PLANNING FOR THE FUTURE WHILE MAINTAINING FOCUS ON SPENDING

REVIEW OF PROGRAMME IMPLEMENTATION WINTER 2011 – SPRING 2012

IQ-Net Review Paper No. 30(1)

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Improving the Quality of
Structural Funds Programme Management
Through Exchange of Experience

32nd IQ-Net Conference (Phase V)

Tampere, Finland, 18-20 June 2012

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June 2012

PREFACE

The research for this paper was undertaken by EPRC in preparation for the 32nd IQ-Net meeting held in Tampere, Finland on 18-20 June 2012. The paper was written by Stefan Kah.

The paper is the product of desk research and fieldwork visits during Spring 2012 to national and regional authorities in EU Member States (notably partners in the IQ-Net Consortium). The field research team comprised:

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EPRC thanks all those respondents from national and regional authorities and other organisations who participated in the research. EPRC also gratefully acknowledges the financial support provided by participating Member States and regions, whose contributions are co-financed by technical assistance from the European Structural Funds. The author is also grateful for helpful advice and feedback on earlier drafts of this paper from the IQ-Net research team, especially John Bachtler, and for support with the formatting of the paper from Alyson Ross. The report is, however, the responsibility of the author alone.

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

Austria

- State Government of Niederösterreich (Lower Austria), Economic and Tourism Department
- State Government of Steiermark (Styria), Economic Policy Department

Belgium

- Enterprise Flanders Agency

Czech Republic

- Ministry for Regional Development

Denmark

- Danish Business Authority

Finland

- Alliance of Länsi-Suomi (Western Finland) and the Ministry of Employment and the Economy

France

- Délégation interministérielle à l'aménagement du territoire et à l'attractivité régionale (DATAR, Interministerial Delegation of Territorial Development and Regional Attractiveness)

Germany

- Nordrhein-Westfalen (North Rhine-Westphalia), Ministry of Economy, SMEs and Energy, EU Affairs Unit
- Sachsen-Anhalt (Saxony-Anhalt), Ministry of Finance

Greece

- Management Organisation Unit of Development Programmes S.A.

Italy

- Ministry of Economic Development and Promuovi Italia SpA

Poland

- Śląskie Voivodeship (Marshal's Office of Silesia)

Portugal

- Financial Institute for Regional Development (IFDR)

Spain

- País Vasco (Basque Country), Provincial Council of Bizkaia, Department of Economy and Finance

Slovenia

- Ministry of Economic Development and Technology, EU Cohesion Policy Directorate

United Kingdom

- Department of Communities and Local Government
- Scottish Government
- Welsh European Funding Office

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To cite this paper, please use the following: Kah S (2012) Planning for the future while maintaining focus on spending: Review of Programme Implementation, Winter 2011 – Spring 2012, *IQ-Net Review Paper* 30(1), European Policies Research Centre, University of Strathclyde, Glasgow.

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MAIN FINDINGS

- **The rate of financial implementation has improved** across the EU27, with the average payments rate now at 37.4 percent (May 2012). The absorption rate is slightly higher for ESF (40.8 percent) than ERDF (38.2 percent). The payment rate for the Cohesion Fund is 31.4 percent. Yet, there are wide variations between countries, ranging from a total absorption rate of 55.6 percent in Ireland to 19.5 percent in Romania.

- **In most IQ-Net programmes, financial progress in IQ-Net programmes can be considered to be satisfactory**. Commitments are usually beyond 50 percent and figures reach 100 percent in some cases.

- **Most programme authorities are not expecting any issues with decommitment in the short-term**, but issues with n+2(3) might arise in the future, when funding committed during the peak of the economic crisis will have to be spent.

- There have **not been any major changes to implementation structures and procedures** in most IQ-Net partner programmes. A notable exception is England, where the structures have been changed fundamentally.

- **Domestic audit authorities and EU-level bodies continued to carry out audits**, which led to **interruption of payments in several cases**. The main issues of concern continue to be public procurement and eligibility of expenditure.

- **Good progress has been made with financial engineering instruments** and there have been moves to establish new financial engineering instruments, both in the current and the future programme period.

- **IQ-Net programme authorities have continued their evaluation efforts**, and results will not only feed into the Strategic Reports 2012, but also into the programming process for 2014-20.

- **Preparations for the Strategic Reports 2012 have started in most IQ-Net countries**. Member States will build on the experiences made in 2009 to write a more concise report, often adopting a specific focus and using synergies with other regulatory requirements.

- Although **preparations for closure have not started yet** in many IQ-Net programmes, some have undertaken first preparatory steps.

- Looking at the 2014-20 delivery framework, the **Common Strategic Framework (CSF) is welcomed by many IQ-Net programme authorities**, but its role should be a soft one.

- **Performance reserve, conditionalities and the administrative effort** remain at the centre of criticisms.

- **The proposed Thematic Objectives are welcome**, but there is a debate between thematic concentration and flexibility to adjust to regional needs.

- **A strengthened local agenda is welcomed**, but there are concerns about the managing capacities of local-level authorities. Community-led Local Development (CLLD) and Integrated Territorial Investments (ITIs) are seen as potentially useful instruments. With regard to an urban development platform, the usefulness of a forum to promote capacity building and to exchange experiences is acknowledged, but many regard existing networking opportunities are sufficient.

- **Looking at preparations for 2014-20, most IQ-Net countries and regions have made considerable progress**. Frequently, working groups have been set up both at the national and sub-national levels, and studies and evaluations form the basis for planning in many cases.

- **Preparations are influenced by the austerity measures** in several countries, and thematic concentration of funding is likely to be necessary. An important issue for many IQ-Net programme authorities is the **availability of future co-financing** and as a consequence there are plans to focus more on financial instruments.

- **Simplification of implementation arrangements remains an important concern** and regions are looking for simpler implementation structures and procedures. In several countries, a reduction in the number programmes is planned.

PLANNING FOR THE FUTURE WHILE MAINTAINING FOCUS ON SPENDING REVIEW OF PROGRAMME IMPLEMENTATION WINTER 2011 – SPRING 2012

1. INTRODUCTION

With the launch of the 2014-20 programme period in less than two years, Member States are increasingly working on the preparation of their strategic documents and implementation frameworks. At the same time, the delivery of current programmes continues to present its challenges. This is not least due to the effects of the economic crisis and the related strains on public budgets, but also due to a series of regulatory issues. Although lagging financial absorption is of concern to several Member States, the progress in financial implementation since the last IQ-Net stock-take of programme progress in Autumn 2011[1] has been substantial. Programme managers are aware that there is only about 18 months to go until the end of the current programme period. There is also the important requirement to prepare another strategic report.

The aim of this paper is to review recent developments in the implementation of the 2007-13 programmes, while also looking at preparations for the 2014-20 funding period. It draws on a mix of desk research and interviews with staff working on the implementation of Structural Funds programmes in the 15 Member States where managing authorities and programme secretariats are partners in IQ-Net. The surveyed programmes collectively account for about one-third of Cohesion policy spending and encompass a mix of Convergence, Regional Competitiveness & Employment, and Phasing-In/Out regions. The desk-based research has focused on EU-level and programme documents, including financial performance and monitoring data. Interviews were conducted with managing authorities, programme secretariats and national coordination bodies.

The paper is divided into two parts, focusing on the 2007-13 programme period, and proposals and preparations for 2014-20 respectively. Section 2 begins with a review of the state-of-play of the 2007-13 programmes, looking at progress with absorption in the EU27 and across the IQ-Net partner programmes. This is followed by a review of selected new developments in programme management: general implementation structures and procedures; audit activity; financial engineering instruments; and evaluation. Also, a first look is taken at the stage of preparations for the Strategic Reports 2012 and for the closure of current programmes. Section 3 turns to the 2014-20 programme period. It begins by gathering the views of IQ-Net partner authorities on the proposed implementation framework, with a focus on the Common Strategic Framework, thematic concentration and the move towards a reinforced Local Agenda. It then provides an overview of how IQ-Net programme authorities are preparing for the 2014-20 programme period. It looks at general progress, tools, responses to tightened public budgets and, finally, likely organisational and administrative changes. Section 4 concludes the paper with some overall observations on the recent period of programme management activity.

[1] Kah S (2011), A snapshot of the present and a glimpse of the future of Cohesion policy: Review of programme implementation – Summer-Autumn 2011, *IQ-Net Review Paper, 29(1)*, Glasgow, pp. 18-19.

2. THE CURRENT 2007-13 PROGRAMME PERIOD

2.1 Financial progress

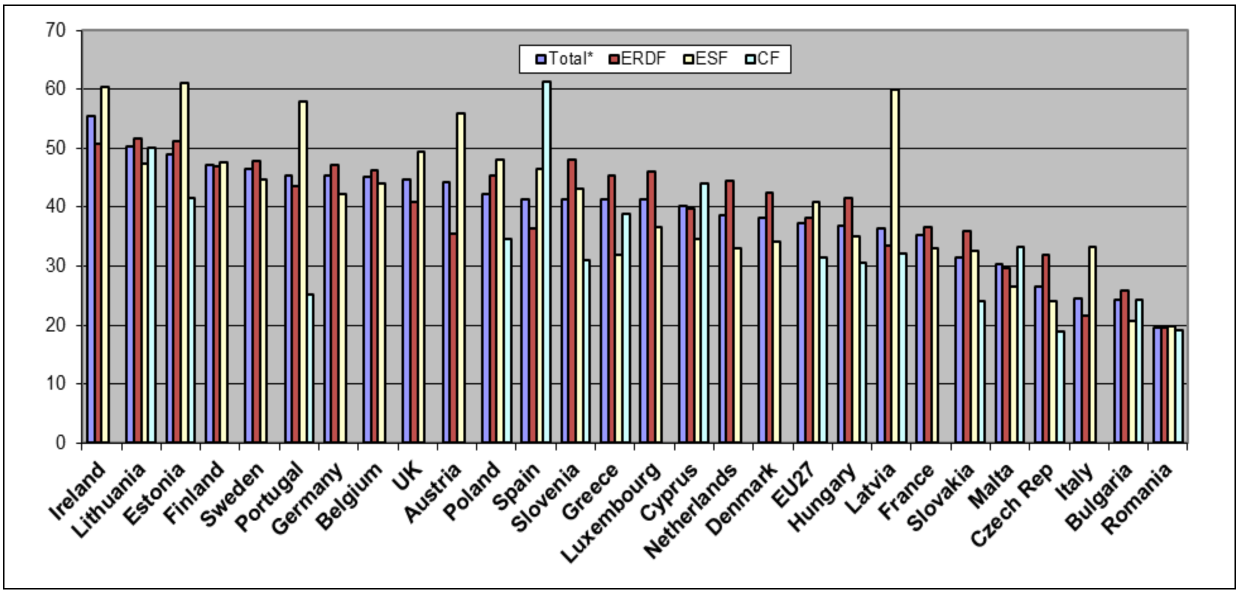
2.1.1 Financial implementation in the EU27

Over the last six months, financial absorption in the EU27 made significant progress in most cases. After increases of about five percentage points every six months since 2010, payments have increased by 7.1 percentage points from 30.3 percent in November 2011 to 37.4 percent (23 May 2012). However, as Figure 1 shows, there are marked differences between Member States and Funds. In May 2012:

- the highest overall payments were reported for Ireland (55.6 percent), Lithuania (50.4 percent) and Estonia (49.1 percent);
- the lowest rates continue to be found in Italy, Bulgaria and Romania, with the latter still below 20 percent;
- there have been very significant increases in some countries, e.g. in Ireland (17.3 percentage points), Luxembourg (15.7 percentage points) and Belgium (15 percentage points). Yet, in other countries the progress has been comparatively slow, e.g. 2.7 percentage points in the Czech Republic and 0.9 percentage in Latvia.

In terms of individual Funds, payments are most advanced for the ESF (40.8 percent), followed by ERDF (38.2 percent), while payments for the Cohesion Fund are behind at 31.4 percent. Particularly high rates can be found for the ESF in Estonia (61.1 percent), Ireland (60.4 percent) and Latvia (60 percent), while Cohesion Fund payments are well above average in Spain (61 percent).

Figure 1: Structural Funds payments in 2007-13 (23 May 2012)



Source: Commission data from 23 May 2012
Note: EU27 excludes EU cross-border cooperation and Interregional cooperation programmes.

2.1.2 Financial progress in IQ-Net partner programmes

With the programme period now well into its sixth year, commitments are beyond 50 percent in all IQ-Net programmes and figures are as high as 92 percent in Vlaanderen or 98 percent in the Latvian ESF OP. Some Priorities have even been overcommitted, as, for instance, Priority 2 'Innovation and the knowledge-based economy' in Sachsen-Anhalt. Yet, payments are sometimes comparatively slow in spite of high commitment figures. This is not least due to payment interruptions following audit issues (see Section 2.2.2). However, overall, financial progress in IQ-Net programmes can be considered to be satisfactory in most cases.

- **Austria (Niederösterreich, Steiermark)**. Financial progress in both Austrian programmes continues to be satisfactory, in spite of recently suspended payments. In Niederösterreich, commitments increased to 62 percent and payments to 33 percent (10 April 2012). At measure-level, commitment figures vary between 44 percent (innovative tourism) and 89 percent (environment, energy efficiency and renewable energy). In Steiermark, commitments stand at 67 percent and payments at 31 percent (10 April 2012). Funding for environmental measures has already been fully committed. In terms of payments, the measure for R&D in businesses is lagging behind at nine percent.

- **Belgium (Vlaanderen)**. Payments increased by 4.6 percentage points to more than 41 percent and commitments increased by 1.6 percentage points to more than 92 percent (14 March 2012). While Priorities 1, 2 and 3 all report commitment rates beyond 95 percent, Priority 4 (urban development) has been slightly less successful at 75 percent. However, the picture is different in terms of payments, where the highest value is found for Priority 3 (improving the economic restructuring/spatial planning environment), which stands at 52 percent and the lowest for Priority 2 (entrepreneurship) at 24 percent.

- **Czech Republic**. At the national level there were only minor steps forward in terms of financial progress. The overall commitment rate increased only by 3.5 percentage point to 73 percent and payments are at 41 percent (7 March 2012). Yet, payment rates differ widely and range from 71 percent in Transport OP to 21 percent in the Integrated OP. While commitments are average for the Integrated OP (73 percent), only 15 percent of expenditure has been certified. Measures 3.1 (social integration) and 3.3 (services in employment) remain the most challenging, with which commitments still only at 14 percent (payments at 1.7 percent) and 34 percent (payments at 0.7 percent) respectively.

- **Denmark**. Progress with implementation is generally satisfactory in Denmark. Commitments in ESF (67 percent) are lower than ERDF (79 percent), as are payments, which stood at 25 percent for ESF and 35 percent for ERDF (30 September 2011). However, there is some regional variation in terms of payment, which ranged from 21 percent (Bornholm) to 51 percent (Nordjylland) in ERDF and from 13 percent (Syddanmark) to 48 percent (Bornholm) in ESF.

- **Finland (Länsi-Suomi)**. Financial absorption in Länsi-Suomi is progressing well. Commitments in ERDF (72 percent) and ESF (74 percent) are close to the national average of 76 and 74 respectively (16 April 2012). The same is the case with payments, which increased significantly over the last six months to 40 percent in ERDF and 45 percent in ESF.

Yet, there are regional differences within the Länsi-Suomi programme, with Keski-Suomi and Satakunta being most advanced.

- **France**. Overall, commitment rates for ERDF programmes under the RCE Objective for 2012 are good, standing at almost 67 percent, while payments are lagging behind at 27 percent of EU funding (1 April 2012). There is some variation at the regional level, with commitments between 56 percent (Champagne-Ardenne) and 77 percent (Rhône-Alpes) and payments between 21 percent (Nord-Pas de Calais) and 39 percent (Rhône-Alpes). Under regional ESF programmes of the RCE Objective, figures are higher for commitments (78 percent) and similar for payments (29 percent). In the Convergence regions, ERDF commitments are at 59 percent and payments at 25 percent, while ESF commitments are at 70 percent and payments lagging behind at 14 percent.

- **Germany (Nordrhein-Westfalen, Sachsen-Anhalt)**. The ERDF OP in Nordrhein-Westfalen had committed 85 percent of funds by spring 2012 (13 April 2012). Commitment rates are stronger for Priority 2 (Innovation and the knowledge-based economy) than for Priority 1 (Strengthening the business base) or Priority 3 (Sustainable urban and regional development), standing at 101 percent for Priority 2 by early November 2011, compared to 38 percent for Priority 1 and 65 percent for Priority 3. In Sachsen-Anhalt, financial absorption is good for the ERDF OP and broadly satisfactory for the ESF OP. The ERDF commitment rate was 77 percent by February 2012, and the payment rate was 52 percent. The ESF commitment rate in February 2012 was 58 percent and the payment rate was 36 percent.

- **Greece**. With commitments at NSRF level above 63 percent and payments at 34 percent, financial progress is deemed to be satisfactory (31 March 2012). However, financial performance differs widely between programmes. Although regional OPs continue to perform generally better than the national average there is considerable variation at the regional level, with commitments ranging from 50 percent (Attikí) to 95 percent (Thessalía-Sterea Ellada-Epeiros) and payments between 31 percent (Attikí) and 53 percent (Thessalía-Sterea Ellada-Epeiros). In contrast, figures are lower for sectoral OPs; the Digital Convergence OP and the Reinforcement of Public Administration Efficiency OP have the lowest commitment (31 percent and 26 percent respectively) and absorption rates (22 percent and 11 percent respectively). Amongst the sectoral programmes the absorption is significant for the Competitiveness and Entrepreneurship OP which includes the State aid actions for support to the SMEs, R&D and energy saving measures. Commitments for this OP stand at 95 percent and payments at 60 percent.

- **Italy (OP Research and Competitiveness)**. The financial progress of the Italian OP R&C is still deemed (at least partly) unsatisfactory, even though decommitment risk has been avoided. At the end of 2011, commitments were at 38 percent and payments at 25 percent. Problems are mainly linked to Priority 1 (research and knowledge economy), where commitments stand at six percent and payments at two percent. Delays derive from the implementation of new instruments: The 'Development Contracts' launched in September

2011[2] still need to be fully implemented, and 'Industrial Innovation Projects', launched in July 2009, only showed minor financial progress over the last six months. Priority 2 (competitiveness) stands at 69 percent as regards commitments and 48 percent referring to payments. The better state of play related to Priority 2, continues to be ensured by the use of financial engineering instruments and the so-called project of '*prima fase*' (first phase) or '*a cavallo*' (in-between).

- **Latvia**. Financial progress overall is deemed to be satisfactory (31 March 2012). For OP 'Entrepreneurship and Innovations' (ERDF) commitments are at 82 percent and payments to final beneficiaries at 49 percent. An even better commitment rate can be observed for the OP 'Infrastructure and Services' (85 percent), but payments are lower at 43 percent. However, the most significant progress in relation of absorption has been achieved in the implementation of the OP 'Human Resources and Employment' – commitments reach 98 percent of the available funding and 65 percent have been already disbursed to Final Beneficiaries. This results in an average commitment rate of 86 percent and payment rate of 44 percent.

- **Poland (Śląskie)**. The financial performance of the Śląskie ROP is good. At end-February 2012, around 75 percent of the allocation had been contracted. Priority 2 'Information Society' has the lowest level of payments (nine percent), mainly due to delays to the launch of project calls while Polish and EU regulations in this sector were reconciled. Payment levels are highest in Priorities where project calls were launched earliest. The highest payment level has been achieved in Priority 9 Health and Recreation' – 78 percent of the allocation for the priority. The regional priorities of the ESF-funded Human Capital OP (that is Priorities 6-9) are performing reasonably well. As of March, Śląskie was second only to Mazowieckie (the capital city region) in terms of value of approved projects in the regionally-implemented Priorities of the OP. In terms of payments, Śląskie is fourth from the bottom of the regional list with around 45 percent of its allocation as certified expenditure. The best performing Priority is Priority 9 'Development of education and competencies in the regions' where a number of new projects have been launched. Priority 8 'Regional human resources for the economy' has substantial funding and project calls will be accelerated this year.

- **Portugal**. At the end of the first quarter of 2012 the spending rate of the NSRF reached 42 percent of total allocations set against a commitment rate of 82 percent. Under the Competitiveness strategic priority there is strong concentration in the area of innovation and renewal of the business model (67 percent). The Human Potential priority accounts for the largest share of implemented funds: 54 percent of the total, 27 percent of which is devoted to school infrastructure, 24 percent to adult adaptability and lifelong learning measures and 23 percent for youth dual certification. Finally, the Territorial Enhancement priority accounts for a quarter of implemented funds, the largest share of which is allocated to accessibility and mobility. However, there are significant differences between commitments and payments in many OPs.

[2] Kah S (2011), *op. cit.*, pp. 18-19.

- **Slovenia**. Financial performance in Slovenia continues to be in line with expectations. Until the end of 2011, overall absorption figures increased to 70 percent (commitment) and 38 percent (payment). The ERDF OP performs best, both in terms of commitments (81 percent) and payments (55 percent). Commitments are also high for the ESF OP (79 percent), but payments are lower at 40 percent. Finally, the OP supporting infrastructure, which is co-financed by both ERDF and Cohesion Fund, is slightly behind the average, and commitments are at 53 percent, while payments stand at 19 percent.

- **Spain**. Financial implementation is around 45 percent for all programmes in Spain and is deemed to be satisfactory, although there is a mixed picture across regions. For instance, the RCE region Rioja has already spent 80 percent, while Andalucía (the Convergence region with the highest allocation) has a spending rate of 35 percent. Within the País Vasco ERDF OP, financial implementation in the province of Bizkaia is high at around 70 percent.

- **United Kingdom**. Commitment levels across the UK remain at reasonably high levels. In Scotland, commitment stands at 92 percent for the Scottish programmes as a whole (31 March 2012), with the two ERDF programmes (Lowlands and Uplands Scotland and Highlands and Islands) standing at 83 percent and 99 percent respectively, and the two ESF programmes at 98 percent and 108 percent respectively. In Wales, the level of commitments has risen to a rate of 87 percent across all four programmes. The commitment rate for ESF Convergence stands at 93 percent, ESF Competitiveness at 99 percent; the rate for ERDF Convergence at 82 percent, and ERDF Competitiveness at 83 percent (29 February 2012). In England, the level of commitments varies between 54 percent (Yorkshire and Humber and South West Competitiveness ERDF programmes) and 73 percent (Cornwall and Isles of Scilly Convergence Programme). When the project pipeline is added to commitments already made (the definition of pipeline varies between programmes but is generally projects which have submitted either a full or outline application and have yet to be formally approved), the figure for all programmes is 93 percent. There is also good progress with regards to payments: payments for the Scottish programmes as a whole have risen by 23 percent to 40 percent; in Wales, payments have risen by four percent to 30 percent for the programmes as a whole; and in England payments stand at 38 percent, up nine percent.

2.1.3 Spending challenges and responses

In spite of spending challenges in many IQ-Net partner programmes over recent years, **most programme authorities are not expecting any issues with decommitment in the short-term** (Bizkaia, Czech Republic, Denmark, France, Italian OP R&C, Nordrhein-Westfalen, Portugal, Steiermark, Śląskie ESF, Vlaanderen). Where decommitment cannot be excluded, it will only affect minor funding (e.g. Niederösterreich). However, **issues with n+2(3) might arise in the coming years**, when funding committed during the peak of the economic crisis will have to be spent (Czech Republic, France, Greece). In the Czech Republic, there is a risk envisaged for the end of 2013, when both the funds for 2010 (still under the n+3 rule) and for 2011 (n+2) will have to be spent. For France, instead, a Commission recommendation estimates that there might be n+2 issues at the end of 2014.

Programme authorities adopted different **strategies to avoid any issues with n+2(3)**. The Śląskie ESF unit has made an effort to ensure high levels of contracting already at the beginning of the programming period. Niederösterreich and Steiermark hold regular coordination meetings with all intermediate bodies to identify potential spending challenges. Denmark, instead, set up an action plan to make sure that as much project expenditure as possible is registered and that information on the progress of projects is collected at an early stage.

Difficulties with co-financing have been encountered in some countries (e.g. Finland, Greece). Austerity measures have impacted on central and local government budgets (Finland, Portugal). In Finland, a government decision in December 2012 means that the annual contribution of the national Finnish level to Structural Funds will be capped at €30 million.[3] The central government expects that the funding shortfall could be replaced by an equivalent increase in local-level co-financing. Responding to this, several regional bodies signed a declaration on 22 November 2011 expressing their critical views on the government's unilateral decision to cut EU programmes and their national co-financing share. **In Greece, EU funds will be used to create so-called 'risk-sharing instruments'**. In April 2012, the European Parliament approved the Commission's proposal enabling the use of still available Cohesion policy funding to back-up guarantees and loans by financial institutions such as the European Investment Bank (EIB). This measure is intended to address obstacles in raising private funding for key projects that can only be partly financed by public funds. In Slovenia instead, issues with co-financing are avoided through the creation of a budgetary reserve for Cohesion policy.

In order to respond to spending challenges, many programmes have recently been revised or are in the process of revision (Czech Republic, Greece, Italian OP R&C, Nordrhein-Westfalen, Portugal, Spain, Sachsen-Anhalt, Śląskie ESF). In addition to these formal revisions, funds have been shifted within the same programme Priority in several cases (e.g. Niederösterreich, Latvia), which does not require Commission approval.

At the end of 2011, the European Commission **approved a series of revisions to programmes** (Portugal, Czech Integrated OP, Spain). In Spain, the revisions were based on an operational evaluation completed in mid-2011. The changes aim to address absorption challenges in response to the ongoing effects of the crisis and constraints on public finances by funding reallocations and by increasing the EU co-financing rate from 70 percent to the maximum rate of 80 percent in Convergence, Phasing-in and Phasing-Out regions.[4] In Greece, the first stage of revisions, i.e. amending the financial tables and increase the EU co-financing to 85 percent, has already been approved. Also in Portugal, an EU contribution of up to 85 percent is now possible (see Box 1).

Many current revisions are still pending (Greece, Italian OP R&C, Nordrhein-Westfalen, Sachsen-Anhalt, Śląskie ESF). In Śląskie, the ESF unit is in the process of moving funding to measures that are performing best, and the managing authority is proposing another review of the OP that could result in further reallocation of funds. In Sachsen-Anhalt, the managing authority submitted a number of proposed changes to their ERDF and ESF OPs to the Commission in December 2011. Yet,

[3] Kah S (2011), *op. cit.*, p. 14.

[4] Eligible regions are Andalucía, Castilla La Mancha, Extremadura, Galicia, Asturias, Ceuta, Melilla, Murcia, Canarias and Castilla.

these changes have not yet been approved. The changes aim to not only facilitate financial absorption, particularly in the ESF OP, but also to improve the programmes' alignment with the new *Land* government's political priorities (e.g. investment in energy efficiency in schools) as well as with Europe 2020. In Nordrhein-Westfalen, the ERDF managing authority has recently proposed changes to the programme. As yet, they have received comments from the Commission but there has not been a formal decision. The proposed changes to the Nordrhein-Westfalen ERDF OP would involve several funding reallocations: a shift of funds from Priority 1 (Strengthening the business base) and Priority 3 (Sustainable urban and regional development) to Priority 2 (Innovation and the knowledge-based economy); allocation of Priority 1 funding to the theme of combined heat and power systems (*Kraftwärmekopplung*); and allocation of funding for Nordrhein-Westfalen's digitalisation strategy. In Greece, there are ongoing evaluations of five regional OPs and four of the country's eight thematic OPs (see 2.2.4). The reallocation process between Priorities and thematic codes is in progress, and the monitoring committees will discuss the proposals in June 2012. Finally, in the Italian OP R&C, there are currently **revisions connected to the new national Cohesion Action Plan** (*Piano d'Azione Coesione*). The plan was approved at the end of 2011 and intends to boost the considerably delayed 2007-13 programmes. It identifies four strategic thematic foci: education; digital agenda; employment; and railways. Financial resources will not only be moved from programmes in Southern Italy, but they will also be derived from a reduction of national co-funding. In the future, it is also likely that the Cohesion Action Plan will cover innovation and competitiveness support.

A number of other IQ-Net programme authorities are planning to revise their programmes in the near future (Niederösterreich, Portugal, Slovenia, Steiermark). The Slovenian managing authority plans to shift money away from Priorities with absorption problems and towards themes with strong demand, e.g. renewable energy. Also Niederösterreich and Steiermark plan to shift some funds later in 2012. The changes in Steiermark will affect those activity fields implemented by their largest intermediate body, the Styrian Business Agency SFG.

Box 1: Revised Portuguese programmes

The Portuguese authorities submitted a proposal for revisions to programmes to the Commission in 2011, which was approved in December 2011. Some of the following changes have already been implemented and others are still in the process:

- Increasing the co-financing rate to 85 percent in Convergence Objective regions (ERDF and Cohesion Fund OPs only).
- More support for the business incentive schemes in the national OP 'Competitiveness Factors' and mainland regional OPs (particularly under the Convergence objective).
- Increase in resources for the Programme of Modernisation of Secondary Schools in the national OP 'Territorial Development'.
- Increase of funding for the OP 'Human Potential' (ESF) by €336 million. Sources are the ERDF OP 'Territorial Development' (€316 million), the ERDF OP 'Technical Assistance' (€15 million) and the ESF OP 'Human Potential' (€5 million).

- Extending the scope of eligibility in the OP 'Territorial Development' (Cohesion Fund) to include:
    - projects submitted by EDIA (Enterprise for the Development of Alqueva's Infrastructures) which by their nature should be eligible for funding;
    - projects within TEN-T (primary roads, railroads, port infrastructures) that are not eligible for ERDF;
    - urban water cycle operations not eligible under ROPs;
    - material investments for the prevention and management of natural and technological hazards not eligible under ERDF;
    - measures relating to waste management and environmental performance improvement, rehabilitation of contaminated sites and mining areas, optimization of waste management not eligible under the ERDF; and
    - the Metro do Porto project not eligible under the Norte ROP.
- Extending eligibility under the mainland regional OPs (and ending under the national OP 'Territorial Development') to third cycle schools (including upgrading of the network of schools of the second and third cycles), sports infrastructures and innovative actions on urban development.
- Concentration of the national OP 'Competitiveness Factors' on eligible actions relating to administrative modernisation (ending eligibility in the mainland regional OPs).
- Reduction in Technical Assistance (mainland regional OPs under the Convergence Objective).

Looking ahead, the Portuguese government is currently preparing a 'strategic revision' of the NSRF to provide a stock-check of available funding and redirect resources to new projects that have a stronger focus on growth, competitiveness and employment. Due to severe budget constraints, the NSRF is seen as a key source of funding. In March 2012, the Portuguese government decided to reduce the national co-financing and to focus on key priorities, namely increasing private investment and strengthening human capital. As part of this strategic revision, commitments are being reviewed and compared to actual spending. Managing authorities are being asked to either cancel or revise projects that are not being implemented as scheduled, i.e. with more than six months delay.

Themes that benefit from revisions are, for instance, energy (e.g. Nordrhein-Westfalen, Sachsen-Anhalt, Slovenia) and entrepreneurship and businesses (e.g. Greece, Portugal). However, a major concern for many European countries and the European Commission is **youth unemployment**, and in Poland, Portugal and Scotland, moves have been made to address the issue with the increased help of Structural Funds. In Scotland, there is currently a proposal under consideration to combine remaining resources from all four Scottish programmes, a maximum of £23 million, into a pot dedicated to youth unemployment. In Poland, the managing authority of the ESF OP is increasing its support for unemployed youths, which could lead to new project selection criteria in the near future. In response to the 'Youth Opportunities Initiative' of President Barroso in December 2011, Portugal put forward a programme to address youth unemployment: '*Impulso Joven*'. Amongst other measures, this domestic initiative involves the reallocation of Cohesion policy funding.

2.2 Programme management

2.2.1 Implementation structures and procedures

With all programmes in full swing and less than two years left of the 2007-13 programme period, **there have not been any major changes to implementation structures and procedures in most IQ-Net partner countries and regions** in the last six months.

A notable exception is **England, where the Structural Funds implementation structures have been changed fundamentally**. The implementing provisions of all English ERDF OPs except London had to be changed, reflecting the fact that the managing authority CLG (Department of Communities and Local Government) took over day-to-day programme management and delivery through locally based Programme Delivery Teams (PDTs). PDTs replace the abolished Regional Development Agencies (RDAs), which had formerly acted as intermediate bodies, and incorporated staff from the RDA ERDF teams. In London, the Greater London Authority took over as Intermediate Body from the London Development Agency, and the implementing provisions for the London ERDF OP will also be amended to reflect this. Additional modifications are also planned to the OPs for Yorkshire and Humber, South West, South East and North West. Since CLG took over day-to-day management of the programmes, there has also been some administrative standardisation, including a single application process, a standard offer letter and full adoption of the standard management information system. The abolition of the RDAs also entails the disappearance of the RDAs' Single Programme, a major source of match funding for ERDF. Hence, the managing authority CLG is planning to produce guidance for potential applicants on potential alternative sources of match funding.

Other, less fundamental adjustments to implementation structures and procedures have been implemented in Bizkaia and Scotland.

- In Scotland, the managing authority decided to **internalise previously delegated programme management and delivery tasks** as of early 2012. These were formerly managed by the Intermediate Administration Bodies (IABs) - ESEP Ltd for the Lowlands and Uplands Scotland OPs and HIPP Ltd for the Highlands and Islands OPs. Those ESEP and HIPP staff principally engaged in the delivery of the IAB contracts were transferred to Scottish Government, thus maintaining expertise in-house. Also, within Scottish Government, the managing and certifying teams for ERDF and ESF will be combined, so that one team will cover both Funds.

- In Bizkaia, there have been **steps towards e-cohesion**, in line with Commission proposals for the next programme period. In order to allow for paperless management of projects, the IT system has been upgraded and a content manager employed.

2.2.2 Audits

Over the past six months, audits carried out by both the Member States' domestic audit authorities and EU-level bodies continued to affect the implementation of IQ-Net programmes.

In a number of Member States, Commission audits led to interruption of payments (e.g. Austria, Czech Republic, France, Latvia, Spain). In Latvia, payments from the Commission were stopped in January 2012. Yet, this is not affecting payments to beneficiaries. The Commission's main concern was that the managing authority lacks a suitable mechanism to influence the decisions of line ministries and agencies dealing with EU funds. The Commission asked for an action plan, which was submitted by the Latvian authorities in April 2012. A decision by the Commission is still pending. In Austria, all payments have been suspended after an audit of the domestic certifying authority. The Federal Chancellery is currently drafting an action plan to respond to these issues. Also in the Czech Republic payments have been suspended, and an action plan to resolve issues with the Czech implementation system for Structural Funds has been agreed with Commission.

Commission audits were also carried out at the regional level (e.g. Champagne-Ardenne in France, Niederösterreich, Steiermark, Vlaanderen). In France, an audit in July 2011 found that the Champagne-Ardenne region financed projects with more than the allowed percentage of 50 percent of public funding (including ERDF). Similar violations are occurring in other regions, and it is estimated that projects to be re-examined involve at least €150 million of public subsidies tied to ERDF, mainly concerning joint research projects. Regional administrations are now reviewing their projects for cases where the contribution of EU regional funds must be reduced to be in line with EU rules.[5] In Austria, the *Länder* Niederösterreich and Steiermark are currently working with the Commission to resolve the critical issues.

Audits by the European Court of Auditors (ECA) have been carried out in Nordrhein-Westfalen and Sachsen-Anhalt. In Nordrhein-Westfalen, the ECA audit visit related to the 2000-06 period. So far, the Nordrhein-Westfalen managing authority has only received an initial draft report, to which it responded. In Sachsen-Anhalt, there was an ECA audit of projects relating to 'Reclamation of previous industrial and military sites and their use in creating jobs and business parks' in June 2011, and the managing authority is still waiting for an ECA reply to their response. In February 2012, the ECA audited the activities of the Nordrhein-Westfalen certifying and audit authorities in the context of 'Financial recoveries and financial instruments'.

Also **the Commission itself was audited by the European Court of Auditors (ECA)**. The ECA assessed whether the Commission dealt in a satisfactory way with deficiencies they identified in the Member States' management and control systems for Structural Funds. The report, published in April 2012, was mainly positive and concluded that the Commission was partially successful in correcting and improving management and control systems. However, it recommended reducing the time between identification of errors and taking actions, working with domestic audit authorities to ensure robust error rates, producing best-practice checklists for Member States and ensuring that

[5] EurActiv France (2012) *France's innovation centres victim of chaotic public finance rules*, 18 April 2012. Available at: http://www.euractiv.com/innovation-enterprise/frances-innovation-centres-victim-chaotic-public-finance-rules-news-512218

financial corrections implemented before closure cover all expenditure incurred under deficient management and control systems.[6]

In many IQ-Net countries, domestic authorities carried out audits or sample checks (Czech Republic, Denmark, Niederösterreich, Poland, Slovenia, Steiermark, Wales). In Denmark, audits have been conducted by the National Business Agency, and in Wales by the Welsh Government. In Poland, the National Audit Office audited the Technical Assistance Priority of the ESF OP. In Steiermark, the domestic Structural Funds audit authority looks specifically at projects implemented by the Styrian Business Agency (SFG), the most important intermediate body, after some sample checks found errors. In the Czech Republic, domestic audits resulted in five OPs receiving comments from the Commission as well.

In several cases, there have been challenges with **administrative and on-the-spot verifications under Article 13** of the Structural Funds Implementing Regulation[7] (England, Scotland, Spain, Vlaanderen). In Vlaanderen, the background checks on beneficiaries' credit worthiness have been considered to not be extensive enough. However, the managing authority perceives such checks not to be necessary as most of the programme's beneficiaries are public or semi-public authorities and there are no concerns about their solvency. In Bizkaia, these checks are delaying the certification of expenditure for a small number of projects, but implementation is progressing smoothly. In England, following experiences with high error rates, a consultant was appointed to investigate Article 13 procedures in the English programmes. This resulted in a reduction of the error rate to below two percent. Also Scotland is increasing its efforts in terms of Article 13 checks in order to facilitate the coming programme closure.

Looking at the results of audits, the main issues of concern continue to be public procurement and eligibility of expenditure. Examples for public procurement issues can be found in the Czech Republic, and staff costs, i.e. eligibility of expenditure, are of concern, amongst others, in Niederösterreich. This picture is confirmed by a staff working paper presented by the Commission in October 2011.[8] The study looked at irregularities in Cohesion policy for 2006-09 and concluded that errors generally fell into one of four categories: public procurement; eligibility; audit trail; and revenue-generating projects. In the case of ERDF and Cohesion Fund, most errors related to public procurement (41 percent), eligibility (39 percent), audit trail (11 percent) and revenue-generating projects (9 percent). In the case of ESF, errors most commonly fell into the categories eligibility (58 percent) and audit trail (35 percent).

[6] European Court of Auditors (2012) *Structural Funds: Did the Commission Successfully Deal with Deficiencies Identified in the Member States' Management and Control Systems?*, Special Report No 3, Luxembourg. Available at: http://eca.europa.eu/portal/pls/portal/docs/1/14088739.PDF

[7] According to Article 13 managing authorities have to verify that the beneficiary has the capacity to implement EU funding. It also requires managing authorities to carry out on-the-spot checks of projects on a sample basis. See Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006. Available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:371:0001:0001:EN:PDF

[8] European Commission (2011) *Analysis of errors in Cohesion policy for the years 2006-2009. Actions taken by the Commission and the way forward*. Commission Staff Working Paper, SEC(2011) 1179 final, 5 October 2011, Brussels. Available at: http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/errors_analysis_2011_en.pdf

More generally, **concerns about the increasing demands in relation to audit and control** in have been expressed. This relates especially to more visits by regional and EU audit bodies; the lack of coordination and duplication the duplication of audit effort (i.e. auditing the same projects or the same issues more than once); the lack of proportionality (i.e. no differentiation according to size of projects); the disincentive effect this has on projects; and the lack of legal certainty due to changes in rules during the period. IQ-Net programme authorities would like to see fundamental changes to the audit framework.[9] In this context, the Commission produced a guidance document on one of the main issues of concern, the treatment of errors.[10] The COCOF (Coordination Committee of the Funds) document from December 2011 provides guidance to Member States in relation to the error rates.

2.2.3 Financial engineering instruments

Good progress has been made over the past six months with financial engineering instruments set up by IQ-Net partner countries or regions (France, Greece, Latvia, Länsi-Suomi, Portugal, Sachsen-Anhalt, Śląskie).[11]

- **Finland**. In the Länsi-Suomi programme, a fund set up in 2011 (total capital of €7.5 million) has so far supported four projects in its sub-region Keski-Suomi. In total, the fund manager Finnvera will fund 18 first-time investment projects worth approximately €300,000 and four follow-up investments in Länsi-Suomi between 2011 and 2015. Although it is still too early to assess results and outcomes, some actors perceived a lack of transparency. Hence, in the future it is seen as important that Finnvera assumes a more open approach to communication, for instance in the context of the regional management committees.

- **Portugal**. The Financial Institute for Regional Development (IFDR) reports that the first contracts for urban projects under JESSICA have been approved.

- **Latvia**. The responsibility for the country's holding fund has changed and the State Guarantees Agency has now taken over the responsibility from the European Investment Fund. The fund makes public support of €91 million available to businesses.

- **France**. The circular on financial instruments was finally signed in January 2012. There are efforts to use Technical Assistance to improve administrative capacity for financial instruments, and a working group has been set up to look at the regulations and needs. The main questions relate to the type of instruments, the type of actors, human resources and simplification.

- **Poland**. In Śląskie, the Bank of Environmental Protection has been selected as fund manager for the Urban Development Fund under JESSICA. Appraisal of applications for loans

[9] For more information see Kah S (2011), *op. cit.*, pp. 32-33.

[10] European Commission (2011) *Guidance on Treatment of Errors Disclosed in the Annual Control Reports,* COCOF_11-0041-01-EN, final version of 7 December 2011. Available at: http://autorita-audit.interno.it/download/allegati1/guidance_on_treatment_of_errors-final_version.pdf

[11] For more information see Michie R and Wishlade F (2011) Between Scylla and Charybdis: Navigating financial engineering instruments through Structural Funds and State aid requirements, *IQ-Net Thematic Paper No. 29(2)*, Glasgow.

began in December 2011, and in April 2012 an agreement was signed between the Bank of Environmental Protection and the beneficiary, the city of Tychy. The subject of the agreement is the project 'Cultural Passage Andromeda', which is the first JESSICA project in Śląskie and the fourth in Poland. The project will invest in the disused cinema 'Andromeda', transforming it into a dining and shopping centre, with space for a municipal art gallery, media centre and conference room. The investment is being made in conjunction with a project to revitalise Tychy old town and post-industrial degraded land in the area. For the realisation of this project the city will receive a loan of PLN4.5 million (€1.1 million). The value of the whole project is more than PLN11.4 million (€2.7 million). After selecting contractors, the work will take approximately 18 months.

Substantial progress has also been made in the case of the three financial engineering instruments in Greece (see Table 1). Challenges include the extended consultations with many stakeholders and the complexity of the implementation system, but also the fact that the related COCOF guidelines[12] were under amendment during the planning period for the instruments.

Table 1: Financial engineering instruments in Greece

JESSICA Holding Fund	
Holding Fund Manager	European Investment Bank (EIB)
Signing of funding agreement	1 July 2010
Geographical coverage	national
Funding Agreement	€258 million
Main beneficiaries	generic SMEs
State of play	All Urban Development Funds (UDFs) are in place covering all regions that contributed resources to the Holding Fund. Investment activity is expected to start in 2012. The Urban Development Fund for Crete is the first UDF to publish a call for projects. Proposals may be submitted by interested parties for projects that contribute to the integrated urban development and are eligible under Priority 7 'Sustainable development and quality of life in the region of Crete' within the Crete and Aegean Islands OP. The portfolio of the fund includes urban development projects in the following areas: revitalisation of deprived areas, basic infrastructure, development of high technology clusters and added value infrastructure, water and waste management, energy networks, improvement of energy efficiency etc.
JEREMIE Holding Fund	
Holding Fund Manager	European Investment Fund (EIF)
Signing of funding agreement	26 June 2007 (amended 5 October 2010)
Geographical coverage	national
Funding Agreement	€250 million
Main beneficiaries	generic SMEs & technology-oriented SMEs
State of play	There are three products currently implemented through JEREMIE:

[12] European Commission (2012) *Revised Guidance Note on Financial Engineering Instruments under Article 44 of Council Regulation (EC) No 1083/2006*, COCOF_10-0014-05-EN, revised version of 8 February 2012. Available at: http://www.oerok.gv.at/fileadmin/Bilder/3.Reiter-Regionalpolitik/2.EU-SF_in_OE_07-13/2.9_Rechtsgrundlagen/6.COCOF/COCOF-10-0014-05-EN.pdf

	(1) Funded Risk Sharing (total budget: €60 million). This product refers to loans (up to €250,000 per business) in micro and small firms (existing or recently established) which are seeking to develop and expand their activities. For this product the selected intermediaries (banks) will contribute the equivalent amount of public expenditure in order to share the risk and reduce the required collateral for the loans, while the lower than market interest rate is being considered. Two financial institutions (banks) have been selected (National Bank of Greece, ALPHA Bank) and the product is available in the market since February 2011. After amendments in the contracts between the banks and EIF the product was re-activated in September 2011. (2) Micro credits (budget: €30 million public expenditure and €30 million private funding). This product relates to loans up to €25,000 with terms corresponding to those of the FRSP. The contract with ALPHA Bank, which was selected, has been signed and the product is available in the market since November 2011. The product is addressed to enterprises of all economic activity sectors. (3) Funded Risk Sharing (FRS) for IT operations (budget: €90 million, of which 50 percent public). This is the only 'banking' product designed to be placed through the JEREMIE initiative. The type of product is not State guarantees, but actual cash on demand of a loan in areas of higher risk as the technology. The purpose is to co-finance business loans (investments loans) by Greek banks by 50 percent. The product is ready and available in the market since the end of February 2012 through three banks (Alpha Bank, National Bank of Greece, Emporiki Bank). Two more products (seed capital, early stage VC) have been designed; however they are not yet available in the market.
Energy Savings in existing housing	
Holding Fund Manager	Hellenic Fund for Entrepreneurship and Development (ETEAN S.A)
Signing of funding agreement	4 August 2010
Geographical coverage	national
Funding Agreement	€241 million
Main beneficiaries	citizens with medium – low income
State of play	The instrument used is interest rate subsidies. The target sector are the houses built before 1989, located in areas with maximum cost €2,100€ per m². The majority of all 43,365 approved applications (November 2011) are recorded in the region of Kentrikí Makedonía (23 percent), followed by Attikí (16 percent), whilst in the islands (Ionian Islands, South Aegean Islands, North Aegean Islands) approvals vary from one to four percent. Based on information contained in the energy certificates, implementation of the 7,300 approved applications will lead to annual primary energy savings of 170 kWh/m², which corresponds to a 40 percent reduction of energy consumption. Total annual energy saving for 2012 is estimated at 200 million kWh based on the 12,000 mature applications (pre-approved).

In Sachsen-Anhalt, instead, uptake for the ESF Guarantee Fund (*ESF-Garantie-Fonds Sachsen-Anhalt*) has been slow so far. The fund provides guarantees on private bank loans for training. Likely reasons are the relatively high level of administration involved, i.e. compared with obtaining a normal bank loan without the ESF guarantee.

In the Czech Republic and Poland, there have been **moves to establish new financial engineering instruments.**

- In Śląskie, the managing authority has provided the ESF unit with guidelines on the use of financial engineering instruments. However, potential organisations who could manage the instrument are being discouraged by State aid issues and the level of management costs (a ceiling of four percent of total funding). Setting new indicators for financial engineering instruments is also expected to be challenging. Another challenge is that the usual ESF beneficiaries of the OP are accustomed to grant-based support.

- In the Czech Republic, there are preparations to establish a holding fund as part of the State Housing Fund. This requires amendments to the legal framework, which are currently debated by the government. The instrument will be managed by the Ministry for Regional Development, which is preparing methodological guidelines. In a next stage, an Urban Development Fund (*Fond Rozvoje Měst*) will be established under the holding fund. The Ministry for Regional Development as managing authority of the Integrated OP has carried out a survey amongst municipalities to gather information about absorption capacity. Results show that there is considerable interest, but take-up will depend on the available interest rates.

In some IQ-Net countries and regions there have been discussions about the **implementation of financial engineering instruments in the future** (France, Steiermark). In France, a number of regions are considering setting up instruments in 2014-20, and some have launched studies on the theme. DATAR is also launching a study on financial instruments to be finalised after the summer. The aim is to identify all existing instruments at regional level and related needs as well as the types of firms targeted. This will feed into the negotiations on Structural Funds and State aid. DATAR is also thinking of developing guidance on these aspects. In Steiermark, a study will be carried out on options to implement the JESSICA instrument in the future programme period. The instrument would be used to for urban revitalisation in small and medium-sized towns. In Vlaanderen, the reason for the interest in financial engineering instruments is that resources are expected to become scarcer in the future and hence other solutions need to be found in order to maintain funding streams viable. Measures could include no-interest loans and financing interventions that could create revenues. However, the plans are still at early stages.

Some IQ-Net partner programme authorities continue to have reservations about the use of financial engineering instruments. Niederösterreich, for instance, does not plan to introduce such instruments in the future. Due to the relatively limited availability of funding in Austria, they would only see a nation-wide solution to feasible. A national fund could be managed, for instance, by the ERP Fund, which has experience with domestic support provided in the form of loans.

2.2.4 Evaluation

Several evaluations have recently been concluded (England, Finland, Latvia, Portugal, Śląskie ERDF, Vlaanderen, Wales), and the Annex provides an overview of all evaluation activities in IQ-Net partner countries and regions in the context of the 2007-13 programme period. In Wales, Priorities 1 and 2 of the ESF OP have been evaluated, and in Latvia, a major study on the impact of EU funds on the Latvian economy has been completed in December 2011. Finland finalised its evaluation of the ERDF management system in March 2012, while the thematic evaluations on innovation and business development are ongoing (until 2013). In Portugal, three evaluations have been concluded: the mid-term evaluation for the Madeira OP, an evaluation of vocational training for SMEs in

Madeira, and an evaluation of the regulatory framework for the ESF. A closer look is worth taking at examples from England, Śląskie and Vlaanderen.

- In England, the Department for Work and Pensions (DWP), managing authority for the national ESF OP, has published an evaluation of their co-financing arrangements during the first half of the 2007-13 programme period. English co-financing for ESF is provided by so-called Co-financing Organisations (CFOs), such as DWP and the Learning and Skills Council. DWP provides the required match funding using selected contracts already in place, which met EU administrative requirements – primarily the New Deal programme for the long-term unemployed and Pathways to Work programme for disabled people. CFOs are required to evaluate their CFO plans, and the report does this for DWP's CFO Plans, by examining the contribution to relevant ESF output and result indicator targets through each DWP CFO Plan; how DWP CFO Plans sought to meet national and regional priorities; and how the ESF management structures and co-financing supported these objectives.

- In the context of the Śląskie ERDF OP, the results of an evaluation of financial support directed to enterprises were presented in December 2011. These provided recommendations about the most appropriate type of interventions for enterprises, mainly for the next programme period. Another evaluation, also concluded in December 2011, looked at the innovativeness of projects realised so far. The results suggested to increase advisory services; to emphasise the use of financial instruments; to allow projects to be joined under the Priority 'Transfer of knowledge on innovation activity'; to direct investment towards enterprises in traditional sectors with a strong position in the region; and to increase regional knowledge on intellectual property management and protection.

- In Vlaanderen, the mid-term evaluation report was adopted in October 2011. The study concluded that no changes are required at this stage. The programme should keep its focus and SMEs should maintain their priority status in the Programme. The prioritisation of cities remains justifiable due to their role in economic activity and relative high levels of social deprivation. Finally, the health sector has been identified as a key strategic sector by the Flemish government and therefore the Programme should explore whether this should have a more prominent role in the future programme period.

A range of evaluations are currently running (e.g. Denmark, Finland, Greece, Italian OP R&C, Nordrhein-Westfalen, Portugal, Scotland, Slovenia, Śląskie). In Keski-Suomi, a sub-region of Länsi-Suomi, there is currently an evaluation of the region's cluster-based development model. Keski-Suomi has been particularly active in developing a model for working in partnership between public authorities, companies and innovation and higher education institutions. The development of such a working model was based on the perceptions of regional actors that there are too many activities in business development and innovation sectors, which need to be coordinated better. The timing for the assessment of this working model has coincided with preparations for the next programme period of Centres of Expertise (CoE), the main regional innovation initiative implemented in Finland. In Nordrhein-Westfalen, the ERDF managing authority launched an evaluation of the competitive call procedure in January 2012. Competitive calls have been used in particular to allocate funds under Priority 2 'Innovation and the knowledge-based economy'. The evaluation is looking at all implementation phases, from the generation and design of the calls, through their implementation and to the payment phase. The report will be finished by the end of September

2012. In Greece, there are ongoing evaluations in five regional OPs and four of eight thematic OPs, namely the OP 'Accessibility Improvement' (ERDF), the OP 'Competitiveness and Entrepreneurship' (ERDF), the OP 'Education & Life-Long Learning' (ESF) and the OP 'Reinforcement of Public Administration Efficiency'. The results of these will result in revisions to the programmes (see Section 2.1.3).

Other current examples include evaluations of innovation support (Finland, Italian OP R&C, Slovenia, Wales), effectiveness of communication activities (Czech Integrated OP, Scotland), unemployment support (Śląskie ESF), impact of the ESF OP (Denmark), tourism development (Slovenia), implementation barriers (Czech Integrated OP) and support to entrepreneurs and businesses (Finland ERDF, Śląskie ESF).

Looking into the future, **planned evaluations** include themes such as territorial cooperation (Wales) and local delivery models (Scotland). In England, the managing authority CLG is planning to undertake an England-wide evaluation of the ten ERDF programmes to assess programme performance. However, the Czech Integrated OP managing authority plans to carry out fewer evaluation activities compared to previous years. However, one of the key evaluation activities will be to provide input for the Czech Strategic Report 2012. Also the Italian OP R&C plans to reduce their number of evaluations from 11 to nine; their evaluation plan is currently under revision.

In several countries, **evaluation activities were delayed** (Czech Republic, Greece, Portugal, Spain). In Greece, the time-consuming administrative processes have delayed the contracting of the evaluators for some of the country's thematic OPs. Portugal reports delays in gaining authorisation for procurement of evaluations due to budgetary constraints, which affected the launch of most of the country's mid-term evaluations. In the Czech Republic, the results of the mid-term NSRF evaluation were expected for autumn 2011, but there have been delays due to capacity issues with the external consultant working on the report. Finally, in Spain, the planned evaluation on research and innovation has been delayed. This is partly due to management changes, the election of a new government, the small size of the evaluation team and the delayed launch of the programmes. Accordingly, the timeframe was extended from the end of 2011 to the summer of 2012 and the scope was altered to focus more on the OP 'Research, Development and Innovation for and by Enterprises - Technology Fund' and to address financial implementation problems. Nevertheless, some preliminary results were presented to the second RTDI network which took place at the end of April 2012.

In the Czech Republic and Portugal, **national-level evaluations will feed into the Strategic Report 2012** (see Section 2.2.5). In the Czech Republic, a meta-evaluation of all evaluations so far is being prepared by the National Coordination Authority. The aim of this evaluation is to gather knowledge about the quality of evaluation outputs and trends in the evaluation culture. The Czech evaluation market has been experiencing increased competition, resulting in prices being too low for some established and experienced evaluation companies. As a result, some evaluators refrain from participating in some tenders, which means that valuable experience in evaluation is not used. In Portugal, following the approach in 2009, a 'global strategic evaluation' of the NSRF is currently being launched. The objective is to assess four themes and to provide evidence of what works well and what does not. This will also contribute to the preparation of the 2014-20 programmes. The themes are connected to Europe 2020: early school leaving; innovation, research and firms; environment and energy efficiency; and social inclusion. A new tendering approach is used, which involves one call and different work packages. The aim is to have flexibility to select different teams for different themes.

In several cases, it has been pointed out that **evaluation results will be used to inform the preparations for the next programme period** (e.g. England, Śląskie ERDF). The already finalised evaluation of enterprise support in Śląskie, for instance, showed that in the next programming period more emphasis should be given to non-grant financial support and that grants should be given only to innovative and non-investment projects.

2.2.5 Strategic Reports 2012

After the first round of Strategic Reports in 2009, Member States are required to submit another Strategic Report at national level by the end of 2012. On 19 January 2012, the Commission presented guidelines on the contents[13] and **preparations for the Strategic Reports 2012 have started in most IQ-Net countries** (Austria, Czech Republic, Denmark, France, Greece, Portugal, Spain).

In several countries, **national coordination bodies have already prepared timetables, structures or set up working groups** (e.g. Czech Republic, Greece, Portugal, Spain). In Portugal, the NSRF *Observatorio* has agreed a proposal for the structure and timetable with the inter-ministerial coordination body of the NSRF. Similarly, the national authorities in Spain have prepared the structure of the report, which will be prepared collaboratively between the DG for EU Funds and the Unit responsible for the ESF. Also in Greece, the National Coordinating Authority prepared a work plan and set up a working team, which is responsible for reporting on the core indicators for the ERDF and the Cohesion Fund. All relevant actors (managing authorities, intermediate bodies, etc.) have been officially informed to provide the necessary data, and a draft document is expected by October 2012. Finally, the National Coordinating Authority in the Czech Republic prepared an overview of all evaluation activities, an analysis of socio-economic development, an assessment of links between the OPs' interventions and Europe 2020, and an analysis of NSRF indicators. Some of the tasks will be outsourced to external experts, but most of the work will be undertaken internally.

All countries will have to **produce more concise reports than the previous round in 2009**. The Commission has requested shorter reports of about 50 pages, compared to many very long reports submitted last time in 2009. Yet, it was noted by Spain that this might be too restrictive for countries with three funds (ERDF, ESF and Cohesion Fund) and because the Commission guidance contains an extensive list of issues that need to be included. DATAR in France discussed the approach to the Strategic Report with the Commission. They addressed questions relating to indicators and how the data can be brought in line with the requirements of the Structural Funds common database (SFC).

[13] European Commission (2012) *Guidance note on indicative contents and structure for the national Strategic Reports 2012*, Working document prepared by the Coordination Committee of the Funds, COCOF_11-0040-01-EN. Available at http://www.oerok.gv.at/fileadmin/Bilder/3.Reiter-Regionalpolitik/2.EU-SF_in_OE_07-13/2.9_Rechtsgrundlagen/6.COCOF/COCOF_11-0040-01-EN_Strategic_reports_2012-final.pdf

The importance of **building on the experiences** made in 2009 has been highlighted by several countries (e.g. Latvia, France and Portugal) and in most cases, the **drafting process is likely to be as in 2009** (Austria, Portugal, Slovenia, Vlaanderen). In Portugal, annual NSRF reports are produced as well as Strategic Reports, which will facilitate the process. It will follow the approach taken for the Strategic Report 2009 by launching a 'global strategic evaluation' of the NSRF (see Section 2.1.3). The objective is to assess key themes and to provide evidence of what works well and what does not to contribute to the preparation of future 2014-20 programmes. In Greece instead, the arrangements differ from 2009, as the 2012 report will not be outsourced to an external evaluator but drafted internally. Also, the report will be able to be based a lot more on experiences made during the implementation of the programmes compared to 2009, when the programmes were still at the very beginning. Also, the Strategic Report 2012 will draw on evaluation results, which have not been available yet three years ago.

Several countries will adopt a specific focus in their Strategic Report. Denmark is planning to focus more on effects, Greece will put more emphasis on the quality of indicators and Slovenia will incorporate results of its anti-crisis measures. Finally, in Spain, the ESF will receive special attention, as the Fund is particularly important, given the weak labour market situation in the country. In Portugal, the focus will be on themes linked to Europe 2020: early school leaving; innovation research firms; environment energy efficiency and social inclusion.

Austria and Portugal are looking to **exploit synergies with other regulatory requirements**. Austria plans to use the insights gathered through the drafting of the Strategic Report as part of the preparation of the Austrian Partnership Agreement 'STRAT.AT 2020' (see 3.2.1). As noted, Portugal does not only use the information gathered through their forthcoming NSRF evaluation (see 2.2.4) but also their extensive annual reports at NSRF level.

In some IQ-Net partner countries, preparations have not officially started (Italy, Vlaanderen), or, as in Germany, responsibility for the report lies with the federal level and the *Länder* have not yet been involved. The German Federal Ministry for the Economy and Innovation will prepare the report on the basis of information collected from the different programme managing authorities. However, neither Nordrhein-Westfalen nor Sachsen-Anhalt had yet received a request for information.

2.2.6 Programme closure

In many IQ-Net programmes, preparations for closure have not started yet (Denmark, France, Niederösterreich, País Vasco, Steiermark, Vlaanderen). The main reason is that no guidelines on closure of the 2007-13 programme have been made available so far, but a first draft of the closure guidelines will be presented at the COCOF in June 2012. The United Kingdom's closure practitioner group, which amongst others involves the Department for Business, Innovation and Skills (BIS), took a proactive approach and has been in contact with the European Commission to feed in questions and concerns during the closure guidelines preparation process.

In spite of still outstanding Commission guidelines, **many countries are already taking domestic preparatory steps** (England, Finland, Greece, Slovenia, Wales). Finland has prepared domestic closure guidelines and Slovenia are currently in the process of doing so. Also, Wales is looking to develop an action plan for closure in the near future. In England, a working group has been set up including BIS, CLG and the Programme Delivery teams (PDTs), and the 2000-06 closure team is also contributing. Other preparatory steps take place at project level, for instance in Wales, where the focus is on project closure, which involves assuring that the IT system is capturing all required information. Greece has started to look at major projects, specifically at the process for the closure of 'bridge-projects', taking into account the likely requirements of the regulations for 2014-20.

In Sachsen-Anhalt, a formal *Land* cabinet decision was already taken in 2009 which states that all funding should be committed by the end of 2013, and that all payments should be made by the end of 2014. Also the Nordrhein-Westfalen ERDF Managing Authority is hoping to close the programme by the end of 2014. At the same time, Steiermark plans to carry out the final payment by the end of June 2015. In procedural terms, Slovenia is looking to take advantage of partial closure and Niederösterreich is hopeful for a flexibility rule of five percent, as it was the case for the 2000-06 programmes.

However, many programme authorities **expect the closure procedures to be similar to the 2000(04)-06 programme period** (Austria, Denmark, Länsi-Suomi, Vlaanderen). Therefore, experiences with the closure of the past programmes are likely to be helpful for the current programmes (England, Vlaanderen, Wales). Yet, in the Czech Republic, staff fluctuations at the National Coordination Authority mean that there is no closure experience to build on. In Wales, one of the key lessons learnt is on monitoring, recording and reporting of irregularities.

In a number of cases, **programme authorities are still working on the closure of the 2000(04)-06 programmes** (e.g. Czech Republic, Latvia, Śląskie, Spain). The managing authority of the Czech Integrated OP has been in discussion with the European Commission about details of the final reports for their 2004-06 joint regional OP. Latvia and Spain are still working on the closure of Cohesion Fund projects. Latvia still needs to prepare the final report for a transport project, which has to be submitted by the end of June 2012 to avoid decommitment. In May 2012, Spain reached an agreement to accelerate payments for the closure of 2000-06 Cohesion Fund projects.[14]

[14] 'Commissioner Hahn agrees with Spanish authorities to accelerate payments for Cohesion Fund projects', European Commission news item from 22 May 2012. Available at: http://ec.europa.eu/commission_2010-2014/hahn/headlines/news/2012/05/22/index_en.cfm

3. PREPARATIONS FOR THE 2014-20 PROGRAMME PERIOD

3.1 New implementation framework

After the presentation of the legislative package in October 2011, the Polish Presidency launched the formal negotiations in the Structural Actions Working Party of the Council of Ministers. Discussions were held on key negotiation blocks: strategic programming; thematic concentration; ex-ante conditionalities and performance review; and territorial development. The Presidency drafted compromise texts on the blocks of strategic programming and thematic concentration and a first formal exchange at ministerial level took place in mid-December 2011. Negotiations continued under the Danish Presidency in the first half of 2012, and a partial agreement on the Cohesion policy framework is expected by the end of their term. Any outstanding issues would be finalised during the Cypriot Presidency in the second half of the year. However, a final agreement on the legislative package is likely to be reached only in 2013.

Meanwhile, the Commission has presented a paper on a European Code of Conduct on partnership.[15] The Staff Working Document provides guidance on how partners should be involved in EU Funds, distinguishing between different programme cycle stages (programming, implementation, evaluation). The Commission is inviting all interested parties to submit their reactions and proposals by the end of July 2012.

3.1.1 Common Strategic Framework (CSF)

The Common Strategic Framework (CSF) is a core element of the proposed architecture for the 2014-20 Cohesion policy framework. It goes beyond the Structural and Cohesion Funds by providing a strategic reference for rural development (EAFRD) and an integrated maritime policy (EMFF) and by identifying linkages with other EU Policies. With a strong alignment to Europe 2020, the CSF provides the overarching, strategic direction for Partnership Agreements and OPs. The CSF will be adopted within three months of the approval of the legislative proposals for Cohesion Policy. So far, the Commission published a Staff Working Paper on the CSF on 14 March 2012.[16] There is no associated consultation exercise, but any feedback can be submitted to the Commission.

At a conference on the CSF organised on 10 May 2012 by the Committee of the Regions,[17] Commissioner Hahn highlighted two major contributions of the CSF to the way Cohesion policy funding will be implemented in the future. First, having a single programming tool offers the

[15] European Commission (2012) *The partnership principle in the implementation of the Common Strategic Framework Funds - elements for a European Code of Conduct on Partnership*. Commission Staff Working Document, SWD(2012) 106 final, 24 April 2012, Brussels. Available at: http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/swd_2012_106_en.pdf

[16] European Commission (2012) *Elements for a Common Strategic Framework 2014 to 2020. The European Regional Development Fund the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund*, Commission Staff Working Document, SWD(2012) 61 final, Part I, 14 March 2012, Brussels. Available at: http://ec.europa.eu/regional_policy/sources/docoffic/working/strategic_framework/csf_part1_en.pdf

[17] Committee of the Regions conference 'Regions and cities for integrated territorial development', 10 May 2012, Brussels. Presentations available at: http://cor.europa.eu/en/news/forums/Pages/forum-common-strategic-framework.aspx

opportunity to re-enforce coordination and synergies for an integrated delivery of regional development policy. Second, the CSF emphasises the territorial dimension of Cohesion policy, and thus responds to concerns about a strong sectoral orientation.[18]

The principle of a Common Strategic Framework (CSF) is welcomed by many IQ-Net programme authorities (Greece, Latvia, Länsi-Suomi, Niederösterreich, Portugal, Scotland, Slovenia, Śląskie ERDF, Vlaanderen, Wales). It is seen as a useful basis to design the national Partnership Agreements and Operational Programmes. Some features of the CSF that have been highlighted include its emphasis on the territorial dimension (Greece), its function as a link between Europe 2020's Thematic Objectives and the regulations (Wales) and its important role in coordinating the five Funds (Portugal). However, some IQ-Net programme authorities were cautious about expressing any views on the new CSF or other aspects of the new regulatory framework.

Especially integrating the Structural Funds, i.e. ERDF and ESF, is seen as a positive move (Greece, Latvia, Länsi-Suomi, Scotland, Slovenia, Wales). It offers the possibility of integrating the strategies of different sectoral ministries and is often welcomed by actors at the regional level (e.g. Niederösterreich, Steiermark). Greece has long been arguing for integrating the two Funds, e.g. through multi-fund programmes. According to authorities in Scotland, fewer resources available makes integration even more important; if funding from Structural Funds, EAFRD and EMFF can be combined, the total sums are quite significant. Also the Śląskie ESF unit supports the idea in principle, but due to administrative complexity, softer instruments to increase complementarity are preferred to a complete, multi-fund integration. However, authorities in Germany and Greece are arguing that **the CSF should be a relatively soft instrument**. Germany expected it would focus on strategic, general issues but instead it sets out many detailed, additional rules on goals, action plans etc.

While some advocate a framework covering not only the Cohesion policy Funds but also EAGFL and EMFF (e.g. Niederösterreich), other programme managers are more **reserved about the requirement for coordination across all CSF Funds** (Spain, Śląskie ESF unit). Spain supports coherence across all five Funds and with other policies (Horizon 2020, LIFE, etc.) but has concerns about the administrative burden involved. The Śląskie ESF unit points to the difficult experiences with the LEADER initiative, which have demonstrated the challenge of integrating ERDF, ESF and EAFRD.

With regard to the proposed framework for 2014-20 more generally, the **main criticisms continue to be with regard to performance reserve, conditionalities and administrative effort.**[19]

- **Performance reserve**. The introduction of a performance reserve is opposed by several countries (e.g. Austria, Latvia, Spain), as it might lead to perverse effects if high milestones are set that cannot be met. Spain notes that there is a general consensus across EU Member States that the performance reserve did not live up to expectations in the past.

[18] Hahn J (2012) *A Common Strategic Framework for cohesion policy, rural development and fisheries funds for the period 2014-2020*. Speech at Committee of the Regions conference 'Regions and cities for integrated territorial development', 10 May 2012, Brussels. Available at: http://cor.europa.eu/en/news/forums/Documents/Johannes%20Hahn.pdf

[19] See also Kah S (2011) *op. cit.*, pp. 35-51.

They argue that it should be a voluntary option only, as in this period, or applied in specific countries or programmes as a pilot project.

- **Conditionalities. Macroeconomic conditionalities** continue to be criticised by several programme authorities (e.g. Greece, Bizkaia, Latvia), because the penalisation of countries or regions already in economic difficulties should be avoided. In this context, Greece and Spain see issues with linking Cohesion policy and the Country Specific Recommendations. According to Greece, it is inappropriate to link Cohesion policy with the recommendations of the National Reform Programme and the European Economic Semester. Spain notes that most Member States are concerned that an obligation to take account of Council recommendations may require annual adjustments to Partnership Agreement and OPs and hinder multi-annual stability. Spain also notes that **ex-ante conditionalities** would create additional administrative burden, although the country is already compliant with many of the conditionalities. However, the provisions have meanwhile been weakened in the Structural Actions Working Party, the Council of Ministers' committee that negotiates the Structural Funds regulations.

- **Administrative effort**. In spite of efforts for simplification, several IQ-Net programme authorities expect an increased administrative complexity (Latvia, Nordrhein-Westfalen, Vlaanderen, Wales). In Vlaanderen, the new procedures are regarded as complex especially for smaller programmes. Latvia is concerned about the establishment of new control levels in management and implementation, including the proposed Accreditation Authority.

3.1.2 Thematic objectives and ring-fencing

The draft general regulation defined 11 Thematic Objectives based on Europe 2020. The Fund-specific regulations concretised these into so-called 'investment priorities' for ERDF, ESF and Cohesion Fund, while EAFRD and EMFF use the terminology 'Union priorities'. At the same time, the CSF proposal developed the 11 Thematic Objectives into over 100 so-called 'key actions'. Although there are some differences between the suggested priorities and the CSF's key actions, they mostly cover similar aspects. However, the legal status of the CSF requires clarification, especially with regard to the relation between 'key actions', 'thematic objectives' and 'investment priorities'.[20] For Nordrhein-Westfalen, the inconsistencies between the CSF and the draft regulations more widely need to be addressed. In similar vein, authorities in Austria regard the duplication of several issues in separate documents to be confusing. Especially horizontal themes should be dealt with by only one document, i.e. the CSF, the general regulation or a Fund-specific regulation.

The thematic objectives themselves are mostly welcomed (e.g. Czech Integrated OP, Bizkaia, France, Italy, Keski-Suomi, Latvia, Niederösterreich, Portugal, Sachsen-Anhalt, Scotland, Slovenia, Spain, Steiermark, Śląskie ESF unit, Vlaanderen, Wales). Europe 2020 themes are similar to those covered under the Lisbon Strategy, therefore many programme managers do not expect major challenges with the thematic orientation. In several cases, the **suggested themes are also in line**

[20] REGI News, Newsletter from the European Parliament Committee on Regional Development, VII Legislature N. 30, 12 March 2012, p. 7. Available at: http://www.europarl.europa.eu/document/activities/cont/201203/20120312ATT40539/20120312ATT40539EN.pdf

with domestic priorities (DFB, Nordrhein-Westfalen, Scotland, Steiermark, Vlaanderen), and the thematic orientation of the future OP will be based on domestic strategies broadly consistent with Europe 2020.

Yet, the **key debate is between thematic concentration and flexibility to adjust to the needs of regions**. Although concentration itself is seen as useful, e.g. in order to avoid spreading the funding too thinly across too many themes, many countries are **concerned about the Commission's proposals to prescribing possible investment actions or interventions** (England, Germany, Greece, Latvia, Spain, Wales Vlaanderen). The formal German government position is against ring-fencing and also England sees the ring-fencing proposals to be potentially counter-productive. According to Greece, the CSF should be a strategic document which provides enough flexibility for the Member States to define their own thematic and territorial policies within their Partnership Agreement. Similarly, Vlaanderen thinks that decisions about what interventions are to be funded should take place at the regional level. The current proposals are supposed to take too much of a top down approach and this will have a detrimental effect on the impact of investments. For Latvia, EU-level strategies more generally, such as Europe 2020, should not limit the choice of national investment areas. In Portugal, there is some uncertainty about the future degree of prescriptiveness, and they argue that the actions identified should not be seen as a list of eligible investments, but as examples, i.e. 'indicative key actions'.

Many argue instead for greater flexibility to tailor approaches to regional needs (Denmark, Finland, France, Italy, Portugal, Spain). Finland would also like to see clear indications by the Commission on how binding these targets are and on which level. Denmark argues that the ring-fenced themes are already well enough incorporated into Europe 2020, and an additional inclusion into Cohesion policy might conflict with the sectoral set-up of Danish public administration.

Some have concerns about themes not covered (Czech Republic, Śląskie). The Czech National Coordination Authority is concerned that there will be less scope for infrastructure support; this is an area of Cohesion policy still relevant also for other EU15. In Śląskie, coal remains an important source of energy in the region, but the ring-fencing proposals prioritise investments in renewable energy. This move is generally supported, but the ERDF unit plans to fund low emission objectives in the coal sector rather than non-carbon energy sources.

More generally, the ring-fencing approach might result in **very fragmented programmes, especially smaller ones in more-developed regions**. As expressed by Niederösterreich and Steiermark, this raises concerns for those themes not falling under the ring-fenced 85 percent. Especially programmes with little and potentially further reduced funds will find it difficult to create the critical mass to reasonably fund other themes. In the end, there is the risk that some themes might not be covered anymore.

3.1.3 Local Agenda

The proposed strengthening of the local agenda is welcomed in principle (Greece, Nordrhein-Westfalen, Portugal, Vlaanderen), but some authorities remain more sceptical (France, Italian OP R&C). For France, the approach is not very clear yet, and they are rather sceptical since the Commission rationale is thematic and not territorial. Also for others the proposals are difficult to judge as they need further clarification (Slovenia, Steiermark, Śląskie, Wales).

Some programme authorities are **concerned about the capacities of local-level authorities to manage Structural Funds**, especially with regard to monitoring and control requirements (England, Vlaanderen, Czech Republic). Vlaanderen argues that it should be avoided that smaller units and cities have their own management and implementation structures. The size of the cities in Vlaanderen and the small ERDF programme do not justify such a framework, which would only require unnecessary administrative resources.

For the Czech Republic and Portugal it is important that prescriptive approaches are avoided. The **use of the new instruments with local orientation needs to remain optional and respect the subsidiarity principle**, as well as the political and institutional arrangements of each Member State. Portugal points out that the Commission should make the demarcation between the two main suggested instruments, i.e. Community-led Local Development (CLLD) and Integrated Territorial Investments (ITI), more explicit. Scotland, instead, sees parallels to the existing Scottish Community Planning Partnerships (CPPs) and Strategic Delivery Bodies (SDBs). The CPPs and SDBs could develop a strategic plan and match it at local level. This might be a way to simplify costing, audit regimes etc. They then need to find a way to fit that with a very bottom-up LEADER-type approach.

(i) Community-led Local Development (CLLD)

According to the proposals, the Community-led Local Development (CLLD) concept will be introduced for all CSF Funds. In line with the LEADER approach, local actions groups should be responsible for the implementation of local development strategies.[21]

The concept of CLLD is supported mainly by those countries that made predominantly positive experiences with similar approaches like LEADER in the previous programme periods (Finland, Greece, Wales). However, Greece suggests that potential areas for CLLD should only be identified at a later stage, and not already as part of OPs, as suggested in current proposals. Portugal argues for an amendment of the regulations to make the multi-OP funding option of CLLD clearer. Also some provisions currently only available in the context of the EAFRD, like the option of a 50 percent advance payment, should apply to all funds in order to harmonise the rules and to avoid distortion of demand of one Fund over the other. In Sachsen-Anhalt, the possible use of LEADER-type interventions has not yet been discussed, but the experiences under the EAFRD OP have been positive.

Other authorities are more sceptical with regard to CLLD (Czech Republic, England, Keski-Suomi, Niederösterreich, Spain, Steiermark). The Finnish Regional Management Committee of Keski-Suomi (Länsi-Suomi) noticed that in some cases, LEADER led to rural developing communities relying too much on external support. Also, the inclusion of smaller actors, which is often associated with the local agenda, is not easy. Hence, CLLD may also be in contradiction with the goal of simplifying administration. In Spain, the implementation of the LEADER approach has been challenging in the past due to its complexity. Similarly, in England, LEADER is seen a good approach in theory, but past experiences, also with URBAN II, showed implementation difficulties, e.g. with financial control. Steiermark and the Czech Republic envisage a very complex coordination structure with

[21] European Commission (2012*) Factsheet Community-led Local Development*, March 2012. Available at: http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/community_en.pdf

too many actors at the local level. This is complicated by the fact that in most Member States LEADER is managed by a different body than Structural Funds. Also, there is significant heterogeneity amongst local action groups (LAGs) in many countries (e.g. Czech Republic) and no experience of cities with the LEADER method. Niederösterreich identified some more fundamental practical issues with regard to the implementation of CLLD: those themes that would be interesting for the application of CLLD are outside the ring-fenced themes for more-developed regions, and LEADER strategies will need to be set up by the end of 2015, when the OPs are already up and running.

Some regions decided not to implement CLLD or only to a limited extent (Nordrhein-Westfalen, Śląskie ERDF). Nordrhein-Westfalen already decided not to implement any CLLD as part of their ERDF programme, and also the EAFRD OP will only allocate a small amount of funds for this purpose. The Śląskie ERDF managing authority considers CLLD to be useful only in smaller urban or rural units. Hence, it is not seen to be particularly applicable to a heavily urbanised region like Śląskie.

(ii) Integrated Territorial Investments (ITIs)

Integrated Territorial Investments (ITIs) represent another new regulatory instrument with a sub-regional focus, but are specific to the ERDF, ESF and the Cohesion Fund. ITIs are urban development strategies or other territorial strategies/pacts involving integrated investments under more than one Priority of one or more OPs. The key programming requirements are the identification of ITIs in OPs, including planned financial allocations, and the subsequent monitoring of ITI outputs during implementation.[22]

ITIs are seen as potentially useful instruments (e.g. Niederösterreich, Nordrhein-Westfalen, Steiermark, Vlaanderen, Wales). However, a significant number of authorities perceive that there are **still many open questions about the implementation of ITIs in practice** (Czech Republic, France, Greece, Nordrhein-Westfalen, Śląskie, Wales). The idea that it would be possible to apply for financing from different OPs with a single project application is seen as technically unfeasible by the Czech Republic. For Greece, the complex character of ITIs will not allow defining indicative implementation arrangements already in the Partnership Arrangements, as it is currently proposed.

The programme authorities in Śląskie, instead, see some open questions on how to select cities to participate in ITI. Selection will take place at the national level and the focus would be on the largest, most economically vibrant cities. This would mean that large areas surrounding these centres would not be covered, potentially creating tensions. Some of the poorest areas in Śląskie are located in urban centres and there could be political tensions if these cities were not covered by ITI instruments.

Some programme managers are concerned about the proposal that funding should be fully managed by city councils. The German *Länder* Nordrhein-Westfalen and Sachsen-Anhalt see a problem in the fact that although they would not be able to control the cities' management and implementation of the funds, they would ultimately be legally responsible for the financial

[22] European Commission (2012*) Factsheet Integrated Sustainable Urban Development*, February 2012. Available at: http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/urban_en.pdf

management of Cohesion policy resources. Nordrhein-Westfalen welcomes the cities developing their own strategies and to manage earmarked blocks of funding, but not for the city councils to take responsibility for final financial management. Moreover, also the city councils do not want this level of responsibility because of the administrative burden involved. Also in France, town representatives are reserved with regard to managing EU Funds, mainly due to the administrative cost, and therefore they argue that this should remain an option.

There are different views about the five percent minimum allocation to sustainable urban development. While some do not see the rationale for an obligatory allocation or question the usefulness of such an approach (e.g. Czech Republic, England, Niederösterreich), others do not envisage any difficulties in meeting the threshold (Latvia, Nordrhein-Westfalen, Sachsen-Anhalt, Vlaanderen). The Nordrhein-Westfalen ERDF managing authority plans to allocate even more to ITI, possibly up to 20 percent. In Vlaanderen, already the current programme's 'Urban Development' Priority has a budget of 24 percent of the total and thus far exceeds this target. In France, not surprisingly, the associations of the mayors of large cities (AMGVF) and of urban communities (ACUF) regard the five percent share of the national envelope as too low. Finally, Wales is aware that five percent is a Member State target, and its usefulness hence depends on what share of the United Kingdom allocation will go to Wales.

(iii) Urban development platform

In its proposals for the Cohesion policy 2014-20, the European Commission suggests strengthening the urban aspect. In line with Commissioner Hahn's commitment to set an ambitious urban agenda at EU level, the draft ERDF regulation proposes the establishment of an Urban Development Platform. It would be set up at EU level comprising 300 cities, with a maximum number of 20 per Member State. These should be selected on the basis of population criteria and the existence of an integrated strategy for urban development, and need to be listed in the Partnership Agreements.[23]

Only little detail is yet known about the activities of the platform and **some IQ-Net programme authorities are indifferent to it** (e.g. Niederösterreich, Sachsen-Anhalt, Steiermark). Others, such as Greece, support the establishment of an urban development platform to promote capacity building and the exchange of experience.

The usefulness of an additional urban platform is questioned by several IQ-Net programme authorities (Czech Republic, Nordrhein-Westfalen, Portugal, Śląskie, Vlaanderen). Portugal feels that any kind of overlapping of tools should be avoided and asks for clarification about differences and complementarities between the Urban Platform, URBACT and the JESSICA platform. Also Vlaanderen feels that there are already sufficient domestic urban networking opportunities. The Śląskie ERDF unit misses a reference to the results of URBACT II, in which many cities in the region participated.

[23] At the Urban Forum on 16 February 2012 Commissioner Hahn launched a process of direct dialogue with Europe's cities. For his speech see: http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/12/101&format=HTML&aged=0&language=EN&guiLanguage=fr

The selection process for cities for the Urban Platform is seen critically (Czech Republic, Greece, Śląskie, Vlaanderen). The Czech Republic sees a danger of political and lobbyist interests being more relevant for the selection than objective expert assessment. In Poland, there is a danger that many Polish cities, including several from Śląskie, would be excluded from the platform. Therefore, the ERDF unit argues for the establishment of an urban development platform, but as a supplement rather than a substitute for the URBACT Programme. Within URBACT Programme there should be continued scope for cooperation between cities from different areas, including those that do not belong to the platform. Moreover, if the platform is established, criteria for the selection of cities should be clarified there should be prepared clarified, in order to enable Member States to make an objective choice. Finally, the competences of the European Commission within the platform, and the role of the platform in the wider Structural Funds implementation system for urban development needs to be further clarified. In France, representatives of French cities would prefer a call for tender system to identify the cities participating in the platform. This would allow the selection of participants based on projects rather than rigid criteria such as the number of inhabitants.

Also the proposal of listing the 300 cities (and 20 cities per Member States) and limiting this number is met with criticism (Greece, Portugal, Vlaanderen). In France, according to the French associations of the mayors of large cities (AMGVF) and of urban communities (ACUF), the selection of a maximum of 20 cities would lead to the exclusion of medium-sized towns. Vlaanderen perceives the number of 20 cities to be arbitrary, which may cause tensions. Greece and Portugal suggest that programmes should not contain lists of cities, but only their selection criteria.

3.2 Preparations for the future

3.2.1 Progress with preparations

Over the past six months, **most IQ-Net countries and regions have made considerable progress with their preparations for the 2014-20 programme period.**[24] The preparations of the Partnership Agreements and operational programmes are in full swing in many countries (Austria, Czech Republic, Finland, Germany, Poland, United Kingdom). However, some countries note that it is first necessary to approve the legislative proposals, because there are various issues that have yet to be agreed in relation to the content of Partnership Agreements and programmes (Poland, Spain).

- **Czech Republic**. The Ministry for Regional Development is currently preparing a basic draft of the Partnership Agreement, including an indication of the future structure of the programmes.

- **Denmark**. Preparations for the new programme period started in February 2012, and it is expected that the process is likely to be similar to the planning for 2007-13. Yet, the process will be different insofar as there is a new institutional setup following the local government reform.

[24] See Kah S (2011) *op. cit.*, pp. 51-57.

- **Finland**. The preparatory work is currently on-going in the Committee for Regional Development and Structural Funds (ARNE). A first draft of the joint OP has been presented on 16 May 2012 and further decisions will be taken in June 2012.

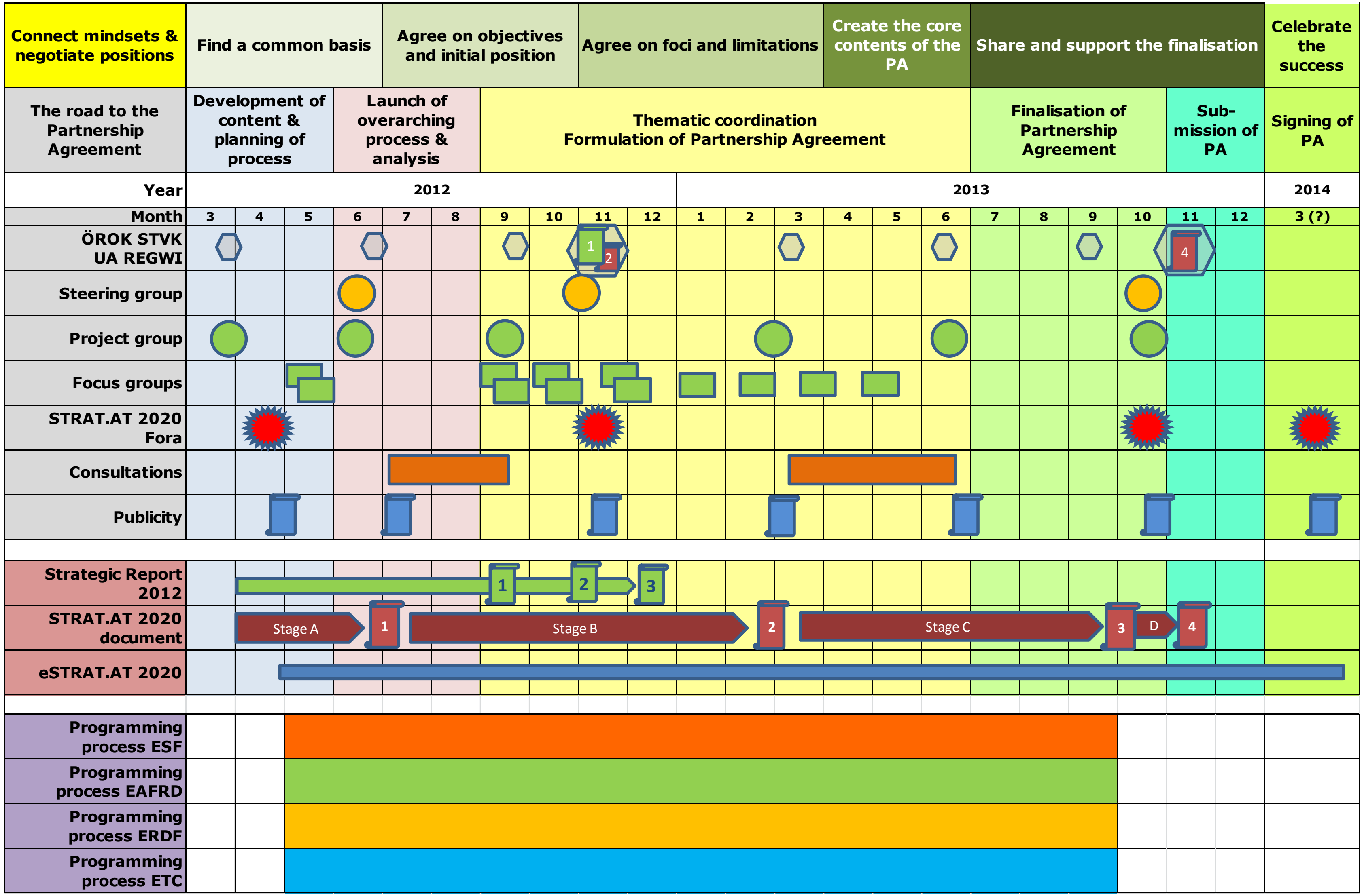
- **Greece**. A circular is currently being prepared by the National Coordinating Authority and a conference is planned for early October 2012.

- **Poland**. The Ministry of Regional Development will present a draft of the future programming and implementation system in July 2012. In addition, draft proposals for the future operational programmes should be prepared by the end of 2012. In the run up to this, there will be consultations between the Ministry of Regional Development and the regions.

- **Slovenia**. The first meeting of the interministerial group took place on 17 April 2012. So far, only the range of actors involved has been defined and the strategic themes will be defined by the end of 2012. The main reason for minor delays is the change of government earlier this year.

In Austria, first interministerial consultations with all relevant Ministries and representatives of the *Länder* started in October 2011. Experts from the *Länder* governments have also been meeting regularly as part of the *Landesamtsdirektorenkonferenz* (LADK). The drafting process of the Partnership Agreement is steered by ÖROK (Austrian Conference on Spatial Planning). With its partners, ÖROK developed a roadmap (see Figure 2) until the launch of the new programme period at the start of 2014, including the programming processes for the ERDF, ESF, EAFRD and ETC programmes. The timetable defines milestones for different actors, including document drafts, consultations and publicity events. Responsibility lies with ÖROK's sub-committee for regional economy (*Unterausschuss Regionalwirtschaft*), and the main actors are a steering group and a project group. About 12 thematic focus groups will look at specific issues, for instance the role of the regional level. A first draft of the Partnership Agreement is envisaged for end of June 2012. After a first round of consultations, a second draft will be prepared in the first quarter of 2013. Following a second round of consultations, a final version of the Partnership Agreement will be ready towards the end of 2013.

Figure 2: Austrian roadmap to the 2014-20 programme period



Source: ÖROK, EPRC translation

Several regional-level IQ-Net partner authorities have been active in developing their strategic directions for 2014-20 as well (e.g. Nordrhein-Westfalen, Länsi-Suomi, País Vasco, Sachsen-Anhalt, Steiermark, Vlaanderen, Wales). In Nordrhein-Westfalen, the *Land* authorities have already agreed a draft version of core aspects of the 2014-20 programme, namely the OP goals and draft Priorities, and they have provided this information to the federal authorities. They aim to present the *Land* government cabinet with a draft document for a formal decision in summer 2012. The Sachsen-Anhalt managing authority has developed an initial paper on possible future priorities for the ERDF and ESF programmes in 2014-20, has circulated it to the other *Land* ministries and has received initial feedback. In Wales, there was a Cabinet Meeting at the end of April 2012, and work on the Welsh OPs started formally after a Ministerial announcement in May 2012. In Steiermark, a draft of the programme is expected by summer 2012. So far there have been two workshops in Steiermark, involving all intermediate bodies and the relevant Federal Ministries, and a first draft has been discussed with economic and social partners in May 2012. In País Vasco, there is a working group and a timetable setting out the preparatory steps for 2012-13. The development of the Vlaanderen ERDF programme will be supported by a specific workgroup, but the actual drafting will potentially be outsourced. Reasons for this are not only the effort needed, but also to ensure the independence of the document. In fact, the Flemish Enterprise Agency, which as managing authority wrote the current OP, has noticed some tensions with other stakeholders who felt the managing authority prioritised their own interests. In Śląskie, the thematic orientation of the next ERDF OP will be based on the Regional Development Strategy and an updated socio-economic analysis. These will be aligned with the thematic objectives of Europe 2020. The Ministry of Regional Development will send guidelines on how regions should allocate funds to priorities in the next generation of regional OPs. With regard to the Śląskie ESF OP, work is underway and a draft should be ready by late autumn 2012. For instance, there could be some rebalancing of responsibilities for particular sectors between central and regional levels. In Finland, where one joint ERDF and ESF OP for the whole country is planned, regions are first working in two groups (East and North as one coordinating group and South and West as another) in the preparatory stages, after which the regional inputs are coordinated. For the western and southern part of the programme, Päijät-Häme council (Etelä-Suomi) is responsible for coordination and Pirkanmaa (Länsi-Suomi) for the drafting process.

Although preparations are mostly at an early stage, some programme authorities have already formed more concrete ideas about the actual content of the future programmes (Nordrhein-Westfalen, Sachsen-Anhalt). In Nordrhein-Westfalen, the ERDF OP will probably have four priorities, namely the three Thematic Objectives mandated in the Commission's proposals (Strengthening research, technological development and innovation; Enhancing the competitiveness of SMEs; and Supporting the shift towards a low-carbon economy) plus a fourth priority for urban development (ITIs) and other issues. Sachsen-Anhalt aims to concentrate funding from ERDF, ESF and EAFRD on ten Priorities (plus Technical Assistance).

In a number of devolved or federal countries, the drafting process of the Partnership Agreement involves integrating sub-national inputs (Belgium, Germany, Spain, United Kingdom). In the United Kingdom, BIS will draw up the Partnership Agreement in the same way as for the 2007-13 NSRF; there will be separate chapters for England, Wales, Scotland and Northern Ireland drawn up by the respective managing authorities. Draft country chapters will have to be submitted to BIS by the end of 2012, after which the United Kingdom Government will open a formal three month consultation. In Germany, the Federal Ministry for the Economy and Innovation has asked all *Länder* for information on key aspects of their planning for the 2014-20 programmes by autumn 2012. The Federal Ministry is going to take on an external consultant to help draft the partnership contract. A meeting is also planned of Commission staff, Federal Ministry staff and the managing authorities of all ERDF programmes. In Belgium, the partnership contract for Belgium will consist of three résumés from respectively Vlaanderen, Wallonie and Brussels.

Some countries expect to start their preparations in the coming months (Portugal, Spain). Nevertheless, in both cases the domestic strategic plans underpinning the future programmes are being developed at national and/or regional level. For instance, the Portuguese government has announced a new 'Strategic Plan on Entrepreneurship and Innovation (+E+I)' on 7 December 2011, which is likely to inform the future programmes. The Spanish government is also developing its innovation strategy.

3.2.2 Planning tools

In terms of tools, IQ-Net countries and regions have usually set up working groups at various spatial levels, prepared studies or carried out consultations.

In many cases, working groups have been set up at the national level (e.g. Finland, France, Italy, Slovenia). Finland set up a 2014+ Cohesion working group and the committee for regional development and Structural Funds 'ARNE'. Political decisions are made by the ministerial working group on public administration and regional development (HALKE). In Slovenia, there is an interministerial working group coordinated by the Ministry of Foreign Affairs, and in Italy it is a technical coordinating group composed by national administrations, the Conference of Presidents of Regions and Autonomous Provinces and the various regional administrations. In France, the main activities take place at an inter-ministerial level with close involvement of DATAR. In line with the agenda of the Danish presidency, the discussion is divided in the seven blocks: strategic programming (CSF, Partnership Agreement, OPs); conditionalities (ex-ante/ex-post, but not macroeconomic); performance framework; management and control; monitoring and evaluation; eligibility (e.g. revenue-generating projects); and financial management and simplification. Preparations for the programming architecture are being carried out in the context of the joint framework for all Funds. This involves the organisation of inter-fund collaboration through an inter-fund group composed of all Ministries involved in European programming, notably Interior, Agriculture and Employment. DATAR facilitates these meetings, which take place bimonthly. The group is composed of technical experts (*chargés de mission*), who prepare the work; this is later discussed at the level of an inter-fund committee, bringing together director generals of the ministries. Some regional State representatives (SGAR), notably of the outermost regions, are also being associated to the process.

Especially in countries with more regionalised implementation structures, there are working groups at the sub-national level (e.g. Niederösterreich, Nordrhein-Westfalen, País Vasco, Sachsen-Anhalt, Śląskie, Wales, Vlaanderen).

- **Nordrhein-Westfalen**. A working group has been set up in the *Land* Ministry for the Economy, Energy, Construction, Housing and Transport, where the managing authority is located, as well as another working group that involves all relevant *Land* ministries.

- **Vlaanderen**. There is one overarching workgroup which includes representatives from ESF, ERDF, EAFRD and EMFF.

- **Śląskie**. The region established a cross-departmental group within the Marshall's Office to prepare a draft of the regional ERDF programme. It also set up a Regional Forum to stimulate debate on the strategic objectives, regional trends and effects of regional policy and to provide a platform for exchange of information and experience between regional stakeholders.

- **Niederösterreich**. The *Land* uses the current steering group as the platform for strategic planning of the next programme period. The drafting process has been assigned to two consultancies. At a first meeting on 16 April 2012, the managing authority gathered input from the IBs.

- **Wales**. The 'European Programmes Partnership Forum'[25] has been meeting since autumn 2011. This involves quarterly meetings to discuss the make-up and direction of the future programmes. The Partnership Forum is an advisory body made up of representatives of a range of sectors, including private, education, trades unions, employment services, environmental and sustainability organisations, the third sector, local government and the Welsh Government. The Welsh European Funding Office (WEFO) is also setting up so-called 'External Workstreams' (see Box 2).

Box 2: Workstreams in Wales

In Wales, actors with experience in the delivery of EU funded programmes and relevant EU-level, United Kingdom and Welsh policy are currently being sought via WEFO's website for a series of External Workstreams to support the detailed development of the future programmes. Each of the four workstream will comprise of a mix of specialists from external organisations, Welsh Government and WEFO staff. It is intended that there be a balance of sector, geographical and gender representation:

- Operational Programmes: support detailed planning and drafting of OPs and the Welsh chapter of the United Kingdom Partnership Contract.

- Delivery and Compliance: consider the compliance of programmes with EU regulations, United Kingdom and Welsh legislation, Welsh eligibility rules, requirements for guidance, audit arrangements and programme implementation arrangements.

- Monitoring and Evaluation: support the development and review of monitoring and evaluation arrangements and the performance framework.

- Territorial Co-operation: inform Wales' negotiations with Ireland (cross-border) and with the United Kingdom Government on ERDF transnational and interregional programmes.

Source: http://wefo.wales.gov.uk/programmes/post2013/news/120322workstreams/?lang=en

[25] More information on the European Programmes Partnership Forum (2014-2020) is available at: http://wefo.wales.gov.uk/programmes/post2013/eppf20142020/?lang=en

Sachsen-Anhalt even has a series of different working groups. First, there are regular meetings between the three key *Land* bodies involved in the future of EU funding, namely the ERDF/ESF managing authority, the EAFRD managing authority and the *Land*'s State Chancellery. Second, the *Land* has set up a steering group made up of representatives of all relevant *Land* ministries plus the external evaluators. Third, the *Land* may also set up a second steering group with broader membership, notably including representatives of the different socio-economic partners as well as the *Land* ministries. Fourth, two sub-committees of the ERDF/ESF monitoring committee are already discussing the future programmes: one focuses on environmental issues and the other on equal opportunities.

Studies, evaluations and other analyses form the basis for planning in many cases (Czech Republic, Latvia, Sachsen-Anhalt, Śląskie ERDF & ESF, Portugal, Wales). The Sachsen-Anhalt managing authority has awarded a contract for a socio-economic analysis including a SWOT analysis, which will inform the future allocation of funding between the thematic priorities. The study should be completed by July/August 2012. Further calls are being prepared for study contracts relating to other aspects of the development of the programmes and the ex-ante evaluation, both by the managing authority on programme-wide aspects and by intermediate bodies (located in other *Land* ministries) on issues/strategies relating to particular thematic priorities (e.g. innovation). Portugal will be commissioning an evaluation to examine the post-2013 priorities in the context of the Strategic Report 2012 (see Section 2.2.5). The MRD in the Czech Republic has been producing a series of background analyses for the orientation of the programmes. Śląskie produced a number of evaluations (see Section 2.2.4) and other studies that will feed into the programming process. In Latvia, the Ministry of Finance commissioned a study on Cohesion policy priorities in Latvia for the post-2013 programming period, including public consultations. It resulted in the prioritisation of five Thematic Objectives: (1) Transport Infrastructure, (2) Information Society, (3) Employment, Social Inclusion and Education, (4) Environment and (5) Research & Development. Wales carried out a so-called reflections exercise gathering partner's views on future programmes.[26] This finished at the end of January 2012 and a report is being finalised. The results feed into the 'European Programmes Partnership Forum' mentioned above. The recently published synthesis report of the impact of the 2000-06 programmes in Wales will also feed in to the process of programme development.[27] The Śląskie ESF unit uses the 'Partner 3' project pipeline system to assess potential projects for 2014-20.

Other tools include or mechanisms include the following.

- **Information events**. The Sachsen-Anhalt Finance Minister will lead a series of informal discussions (*Dialogreihe*) with partners on the horizontal themes in the future programmes from autumn 2012. The ERDF/ESF managing authority is also planning to hold a number of open workshops on cross-cutting themes such as demographic change, equality of opportunity and the environment. Once the programme is ready, Nordrhein-Westfalen plans to hold a big public event involving *Land* ministers to launch the new funding period.

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[26] Welsh European Funding Office (2012) *European Structural Funds Programmes 2014-2020. Reflections Exercise - Synthesis Report*. Final Report, May 2012. Available at: http://wales.gov.uk/docs/wefo/publications/120515reflectionsexerciseen.pdf

[27] Welsh Government (2012) *2000-2006 Structural Funds Synthesis Report*, January 2012. Available at: http://wales.gov.uk/docs/wefo/report/120320europeanprogrammessynthesisen.pdf

- **Online blog**. In Scotland, the managing authority has started a blog[28] posting details of talks with both the United Kingdom Government and the European Commission on the future of Structural Funds in Scotland, and providing updates and links to key publications. It is hoped that this will develop further into a forum for stakeholder discussion on the future.

- **Consultations**. In England, an online consultation on the future delivery of the all CSF Funds (see Box 3) has been carried out in March and April 2012. This informal consultation procedure has been launched by the UK Department for Business Innovation and Skills (BIS), which invited initial views on the various delivery options for the four Funds (ERDF, ESF, EAFRD and EMFF) in England. Also Nordrhein-Westfalen is planning to carry out an online consultation, combined with a public consultation with the socio-economic partners. Finally, also Scotland plans to carry out a consultation, probably after a series of meetings with stakeholders to discuss and develop different aspects of the future programmes.

Box 3: BIS consultation on the future delivery of the CSF Funds in England

In England, the informal consultation procedure on Structural Funds, EAFRD and EMFF ran from 28 March to 27 April 2012 and invited answers to the following questions:

Objectives / themes

1. Which of the Commission's objectives for the CSF Funds most align with your organisation's own objectives and plans?

2. Are there certain CSF objectives which might be more suited to thematic, 'issue-based' programmes? If so, why and what mechanisms would be required to ensure sufficient local flexibility and involvement in decision-making and strategic guidance?

Geography & local focus

3. Where does your organisation see opportunities for more localised place-based programmes or projects within programmes and for which Funds or combination of Funds? How would this improve outcomes?

Streamlined administration

4. What key things need to change in the way the Funds are currently used in order to reduce the administrative burden involved, whilst conforming to EU management control requirements?

Integration / joining up across Funds & between outcomes

5. Are there specific combinations of Funds, or elements of Funds, which lend themselves to operating in a more integrated or aligned way? If so, what kind of complementary measures and outcomes would you want to see?

[28] The Scottish 'Future of the Funds Blog' is available at: http://blogs.scotland.gov.uk/eu-structural-funds/

6. Where does your organisation see opportunities for using some of the options proposed by the Commission to promote more localised and co-ordinated programming, such as Joint Action Plans, Integrated Territorial Investments and Community-Led Local Development?

Other issues

7. Are there any other specific points you wish to be considered which are not covered by the other questions?

Initial views received will be followed up in greater detail with all responding organisations. However, the final results will inform the development of the United Kingdom Partnership Agreement relating to England. Scottish, Welsh and Northern Irish administrations are making their own consultation arrangements as part of the preparations.

Source: http://www.bis.gov.uk/assets/biscore/economic-development/docs/p/12-642-partnership-agreement-structural-funds-consultation

3.2.3 Responding to reduced public budgets

The preparations for the next programme period are influenced by the austerity measures in several countries (Finland, Greece, Śląskie, Portugal). Social and economic conditions will have to be taken into account during the programming process; therefore the crisis will inevitably have an impact on the thematic orientation of future programmes and their implementation. Italy even perceives incoherence between Structural Founds programming aimed at promoting growth and austerity measures for financial recovery. Therefore they feel that a more fundamental reflection on the role of Cohesion policy in the actual macroeconomic context is needed.

Thematic concentration will be a necessary consequence in several cases. Greece and the Śląskie ESF unit point out that greater concentration on fewer priorities can help to secure the necessary critical mass of resources and achieve greater visibility of the interventions for the wider public. However, Greece estimates that thematic concentration could be more effective at the level programmes and could result from an ex-ante evaluation of alternatives at national and regional levels. For the Śląskie ESF unit, thematic concentration should help focus on social inclusion and the social economy, those areas that are most important. Interestingly, Niederösterreich expects the **reduced funding for domestic policies to create an increased interest in Cohesion policy as funding source**.

An important issue for many IQ-Net programme authorities is be the availability of future co-financing (England, Finland, France, Greece, Nordrhein-Westfalen, Portugal, Sachsen-Anhalt, Scotland, Slovenia, Śląskie). In Scotland, the crisis is expected to continue in terms of the difficulty in obtaining match funding. In Greece, the resources for the national Public Investments Programme (PIP) will continuously be decreasing over the next years in the light of the difficult economic situation. This will reduce co-financing and hence the country is looking for financial flexibility, especially in terms of the n+2 rule. Also for Śląskie, domestic co-financing will be an issue, but the impact of the crisis on the private sector has not been as severe as in other Member

States. Also, the ERDF unit has received signals that local governments are very interested in project implementation in the next programming period.

However, it is the local level that will be especially affected in some countries (Finland, France, Nordrhein-Westfalen, Sachsen-Anhalt, Śląskie). Sachsen-Anhalt expects difficulties with the availability of domestic co-financing for any projects for which the local authorities are responsible. In Nordrhein-Westfalen, *Land* co-financing has so far been relatively limited because of significant co-financing from private firms (around 20 percent) and from other public bodies (such as local authorities and universities). Nevertheless, at times it has been difficult to ensure the *Land* co-financing in 2007-13. This situation is likely to continue in 2014-20 as all public bodies in Nordrhein-Westfalen are facing financial constraints i.e. the local authorities and universities as well as the *Land* itself. Nevertheless, the Nordrhein-Westfalen ERDF OP managing authority argues that an EU co-financing rate of 50 percent is appropriate because it is right that recipients should contribute a significant percentage of the costs of a project. Also in Finland, the reduced availability of co-financing is a major concern especially at the local level. Programme managers feel that there is a need for new co-financing sources; regional cooperation partners from the innovation sector, in particular universities and research institutions will be a potential source.

In the light of pressure on budgets, many IQ-Net programme authorities are planning to focus more on financial instruments as compared to grants (France, Nordrhein-Westfalen, Śląskie ERDF & ESF unit, Vlaanderen). In Vlaanderen, the managing authority is looking into the possibility of introducing alternative funding instruments or mechanisms such as no or low interest loans, as well as projects that can achieve a return on its investment. Yet, no decisions have been taken and there are concerns over whether financial engineering instruments are suitable for a small programme such as Vlaanderen. Financial constraints are raising some questions over the choice of instruments also in Nordrhein-Westfalen, notably whether it would be possible to allocate loans rather than grants for some types of intervention. The Śląskie ERDF authorities will further increase their focus on renewable financial instruments. This entails some changes to the programming process and future programme implementation. However, the low interest of Polish firms in loan instruments means that Śląskie will continue providing grants, albeit only in areas such as innovation, high-value technologies and ICT. The managing authority is aware that they will need to create demand for loans and other financial engineering instruments. Also the Śląskie ESF unit is considering how to utilise best the potential offered by financial engineering instruments. The main challenge is that the typical beneficiaries of the OP are accustomed to grant-based support.

However, a number of IQ-Net countries and regions do not expect any major effect of the austerity measures for the future programmes (Denmark, Latvia, Niederösterreich, Steiermark, Vlaanderen, Wales). Steiermark and Vlaanderen do not envisage any issues with domestic co-financing, not least due to the fact that their programmes will be comparatively small. Latvia, in spite of being hit severely by the economic crisis, does not expect any major impacts on the new programmes.

3.2.4 Organisational and administrative changes

For many IQ-Net programme authorities, it is **still too early to identify likely changes to the organisational and administrative set-up** (Czech Republic, England, Greece, Slovenia). In France, after they governmental changes in May 2012, there is a possibility that more responsibility will be delegated from the regional State services, who are currently seen as the likely bodies to manage the new programmes, to the regions. Slovenia hopes to maintain the current structures. The recent change of the Slovenian government transferred managing responsibilities to a different Ministry, but did not impact on the implementation arrangements. In Greece, a lot will depend on the outcome of the national elections. In Śląskie and Vlaanderen, organisational and administrative changes will only be limited.

Simplification of implementation arrangements remains an important concern for both the Commission and the Member States. In February 2012, the Commission produced a simplification agenda[29] for the Multiannual Financial Framework 2014-20 and a related factsheet[30] on simplification specifically in Cohesion policy. **Also many IQ-Net countries and regions are looking for simpler implementation structures and procedures** (e.g. Austria, Czech Republic, Finland, Nordrhein-Westfalen). In March 2012, a ministerial working group on administration and regional development in Finland announced a series of actions for the new programme period. The introduction of a single integrated programme entails streamlining the preparatory and administrative processes especially for applicants, cutting down the number of internal projects in the administration and concentrating the focus of programme activity. These actions are estimated to create savings of up to 25-30 percent compared to the current situation. This also implies that a considerable shift of resources from public administration to project activity is expected to be achieved. Other actions to ease the administrative burden include improved integration of national and European rules and electronic processes of application, decision-making and payments. Also Nordrhein-Westfalen set up a working group on simplification (see Box 4).

Box 4: Simplification efforts in Nordrhein-Westfalen

The Nordrhein-Westfalen managing authority for the ERDF OP has set up a *Land* inter-ministerial working group on simplification, which is looking at the current Structural Funds management and control system, and also at the *Land*'s own budgetary legal framework (*Landeshaushaltsordnung*) and at how procedures work in practice. The main issues are:

- The interaction between heavy EU rules and heavy domestic rules in Nordrhein-Westfalen; for example, the *Landeshaushaltsordnung* precludes the use of simplified cost options (*Pauschale*) unless very strong justifications can be made through a complex procedure.

- The extensive use of the competitive call approach led to the ERDF OP allocating funding to a large number of small, often collaborative projects (likely to be c.3,000 by the end of the period), which have frequently involved high levels of staff costs. These and other 'soft' costs tend to be more difficult to deal with rather than e.g. the purchase of equipment. For each project, the programme bodies typically have to do up to four payment claims, as well as one or more contractual change; a lot has to be done manually and it is very time-consuming.

[29] European Commission (2012) *A Simplification Agenda for the MFF 2014-2020*, COM(2012) 42 final, Annex 3, 8 February 2012. Available at: http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/com_2012_42.5_annex3_en.pdf

[30] European Commission (2012*) Factsheet Simplifying Cohesion Policy for 2014-2020*, February 2012. Available at: http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/simplification_en.pdf

- The Nordrhein-Westfalen ERDF OP has involved a number of different intermediate and implementing bodies in 2007-13, leading to an increase in coordination costs and the need to ensure that a wide number of actors are dealing appropriately with Structural Funds requirements.

In addition, Nordrhein-Westfalen is planning to take the certifying authority back into one of the *Land* ministries from the *Land* Investment Bank (*NRW.BANK*). As the draft regulations state that the certifying authority needs to be in a different institution than the managing authority, it will not be possible to take it into the *Land* Ministry for the Economy, Energy, Construction, Housing and Transport, where the managing authority is located) and it has not yet been decided to which other *Land* ministry it will be moved.

A reduction in the number programmes is planned in Finland and the Czech Republic, and also Austria and Scotland are considering this option. In the Czech Republic, one of the main issues is currently whether to continue with regional ERDF programmes or to have only one joint regional ERDF programme. In Finland, the number of programmes will be reduced from five (four ERDF OPs and one ESF OP) to one, integrating both ERDF and ESF. However, the programme will be divided into two regional plans, one for the south and west (Etelä-Suomi and Länsi-Suomi) and one for the east and north (Itä-Suomi and Pohjois-Suomi). In Austria, experts from the *Länder* governments are currently discussing the two options. In the case of one central OP, this would allow the single *Länder* to implement a part of it independently. One reason for the thinking about a central OP is an internal evaluation of all public funding schemes. It showed that the number of instruments is too high; hence the federal authorities aim at reducing their number. However, a single federal OP would have a series of advantages:

- It would allow for the regional concentration of funding, in this way circumventing small-scale ring-fencing limitations.
- It would allow for more flexibility for *Land*-level actors, as implementation would be less driven by indicators.
- The available funds for smaller themes outside the 80 percent concentration would have the necessary critical mass.
- It could potentially raise the project quality.

Also in Slovenia the future set-up will very much depend on the decision about the number of future OPs. Slovenia faces the challenge that the west of the country will most likely fall under the most-developed regional category, while the east will remain in the least-developed category.

In line with the strategic integration of EU Funds via the CSF at European level, Wales is **merging the managing authorities for Structural Funds and rural development**, and also Sachsen-Anhalt is considering doing so. In Wales, the WEFO are reorganising their Structural Funds and rural development teams to form a European Directorate. This will be one directorate looking after EU programmes and trying to deliver EU funding as one programme where possible. Sachsen-Anhalt is considering moving the managing authority for the EAFRD programme from the *Land* Ministry for Agriculture and the Environment to the *Land* Ministry of Finance, where managing authority for

ERDF and ESF is already located. However, the ERDF/ESF audit authority in Sachsen-Anhalt might have to be moved to different institution due to a regulatory proposal that in those programmes with more than €250 million EU contribution, the audit authority may not be part of the same public authority or body as the managing authority.

In Denmark and Finland, **the role of regional institutions will be strengthened**. Although Denmark does not plan any changes, programme managers expect regional stakeholders such as the regional programme administrators supporting the Regional Growth Fora to be in a stronger position in 2014-20. In Finland, in spite of the creation of a single joint OP, the role of the Regional Management Committees has been strengthened. If possible, only the 18 Regional Councils and the 15 Economic and Labour (ELY)-centres will act as intermediate bodies.

In Latvia, a **completely new management and implementation system** will be set up. The selected model establishes a joint system for both Cohesion policy objectives, i.e. Convergence and Territorial Cooperation and a separate system for EAFRD and EMFF.

4. CONCLUSION

Although the preparation of the 2014-20 programme period is increasingly requiring the attention of programme authorities, the delivery of current programmes remains at the focus of programme managers. The implementation of IQ-Net programmes has progressed significantly over the past six months, but financial absorption is still lagging behind expected levels in many countries. Currently, most programme authorities are not expecting any short-term issues with decommitment, but issues with n+2(3) cannot be excluded for the future years, when funding committed during the peak of the economic crisis will have to be spent. The situation is further tightened by current payment interruptions due to audit results in several countries. On a more positive note, good progress has been made with financial engineering instruments, which might provide some relief for strained domestic co-financing budgets. At the same time, evaluation efforts continued, often with the view of using synergies with the Strategic Reports 2012 and the preparatory procedures for the 2014-20 programme period.

Looking at the proposals for the future delivery framework, the Staff Working Paper on the Common Strategic Framework (CSF) for 2014-20 has been welcomed in principle, but its legal status and the extent to which it is binding requires further clarification. There is a debate between the usefulness of the proposed thematic concentration on the one hand, and the necessary flexibility to adjust to regional needs on the other hand. Although a strengthened local agenda would be welcomed, there are concerns about the practical implications of Community-led Local Development (CLLD) and Integrated Territorial Investments (ITIs). More generally, performance reserve, conditionalities and the related administrative effort remain at the centre of criticism.

Over the last six months, most IQ-Net countries and regions have set up structures and procedures to prepare for the 2014-20 programme period. There are working groups at the national and, where applicable, sub-national levels. In several cases, studies and evaluations have been launched, which will form the basis for the future Partnership Agreement and operational programmes. Yet, austerity measures are influencing the future orientation of programmes in some cases. Especially the availability of future co-financing is of concern. An increased use of revolving funds, i.e. financial engineering instruments, is an option considered in several Member States. Finally, simplification of programme management remains an important issue. While the Commission has presented its Simplification Agenda for the MFF 2014-20, also several countries and regions are looking to simplify their domestic procedures. One important option that is considered in this context is the reduction in the number of future programmes in a number of Member States.

Improving the Quality of Structural Funds Programme Management through Exchange of Experience

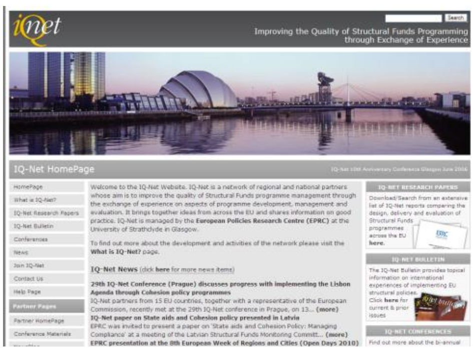
IQ-Net is a network of Convergence and Regional Competitiveness programmes actively exchanging experience on practical programming issues. It involves a programme of research and debate on topical themes relating to Structural Funds programme design, management and delivery, culminating in twice-yearly meetings of members. IQ-Net was established in 1996 and has successfully completed four periods of operation: 1996-99, 1999-2002, 2002-07 and 2007-10. The fifth phase was launched on 1 January 2011 (Phase V, 2011-13).

IQ-Net Meetings

31 partners' meetings and a special 10th anniversary conference have been held in 13 European countries during 16 years of operation of the network. Meetings are held at approximately six-month intervals and are open to IQ-Net partners and to observers interested in joining the network. The meetings are designed to facilitate direct exchange of experience on selected issues, through the presentation of briefing papers, plenary discussions, workshop sessions and study visits in the hosting regions.

IQ-Net Website

The IQ-Net Website is the network's main vehicle of communication for partners and the public. The launch of Phase V has been accompanied by an extensive redesign of the site which comprises two sections:



Partner Intranet Pages available exclusively to IQ-Net members.

Public Pages which provide information on the Network's activities and meetings, allow the download of IQ-Net Reports and Bulletins, and provide a news section on issues relevant to the Network.

The Partners' section of the website provides exclusive services to members of the network, including access to all materials prepared for the IQ-Net meetings, a list of EU27 links (programmes, institutions etc.), partners' contact details, a partners' blog and other items of interest.

IQ-Net Reports

The IQ-Net Reports form the basis for the discussions at each IQ-Net meeting. They present applied and practical information in a style accessible to policy-makers, programme executives and administrators. The reports can be downloaded, at no charge, from the IQ-Net website. To date, 30 thematic papers have been produced on both 'functional issues' (e.g. management arrangements, partnership, information and communication, monitoring systems) and 'thematic issues' (e.g.

innovation, enterprise development, tourism). A similar number of papers have also been produced to review developments in the implementation of the Network's partner programmes.

IQ-Net Thematic Papers

- Innovation and 'smart specialisation' in Cohesion policy programmes
- New financial instruments in Cohesion policy
- Taking stock of programme progress: implementation of the Lisbon Agenda and lessons for Europe 2020
- The Reform of Cohesion Policy after 2013: More Concentration, Greater Performance and Better Governance?
- New Partnership Dynamics in a Changing Cohesion Policy Context
- Pandora's Box and the Delphic Oracle: EU Cohesion Policy and State Aid Compliance
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IQ-Net Bulletin

The IQ-Net Bulletin promotes the dissemination of the Network's activities and results. Fifteen issues have been published to date, over the period from 1996 to 2012. Bulletins are published using a standard format, with each providing summaries of the research undertaken and reports on the discussions which take place at IQ-Net meetings. The Bulletins can be downloaded from the IQ-Net website.

Admission to the IQ-Net Network is open to national and regional Structural Funds Managing Authorities and programme secretariats. For further information or to express an interest, contact Professor John Bachtler (john.bachtler@strath.ac.uk) or Dr Laura Polverari (laura.polverari@strath.ac.uk).