>
<td>6,291</td>
<td>13,405</td>
<td>414</td>
<td>316</td>
<td>55</td>
<td></td>
<td></td>
<td>20,481</td>
</tr>
<tr>
<td>MT</td>
<td>227</td>
<td>439</td>
<td></td>
<td></td>
<td>15</td>
<td></td>
<td></td>
<td>681</td>
</tr>
<tr>
<td>NL</td>
<td></td>
<td>905</td>
<td>341</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,246</td>
</tr>
<tr>
<td>AT</td>
<td>65</td>
<td></td>
<td></td>
<td>820</td>
<td>225</td>
<td></td>
<td></td>
<td>1,110</td>
</tr>
<tr>
<td>PL</td>
<td>24,189</td>
<td>45,756</td>
<td>2,010</td>
<td>613</td>
<td>178</td>
<td></td>
<td></td>
<td>72,746</td>
</tr>
<tr>
<td>PT</td>
<td>2,990</td>
<td>14,956</td>
<td>231</td>
<td>1,144</td>
<td>107</td>
<td>149</td>
<td></td>
<td>19,680</td>
</tr>
<tr>
<td>RO</td>
<td>7,226</td>
<td>13,724</td>
<td>103</td>
<td>403</td>
<td>396</td>
<td>136</td>
<td></td>
<td>21,886</td>
</tr>
<tr>
<td>SI</td>
<td>935</td>
<td>1,130</td>
<td></td>
<td>760</td>
<td>55</td>
<td></td>
<td></td>
<td>2,881</td>
</tr>
<tr>
<td>SK</td>
<td>4,346</td>
<td>8,459</td>
<td></td>
<td>40</td>
<td>195</td>
<td>84</td>
<td></td>
<td>13,124</td>
</tr>
<tr>
<td>FI</td>
<td></td>
<td>271</td>
<td>908</td>
<td>141</td>
<td></td>
<td></td>
<td></td>
<td>1,320</td>
</tr>
<tr>
<td>SE</td>
<td>184</td>
<td>1,351</td>
<td>299</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td>1,842</td>
</tr>
<tr>
<td>UK</td>
<td>2,118</td>
<td>2,326</td>
<td>5,126</td>
<td>757</td>
<td>354</td>
<td></td>
<td></td>
<td>10,682</td>
</tr>
<tr>
<td>HR</td>
<td>2,667</td>
<td>5,206</td>
<td></td>
<td>128</td>
<td></td>
<td></td>
<td></td>
<td>8,001</td>
</tr>
<tr>
<td>Total</td>
<td>66,130</td>
<td>163,704</td>
<td>31,550</td>
<td>1,382</td>
<td>49,336</td>
<td>8,419</td>
<td>3,000</td>
<td>323,520</td>
</tr>
</tbody>
</table>

Note: These figures exclude allocations to interregional cooperation (€500m) and Technical assistance (€1126m) which are not disaggregated by Member State.


As would be expected, this distribution represents considerable continuity; Poland, for example, continuing to be the single largest beneficiary of the funds. On the other hand, while some have
increased their share of spend (Poland, Romania and Italy), Others see a reduction (Spain, Germany, Greece, Hungary, Czech Republic). Moreover, these reduced shares are in the context of a smaller overall budget.

**Figure 4: National shares of Cohesion policy funding in 2007-13 and 2014-20**

**2014-20**

- **BE** 0.7%
- **BG** 2.0%
- **CZ** 7.7%
- **DE** 5.3%
- **DK** 0.2%
- **ES** 8.1%
- **FR** 4.5%
- **GR** 4.5%
- **IT** 9.1%
- **LU** 0.0%
- **MT** 0.2%
- **NL** 0.4%
- **PL** 22.5%
- **PT** 6.1%
- **RO** 6.8%
- **SI** 0.9%
- **SK** 4.1%
- **SE** 0.6%
- **SI** 0.9%
- **UK** 3.3%
- **Other** 29.5%

**2007-13**

- **AT** 0.4%
- **BE** 0.6%
- **BG** 2.2%
- **BE** 0.6%
- **BG** 2.0%
- **CY** 0.2%
- **DE** 7.6%
- **DK** 0.2%
- **EE** 0.3%
- **ES** 10.2%
- **FR** 4.1%
- **FI** 0.5%
- **FI** 0.5%
- **FR** 4.1%
- **HR** 2.5%
- **HU** 7.3%
- **IE** 0.3%
- **IT** 8.3%
- **IT** 8.3%
- **LU** 0.0%
- **LV** 1.3%
- **LT** 2.0%
- **MT** 0.2%
- **NL** 0.5%
- **PL** 19.5%
- **PT** 6.2%
- **RO** 5.6%
- **SK** 3.4%
- **UK** 3.1%
- **US** 2.5%
- **Other** 21.6%

**Source:** Own calculations from 2007-13 commitment appropriations and DG Regio data for 2014-20.
4.4.1 How did countries fare in the Cohesion policy budget negotiations?

An interesting question is how countries fared in the Cohesion policy negotiations, not least as these resulted in a cut of €14 billion in the Commission’s original plans. In practice, the impact of the negotiations is not easy to assess – mainly because the Commission never releases data on its proposed national allocations before or during the negotiations. Nevertheless, it is possible estimate the national allocations based on the initial proposal34 (though the figures should be treated with caution) and to compare these with the final outcomes.

Figure 5: Impact of the negotiations on the Commission proposals (% change)

![Graph showing the impact of negotiations on Commission proposals]

Source: EPRC calculations

Figure 5 estimates the change in allocations between the Commission proposals and the outcome agreed at the Council meeting of 7-8 February 2013. In general, this suggests that some relatively small less prosperous Member States were able to improve their positions at the expense of some more prosperous ones (and some large less prosperous ones, notably Poland and Romania. Cyprus increased its allocation by the largest amount in relative terms (over 40 percent), but the increase amounts to less than €150 million. In absolute terms, the biggest ‘winners’ from the negotiations were Hungary and Greece, which secured increases in excess of €2 billion in relation to what the Commission had proposed (but this was much lower than what these countries had received in 2007-13).35 At the other end of the spectrum, Poland and Romania ‘lost’ almost €4 billion and around €6 billion, respectively, through the negotiation process; as will be seen, however, in relation to 2007-13, both made absolute gains. Germany, France and the United Kingdom also saw their allocations reduced from the Commission’s initial proposals – by around €1.5 billion to €2.5 billion.

35 According to EPRC estimates, not Commission figures.
4.4.2 How do allocations compare with 2007-13?

Perhaps more important than the impact of the negotiations on the Commission proposals are the differences between current (ie. 2007-13) and future funding (2014-20). These are illustrated in Figure 6 which shows that the impact of the budget settlement varies widely between countries.

In six countries there is an increase in funding in 2014-20 compared with 2007-13. In relative terms Ireland gains most with a 16 percent increase on current allocations. However, in absolute terms this is rather modest and represents only around €150 million. By contrast, three countries gain significantly in absolute terms: in Poland allocations increase by €3.7 billion, while those in Romania increase by €2 billion and those in Slovakia by €1.2 billion.

Figure 6: Changes in financial allocations from 2007-13 to 2014-20

![Figure 6: Changes in financial allocations from 2007-13 to 2014-20](image)

Source: EPRC calculations.

At the opposite end of the spectrum, there are very significant reductions in expenditure both in absolute and relative terms in a number of countries. These include Spain and Germany which each lose in excess of €9 billion in Cohesion policy receipts, equivalent to well over a quarter of their current allocations. It is also noteworthy that Greece and Hungary also see major reduction in their allocations, even though these two countries did well from the negotiations (see Figure 5); in other words, although comparatively successful in the negotiations, they were unable to clawback the reductions which the Commission had proposed.
4.4.3 What explains these changes?

The diverse outcomes shown in the above charts are due to the interplay of a number of different factors in the underlying methodologies, together with the impact of the ‘other special allocation provisions’.

Germany, Slovenia, Greece, Spain and Malta are all affected by substantial reductions in - or complete loss of - LDR coverage which accounted for much of their previous allocations. Most of the regions concerned become TR and all are anyway subject to a ‘safety net’ of 60 percent of their previous allocations, but this still represents a substantial reduction. In the Czech Republic there are no changes in LDR coverage, but because per capita aid intensities for LDR are cut (by between 20 and 38 percent, depending on national prosperity – see Table 5) so too are LDR allocations. This applies to all other countries not affected by capping, so has an impact on Italy, France, Portugal, Greece, Spain, Slovenia and the United Kingdom.

For eight countries, capping continues to determine allocations. The Council conclusions set capping at 2.35 percent of GDP in general, and 2.59 percent for countries where the economy shrank by more than 1 percent in 2008-10. This level of capping is much lower than the previous sliding scale (which went up to almost 3.8 percent of GDP). However, for countries which have grown fast, even the lower capping rate does not prevent allocations rising – this is true for Slovakia, Bulgaria, Romania and Poland. On the other hand, for countries which have not grown significantly, capping bites at lower levels than before (a smaller percentage of a stagnant GDP), even allowing for the higher cap rate for ‘low growth’ countries. This accounts for the reduced allocations for Hungary and the three Baltic states – arguably a somewhat perverse outcome since it could be argued that countries that had failed to prosper were more in need of support.

Belgium, France and the United Kingdom are the main beneficiaries of the TR strand insofar as it concerns regions which did not previously have Convergence status. Without this, these countries would have seen greater reductions in allocation and the reductions are modest compared with other countries of comparable prosperity. Interestingly, however, the small overall decrease for the United Kingdom conceals a significant reduction in allocations for the LDR regions owing to the changes in the national prosperity coefficient mentioned above.

For some countries the ‘other special allocation provisions’ and the Youth Employment Initiative are decisive. In Ireland, for example, the increase on previous coverage is due to these additional allocations, without which Ireland would have seen a reduction in allocations compared to 2007-13; the same applies to Italy, which also gained under special allocations and YEI. Elsewhere, although there were substantial special allocations, these were not sufficient to mitigate overall losses; as in the cases of Portugal, Greece and Spain.
5. COHESION POLICY 2014-20: PARTNERSHIP AGREEMENTS AND OPERATIONAL PROGRAMMES

5.1 State-of-play of Partnership Agreements

Considerable progress has been made in the development of the Partnership Agreements (PAs) during 2013. Extensive inter-governmental consultation and coordination within and across different levels of government has been taking place in all Member States, and public consultations have been organised or finalised in some cases. Ex-ante evaluations of the PA have been launched in some countries, where governments have chosen to do this at both PA and programme level (e.g. Germany, Poland, United Kingdom). Progress with the drafting the PAs is variable across EU countries. Many countries had developed full drafts of their PAs and sent or discussed them informally with the Commission before the summer recess, although the Commission noted that 12 Member States needed to make additional efforts to progress preparations (AT, BG, HR, CY, DE, FR, ES, IE, IT, NL, PT and UK).\(^{36}\) The aim in most cases is to formally submit the PA to the Commission by the end of the year. A summary of progress with the development of the PAs in each EoRPA country is provided below.

- **Austria:** The preparation process of the Austrian PA was launched in April 2012 at the first STRAT.AT 2020 forum. A so-called ‘expert paper’ was presented in July 2012 and a public consultation ran until September 2012. Between November 2012 and February 2013 15 thematic ‘focus groups’ involving a wide range of actors looked at specific themes ranging from RTDI to poverty and the urban dimension. The presentation of the PA’s first draft was initially planned for March, but has been postponed to 18 June. The main reason for delays with the PA draft was the publication of the ‘Draft Template for the Main Elements of the Partnership Contract’ on 14 November 2012, followed by the revised version on 26 February. A first public draft was presented at a STRAT.AT 2020 forum on 18 June 2013, which marked the launch of a second public online consultation running until 31 July 2013. For this, the draft text was split into 389 statements, which could be voted on by users using a simple ‘thumbs up’ / ‘thumbs down’ system. Also, it allowed entering comments on each point. 80 registered users made use of these options. The website also allowed position papers to be uploaded: 12 stakeholders made use of this. ÖROK will publish a summary and assessment of the consultation results in the course of September. The finalisation and submission of the PA to the Commission is planned for autumn.

- **Finland:** The Ministry of Employment and the Economy and the Ministry of Agriculture and Forestry are responsible for preparing the Finnish Partnership Agreement for 2014-20. Approval of the Partnership Agreement and OP by the Finnish government was planned for June/July 2013 and the aim was to submit both documents to the Commission in one block in August 2013. The preparations of the Finnish Partnership Agreement have progressed well and the first internal draft of the Partnership Agreement was completed in April 2013. Aspects of the preparation of the Finnish Partnership Agreement are being discussed in the regular meetings that bring together the managing authorities of CSF Funds. There is some

uncertainty over timing in Finland due to delays in agreeing the EAFRD and EMFF budgets at EU level, which could delay submission of the Partnership Agreement to the Commission.

- **France:** The Partnership Agreement is still at a very early stage. Following a consultation process, a reporting back seminar took place on 9 July 2013 in the framework of a political event, bringing together ministers and Commissioner Hahn. Some major issues remain to be dealt with, notably issues linked to the distribution of regional allocations. Since the OPs constitute the main input to the PA and are still being developed, only a broad outline of the PA was presented in the form of a 7-page document. In order to progress the PA, the national coordination body DATAR will have to wait for the inputs of the regional councils. The final PA will be finalised by the beginning of November 2013.

- **Germany:** The Federal Ministry for the Economy and Innovation (BMWI) is responsible for coordinating PA preparations. Much of the content will be constructed from the bottom-up based on 50 programmes. Regular meetings are being held at various levels: Group of Ministers for the Economy or the Group of Land Presidents; operational meetings bringing together senior staff from the BMWI, other relevant federal ministries and the Land-level managing authorities; focus groups set up around the key priority axes that most Länder wish to fund; and ad hoc operational-level meetings between BMWI staff and other individual authorities on specific issues. A stronger effort has been made to involve a broader range of partners in the programming workshops and ad hoc meetings which has proved to be very positive and constructive for improving and drafting the strategy. The BMWI has a draft of the PA, which includes a broad strategy covering all Funds. Preparations are progressing well within given EU-level delays on the budget and also to an extent domestically. The Bund’s aim is to have a full draft of all the OPs and the PA by the end of June 2013, and to submit this to the Commission then.

- **Italy.** A draft of the PA was prepared based on inter-institutional dialogue and consultations with socio-economic partners, in an open and inclusive process, with inputs from administrations at different territorial levels and from socio-economic partners and civil society. The preparations were structured by four thematic working groups, technical working groups and open events, and a working group on ‘Rules and horizontal issues’. The current version of the PA includes some indication of the national programmes that will be established and of the expected results and possible actions. Work on financial allocations to themes and priorities began in April and strategic thinking is well-advanced on key territorial themes relating to the Mezzogiorno, so-called ‘Internal areas’ (sparsely populated with limited access to basic services) and cities. A first draft of the PA was sent to the European Commission on 9 April 2013 and the formal submission of the final version is scheduled for the end of September 2013.

- **Netherlands:** A draft version of the Partnership Agreement was available before the summer and discussed at a stakeholder conference. The Partnership Agreements will be formally submitted to the Commission later than initially planned, which has been accepted by the Commission.
- **Poland:** The drafting and coordination of the PA has been led by the Ministry of Regional Development involving collaboration and consultation with a wide range of national and sub-national Ministries and stakeholders. The key principles and programme architecture were decided in January 2013. The latest version was sent to the Commission in mid-June to continue informal discussions. The ex-ante evaluation, Strategic Environmental Assessment and public consultations should be finalised in September-October 2013, paving the way for formal submission of the PA to the Commission at the end of 2013.

- **Sweden:** The Partnership Agreement is being developed simultaneously with the OPs, and is expected to be submitted to the Commission in October 2013. A draft version was published in early 2013 albeit without financial allocations. Following previous practice, another national strategy for regional development is being developed alongside the PA to underpin the strategy.

- **United Kingdom.** The PA will be an overarching document with a separate chapter for England and the devolved administrations of Scotland, Wales and Northern Ireland. The United Kingdom document will be finalised in October 2013 and a draft will then be worked on with the Commission in November/December to be submitted at the end of 2013. Ex-ante evaluations of the United Kingdom PA and the different chapters have been commissioned and are underway. The English chapter will now reflect a new LEP (Local Enterprise Partnership) locally-driven model. A series of cross-government groups comprising relevant partners are developing the English chapter, and a national group (CSF England) brings together lead departments. In Scotland, the managing authority has been working on the Scottish chapter with stakeholders, rural and fisheries policy colleagues as well as colleagues from audit and finance departments of the Scottish Government. This work has been carried out in several groups around thematic objectives and meetings with the Commission have also been held. In Wales, the managing authority (WEFO) started developing the OPs before the Welsh chapter of the PA, following a reflections exercise. The PA chapter is currently being developed based on consultation and an independent review of future implementation arrangements.

### 5.2 Financial allocations to Regions and Funds

The Commission formally published the national allocations for each category of region in August 2013, providing a basis for bilateral negotiations with the Member States on the allocations to regions and programmes. At the time of the fieldwork, very few Member States had engaged in discussions or contacts with the Commission on financial allocations and only on an informal basis (e.g. France, Poland). Nevertheless, the Member States have made calculations on the possible allocation of funds between programmes and regions and in some cases have proposed indicative allocations - internally in the cases of Austria and Germany, and publicly in Poland and the United Kingdom. A common goal informing these decisions is to ensure an equitable distribution of funding across regions that minimises abrupt changes relative to the previous period.
5.2.1 Regional allocations

Based on the available information and interview research, a summary of the key issues and approach taken to regional allocations in several EoRPA countries is as follows.

Austria

The criteria for the distribution are currently under discussion but the goal is to distribute the expected loss of funding for Austria fairly amongst the Länder and to incorporate compensation mechanisms/safety nets. There have already been meetings between experts from the Länder and some thinking has been done about defining a minimum allocation per Land in order to create the necessary critical mass to allow for effective use of the Funds. A likely option is to increase the funding for Länder with smaller shares relative to larger ones. However, final decisions will depend on whether the Commission will make proposals for the distribution of funding within Member States as was the case for the 2007-13 programme period. More generally, there are concerns about a shift in the equity goals of Cohesion policy towards competitiveness goals, which may mean that GDP per capita criteria take on less importance when allocation of funds are decided. The ERDF funds will be allocated to the nine Länder, applying a series of criteria. Amongst these, the most important are the current level of funding and minimum allocations to smaller ‘sub-programmes’ (Länder).

Germany

The German authorities have made their own calculations on the possible allocation of funds between programmes/regions, based on what is known about EU-level agreements (see Table 9). These calculations suggest two problems. First, they show a fall of 36 percent across all current Convergence and Phasing-out regions; this contrasts with the domestic agreement reached, namely that a safety net of 66 percent (of the level of 2007-13 funding) should apply to the German Convergence and Phasing-out regions in 2014-20. Second, they show much stronger falls in some regions than in others, with particularly strong falls in the one region (Brandenburg-Südwest) which is likely to shift from being a Phasing-out region to a Transition Region (-83 percent), as well as significant falls in those regions (Leipzig and Lüneburg which are likely to shift from being Phasing-out regions to More Developed Regions (-70 percent). The differential outcomes for Brandenburg-Südwest and Leipzig are seen as particularly problematical, and are due to the text of paragraph 52 of the European Council agreement of 7/8 February 2013 which provides for ‘additional envelopes’ for ex-Convergence regions in Germany and for Leipzig but not for ex-Phasing-out regions.

The main principles informing the approach in Germany are two-fold. First, the German authorities have decided that, in principle, there should be a safety net for each Land: For the current Convergence / Phasing-out Länder, no Land should receive less than 66 percent of its current SF funding; and for the current RCE / Phasing-in Länder, no Land should receive less than 85 percent of its current share of funding (i.e. 85 percent of its current share, not 85 percent of its current funding).
Table 9: German authorities’ calculations of the possible allocation of ERDF/ESF funding across programmes in 2014-20 compared to 2007-13 (figures in constant prices)

<table>
<thead>
<tr>
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<th></th>
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<tbody>
<tr>
<td>Total German ERDF &amp; ESF</td>
<td>29.7</td>
<td>17.3</td>
<td>-35%</td>
</tr>
<tr>
<td>Current Convergence and Phasing-out regions (combined)</td>
<td>12.9</td>
<td>8.3</td>
<td>-36%</td>
</tr>
<tr>
<td>Current Phasing-out regions</td>
<td></td>
<td></td>
<td>-83%</td>
</tr>
<tr>
<td>Current RCE and Phasing-in regions (combined)</td>
<td>9.6</td>
<td>7.2</td>
<td>-25%</td>
</tr>
</tbody>
</table>

**Source:** German authorities

Second, the Group of Ministers for the Economy is engaging in separate discussions on the domestic methods to be used for allocating funds between, on the one hand, the Convergence/Phasing-out Länder and, on the other, the RCE/Phasing-in Länder.

- The eastern Länder are currently discussing different scenarios for the future Transition regions and, in particular, whether they would overall accept to shift some additional funds to Brandenburg-südwest and how this could be done.
- In the case of the RCE regions, a broad agreement on the methodology for allocating funds between ERDF programmes was reached in December 2012 by the Group of Economy Ministers in the western Länder. The method is based largely on the COM indicators, but with a slightly different weighting i.e. it has an even stronger emphasis on population. The Group experimented with a number of different scenarios, one of which was the GRW (Regional Joint Task) model that favours structurally weaker regions; however, as the ERDF is no longer formally a redistributive instrument (Ausgleichsinstrument) from an EU perspective, the Group rejected this approach in favour of the COM approach in broad terms.
- A further complicating factor for the Transition regions is that Leipzig (an eastern region which is likely to be a More Developed Region in 2014-20) could see a further increase in funding due to the domestic method that could be adopted for the RCE regions i.e. this method could include a bonus for structurally weaker More developed regions i.e. Leipzig. This would further widen the gap between Leipzig and Brandenburg-Südwest.

**Finland**

In the 2014-20 period, the number of programmes will change significantly as there will be only one national programme (combining ERDF and ESF) compared to five at present (four regional ERDF and one national ESF programme), although the national programme will have two regional plans (one plan for north and east, and another plan for south and west). The allocation of funding to the regional plans was done on the basis of a regional proposal. The proposal, which was approved by the Government, was developed in collaboration with the Regional Councils and the ELY-Centres. On the basis of this proposal, Eastern and Northern Finland are due to receive approximately 71 percent of the funding (equivalent of €722 million), while Western and Southern Finland will receive 29 percent...
(equivalent of €286 million). The island of Åland will be allocated 0.5 percent (equivalent of €5 million). The national themes were allocated 10 percent of ERDF and 25 percent of ESF funding.\(^{37}\)

**Netherlands**

There is an overall reduction of 30 percent in ERDF for the Netherlands, but a rise in ETC funds. This was expected and the Netherlands is content with the outcomes of the negotiations. No decision on regional allocations has been taken. To a large extent this is a political discussion but also regional differences in terms of economic growth and the effects of the crisis will be taken into account (both political and economic factors). A decision is expected in September 2013. The political debate for ERDF allocations of budgets at the regional level is influenced by other funding arrangements. Regional politicians look to the overall package of resources that their region receives and negotiate on that basis.

**Poland**

According to the European Council agreement, the total allocation for Poland will be around €72.9 billion (in constant prices, 2011). The basic allocation is calculated taking into account the maximum limit that can be set under capping (designated for Poland at 2.35 percent of GDP). In addition, Poland will receive approximately €181 million under the youth unemployment initiative. This will be an additional amount of a specific budget line - for regions at NUTS 2 level, where the unemployment rate of young people (aged 15-24 years) is above 25 percent. Within this basic allocation, the following transfers will be made to instruments and programs managed directly by the European Commission (Connecting Europe Facility, European Fund for Assistance to the most needy, technical assistance at the initiative of the Commission, innovative actions at the initiative of the European Commission). These transfers are deducted from the available allocation for Poland, totalling €4.6 billion.

For the first time in Poland, funding will be allocated to different categories of regions: the ‘less developed’ and ‘more developed’. Mazowieckie, the region where Poland’s capital city Warsaw is located, has exceeded the 75 percent of GDP threshold and will become the first Polish region to move from ‘Convergence’ to ‘more developed’ status, which will impact on the level of support available. However, this shift is based on the performance of the capital city, which is a key driver of the regional and the national economy. The challenges of supporting a fundamental engine of regional and national growth and ensuring appropriate investment in the much less developed parts of the capital city region will require specific instruments. The allocation for Mazowieckie will be shared between regional and national levels. On the one hand, there will be a ‘regional envelope’ covered by the Mazowieckie regional OP. This will consist of a minimum of 60 percent of the ERDF funds for Mazowieckie and 75 percent of the ESF funds. Poland will also utilise the ‘flexibility mechanism’ that will allow an additional three percent of the pool from the other 15 regions to be dedicated to Mazowieckie. This will be done on a ‘pro rata’ basis through so-called ‘systemic projects’ in OP priorities. A detailed breakdown of the funds available under cohesion policy in the 2014-20 is presented in Table 10 below.

\(^{37}\) [http://www.tem.fi/alueiden_kehittaminen/tiedotteet_alueiden_kehittaminen?89522_m=110551](http://www.tem.fi/alueiden_kehittaminen/tiedotteet_alueiden_kehittaminen?89522_m=110551)
Table 10: Total allocation of Cohesion policy for Poland, components and structures (2011 prices)

<table>
<thead>
<tr>
<th>Component</th>
<th>EUR (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total allocation before transfers</strong></td>
<td>72,854</td>
</tr>
<tr>
<td>In this, resources in the framework of the youth employment initiative</td>
<td>181</td>
</tr>
<tr>
<td><strong>Basic allocation (without the youth employment initiative)</strong></td>
<td>72,673</td>
</tr>
<tr>
<td><strong>Allocation after transfers (Cohesion Fund, European fund for the most needy, TA, Innovative Actions)</strong></td>
<td>68,070</td>
</tr>
<tr>
<td>Objective 1 – ‘Investment in economic growth and employment’</td>
<td>67,586</td>
</tr>
<tr>
<td>Cohesion Fund</td>
<td>20,280</td>
</tr>
<tr>
<td>Structural Funds</td>
<td>47,306</td>
</tr>
<tr>
<td>Less developed regions</td>
<td>45,292</td>
</tr>
<tr>
<td>Mazowieckie</td>
<td>2,014</td>
</tr>
<tr>
<td><strong>Objective 2 – ‘European Territorial Cooperation’</strong></td>
<td>485</td>
</tr>
<tr>
<td><strong>’Flexibility mechanism’ – transferring 3 percent of resources within regional categories</strong></td>
<td>1,359</td>
</tr>
<tr>
<td><strong>Allocation after transfers and the ‘flexibility mechanism’</strong></td>
<td>68,070</td>
</tr>
<tr>
<td>Objective 1 – ‘Investment in economic growth and employment’</td>
<td>67,586</td>
</tr>
<tr>
<td>Cohesion Fund</td>
<td>20,280</td>
</tr>
<tr>
<td>Structural Funds</td>
<td>47,306</td>
</tr>
<tr>
<td>ERDF</td>
<td>37,002</td>
</tr>
<tr>
<td>ESF</td>
<td>10,304</td>
</tr>
<tr>
<td>Less developed</td>
<td>43,933</td>
</tr>
<tr>
<td>ERDF</td>
<td>34,363</td>
</tr>
<tr>
<td>ESF</td>
<td>9,570</td>
</tr>
<tr>
<td>Mazowieckie</td>
<td>3,373</td>
</tr>
<tr>
<td>ERDF</td>
<td>2,638</td>
</tr>
<tr>
<td>ESF</td>
<td>735</td>
</tr>
<tr>
<td>Youth employment initiative</td>
<td>181</td>
</tr>
<tr>
<td>European fund for the most needy</td>
<td>425</td>
</tr>
<tr>
<td><strong>Objective 2 – ‘European Territorial Cooperation’</strong></td>
<td>485</td>
</tr>
</tbody>
</table>

[Concerning funding for CAP (Pillar 2) and the Fisheries Fund, there was a lack of information in June 2013 to allow calculations of allocation.]


**United Kingdom**

The indicative breakdown of future ESIF funding between constituent parts of the UK was announced by the UK Government in March 2013. It was considered that EU formula for allocating Structural Funds would not have resulted in ‘sudden and significant cutbacks in Northern Ireland, Scotland and Wales’.

The allocations announced were as follows:

- Northern Ireland - a total allocation of around €457 million, an uplift of €181 million compared to the amount that Northern Ireland would receive under the EU formula for allocation of the Funds to the UK;
- Scotland - total funding of around €795 million, representing an uplift of €228 million compared to the amount that Scotland would receive under the EU formula;
- Wales - total allocation of around €2.145bn, representing an uplift of €375 million compared to the amount that Wales would receive under the EU formula; and
- England - a total allocation of €6.174 billion.
This decision means that each Devolved Administration is only subject to an equal percentage cut of around 5 percent in funding compared to 2007-13 levels. Funding for the ETC objective and the Youth Employment Initiative will be subject to a separate process. Final allocations will be subject to the agreement on the EU regulations and the ongoing negotiation of the 2014-20 EU Budget; the Commission must also agree the government’s proposals.

A written Ministerial Statement to the UK Parliament in June 2013\(^3\) announced the breakdowns within the DAs and at local level in England.

- In England, the element retained by government for central programmes has been dramatically reduced from around 50 percent to under 5 percent so that maximum funds would go to local areas. Each of the 39 LEP areas has been given an allocation, made up of funds from ERDF and ESF. EAFRD allocations will be announced at a later date. The (nine) Transition Region allocations (and the fact that Cornwall is an LDR) within England would also have been a factor helping to pre-determine local allocations.
- Gibraltar’s current allocation will be frozen at €9 million and will be taken from the England allocation for MDRs (Gibraltar is counted in this category).
- Scotland’s Highlands and Islands (Transition Region) would be allocated €172 million (leaving €623 million for Lowlands and Uplands Scotland, an MDR).
- In Wales, the West Wales Less-Developed Regions will receive €1,783 million and East Wales (a More-Developed Region) €361 million.

### 5.2.2 Allocations to ERDF and ESF

The Commission’s proposal to allocate a minimum amount of funding to the European Social Fund is still under discussion among EU institutions. The main concerns for Member States are the ring-fencing of a greater share of funding to the ESF and there are potential difficulties for absorbing funding particularly in Less Developed and Transition Regions.

- **Austria.** Currently, 43.5 percent of Structural Funds go to the 2 ESF OPs in 2007-13. The Austrian authorities consider that a similar division in 2014-20 would most likely be sufficient, although an increase may be required by the new EU rules.

- **Germany.** Federal authorities are working on the assumption that there will be a 50/50 division overall between the ERDF and ESF – although the final outcome will depend on the outcome of the regulatory negotiations. This issue is particularly important in the current Convergence and Phasing-out regions, where overall division is currently 70/30 in favour of the ERDF but would shift to 60/40 in Transition Regions in 2014-20. The issue is less difficult in the RCE regions, where the division in 2007-13 is already 50/50 (compared to a proposed 52/48 split in 2014-20) so there would be no major change in 2014-20. The implications of a shift in weighting from the ERDF to the ESF would be particularly acute in the current Phasing-out regions, where the reduction in overall SF funding is proposed to be particularly strong. The overall cut in funding plus the increase in the share of funds for the ESF would imply that the ERDF alone would have to absorb the cut in funds. There are concerns over

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the economic development implications of a strong shift in funding towards the ESF, partly because demand for some types of ESF intervention is limited due to falling unemployment; and because of the preference for a broad-based policy response in the eastern German Länderr combining investment in education/training and other ESF-type interventions with ERDF-type support (e.g. RTDI, infrastructure, business support) and broader measures (e.g. to encourage appropriate immigration).

- **Poland.** ESF interventions in the Structural Funds are adopted at the level of 20 percent for less developed regions and 45 percent for Mazowieckie. This means that the ESF contribution will be close to the current (2007-13) period.

- **UK.** It is likely that there will be a minimum amount that must be dedicated to the ESF at UK level (about 46 percent) with some flexibility how this is met across the country. The Government recognises that there may be more difficulty absorbing high levels of ESF in less developed and transition regions. In its guidance to Local Enterprise Partnerships, the Government proposes that in Less Developed Regions, the aim should be to dedicate 25 percent as European Social Fund; in Transition Regions 40 percent; and in More Developed Regions 50 percent. It recognises that there may be a need for adjustments if overall the total does not add up to the minimum for the UK, taking account of allocations in Scotland, Wales and Northern Ireland.

### 5.3 European Commission dialogue and guidance

#### 5.3.1 The Commission's Position Papers

In late 2012, the Commission has produced national Position Papers to provide a framework for dialogue with each Member State on the content of the 2014-20 Partnership Agreements and Programmes in advance of the formal negotiations. The Position Papers were sent to the Member States and discussed in bilateral meetings towards the end of 2012, followed by further informal meetings on key themes during 2013. The papers share a common structure and provide the Commission's views on each country's development challenges along with proposals for funding priorities, thematic and specific objectives, and governance recommendations. A comprehensive review of the content of the papers for all EU28 Member States has been published in another EPRC Briefing Paper. The main focus here is on the views of EoRPA Member States.

The **reaction of most countries to their respective Position Paper has generally been positive.** A key perceived benefit for programming is the provision of more clarity on the European Commission's position. Managing authorities welcomed the insight gained into the Commission's thinking and key priorities covering all the relevant Commission DGs (Italy, Poland, United Kingdom). Confirming expectations about shared goals is another perceived positive outcome of the exercise (Netherlands, Poland). In Italy, the dialogue has been constructive and differences of opinion have largely been addressed. In general, the German authorities support the Commission's approach of

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endeavouring to link Structural Funds more strongly with EU-level strategies for economic growth and employment and also of concentrating funds on specific thematic objectives so that funds are not scattered ineffectively (‘watering can’ or *Giesskanne* approach). Similarly, the Commission’s emphasis on a smaller menu of options is welcomed in the United Kingdom, as it is thought that this can deliver more impact than a more diffused approach. Although Austrian policy-makers had initially some concerns when the paper was presented in October 2012, federal authorities now consider the paper to be in line with their own views on the forthcoming programme period.

The Position Papers are seen as providing a useful tool for programming in two main ways. First, the papers have helped to structure the on-going, informal dialogue and bilateral meetings between the Member States and Commission services on key themes. Second, the papers can support the process of domestic debate and programming. In Austria, a consultancy supporting the national authorities in the development the PA provided an in-depth analysis of the Commission Position Paper translating the core funding priorities and thematic/specific objectives into the relevant investment priorities of the draft ERDF, ESF and EAFRD Regulations to ensure coherence. Lastly, the Commission recommendations have been useful in justifying planned changes in regional programmes to beneficiaries, as in Poland where it could be used to support a decision not to support the construction of local roads and sport infrastructure.

Several drawbacks, tensions or inconsistencies were also highlighted. First, there is uncertainty and disagreement about the legal status of the Position Papers. Commission statements and guidance have given the impression that the papers are binding instruments that must be fully taken into account, but this view has been rejected by a number of Member States that see the papers as unbinding guidance, not least because there is no reference to the document in the draft Regulations. The Commission has countered that the purpose of the papers is to open a dialogue and that even if the paper is not referenced in the Regulations it presents the Commission’s position, which must be taken into account in the programming of the Funds.

The administrative workload associated with reviewing and addressing the number of recommendations is a further challenge. This is compounded by the need to take account of other EU-level guidance documents, programming templates as well as the National Reform Programmes. (Moreover, there is a degree of uncertainty in working with guidance documents that are developed in parallel to the informal dialogue with the Member States and that contain elements that depend on the on-going negotiations on the legislative framework.

Turning now to the content of the Position Papers, the main concerns are about the Commission’s analysis of challenges, proposed objectives and targets, and governance arrangements.

- **Development challenges.** The United Kingdom notes that the three key challenges set out in the Position Paper are very broad and some key contributors to growth in some areas are not mentioned (e.g. infrastructure) or are not given enough prominence (e.g. intermediate and higher level skills).

- **Territorial dimension.** A consequence of the thematic organisation of the papers is a lack of sensitivity to territorial specificities or synergies across different domains. For instance, the papers do not sufficiently recognise that the barriers to growth differ across regions, and that policy preferences and local solutions will accordingly differ across countries.
• **Concentration.** While the broad approach taken by the Commission is welcomed in many countries, this does not sit easily with concentration requirements or recognise domestic policy efforts in these themes. The United Kingdom does not plan to support all of the proposed activities as they are not all considered to be a priority for Structural Funds (for example, in England), especially because the Structural Funds represent a modest proportion of domestic expenditure and other channels of funding are available to address some issues. By contrast, German managing authorities note that the Commission is encouraging concentration in the Partnership Agreement (not simply within programmes), which is challenging in a large and economically diverse country.

• **Europe 2020 targets.** The Position Papers list the national Europe 2020 targets included in National Reform programmes, omitting those targets that have not been signed up to by some Member States, as is the case with the United Kingdom position paper (i.e. targets relating to the employment rate, R&D expenditure levels, early school leavers and those engaging in tertiary education). The United Kingdom argues that the Commission must respect this in the negotiation of the Partnership Agreement and programmes.

• **Thematic Objectives.** The Commission has identified what it considers to be the most important Thematic Objectives for each Member State. The main concern is ensuring that the Thematic Objectives are sensitive to Member State needs and challenges. This requires a degree of flexibility with respect to national or regional objectives that may not be included or given sufficient emphasis in the Position Papers. For instance, some of the current Convergence regions in Germany consider that there is still a need for other types of intervention that are not listed within the 11 Thematic Objectives. Another issue concerns the approach to conceptualising the thematic objectives and the underlying logic. Italy argues that it is necessary to examine the thematic objectives within the framework of overarching meta-objectives relating to efficiency and equity. Other specific thematic concerns include:

  o **Information and Communication Technology.** There is a question of funding ICT infrastructures in more-developed regions, where the Commission position (against) does not seem to be in line with recent negotiations at the EU level. The Scottish managing authority finds that the Commission’s recommendations lack regional specificity; e.g. what is stated for the United Kingdom as a whole with regards to ICT provision does not hold for parts of Scotland such as the Highlands and Islands.

  o **Business competitiveness.** The German authorities argued strongly during negotiations on the text of the Structural Funds regulations for changes relating to business aid (i.e. the inclusion of aid for large firms, especially for projects relating to R&D and energy efficiency) and business-oriented infrastructure. Even though these interventions are in principle eligible, it may not be possible to allocate much funding to these types of project due to the Commission’s demand that funding be concentrated strongly on the themes with threshold values and because of the approach taken in the Position Paper.

  o **Low-carbon economy.** While there is a requirement to spend at least 20 percent of ERDF through the low-carbon Thematic Objective, the United Kingdom Position Paper
only encourages investments in sustainable transport under this heading. The Paper suggests investments in renewable energy, which could also contribute to meeting this thematic concentration goal, should sit under the resource efficiency Thematic Objective. This will affect programme planning and needs clarification. Similarly, Greek authorities argue for a broader description of actions under the low-carbon economy theme.

- **Accessibility.** Contrary to the Commission’s view, Finland is keen on including a regional accessibility priority in the programme, albeit limited to Northern and Eastern Finland where population is sparse and distances are long.

- **Transport.** In Poland, the construction of regional roads will continue although the Commission would prefer a focus on railways. In the opinion of the ERDF unit, railways should be supported by central government (although the new ROP will also support railway investment through the purchase of rolling stock through a company owned by the regional government).

- **Social cohesion.** The importance given to the different ESI Funds varies and, in some cases, the ESF themes are considered to be overrepresented (Austria). Contrary to the Commission’s approach during the negotiations of the Regulations, Italy considers that the Commission has taken a more narrow view of social cohesion, restricted to the promotion of employment for disadvantaged groups. Nationally, the Italian view is that social inclusion should be intended more broadly to include various inclusion problems and targeting various groups, e.g. elderly, immigrants, minors, women, child poverty etc.

- **Macro-regional cooperation.** Some Member States consider that there is an overemphasis on macro-regional strategies, such as the Baltic Strategy (Denmark). In a similar vein, the United Kingdom authorities note that coverage of the Atlantic Strategy in the United Kingdom Partnership Agreement should be proportionate to its contribution to domestic economic strategies.

- **Ageing.** Finland agrees with the emphasis placed on the ageing theme in the position paper, but views this as a multifaceted, cross-cutting challenge that must be tackled with a range of measures including those targeted at increasing skills in the workforce and youth unemployment.

The Position Papers also review the future governance arrangements, including proposals relating to: ex-ante conditionality; country-specific recommendations; the programme architecture; coordination arrangements; horizontal principles; partnership; financial management, audit and control; administrative capacity; and monitoring and evaluation.\(^{40}\) The main concerns and issues raised by EoRPA countries are as follows.

- **Conditionality.** The Commission has included a range of ‘general considerations to improve governance and delivery’ under the Thematic Objectives proposed in the papers, which are considered to exceed its competences and provide additional conditions on funding. For example, the United Kingdom authorities note that the recommendations relating to access to

\(^{40}\) For a detailed review, see Mendez et al. (2013) *op. cit.*
publicly funded training and synergies with the Youth on the Move initiative, should not constitute preconditions for approval of the Partnership Agreement and programmes.

- **Country-specific recommendations.** The Commission identified the relevant 2012 Country-specific Recommendations as part of the European semester process, which should provide a strategic reference point for informing the content of the PA and OPs. This is not seen as being problematic in several countries where there is perceived to be complementarity and consistency between the relevant CSRs or the National Reform Programmes and the goals of domestic policies to which SF contribute (Finland, Germany, Netherlands), particularly under the ESF (Germany). The main issue for Italy is that the CSR are directly relevant for Cohesion policy as insisted during the Council negotiations of the Common Provisions Regulation.

- **Regionalisation of OPs.** As noted, the Commission recommends maintaining ESF OPs at the national level for many countries. However, regional councils in France would prefer regionalisation of ESF in its entirety and believe that there is some reticence on the part of the Commission to engage with new actors at the regional level.

- **Number of Intermediate Bodies.** The Commission has encouraged Finland to reduce the number of intermediate bodies and streamline administration. However, the number of intermediate bodies is not seen as being a problem, rather they ensure efficient decision-making and better guidance for beneficiaries. Nevertheless, the managing authority has taken steps to align the administrative processes (e.g. payment process) of different bodies.

- **Project selection.** The Commission has recommended more use of project calls in France, but the national position on this is not clear yet. Opinions are divided as to the usefulness of the calls (which might exclude certain actors) and whether it is better to use both, closed and open calls.

### 5.3.2 The template and guidance on the Partnership Agreement

Another element to support the drafting of the PAs, are the draft template and guidelines on the PA content published by the Commission in January 2013. Modifications were made to take on board Member State comments and a second draft was presented and discussed in March 2013. The guidance is structured according to PA objectives, implementation issues and the integrated approach to territorial development, based on elements set out in the Common Provisions Regulation.

The reception of this document has been mixed. On the positive side, a number of countries consider that the template and guidance provides a useful tool for drafting the PA and/or providing more certainty on Commission expectations (e.g. Austria, Finland, France, Italy, Sweden).

The main criticisms are four-fold. First, it is argued that the template and guidance encourages a formalistic approach and format to the PA based on disaggregated tables, which hinders the ability to present a narrative of the strategy for public communication and dialogue with stakeholders (France, United Kingdom). Along with complaints about the template being too long and making too many demands (Germany, Netherlands), there is a concern that the approach is reinforcing a historical trend towards placing more priority on compliance tasks than on policy content (Austria).
Second and related, there are concerns about the **Commission exceeding its decision-making competences**. There is a concern that the template goes beyond what is foreseen in the regulations (Germany, Netherlands). Related, the Commission’s Position Papers are presented in the PA template as an additional, compulsory legal requirement to take account in programming rather than as guidance documents to facilitate the informal dialogue (Italy).

Third, the **process of distinguishing OP content from PA content has been challenging where the two documents are largely based on the same material**. Within the United Kingdom, authorities in Wales note that there is duplication with the OP template requirements, as the Welsh PA chapter will rely heavily on the content of the final OPs. In the case of Finland, there will be only one national programme for ERDF and ESF, which means that there will be significant overlaps in the Partnership Agreements and the programme. Italy considers that the guidance has too rigid a distinction between the national and regional level, which is inappropriate for multi-level governance contexts.

Finally, there is a **lack of clarity on the PA word limit or guidance on the length of different sections**, which contrasts with the prescriptive approach in the OP template guidance where strict limits are pre-defined in the template (Austria, Finland, United Kingdom).

### 5.4 Added value of Partnership Agreements

A central goal underpinning the regulatory design innovations to the new Partnership Agreements for 2014-20 is to **support a greater strategic orientation to programming**. Although it is still too early to provide a full assessment, the view of some countries is that this goal is being achieved. For instance, in Poland the key programming principles embodied in the PA will be important for ensuring thematic concentration in the programmes and driving the results-orientation linking the programmes more directly to specific indicators. The United Kingdom Partnership Agreement will be a more concrete document than the National Strategic Reference Framework (NSRF). It is intended to be a more practical, useful ‘business plan’ for the United Kingdom than the previous NSRF. Similarly, in Italy the impression is that the PA is viewed more positively than the past NSRF/CSFs because of its more operational and results-oriented nature.

**Another strategic function of the PA is to build consensus around a shared strategy.** French authorities highlight the role of the PA in promoting shared ownership between different actors at different levels based on close cooperation in the development of the document. In Germany, the approach of developing the PA is bottom-up with repeated iteration between the federal and Land levels, as was the case with the NSRF. In the case of the United Kingdom, the PA will be more locally informed than the current NSRF, not least because of the current domestic importance of the local agenda.

Nevertheless, **the main driver of strategic shifts in the thematic content of the PA and programmes are the new thematic concentration obligations** (Germany). In this sense, it is not the PA *per se* that is driving strategic concentration and direction but rather the pre-defined regulatory objectives on spending priorities at EU level.

**Another key goal of the PA is to encourage a more integrated approach to programming across the ESI Funds.** The expectations are largely positive in this respect (Austria, Finland, United
Kingdom). PA consultations have often sought feedback on this issue to support the development of the strategy. At the very least, the definition of the scope of intervention across all ESI Funds in a single national document is likely to improve options to make use of combinations of funding and to allow better information exchange about activities. Arguably more important is the new option to use multi-fund programmes combining the ERDF, ESF and CF, which is being taken up in several countries (see next section). The priority attached to territorial instruments represents a further opportunity to develop a more integrated approach, especially across CF, ERDF and ESF (Poland).

There are other informal arrangements for encouraging integration that are not tied to specific regulatory requirements. For instance, in Germany there seem to be stronger efforts at Land level to find practical means of improving coordination between the four different EU Funds in 2014-20 (ERDF, ESF, EAFRD, EMFF) compared to 2007-13, e.g. via more cooperation between managing authorities, joint ex-ante evaluations, domestic strategic political agreements covering all four Funds, and endeavours to differentiate programme content more clearly. In France, authorities foresee further potential for pooling knowledge on certain aspects of the different funds at the national level and work is underway on the harmonisation of various documents (such as project applications) across the different Funds.

A key challenge to integration relates to specificities of the different ESI Funds which have their own identity, constituencies and focus (France). While there are obvious links between different funds under some priorities, this is not always the case across all priorities or across all ESI Funds.

Rural development coordination in particular is considered to be complicated and challenging (France, Germany, United Kingdom). Efforts to increase rural development coordination are of note in Poland. In the national programme financed by the EAFRD, some activities will be implemented at regional level in cooperation with regional governments, which will increase the level of coordination between activities of the ESF, ERDF and EAFRD in rural areas. For this purpose, a mechanism will be applied to select activities for the programme that are based on specific regional conditions, algorithms, and the allocation of resources between the regions. According to the draft PA, a major consideration in this architecture is the development of more integrated approaches, moving away from ‘sectoral’ thinking.

5.5 Programme Architecture

There are elements of both continuity and change in the programme architecture for 2014-20 across EU countries in terms of the number of programmes, the balance between national and regional programmes and the integration of Funds.

As can be seen in Table 11, a significant reduction in the number of programmes is expected in Austria, Belgium, the Czech Republic, Estonia, Finland, Hungary, Latvia, Lithuania, Romania, Slovenia, UK (England and Scotland). In Austria, there will be a joint Länder ERDF programme, with the current nine Land-level managing authorities continuing to play an important role in programme delivery. The planned 2014-20 model in England includes four single-fund national OPs within a single National Growth Programme (currently there are ten sub-national ERDF OPs in England, and one for each of the other Funds). In Finland, the current five programmes (four ERDF ROPs and one ESF NOP) will be reduced to just one national programme jointly funded by the ERDF and ESF. Rationalisation is also evident in Scotland, where the currently separate ERDF and ESF OPs for
Lowlands and Uplands Scotland and the Highlands and Islands (four OPs in total) are likely to be replaced with one Scotland-wide OP per Fund. Despite the centralisation in the programme architecture in these examples, it is argued that a strong regional and/or local dimension will remain in terms of the design, management and implementation of the strategies.

Elsewhere, the number of programmes is likely to remain broadly unchanged (Belgium, Denmark, France, Germany, Poland, Portugal, Spain, Sweden, UK (Wales)), notwithstanding a reduction in the number of national programmes in some cases (Poland, Spain) or the introduction of integrated programmes combining ERDF and ESF (France, Greece, Poland, Portugal). The continuation of the existing and well-embedded regionalised structure of programmes in most of these countries militates against a substantial change in the number of programmes, especially in countries with federal/regionalised political systems where regional development competences are devolved. As noted, national programmes will be eliminated or reduced in Germany and Spain respectively, but this will not have a major impact on the overall number of programmes which are predominantly regional programmes. By contrast, in Sweden there will be a slight increase in the number of OPs as there will be an additional national OP to complement the existing regional OPs promoting sectoral and programme coordination.

Another distinctive trend for 2014-20 is the introduction of multi-fund programmes, responding to the new voluntary provisions in the draft Regulations (Bulgaria, Croatia, Czech Republic, Estonia, Finland, France, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Slovakia, Slovenia). For instance, a single, jointly funded national programme is being developed in Finland combining the ERDF and ESF. In Italy, the two new national OPs Social Inclusion and Cities will be funded jointly by the ERDF and ESF but it remains to be seen whether the regions will also adopt the multi-fund approach. By contrast, integrated regional programmes will be adopted in France and Poland. In Poland, all 16 regional programmes will integrate the ERDF and ESF. France’s regions are also developing joint ERDF-ESF regional programmes covering 35 percent of the ESF allocation (the remaining 65 percent will be managed through a national ESF OP). The multi-funding option will be used for both national and regional programmes in some cases (Czech Republic, Portugal). In Portugal, provisions have been made for multi-fund NOPs and ROPs for the mainland regions combining the ERDF and ESF (in ROPs) and potentially also the Cohesion Fund (NOPs). In the Czech Republic, a multi-fund ERDF-ESF approach is planned for the single ROP remaining (for Prague), and for the NOP Research, development and education. The main perceived benefits from the use of multi-fund programmes are more effective coordination and integration of territorial development investments (Finland, Greece, Poland, Slovenia).
Table 11: Estimation for the number of OPs

<table>
<thead>
<tr>
<th>Countries</th>
<th>Current number of OPs</th>
<th>TOTAL</th>
<th>Indicative number of OPs for 2014-20</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ERDF(+CF)</td>
<td>ESF</td>
<td>ERDF (+CF)</td>
<td>ERDF+ESF(+CF)</td>
</tr>
<tr>
<td>Austria</td>
<td>9</td>
<td>2</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>Belgium</td>
<td>4</td>
<td>6</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Croatia*</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Cyprus</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>14</td>
<td>3</td>
<td>17</td>
<td>5</td>
</tr>
<tr>
<td>Denmark</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Estonia</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Finland</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>France</td>
<td>31</td>
<td>5</td>
<td>36</td>
<td>4</td>
</tr>
<tr>
<td>Germany</td>
<td>18</td>
<td>18</td>
<td>36</td>
<td>15</td>
</tr>
<tr>
<td>Greece</td>
<td>10</td>
<td>4</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Hungary</td>
<td>13</td>
<td>2</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Ireland</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Italy</td>
<td>28</td>
<td>24</td>
<td>52</td>
<td>28</td>
</tr>
<tr>
<td>Latvia</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Malta</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Poland</td>
<td>20</td>
<td>1</td>
<td>21</td>
<td>5</td>
</tr>
<tr>
<td>Portugal</td>
<td>10</td>
<td>4</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Romania</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Slovakia</td>
<td>9</td>
<td>2</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Spain</td>
<td>23</td>
<td>22</td>
<td>45</td>
<td>21</td>
</tr>
<tr>
<td>Sweden</td>
<td>8</td>
<td>1</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>UK</td>
<td>16</td>
<td>6</td>
<td>22</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>246</td>
<td>117</td>
<td>363</td>
<td>151</td>
</tr>
</tbody>
</table>

**Note:** The total number of programmes does not include Croatia

**Source:** European Commission estimates (at July 2013); Updated information for Austria and Portugal based on EPRC research.
For the remaining countries, **the existing mono-fund approach will be continued** (Austria, Belgium, Cyprus, Denmark, Germany, Greece, Italy, Spain, United Kingdom). Multi-fund OPs will not be used in the United Kingdom, but the four England-wide single-fund OPs will contribute to an overarching national ‘Growth Programme’ and, at the local level, local economic partnerships (LEPs) will receive combined funding allocations made up of different Structural Funds. The main reasons for maintaining mono-fund OPs in Spain is that a shift in the programme architecture would entail additional administrative efforts and potential complications in financial management. Further, other instruments can be used within programmes – such as CLLD or ITIs – to advance the integration agenda (Spain, United Kingdom). There are also domestic political considerations that may explain the choice to maintain mono-fund programmes. In particular, the sectoral structure of public administration and the dispersal of regional policy management competences across ministries can lead to resistance against efforts to integrate programming across different Funds.

### 5.6 Preparation of Operational Programmes

The responsibility for preparing Operational Programmes lies at different levels of government across different Member States. This largely reflects differences in political systems (centralised, regionalised, federal) and whether national programmes are used. Accordingly, in addition to the country-level information collected through EoRPA research, the following review of the preparation and content of the OPs draws on regional information for some EoRPA countries based on research conducted by EPRC under the IQ-Net programme of knowledge exchange among managing authorities.

The draft OPs for 2014-20 are at different stages across countries. Anticipated dates of formal submission to the Commission range from September/October 2013 (or when the Regulations are approved, i.e. Austria, Finland) to March 2014 (United Kingdom). The later date in the case of England is mainly due to the agreement to design locally-driven programmes, based on Local Economic Partnerships, which have to be aggregated first to the national level under the OPs and the PA. In a number of countries there is uncertainty over submission dates, notably where OP development is at an early stage and where the main focus of activity has been on the PAs and on the implementation of the current programmes (e.g. Italy). Progress with the development of the intervention logic and selection of indicators and targets is also variable. As with the development of the PAs, key programming decisions are awaiting agreement on the 2014-20 EU budget and internal negotiations on Cohesion policy allocations, on the package of Cohesion policy Regulations (including the Commission’s Implementing Regulation) as well as domestic strategies (notably relating to smart specialisation). Nevertheless, extensive governmental and public consultation is underway in most countries, as well as the launch of ex-ante evaluations to inform programming.

- **Austria:** The approval of the multi-regional ERDF OP is envisaged for autumn. A number of Länders (Burgenland, Tirol, Vorarlberg) were expecting governmental approval of their inputs in the summer of 2013. For instance in Niederösterreich, a first draft was prepared in May 2013, although there are on-going discussions about streamlining and the inclusion of certain small-scale measures. In Steiermark, preparations for 2014-20 started with the preparation of a programme complement, which sets out practical implementation procedures. The strategic

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directions of the Steiermark part of the programme will follow a strategic document approved by the Land Government in October 2012, which sets out priorities for 2014-20.

- **Finland**: OP preparations for 2014-20 were launched in 2012. The Ministerial Group on Administration and Regional Development outlined issues such as programme structure and regions, intermediary organisations and the role of regional management committees in March 2012 and thematic objectives in September 2012. The Finnish Operational Programme for 2014-20 will build on two regional plans (Northern and Eastern Finland; Western and Southern Finland) prepared by the regions and national themes prepared by the ministries. The final drafts of regional plans and national themes were finalised at the end of January 2013 and the first draft of the OP in March 2013. The ex-ante evaluation of Finnish OP for 2014-20 has progressed and has been closely integrated into the programme preparations. Finland is working towards submitting the OP to the Commission in August 2013.

- **France**: First OP drafts were received between 15 June and 20 July 2013. Some are very advanced, other are less so. The initial absence of financial tables has made it difficult to develop the OPs, especially regarding result indicators. First complete drafts of the OPs were expected by 13 September, including the programme strategy and the thematic structure. These will be transmitted to the COM for informal feedback. Advanced drafts of the OPs will be developed by 15 October 2013.

- **Germany**: The development of the OPs by the German Länder began in 2012. For instance, the Nordrhein-Westfalen Land government cabinet agreed a shared framework in March 2012 for the future programmes, setting out core themes, in line with EU proposals. On the basis of this agreement, the managing authority developed a Key Issues Paper setting out the key themes and issues for discussion relating to the future ERDF OP. An extensive consultation was undertaken with partners on this document during 2012, and then a further strategic paper was presented to the Land cabinet at the end of 2012. There are on-going discussions over the priority axes to be included in the 2014-20 ERDF OP, particularly whether to include a fifth priority axis on environmental issues. Workshops have been organised on three priority axis themes in April/May 2013 with the relevant units in all the Land ministries. The managing authority is using the outcomes of the workshops to develop a first draft of the OP. Parts of the ex-ante evaluation for the Nordrhein-Westfalen ERDF OP have already been completed, namely the socio-economic analysis and the SWOT analysis.

- **Italy**: Most of the preparatory work has focussed on the PA at this stage. The Southern regions have not yet started preparing their programmes as the focus is still very much on the delivery of the current programmes, but some of the Centre-North regions are more advanced. For instance, Tuscany has produced a regional strategic document and Emilia Romagna has also begun its preparations.

- **Netherlands**: The OPs in the Netherlands are being developed by the regions and are at an advanced stage. Four OPs were reported to be 80 percent ready by the summer recess, and have been discussed with the state secretary. Feedback was also provided by the key sectors, universities and employer and employee organisations. A meeting for the final draft is
scheduled for October. The plan was to submit the OPs to the Commission by the end of October.

- **Poland:** The Ministry of Regional Development produced guidelines for OP programming which will serve as a checklist when MRR appraises OP drafts for approval. The regional OPs are being drafted in Spring/Summer 2013 although the process is gradual as work is simultaneously underway on regional development strategies and territorial contracts. The Ministry of Regional Development has held a series of consultations in the regions. More important is the task of identifying key projects from the region which will be included in the PA. These will be proposed by the region and negotiated with the Ministry, reflecting regional specialisms.

- **Sweden:** The Government has authorised the relevant County Administrative Boards, County Councils, municipalities and cooperation bodies to develop a proposal for regional programmes. The proposal for the national programme is developed by Tillväxtverket, Swedish Agency for Economic and Regional Growth, VINNOVA (Swedish Innovation Agency) and the Swedish Research Council. Tillväxtverket is the coordinating authority in the process. The proposal for the national programme will be submitted to the Ministry of Employment, Energy and Communications at the end of September 2013 and to the Commission thereafter, whereas the timetable for the regional programmes remains unclear.

- **United Kingdom.** The drafting of the OPs in England is at an early stage, mainly because it has been agreed that the programme will be more locally-driven. The Local Enterprise Partnership (LEP) based model means that the content of LEP plans (currently under preparation) will first be aggregated to the national chapter of the PA, due to be completed in late 2013. The OPs will then be drafted in early 2014, to be submitted by March 2014. Some work is already underway, e.g. on the thematic priorities. In Scotland, the first steps in establishing the OPs were undertaken in late 2012. A set of three parallel surveys outlined collective priorities for future Structural Funds programmes. A public consultation on the content of the future programmes was launched in May 2013 at a stakeholder event and work on the OPs has progressed over the summer. In Wales, a public consultation process was launched in early 2013 inviting comment on the Welsh Government’s strategy and Structural Funds priorities for 2014-20. Public events were held in various locations in Wales during February and March 2013. The managing authority planned to seek Government approval of the draft OPs in late September, with a view to submitting them to the Commission in October. Ex ante evaluations have also been launched in Scotland and Wales, and an ex ante evaluation of the English ERDF OP is currently being tendered for.

### 5.7 Thematic concentration

There is a formal requirement to concentrate spending on Europe 2020 goals for 2014-20. As required by the ring-fencing provisions in the draft Regulations (illustrated in Table 12), between 50-80 percent of the ERDF must concentrate on the RTDI (TO 1), SME Competitiveness (TO 3) and Low-Carbon Economy (TO 4) Thematic Objectives, with a sliding scale that allows for lower concentration in Less Developed Regions (50 percent) and Transition Regions (60 percent) compared
to More Developed Regions (80 percent). Within these overall limits, further minimum thresholds have been specified for the Low-Carbon Economy Objective: 12 percent for Less Developed Regions, 15 percent for Transition Regions and 20 percent for more-developed regions. By contrast, for the ESF at least 60-80 percent of the fund’s allocation per programme would concentrate on up to 4 Investment Priorities within the 3 Thematic Objectives: Employment (TO8), Social Inclusion (TO 9) and Education, Skills, and Learning (TO 10). Again, there is a sliding scale providing more flexibility to Less Developed and Transition Regions.

Table 12: ERDF and ESF Ring-fencing requirements for 2014-20

<table>
<thead>
<tr>
<th>Thematic Objective</th>
<th>Less Developed</th>
<th>Transition Regions</th>
<th>More Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Innovation</td>
<td>At Least 50 percent ERDF must be spent on these 4 objectives</td>
<td>At Least 60 percent ERDF Fund must be spent on these 4 objectives</td>
<td>At Least 80 percent ERDF must be spent on these 4 objectives</td>
</tr>
<tr>
<td>2. ICT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. SME Competitiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Low Carbon Economy</td>
<td>At Least 12 percent ERDF must be spent on low carbon economy</td>
<td>At Least 15 percent ERDF must be spent on low carbon economy</td>
<td>At Least 20 percent ERDF must be spent on low carbon economy</td>
</tr>
<tr>
<td>5. Climate Change Adaptation and Risk Prevention</td>
<td></td>
<td></td>
<td>No minimum spend</td>
</tr>
<tr>
<td>6. Environmental Protection &amp; resource efficiency</td>
<td></td>
<td></td>
<td>No minimum spend</td>
</tr>
<tr>
<td>7. Sustainable Transport and Network Infrastructure</td>
<td></td>
<td></td>
<td>No minimum spend</td>
</tr>
<tr>
<td>8. Employment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Social Inclusion</td>
<td>At least 60 percent of ESF allocation per programme on up to 4 investment priorities within these 3 thematic objectives</td>
<td>At least 70 percent of ESF allocation per programme on up to 4 investment priorities within these 3 thematic objectives</td>
<td>At least 80 percent of ESF allocation per programme on up to 4 investment priorities within these 3 thematic objectives.</td>
</tr>
<tr>
<td>10. Education, Skills &amp; Lifelong Learning</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This will not necessarily entail a major shift in thematic priorities, notably where the 2007-13 programmes, especially under the RCE Objective, are already strongly focused on these themes. Nevertheless, shifts in spending are expected across and within objectives, notably towards the thematic objectives 1 (RTDI), 3 (SME) and especially 4 (Low-carbon).

- **Research, technological development and innovation (TO 1).** Investment into R&D and innovation will be increased in the United Kingdom, Finland, France, Netherlands and Poland. This responds both to ring-fencing requirements and domestic priorities. In the United
Kingdom, it is accepted that the UK lags on R&D spend, and requires greater priority. The Finnish emphasis on innovation and knowledge development marks a shift from direct business aid to support for business and innovation environment. Interestingly, Poland will include investment in culture under the innovation heading: supporting ‘intelligent projects’ that support creativity, innovation, ICT as well as the development of human capital.

- **SME competitiveness (TO 3).** Higher investments into SME support are envisaged in France. In Austria, Niederösterreich plans to increase funding for consultancy services for start-ups and for SMEs, mainly on environmental themes. By contrast, the proposed share of funding for SME support in the German land Nordrhein-Westfalen is higher than the current allocation (but lower than the ex-ante allocation in 2007-13). Current proposals take account of the fact that demand for SME funding has been lower than expected in 2007-13 because of other sources of SME financing, notably bank lending.

- **Low-carbon economy (TO 4).** The required minimum of 20 percent for low-carbon measures in more-developed and transition regions requires substantial increase to this theme (UK-England, Finland, France, Germany-Sachsen-Anhalt, Sweden). France and the Netherlands are considering going beyond the minimum allocation of 20 percent, in line with national objectives. At least 20 percent will be allocated to the theme in Sweden, comprising a 57 percent of share of the national programme’s total budget and 13 percent of the regional programmes. In Finland, a specific low-carbon Priority is being considered, while England plans to increase the funding for carbon reduction (less so for renewable energy).

Some examples of indicative thematic concentration plans at national and programme level are provided in Table 13, for Austria, Germany (Sachsen-Anhalt) and Poland. In Austria, the ERDF will concentrate on TOs 1, 3 and 4, which fits well with domestic priorities. At sub-national level, the German Länder Sachsen-Anhalt, is introducing an interesting approach to a ‘mixed Priority axis’ in its regional Operational Programme, similar to other German Länder. This Priority axis would bring together funding from a number of different themes in the ERDF OP, i.e. all funding under the TOs 5 (Climate change/risk prevention), 6 (Environmental protection), 7 (Transport), 9 (Social inclusion), and also some funding under TOs 1 (RTDI) and 4 (Low-carbon). This Priority axis would fund a range of themes relating to integrated measures for sustainable urban development (e.g. intelligent transport systems, urban development strategies, electro-mobility, flood protection etc.), with some funding partly channelled through traditional mechanisms, partly through competitive calls and partly through ITIs. Finally, as an example of a Member State with predominantly less-developed regions, Poland will see a greater share of resources allocated to TOs 1, 4 and 8 compared to 2007-13.
Table 13: Indicative allocations to objectives in Austria, Poland and Sachsen-Anhalt (%)

<table>
<thead>
<tr>
<th>Thematic Objective</th>
<th>Austria</th>
<th>Germany – Sachsen-Anhalt</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ERDF</td>
<td>ESF</td>
<td>ERDF, ESF and CF</td>
</tr>
<tr>
<td>1 R&amp;D and innovation</td>
<td>50-60</td>
<td>27.5</td>
<td>15.4-19</td>
</tr>
<tr>
<td>2 ICT</td>
<td>10.0</td>
<td>25.0</td>
<td>4.7-6.2</td>
</tr>
<tr>
<td>3 SME competitiveness</td>
<td>15-20</td>
<td>22.0</td>
<td>2-5.4</td>
</tr>
<tr>
<td>4 Reducing CO₂</td>
<td>20-25</td>
<td>22.0</td>
<td>4.8-9.3</td>
</tr>
<tr>
<td>5 Climate change</td>
<td>3.7</td>
<td>1.3</td>
<td>1.3-2</td>
</tr>
<tr>
<td>6. Environment and resource efficiency</td>
<td>&lt;5</td>
<td>4.7</td>
<td>9.9-12.4</td>
</tr>
<tr>
<td>7 Transport and network infrastructure</td>
<td>1.0</td>
<td>28.63-32.3</td>
<td></td>
</tr>
<tr>
<td>8 Employment</td>
<td>50-60</td>
<td>23.0</td>
<td></td>
</tr>
<tr>
<td>9 Social inclusion and poverty</td>
<td>&lt;5</td>
<td>0.1</td>
<td>4.4-5.6</td>
</tr>
<tr>
<td>10 Education, skills and life-long learning</td>
<td>20-25</td>
<td>50.0</td>
<td>6.5-8.2</td>
</tr>
<tr>
<td>11 Institutional capacity</td>
<td>&lt;5</td>
<td>&lt;5</td>
<td>1.3-1.5</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>4.0</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


Other notable shifts or developments within/across thematic objectives include:

- **ICT.** Despite the efforts of the Commission to exclude ICT spending in more developed countries, France will continue placing considerable effort into the ICT theme, largely driven by the national target to reach a 100 percent high-speed broadband coverage within the next ten years.

- **Environmental protection and risk prevention.** In Germany, Sachsen-Anhalt will increase funding for environmental measures more widely. Flood protection will not receive any funding anymore in Niederösterreich (Austria) and only under special conditions in Wales (United Kingdom).

- **Infrastructure.** Some programme managers expect to witness a large decline in infrastructure support (e.g. Niederösterreich, Poland, Sachsen-Anhalt). Wales foresees the need to continue to invest in infrastructure where possible. In Finland, there will be some transport investment to increase regional accessibility for Eastern and Northern Finland, but traditional infrastructure projects, such as water management project, are no longer eligible.

- **Local and urban development.** In France, 10 percent of the ERDF-ESF envelope will be allocated to ‘sensitive urban zones’ at the level of each OP. The emphasis on metropolitan cities in Italy will increase through a dedicated national programme. By contrast, urban development will no longer be supported in Niederösterreich, although other Länder will contribute to the ring-fenced five percent for urban development (especially Vienna).
• **Education, skills and learning.** Increased support to education support is expected in England, France and Scotland. Particular priority on vocational training is anticipated in Denmark and on higher level skills in England and Scotland.

• **Social inclusion.** Increased priority and spending is anticipated in Denmark, Finland and Italy.

### 5.8 Programme management

Changes and adaptation to programme management and implementation structures will be needed across all EU Member States to deal with the new regulatory requirements, i.e. on financial management and control, data exchange and the performance framework and reserve. There are also changes planned in the allocation of Cohesion policy competences across different levels of governance in response to shifts in the policy architecture and political priorities.

**Centralisation of programme management** and delivery is taking place in several cases because of change in the programme architecture, efficiency considerations and coordination goals.

- **Finland:** the replacement of regional programmes with a single national programme implies greater centralisation, mainly in response to cost-effectiveness reasons and the pursuit of better coordination across the ERDF and ESF. That said, it has also been decided to strengthen the roles of the Regional Councils and of the Regional Management Committees.

- **Italy:** there will not be centralisation as such, as the regional OPs will be maintained and managed regionally, but the PA is foreseeing much stronger central coordination to be entrusted to the Department for Development and Economic Cohesion. The Department will be transformed into an 'Agency for Territorial Cohesion’ in 2014, tasked with monitoring the Cohesion policy implementation and supporting the management and implementation authorities, including the ability to take over the role of Managing Authority where there are serious shortcomings and delays.

- **Netherlands:** there has been some discussion on whether the number of MAs should be maintained (at 4) or reduced/centralised. A decision was made to maintain the current number of MAs but to centralise back office functions such as: audit, definitions, application processes, IT systems, finance.

By contrast, **decentralisation of programme management** and delivery is taking place in Poland, France and the United Kingdom.

- **France.** Structural Funds will be decentralised to a significant extent. This applies mostly to ERDF, which will be fully decentralised (apart from a Technical Assistance envelope to be maintained at the national level), including the management of the four interregional OPs (river basins and mountainous areas). The management of EAFRD will also be decentralised, although a significant part of the funding will be allocated automatically to measures initiated by the State. The regions were also keen to obtain ESF management in its entirety, but it was
decided that 65 percent of ESF would remain in the hands of the central State (to be used to fund short-term training for unemployed), leaving 35 percent to the regions. Nevertheless, half of the State envelope will be effectively managed by sub-regional local authorities (conseils généraux) based on delegation.

- **Poland.** The ongoing decentralization of the Cohesion policy implementation system means a much larger role in managing and implementing programmes at the regional level. Larger pool of funds allocated to the regional level will mean greater responsibility for their decisions and actions implemented. Additionally, responsibility for certification in the ROPs will move from regional state offices to regional self-governments that are managing authorities for the ROPs (in order to ensure separation of functions, Certifying Authorities will be located in regional government units outside of MA competences).

- **United Kingdom.** In England, there will be decentralisation of the Structural Funds (ERDF and ESF) to sub-national bodies, leaving less than five percent to be directly managed at national level (compared to 50 percent at present). While programme management tasks (i.e. managing authority function) have been centralised during this programme period (although still sub-nationally located) and will be maintained in 2014-20, priority setting and project selection is to some extent being decentralised to new bodies at local level in response to the new local agenda. Local Enterprise Partnerships will play a role, although national managing authorities will continue to undertake the technical appraisal of projects and carry out final decision-making through Area Growth Teams located in their sub-national offices. The LEPs have some capacity concerns about their future role, as they vary widely in terms of staff numbers, experience and resources.

Another trend in some countries is a **significant reduction in the number of intermediate and implementing bodies** (e.g. Austria, Germany). As an example, at regional level in Austria, Niederösterreich plans to reduce its Land-level intermediate bodies to just one. While there will still be four federal Intermediate Bodies, the Land Government department WST3, will be the only remaining intermediate body for ERDF funding in Niederösterreich. At the same time, the managing authority will try to increase its number of staff. Similarly, the German Land of Nordrhein-Westfalen also plans a significant reduction in the number of bodies involved in the delivery of the ERDF and is proposing that a single unit in each sectoral Land ministry could be designated formally as an intermediate body responsible for ensuring that all other units in that ministry accessing ERDF resources implement the appropriate procedures. Finland was also considering reducing the number of intermediate bodies to increase administrative efficiency, but because municipal financing will be increasingly important due to the reduced national budget, this is not possible.

Finally, **more consideration will need to be given to performance management issues** due to the renewed emphasis on the results orientation. The starting point is programming. In particular, the Commission is expecting the programmes to include more clearly specified objectives, intervention logics and results targets. In Italy, the change of approach is perceived to be ‘radical’ in terms of beginning with expected outcomes, before considering choices of actions to achieve the outcomes, and thereafter the necessary financial resources. This is considered to be a reversal in the programming logic compared to previous programme periods and has been incorporated into the national guidance alongside a number other principles to encourage a stronger performance
A new dawn for Cohesion policy? The emerging budgetary and policy directions for 2014-20

orientation (Box 2). Similarly, Netherlands consider this to be a ‘conceptual step change’ requiring substantial change in some regions, although the national Ministry is providing support on this to regions. Work began in 2011 with technical sessions on performance, intervention logic and indicators. Meetings with the Commission’s evaluation unit have also been held in various countries over the past year or two. In Finland, the possibilities that the intervention logic approach provides for finding a clear focus (and link between objectives and measures) for the programme have not been fully realised to date and could facilitate a more rigorous and focused programme. While the intervention logic or targets had not yet been formulated in the UK (England), the preliminary guidance distinguishes several steps for Local Enterprise Partnership to follow: (1) where are we now? (2 and 3) What is the need at sub-national level in the thematic area and what do we want to change? (4) What indicator will capture and measure that change? (5) What we set out to achieve and by when? In Austria, ÖROK is carrying out a project that should help to translate the new requirements with regard to results-orientation into the Austrian context. Austria’s approach to the increased performance orientation is to avoid competition between programmes and Funds. Due to the Austrian programme architecture - one single national OP for ERDF, ESF, EAFRD and EMFF, although Burgenland may continue with its own ESF OP - performance will be measured and assessed separately for each Fund (and OP).

Box 2: Methods and Objectives for an effective use of EU Funds in Italy, 2014-20

1. Results-orientation: clear identification of the achievements to be realised, e.g. ‘increased number of researchers within firms’, ‘reduced energy unit cost for firms’, ‘increase of the number of people who use public transport etc.

2. Actions: identification of actions capable of delivering the anticipated results, e.g. for the goal of increasing the number of researchers within firms, actions such as incentives for the employment of researchers within firms and the organisation of events where researchers and firms meet.

3. Timetable: to pay attention to the delivery timetable of projects and the timetable profile of the programme as a whole, e.g. balancing out briefer and longer actions. This also includes a better ex ante appreciation of the financial circuit of each programme and fund, for instance through the use of timetables/road maps (and ensuring, in contrast with current practice, that the expenditure claims are sent to Brussels by September each year in order to be paid by the financial year).

4. Strengthened partnership: to involve partners in the definition of calls for tenders; to extend the partnership to all actors that may bring knowledge to the process; and to increase transparency and dissemination of evaluation.

5. Transparency: openness and inter-operability of data on all information pertaining to the policy (financial data and results achieved) (the project ‘Open Coesione’); project-based monitoring system operating for all programmes across the country, feeding the Open Coesione database; systematic use of monitoring visits undertaken in the early phases of project delivery (outcomes made public).

6. Evaluation: priority to impact evaluation focussed on the effects on quality of life and opportunities for firms. Key questions: to what extent has the programme delivered its promises? To what extent has the programme been the driver for the results observed, compared to other intervening variables?

7. National oversight: Identification of general lines of direction and rules which cannot be negotiated; strategic co-project design initiatives launched by the central state; transformation of the DPS in an agency (de facto or de jure); increased role in the management of programmes by central state actors.

6. CONCLUSIONS

This report has provided a review and assessment of the EU Budgetary and Cohesion policy reform developments over the past year and the preparations for the 2014-20 period. This concluding section draws out key themes to emerge and implications for the future of Cohesion policy in the new period and beyond.

6.1 Allocating funding to regions and programmes

The European Council agreement on the long-term EU budget for 2014-20 contained some significant changes in EU spending, but some elements of continuity also. The European Parliament is due to vote shortly on the MFF, but it is unlikely to make significant changes to the headline figures as it already endorsed these in an earlier ‘political agreement’ in July 2013. For Cohesion policy, there is now some certainty on national allocations for 2014-20. In late August 2013, DG Regio made public these indicative Cohesion policy allocations for each Member State and category of region.

Comparing the 2014-20 allocations with the current allocations reveals marked shifts across EU Member States. Although the overall Cohesion policy budget falls, in six countries there is an increase in funding, with Ireland gaining the most in relative terms with a 16 percent increase on current allocations. However, in absolute terms this is rather modest. By contrast, three countries gain significantly in absolute terms: in Poland allocations increase by €3.7 billion, while those in Romania increase by €2 billion and those in Slovakia by €1.2 billion. At the opposite end of the spectrum, there are very significant reductions in expenditure both in absolute and relative terms in a number of countries. These include Spain and Germany which each lose in excess of €9 billion in Cohesion policy receipts, equivalent to well over a quarter of their current allocations. It is also noteworthy that Greece and Hungary also see major reduction in their allocations, even though these two countries did well from the negotiations. A key question is how these shifts will be managed internally within Member States.

6.2 Improving the performance of Cohesion policy

With the budgetary and regulatory negotiations on Cohesion reaching their conclusion at EU level, all Member States are now firmly focused on strategic planning for European Structural and Investment Funds in 2014-20. National and regional authorities have been developing their new Partnership Agreements (PAs) and Operational Programmes (OPs) and engaging in discussions with the European Commission, prior to submission of formal PAs towards the end of 2013 in most cases. There is evidence of closer strategic alignment across ESI Funds and with Europe 2020 themes, the latter being driven largely by the thematic concentration requirements. Major changes in the programme architecture are also expected in several Member States involving a considerable reduction in the number of programmes and the use of multi-fund programmes.

The new requirements for 2014-20 envisage a stronger performance orientation involving more clearly specified objectives, intervention logics and results targets. Conditionality provisions aim to ensure that the pre-conditions for effective implementation of the Funds are put into place, while the new performance framework and reserve would provide incentives to reward the achievement of targets and sanctions for under-achievement. Accountability at EU level should be reinforced by
requiring the Council of Ministers to discuss the implementation and results of the CSF funds every two years.

In introducing these changes, the draft regulatory framework responds to the findings of evaluation research and criticisms of Cohesion policy by placing a greater emphasis on performance. The requirement for conditionalities seeks to address the problem that the effectiveness of Cohesion policy interventions are undermined by deficiencies in the policy or institutional contexts. The focus on results is a consequence of the poorly framed and over-ambitious objectives of previous programmes that have given insufficient attention to the outcomes of interventions. And the enhanced performance framework responds to the lack of accurate and reliable monitoring data for assessing the progress and performance of programmes, and gives a higher profile to reporting.

The question is whether the spirit as well as the letter of the new regulatory requirements will be met in practice. While there is evidence of increased attention to these issues in some countries, it remains to be seen whether a qualitative shift in the performance orientation will be achieved and delivered on the ground. Over the 2012-13 period there was evidence that managing authorities were slow to appreciate the changed context for programming and there has been considerable uncertainty regarding how to implement some of the expected changes in practice.

Continuing the trend since the start of the 2000s, the regulatory framework for the 2014-20 period will see enhanced conditions and expectations placed on those responsible for managing and implementing the Funds in the Member States. Managing authorities and implementing bodies are under pressure:

- to improve absorption and ensure *faster spending* through the decommitment rule
- to ensure *greater regularity in spending* to reduce the error rate;
- to implement the Funds through more *targeted spending*, currently through the earmarking requirement and in 2014-20 through thematic concentration and more strategic projects; and
- to deliver *more effective spending*, through the results orientation and enhanced performance framework.

Research on the use of conditions and conditionalities in public policy has warned of the difficulty of enforcing multiple requirements in framing agreements between levels of government and delivering interventions. In a Cohesion policy context, for example, it has been noted that the pressure to spend has sometimes ‘distorted’ project selection decisions away from risky or innovative projects which might be better suited to meeting programme objectives. Equally, it could be argued that concentrating resources on a smaller number and types of projects will allow better projects to be selected and more time to be invested in ensuring that they meet objectives on time and in line with regulatory requirements.

### 6.3 Implementing the ‘territorial dimension’ of Cohesion policy

The most tangible innovation with respect to the territorial dimension is the reinforced sub-regional or local agenda through the new provisions on Community-Led Local Development (CLLD), Integrated...
Territorial Investments (ITIs) and sustainable urban development. There appears to be general support in principle for an ‘integrated approach to territorial development’ and many managing authorities have welcomed the option of using CLLD and ITIs. However, the degree to which these options will be used in practice is still unclear. There are reservations, for example, with the use of CLLD because of perceived administrative burdens or the lack of local capacity. There appears to be more interest in ITIs (e.g. in Belgium, the Czech Republic, Finland, Poland and Spain) for specific themes or types of area, but the administrative implications are still being worked through in many cases. Lastly, the increased focus on urban development has also gained widespread support (though not necessarily the prescriptiveness of the original Commission proposals) and fits with the territorial focus on urban centres in several national regional policies.

6.4 Assessing the implications of economic governance changes for Cohesion policy

Looking forward, there are some radical developments in the EU’s economic governance agenda with potentially profound implications for the rationale of Cohesion policy, notably the mounting pressure to move towards a Genuine Economic and Monetary Union involving a more integrated financial, budgetary and economic policy framework. Tighter fiscal discipline on Member States could affect their capacity to co-finance Cohesion Policy, especially in countries with large Cohesion allocations and public expenditure constraints, while the proposals for a new fiscal capacity at EU level through a Convergence and Competitiveness Instrument may overlap with Cohesion Policy. Moreover, in using Cohesion policy as an economic governance tool to implement wider EU objectives, notably through macroeconomic conditionality and in supporting the implementation of Country-specific Recommendations, the policy’s traditional Treaty commitment to cohesion and the reduction of regional disparities is arguably being weakened.