

EUROPEAN UNION



**Committee of the Regions**

# **The Future of Cohesion Policy**

## **Report II**

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Catalogue number: QG-02-15-972-EN-N

ISBN: 978-92-895-0845-2

doi:10.2863/940767

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# List of abbreviations

<b>Abbreviation</b>	<b>Full term</b>
AA	Audit Authority
AECT	Agrupamento Europeu de Cooperação Territorial
BSR	Baltic Sea Region
CA	Certifying Authority
CAP	Common Agricultural Policy
CBC	Cross-border cooperation
CEF	Connecting Europe Facility
CF	Cohesion Fund
CETC	Central European Transport Corridor
CEO	Central Executive Officer
CIVEX	Commission of Citizenship, Governance, Institutional and External Affairs of the Committee of the Regions
CLLD	Community-led Local Development
COESIF	Coordination Committee for the ESIF
COPIT	Cross-Border Standing Conference of Inter-municipal Organisations
CoR	Committee of the Regions
COTER	Commission of Territorial Cohesion Policy of the Committee of the Regions
CP	Cohesion Policy
CPR	Common Provisions Regulation
CSR	Corporate Social Responsibility / Country Specific Recommendation
CSF	Common Strategic Framework
DG	Directorate General
EAFRD	European Agricultural Fund for Rural Development
EAGGF	European Agriculture and Guidance and Guarantee Fund
EC	European Commission
ECF	European Cohesion Fund
ECOS	Commission of Economic and Social Policy of the Committee of the Regions
EDUC	Commission of Education, Youth, Culture and Research of the Committee of the Regions
EETAA	Hellenic Agency for Local Development and Local Government
EEIG	European Economic Interest Grouping
EfD	Expenditure for Development
ESIF	European Structural and Investment Funds
EGTC	European Grouping of Territorial Cooperation
EIB	European Investment Bank

EIF	European Investment Fund
ENVE	Commission of Environment, Climate Change and Energy of the Committee of the Regions
EP	European Parliament
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	EU Structural and Investment Funds
ETC	European Territorial Cooperation
EUSDR	EU Strategy for the Danube Region
FDI	Foreign Direct Investment
GBER	General Block Exemption Rules
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GHG	Green House Gas
GNI	Gross National Income
ICT	Information and Communication Technologies
IP	Investment Priority
IPA	Instrument for Pre-accession
ITI	Integrated Territorial Investment
JAP	Joint Action Plan
JTS	Joint Technical Secretariat
LRA	Local and Regional Authorities
MA	Managing Authority
MC	Monitoring Committee
MEP	Member of European Parliament
MLG	Multi-level Governance
MS	Member State
MTO	Medium-Term budgetary Objectives
NAT	Commission of Natural Resources of the Committee of the Regions
NGO	Non-Governmental Organisation
NRP	National Reform Programme
NSRF	National Strategic Reference Framework
OP	Operational Programme
PA	Partnership Agreement
PPP	Public Private Partnerships
RAG	Regional Aid Guidelines
RCE	Regional Competitiveness and Employment
RDTI	Research, Technology Development and Innovation
REGI	Committee of Regional Development of the European Parliament
SAPARD	Special Accession Programme for Agriculture and Rural Development

SEDEC	Commission for Social Policy, Education, Employment, Research and Culture
SF	Structural Funds
SCP	Stability and Convergence Programme
SGP	Stability and Growth Programme
SGEI	Services of General Economic Interest
SME	Small and Medium Enterprises
SPF	Small Project Fund
STI	Science, Technology, Innovation
UDN	Urban Development Network
TCP	Transnational Cooperation Programme
TO	Thematic Objective
VET	Vocational Education and Training
YEI	Youth Employment Initiative





# **Executive Summary**

The present Report offers ideas on how to shape the forthcoming period of Community support beyond the year 2020. The analysis builds on the report “The future of Cohesion policy – Report I” which reflected on the challenges and developments at the local and regional level, focusing mainly on the efficiency and effectiveness of implementing Cohesion Policy (CP). The present Report looks at concepts and models of CP (mainly its territorial dimension) and points out the main current challenges that are most likely to shape the future economic, social and territorial structures.

## **Structure and Method**

This second Report in the study series offers ideas on the future of CP. It is structured around two main parts, the first on models of growth, cohesion and well-being, and the second on new ideas and choices for EU CP. Thus projections and assumptions – in particular in the third section of the Report – are of a long-term nature. The present Report largely builds on an extensive desk research including a comparative literature review as well as relevant analyses and reports carried out by the authors of this paper. In addition, the analysis is fed by the results of an online survey carried out with stakeholders who took part in the seminars on the future of CP. Finally, independent interviews were carried out with relevant stakeholders with deep insight and considerable experience in the field of CP.

## **Models of growth, cohesion and well-being**

### **Introduction to the model of CP**

CP is subject to periodical changes based on the processes of deepening integration and enlargement. CP restructures or develops regions and enables them to take full advantage of the opportunities presented by the single market. CP is not stand-alone. Along with the objective of Cohesion per se, CP also supports a number of other important policy areas including employment policies, social policies, culture, environment, combating climate change, energy and tourism.

The large number of policy areas supported by CP and the importance of public investment in its realisation make the financial limits apparent: CP accounts for roughly one third of the EU’s budget and the EU’s budget accounts for about 1.08% of the Gross National Income (GNI)-28: the overall financial contribution is small albeit stable and ensured over a multi-annual period.

## **Single Market and Cohesion**

The uneven spatial distribution of gains from single market integration may have adverse long-term impacts on welfare, imply adjustment costs in the short-term, and induce industrial transformation that reallocates resources across sectors and space. New theories refer to the emergence of a core-periphery pattern with widening regional disparities.

## **EMU and Cohesion**

Disparities (business sector, technological development, wage bargaining systems, competitive pressure) and the increasing risk of asymmetric shocks result also from the EMU. CP will play a key role in aligning economic and fiscal policies. Still, the ongoing discussion on fiscal stability and creating a fiscal capacity for the euro zone, which might be a common budgetary instrument, has the potential to threaten the future financing of Cohesion policy.

## **Enlargement and cohesion**

The EU enlargement 2004 and 2007 with twelve new Member States was marked by a disparity between the massive increases in population (28%) in sharp contrast to the increase of GDP (7%). A careful policy mix between addressing single market challenges and territorial or inclusive objectives needs to be chosen mainly in large EU-12 countries<sup>1</sup> with enormous gradients between the wealthiest and the least prosperous regions (e.g. RO, PL).

Beyond these economic effects, CP has an influence on various policy-related developments. Among others, CP has been a main catalyst for integration in the process of enlargement with regards to the compliance with EU legislation. CP is relevant for socio-economic development, as it has been a stabilising element in public investment in the context of the economic crisis (longer-term budget committed to specific investments). From 2010 to 2013 CP was the financial source for 14% of public capital investment. In most of the new Member States (and Portugal) these funds, including the national co-finance, cover more than half of public investment<sup>2</sup>.

The main challenges for the three key aspects of Cohesion in CP are:

- Economic aspect: Controversy concerning ‘macro-economic conditionality’ and the identification of economic challenges at the

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<sup>1</sup> The EU-12 means the countries joining the EU in the enlargement 2004/2007: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia.

<sup>2</sup> See 6<sup>th</sup> Cohesion Report.

regional level due to a lack of data and the complexity of developing statistical indicators.

- Social aspect: Counter-productive effects of placing too much emphasis on compensatory social and income-equalising policy; preference for measuring cohesion in small groups rather than large groups.
- Territorial aspect: Too much emphasis on economic issues rather than territorial cohesion, which can be a mechanism for risk sharing, not just redistribution of funds.

## **The policy system**

CP is a system of shared management of EU funds to promote a harmonious development of the EU as a whole. It is a system where re-distributional effects are clearly combined with thematic objectives. However, as there is a new financial transfer mechanism being discussed at European level, and as some Member States have cut public expenditures severely in reaction to the financial and economic crisis, there may be significant implications for the future financial endowment and thus the scope of CP.

## **Policy objectives**

The current policy objectives – the eleven thematic objectives – follow a sectoral logic that is related to smart, sustainable and inclusive growth. However, the territorial objectives in the legal framework are comparatively weak and inconsistent. There are tools that allow territorial strategies (ITI and CLLD); however the actual use and concrete translation of territorial issues into policy action is entirely in the hands of MS. So far territorial issues have not been emphasized in the course of the mid-term review.

Therefore, the specificities of territories must be placed at the centre of the debate (also given the importance of CP in the EU budget). In a second step the delivery mechanisms should be adjusted in order to ensure efficient and effective policy delivery, e.g. through a set of target indicators at regional level that build a bridge between social and economic cohesion on the one and territorial cohesion on the other hand. A diversified monitoring of territorial impact also largely remains at the national or EU level.

There are diverging opinions about the efficiency of having one regulation per fund: On the one hand, fund-specific regulations facilitate monitoring and evaluation of fund-specific issues; and a single regulation increases complexity in programming, administration and control. On the other hand, fund-specific

regulations hinder the integration of Structural Funds due to conflicting and contradictory regulations from different DGs and national administrations.

### **The role of ETC**

ETC accounts for about 2.5% of the ERDF resources and is a key instrument for helping public bodies involved in vital areas of governance to cooperate across national borders, mainly in sectors that go beyond rapid economic integration. The field is often labelled by enthusiasts as the most valuable European objective in CP. On the other hand critics point to its failure to deliver concrete results (in contrast to infrastructure-oriented investment policy).

The delivery of ETC is shaped by the partnerships that are set up for project implementation (with a key role of LRAs). The state of cooperation in policy areas linked to territorial keys (accessibility, SGEI, territorial endowments, city networks and functional regions) varies enormously among the regions and MS covered by ETC (projects touching sensitive policy areas can be perceived as risky due to their experimental nature and also for the timely absorption of funds). The role of visibility of ETC projects should be maintained, but balanced with strategic projects. Territorial keys should be better recognised and used for the subsequent formulation of projects.

### **Allocation and eligibility mechanisms in CP**

The distribution of 325 bn is a politically-sensitive issue. Two separate mechanisms have been in place to guide the distribution of funding: Eligibility of regions is defined on the basis of thresholds of GDP per capita compared to the EU average. Thus less developed regions are defined as regions with a GDP per capita below 75% of the EU average. Allocations follow complex calculation methods. Funding levels for the less developed regions are defined by the Berlin formula, which takes into account the deviation of GDP per capita from the EU average, modifies this by reference to the national prosperity level and adds a fixed amount for the unemployment rate (where the latter does not influence the outcome of the calculation substantially). For more developed region an average allocation is modulated according to a set of indicators that mainly measures the distance of social inclusion indicators to the Europe 2020 targets.

However, the main indicator for eligibility and allocation is GDP per capita. For the current period it is based on average GDP per capita for 2007 to 2009.

GDP as an indicator for measuring well-being, wealth and progress is widely disputed. However, the advantages are still clear: this indicator is well known,

has been accepted as the basis for allocating and distributing funding over the recent programming periods, is available at national and NUTS II and, with some delay, also at NUTS III level. The main weaknesses are that GDP only considers market transactions and thus cannot cover negative externalities like resource consumption or pollution or unequal distribution of income. Thus the Europe 2020 objectives of inclusive and sustainable growth cannot be captured by this indicator.

When it comes to considering alternatives to GDP there are several options: Replacing GDP by a “better” indicator has been a discussed for many years under the heading of “Beyond GDP”. The EC has followed up several actions with the result that some improvements have been made by EUROSTAT to the overall coverage of GDP (e.g. including R&D investments) and an aggregate indicator measuring the number of people at risk of poverty has been established (also at NUTS II level). More sophisticated approaches towards including environmental issues in the GDP have so far not led to visible results that can be translated into regional data and time series.

Thus there is no realistic alternative to using GDP as the basic indicator. However, rather than engaging in discussions about finding a “better indicator” for measuring wealth and progress, this study advocates complementing the GDP indicator with territorial information and indicators established by ESPON. A comprehensive set of 20 key indicators of economic competitiveness and resilience, integrated spatial development, social cohesion and quality of life and environmental resource management has been developed by the ESPON project KIDCASP for use by policy makers at national, regional and local level for developing their territorial strategies.

For the next round of defining eligibility and allocations we propose the use of GDP and to modify it with a few indicators reflecting social, economic and territorial dimensions. These indicators should also introduce a more future oriented component by showing potential risks and threats or measuring a 'distance-to-overcome' for reaching Europe 2020 targets. Thus a future approach could reduce the weight of GDP and introduce indicators measuring economic cohesion (e.g. the risks from external shocks or structural change, which could be measured by R&D, by the sectoral composition of industry, etc.), social cohesion (for example the population at risk of poverty), sustainability (e.g. the population exposed to environmental risks) and territorial cohesion (e.g. the population with limited access to infrastructure and services).

## Specificities of Cohesion policy

- **Programme-based approach:** Operational programmes represent the contract between the EU and the MS on the specific thematic provisions for the support measures. A more differentiated perspective on programming requirements could be taken in the EU Regulations. The challenge is to bring the benefit of the approach closer to the LRAs in the sense of a place-based approach.
- **Cross-sectoral policy coordination and integration:** Cross-sectoral policy coordination and integration are needed not least to find policy responses to territorial challenges such as demographic change (inclusion of actors, coordination mechanisms at all levels). Specific instruments introduced in the 2014-2020 period facilitate coordinated action, namely Integrated Territorial Investments (ITIs) and Community Led Local Developments (CLLD). However impediments to the integration of sectoral policies are the different administrations (DGs) and provisions for ERDF and ESF (which maintain boundaries between the responsible actors in programming and implementation).
- **The territorial dimension:** Public policy interactions in general have larger positive or negative spill-over effects in cities than in rural areas with low population densities. However, the actual link between EU objectives and urban achievements and impacts remains to be evaluated. Holistic and cross-cutting policy approaches tend to be perceived as top-down which is partly due to a lack of capacities.
- **Functional areas** are moving to the centre of ETC policy, since in Europe they often stretch over national borders. The concept of functional areas has emerged in the context of urban areas where suburbanisation and commuter relations have led to dense interaction and manifold questions related to the provision of public services. The first stage is to acknowledge the dense functional interdependencies between the administrative units and the second stage is to achieve intermunicipal cooperation in order to make the functional region work. ETC is one of the important policy levers for encouraging cooperation and new approaches to governance.
- **Place-based CP:** The current system of CP offers opportunities for place-based approaches but this is not mainstreamed at present. The principles of MLG and partnership have a strong affinity to the place-based approach. Since LRAs are the central actors in a place-based approach their capacity is decisive for its efficiency and effectiveness. The stronger

the role of LRAs, the greater the need for governance models for functional areas (CP is however currently influenced by the national political-administrative system). Action at EU level cannot solve such issues alone. Policy delivery could be formed in a way that responds to the need for more place-based delivery.

- **Partnership and MLG:** Although a focus on governance helps in strengthening the place-based approach, there is a need to address the challenges related to fulfilling the requirement throughout the consultative process and the problems of increased complexity and administrative burden.
- **Ex-ante conditionalities:** Their role should be strengthened in several fields (particularly those looking at future challenges) since a variety of policy areas require effective and efficient cooperation between all tiers of government. They should also be used to trigger a debate at national level on providing a better framework for an integrated approach to regional development.
- **Eligible areas:** Besides GDP, in the classification of eligible areas a basic regional typology or an indication of territorial challenges should be introduced with a view to supporting a place-based approach. One key element of the debate on the future of CP will be to decide whether the current scale of eligible regions is sufficient to meet the challenges, whether additional indicators are needed or whether additional indicators should be used only in determining the future aid intensity in these regions.
- **Thematic objectives:** The place-based approach could be strengthened if, besides fulfilling the Europe 2020 demands, strategies in the sense of 4e (low-carbon strategies for territories) were to become compulsory or, in the case of predominantly rural areas challenged by demographic change, a concentration on Objectives 8 and 9 were to become compulsory (topics related to employment and social inequality).
- **Delivery mechanisms:** Integrated Regional Programmes might be an obvious lever to support the capacities of regions to define approaches which are closer to place-based requirements while the role of regions in programme implementation might support capacity building; but this decision is in the hands of MS.
- **Earmarking of funds:** Earmarking of funds such as a minimum of 5% for sustainable urban development can be considered an important policy

lever. This type of earmarking could be expanded to other policy areas or implementation approaches such as CLLD.

- **Impact indicators:** One key element for measuring the success of CP will be the discussion on what are the future benchmarks of success. Would keeping the status quo of maintaining the current level of a harmonious development in the EU be seen as a success for the policy in the light of the many challenges and diverging trends or would the policy have to improve the current situation?
- **Mainstreamed instruments (CLLD, ITIs):** Their use could be made compulsory for certain Thematic Objectives (9b, 9d) – in order to become an attractive package, far-reaching flexibility in the use of funds should be allowed (crossing the lines between ERDF and ESF).
- **Longer-term budgets** have been given some thought. However, CP will most probably have to maintain the current approach of providing a convincing package of incentives, furthering the uptake of instruments and thematic objectives plus an earmarking of funds.

### **Other policy models aimed at transfer / cohesion**

European CP should also aim to support national efforts for cohesion, like the smart specialization strategies for innovation. In Germany, the “Gemeinschaftsaufgabe zur Verbesserung der regionalen Wirtschaftsstruktur” is a commitment to improve the economic structure so as to improve the cohesion of the whole country. Germany carries out a CP within its national borders which, however, is still in line with the European CP.

To compare the approach with other parts of the world, research has been carried out on the regional policy of Japan. Japan is traditionally known as a centralized country with no regional administrative system. In science and innovation policy, in view of decentralizing policy to achieve better effects, relevant public stakeholders, enterprises and academia are directly involved in policy-making. This shows the success of reducing the levels of administration and supporting the direct involvement of actors in policy delivery.

## **New ideas and choices for EU Cohesion policy**

### **The place of Cohesion policy in the system of EU Policies**

As requested by Barca (2009), CP takes the approach of additionality, i.e. one of complementing but not replacing equivalent public expenditure of a Member



State. Unlike in the 2007-2013 programming period, CP is now aligned to the Europe 2020 Strategy (through the orientation towards 11 Thematic Objectives derived from the strategy) and the European Semester (through taking into account the CSR and NRP). CP has generally been given more attention in the current period, due to its specific budget weight (c. 32.5 % of the EU budget for a single policy), thematic coverage, spatial orientation, anchoring in the Partnership Agreements (PAs) and the Operational Programmes (OPs) and the reporting requirements of the EU (i.e. progress reports, strategic report 2017-2019, consequent policy actions at EU level). CP does not stand alone but comes with tools that are based on a sectoral policy delivered through an area based approach (e.g. RIS3, River Basin Management Plans).

### **Possible futures and the role of Cohesion policy**

Prognoses of the future of CP are of limited value, due to the large number of uncertain internal as well as external factors. The present Report therefore draws the following possible scenarios, each presenting a possible future situation, outlining influencing factors, causal relationships and possible outcomes:

1. ‘stability and resource abundance’
2. ‘stability yet resource scarcity’,
3. ‘instability but resource abundance’,
4. ‘instability and resource scarcity’.

Of those scenarios, the third and fourth are analysed in the present Report for their larger potential for a distinctively different future CP.

**“Instability but resource abundance”** refers to a state of things where relative affluence of resources would exist in a world multipolar and unstable in terms of geopolitics. Developed societies would face deterioration of social peace and the demographic pressures of an ageing population. The developing world would face income inequality, lack of democracy and poor infrastructure creating incentives for ongoing migration to the more developed countries. The market economy would have failed to resolve its shortcomings and misallocations, and disorderly competition for resources would trickle down all the way from the international and national to the local level of politics. “Cohesion” would still be relevant as a policy pursuit, but it could be largely used as a disguise for ad-hoc alliances and short-term objectives. Its funds could be directed towards exploitation of resources and increasing return of investment rates, eventually leading to growing disparities and thus undermining its own strategic orientation.

**“Instability and resource scarcity”**: A series of negative developments in geopolitics, financial crises and social unrest would be coupled with a significant drop in the average standard of living on a worldwide basis. This would lead to a vicious cycle of diverging global population trends (migration, urbanisation), tensions and destabilisation at local level, and ultimately to a high-risk society. “Cohesion” could gain significance as a policy tool: It could offer groups of nations / regions (such as the EU) tangible objectives towards better coordination, and ultimately towards survival. In contrast with today's CP, the *raison-d'être* of “cohesion” would be more the “optimisation of scarce resources through sense of common purpose”. The focus within the group of nations/ regions would shift from trying to emulate the economic orthodoxy of disputed benchmarks of the leader(s), to attaining a sustainable synergistic state of risk mitigation.

The two scenarios above are the basis for the further projections and assumptions drawn in this second part of the Report.

To sum up and embed the scenarios and to subsequently prepare the field for policy recommendations the **scientific mainstream** is analysed in the present study. The ideas that shape policy are compared in a literature review, clustered on economic, social and territorial cohesion for analytical purposes. For each of these clusters, the main thinkers' and authors' approaches are compared, concluding that there is a scientific mainstream that guides policy-making.

### **Sectorial Policies and Policy reactions**

In “The Future of Cohesion policy - Report I” a number of key sectorial policies, their role in CP, trends and territorial implications were identified:

- Environment, climate change adaptation, low-carbon economy and resource efficiency.
- Labour market and social policies, health care.
- Education and qualification.
- Research and Innovation.
- Network development and infrastructure.
- SME policy.

Building on the two selected scenarios, different action options per sectorial policy and scientific mainstream are illustrated in the present Report.

In the **scenario ‘instability but resource abundance’**, despite differences between the economic, social and territorial perspectives, the policy responses can be summarized as follows:

- In the case of the environment, policy response in general will focus on exploiting natural resources by infrastructure investments, although the protection level might be lower than today.
- In the case of the Labour market, policy response in the labour market will follow a similar pattern to the current CP but with a stronger emphasis on regulation and control.
- Social policies and health, although only peripherally included in CP, will be affected by the way infrastructure is provided. Policy response must become more innovative and reinvent itself in order to accommodate changing and heavily fragmented types of demand.
- Education and closely related research and innovation policy are considered to be serving economic CP. Policy response will have to change, on the one hand in order to attract people to education, research and innovation fleeing from geopolitical instability and on the other hand in order to adapt to the potential and needs of regions the way the RIS3 approach has started, since geopolitical instability will also influence logistics chains and potential markets.
- While transportation and energy network development and infrastructure will still absorb substantial funds, its orientation will change. Policy response will deviate from its current form in the sense that it will become more specific; instead of providing for basic technical infrastructure, it will have to provide for multimodal and alternative routes and also for security.
- In the sector of SME and entrepreneurship, policy response will have to put stronger emphasis on satisfying the domestic EU market (assuming that pro-austerity policies are weakened in order to sustain demand in an ageing Europe).

In the **‘instability and resource scarcity’ scenario**, despite differences between the economic, social and territorial perspectives, the policy responses can be summarized as follows:

- In the case of the environment, policy response overall will have to put stronger emphasis than today on security of resources supply, eco-efficiency and protection and risk management.
- In the case of the Labour market, policy response as a whole will face big challenges, having to re-adjust its objectives, its tools and its very-notion of what labour market inclusion means.
- Social policies and health will undergo a similar experience as the labour market, albeit with a higher intensity being dependent on active workers contributions. Financial crisis, migration and instability might lead to cries for a reduction of “social services” to relieve the economy of this “burden”. Policy response as a whole will have to undergo a paradigm shift and invest in resilience and pro-activeness; perhaps a forerunner of the things to come is the development in the field of child care in Eastern Europe. There the system is gradually changing from institutionalisation to individual volunteer-based foster care. Public authorities are reluctant to initiate change based either on path dependency or biases, although empirical research indicated the higher benefits and lower costs of alternative services.
- For Education and closely related research and innovation, policy response as a whole will move more strongly along the same path it has entered, putting emphasis on green skills, decentralisation and innovation, open innovation and shared use of resources; proprietary approaches and strong commercialisation will be weakened.
- Transportation and energy network development and infrastructure will lack funds. Policy response will have to more strongly prioritise investments but at the same time maintain some level of connectivity, guaranteeing the functionality of the Union.
- In the sector of SME and entrepreneurship, policy response will have to put stronger emphasis on satisfying the domestic EU market but in an environment of weak if any growth; hence SME policy will have to focus on small, flexible units that can adjust their output and on flexible entrepreneurs. These would be the micro-SME and the sole traders considered to be an indicator of underdeveloped economies nowadays.

### **Feasibility of policy responses**

For each of these policies and for both scenarios, the urgency of a policy reaction is weighed and the financial means available and relevance in CP are

analysed in a comprehensive matrix. In both scenarios, the urgency is always at least medium and often high with regards to all policy fields analysed, except for the ‘environment’ and labour market’ in the “**instability but resource abundance**” scenario. The likelihood of political support is in all cases assumed to be medium to high. So are the financial means necessary except, again, in the case of the ‘environment’ in the “**instability but resource abundance**” scenario. In fact, the assumption is that policy reaction in general will focus on exploiting natural resources by infrastructure investments, although the protection level might be lower than today.

### **Policy frameworks and delivery mechanisms**

A matrix offers an overview of the different policy responses put forward earlier and the potential delivery mechanism: MS will retain their strong role within the predominantly regulatory level of governance and in the coordination of national policies, but successful CP will need a **stronger involvement of LRA**. The capability (staffing, budget) of the LRAs is crucial for a successful implementation of an **area based** approach.

Whereas sustainability (in its environmental dimension, as defined in the CPR) is usually well established in the delivery systems by a series of regulatory mechanisms, equal opportunities are still an underdeveloped field.

### **Outlook and recommendations for the new ideas and choices of EU CP**

- Creating a less uniform regulatory framework: There is a clear need for a more strategic programmatic approach at the MS level and a stronger role for LRA. A paradigm shift from conditional programming towards a final determination approach is needed. The current Ex-Ante Conditionalities could be a model to follow.
- Ensuring an efficient and effective use of resources: LRA and MS will have to reconsider the need to comply with an “industry standard” and focus on satisfying needs rather than demands. The main challenge lies in the design and operation of labour market, social policies and education. The challenge for the LRA is refocusing from “delivery” to “effect” (possibly leading to challenges in monitoring, particularly in audit and financial control).
- Public-private partnerships and the mobilisation of private funds and investments.
- CP policy delivery needs with regards to Governance and territorial dimension: The respondents in the survey tend to appreciate the efforts

made to improve governance (multilevel governance) and reduce administrative burden, but they generally complain about the remoteness of EU policy and the additional complexity. There is a need for a high governance quality at the LRA level beyond the level of decentralised units; an ability to formulate an area based approach and integrate it in the CP principles, and to measure effects and identify linkages to policy and budget.

### **The cost of non-cohesion**

The cost of the lack of a CP would be very different in the two scenarios.

In the “**instability but resource abundance**”-scenario, assuming that CP would favour ad-hoc alliances and short-term objectives, the lack thereof will lead to slower achievement of these objectives, in the sense that a co-financing source will be absent. This will not change however the fundamental operational model.

In the “**instability and resource scarcity**”-scenario, the role of CP is closer to the original conception; this role will be accentuated by the pressure of the uncertainties. Lack of CP would affect fundamentally the modus operandi as scarce resources and funds will be channelled towards satisfaction of immediate demand and short term relief in a motley approach; this case of policy delivery would become endemic in weaker areas. Any thoughts of experimentation (an important aspect of CP), innovation and precautionary management will cede to re-active restitution of the status quo ante in a vicious circle. Hence the cost is expected to be considerable.

### **Communication of Cohesion policy**

The Open Days in Brussels 2015 presented an interesting discussion about a CP open data platform. The aim of the meeting was to present the open data platform approach to experts and discuss the different groups to be served and simple and creative ways to improve the visualisation of programme geographies. The main narratives were:

- The often detected mismatch of programme areas.
- In the 2014-2020 Operational Programmes the focus is on the difference between socio economic data (e.g. Eurostat) and data on programme activities. The question is if the common platform can lessen the gap.

- When thinking about data on beneficiaries of cohesion policy funding the discussion was on the obligation to publish beneficiaries' data, the need for transparency but also on the different approaches taken by the MS. The CPR requires in Annex XII a set of fields to be delivered. These data fields are very useful and allow a “story to be told”.

There are different approaches for the narratives presented:

- Who will use the data, paying attention for providing meaningful information to different users;
- How they are going to be accessed (e.g. data warehouse, graphs, smart phone app?) and
- What are they going to be used for? (Research, inquiry, policy?).

These approaches lead to “three messages” for the target group “citizens”:

1. Where in my neighbourhood is CP visible?
2. How much money was invested in the project?
3. How is the measure of CP of use for me?





# 1 Introduction

Cohesion policy (CP) in the European Union (EU) supports investments in creating growth and employment, tackling climate change and energy dependence and reducing poverty and social exclusion. Resources are targeted at key growth sectors, and a significant part of the investment is concentrated in urban and rural areas in less developed regions. Over one-third of the European Union's budget is currently invested in CP.

CP has undergone several important reforms: in the previous programming period the links with the Lisbon strategy has been strengthened, and more emphasis was placed on territorial and thematic concentration of support. The 2014-2020 period now is better aligned with the Europe 2020 strategy for smart, sustainable and inclusive growth and better integrated across the European Structural and Investment Funds [European Regional Development Fund (ERDF), Cohesion Fund (CF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF)]. Result orientation, concentration of resources, coordination between instruments are major cornerstones of the previous reform, where core features like programming, partnership, additionality have remained stable.<sup>3</sup>

As the current policy framework is up and running, time has come to think about the future of CP beyond the current programming period 2014-2020. The study series on the “Future of Cohesion policy” aims to provide a new impetus to the work of the Committee of the Regions (CoR) and its members in the policy debates on the efficiency and effectiveness of CP from the perspective of local and regional authorities (LRA).

## *The objective of the Report*

This second Report in the study series provides ideas for the future of CP, i.e. for the forthcoming period of Community support covering the period from 2021 to 2028. Thus projections and assumptions – in particular in the third section of the Report – are of a long-term nature. For obvious reasons such statements bear considerable uncertainties but the objective of this Report is to:

- reflect underlying concepts and models of CP in particular its territorial dimension,

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<sup>3</sup> [http://ec.europa.eu/economy\\_finance/structural\\_reforms/sectoral/cohesion/index\\_en.htm](http://ec.europa.eu/economy_finance/structural_reforms/sectoral/cohesion/index_en.htm).

- raise awareness for major challenges which from the current perspective will have a significant impact on economic, social and territorial structures in a long-term perspective.

The Report builds on the first one which has tackled the following issues:

- gaps, trends and challenges with impact at LRA level;
- reflections on the efficiency and the effectiveness of CP reviewing the policy cycle, the financing of CP and governance aspects from the perspective of LRAs.

The following elements used in the first Report will be kept in order to further the discussion on future policy options:

- firstly to the extent possible and meaningful the distinct considerations of each of the pillars of cohesion, i.e. economic, social and territorial,
- secondly the perspective of LRAs since in the end CP can be considered also as an instrument to strengthen the position of sub-national self-governments.

### Methodology

The present Report largely builds on the results from “The future of Cohesion policy – Report I” and other relevant analyses and reports carried out by the authors of this paper, this report has been built on the following elements:

- Desk research including a wide range of relevant policy literature, including EU-level legislative documents and regulations.
- A comparative literature review (chapter 3.3.) using a range of existing publically-available EU level information on the CP from both, the 2007-2013 and the 2014-2020 programming period, relevant academic literature, and evaluative material at EU, Member State (MS) and regional levels.
- The input from the seminar “from models to ideas” at the Committee of the Regions in October 2015.
- Online survey: A structured survey was developed inviting stakeholders that took part at the seminars on the future of CP to respond to five main questions:

- What would be the main dimensions defining the future model of the EU CP?
- Which of the challenges and the related themes should benefit from a place-based approach?
- How could be improved the results and the efficiency of the future CP? Are the current indicators appropriated to measure economic, social and territorial cohesion?
- Is the current governance system of the policy working on or, alternatively, the local and regional authorities' role should be reconsidered?
- Which new and improved approaches could be introduced in the future CP?

The survey was available on the official website of the CoR. Twenty contributions have been received and analysed for the purpose of the present Report.

■ Interviews were conducted with:<sup>4</sup>

- Flo Clucas, Councillor in Shelton, responsible for EU funding, member of the economic development scrutiny: 2012 retirement from 26 years councillor in Liverpool.
- Hannes Rossbacher, managing director of the Austrian Conference on Spatial Planning (ÖROK).
- Bernhard Schausberger, Member of the Joint Technical Secretariat of the Slovakia – Austria cross-border cooperation programme.

The results from the survey and interviews were integrated in the main body rather than in separate boxes or annexes in order to ensure that they feed into the analysis of this report.

*Models of growth and well-being*

The section discusses important aspects of the system underlying the current approach to CP. The main underlying questions and issues tackled are:

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<sup>4</sup> There were foreseen two more interviews but there was no feedback in the respective time period. We covered the relevant issues with contributions from the online survey and our in-house expertise.

- Does economic convergence stand in conflict with cohesion? Does focus on economic social and territorial cohesion hinder the best possible, global economic (and employment) development performance?
- How much cohesion is possible and needed in the EU and whether a certain level of differentiation in regional development could also have benefits?
- Is GDP the appropriate way to measure progress? And beyond GDP: What about quality of life and welfare indicators?
- Promoting growth in all types of regions: The concept of "functional areas" to go beyond administrative boundaries of regions; the cross-border cohesion; the link between the urban and rural areas; the need to develop an integrated approach to define urban policies.

It examines in particular the following specificities of CP: the programme-based approach to integration of sectoral policies, next to concentration, partnership and additionality. In the scientific sphere definitions and concepts for territorial cohesion have been defined but compared to economic and social cohesion there is e.g. still a lack of widely known and undisputed indicators which help to communicate the territorial agenda.

#### *New ideas and choices for EU Cohesion policy*

The discussion of the future starts off from the challenges to be addressed. The questions and issues raised for this study are:

- The main axes of choice in Cohesion policy (centralized/decentralized, priority focus/ geographic focus etc.);
- Compared paradigms of cohesion policy: The EU Cohesion policy compared to other models;
- Options for the future articulation of Cohesion policy with the European economic governance; the place of Cohesion policy in the "coordinate system" of EU policies and its complementarity with other policies;
- How to move towards a "grown-up place-based approach"? What is the best place for territorial specificities?
- Convergence of the cohesion policy and complementarities with other EU policies;

- Leverage effects of public funds/investments: how can Cohesion policy be strengthened as regards the mobilisation of private funds and investments?
- The real value of public-private partnerships with a focus on regional involvement;
- Multi-level governance in the future Cohesion policy;
- The "cost of non-Cohesion";
- The narrative and communication of Cohesion policy.

Scenarios pointing at rather critical developments lead to challenges that can be considered as transeuropean challenges, i.e. the scope in geographical and/or societal terms is such that most MS are or will be concerned by the consequences.

Policy responses to address these challenges have to pass one major step. The choices have to be considered as feasible and beneficial by a majority of MS. In order to reach a majority the policy actors have to share the perception of challenges. There are challenges that tend to claim for rather uniform responses across Europe – such as e.g. the access to financing for SMEs, whereas there are other challenges that call for very specific answers depending on national legal systems and characteristics of territories etc.

The final point in the reflections concerns the delivery mechanisms. One might say that this is a significant challenge for CP: ideally speaking the implementing systems should not influence or even shape the contents of actions. However, it is evident that the implementing system impacts largely on the choices of investment priorities in programmes and projects taken.

### *The future themes*

Reflections on the themes for CP result from the following considerations:

- the development of scenarios based on assumptions regarding the availability of resources and the global geo-political stability – these are the main axis and the crucial driving forces defining the scope of future EU CP;
- four scenarios have been presented; two out of the four scenarios will be elaborated in more detail;

- the theses on cohesion developed in the previous section will be used to outline future developments in the main sectoral policy fields – thus giving a tentative outline of the most pressing themes for future CP interventions;
- the underlying matrix for each scenario provides an overview on the specific incidence of developments; the developments have been classified according to the magnitude of the risks these developments pose for economic, social and territorial cohesion (pointing at red and orange fields where the need for action is the highest);
- the subsequent step is the test of the feasibility of the policy responses in those fields where the need for intervention will be most pressing; in our understanding feasibility is mostly a question of political acceptance.

Looking into the online survey, in addition to future topics discussed in the chapters below, the respondents to the survey perceive the following issues as key topics to be addressed by CP in the future:

- promoting investments on territorial capital as support for regional productivity, without subsidizing firms;
- promoting investments on public goods;
- protecting and developing 'un-tradable' public goods and service like education, health and pensions for social sustainability.

### *Reflections on the delivery mechanisms*

Delivery mechanism should aim at effective and efficient delivery of results thereby ensuring:

- feedback loops for evaluation in order safeguard adjustments and
- transparency and legitimation regarding the use of funds,
- an adequate position of LRAs in the system; an implicit agenda should be a strengthened position of LRAs in some MS due to their evident role in a CP with a visible territorial dimension.

### Trade-off between expectations and financial allocations

The trade-off between the objectives, the underlying expectations and the financial allocations to Structural Funds (SF) respectively EU Structural and Investment Funds (ESIF) is an aspect which has been subject to discussion ever since the early days of CP and its major reform steps<sup>5</sup>. Still in 2014 the allocations for ESIF are small:

- given the scale and the nature of the structural problems in the EU and
- compared to the total Gross Domestic Product (GDP) / Gross National Income (GNI) of the EU.

The financial weight of CP has grown gradually in the past decades; it currently consumes over one-third of the European Union's budget.<sup>6</sup> The increase in budget was combined with the gradual enlargement of policy scope and concurring broadening of objectives.

The roots of CP date back to more than five decades ago. Before venturing into the ideas for future CP it is helpful to recapture some of the milestones and basic intents in the development of CP:

- The Treaty of Rome mentions regional differences in 1957, the ESF was set up in 1958 in the wake of the first industrial transition, the ERDF in 1975.
- The intent of SF after the reform in 1987 was to support MS in the coordination of their economic policies in order to strengthen economic and social cohesion and to reduce regional disparities.
- The accession of GR, ES and PT in 1981 and 1986 led to the aggregation of a CP budget, amounting ECU 64 bn.
- The focus has been on infrastructure (reinforced with the introduction of the Cohesion Fund in 1993).
- Furthermore two important steps have been the European Spatial Development Perspective (1999) which was the starting point for the territorial cohesion and the Territorial Agenda (2007).

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<sup>5</sup> See e.g. Mulreany and Roycroft, 1993, p. 192.

<sup>6</sup> [http://ec.europa.eu/economy\\_finance/structural\\_reforms/sectoral/cohesion/index\\_en.htm](http://ec.europa.eu/economy_finance/structural_reforms/sectoral/cohesion/index_en.htm).

<sup>7</sup> Ibidem, p. 197: doubling of funds from 1987 to 1993 from 7 billion ECU to 14 billion.

The past decade has led to a continuous increase of the expectations towards CP: as support to overarching questions such as European economic governance and policies such as Europe 2020. EU CP as financial instrument should address an increasing range of challenges with an implicitly and explicitly increasing weight on innovation and SME policies.

As a consequence of the trade-off between expectations and financial allocations it is difficult to report an undisputed success story of CP – such as the trend towards convergence on a national level or the far reaching impact of SF/ESIF on environmental infrastructure in new MS. However, the picture is much more diverse, with some regions, MS and sectors being able to benefit from programmes and measures, and others not being able to design and implement viable strategies and projects to reach some of the Cohesion objectives. Enhanced research and evaluation activities in the recent years by DG REGIO (e.g. through the expert evaluation network) have been able to show a more differentiated pattern. Enhanced reporting by the programmes in 2017 and 2019, and current analytical activities on performance launched by DG REGIO should help to improve and develop the policy framework further.



# 2 Models of growth, cohesion and well-being

## 2.1 Introduction to the model of Cohesion policy

CP has evolved over a long period and the legal foundation in the EU treaties has changed with each Treaty reform in the last decades.

In the current programming period 351 billion euro will be available to MS, regions and cities under the EU CP. *“For many of these countries it is the main source of public funding. It is imperative this money is well invested and managed as weaknesses in national, regional and local administrations can put the success of these programmes at risk.”*<sup>8</sup>

Furthermore CP is subject to constant change based on the process of deepening integration and enlargement. An essential element of the policy – which marked its rationale from the very start – is compensation: Eiselt<sup>9</sup> points out that the most important integration moves in the history of the EU would not have been possible without compensatory payments to real or prospective losers of integration.

These considerations have been strongly opposed stating that: *it is overly simplistic to think of cohesion as merely a compensatory ‘side-payment’ or social policy for regions adversely affected by market integration. Instead it should be seen as a policy to restructure or develop regions, enabling them to take full advantage of the opportunities presented by the single market.*<sup>10</sup>

CP is not a stand-alone policy field but it should be considered as a policy in its own right but also as an ancillary element in the European policies:

*From a governance perspective, the single market, CP and the Lisbon/Europe 2020 strategies represent not only three distinctive pillars of public policy, but also three different modes of governance – the first predominantly regulatory, the second reliant on public spending and the third being about coordination of national policies in the common interest.*<sup>11</sup>

Public spending in terms of a public investment policy can be considered as the essential feature of CP. With a reference to the Treaty the current approach to CP represents an approach to a transversal policy which support next to the

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<sup>8</sup> European Commission – Factsheet: Improving how EU Member States and regions invest and manage EU Cohesion Policy funds.

<sup>9</sup> Eiselt, I, EIF Working Paper 29.

<sup>10</sup> LSE 2011, p. 12.

<sup>11</sup> LSE, 2011, p. 8.

objective of Cohesion also a number of other important policy areas such as employment policies<sup>12</sup>, social policies<sup>13</sup>, Small and Medium-sized Enterprise (SME) policies, transport, culture, environment and combating climate change<sup>14</sup> or energy and tourism.

Hannes Rossbacher, managing director of the Austrian Conference on Spatial Planning (ÖROK) explained in the interview for this study: “*There is a target conflict within the European CP.*” Too many objectives would have been included in the last programming periods to ensure an effective policy. When looking at the numbers of objectives supported it is also important to be aware of the financial limits: CP accounts for roughly one third of the EU’s budget and the EU’s budget accounts for about 1.08% of the GNI-28 – thus the overall financial contribution is a small albeit a stable one which is ensured over a longer period – the latter fact being a stabilising element. Anyhow, bringing in more money would be a problem, according to Hannes Rossbacher. The CP can hardly be administrated in the current size. This issue is further examined in the chapter about the place of CP in the system of EU policies (chapter 3.1).

### Single Market and Cohesion

The Single Market is the key integration step which – in the view of the Cohesion objective in the Treaty requires flanking measures:

*CP has a crucial role in ensuring that the level playing-field of common regulation is matched by a levelling-up of the capacity of regions and localities that start from a competitive disadvantage. In this way, CP seeks to prevent a spatial imbalance in economic development that would diminish the benefits of the single market.*<sup>15</sup>

The uneven spatial distribution of gains from integration may firstly have adverse long-term impacts on welfare (which is a significant factor given the European tradition of welfare states), and secondly may imply adjustment costs in the short-term.

A third aspect is the induced industrial transformation: while industry still is considered as a major potential factor of regional growth, it might simultaneously impose a massive threat to regional economies. More recent models of economic geography interpret integration mainly as reallocation of resources across sectors and space and expect integration to result in industrial

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<sup>12</sup> Cf. TFEU Article 146-149.

<sup>13</sup> Cf. TFEU Articles 151-162.

<sup>14</sup> Cf. TFEU, Article 191.

<sup>15</sup> LSE, 2011, pp. 7-8.

specialisation.<sup>16</sup> New theories refer to the emergence of a core-periphery pattern with widening regional disparities. Thus regional industrial structures are quite likely to be subject to transformation: regional specialisation (enhanced by the “smart specialisation strategy” may increase the probability of regional asymmetric shocks.

These specialisation processes should be based on a bottom-up entrepreneurial discovery process in the region to combine specialisation with the intrinsic growth potential at regional level as it is foreseen in the concept of smart specialisation. Anyhow there remains an ongoing challenge to arrive at the right smart choices at regional level.

### EMU and Cohesion

The monetary union represents a second major integration step. In the discussion of the European Monetary Union (EMU) the differences between countries – in particular in terms of business sector, level of technological development, wage bargaining systems and competitive pressure - and the increasing risk of asymmetric shocks has played a considerable role.<sup>17</sup> Key adjustment mechanisms which might have been applied previously (such as adjusted exchange rate policy or national interest rate policy) cannot be used when being part of the EMU. Thus wages and prices have to be flexible to react to eventual adverse impact. It is evident that the process started with the EMU will have longer-term consequences on the alignment of economic and fiscal policies since misjudgements in national economic governance might endanger the EMU (which is implicitly based on economic convergence). It is evident that the main argument of CP as policy to further restructuring and economic development is even more important in an EMU since it is intended to invest in the growth potential at regional level.

### Enlargement and cohesion

Already 2003 Michael Barnier, at that time member of the European Commission and responsible for regional policy and institutional reform, stated in the paper “The Future of European Regional Policy”:

*CP will need to be renewed and reformed if it is to respond to the widening gaps that will follow the next enlargement of the Union in 2004 and to the ongoing challenges to all of Europe’s regions arising from globalisation.*<sup>18</sup>

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<sup>16</sup> Krieger-Boden, C. 2008, pp. 2-3.

<sup>17</sup> Heikensten L., 2000, p.

<sup>18</sup> European Cohesion Policy. Challenges and Responses. Barnier, 2003, The future of Regional Policy.

The second progress report on economic and social cohesion<sup>19</sup>, in which the Commission analysed the current situation in the EU and the main challenges posed to EU CP by enlargement was also presented in 2003. This document was followed by a series of initial positions from MS, the European Parliament, the Economic and Social Committee as well as the Committee of the Regions. In July 2003 the Commission presented a report elaborated by an expert group led by the Belgian economist André Sapir (Sapir Report).

This report not only concerned CP, as its aim was to offer a wider proposal to stimulate the growth of the European Union, dealing with issues such as the completion of the Internal Market and the Growth and Stability Pact. Nevertheless, the report, which defended a whole redistribution of the EU budget, also contained some conclusions on EU CP and made some proposals for reform.

The CoR, as the EU institution representing the regional and local authorities, was very concerned by the outcome of this debate. In several opinions and studies, it has shown a picture of cohesion in the EU, and following a long debate the Committee was the first EU institution to present an overall position on the future of EU CP and to discuss it with representatives from regions all over Europe. In May 2003, it organised a conference in Leipzig on the future of CP. Six hundred participants from EU regional and local authorities attended the conference, which issued a Declaration on the future of EU CP.

The challenges related to the EU enlargement stated at that time were:

- the economic disparities within the EU will grow significantly;
- there will be a geographical shift in the pattern of disparities;
- the employment situation will significantly worsen;
- the enlargement will underline the problems regarding the capacity of the administrations to manage the Funds.

However, these arguments were weighed against the expected economic benefits that the enlargement process would bring. In this regard, there was a broad consensus in considering that enlargement will increase the economic growth of the EU, especially in the new MS.<sup>20</sup>

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<sup>19</sup> European Commission: Second progress report on economic and social cohesion, COM (2003) 34 final, Brussels, 30 January 2003.

<sup>20</sup> European Cohesion Policy. Challenges and Responses. Stahl and Lluna, 2003, A Cohesion Policy for the future.

Nevertheless, the last enlargement is most often described with the disparity between the massive increases in population (28%) in sharp contrast to the increase of GDP (7%). In November 2015 Peter Berkowitz from DG Regio stated<sup>21</sup> at the Committee of the Regions “Lunchtime Briefing” that the regional disparities have increased. There have been significant changes in different groups of regions: there are 36 EU regions less within the group of more developed regions, while there are 27 more transition regions and 135 instead of 126 less developed regions (all measured by GDP per capita).<sup>22</sup>

Evidence suggests that the enlargement has had significant economic growth impact on the EU-12 but as Willem Molle from the University of Rotterdam points out at the same occasion: “*The chances for success are highest for those who least need EU support, while those who most need EU support cannot realise success.*”<sup>23</sup> A further challenge to be mentioned is that the need for the right policy mix is even greater in the large countries of EU-12 such as RO or PL with enormous gradients between the wealthiest and the least prosperous regions.

*The strategic role of leading regions, particularly in ‘convergence’ Member States is vital to boost competitiveness and take on both the challenges and benefits derived from the single market. A careful balance will need to be struck in the policy mix chosen by the region between addressing single market challenges and territorial or inclusive objectives.*<sup>24</sup>

Molle concludes in the CoR “Lunchtime Briefing” that the challenges to EU cohesion and growth policy between 2020 and 2030 are largely similar to the present ones. And he suggests introducing a conditionality check on the quality of governance, coupled with an increased effort of the ESI Funds to improve the quality of governments in convergence countries (see also chapter 3.6 – the column governance quality required at LRA level).

### *Beyond the economic effect: policy rationales of CP*

Next to these considerations on the economic role of CP a number of policy-oriented argumentations should be considered. The following bullet points especially try to tackle the questions about “economic convergence versus economic cohesion” as well as if the focus on economic, social and territorial

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<sup>21</sup> The two chosen scenarios under chapter 3.3, an efficiency one (instability but resources abundance) and an equality one (instability and resources scarcity) correlate with these statements.

<sup>22</sup> Berkowitz, 2015, Lunchtime briefing: Cohesion and growth: challenges and prospects for EU policy-making, Committee of the Regions.

<sup>23</sup> Molle, 2015, Lunchtime briefing: Cohesion and growth: challenges and prospects for EU policy-making, Committee of the Regions.

<sup>24</sup> LSE, 2011, p. 15.

cohesion hinders the best possible, global economic (and employment) development performance:

- CP has been a main catalyst for integration and evolution in the process of enlargement: CP has acted as major incentive but also as significant instrument to ensure compliance with EU legislation; the enlargement processes have shown that the transposition of EU legislation is a longer-term process which requires significant capacity and a structured approach – CP has acted as major incentive for the Accession Countries; stable and well-functioning governance systems are an important element of the competitiveness of countries.
- CP as stabilising element: It is an instrument supporting public investment policy – in a period where public expenditure for investment is challenged by rising needs due to the economic crisis – a longer-term budget committed to specific investment purposes has an important stabilising effect.
- Flexibility to combine instruments: such as the combination of infrastructure with immediate effects inducing demand paired with softer elements (RDTI, SME-development) which tends to support growth in the longer run.
- Significant areas with the risk of market failure: within CP two examples of market failure have been frequently mentioned – the broadband access in less developed rural areas (taking note of the fact that such access is becoming an increasingly important element to partake in interaction - such as e-government) and societal developments (social media) or the option to introduce financing instruments for the enterprise sector.
- Sustainable growth: in order to safeguard the social and environmental sustainability of growth flanking measures are needed: a growth policy creating increasing income disparities will not be sustainable; growth in regions with non-existing or out-dated endowments in environmental infrastructure will produce growth with significant adverse externalities.

As explained above, the CP can be justified because of the advantages in terms of being a main catalyst in the EU enlargement process, being a stabilising element regarding a longer-term budget committed to specific investment purposes and because of its flexibility to combine instruments. On the other hand flanking measures are needed to avoid the risk of market failure and to ensure sustainable growth.

**Table 1. Overview on the three aspects of Cohesion in CP**

Aspect	Definition	Underlying models & policy rationales	Challenges related to the concept
Economic	<p>Economic cohesion has been playing a central role throughout the history of the EU, acting as one of the main catalysts for integration and evolution in the process of enlargement.</p> <p>In the beginning, economic cohesion had been effectuated primarily by means of GDP convergence (cf. income, productivity, employment); in the process, it has been supplemented with additional indicators as laid down in the EU Treaty.</p> <p>In the 2014-2020 round of CP, economic cohesion is measured in conjunction with social and territory cohesion (at sub-national level) by means of a portfolio of indicators, grouped according to the objectives of the Europe 2020 strategy.<sup>25</sup></p>	<p><u>Directly relevant:</u></p> <p>The EU's 5 structural and investment funds (ESIF): ERDF, ESF, CF, EAFRD, EMFF.</p> <p>The rules covering all 5 EU structural and investment funds are set out in the Common Provisions Regulation. Further regulations set out specific rules for each fund.<sup>26</sup></p> <p>Partnership agreements between the European Commission and individual EU countries set out the national authorities' plans on how to use funding from the European Structural and Investment Funds between 2014 and 2020. National programmes.</p> <p>Once the partnership agreements are adopted, the Commission and the national authorities agree on programmes setting out the priorities for each country, region or policy area concerned.</p> <p>The European Code of Conduct on Partnership ensures that national, regional and local authorities in EU countries work in partnership with civil society so that the funds</p>	<p>Considering the question about how much cohesion is possible and needed in the EU, it can be stated that within a neoclassical growth framework, certain literature finds the CP unnecessary, or worse distortive, as regional aid is though as a reason for misallocation of factors.</p> <p>New economic geography considers CP to be inefficient and ineffective inasmuch as economic integration sends productive factors towards the advanced regions where returns are higher, at the expense of peripheral areas.</p> <p>Keynesian economics are generally in favour of funds dedicated to CP, as the “multiplier principle” is thought to generate a virtuous circle of investment, production and income.</p> <p>The ‘macro-economic conditionality’ has been a highly controversial measure in the context of EU's CP.</p> <p>Understanding what triggers economic growth at the regional level is particularly challenging due to the lack of reliable data and the</p>

<sup>25</sup> <http://ec.europa.eu/eurostat/web/cohesion-policy-indicators/cohesion-indicators>.

<sup>26</sup> Regulations (EU) from N° 1300/2013 to N° 1305/2013).

Aspect	Definition	Underlying models & policy rationales	Challenges related to the concept
		<p>have maximum impact.</p> <p><u>Indirectly relevant:</u></p> <p>Stability and Growth Pact for the co-ordination of national fiscal policies in the European Union.</p>	<p>complex interaction between the evolution of statistical indicators and observed trends of economic growth.</p>
Social	<p>Social cohesion can be defined as “society’s ability to secure the long term well-being of all its members, including equitable access to available resources, respect for human dignity with due regard for diversity and personal and collective autonomy.”<sup>27</sup></p> <p>In accordance with Article 9 TFEU, the ESF should take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health.<sup>28</sup></p>	<p>One of the EU CP 11 thematic objectives of supporting growth for the period 2014-2020 is "promotion of social inclusion, combat of poverty and any discrimination".</p> <p>Another proposed rationale for social cohesion is the sustainability of subjective well-being over time. Under this premise, it is important to measure and determine what individuals value and have reason to value.<sup>30</sup></p> <p>Social cohesion indicator sets have been developed by the Council of Europe (2005), the OECD (1999/2006), as well as the EU (“Laeken indicators”, 2001/2010).</p>	<p>Placing too much emphasis on compensatory social policy and on income equalising may turn out to be acting against effectiveness and against motivation.</p> <p>Barca report (2009): “A remarkable lack of political and policy debate on results in terms of the well-being of people, at both local and EU level, most of the attention being focused on financial absorption and irregularities”.</p> <p>Issues of the measurement of cohesiveness differ in small and in large groups. Because of the complexities of assessing cohesiveness most attention has been given to small group cohesion.<sup>31</sup></p>

<sup>27</sup> A new strategy for Social Cohesion, Council of Europe, 2004.

<sup>28</sup> Art. 2 of Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013.



Aspect	Definition	Underlying models & policy rationales	Challenges related to the concept
	<p>In this sense, social cohesion is striving to eliminate barriers in horizontal and vertical mobility, in order to improve education, career and status advancement, and unrestricted movement within and between the EU MS. The underlying assumption and policy objective of social cohesion is a social commitment to reduce disparities to a minimum and avoid polarisation.<sup>29</sup></p>		
Territorial	<p>Territorial cohesion refers to the process of ensuring overall harmonious development between and within all regions of the European Union and enabling their inhabitants to take full advantage of their specific characteristics. Although territorial cohesion formally became a shared competence only with the ratification of the Lisbon Treaty, academic and policy discourse has long been</p>	<p>Territorial cohesion has enriched the rationale underlying the cohesion policies and strategic European spatial development policies by emphasising the potential of territorial capital for innovation and employment.</p> <p>Policy efforts are meant to contribute in the reduction of territorial polarization of economic performance, thus avoiding large regional disparities in Europe by addressing bottlenecks to growth in line with Europe 2020 Strategy.</p>	<p>Whilst much of CP will remain concerned with strengthening the economic fundamentals, consideration could also be given to the role that territorial cohesion might play as a mechanism for risk sharing, not just redistribution of funds (resilience through promotion of adaptive capacity).</p> <p>It is questionable if the articulation of the territorial cohesion objectives of the Europe 2020 strategy is adequate enough in the light of its overall scope.</p>

<sup>30</sup> OECD – Measuring well-being and societal progress (E Giovannini, J Hall, M Mira d’Ercole).

<sup>31</sup> Chapter 2, “The Concept of Social Cohesion”, in “The Group Effect: Social Cohesion and Health Outcomes”, John Bruhn, 2009.

<sup>29</sup> Economic & Social Cohesion in the Economic Policies of Member States: Final Report, EPRC and Euroreg, November 2010.

Aspect	Definition	Underlying models & policy rationales	Challenges related to the concept
	<p>preoccupied with the concept. One can distinguish between two debates around territorial cohesion that took place in the late 1990s and the 2000s and that feed into each other: the spatial planning debate and CP debate.<sup>32</sup></p>		

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<sup>32</sup> Economic & Social Cohesion in the Economic Policies of Member States: Final Report, EPRC and Euroreg, November 2010.

## 2.2 The policy system

CP is a system of shared management of EU funds to promote a harmonious development of the EU as a whole. It is a system where re-distributional effects are clearly combined with thematic objectives. In this section the main elements of the system of CP are presented, which form the basis for decisive choices on future elements of CP. The columns about the role of the MS and the role of the LRA assuming that successful CP needs good local and regional governance capacity also consider this issue (see also chapter 3.6).

The following table presents the major system elements and some considerations on the nature of these elements.

*Table 2. Considerations on major system elements in CP*

Major system elements	Considerations on the nature of the elements
Objectives	<p>The objective of economic, social and territorial cohesion is based on the Articles 174 to 178 of the TFEU and are further specified in the Regulations. Two points:</p> <ul style="list-style-type: none"> <li>■ CP is based on a rather broad consensus on the need for flanking measures to the deepening process of economic integration which is paired with increasing regional disparities;</li> <li>■ an underlying challenge for the concept of CP is the question as to where investments have to be directed in order to be most effective and efficient in terms of growth and in order to prevent a widening of regional disparities which could lead to the disaccumulation of economic, social and territorial capital.</li> </ul> <p>It is evident that due to one of its specificities – the integration of sectoral policies and their in part conflicting objectives – it is bound to be a policy of compromises.</p>
Distribution mechanisms	<p>The first obvious point concerns the <u>decisive criteria for distribution</u>, i.e. the indicators which guide the distribution of funds between the policy actors, i.e. the MS and the eligibility of regions within the MS.</p> <p>The second major underlying point is the <u>question of concentration</u> at all levels:</p> <ul style="list-style-type: none"> <li>■ geographical: MS, regions,</li> <li>■ contents: focus on certain investment priorities, limited number of priorities in programmes etc.</li> </ul>
Delivery mechanisms	<p>The delivery mechanisms should support the specificities of CP, i.e. mainly the integration of sectoral approaches, the programme-based approach and shared management and the territorial dimension. An adequate role of</p>

Major system elements	Considerations on the nature of the elements
	<p>LRAs has to be considered as implicit objective in order to strengthen the territorial dimension.</p> <p>The key point is the programme-based approach which should ensure commitment and transparency.</p> <p>An obvious point is the transparency and legitimation of policies when it comes to the selection of operations. Only an effective and efficient system of checks and balances will ensure the effective and efficient use of funding.</p> <p>In accordance with the principle of subsidiarity CP delivery is mostly in hands of the MS – thus the actual effectiveness and efficiency of CP delivery is determined to a large extent by the efficiency and effectiveness of national political-administrative systems.</p>
CP funding sources and their pre-requirements	<p>CP is mainly based on ERDF, ESF and CF; EAFRD has come under the same roof but truly integrated rural development remains a challenge; the structure of funds and the differences in implementing provisions tend to preserve a sectoral perspective which meets an established structure of line ministries at the level of MS</p>
Mechanisms ensuring efficiency and effectiveness in delivery at the planning stage	<p>Efficiency and effectiveness of the interventions should be ensured by mechanisms such as:</p> <ul style="list-style-type: none"> <li>■ Overarching strategy (PA) and programme-based approach.</li> <li>■ Ex-ante conditionalities.</li> <li>■ Specific conditions for major projects.</li> </ul> <p>An obvious aspect in the debate is the proportionality of such mechanisms – if the total financial envelope for the MS is quite small, the inherent burden leads to criticism (and the argument that the focus on coping with the administrative workload is to the detriment of the contents of operations).</p>
Monitoring, policy reporting, evaluation and control; knowledge management and learning systems	<p><u>Policy Reporting</u></p> <p>Uniform measures of success have to be found in order to allow for effective comparison from country to country; however, such measurement tends to narrow the view on territorial or thematic specificities.</p> <p><u>Learning systems</u></p> <p>The effect of monitoring, reporting and evaluation depends on a number of factors – just to name a few: the correct assumptions related to causalities, the timeliness in the availability of data, and results (of evaluation) and the willingness to share learning processes; from the perspective of a place-based approach to CP the inclusion of LRAs in learning systems would be essential; however in many MS these functions in CP are centralised and</p>

Major system elements	Considerations on the nature of the elements
	<p>attention is rather directed towards fulfilment of EC requirements than to actual contributions to learning and capacity building.</p> <p><u>Control and audit</u></p> <p>Independent control and audit of expenditures is an indispensable element for a public policy of this scope and magnitude. The major point is to improve knowledge management and mutual learning cycles and to go for a pragmatic approach towards risk management and more targeted control strategies - in short to strengthen the proportionality of the actions taken.</p> <p><u>Sanctions</u></p> <p>Consequences and sanction mechanisms focus on financial aspects: with obvious repercussions since thus the financial aspects of implementation rule in the end the discussions and decisions taken (with consequences on the thematic choice and the contents of operations).</p>
Implementation and governance	<p>The rather abstract view on the system must not distract the attention from the key element of any policy delivery– the human factor.</p> <p>It is persons debating CP at all levels, selection committees consist of persons representing institutions, it is persons developing and implementing projects and finally programme management rests on human capacities. A significant number of administrative staff is working in the management of CP<sup>33</sup>, which is as any administrative system marked by human interaction and the requirements for standardised routines.</p> <p>Looking at the governance, MLG particularly relies on the implementation of the partnership principle which became a regulatory requirement under the 1988 reform. The regulations have gradually extended the scope of the partnership principle to the extent that Multi-level Government evolved into Multi-level Governance. In early studies sub-national influence was shown to be the greatest during programme implementation/monitoring, followed by the design of plans/programmes, and least influential in negotiations with the Commission.</p> <p>The key challenges in the implementation of MLG identified were experience (lack of tradition of decentralization, limited capacity of sub-national actors), lack of resources (combined with the complexity of Cohesion Policy rules), managerial conflicts (growing resentment of the increased role of the Commission), rising complexity of bureaucracy (the higher the number of actors involved, the higher the administrative costs), democratic deficit (top– down model marginalises the role of democratic institutions).</p>

*Source: own considerations of the Author, Metis GmbH study for the European Parliament: An Assessment of MLG in CP 2007-2013, Volume I.*

<sup>33</sup> One has to consider that CP constitutes the dominant share in many sectoral policies in EU-12 – thus large administrative units (in EU-12 mostly at central level) deal predominantly with ESIF.

The following sections will concentrate on those issues, which are considered as key for any debate of future CP, especially looking at the question on how much cohesion is possible:

- The policy objectives.
- The distribution mechanisms.
- Multi-level Governance.

## 2.3 Policy objectives

### 2.3.1 Mainstream Cohesion policy

The review of the policy model for CP has to start with its underlying objective. CP is marked by several layers of principles and objectives. This is probably a characteristic of all mature policy fields: the process of policy evolution is marked by the stepwise amendments to as well as the addition of objectives. In comparison to national policy systems, one has to see that in case of CP the numbers of actors (i.e. the MS) has been increasing in three major waves the last one about a decade ago.

The following table reflects the objectives as laid down in the legal frameworks governing CP.

**Table 3. Reflections on guiding principles and objectives of CP**

Layer	Assessment / considerations
Overarching objective anchored in TFEU and the CPR	<p>The overarching objective as well as the major instruments of CP are enshrined in the TFEU. The Common Provisions Regulation (CPR) states in Article 4:</p> <p style="text-align: center;"><i>The ESI Funds shall provide support, through multi-annual programmes, which complements national, regional and local intervention, to deliver the Union strategy for smart, sustainable and inclusive growth, as well as the Fund-specific missions pursuant to their Treaty-based objectives, including economic, social and territorial cohesion taking account of the relevant Europe 2020 Integrated Guidelines and the relevant country- specific recommendations.</i><sup>34</sup></p>
Europe 2020 as the Union Strategy for smart, sustainable and inclusive	<p>Europe 2020 is put in the centre of CP. From the perspective of the Territorial Agenda the effectiveness of Europe 2020 could be significantly raised when taking the territorial dimension more strongly into account.<sup>35</sup> This is important since the Territorial Agenda is one of the keys to give the place-based</p>

<sup>34</sup> CPR, Article 4.

<sup>35</sup> Cf. Böhme, K., 2011.

Layer	Assessment / considerations
growth	<p>approach an increasing weight in CP.            However this means also that the concept of the territorial agenda must be made more user-friendly, i.e. mostly to work on a more concise approach to the value-added of territorial policies. One of the attempts has been the definition of territorial keys which should provide more evident links between Europe 2020 and the Territorial Agenda.<sup>36</sup></p>
Principles (anchored in CPR)	<p>The principles can be understood <u>mostly as guidance for governance</u>.</p> <p>It is evident that the principles are crucial in terms of policy legitimation but practice reveals that it is a serious challenge to make the principles a decisive factor in delivery and implementation.</p> <ul style="list-style-type: none"> <li>■ <u>Partnership and Multi-level Governance (MLG)</u>: which is essential from the perspective of LRA's participation in CP.</li> <li>■ <u>Promotion of equality of men and women and non-discrimination</u>: goes without discussion as essential element in advanced democracies.</li> <li>■ <u>Sustainable development</u>: key element with a view to resource efficiency as overarching challenge for Europe.</li> </ul> <p>Thematic concentration - taking into account territorial challenges - is firstly anchored as overarching objective similar to the principles.</p>
The objectives linked with eligibility of regions (anchored in CPR Art. 91 and funds-specific regulations and ETC-regulation)	<p>The number of objectives has been reduced – also the numbers of guiding indicators – now the key indicator is GDP (respectively GNI for the CF). In the period 2000-2006 additional indicators such as unemployment rate and industrial employment and its longer-term development or population density for declining rural areas).</p> <p>The objective <u>Investment for Growth and Jobs</u> guiding resources from ESF and ERDF is based on three categories of regions thereof two being grouped according to GDP per capita (GDPpc) levels.<sup>37</sup></p> <p>The decisive indicator for the <u>allocations from the CF</u> is Gross National Income (GNI) per capita (GNIpc).</p>
The mechanisms for the resource allocation to MS	<p>The mechanism for resource allocation is known as the Berlin formula and it represents the result of political negotiations and compromises based on rather sophisticated calculation mechanisms.</p> <p>These mechanisms are presented in section 2.4.1.<sup>38</sup></p>
Earmarking of funds – thematic concentration	<p>The principle can be seen as additional or complementary to the eligibility of regions.</p>

<sup>36</sup> Cf. Böhme, K., 2011, p. 6: the territorial keys identified are accessibility, SGEL, territorial endowments/assets, city networking, functional regions.

<sup>37</sup> The third one is strictly speaking defined by being not included in the two other categories.

<sup>38</sup> European Council 2013, pp. 13-17.

Layer	Assessment / considerations
	<p>2007-2013: 30% for environmental infrastructure and measures to combat climate change; 25% for RDTI.</p> <p>2014-2020: 20% for climate change, 5% for sustainable urban growth at national level (PA).</p> <p>Factual rules on thematic concentration have been introduced via the ERDF-Regulation with the introduction of minimum allocations to the IPs 1, 2, 3 and 4 the thresholds varying along the three categories of regions.</p>
Thematic objectives	The 11 Investment Priorities (IP) are decisive: the IPs open respectively limit the room for manoeuvre in policy choices <sup>39</sup>
Implementation Instruments	The main instruments of implementation are the Partnership Agreements and the Operational Programmes. New instruments which have been developed under funds (such as the Joint Action Plan (JAP) under ESF), in Community Initiatives (such as CLLD under LEADER) or as element of cross-funds approaches for deprived urban areas (ITI)

*Source: own considerations of the author.*

First tentative conclusions are:

- The layers of principles and objectives and distribution mechanisms are quite sophisticated; putting Europe 2020 in the centre of CP is an inherent challenge since the interconnections between these policies are not obvious from the territorial perspective in CP.
- The anchoring of the territorial element in the legal framework is comparatively weak and inconsistent; the concrete translation of territorial challenges into policy action is entirely in the hands of MS; in sharp contrast to the strong guiding role of the Regulation in the allocation of ERDF to thematic objectives; however there are important signals that there is a growing awareness of the need to consider policies from a territorial dimension<sup>40</sup>.
- The actual weight and influence of each of the presented objective layers differs to a significant extent – this ranges from comparatively weak guidance to the key issues for policy debate, i.e. those objectives which define the rationale for the distribution of funds.

<sup>39</sup> The most visible change is the marked emphasis on the topics of Europe 2020 and the minimised role of basic infrastructure. The prime example are secondary and tertiary roads – in principle the IPs do not foresee such measures – however this is a need and is now being introduced in various forms in the Programmes (IP 6, IP 8, IP 7B) – such policy incidences starting rather on top of the policy system do not strengthen the policy rationale and credibility.

<sup>40</sup> A concrete reference is the Directive 2014/89/EU of the European Parliament and of the Council of 23 July 2014 establishing a framework for maritime spatial planning.



### Recommendations related to the system of policy objectives

In order to regain a clear narrative of CP the relations between the guiding strategies, the policy objectives and their relation to the specificities of territories must be placed in the centre of the debate. In a second step the delivery mechanisms should be adjusted in order to ensure the efficient and effective policy delivery (see chapter 3.6. 1).

The definition of thematic objectives – which to a significant extent define the actual outputs – should reconsider a shift to the initial objectives of CP, i.e. the harmonious development of the EU and narrowing regional disparities. In our view this would mean e.g. a stronger emphasis on the need for functioning basic infrastructure as pre-condition to growth – in particular in the context of a place-based strategy.

### Building links between CP and Europe 2020

Europe 2020 is the overarching strategy for the EU and CP represents the most significant part of the EU's budget. Thus in future it might be worth to develop stronger links between the overarching economic strategy and the most significant EU policy. A major help could be a set of target indicators at regional level which would build a bridge between these two major policy areas.

The current situation is such that regionally and territorially differentiated targets of the Europe 2020 Strategy do not exist. This might also be a consequence of the fact that there is a lack of regional statistics at NUTS-2 and NUTS-3 level relevant for the Europe 2020 strategy. A territorial diversified monitoring of the impact and delivery of the Europe 2020 Strategy is thus difficult and monitoring largely remains at the national or EU level.

The European Court of Auditors (ECA) mentions in its 2014 annual report that the objective for the EC “*should be to achieve substantial improvement on regularity and on performance by the end of the current period. The upcoming mid-term review of the 2014-2020 multi-annual financial framework is a landmark in the management of EU spending.*” It would be important that the Commission analyses the areas of persistently high levels of error as soon as possible and intensifies efforts to reduce errors while strengthening the focus on performance in spending.

Nevertheless, the ECA highlights in its report that the Commission this time has a good opportunity to align its strategic planning with its financial planning.

*“So far the ten year periods of the Europe 2020 strategy, and previously the Lisbon strategy, and the EU’s seven year budgetary cycles (2007-2013 and 2014-2020) are not aligned. MS give inadequate attention to the Europe 2020 strategic goals in partnership agreements and programmes. This limits the Commission’s ability to monitor and report on performance and on the contribution of the EU budget to strategic objectives.”<sup>41</sup>*

### The framework of regulations

There are very diverging opinions about the efficiency of having one regulation per fund. Some respondents argue that some of the indicators should be fund-specific in order to be able to monitor and evaluate the fund-specific issues. In addition, the attempt to simplify a multi-fund approach for the EU funds through a common regulation for ERDF, ESF, EAFRD and EMFF is “praiseworthy” according to one respondent, but “alas, stopped halfway, with the result that it is currently rather adding to complexity”. Due to the principle of proportionality, the expense and effort involved in programming, administration and control must be geared to the size of the programmes and projects. In the future the implementation of smaller projects should involve appreciably less administrative burden<sup>42</sup>.

Others on the other hand argue that a single regulation for all structural funds is needed, because the integration of Structural Funds is failing due to conflicting and contradictory regulations from different DGs (and in turn different MS departments).

### **2.3.2 The role of ETC**

ETC accounting for about 2.5% of the ERDF resources for CP is – same as all strands of CP – subject of quite divergent positions in discussion:

- by enthusiasts it is often labelled as the most valuable European objective in CP,
- critics point at the failure to deliver concrete results (in contrast to infrastructure-oriented investment policy).

ETC is a transversal lever to cooperation for contiguous cross-border areas, for the cooperation between Member States across macro-regions and territories and it offers also frameworks for the sharing knowledge and expertise across all topics relevant for CP. The range of projects within the programmes is broad: cross-border infrastructure, transnational strategies on major issues such as

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<sup>41</sup> European Court of Auditors, 2014 Annual Report.

<sup>42</sup> Michael Heinke, State Chancellery of Saxony-Anhalt, Germany.

TEN-T, flood and disaster prevention or demographic change, education and training, people-to-people actions etc.

Maybe the most convincing picture of the role of ETC is to view the border regions as the junctions of Europe. It illustrates the fact that in particular public bodies involved in vital areas of governance do need an incentive to start cooperating across national borders. Dedicated action is required in order to seam Europe together beyond a rapid process of economic integration: economic integration happens at a pace tremendously faster than the cooperation mechanisms between the corresponding administrative and governance structures.

A special area of concern is conurbations which grow together across national borders and thus form cross-border functional areas: the forward-looking management of such cross-border growth areas should exploit options to develop shared visions and strategies for spatial development. The management should work on models to provide public services more efficiently through cooperation and finally it should strengthen the ties between the citizens. Models for the governance can be found across Europe – such as the EGTCs which support the cross-border governance of the Eurométropole Lille-Kortrijk-Tournai, the Eurodistrict Saar Moselle or Strasbourg – Ortenau or CBC projects such as between Bratislava and the adjacent municipalities on Austrian side which just started shared strategy-building.<sup>43</sup>

When considering ETC and its essential role for shared policy development across all sectors, the following points seem essential when considering the future development of the Objective:

- Partnership as the essential feature: the actual delivery of ETC is shaped by the partnerships set-up to implement the projects – ETC per se gives an unlimited room for new and unprecedented approaches towards integration of sectors and policies tailored to the needs of territories – but in order to use these opportunities effectively a strong underlying cooperation framework<sup>44</sup> which includes the LRAs is essential.
- Territorial keys: the overarching guidance to anchor the Territorial Agenda in CP provides important leads for ETC – one of the most useful examples are the territorial keys<sup>45</sup>, comprising accessibility, SGEI,

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<sup>43</sup> Cf. project BAUM – [www.sk-at.eu](http://www.sk-at.eu).

<sup>44</sup> This refers to the cooperation between the main programme actors (MA/JS) and the programme addressees, i.e. the regions; there is an obvious risk for conflicts of interest when regions have a strong say in the programme (e.g. being part of the MC) and developing and implementing projects; on the other hand projects of strategic significance will not materialise without a guiding role of the regions.

<sup>45</sup> Cf. Böhme K, et. Al, 2011, p. 6.

territorial endowments, city networks and functional regions – ETC could strongly support the awareness for such keys and the subsequent formulation of projects.

- Strategic projects: the state of cooperation in policy areas linked to territorial keys varies enormously among the regions and MS covered by ETC; projects touching sensitive policy areas such as cross-border accessibility or shared strategies towards land-use planning are often marked by long-lead in times required to set-up the partnership and to define the project; such projects have to be regarded as strategic but might be perceived as risk from the perspective of programme management due to their rather experimental nature and the inherent risk for the timely absorption of funds – the longer-term programme-based approach is particularly valuable in case of ETC.
  
- Visible elements: ETC has also the implicit aim to bring Europe closer to citizens – programme management will have to look for a balance between strategic projects (working on shared policy development in sensitive areas which will reap benefits only in the longer-run) and more visible and action-oriented projects – to find the right mix call again for a strong underlying cooperation framework of the programme actors

The following table outlines key aspects for future development across the strands of ETC.

**Table 4. The main strands of European Territorial Cooperation**

Strand	Key aspects
Cross Border Cooperation (CBC) – INTERREG A	<p>The biggest strand of ETC is to some extent challenged by the fact to strike a balance between being an open thematic facility for projects at the same time having an overarching function as strategic instrument.</p> <p>Given the differences in the levels of economic development and integration the key point is that ETC CBC remains a programme-based framework with a high degree of thematic flexibility – some CBC regions have reached the status to govern and steer developments whereas in other regions support of CB local ties is essential and is mostly based on bottom-up approaches.</p> <p>ETC CBC as instrument for territorial cohesion (and its visible contribution to the Territorial Agenda) depends on the commitment of the programme actors to partnership throughout all levels of the policy cycle (from programming to projects).</p> <ul style="list-style-type: none"> <li>■ <u>Develop the strategic programme profile</u>: the programmes are meant to be tailored to the specific situation in the border regions – thus the role of regional strategy inputs and the integrated territorial approach should be strengthened in the programming and implementation phase; the future</li> </ul>

Strand	Key aspects
	framework for CP should emphasise these aspects more strongly
Trans-national INTERREG B	<p>Two points should mark the role of transnational programmes:</p> <ul style="list-style-type: none"> <li>■ The role as <u>instrument to address trans-national and transeuropean challenges</u> in terms of strengthening the capacities and developing tools.</li> <li>■ The role as incentive and <u>financing instrument for macro-economic strategies</u> (these are long-term processes requiring long-term support).</li> </ul> <p>The example of the Strategy for the BSR shows that there is an effect of continuous efforts towards integration. However, one has to see that the area is rather small and the initial key agenda has been rather clear-cut (preserving and mitigating the status of the Baltic Sea) and that ancillary policy structures exist. Compared to BSR the EUSDR is in its inception phase. As the case of EUSDR shows the communication of such Strategies remains a challenge – from the perspective of CBC programmes in the DR the strategy is hardly visible.</p> <p>Macro-regional strategies might become a supportive lever for the territorial agenda since these strategies should implicitly and explicitly foster the awareness of a new European geography and a new perspective on European territories.</p>
INTERREG Europe	<p>Interreg Europe encourages the thematic cooperation across Europe and is an important complement to the other strands.</p> <p>Its strategic role and profile benefits from a close interaction with INTERACT: the essential point for INTERREG Europe is to capitalise results achieved in other strands of ETC, and to generate and share knowledge on policy-making.</p>
INTERACT	<p>The major role of the network of points is as technical service unit for the programme managements – the performance of the programme has improved significantly in terms of coming closer to the actual needs of the programme managements.</p> <p>The added-value of INTERACT as a versatile technical support facility for the INTERREG Community is acknowledged in large parts of the INTERREG Community. It acts as interlocutor with DG Regio (which has been essential in the inception phase of the period 2014-2020), it seeks to bring macro-economic strategies closer to programmes, and it provides technical support (e.g. the e-monitoring system which actually saves many programmes a lot of time and resources).</p> <p>This role as a versatile technical support which reacts on needs of programmes and supports the exchange of know-how between programmes should be continued given the fact that managing ETC programmes is comparatively challenging.</p>
URBACT <sup>46</sup>	<p>URBACT – as an instrument for sharing knowledge across urban regions in the EU - is based on three types of interventions:</p> <ul style="list-style-type: none"> <li>■ transnational exchange,</li> </ul>

<sup>46</sup> [https://ec.europa.eu/commission/2014-2019/cretu/blog/cities-are-key-future-europe\\_en](https://ec.europa.eu/commission/2014-2019/cretu/blog/cities-are-key-future-europe_en).

Strand	Key aspects
	<ul style="list-style-type: none"> <li>■ capacity-building,</li> <li>■ capitalisation and dissemination.</li> </ul> <p>The current urbanisation trend is one of the most significant territorial trends with enormous quantitative implications: three out of four Europeans live in cities and economic growth in the EU will come primarily from its towns and cities. With more than half of ERDF money invested in urban areas and about 15 billion Euros directly allocated to integrated strategies for sustainable urban development EU CP is already putting the urban dimension at the heart of its policy.</p> <p>URBACT provides a wealth of expertise collected in past projects and its role as shared think-tank for urban policies should be kept. It is one of the levers to further the Urban Agenda in the EU. Increasing cooperation between URBACT and ESPON – including also partners such as EUKN<sup>47</sup> – could lead to a strong base for knowledge management and for the investigation on key issues for urban development such as the urban dimension of global trends, governance concepts or the cost-efficient and effective provision of public services in an urban context.</p>
ESPON	<p>The programme mission is to continue the consolidation of a European Territorial Observatory Network. The Network should provide pan-European comparable, systematic and reliable territorial evidence and promote and mainstream the sue of these date in policy making.</p> <p>Since the adoption of the current ESPON programme in February 2015, it is constituted as an EGTC. This should ease the administrative procedure for the ESPON project calls. The following changes compared to 2007-2013 are foreseen for the new programme period:</p> <ul style="list-style-type: none"> <li>■ <u>Stronger orientation on awareness-raising and customer-related work</u>: more outreach; more policy relevant analysis upon demand from policy maker/OP stakeholder and macro-regions.</li> <li>■ <u>Further strengthening of the scientific base</u>: improvement of territorial evidence, improved validation of scientific quality and data and enhanced in-house capacity related to science, knowledge transfer, communication</li> </ul> <p>The presentation of the new programme in Berlin in November 2015 demonstrated the strive for closer interaction with policy-making: it puts key issues like demographic change and the EU Urban Agenda in the centre and seeks to prepare significant territorial input for future Cohesion Reports: an essential point in order to strengthen territorial awareness in CP.</p> <p>Thus ESPON might prepare the ground for new initiatives with a broader outreach such as a Territorial Vision for Europe. This – in turn – could become a major lever to integrate the territorial dimension more strongly in the future framework for CP.</p>

*Source: Interview with B. Schausberger from the SK-AT ETC programme, own considerations, launch of the URBACT programme, ESPON seminar by Bundesministerium für Verkehr und digitale Infrastruktur in Berlin 12-13 November 2015.*

<sup>47</sup> EUKN – European Urban Knowledge Network; an EGTC dedicated to furthering the urban dimension in research and cooperation.

## 2.4 The distribution mechanisms in CP

CP funding follows several distribution mechanisms, where eligibility of regions and allocations to types of regions matter.

There are three main types of regions **eligible**<sup>48</sup> for funding<sup>49</sup>:

- less developed regions, where the GDP per capita is less than 75 % of the EU-27 average;
- transition regions, where the GDP per capita is between 75 % and 90 % of the EU-27 average GDP;
- more developed regions, where the GDP per capita is above 90 % of the EU average.

The **allocation** of funding has followed a complex mechanism: For the allocation to less developed regions the so-called “Berlin-Formula” has been applied (see below). The underlying rationale is to concentrate resources to reach the less developed European countries and regions in order to help them to catch up and to reduce disparities. Different mechanisms apply for the other types of regions. In parallels several adjustments have been made (capping the funds at a certain ceiling, etc) and finally provisions were made to address special situations<sup>50</sup>. Allocations for each Member State resulted on these three steps. The mechanisms for the allocation of resources to MS constitute to some extent a hidden element of CP representing the political compromise between the MS. The criteria for the eligibility of the regions represent the part of distribution mechanisms which is laid down in the Regulations and thus is a visible policy mechanism.

The following section explains the mechanism for the allocation of resources and possible implications on the distribution.

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<sup>48</sup> Further eligibility criteria relate to Member States eligible for the Cohesion Fund (90% of the EU average of the GDP pc), for ETC regions for cross-border and transnational programmes, which are based on location, not GDP.

<sup>49</sup> Common Provision Regulation 1303/2013.

<sup>50</sup> Bachtler, J., Wishlade F., (2013), A new dawn for Cohesion Policy? The emerging budgetary and policy directions for 2014-2020. University of Strathclyde, Glasgow. European Policy Research Center. EoRPA Paper 13/4.

## 2.4.1 Mechanism for the allocation of resources<sup>51</sup>

Distributing €325 bn<sup>52</sup> across Member States and types of regions in Europe is a highly sensitive and politically contested issue. The mechanism follow up – with some modifications – on well-established concepts. The Berlin formula has been developed during the negotiations of the Agenda 2000 in the year 1999 and used for both of the period 2000-2006 and 2007-2013. Only marginal changes have been applied for the current period.

The basic principles are the following:

- Allocation of funds to less developed regions and to some extent to the transition regions follows the “Berlin formula”. The core indicator is GDP per capita (pc) in PPS, complemented with an “unemployment premium”. For each less developed region the gap between the EU average and the regional GDP pc is measured, modified by the national prosperity level and complemented by an extra allocation for unemployment.
- For more developed regions allocations start of from a financial allocation per capita, which is modified according to a number of differently weighed indicators. These indicators mainly focus on social inclusion issues.
- For transition regions a mixture of both approaches is taken, including upper and lower ceilings.
- Cohesion fund allocations are based on national shares of population and surface area, adjusted for prosperity.
- ETC allocations follow a distribution key based on the share of border regions in the Member State and its share in population.

Adjustments have been made to consider absorption capacity (“capping”), where the allocations should not exceed a certain share of GDP (ceilings were set between 3.3 and 3.8%). Ceilings should prevent large deviations from the previous allocations<sup>53</sup>. Special provisions were made for PEACE and the YEI.

In more details the allocation mechanism are explained in the following table.

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<sup>51</sup> These indicators are considered as given and endogenous in the scenarios highlighted in chapter 3.

<sup>52</sup> CPR 1303/2013, 2011 prices, including €3bn for the Youth Employment Initiative.

<sup>53</sup> Funds are capped in order not to exceed a certain share of national GDP in the new Member States (e.g. 3.79% in LV, 3.42 in CZ). Ceilings were introduced to avoid that MS allocations would exceed the 2007-2013 allocations by 10% or go below 55%. For former Convergence regions the 2014-2020 allocation was not to go below 55% of the previous allocations.



**Table 5. The mechanisms for resource allocation to MS**

Type of region / objective	Mechanism	Main parameters
Less developed regions:	<p>Based on the “Berlin formula”<sup>54</sup> the:</p> <ul style="list-style-type: none"> <li>■ Regional allocation is based on the gap between the regional and the EU average of the GDPpc in PPS - multiplied with population numbers.</li> <li>■ The allocation is weighed by a national prosperity coefficient (so that regions in Member States with lower GDP levels receive a higher per capita allocation, the modulation has three steps).</li> <li>■ A premium per unemployed person<sup>55</sup> based on the difference to the average of unemployed for all less developed regions (as absolute amount).</li> </ul> <p>There is a capping mechanism limiting the upper level.</p>	<p>Allocation depends on GDP pc in PPS, population totals and the number of unemployed. Outcome depends on regional disparities within a Member State and the GDP level of the MS.</p>
Transition regions:	<p>Per capita allocation has a minimum and a maximum allocation (per capita):</p> <ul style="list-style-type: none"> <li>■ Maximum is calculated like in Less developed regions.</li> <li>■ Minimum is calculated like in More developed regions.</li> </ul> <p>Actual aid intensity is a linear interpolations (i.e. the closer region’s GDP is to 90% of EU average, the closer is the per capital allocation to the minimum level.</p> <p>There is a capping mechanism: defining the maximum level of support (based on the assumption of a region with 75% of GDPpc average): The aid intensity may not be higher than in less developed regions. Furthermore there is a premium per unemployed person<sup>56</sup> similar to the one in less developed regions.</p>	<p>Allocation depends on GDP pc in PPS, population totals and the number of unemployed. Outcome of formula depends on disparities within a Member State and the GDP level of the Member State, but the relation is less direct.</p>

<sup>54</sup> Council of the European Union, Multiannual Financial Framework (2014-2020) – Section of the Negotiating Box related to Cohesion and CEF,

<http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%207635%202012%20INIT>.

<sup>55</sup> € 1.300 p.c.

<sup>56</sup> € 1.100 p.c.

Type of region / objective	Mechanism	Main parameters
More developed regions	The initial theoretical financial allocation per person is <sup>57</sup> multiplied by population number to arrive at the overall allocation. The distribution between the Member States is based on a several key indicators with different weights <sup>58</sup> (population, unemployed persons, employment, school attainment, early leavers, and population density). Amounts are not subject to capping.	The composite indicator emphasises criteria which reflect aspects of social cohesion
Sparsely populated and Outermost regions	The allocation to these regions is based on an extra per capita amount <sup>59</sup> .	An approach counterbalancing the dominance of population totals.
Cohesion Fund	There is an initial theoretical envelope based on an allocation per person. The criteria for distribution are national shares of population, surface area and prosperity (one third of the difference between GNI and the GNI average of all eligible MS). For EU 12 CF is to account for one third of ESI Funds. Allocations are subject to capping.	The criteria for distribution take the nature of CF interventions into account (transport surface area, population); environmental infrastructure (population totals).
European Territorial Cooperation (ETC)	As ETC is an objective within CP, ETC receives the allocation as percentage of the total envelope for CP, for the distribution within ETC, the CPR includes percentages for the strands.  The distribution of ETC-funds (ERDF) among MS is based on the weighted sum of the population of the border region at NUTS-III level and the share of the total MS's population.	Population numbers in border regions as leading indicator.

*Source: European Council 2013, pp. 13-17, own considerations of the Author.*

The outcome of the allocations is a very significant concentration of funding intensity in less developed regions (€185.4 per person), still substantial allocations for Cohesion Funds and transition regions (€73 and €64) and much lower intensities for more developed regions (€23). ETC only amounts to €2.5 per person<sup>60</sup>. In terms of distribution less developed regions receive about half of the funds, Cohesion fund about one fifth, transition regions approximately 10%, more developed regions 15% and EC 2.7% (the residual are specific provisions).

<sup>57</sup> € 19.8 pc per inhabitant p.a.

<sup>58</sup> Total population (25%), number of unemployed persons in NUTS II regions with unemployment rates above the EU average (20%), employment needed to reach Europe 2020 target (20%), number of persons aged 30 to 34 with tertiary education needed to reach Europe 2020 target of 40% (12,5%), Number of early school/training leavers aged 18 to 24 subtracted to reach the Europe 2020 goal of 10%, Difference between observed GDP pc and the GDP pc of the most prosperous region (7,5%), population of NUTS III regions with a density below 12,5 inhabitants (2,5%).

<sup>59</sup> € 30 pc per inhabitant p.a.

<sup>60</sup> Bachtler, J., Wislade F., (2013).

The method applied has the following features:

- It is well known to the Member States as it has been applied for the third programming period;
- It is stable over time – and provides also largely stable results;
- It is transparent, as the results can be calculated (and checked);
- It takes account of regional disparities at the level of NUTS II;
- It is mainly grounded on the GDP pc indicator, where regional variations are taken into account, modified by national levels.

The distribution methods have a few characteristics, that impact on the way, how funds are distributed:

The first element is the importance of the GDP indicators for eligibility as well as for allocations. For less developed regions the GDP per capita at NUTS II and at national level is decisive for eligibility and for allocations.

The GDP indicator has been largely disputed and criticised. However, before discussing them, it needs to be highlighted that GDP was never designed to be comprehensive measures of prosperity and well-being, but in practical terms it has become the most widely recognized indicator for wealth, well-being and progress. There are significant advantages and disadvantages when using GDP:

- The advantages are that the indicator is well known, largely acknowledged, available in a timely way at national level and (with some delay) at the NUTS II level. There are time series available and the calculation is harmonised across Europe by EUROSTAT. With the ESA 2010<sup>61</sup> several improvements have been made, especially to the inclusion of RDT expenditures as investment.
- The disadvantages have been widely discussed, and mainly refer to the use of GDP as comprehensive indicator for well-being and progress.
  - First, the relationship between economic growth as measured by GDP and other dimensions of societal progress is not linear. Many

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<sup>61</sup> The European System of National and Regional Accounts (ESA 2010) is the newest internationally compatible EU accounting framework for a systematic and detailed description of an economy. The ESA 2010 was published in the Official Journal on 26 June 2013. It was implemented in September 2014; from that date onwards the data transmission from Member States to Eurostat is following ESA 2010 rules (<http://ec.europa.eu/eurostat/web/esa-2010>).

European (and global) challenges like climate change, poverty and exclusion, pressure on resources and their potential impact on societies cannot be captured.

- GDP is based on market transactions and measures money that is flowing through the economy. Non-market based activities, which are quite important in some regions, (subsistence in the agricultural sector, voluntary work etc) are not covered. If an economy relies more on financial transaction than production this is also not shown in the GDP, although it impacts on the chances of people in participating in the economy. Also differences in income distribution between different groups of society cannot be captured;
- These transactions also do not distinguish between activities that are harmful for natural resources and reduce the well-being of future generations, i.e. externalities, such as costs of environmental pollution, are not covered;
- At a regional level GDP per capita is distorted, if the NUTS region cuts through functional areas, i.e. for regions with in- or out-commuting GDP is distorted.

Thus when using the GDP as indicators the aspects of social inclusion and sustainability are not covered.

However, one response in the online survey stated: *“Currently used indicators have some weaknesses, but they are generally acknowledged, as no better indicators that would be supported by everybody are known, unfortunately.”*

A second element is the way how GDP indicators are interlinked: The Berlin-Formula measures the distance of a per capita GDP to the EU average and modifies the allocation by a national prosperity coefficient. This leads to different allocation levels for regions with identical GDP levels. This national prosperity coefficient was an item of intense negotiations (with the result that the middle group of regions improved their allocations significantly during the negotiations while the more and the less wealthy regions lost relative allocations).

The third element of the allocation mechanism is the modulation of per capita allocations by a set of indicators. With this approach other aspects (especially the social inclusion objective) could be considered for the allocation in more developed regions.

As a conclusion it is worthwhile to mention that the allocation by GDP seems to have provided a stable and comprehensible framework for defining eligibility and allocation of funds that has allowed to concentrate funds to the regions most in needs without neglecting the other types of regions. However, the question if GDP is the appropriate indicator to measure progress and serve as basis for further distribution mechanism is one to be discussed for the next round of Cohesion policy.

## **2.4.2 Appropriate ways how to measure progress**

Measuring progress is discussed in this section in the context of potential allocation mechanism. It is evident that mechanisms for measuring progress need to be based on solid indicators and a transparent methodology, where a few principles have to be ensured:

- Indicators should be
  - clear in terms of what they measure,
  - be available across Europe in a standardized format,
  - available at regional level (at least NUTS II, preferably also at NUTS III in a consistent way) in a timely fashion,
  - allow comparability over time,
  - comprehensible and widely understood in terms of what is measured and related to the targeted policy objectives (i.e. allow for measuring differences between Member States and regions).
- The calculation method needs to be simple and comprehensible (i.e. without sophisticated modelling).
- Indicators should reflect policy objectives and allow to measure desired changes;

In principle monetary indicators (GDP<sup>62</sup> and GNI) are the essential allocation mechanism for CP. There are long-standing and recurrent discussions on the use of GDP as main indicator. But which alternatives can be offered in a realistic time-frame?

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<sup>62</sup> GDP: The total value of all goods and services produced domestically (inside a country) by a nation during a year; GNI: The total value of goods and services produced within a country together with the balance of income and payments from or to other countries.

### 2.4.3 Complementing or replacing GDP?

Considering alternatives to GDP there are several options: either trying to replace GDP as core indicator by a more comprehensive measurement, adjusting the GDP indicator to better reflect the needs or complementing the indicator by others (as already done for the more developed regions).

**Replacing GDP by a “better” indicator** is a discussion going on for many years, often subsumed as “beyond GDP”. The Beyond GDP initiative is about developing indicators that are as clear and appealing as GDP, but more inclusive of environmental and social aspects of progress. The EC joined the scientific discussion and released a policy paper “[GDP and beyond: Measuring progress in a changing world](#)” in 2009. The aim was to complement GDP with high level indicators reflecting issues such as environmental protection, quality of life and social cohesion. The roadmap also puts emphasis on the timeliness and robustness of these indicators which are necessary to inform policy making<sup>63</sup>. In a follow up in 2013 on the progress<sup>64</sup> the EC reported that an aggregate indicator measuring "people at risk of poverty or social exclusion" was developed, available for NUTS II. Interesting conceptual work has been done to extend national accounts by indicators on environmental pressure on EU territory and overall environmental impacts caused by the supply chain of the EU (i.e. **adjusting the GDP**). However, such indicators seem to be developed at national level, without any regional break down so far. An interesting approach is mentioned in relation to the development of a comprehensive indicator on environmental quality, i.e. how many people live in healthy and sustainable environments. Such an indicator could be created by combining geo-spatial data on air and water pollution with statistical data. So far, this is ongoing work in European projects.

A **wealth of territorial information** and a rich stock of data at regional level (NUTS II and NUTS III) with relevance for Cohesion Policy has been produced by ESPON. The ESPON Atlas 2014 offers a very detailed picture of the European territories, on urban and rural areas, society and integration, economic structures and global challenges, linkages and accessibility, environment and climate and governance. One specific ESPON project (KIDCASP) was devoted to the identification of the most suitable core set of key indicators of significant practical use to policymakers and practitioners at national and sub-national levels in the preparation of territorial development and spatial planning strategies. They defined – in close cooperation with key stakeholder groups – four relevant policy themes and identified 20 core indicators, which were collected at NUTS III level for a number of model regions:

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<sup>63</sup> [http://ec.europa.eu/environment/beyond\\_gdp/staffworkingdoc\\_en.html](http://ec.europa.eu/environment/beyond_gdp/staffworkingdoc_en.html).

<sup>64</sup> Staff Working Document [SWD(2013) 303] on "Progress on 'GDP and beyo.nd' actions".

### Economic competitiveness and resilience:

- GDP/capita.
- Employment rate of population aged 20-64.
- Total R&D expenditures in % of GDP.
- Balance of external trade.
- Economic structure.

### Integrated spatial development:

- Population density and change.
- House completion.
- Modal split.
- Land use change.
- Access to services.

### Social Cohesion and quality of life:

- Population aged 30-34 with tertiary education.
- Population at risk of poverty.
- Green space accessibility.
- Well-being index.
- Dependency ratio.

### Environmental resource management:

- Renewable energy production.
- Greenhouse gas emissions.
- Population at risk of flooding.
- Number and status of protected European habitats and species.
- Water quality status.

These data have been set up in an online-tool with an intuitive and interactive format. This allows for an interactive analysis of data in a dashboard system.

This system has been developed for a number of pilot regions. However, the ESPON data navigator also allows for tailor-made maps based on indicators to be chosen from the ESPON menu.

### Conclusions: GDP as appropriate measurement

To sum up: GDP still is a core indicator to measure wealth and well-being as well as progress. The indicator has the advantage to be timely available at national and statistical levels. The “Beyond GDP” initiative is developing this

indicator further, which gradually will improve this concept. Still, the potential to improve the indicator, so that it provides a more comprehensive information on wealth and progress, is limited, especially when it comes to the provision of timely and regionally disaggregated data. Rather than opting for a substantial change of the GDP indicator (which seems very unlikely to be effectuated in practice) we advocate to complement GDP by additional indicators and draw on the wealth of material provided by ESPON. These additional indicators should refer to important dimensions of Cohesion policy, but also include some future-oriented dimension.

The first conclusion is based on the observation, that eligibility and allocations of funding are largely based on GDP per capita as three year-average taken from the past (current allocations are based on GDP data from 2007 to 2009). Regions that were hit by the crisis during these years were much better endowed with resources, than regions that were affected only later. To control for such effects, it might be useful to complement the GDP indicator by indicators showing **potential risks and threats** to economic performance (e.g. R&D expenditures, economic structures and dependencies). Another approach, as already taken for the more developed regions, is to define indicators around the **distance to reaching the Europe 2020 indicators**.

Looking at the additional dimensions for complementing the GDP indicator, these could focus around the themes raised in KIDCASP and include indicators like:

- Population at risk of poverty.
- Population exposed to environmental risks (this could be a composed indicator of the Environmental resource management-indicators from KIDCASP).

Another dimension not yet tackled by indicators is the aspect of **territorial cohesion**, which implies a more inclusive access to infrastructures, services and jobs, not matter where people live. Indicators like access to services, accessibility, and others listed above under “Integrated spatial development” might be used. However such indicators also would need a different approach to allocation of funds (e.g. enhanced allocations for integrated projects tackling these problems).

A final conclusion is that ESPON paves the way for a much more integrated monitoring of territorial structures, developments, risks and challenges. This adds to and complements the simplified patterns of regional GDP levels and changes. Tools are provided, so that Local and regional authorities can compose



their own tailor made-maps and indicators. GDP thus becomes only a sign post, where more and more information of underlying structures and trends can be added to complement a territorial picture of Europe, e.g. by using a set of indicators as outlined by KIDCASP.

## **2.5 Specificities of Cohesion policy**

### **2.5.1 Programme-based approach**

A main feature of CP is the programme-based approach. The programme represents the contract between the EU and the MS on the specific thematic provisions for the support measures. The major strengths of the programmes are:

- The duration which is essential in terms of mid- to longer-term budgetary commitment, ideally speaking also in terms of containing planning risks related to financing and also ad-hoc political interventions – substantial programmes such as in case of EU-12 might also add to macro-economic stability.
- The contents which differ in the degree of detail – from quite detailed project lists in CF-programmes to more open definitions of Specific Objectives for IPs and corresponding descriptions of intended actions.
- The budget and the main mechanisms such as in particular the co-financing rates according to types of projects.

The programming requirements according to the EU-Regulations are practically identical regardless of the financial volume of the programme.

Contents, duration and budget should be understood as interlinked features of a programme-based approach. CP has seen a shift from a structural policy focussed on infrastructure to a more broadly based public investment policy. Thus also a more differentiated perspective on the nature of programmes might be taken:

- It is evident that a long-term programmatic approach is suitable for public infrastructure investment as part of a catch-up process.
- This is less evident for measures related to SMEs, RDTI, low carbon economy or training and qualification – in this case a stable budgetary framework is important but measures might need an adjustment after four or five years.

The following table outlines some reflections on the interlinkages between the key elements of a programme based approach.

**Table 6. Reflections on key elements of a programme-based approach**

Programme element	Reflections
Duration	<p>In official terms seven years but with all steps related to preparation and closure it spans over about a decade.</p> <p>One point is the lead-in time for the programme, which is obviously linked to the approval of the package of Regulations – programming on safe grounds, can only start when the legal framework is fixed.</p> <p>Fundamental changes to the system will tend to prolong the lead-in time due to the need for clarification and settlement of unprecedented questions.</p>
Contents	<p>The character of measures is decisive in order to define :</p> <ul style="list-style-type: none"> <li>■ to which extent a fixed implementation framework safeguards effectiveness and efficiency or</li> <li>■ it might become an impediment to react to massive changes or even shocks related to trends which had been decisive for the character of the intended interventions.</li> </ul> <p>The most recent example of the latter point is the economic crisis, which challenged the programme management to come to responses and adjustments within a reasonable period.</p> <p>Cf. the Economic Recovery Plan (2009) with actions trying to support recovery from the crisis (legislative amendments to the cohesion package); these have been complemented by further proposals in 2011 (“top-up” measures and creation of a risk-sharing instrument<sup>65</sup>).</p> <p>As a response to the crisis, some MS made changes in their Operational Programmes focussing on more short-term objectives.</p>
Budget	<p>The value-added of longer-term budgets is largely undisputed. It would lead to an integrated strategy unlike a patchwork of projects. Also, the prospect of a longer-term ‘programme’ encourages the building of capacities which is key to a successful implementation. A longer-term budget automatically leads to more political commitment for a period of time agreed upon by contract.</p>

*Source: own considerations of the author.*

The programme-based approach, as a first concluding remark, is an essential element of CP and it has to be kept. The challenge is to bring the benefit of the approach closer to the LRAs in the sense of a place-based approach. Options in this sense are discussed section 2.5.4.

<sup>65</sup> COM(2011)482 of 1.8.2011 and COM(2011)655 of 12.10.2011.

## 2.5.2 Cross-sectoral policy coordination and integration

A general principle of CP is the approach which seeks to cross the boundaries of traditional or established sector policies. The major underlying assumption is that coordinated investment in several policy areas is needed in order to prevent a region from decoupling or to give visible momentum to the development of a region.

In the context of CP the coordination and integration of sectoral policies should be understood as stepwise stages of development:

- Coordination means to establish information flows and to present plans as part of an overarching framework – that is also the stage where most elements of CP actually stand in this period.
- Integration means to develop the policy areas jointly, to coordinate implementation and to develop continuous exchange routines.

Cross-sectoral policy coordination respectively integration is of course closely linked to the territorial dimension since it is widely acknowledged that territorial challenges such as demographic change do claim for comprehensive policy responses. Policy coordination and integration is an obvious pre-requirement for a place-based approach.

In the current framework of CP this specificity is anchored at several levels – the major mechanisms are presented in the table below.

*Table 7. Mechanisms for cross-sectoral policy coordination/integration*

Level	Mechanisms for cross-sectoral policy coordination and integration
EU	Set of thematic objectives, thereof some IPs with a cross-sectoral character <sup>66</sup> such as IP 8.  Set of new instruments which are result of exchange between several DGs (Joint Action Plan (JAP), ITI, CLLD).
MS	Requirement for Partnership Agreement as overarching and consistent development strategy for the national approaches to CP.
Programme	<ul style="list-style-type: none"> <li>■ Option for cross-funding in programmes.</li> <li>■ Option for regional (integrated) programmes.</li> <li>■ Option to use 10% within a mono-funds-programme (e.g. ERDF) according to rules of other fund (e.g. ESF)<sup>67</sup>.</li> </ul>

<sup>66</sup> Such as IP 1B or 8A.

<sup>67</sup> Option according to Article 98 of the CPR.

	<ul style="list-style-type: none"> <li>■ ETC as multi-thematic approach.</li> <li>■ Integrated Territorial Investment (ITI) and Community Led-Local Development (CLLD) as instruments which could be a lever for place-based policy approaches.</li> </ul>
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*Source: own considerations of the Author.*

The implementation of the programmes and the results will demonstrate to which extent the flexibility which is offered in the legal framework for CP in terms of options and instruments will be actually used. A recent study for the EP<sup>68</sup> has shown a quite promising approach in many MS related to the uptake of CLLD and ITI. The table below summarises the main results of the analysis of Partnership Agreements in this regard. However, the integration into the programme logic still is limited, especially related to measuring output and results of an integrated approach.

**Table 8. The Uptake of the instruments in the Partnership Agreements**

Instrument	Role in the Partnership Agreement
CLLD	<p>Next to the continuation of the approach in Rural Development several MS have expressed the intent to implement CLLD as cross-funds approach combining EAFRD with ERDF and/or ESF. A far reaching approach has been included in the PA of SE.</p> <p>E.g. in HU and RO it is intended to use ERDF and ESF in CLLD in urban areas, ES will allow to opt for mono- or multi-fund approaches.</p>
ITI	<p>ITI is intended mostly as instrument for urban development (in BG, CZ, FI, CR, LT, LU, LV, NL, PL) in some MS also for mixed areas (e.g. FR, GR, PT, RO, SE, UK)</p>

*Source: Metis 2015, p. 39.*

An impediment to the integration of sectoral policies is represented by the different administrations (DGs) and provisions for ERDF and ESF (which tend to keep boundaries between the persons in programming and implementation).

In terms of policy integration the former Community Initiatives have had a ground-breaking role due to the introduction of partnership in the implementation. The partnerships have given a momentum to reconsider sectoral approaches under new perspectives (e.g. in URBAN pilot initiatives, EQUAL, LEADER). The process of mainstreaming obviously enlarged the scope and financial lever but it bears also some risks since it tends to focus the attention on safe administrative routines and the timely absorption of funds (as one of the major perspectives of an MA on programme implementation).

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<sup>68</sup> Metis 2015, PA Review.

### 2.5.3 The territorial dimension

The present sub-chapter (2.5.3.) and the following one (2.5.4) aim to tackle the issues of functional areas, cross-border cohesion as well as the urban-rural and integrated approach for urban policies.

The TFEU highlights in its preamble the need to “*strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions.*”<sup>69</sup>

In Article 174 of the TFEU is stated:

*“In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions. Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions.”*

#### *‘Territorial’ growth beyond administrative boundaries – functional areas*

The term functional area has emerged in the context of urban areas where suburbanisation and commuter relations have led to dense interaction and manifold questions related to the provision of public services.

*The ‘**Functional Urban Area**’, meaning a wider urban system that is still functionally integrated with the core city. The functional urban area includes towns and villages that are physically separated by unbuilt land or water from the built-up city, but are at the same time economically and socially highly dependent on the urban core. The most common – and easiest - way to understand this interpretation is the travel-to-work area.*<sup>70</sup>

The notion can be extended to wider concepts such as the interrelation between urban and rural areas: *finally, an even **broader interpretation of rural-urban region** is also possible. This would also include the rural hinterland that is indirectly connected by the proximity to the metropolitan area.*<sup>71</sup>

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<sup>69</sup> Consolidated version of the Treaty of the Functioning of the European Union (TFEU).

<sup>70</sup> URBACT website.

<sup>71</sup> URBACT website.

The first stage is to acknowledge the dense functional interdependencies between the administrative units and the second stage is to achieve intermunicipal cooperation in order to make the functional region work. Planning and management for the effective and efficient provision of public services is the main underlying rationale for intermunicipal cooperation (IMC).<sup>72</sup> In order to make IMC happen usually a mix of regulatory approaches and financial incentives is required. The regulatory frameworks governing IMC – same as the incentives provided by the national level - differ across Europe.<sup>73</sup> Functional urban areas in Europe in many cases stretch over national borders – in this case ETC is one of the important policy levers to encourage cooperation and new approaches to governance.<sup>74</sup>

Not only in urban areas but also in other regions an efficient management of public tasks such as disaster prevention in mountainous region will require IMC or a regional approach. Again it is firstly a question to which extent the national frameworks on IMC provide a clear frame to motivate or even enforce such cooperation.

### *The specific position of urban regions*

The importance of cities and towns for the future development of Europe is acknowledged.<sup>75</sup> CP has got a stronger profile in favour of urban areas in the period 2014-2020:

- Implicitly since several of the Thematic Objectives and Investment Priorities in CP will actually further projects in urban regions such as the TOs related to STI, sustainable transport or the IP related to actions for deprived urban neighbourhoods.
- Explicitly since 5% of funds have been earmarked for sustainable urban development.
- In terms of instruments since the instrument Integrated Territorial Investment had been introduced for integrated urban rehabilitation programmes for deprived neighbourhoods and the mainstreaming of CLLD allows also developing urban-rural linkages.

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<sup>72</sup> IMC is e.g. needed to provide basic services such as water supply or waste water treatment; IMC is subject to quite elaborate legal frameworks in the MS FR, ES and PT. In functional urban regions a major step is to set-up a legal entity which meets key tasks such as the management of regional public transport or economic policy: such examples exist e.g. in DE (e.g. Region Hannover).

<sup>73</sup> Cf. Council of Europe, 2013a).

<sup>74</sup> A prime example is the Eurométropole Lille-Kortrijk-Tournai where an EGTC has been set-up in order to provide new impetus to cross-border governance of the functional urban region.

<sup>75</sup> Metis GmbH, 2014, Cities and Cohesion.

Public policy interactions in general have larger positive or negative spill-over effects in cities than in rural areas with low population densities. Thus, the functional realities of metropolitan areas have to be taken into account and certain elements have to be considered in order to let cities function well. Most of these perspectives have an obvious reference to the concept of the functional urban area.<sup>76</sup>

- Effective coordination of land-use planning and transport planning in order to ensure mutual efficient outcomes.
- Integrated public transport provision aligning different services to each other ensuring universal ticketing schemes, shorter transfer times and better geographical coverage of public transport.
- Smart road transport policies reflecting the true costs of car usage accounting for externalities such as air pollution and congestion.
- Resilient cities – which refers to the resilience of infrastructure and service provision in an urban context: *topics such as resilient infrastructure, city data and indicators, disaster risk reduction, resilient urban food systems and collaborative approaches*<sup>77</sup> or the disaster resilience of public transport systems.

Also the social dimension of urban areas is marked by complexity and diversity. Urban areas are often spatially stratified along socio-economic dimensions, i.e. poor and wealthy neighbourhoods with different levels of public service provision and accessibility. The OECD study concluded that fragmented metropolitan areas with diverse individual municipalities are more likely to have socially homogenous populations in these municipalities than functional (and administratively) integrated metropolitan areas. The resulting vicious cycle is mainly to be traced back to different tax revenues and thus fewer funds for public service and infrastructure perpetuating socio-economic segregation.

Urban areas call for integrated policy approaches. Most sectoral policies do have a transversal role which is particularly visible in urban areas such as:

- Transport: defining the city's accessibility, being an economic growth factor and pointing at one of the key challenges in terms of resource efficiency.

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<sup>76</sup> OECD 2015.

<sup>77</sup> ICLEI, Resilient Cities Report 2015, p. 3.

- Education: as basis of a knowledge-driven economy but at the same time as key to poverty reduction and the integration of migrants.

Similar considerations apply to several other policy fields such as STI or ICT. The need for concerted policy action to strengthen urban areas as engines of growth is often contrasted by the dominance of sectoral perspectives at the national level. The approach of CP can be turned into an effective policy lever in favour of urban policies but this requires also dedicated national policy responses.

Recent and long lasting transversal challenges for urban areas are climate change, demographic change and immigration. Although their nature exceeds the scope of local and regional policy approaches, consequences are mostly felt at local level.<sup>78</sup>

## 2.5.4 Place-based CP

Policy implementation by its nature takes place ‘on the ground’. Therefore, it directly influences the lives of citizens and organisations in regions, cities and towns.

### *The challenge is a territorial one!*

The ESPON SIESTA (Spatial Indicators for a Europe 2020 Territorial Analysis) project aims to show how the Europe 2020 strategy acts territorially.<sup>79</sup> The transnational research group came to the conclusion that differences of growth levels between regions and cities are enormous with an East-West divide with regards to sustainable growth and a North-South divide for smart and inclusive growth. A considerable better performance is reached in urban areas. The crisis does not trace these patterns.

The project demonstrated that the aggregation of all national EU-2020 targets does not guarantee the achievement of the overall EU targets.<sup>80</sup> Moreover, it concluded that the success of the growth strategy delivered to get Europe on track is uncertain which is mainly to be traced back to the fact that a large number of regions have a gap for several aims and targets. The regional scale matters for the Europe 2020 development so that regional strategies are necessary. In addition, more effort to data gathering is needed in order to show how the Europe 2020 strategy acts territorially at regional and urban scales.

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<sup>78</sup> Metis GmbH, 2015, Urban Agenda (in progress).

<sup>79</sup> ESPON 2013, SIESTA, Executive Summary.

<sup>80</sup> It is not implicit that all the regions can or should reach the national 2020 targets (7<sup>th</sup> progress Report on Cohesion).



### System requirements for a place-based policy

The following section seeks to bring together the key elements of a place-based approach:

- Capacities for local self-government as pre-condition for an effective and legitimate place-based approach.
- MLG which is understood as a requirement for effective policy integration.
- A system of EU CP which supports these two elements.

The current system of CP offers opportunities for place-based approaches but it is obvious that this approach is not mainstreamed into the current system. At first it is important to differentiate the approaches to ‘territorial dimension’:<sup>81</sup>

- Spatially targeted policy-making attempts to adjust public interventions and investments to different characteristics.
- Place-based policy-making does not equate “place” with administrative units and strongly focuses on a multi-level governance approach including local and regional decision- and opinion-makers (vertical integration); at the same time an integrated approach to sectoral policy areas (horizontal integration) is intended.

Spatially targeted policy delivery can be done top-down whereas a genuine place-based approach requires coordination and cooperation frameworks between all tiers of government and a wider range of stakeholders. In short – such an approach calls for an open governance framework which supports MLG.

### Multi-Level Governance

The principles of MLG and partnership anchored in the CPR reveal a strong affinity to the place-based approach. MLG is understood here as a necessary consequence of shared management and the fact that the incidence of CP in almost all cases is also local – thus a recent study of DG Regio<sup>82</sup> on MLG in the implementation of Europe 2020 presents good practice and seeks to encourage the diffusion of the principle to a broad range of policy areas. In the view of the Consultant the overarching conclusion from the study is the following one:<sup>83</sup>

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<sup>81</sup> Haase, Diana 2015.

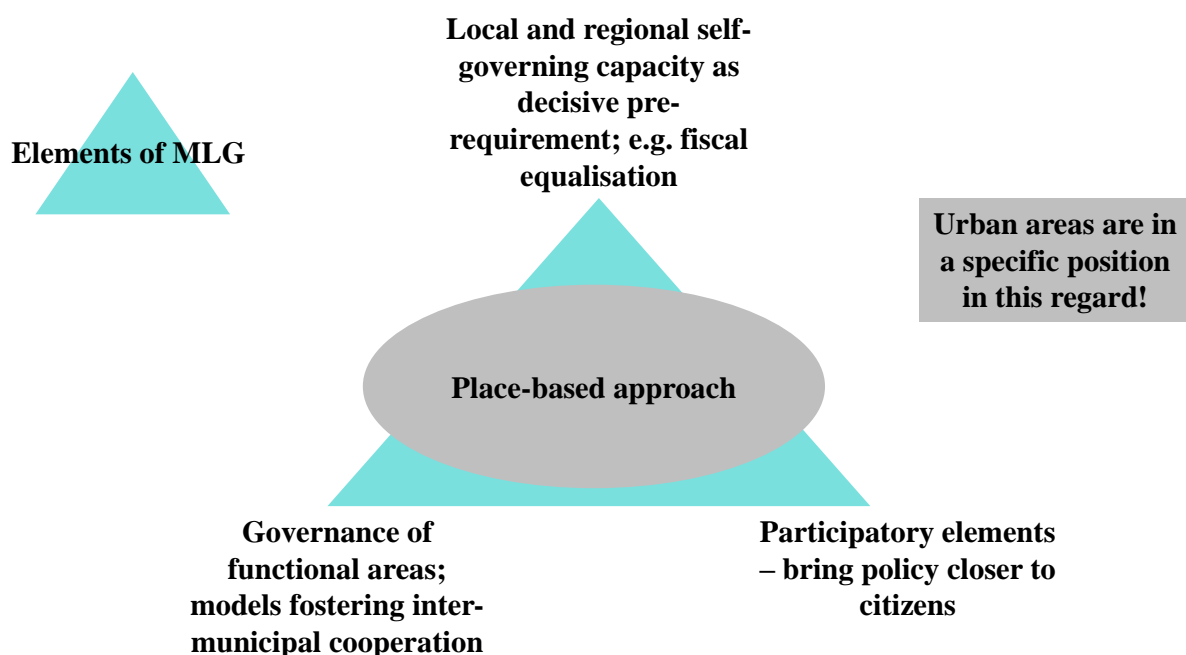
<sup>82</sup> European Commission, 2015.

<sup>83</sup> European Commission, 2015, p. VIII.

*Different modes of governance can be at play to bring on board the relevant stakeholders. The four most prominent modes are governing by authority, governing by provision, governing through enabling and self-governing. In practice, several modes are involved and their importance may change during the policy cycle. Changing governance arrangements takes time. Governance processes and structures show strong inertia and it takes time to move towards new forms of shared decision-making processes.*

The following chart outlines the basic understanding of the interrelations between overarching system elements of a place-based policy.

**Chart 1. System elements of a place-based policy**



*Source: own considerations of the Author.*

Points which deserve particular attention are the following ones:

- LRAs are the central actors in a place-based approach – thus their capacity is decisive for the efficiency and effectiveness of the approach.
- CP is implemented nationally thus any place-based approach in the current system of CP will be strongly influenced by the national political-administrative system – for the capacity of LRAs it makes an obvious difference whether the financial sources to cover basic infrastructure requirements stem mostly from a system of fiscal equalisation or are

subject of ad-hoc donations from the national level<sup>84</sup> or even an element of the competition for projects in CP.

- The stronger the role of LRAs the stronger the need for governance models for functional areas – the incentives for inter-municipal cooperation have to come from higher government levels since the element of competition tends to bring about less effective results.
- LRAs are the most appropriate actors for participatory approaches, i.e. to involve citizens in policy-making<sup>85</sup>.

It is important to note that all these pre-requirements for an effective place-based approach are in hands of the MS. Even with regards to the capacity of LRA, MS must act together with regional authorities to develop effective measures with this aim. The current incentives – built in as rather specific mechanisms such as ITI or CLLD – cannot bring about a change. However, given the substantial financial volume of CP – in particular for those countries in EU-12 where the strengthening of LRAs is a policy issue – the approach to CP in forthcoming periods could be turned into a more substantial policy lever.

#### *The main ideas of the Barca-Report*

Barca (2009) distinguishes between policy interventions aimed at increasing income and growth (“efficiency objectives in the terminology of the Report) and those aimed at reducing inequalities (“social inclusion” objectives in the Report). Core priorities are defined in order to ensure greater coherence with the place-based or territorial policy concept:

- Innovation and climate change (efficiency).
- Migration and children (social).
- Skills and ageing (both).

It is assumed that the *“concentration on a few issues of key importance for the EU and its people (...) would create a Europe-wide critical mass of interventions on commonly agreed priorities, attract political and public*

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<sup>84</sup> Cf. European Commission 2012, pp. 178-179: evidence shows that in the EU the revenues of the subnational level are based to a slightly higher extent on transfers than on taxes; in more than 14 MS transfers from the central level account for more than 50% of revenues of the subnational level; a major disadvantage of transfer is the tendency towards looser expenditure policies or the threat to cut key services to the central government.

<sup>85</sup> Cf. EC 2012, p. 174: such assignment is consistent with the "benefit principle" suggesting that a service should be provided by the level of government that most closely represents the community benefiting from it.

*attention to the measures implemented and enable the Commission to better focus its human resources and efforts and play a more strategic role.”<sup>86</sup>*

Besides, Barca stated a long-term place-based strategy is considered as essential to complement the unification of markets, the creation of a single currency and the general erosion of national influences over economic developments. It triggers institutional changes and allows the supply of integrated goods and services tailored to contexts.

*CP Model supporting a place-based approach*

The point of departure is the current system of CP. The legal framework for CP includes several potential policy levers for a place-based approach but one has to consider the essential role of the MS’s political-administrative system which either supports or clearly limits the scope, the effectiveness and the efficiency of policy levers in CP.

The following table presents the policy levers and it is a tentative approach to define anchor points where the place-based approach could be strengthened.

**Table 9. CP system elements in favour of a place-based approach**

System element	Elements and potential policy levers in 2014-2020
Principles	<p><u>Partnership and MLG:</u></p> <p>The consequent efforts of the Commission to give this principle a stronger profile have been effective; however, the obvious challenge is to maintain the consultative mechanisms throughout the complete implementation period.</p> <p>Governance seems to make a major difference in the effectiveness and efficiency of CP – it is recommendable to raise the aspects of partnership and MLG into the status of an ex-ante conditionality. This refers in particular to aspects which call for concerted place-based action such as strategies to ensure the sustainable access to basic public services at the local level; this could be turned into a point of departure for more intense relations between national and local level in centralised MS.</p> <p>A major challenge for the principle is the aspect of proportionality – for MS which receive small envelopes the administrative burden linked to the consultative procedures might appear disproportionate whereas in case of major net beneficiaries the procedure might have considerable effect simply in terms of outreach and raising interest.</p>
Ex-ante conditionalities	<p>It is important to note that in principle all strategies and plans which had to be done in order to meet the ex-ante conditionalities in this period, could have been elaborated with the support MLG and a place-based approach. However, there are some ex-ante conditionalities which have a particularly marked</p>

<sup>86</sup> Barca 2009, pp. VII-VIII.

System element	Elements and potential policy levers in 2014-2020
	<p>affinity to place-based approaches and concurring strategy-development:</p> <ul style="list-style-type: none"> <li>■ Research and innovation strategic framework for smart specialisation (RIS3) – labelled as integrated, place-based economic transformation agenda<sup>87</sup> implicitly claiming for MLG.</li> <li>■ Risk prevention, disaster resilience: building of a national/regional/local knowledge base.</li> <li>■ TEN-T sustainable transport: the system of TEN-T rests on (urban) core nodes in road and rail transport – a prime example of a policy which needs effective coordination across all tiers of government.</li> <li>■ Active inclusion, Roma inclusion: in particular the intended shift from institutional to community-based care will require place-based approaches counting on MLG<sup>88</sup>.</li> <li>■ MS administrative capacity: explicitly claims for strengthening of capacity at all levels.</li> </ul> <p>The role of ex-ante conditionalities in favour of a place-based approach:</p> <ul style="list-style-type: none"> <li>■ Should be strengthened in several fields since policy areas such as energy-efficiency of buildings, waste management, access to employment and Labour Market Institutions (LMI) [capacity of Public Employment Services (PES)]<sup>89</sup>, Access to Life-Long Learning do require effective and efficient cooperation between all tiers of government.</li> <li>■ A new ‘territorial’ conditionality could refer to a strategy for those local governments where challenges stemming from demographic change and poverty culminate</li> </ul>
Eligible areas	<p>GDP as the criterion for the delimitation of eligible areas is understandable from a pragmatic perspective – however it would support a place-based approach if within the classification of eligible areas also a basic regional typology or a hint on dominant territorial challenges would be introduced – this would make the overarching map of CP less abstract and more tangible.</p> <p>One of the few current notions are the sparsely populated areas in the northern MS. It might also be worthwhile to mark out those regions where the risk of decoupling culminates (as has been mentioned previously in the sense of territorial conditionality – regions where the adverse effects of demographic change poverty culminate – making these areas better visible could contribute strengthen the narrative of CP.</p>

<sup>87</sup> Cf. European Commission 2013, p. 5.

<sup>88</sup> Also a recent Metis GmbH study on the role of LRAs in National Reform Programmes (NRP) points at an increasing role of LRAs in social policies (in particular in EU-12).

<sup>89</sup> LMIs and PES are increasingly challenged not only to administer funds but to act as information brokers developing relationships to the local/regional economy in order to support targeted qualification and training strategies – in best case LMIs are anchor points for integrated local employment strategies.

System element	Elements and potential policy levers in 2014-2020
Thematic objectives	<p>Some of the thematic objectives reveal implicit or explicit elements favouring a place-based approach. The most obvious ones are:</p> <p>4e: low-carbon strategies for territories (in particular urban)<sup>90</sup>;  6e: action to improve the urban environment;  7c: sustainable transport i.e. promoting local mobility;  8b, 8c: employment, labour mobility - endogenous development, local development initiatives;  9b: social inclusion – regeneration of deprived urban and rural communities  9d: CLLD.</p> <p>Thematic concentration in the period 2014-2020 is driven by the rationale of Europe 2020 but it is obvious that the principle could be turned into an effective policy lever for place-based approaches if e.g.:</p> <ul style="list-style-type: none"> <li>■ strategies in the sense of 4e) become compulsory (thereby integrating transport and energy efficiency of buildings) or</li> <li>■ for predominantly rural areas challenged by demographic change a concentration on Objectives 8 and 9 becomes compulsory.</li> </ul>
Delivery mechanisms	<p><u>Programme-based approach and shared management:</u>  Integrated Regional Programmes (ROPs) might be an obvious lever to the capacities of regions to define approaches which are closer to place-based requirements and at the same time the role of regions in programme implementation might support capacity building; however ROPs are not a pre-requirement and decision to go for such programmes is in hands of the MS.<sup>91</sup></p>
Earmarking of funds	<p>Earmarking of funds such as a minimum of 5% for sustainable urban development can be considered as important policy lever.</p> <p>This type of earmarking could be expanded to other policy areas or implementation approaches such as via CLLD.<sup>92</sup></p> <p>A recent analysis of the Partnership Agreements reveals a quite promising position at the start of the period but the actual weight of such delivery approaches which are new to ERDF and ESF in most MS remains to be seen.</p>
Impact indicators	<p>One key element for measuring the success of CP will be the discussion on what are the future benchmarks of success. Would keeping the status quo of maintaining the current level of a harmonious development in the EU be seen as a success of the policy in light of the many challenges and diverging trends or would the policy have to improve the current situation?</p>
Mainstreamed instruments	<p>From the perspective of place-based development ITI and CLLD are obviously the most important ones; in order to strengthen the uptake of such instruments</p>

<sup>90</sup> Obviously corresponding to the 5% earmarking of funds for sustainable urban development.

<sup>91</sup> E.g. in PL part of ESIF is implemented as ROPs; CZ has seen a re-centralisation in the period 2014-2020.

<sup>92</sup> Similar to the compulsory ring-fencing of 5% of each MS's EAFRD allocation for Leader-type actions.

System element	Elements and potential policy levers in 2014-2020
	their use could be made compulsory for certain Thematic Objectives (9b, 9d) – in order to become an attractive package far-reaching flexibility in the use of funds should be allowed (crossing the lines between ERDF and ESF) and also the option for a higher support rate from ESIF could be kept <sup>93</sup>

*Source: own considerations of the author.*

The range of measures sketched in the table above should be understood as proposal for a gradual strengthening of the place-based approach as inherent element of the CP system.

### Long-term financial commitment to a place-based strategy

Conditions and mechanisms introduced respectively supported by the system of CP will become an effective enabling strategy for LRAs if the strategies are backed-up by funding on a longer-term basis. From the perspective of LRAs – in particular in countries without fiscal equalisation – a longer-term budget would mean to overcome patchworks of projects and come to a genuinely integrated strategy:

- The prospect of respectively the framework of a longer-term ‘programme’ encourages building of capacities – this is an obvious pre-requirement for the successful implementation.
- The key point is a contractual commitment between the national level (acting as programme authority) and the LRA – this is a sensitive issue because any mechanism in CP pointing at a compulsory requirement will be perceived as potential interference with the principle of subsidiarity.

Most probably CP has to maintain the current approach of providing a convincing package of incentives furthering the uptake of instruments and thematic objectives (such as higher co-financing rates, automatic decommitment n+3 instead of n+2, etc.) plus an earmarking of funds (as a rather neutral approach to further certain types of regions or new implementation instruments such as ITI and CLLD).

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<sup>93</sup> In case a programme implements a complete priority according to CLLD the support rate from ERDF/ESF can be raised by 10%.

## **2.6 Other policy models aiming at transfer / cohesion**

Policy transfer is a process in which knowledge about policies, administrative arrangements, institutions and ideas in one political setting (past or present) is used in the development of policies, administrative arrangements, institutions and ideas in another political setting. CP is, as defined in the 1986 Single European Act, about 'reducing disparities between the various regions and the backwardness of the least-favoured regions'. Both go hand in hand when shaping future regional policy. It should be distinguished, in this context, between policy at the EU, the national, regional and local level.

The new rules and legislation governing the next round of EU CP investment for 2014-2020 have been formally endorsed by the Council of the European Union in December 2013. European CP should also aim to support national efforts for cohesion. This sub-chapter shows the efforts made to develop CP through introducing more innovative approaches (at the level of the European institutions generally and in specific strategies), as well as presenting other cohesion policy models (within the EU and beyond the European borders). In addition, this sub-chapter contributes to the cohesion versus economic development debate by reflecting upon innovation in CP through fiscal equalisation.

The Commissioner for Regional Policy Corina Crețu has identified this as a priority for action.

The background of a set of new relevant actions consists of the following:

1. The "Task Force on Better Implementation", via tailor-made action teams, supports national and regional administrations to use the remaining investments from the 2007-2013 programming period effectively. The Task Force analysed the key factors responsible for MS delays in implementation, and began formulating detailed and comprehensive Action Plans for each programme at risk. The Commission works closely with the MS concerned to find solutions to maximise the use of commitments under the 2007-2013 Multiannual Financial Framework, as requested by the European Council in December 2014.
2. Building administrative capacity in MS and regions for the 2014-2020 programmes, through the second phase of the Task Force and through a variety of measures such as sharing of skills, exchange of experts, training and technical assistance.



3. Commissioner for Regional Policy Corina Crețu intends to examine why regions with a low level of economic development or regions experiencing several years of negative GDP growth are lagging behind. For CP, which aims at reducing disparities between the levels of development between the regions of Europe, this trend is of particular concern.
4. The Commission is setting up a group of experts to independently assess the uptake of simplification by MS and identify further possibilities to simplify rules. The group will make recommendations on how to improve the uptake of opportunities for simplification in implementing the funds for beneficiaries in the 2014-2020 programming period. A secondary goal would be to propose how to simplify further in the post-2020 framework. This action is closely linked to Vice-President Kristalina Georgieva's initiative for an "EU budget focused on results".<sup>94</sup>

Innovative approaches are being introduced and developed in this context. One example of a progressive model that is based on the challenges identified in CP in the past are the smart specialisation strategies for innovation at national/regional level (RIS3 strategies) are integrated, place-based economic transformation agendas which ensure the following five points:

- They focus policy support and investments on key national/regional priorities, challenges and needs for knowledge-based development.
- They build on each country/region's strengths, competitive advantages and potential for excellence.
- They support technological as well as practice-based innovation and aim to stimulate private sector investment.
- They get stakeholders fully involved and encourage innovation and experimentation.
- They are evidence-based and include sound monitoring and evaluation system<sup>95</sup>

#### *Regional policy approaches besides the European Regional Policy:*

The idea of developing regional policy in the future in a way to make it more efficient and effective in the context of changing economic, political and societal

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<sup>94</sup> [http://europa.eu/rapid/press-release\\_MEMO-15-5128\\_en.htm](http://europa.eu/rapid/press-release_MEMO-15-5128_en.htm).

<sup>95</sup> European Commission, 2013, Factsheet Cohesion Policy 2014-2020, National/Regional innovation strategies for smart specialisation (RIS3).

circumstances is based on the challenges that have become apparent in the past programming periods. In this light, policy-makers and the stakeholders involved in shaping the future of CP should also look beyond the European borders, such as in the example of Japan below, which shows that breaking down policy-making in administrative levels is not necessarily the most effective way to achieve results. The example of Germany below shows that cohesion policy works effectively at a federal level. Concretely, the regional level and its specificities are at the centre of this policy. The idea of ‘Gemeinschaftsabgabe’ should be seen against the idea of fiscal equalisation in this context. This model should therefore be taken as a best practice example of European CP (see also the interview with Mr. Hannes Rossbacher, ÖROK).

### *1. The case of Japan*

There are multiple ways to structure regional policy, and the success of the approaches depends on a number of conditions and factors, not least political tradition. Japan for instance, which is traditionally known as a centralised country, is what can be seen as the archetypical ‘national innovation system. The move towards decentralization in the past years differs from a decentralization path as we would experience it in an EU MS. This move was based on the perception that top-down centralized approach to innovation has certain limits.

In Japan, there is no regional administration system as such nor any robust institutional mechanisms at the ‘regional’ level. Adding another institutional layer to the already complex local government structure may not promote further innovation processes and therefore maintain regional policy in this sense at an outdated stage. For demonstration purposes, the example of innovation and R&D shall be taken, being one distinctive policy field of regional policy. Without substantially devolving power, Japan paradoxically seems to be achieving ‘regionalization’ of industry–science relationships. The loose coordination currently managed by the Ministry of Economy, Trade and Industry (METI) regional bureaux and intermediary organizations may provide an appropriate ‘regional’ mechanism linking different actors across local government boundaries, namely through a ‘triple helix’ of interactions between public, private and academic sectors. Still in the regional policy field of innovation and R&D, this allows for a direct influence of actors from the field within the policy changes<sup>96</sup>:

- (1) The presence and proximity of leading companies in the leading technology area is matched with entrepreneurial individuals who have

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<sup>96</sup> Kitagawa, From Technopolis, Cluster to Regional Science policy? : Japanese Regional Development Policy 1980s-2000s, [https://www.kdi.re.kr/data/download/attach/8475\\_cu8469-3-2.pdf](https://www.kdi.re.kr/data/download/attach/8475_cu8469-3-2.pdf).

acted as nodal points connecting firms, local governments and academic sector synthesizing provisions and projects at multiple levels.

- (2) Concentration of research universities supplemented by international research institutes and new training provisions provide the region with human resources and professional skills which serve as prime regional assets.
- (3) Regional and prefectural government and support organizations consider creating further incentives to attract large R&D firms as well as encouraging venture capital firms which supplement the activities of large firms.
- (4) Firms and universities are collaborating across prefectures through region-wide innovation support organizations, supported by the METI regional bureaux.
- (5) A big city provides research capacity for the whole region linking Asian and international markets and networks, attracting talent and skills from overseas through the human and institutional inter-linkages.

The example of Japan would support the idea of reducing the levels of administrations and the focus on direct involvement of actors in policy delivery.

## *2. The case of Germany*

In Germany, the „Gemeinschaftsaufgabe zur Verbesserung der regionalen Wirtschaftsstruktur“ is the commitment to improve the regional economic structure so as to improve the cohesion of the whole country. It is seen as a common responsibility (Gemeinschaftsaufgabe) because it is a Länder competence which is also taken care of by the Bund, given its national relevance. It includes measures such as:

- Investments into the business economy in the creation, development and reform of businesses.
- Investment into the economic infrastructure when considered necessary for regional development.
- Measures that will contribute to the strengthening of economic competitiveness of businesses, or support regional political solutions to structural problems within the regions.
- Evaluation of those measures and ongoing regional policy research.

The goal is to support investment in the regions and generate additional income, so as to bring the economically weaker regions closer to the level of the general economic structure of the country. The policy has been harmonised with the EU regulations and it has been ensured that the measures do not counter-act the CP.

The example shows that in a federal state like Germany, cohesion policy can be effectively implemented when the regions are at the centre of the policy. This example should be a best practice for the EU level.

# 3 New ideas and choices for EU Cohesion policy

## 3.1 The place of Cohesion policy in the system of EU Policies

CP has a central position in the EU policy agenda, be it because of its budget size, multithematic portfolio and the fact that it affects all EU regions.

The 1986 Single European Act defines economic and social cohesion as aiming to ‘reduce disparities between the various regions and the backwardness of the least-favoured regions’. The Lisbon Treaty added the aspect of territorial cohesion.

EU CP goes beyond “regional development policy” in the narrower sense and poses the Commission and the Member States before great challenges regarding their “traditional” modus operandi. For that reason, Cohesion Policy is guided by a number of principles.

The EU's most recent treaty, the Lisbon Treaty, adds another facet to cohesion, referring to ‘economic, social and territorial cohesion’.

The principle of additionality shall ensure the complementation but not the replacement of equivalent public expenditure of a MS. In the 2014-2020 period, the core principle of CP supports the preservation of growth-enhancing investments through a direct link between additionality and public deficit in a transparent and public framework. A simpler verification process aligned with the new economic governance of the EU shall ensure comparability and fewer burdens at national or regional level.<sup>97</sup>

The new approach therefore establishes a direct link between additionality and the Stability and Growth Pact as it was requested by Barca (2009) in order to ensure its application in MS where regional disparities affect a substantial part of the population.

The 5<sup>th</sup> and the 6<sup>th</sup> report on economic, social and territorial cohesion underline that **CP has a key role to play in boosting smart, sustainable and inclusive growth in Europe** (taking into account the deterioration in public finances resulting from the crisis that have reduced public investments).<sup>98</sup> However, CP

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<sup>97</sup> Implementation guidance 2014-2020 Additionality, Version 2 – 24/03/2014.

<sup>98</sup> European Commission, November 2010 and European Commission, June 2014.

2007-2013 was not aligned with the goals of the Europe 2020 Strategy which was launched in 2010 when the respective programming period was in the course of implementation. Despite the fact that the 2007-2013 spending categories can be grouped against the 11 thematic objectives defined in the 2014-2020 period and directly linked to the objectives of the Europe 2020 Strategy a complete (ex-post) alignment of 2007-2013 results with the Europe 2020 Strategy will not be possible.<sup>99</sup>

In the 2014-2020 programming period, CP is aligned to the Europe 2020 Strategy (through the orientation towards 11 thematic objectives derived from the strategy) and the European Semester (through taking into account the CSR and NRP). A “non-paper” provided by the Commission<sup>100</sup> considered more than two third of CSRs for 2014 of relevance for CP. Mainly, these relevance considered in the strategic documents concerns *improvements to labour market functioning, the reform of education systems, the functioning of public administration, improvements to the business and R&I environment, social inclusion and poverty reduction, access to finance of SMEs and the functioning of network industries*. However, it remains to be seen how relevant CSRs will be taken into account in programme implementation.

Moreover, CP is being adapted to the respective national/regional context via a number of custom-made strategic documents such as the Partnership Agreement and the Operational Programmes. The reporting system delivers input on progress made towards the Europe 2020 Strategy through<sup>101</sup>:

- The submission of annual implementation and progress reports on the implementation of Partnership Agreements by the MS.<sup>102</sup> Here the pivotal element is the reporting of progress on financial, output and result indicators. Major drivers are the milestones defined in the Performance Framework for 2018; failure to meet them might bring financial consequences. However MS have only included Financial and Output Indicators in their Performance Frameworks, thus disentangling financial allocations and effects of the CP.
  
- The preparation of a strategic report on progress in 2017 and 2019 by the Commission and debated by the Council (based on the so called enhanced

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<sup>99</sup> Haase, Diána 2015; ex-post evaluations are expected to be finalised by 31 December 2015.

<sup>100</sup> European Commission, 2015.

<sup>101</sup> European Parliament, 2014.

<sup>102</sup> The Committee of the Regions also launched an online survey in this respect looking at the outcome of the negotiations on the Partnership Agreements and the Operational Programmes. The own-initiative opinion will be drawn by the rapporteur Ivan Zadar.

<https://portal.cor.europa.eu/europe2020/SiteCollectionDocuments/2015consultpas/COR-2015-00286-00-00-INFO-EDI.pdf>.

Annual Implementation Reports requested to assess the contribution of the Programme in the change of the result indicators, examining the achievement of the objectives of the programme and the contribution to the Union strategy for smart, sustainable and inclusive growth as defined in Reg.1303/2013, Art. 50).

- As a follow-up, the Council provides input for the assessment presented at a spring meeting of the European Council on the role of all Union policies and instruments in delivering sustainable, job-creating growth across the Union.

Nevertheless and against the background that CP is not the only vehicle delivering the Europe 2020 Strategy, a standalone assessment of the performance of CP by considering the achievement of thematic objectives is to be avoided. Preconditions of spending with regards to thematic areas in order to reach effectiveness must be considered as well.<sup>103</sup>

New in the period 2014-2020 is also that the Commission may submit a proposal to review the Common Strategic Framework (CSF) in case there are major changes in the social and economic situation in the Union, or changes are made to the Europe 2020 Strategy (Article 12, CPR).

CP is being designed and works in the context of developments driven by major economic questions (internal and external ones):

- The political state of the Union (sustained trend towards integration beyond economic integration or frozen status and increasing polarisation?).
- The cost and effect of an increasing role in economic governance (the impact of current crisis in Greece on the Union).
- Enlargement and accession intents (CP as financial incentive has been a major lever to support the reform and upgrade of administrative systems).

Decisive policy fields with a view to long-term developments are:

- The role of agriculture (as the second major European Policy in terms of finances);

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<sup>103</sup> Haase, Diana 2015.

- External policies – reactions to crisis and armed conflicts in the Neighbourhood of the EU – migration, fortress Europe, changing role and position of partners such as Turkey.
- Energy policy – link to geo-strategy and external policies, TEN-E.
- RDTI, STI, Juncker Plan.
- Single Market Act, ICT.

According to the stakeholders taking part in the online survey in the future CP will largely depend on the willingness of the MS to dedicate parts of their national budgets to relevant policy making measures. In the words of a stakeholder *“the EU financial frameworks and investment programmes will remain caught between the consolidation requirements of national budgets and the willingness of the MS to finance the EU”*.

In order to ensure that CP starts below the European level, one stakeholder suggested the introduction of a requirement for national cohesion strategies to be in place, in the form of an ex ante conditionality to receive European Structural and Investment Funds. However, as it stands, there is no requirement on a MS in receipt of European Structural and Investment Funds to respond to a specific standard when defining its national “Cohesion policy”. Although all MS demonstrate how its co-financed investment programmes are coherent with this (As stipulated in Articles 174 and 175 of the TFEU) the quality of the implementation framework of the national “Cohesion policy” varies considerably with obvious implications on the effect of the ESIF.

According to the survey, if sectoral policies want to reach higher efficiency they must implement the territorial aspect through CP. The policy should reflect the status quo, the needs and expected results. The territorial dimension should go shoulder to shoulder with broader integrated tools and more financial support from different resources. This appears to be an obvious statement, but the reality in the MS can be different. Sectorial stakeholders can easily “take-over” control of the funds and implement their national “one size fits all” model; regional flexibility is usually sacrificed in the sake of efficiency and absorption. Ex-ante conditionalities in the period 2014-2020 have tried to encounter this weakness (e.g. by demanding regional strategies and investment plans complementary to the national ones, for example under TO1, TO2, TO6 and TO9) but in many cases the regionalisation is a pro-forma exercise, in many cases simply due to the lack of time. This is especially the case in countries with either a weaker regional component or very small ESIF financial envelopes.

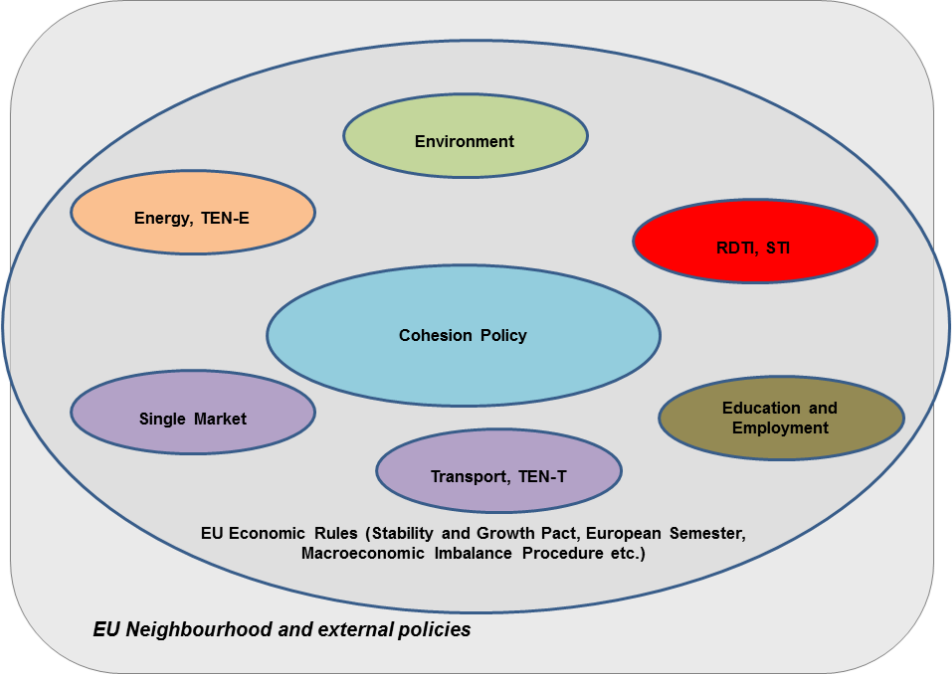


For example, Hannes Rossbacher, managing director of ÖROK, stated in the interview for this study he thinks for more developed and smaller countries like Austria CP can't hardly be a regional policy any more. He mentioned that CP is an investment policy with a size making it impossible having a political agenda behind it. The administrative procedures wouldn't allow it any more. According to the ÖROK managing director, CP nowadays in Europe became an ongoing compromise.

Others find that the approach within CP for growth and jobs is *“too sectoral (...) with the economy being stimulated by the ERDF and employment by the ESF”*. A respondent in the survey argues that *“the Regional Innovation Strategies for Smart Specialisation (RIS3), which are in principle a valuable condition to improve regional investments, should become Regional Development Strategies for Smart Specialisation, as innovation is only one aspect of economic growth.”*<sup>104</sup>

Hence CP takes a central position in the policy constellation of the EU. This happens for a number of reasons; due to its specific budget weight (approximately 32.5% of the EU budget for a single policy) its thematic coverage (of the 11 Thematic Objectives) and its spatial orientation.

*Figure 1. Cohesion policy place in the System of EU Policies*



*Source: own design of the Author.*

<sup>104</sup>Bas van den Barg, Association of Netherlands Municipalities (VNG), The Netherlands.

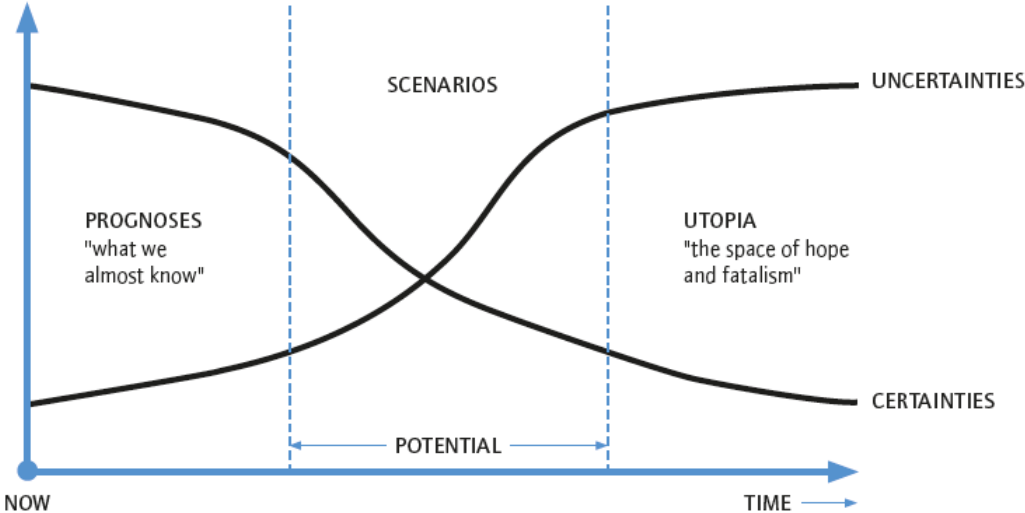
Indeed EU Policy has been often criticised as being space-blind. In many cases CP is conceiving space as a “container”, where sectoral policies are implemented. This approach is transformed (especially since the addition of the territorial cohesion) adding relational, topological and cognitive properties into a territory, hence enhancing the centrality of CP. The aforementioned example of the Regional Innovation Strategies for Smart Specialisation (RIS3) or the River Basin Management Plans induced by the WFD (where investments are supported under TO6) are good examples of tools residing on a sectoral policy sector delivered through an area based approach. This is eventually a model to be replicated.

### 3.2 Possible futures and the role of Cohesion policy

In the context of the future of CP, prognoses are of limited value, due to the large number of intervening factors and the resulting uncertainties. Numerous internal and external major challenges related to the economy claim for policy responses; the employment and the enduring phenomena of crisis in large parts of the European neighbourhood are paired with high uncertainty; the incidence of large-scale immigration flows has revealed the difficulties to define policy responses at European level.

An option to reflect on these uncertainties while retaining a link to the present and to realism is through scenarios. A scenario is a presentation of a possible future situation in narrative form, outlining influencing factors, causal relationships and possible outcomes.

*Figure 2. Scenario building*



*Source: Meinert, 2014.*

In the course of this study a simplified methodology will be applied. Below the Scoping Envelope of the Scenarios is presented:

### **Scoping of the Scenario Building**

**Topic of reference:** Cohesion Policy.

**Underlying Question:** What are the necessary changes for the Cohesion Policy to be effective in the future?

**Time Horizon:** 2030-2040

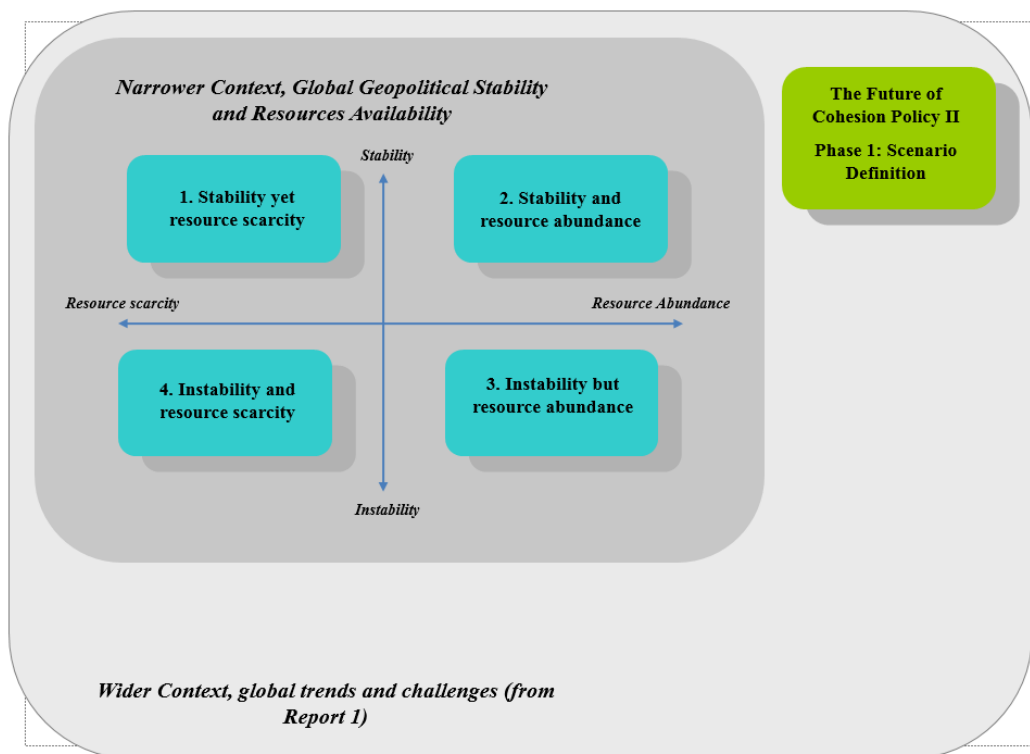
**Frame of reference**<sup>1</sup>: See “The Future of Cohesion Policy, Final Report I” (Ch.2.2. 2.2 Review of major sectorial policies and Ch. 2.4 Major challenges and trends influencing many policy areas discussing trends, global changes, thematic fields)

**Given conditions:** EU continues to exist and pursuing the objectives of economic, social and territorial cohesion; EU-budget is slightly reduced due to the economic growth stagnation, allocation mechanisms of Cohesion Policy funds based on indicators remain unaltered; MS are basically willing to dedicate parts of their national budgets to relevant policy making measures but their ability to do so is diminishing (either due to the reduced growth or political preferences)

**Uncertainties:** A selection was made out of the list of “Major challenges and trends”, leading to the selection of the two overarching exogenous “uncertainties factors” namely, “availability of resources” and “geopolitical stability”. These two factors were considered to be overarching enough to embrace all others as “endogenous” effects.

**Fundamental future alternatives:** Based on the above four scenarios are defined (see figure below) within extreme antithetical variations of the exogenous factors.

**Figure 3. Scenario Definition**



Source: own design of the Author.

The two upper quadrants concern a future of relative stability in terms of the factors shaping the dynamics of the EU (e.g. sustained trend towards economic integration coupled with effective economic governance, as well as a solidification of the political role of the EU at the international stage) and the global stage (e.g. absence of large-scale crises and smooth unravelling of new geopolitical realities).

In this context, we could differentiate between the following two scenarios:

- **“stability and resource abundance”**: This best case scenario represents the rather unlikely combination of a stable global political environment with a “goldilocks”-like economic growth, possible fuelled by unprecedented technological advances, preponderance of overarching alliances among nations and international players, and a more socially-aware functioning of the market economy. Such a virtuous cycle would culminate into a stabilisation of disruptive migration and urbanisation flows, amelioration of the pressure on ecosystems, improved governance and reduction of the overall risk level. Societies in Europe and its periphery would actively increase their standard of living. As a result of the ensuing social peace, affluence and optimism, CP could be 'downgraded' to lesser objectives (such as smooth co-existence and co-

operation - instead of integration - of remaining fringe groups) and eventually lose its relative importance in the system of EU policies.

- **“stability yet resource scarcity”**: Under this scenario, the establishment of a peaceful multipolar world (e.g. functioning democracies, further increase in the mobility of capital & technology, goods & services, social peace in the developing world, etc.) would be tested in a background of ever-volatile global markets and public debt inequalities, further worsening of the environmental pollution, as well as slowing down of the rate of break-through technological advances. Increased global competition for resources would nevertheless remain largely a matter of negotiation under the coordination and auspices of supranational organisations. Societies in Europe and its periphery would continue securing a decent standard of living for the majority of their members. “Cohesion” would continue to be desired, and it would pose a comparatively manageable challenge to policy makers, mainly due to the prevalence of a synergistic paradigm in public affairs. Its position might even be strengthened in the context of e.g. a drive for resource efficiency and innovation, driven by high or unpredictable prices. At the same time CP will have to “fight” for resources with other policies and might retreat into a “status quo” defence stage.

The two lower quadrants are the mirror image of the one described above.

- **“instability but resource abundance”** is the scenario alluding to Hobbes' “bellum omnium contra omnes” or to the Malthusian “struggle for existence”. It refers to a state of things where relative affluence of resources (possibly by means of disruptive technological developments capable of confronting global challenges such as pollution, pandemics, poverty, etc or by ignorance towards long term sustainability) would exist in a world multipolar and unstable in terms of geopolitics. Developed societies would be facing deterioration of social peace and the demographic pressures of an ageing population. The developing world would not be able to avoid an almost “chaotic” raise of the living standards, with income inequality, lack of democracy and poor infrastructure creating incentives for ongoing migration to the more developed countries. Market economy would have failed to resolve its shortcomings and misallocations, and the sense of disorderly competition for resources would trickle down all the way from the international and national to the local level of politics. “Cohesion” would still be relevant as a policy pursuit, but it could be largely used as a disguise for ad-hoc alliances and short-term objectives. Its funds could be directed towards exploitation of resources, increasing return of investment rates and

eventually leading to greater disparities thus undermining its own strategic orientation.

- **“instability and resource scarcity”** is a scenario that, despite its alarming title, does not aim at describing a hopeless situation where no policies could function, but to demonstrate the possibility of “cohesion” serving as a key success factor under economic and social distress. Under such a reality, a series of negative developments in geopolitics, financial crises and social unrest, would be coupled with a significant drop in the average standard of living on a worldwide basis (e.g. by means of environmental degradation and ensuing food shortages, lack of technological advancements or strict commercialisation thereof, etc.). This would lead to a vicious cycle of diverging global population trends (migration, urbanisation), tensions and destabilisation at local level, and ultimately to a high-risk society. Under such circumstances, “cohesion” could gain significance as a policy tool, inasmuch as it could offer groups of nations / regions (such as the EU) tangible objectives towards better coordination, and ultimately towards survival. In contrast with today's CP, the *raison-d'être* of “cohesion” would be more on “optimisation of scarce resources through sense of common purpose”. The focus within the group of nations / regions would, correspondingly, shift from trying to emulate the economic orthodoxy of disputed benchmarks of the leader(s), to attaining a sustainable synergistic state of risk mitigation.

By their definition the two lower quadrants seem more challenging and interesting for further investigation for a number of reasons.

On the one hand, geopolitical instability seems to be the mainstay for the next 20 to 30 years, taking in account the number of state collapses in the vicinity of the EU, the lack of any rising world power to challenge the USA (China being more prone to internal consolidation) and the ignition of regional conflicts in the Ukraine etc.

On the other hand, the availability of natural resources, e.g. natural gas in the Mediterranean or “new” technologies such as fracking can substantially influence the economic model. However, geopolitical stability can directly or indirectly influence attractiveness of natural resources deposits, either by direct access or by comparative access (e.g. related to natural gas deposits and price of Russian gas or Saudi oil). This implies that resource availability can increase or decrease any time in the future.

Cohesion Policy is expected to be influenced by such developments both on its rationale and on its possible responses.

### 3.3 Scientific Mainstream

The two scenarios that have been selected from the previous chapter pose CP in front of two different and partially contradictory orientations:

- The “instability and resource abundance” scenario, which emphasizes on “efficient” use of whatever resource become available and
- The “instability and resource scarcity” scenario, where “equality” of access to a limited set of resources in an unstable environment becomes a dominant choice.

CP however is neither unambiguous, nor operates in an “ideology”-free space. Hence policy is driven also by concepts, theories and models, which are unconsciously adopted by policy makers due their predominance in the mainstream discourse.

This chapter gives the basic overview on the scientific mainstream in the context of this research; for ease of reference it is clustered along economic, social and territorial cohesion.

#### **Economic Cohesion**

##### *Approaches and Policies*

Economic cohesion has been playing a central role throughout the history of the EU, as it has acted as one of the main catalysts for integration and evolution in the process of enlargement. Economic cohesion policies have been implemented to facilitate different speeds and directions of economic unification in the EU.

Now that the EU has reached the penultimate stage of economic integration in the Balassa scale<sup>105</sup> ("economic and monetary union"), and with next, final stage ("complete economic integration") considered by many a rather unlikely eventuality, economic cohesion is set to remain high in the agenda of the EU institutions as a backstop of stability.

In this backdrop, the European Union’s CP has been facing criticism as regards the extent to which it meets its outright objective of reducing economic and other disparities among various regions. Various studies<sup>106</sup> have acknowledged for example that apparent cohesive trends, as illustrated by the usual context

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<sup>105</sup> Balassa, Bela. *The Theory of Economic Integration* (Routledge Revivals).Routledge, 2013.

<sup>106</sup> Jerzy Pienkowski and Peter Berkowitz, “Econometric Assessments of Cohesion Policy Growth Effects”... from the Riga event 4-6 February 2015 (Abstract Book: “Challenges for the New Cohesion Policy 2014-2020”).

indicators, on NUTS2 level have actually been concealing increasing disparities at the level below.

Within a **neoclassical growth** framework, certain literature finds the CP, such as any kind of public intervention for that matter, unnecessary, or worse distortive<sup>107</sup>. In their paradigm, free markets and competition lead to uniform distribution of productive factors between regions and to regional convergence; therefore regional aid would in principle be ineffective as it would lead to misallocation of factors.

Other critics<sup>108</sup>, from the perspective of **new economic geography**, consider CP to be inefficient and ineffective. They advocate that economic integration sends productive factors towards the advanced regions where returns are higher, at the expense of peripheral areas. This implies that if the goal of the policy is to minimize interregional inequalities, CP could be effective; but such interventions will not lead to an optimal allocation of resources from the point of maximizing EU-wide growth.

Funds dedicated to CP, e.g. the ESI Funds are in the heart of the **Keynesian paradigm**, where spending induces a positive demand shock, which leads to higher production and income, which in turn generates a further increase in demand and leads to additional production and income, in line with the Keynesian multiplier principle.

Karvounis and Gullo<sup>109</sup> investigated if there has been a shift in allocations of resources between economic sectors and groups of regions during the last three periods of the CP (2000-06; 2007-13; 2014-20), and point out at least some developments in the seemingly “right” direction, as:

- CP continues to invest three quarters of its funding in less developed regions (and cohesion countries);
- CP has increased its investments in Low-Carbon Economy and employment;
- has now a stronger link with other EU objectives (for example, the increase in energy investments);

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<sup>107</sup> Jerzy Pienkowski and Peter Berkowitz, *ibid.*

<sup>108</sup> Jerzy Pienkowski and Peter Berkowitz, *ibid.*

<sup>109</sup> EU Regional Policy 2000-2020: Shifting in Economic Priorities? Alexandros Karvounis, European Commission, DG Regional and Urban Policy, Belgium / Domenico Gullo, European Commission, DG Regional and Urban Policy, Belgium.



- Cohesion countries are investing more in innovation and employment in the 2014-2020 compared to the previous programming period;
- CP has become more coordinated at a national level compared to the past: around half the funding (including Cohesion Fund) is allocated to national level programmes, despite the fact that there are four times more regional programmes than national ones<sup>110</sup>.

### Analysis and Evaluation

Kalman and Tiits<sup>111</sup> explain that CP was initially not assigned an explicit role in achieving Lisbon objectives, and it was operationalised to follow the objectives of the Lisbon Strategy and Europe 2020 only from 2006 onwards. This created expectations of on one hand promoting the fulfilment of comprehensive Lisbon goals, while shifting the focus of CP from traditional alleviation of regional disparities to enhancing human resources and knowledge intensive production in prospective competitive parts of the economy. They conclude that this relationship has hardly been investigated, either in theoretical or in empirical terms.

For example, the HERMIN model<sup>112</sup> is a mainstream macro-econometric model, where CP funding enters the model in three ways: investment in physical infrastructure, investment in human resources and direct aid to the productive sectors. The latter category is broken down into the three main sectoral allocations: manufacturing, market services, and (residually) agriculture. Total aid to productive sectors is broken down further into RTD expenditure and other direct aid.

CP intervention induces two main long-term impacts: (1) an improved capital stock (in infrastructure, human resources and RTD), which benefits the economy, as it will directly raise output in manufacturing and market services for given inputs; (2) an increase in total factor productivity, which means that less labour will be needed unless output grows to offset the loss.<sup>113</sup>

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<sup>110</sup> Theoretically this could be a positive development, provided the national coordination defines the general framework and the regional authorities align to it. As mentioned earlier the example of the Ex-ante conditionalities application proved that this exchange between national and regional authorities was not reciprocal.

<sup>111</sup> Judit Kalman and Marek Tiits, “Coordinated Policies (Lisbon/EU2020) and Cohesion Policy: Their Relationship and impact on Member States”... from the Riga event 4-6 February 2015 (Abstract Book: “Challenges for the New Cohesion Policy 2014-2020”).

<sup>112</sup> Analysis of the Impact of Cohesion Policy – A note explaining the HERMIN-based simulations, Bradley/Untiedt/Mitze (May 2007) and A Cross-Country Impact Assessment of EU Cohesion Policy, Applying the Cohesion System of HERMIN Models, Gáková/Grigony/Monfort (2009).

<sup>113</sup> Source: A series of short papers on regional research and indicators produced by the Directorate-General for Regional Policy. A Cross-Country Impact Assessment of EU Cohesion Policy, Brussels 2009.

In 2007, HERMIN was used to model the overall effects of CP interventions for the programme periods 2000-2006 and 2007-2013, together with a post-Implementation phase out to year 2020, which showed a similar pattern for all countries and regions, with the positive impacts on GDP during the implementation years being considerably higher than during the post-implementation phase. However, the large impact on GDP could not be necessarily attributed to efficient use of the CP funds.

Such an exercise was performed again in 2009, with somehow different conclusions: The analysis suggested that European CP has both short- and long-term effects. The first mostly takes place during the implementation period: investments financed by the Policy increase domestic demand for goods and services, leading to increased production, additional employment and higher income. This in turn generates additional demand. More permanent, long-term effects are due to the increase and improvement in the stocks of capital in infrastructure, human resources and RTD. This raises productivity and produces a long-term increase in output. However, the impact of European CP varies significantly from one country to the next. Such variations are mainly explained by differences in the amount of resources transferred from the Community budget, the structure of national economies, the kind of investments chosen, and the timeliness of programme implementation<sup>114</sup>.

Contrary to HERMIN and other models that have been previously used to assess the impact of CP, such as "Quest", the Rhomolo model is a regional model which incorporates several elements borrowed from economic geography. These features allow taking into account spill-over effects which are due to interregional trade linkages as well as to the spatial dissemination of technology through well-known processes of diffusion and imitation. It allows taking stock of the fact that CP interventions typically have an impact not only in the region where they are implemented but also in other regions.

A study conducted by means of the Rhomolo model<sup>115</sup> has found that the geographical distribution of the observed impact reflects in the first instance the fact that regions located in Eastern and Central Europe as well as a number of regions in Southern Europe reap the largest benefits from CP. This is explained not only by the fact that these regions typically receive large shares of the CP resources, but also by the fact that they lag behind in terms of infrastructure, human resources and technology implying investment in these fields being particularly productive. This also explains why the size of the impact of some

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<sup>114</sup> "Analysis of the impact of Cohesion Policy – a note explaining the HERMIN-based simulations", Bradley/Untiedt/Mitze (May 2007).

<sup>115</sup> Assessing the Impact of Cohesion Policy Programmes 2014-2020: What does Rhomolo tell us?, D'Artis Kancs, European Commission - DG Joint Research Centre, SPAIN / Philippe Monfort and Alexandra Rillaers, European Commission – DG for Regional and Urban Policy.

types of expenditure can vary considerably across regions which is particularly true for investment in infrastructure. Indeed, this type of investment displays a much higher rate of return in the lagging regions compared to more economically advanced regions. This corroborates the pertinence of the current CP orientation according to which lagging regions, contrary to the more developed ones, are not prevented from allocating an important share of their CP resources to infrastructure.

Pieńkowski and Berkowitz<sup>116</sup> reviewed approximately 20 academic papers which make use of econometric methods to analyse the impact of CP on economic growth and convergence, and assessed their relevance as a theoretical framework from a policymaker's perspective.

Their first conclusion is that in almost all cases, policy intervention remains significantly underspecified, as most of the studies are based on a neoclassical growth model, albeit substantially enriched (e.g. despite the fact that spatial econometric methods have been used to capture spill-over effects between regions, or that progress has been made on the issue of endogeneity of variables).

This shortcoming raises the question about the possible usefulness of impact analysis (i.e. trying to approach cause-and-effect questions by means of counterfactual analysis, that is, “*a comparison between what actually happened and what would have happened in the absence of the intervention*”)<sup>117</sup>.

A second shortcoming regards the poor data used for analysis, as only a small number of studies were found using good quality and consistent data series for analysis. A new database commissioned by DG REGIO (ERDF and CF projects in 2007-2013, broken down by NUTS3 and by 86 priority themes) - expected to be publicly available at the end of 2015 - may alleviate this shortcoming. Even so, many of the studies do not apply the actual amounts of transfers in the regressions, but a dummy variable indicating whether a given region receives CP transfers or not, or make strong assumptions about the distribution of resources which do not correspond to real expenditure at regional level.

A third point raised by Pieńkowski and Berkowitz is the link between the econometric analysis and the conclusions for CP drawn by these studies. Most of the studies focus on the details of their econometric methodology and on the statistical robustness of the results. At the same time, the complex economic mechanisms behind these relationships are not sufficiently investigated nor

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<sup>116</sup> Econometric Assessments of Cohesion Policy Growth Effects – How to make them more relevant for policy makers? Jerzy Pieńkowski, Peter Berkowitz (European Commission, DG for Regional and Urban Policy).

<sup>117</sup> White, H. (2006) Impact Evaluation: The Experience of the Independent Evaluation Group of the World Bank, World Bank, Washington, D.C., p. 3.

explained. This leads to oversimplified and sometimes contradictory suggestions for CP.

They suggest that the scope of the regression analysis could be broader, to include the impact of CP per MS (including new MS) and groups of regions, the impact of main expenditure categories (infrastructure, human capital, business support, etc.), as well as the existence of convergence clubs among the EU regions.

Finally, they stress the need for the scope of the econometric analysis to be expanded beyond the use of GDP as the sole dependent variable, and to cover the impact of CP on other key variables of Europe 2020 strategy: employment, innovation, energy efficiency, combating poverty, etc.

Annoni and Monfort<sup>118</sup> remind us that *"development and growth theory have improved our understanding of how economies develop in time by identifying key factors driving economic growth. The accumulation of physical capital, human capital and technological progress are often mentioned as the main engines of growth. Together with a favourable business environment, good governance, a well-developed infrastructure and sufficient public health care, they determine the pace at which economies develop. However, understanding what triggers economic growth at the regional level is particularly challenging due to the lack of reliable data and the complex interaction between the evolution of statistical indicators and observed trends of economic growth. This complexity is also highlighted by the fact that many less developed regions have benefited from high levels of cohesion funding over a long period of time without a significant improvement of their comparative economic situation. This has triggered many questions about the effectiveness of EU CP"*. One should not forget that the performance of the European CP was found unsatisfactory by the "Barca report" in 2009.

In order to develop a new perspective of the key drivers boosting / limiting economic development in EU regions, Annoni and Monfort applied a non-parametric statistical approach to analyse a series of indicators (such as accessibility, human capital, innovation potential, quality of governance etc.) in given sub-sets of EU regions. Their aim was to partially address weaknesses of previous methodologies (e.g. non-linearities, reverse causation, heterogeneity vs. homogeneity, etc.) and to take into actual consideration dichotomies such as "less vs. more developed regions".

Indeed, their preliminary analysis establishes that not all regions behave in the same way in terms of growth patterns, as are there substantial differences

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<sup>118</sup> Analysing the main factors of regional economic growth: Implications for EU Cohesion policy, Paola Annoni and Philippe Monfort, European Commission, DG REGIO, Belgium.

between, for example, regions located in the old EU members (EU-15) and the ones located in countries which joined the EU more recently (EU-13). Furthermore, they have indicated that the crisis changed the relative importance of the determinants of growth, and hence it is necessary to split the time period into two periods to better describe the pre- and post- 2008 scenarios. Finally, their research includes a comparison of factors of economic growth (mostly at the regional level) that frequently identified in the academic literature:

Ketterer (2014)	Institutions
Ostry et al., IMF (2014); Cingano, OECD (2014)	Inequality
Rodriguez-Pose and Garcilazo (2013)	Institutions, human capital, infrastructure (all regions model)
Crespo-Cuaresma et al. (2011, 2014)	GDP_capita, capital city, human capital, physical capital, spatial spill-overs
Barro and Sala-i-Martin (1995); Boldrin and Canova (2001); Puigcerver and Penalver (2007)	GDP_capita
Baumont et al. (2002); Le Gallo et al. (2003)	Spatial spill-overs
Egger and Pfaffermayr (2006)	Spatial spill-overs, sectoral composition of GVA
Cheshire and Mangrini (2000)	Human capital
Bandinger and Tondl (2002)	Physical capital, human capital
Fingleton (2001)	Urbanization, periphery, technology, Spatial spill-overs

Interestingly, the provisional results of Annoni's and Monfort's statistical analysis indicate that factors which seem to influence economic growth in the EU regions are "low educated workforce"; "institutions"; "public debt"; "net foreign assets"; "stage of development". On the other hand, "urban areas"; "unemployment"; "employment"; "research & innovation", do not seem to be statistically relevant in explaining economic growth. Finally, the effect of "highly educated workforce" and "infrastructure" is unclear.

**Social Cohesion**

*The concept of social cohesion*

Social Cohesion can be viewed as a characteristic of a society dealing with the connections and relations between societal units such as individuals, groups, associations as well as territorial units.<sup>119</sup>

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<sup>119</sup> Berger-Schmitt, Regina, EU Reporting Working Paper No.14, Social Cohesion as an aspect of quality of societies. Concept and Measurement. Mannheim 2000.

It could be argued that the terms cohesion and group are tautological; if a group exists, it must be cohesive to some degree. There are some fresh approaches to theorizing and studying cohesion using social network analysis. This approach is appealing because it stresses the patterns of social ties and network connections that are conducive to different degrees of cohesiveness irrespective of group size.<sup>120</sup>

On the other hand, a challenge for the study of social cohesion at the EU level is that *“definitions of cohesiveness have evolved over time and become more specific and the concept has become fragmented and specialized, which is reflected in the diverse instruments used to measure it. Issues of the measurement of cohesiveness differ in small and in large groups. Because of the complexities of assessing cohesiveness most attention has been given to small group cohesion”*.<sup>121</sup>

Woolley<sup>122</sup> proposes three ways to define social cohesion. (1) Social exclusion has to be absent; (2) interactions and connections are based on social capital; (3) shared values and communities of interpretation are based on group identity. Interestingly, one of the EU CP 11 thematic objectives of supporting growth for the period 2014-2020 is "promotion of social inclusion, combat of poverty and any discrimination".

The EU adopts a slightly different approach on social cohesion. In accordance with Article 9 TFEU *“...the ESF should take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health...”*<sup>123</sup>. Hence it focuses on prerequisites for enabling individuals to enjoy social inclusion, have means to be interactive and then exploit and acquire social capital. Means of measuring social cohesion are hence more suitable for measuring the impact of Social CP measures, e.g. through the ESF.

One of the key challenges for the social and economic policy of the European Union will be to support the MS in a way that they can be pro-active on the changing conditions that can (and will) culminate into crises (e.g. related to demography and social security) and at the same time to avoid growth paths (politically tempting due to quick returns), where according to the OECD<sup>124</sup>

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<sup>120</sup> The concept of social cohesion, Springer Science+Business Media, LLC 2009.

<sup>121</sup> The Concept of Social Cohesion, in “The Group Effect: Social Cohesion and Health Outcomes”, John Bruhn, Springer Science+Business Media, LLC 2009.

<sup>122</sup> Woolley, F, 1998.

<sup>123</sup> Council Decision of 21 October 2010 on guidelines for the employment policies of the Member States.

<sup>124</sup> Perspectives on Global Development 2012: Social Cohesion in a Shifting World, OECD, 2011.

social inequalities are wide, exclusion widespread, hence being unlikely to prove sustainable.

According to Gorzelak,<sup>125</sup> *“the essence of social cohesion is to strive to eliminate barriers in horizontal and vertical mobility, which in effect will ensure possibilities for overcoming disparities in the level of education, career and status advancement, and unrestricted movement within and between the EU MS. Strengthening social cohesion is assisted by social solidarity and the re-distributory functions of public authorities at various levels”*.

Certain exponents of social and economic sciences, as well as politicians dealing with social and economic issues, have been basing their efforts on optimization of income distribution and of the conditions necessary in limiting poverty and preventing its spread. Nevertheless, placing too much emphasis on compensatory social policy and on income equalising may turn out to be acting against effectiveness and against motivation.

Jaźwiński<sup>126</sup> attempts to demonstrate a relationship between income diversification at national scale (according to the Gini coefficient) and social cohesion level (according to income quintile share ratio) in the post-crisis years (2007-2012) with modest success.

Moreover, Medve-Bálint<sup>127</sup> argues that EU funds may actually contribute to rising regional disparities, as exemplified in Eastern Europe. He examines the economic and political mechanisms of fund distribution in Hungary and Poland, and concludes that: (a) the relatively more developed localities and regions (those with greater own resources and higher absorption capacity) may secure more EU grants, thereby contribute to rising intra-regional inequality; and (b) fund distribution may reflect the incumbent's political preferences (this may be even more salient in centralized fund management systems).

Of course, social inclusion (and cohesion) go beyond material deprivation. Hoff and Vrooman (2011) developed a definition of social exclusion which emphasises especially the multidimensionality of the concept: *“Someone is socially excluded if there is a deficiency in at least two of the following domains: material deprivation, social participation, access to social rights/institutions and normative integration”*.

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<sup>125</sup> Gorzelak, G. (2010). Facts and Myths of Regional Development, “Regional and Local Studies” special issue 2010.

<sup>126</sup> Changes in Social Cohesion in the Member States of the EU in Crisis Conditions, Ireneusz Jazwinski, University of Szczecin, Poland.

<sup>127</sup> Supporting the rich and politically loyal: How the structural funds may contribute to rising regional disparities in Eastern Europe, Gergo/Medve-Balint, Hungarian Academy of Sciences, Hungary.

Further underlining this point, Dahrendorf<sup>128</sup> defines a social cohesive society as a society preventing social exclusion. *“Social cohesion comes in to describe a society which offers opportunities to all its members within a framework of accepted values and institutions. Such a society is therefore one of inclusion. People belong; they are not allowed to be excluded.”*

In anticipation of an unstable future marked by crises, the way forward may indeed need to be rather based on the wider concept of social inclusion. As explained by Coumans&Smeets<sup>129</sup> social inclusion is an overarching concept that is linked to various other concepts, such as human capital, social capital, social cohesion, well-being, and freedom from poverty (ECLAC 2007; Boarini and Fron 2013). It is also often connected to social protection and social security in order to relate inclusiveness to specific drivers such as basic needs, adequate income, income security, access to health care, access to services, social justice, and political and social participation (Babajanian and Hagen-Zanker 2012; Behrendt and Bonnet 2013). Inclusive policies are often targeted at a reduction of poverty, material deprivation, and low work intensity (Eurostat 2012), focussing on socially vulnerable groups, such as migrants, the homeless and the most lowly educated (Ramot 2013; Boarini and Fron 2013).

In 2009 in the Barca Report (“An Agenda for a Reformed CP”) experts indicated *“A remarkable lack of political and policy debate on results in terms of the well-being of people, at both local and EU level, most of the attention being focused on financial absorption and irregularities.”*

Wauters<sup>130</sup> explores to what extent the EU regulation for the new ESIF programming period 2014-2020 can be expected to contribute to citizen well-being by means of the so-called “results” orientation, consisting of targets on outputs, counterfactual impact evaluation and a performance reserve. He provides an overview of approaches that hold great potential for reorienting ESIF towards increasing well-being, notably Jocelyne Bourgeon’s New Synthesis approach as well as Vanguard systems thinking and finally Human Centered Design approaches such as used by MINDLAB in Denmark. Finally, he makes recommendations as to how ESIF authorities can and should rethink their own systems within the constraints of the regulations.

A remarkable difference between the ESF and the other Funds (ERDF, CF) is the fact that “results” are measured in terms of “individuals increasing their

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<sup>128</sup> Dahrendorf, Ralf et. al. 1995.

<sup>129</sup> The Socially Excluded in the Netherlands: The Development of an Overall Index, Moniek Coumans & Hans Schmeets.

<sup>130</sup> “Where did the well-being go in ESIF?”, Benedict Wauters, ESF Agency Flanders from the Riga event 4-6 February 2015 (Abstract Book: “Challenges for the New Cohesion Policy 2014-2020”).



capabilities and opportunities<sup>131</sup>” instead of abstract theoretical indicators (e.g. investment in R&D commonly used in ERDF). This fact combined with the easily communicable lines of action on employability and employment, social care, education and public health, make measures related to social cohesion extremely appealing, despite doubts on effect and limitations e.g. through selection bias expressed further above.

## **Territorial Cohesion**

Although territorial cohesion formally became a shared competence only with the ratification of the Lisbon Treaty, academic and policy discourse has long been preoccupied with the concept. One can distinguish between two debates around territorial cohesion that took place in the late 1990s and the 2000s and that feed into each other: the spatial planning debate and CP debate.<sup>132</sup>

The spatial planning debate originated from the perception that many EU policies had unintended territorial impacts that had to be assessed and coordinated at EU level, while the notion of accessibility provided for one more relevant concept.

Building on this basis, the Directorate General Regional Policy began to present territorial cohesion as a natural component of CP, something that became evident in its second Cohesion Report. As a result, territorial cohesion was often linked with balancing regional disparities and exploiting regions’ distinctive development potentials (Doucet, 2007<sup>133</sup>; Jouen, 2008<sup>134</sup>). Particular emphasis was placed on geographically-distinct territories, notably mountainous, coastal and island regions but also special types of regions such as border regions or sparsely populated areas (Monfort, 2009)<sup>135</sup>.

The regions of the European Union have been all eligible for CP support, with different objectives and different fund involvement, mostly depending on their development level and especially the levels of GDP per capita which is the main variable differentiating between convergence, competitiveness and phasing in/out regions (in programming period 2007-13) and less developed, transition and more developed regions (in programming period 2014-20).

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<sup>131</sup> See for example Common Result Indicators in Annex I and II of the “ESF Regulation”.

<sup>132</sup> Economic & Social Cohesion in the Economic Policies of Member States: Final Report, EPRC and Euroreg, November 2010.

<sup>133</sup> Doucet, P. (2007) ‘Cohésion territoriale de l’Union européenne – La gestation ambiguë d’un ambitieux projet politique’, *Les Cahiers de l’Urbanisme*, 64, 6-11.

<sup>134</sup> Jouen, M. (2008) ‘Territorial Cohesion: From theory to practice’, *Notre Europe Policy Paper*, 35.

<sup>135</sup> De Michelis, N. and Monfort, P. (2008) ‘Some reflections concerning GDP, regional convergence and European cohesion policy’, DG Regio.

However, beyond GDP per capita, the regions of the EU are also extremely different in structural terms, and especially they are characterized by very different systems of territorial assets of economic, cultural, social and environmental nature. These elements, included under the comprehensive concept of territorial capital, represent the development potential of places. In the words of the EU Commission itself, the regional endowments of territorial capital raise relevant policy implications, as “*each region has a specific ‘territorial capital’ that is distinct from that of other areas and generates a higher return for specific kinds of investments than for others, since these are better suited to the area and use its assets and potential more effectively*” (European Commission, 2005, p. 1).

The regional endowment of territorial capital is therefore a factor which is an important determinant of regional growth, and also of the expected impact of CP at regional level, on the basis of two mechanisms: on one hand, the endowment of territorial capital can act as a filter, so that when it is abundant it can facilitate and enhance the impact of policies devoted to growth, while when scarce it can hamper the policy impact.

For example it is more impactful on growth to invest in transport infrastructure in core areas, where this can help overcoming congestion, or in peripheral areas, where it may help providing a minimum level of accessibility (albeit with lower returns on investment). Similarly investments in education and training provide more growth in intermediate areas, where it can help upgrading the industrial structure to the upper level, or in areas which are already endowed of it due to increasing returns.<sup>136</sup>

On the other hand, CP, being devoted to building territorial structural assets, can help building territorial capital, which in the long run will be able to enhance the regional growth rate.

Additionally, it is not a matter of how much, but also of which territorial capital assets are available in the regions.

In the discussion on the CP for the new funding period (2014-20) guided by a Common Strategic Framework and thematic concentrations for an integrated approach to territorial development has also been included, e.g. through Community-led Local Development, Integrated Territorial Investments (ITIs) and sustainable urban development, among various policy ideas and themes,

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<sup>136</sup> Territorial Capital and the Impact of European Cohesion Policy, Ugo Fratesi and Giovanni Perucca, Politecnico di Milano, Italy.

under territorial cohesion. However the specifics for achieving treaty objectives are near general and in some cases can even be categorized as “confusing”.<sup>137</sup>

In any case the territorial cohesion challenge can be summarised as such: How to support agglomeration-dependent necessary economic growth on the one hand while achieving more balanced development for territorial cohesion on the other.

Here there is hardly a satisfying answer, the Europe 2020 strategy refers to the territorial cohesion (TC) objective as the means to achieve improved global competitiveness (the Lisbon priority) through inclusive growth. At the same time the Territorial Agenda states that “...*policy efforts should contribute to reducing the strong territorial polarization of economic performance, avoiding large regional disparities in the European territory by addressing bottlenecks to growth in line with Europe 2020 Strategy.*”

Hence different typologies of CP are more effective under specific territorial capital conditions. Loosely based on the Camagni Taxonomy Model, the choices oscillate between hard and soft investments of different rivalry grades and based on the initial endowment with territorial capital.

In a “nutshell” for the purposes of this report, the following aspects will be considered in the next chapter:

- For economic cohesion, the different approaches of the neo-classical, new economic geography paradigm and the Keynesian paradigm will be compared;
- For social cohesion a “human resources development approach” focusing on employment, social care and education, as the mean to the ultimate goal of social cohesion, will be used;
- For territorial cohesion a taxonomical model of richly and poorly endowed regions with different adequacy for soft and hard investments of different rivalry grades (implying that soft and rivalry investments have higher returns in richly endowed regions, whereas the opposite applies in poorer areas).

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<sup>137</sup> “Territorial Cohesion” in the emerging economic geography of Europe, Purushottam Kesar, Radbound University, The Netherlands.

### **3.4 Sectorial Policies and Policy reactions**

In “The Future of Cohesion policy, Final Report I” a number of key sectorial policies, their role in CP, trends and territorial implications were identified. These were:

- Environment, climate change adaptation, low-carbon economy and resource efficiency.
- Labour market and social policies, health care.
- Education and qualification.
- Research and Innovation.
- Network development and infrastructure.
- SME policy.

Building on the two selected scenarios and their underlying and partially contradictory orientations (efficiency vs. equality) it would be attempted to illustrate different action options per sectorial policy and scientific mainstream.

**Table 10. Scenario “instability but resource abundance”**

Scenario: “Instability but resource abundance”								
Sectorial Policy		<i>Environment etc.</i>	<i>Labour Market</i>	<i>Social Policies and Health</i>	<i>Education</i>	<i>Research and Innovation</i>	<i>Network development and Infrastructure</i>	<i>SME policy</i>
<b>Economic Cohesion</b>	neo-classical paradigm	Investments for resource exploitation should be focused on areas with high RoI, There is an incentive and an opportunity (due to geopolitical instability) to pledge for deregulation and externalisation of effects (i.e. curtailing the polluter pays principle).	Highest physical mobility of labour forces will be sought	Reduction of scope and budget of Social Policies and Health, shift towards “Social Peace”	Education should focus on providing practical skills on a clear demand driven fashion	Research and Innovation should be left to the Market	Concentration of infrastructure expansion in high growth areas focusing on the internal channels	Deregulation
	new economic geography paradigm	Introduction of “scarcity rents” for resource rich but less favoured areas	Coordinated flows of labour forces.	Innovation to provide high level services in an unconventional manner (e.g. advanced PHC)	Flexibilisation of education offering per region.	Guidance of research and innovation as a mean to overcome disparities	Concentration of infrastructure expansion in disadvantaged areas and/or alternative routes	Provision of investment for stabilisation of export oriented areas

Scenario: "Instability but resource abundance"								
	Keynesian paradigm	Investment in resource exploitation considering external effects	Reduced physical mobility of labour forces is desired	Social Infrastructure expansion to achieve common standards	Path dependency in favour of education streams serving established industries	Guidance of research and innovation to support main industries	Infrastructure expansion to achieve common standards especially on existing strong hubs	Investment in important industries to generate "domestic" demand chains
<b>Social Cohesion</b>	Human Resources Development approach	Partial emphasis in environmental protection as a "right for access" and for non-monetary values	Regulation of the labour market through certifications etc.	Expansion of services and benefits for residents, demarcation for "newcomers"	Emphasis on entry opportunities for disadvantaged groups	Emphasis on social innovation and entry opportunities for disadvantaged groups	Emphasis on "soft infrastructures"	Support for entrepreneurship in the non-basic sector
<b>Territorial Cohesion</b>	Richly endowed region	Partial emphasis in environmental protection as location asset	Avoidance of agglomeration disadvantages for labour market	Exploitation of synergies	Emphasis on advanced skills for the tertiary/quaternary sector	Support for advanced innovation (product and co-operations)	Investments in flows and demand management along with network expansion	Support schemes in high added value processing and focus on innovation and IPR protection
	Poorly endowed region	Investments in "resources distribution" mechanisms with emphasis on governance aspects	Attraction of high skills labour	Innovation to provide high level services in an unconventional manner (e.g. advanced PHC)	Provision on practical skills to be used in the region	Support for basic innovation (process and marketing)	Infrastructure expansion to achieve acceptable level of services and also security monitoring	Investments and support to resource-intensive industries in the basic sector

In the case of the **environment**, economic CP could be understood as an optimised exploitation of resources to increase standards of living, assuming that geopolitical instability might make remote resources inaccessible. While this could be an argument pro alternative renewable energy it is expected that security concerns could prevail making lignite and nuclear power politically viable. Neo-classical and Keynesian approaches might fare similar in focusing on exploitation of natural resources, differing mainly on the “decision maker” on investment and to the extent that externalities are compensated. New economic geography might try to introduce an “area-related” compensation scheme which will either provide a return to the area containing the resources and/or extend the period of exploitation by harnessing demand. Social cohesion might put emphasis on providing a counterbalance to the pursuits of the economic CP by trying to secure the “non-monetary” values of the environment. Territorial cohesion will follow to a certain extent economic CP albeit balancing the exploitation and the preservation of the environmental assets in a sense of sustainability. In the case of richly endowed areas the focus might be more on preservation, in less favoured areas in sustainable use. **Policy response** in general however will focus on exploiting natural resources by infrastructure investments (e.g. directly on transportation or indirectly on extraction and processing), although the protection level might be lower than today.

In the case of the **Labour market**, economic CP sets on labour mobility. The differences are mainly in the level of regulation, neo-classics being for deregulation, while the others pursue a guided approaches based on the needs of regions or industries. In this scenario of global instability it can be assumed that migrant flows will be strong and attracted by affluent EU regions. Social policy thus will also try to guide access to employment (and limit it in case of foreigners) through accreditation and certification. Territorial Cohesion will attempt to stronger guide incoming flows either to avoid deterioration of the territorial capital or to upgrade it. **Policy response** in the labour market will follow a similar pattern to the current CP but with a stronger emphasis on regulation and control.

**Social policies and health**, will be affected by the way social infrastructure is provided. In economic policy it will be dealt as a necessary evil. In the case of a neoclassical approach it will serve the need to keep the labour force operational and content, alas less proactive. The other two paradigms might focus on providing for the achievement of certain standards. Social cohesion will focus on the management of services and the need to accommodate refugees and migrants in a sustainable way. Territorial cohesion will focus on “smart” operation either by exploiting existing structures or by trying to be innovative with flexible structures. In general **policy response** must become more

innovative and reinvent itself in order to accommodate changing and heavily fragmented types of demand.

**Education and closely related research and innovation** policy are considered to be serving economic CP. While the neoclassical school rejects public intervention, new economic geography and Keynesian policy approve it; in the first case a flexible regionally-adapted offering is considered where education and innovations are means to an end, whereas the latter sees them as intermediate products. For social cohesion education and research and innovation serve mainly the right for people to be included in society through knowledge, income and stability. Hence its priority is in just access to their offerings and benefits. Territorial cohesion emphasizes on providing the right mix of education and innovation support according to the endowment with territorial capital; high end in the richer areas, application-oriented in the poorer. **Policy response** will have to change, on the one hand in order to attract people for education, research and innovation fleeing from geopolitical instability while competing with other global areas (e.g. USA) and on the other hand in adapting to the potential and needs of regions the way the RIS3 approach has started, since geopolitical instability will also influence logistics chains and potential markets.

While **transportation and energy network development and infrastructure** will still absorb substantial funds, its orientation will change. Resources abundance will favour road transport (making poor tonnage/energy ratios less crucial while road transport retains its flexibility), however transport hubs in the periphery will have to be multimodal and protected against threats rising from the very geopolitical instability. In the field of economic cohesion there will be two main positions, one of strengthening the strong and one of supporting the weak; geopolitical instability however might prove more beneficial for new, alternative routes and modes of access, especially shipping. In the field of social cohesion the focus will be on “soft infrastructures” enabling access and connectivity to existing “hard infrastructure”. Territorial cohesion will have to invest more on flow- and demand-management along with network expansion in the central areas, in order to avoid agglomeration disadvantages. In areas with less territorial capital (assuming that these are peripheral) investment will be in infrastructure expansion to achieve acceptable level of services but also in securing supply chains and monitoring for security. **Policy response** will deviate from its current form in the sense that it will become more specific; instead of providing for basic technical infrastructure, it will have to provide for multimodal and alternative routes and also for security.

In the sector of **SME and entrepreneurship** economic cohesion will have to catch-up export oriented industries and areas due to the loss of markets. This



might either be left to the forces of creative destruction or be addressed through territorial and sectoral programmes, aiming at the substitution of demand in the short term or at re-orientation in the mid-term. Social cohesion might channel resources for alternative entrepreneurship in the non-basic sector, where skills and capital level might be less demanding. Territorial cohesion will have to modify its support, retaining a similar approach to the current in better regions, i.e. supporting high added value processing and focus on innovation and IPR protection but also in investing in resource-intensive industries in the basic sector to substitute for loss of markets and suppliers. **Policy response** will have to emphasize stronger on satisfying the domestic EU market (assuming that pro-austerity policies are weakened in order to sustain demand in an ageing Europe).

**Table 11. Scenario “instability and resource scarcity”**

Scenario: “instability and resource scarcity”								
Sectorial Policy		<i>Environment etc.</i>	<i>Labour Market</i>	<i>Social Policies and Health</i>	<i>Education</i>	<i>Research and Innovation</i>	<i>Network development and Infrastructure</i>	<i>SME policy</i>
<b>Economic Cohesion</b>	neo-classical paradigm	Emphasis on optimisation through maximising the externalisation of effects through deregulation	Highest physical mobility of labour forces will be sought	Shift towards “security and policing”	Education should focus on providing practical skills on a clear demand driven fashion	Research and Innovation should be left to the Market	Stronger concentration of infrastructure expansion in high growth areas	Deregulation
	new economic geography paradigm	Emphasis on optimisation, efficiency and innovation	Emphasis on endogenous development	Strengthening of the autonomous sector	Reorientation towards managing decline	Orientation of research and innovation on sustainability and independence	Smart infrastructure downsizing	Support for local value chains
	Keynesian paradigm	Emphasis on securing supply chains and flows	Emphasis on employment opportunities	Infrastructure maintenance to retain common standards	State-guided orientation to serve important industries	Orientation of research and innovation on resource efficiency	Infrastructure maintenance to retain common standards	Investment in industries re-orientation
<b>Social Cohesion</b>	human resources development approach	Emphasis on socially just provision of ecosystem services	Introduction of alternative employment, mainstreaming of part-time jobs	Social Innovation, Strengthening of the autonomous sector	Emphasis on entry opportunities for disadvantaged groups	Emphasis on social innovation and entry opportunities for disadvantaged groups	Emphasis on smart management of “soft infrastructures”	Emphasis on “de-commercialisation” and alternative incomes

Scenario: “instability and resource scarcity”								
<b>Territorial Cohesion</b>	Richly endowed region	Strong emphasis in environmental protection as location and production asset	Securing status quo	Social Innovation, Strengthening of the autonomous sector	Emphasis on management, mediation etc.	Support for open innovation and shared approaches	Investments and innovation in “need management”	Support for services towards the society
	Poorly endowed region	Emphasis on sustainable use	Emphasis on “livelihoods” rather than employment	Orientation on serving the need rather than the demand	Emphasis on “de-commercialisation”	Support for basic innovation (process and marketing)	Smart infrastructure downsizing	Support for services towards the primary sector

In the case of the **environment**, economic CP will have to face the diminishing of resources, the increase of negative externalities and the degradation of the environment and the ecosystem services, especially under a neo-classical regime. Hence economic policy should be driven by de-coupling, optimisation, resource efficiency and innovation. Social policy will have to focus on enabling equal access to ecosystem services. In a territorial sense stronger areas will have to protect their environmental assets as a location and production asset, while weaker areas will have to emphasize on sustainable use and recycling to be able to retain some absolute advantage. **Policy response** overall will have to emphasize stronger than today in resources security of supply, eco-efficiency and protection and risk management<sup>138</sup>.

In the case of the **Labour market**, economic CP will have to deal with labour stability. While neo-classical supporters might see an advantage in terms of global competitiveness, there might be limited access to markets to be competitive. Migrant flows and demand decline might lead to oversupply of labourers, hence leading to tensions. Economic cohesion will have to secure endogenous employment opportunities, especially in the service sector. At the same time social policy will have to depart from “full employment” objectives and focus on alternative employment increasing resilience. At the territorial cohesion field, stronger areas will try to defend their status quo on the labour market, eventually being able to displace others. Weaker areas will have to refocus on “livelihoods” rather than employment, to a certain point entering de-commercialisation paths. **Policy response** as a whole will be placed in front of big challenges, having to re-adjust its objectives, its tools and its very-notion of what labour market inclusion means.

**Social policies and health** will undergo a similar experience as the labour market, albeit with higher intensity being dependent to active labourers’ contributions. Financial crisis, migration and instability might lead to cries for a reduction of “social services” to relieve the economy of this “burden”. Even if the support for social policies remains strong they will have to undergo substantial changes, strengthening of the autonomous and volunteer sector and trying to retain the status quo on the infrastructure. Social innovation will have to be brought forward, especially in stronger areas, facing lack of resources, decline and ageing population in a scale much larger than the one experienced in former industrial areas. Weaker areas will have to depart from standards of universal demand coverage and orientate themselves in servicing the need. **Policy response** as a whole will have to undergo a paradigm shift and invest in

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<sup>138</sup> to a certain extent this response could be valid for both scenarios. Nevertheless an important difference exists. It is assumed that such responses need investments at the beginning and deliver higher returns in the long run; fix costs are high in comparison to variable costs. Hence a decisive decision factor is the discount rate to be applied. In the scenario of “instability but resource abundance” higher discount rates are expected. Thus long term investments are less favourable.

resilience and pro-activeness; perhaps a forerunner of the things to come is the development in the field of child care in Eastern Europe. There the system is gradually changing from institutionalisation to individual volunteer-based foster care. Public authorities are reluctant to initiate change based either on path dependency or biases, although any empirical research indicated the higher benefits and lower costs of alternative services<sup>139</sup>.

**Education and closely related research and innovation** in the realm of economic cohesion will have to emphasize on skills dealing with resource efficiency and decline management, sustainability and independence from resource inputs and imports. Such an approach leads inevitably to decentralisation, being near to the location of the resource, and short supply chains. Social policy can play an important role in advocating community participation and benefit, social innovation and opportunities for education and employment. In the territorial cohesion domain the discussion could be in establishing mechanisms on the management of common pools of resources and the mediation of conflicting interests. Weaker areas will have to support open innovation and shared infrastructure approaches. **Policy response** as a whole will move stronger in the same path it has entered, putting emphasis on green skills, decentralisation and innovation, open innovation and shared use of resources; proprietary approaches and strong commercialisation will be weakened.

**Transportation and energy network development and infrastructure** will lack funds. Hence similar developments can appear as in the field of social policies; smart infrastructure downsizing, smart management, innovation etc. However less flexibility and possibilities exist here. **Policy response** will have to stronger prioritise investments but at the same time maintain some level of connectivity guaranteeing the functionality of the Union.

In the sector of **SME and entrepreneurship** economic cohesion will have to deal with decline and avoid strong deflationary trends and collapses in the short term. This could mean stronger support for local value chains, re-orientation of industries and adaptation of the financing sector to operate in a state of decline without strangulating the economy. Social policy will have to promote “de-commercialisation” and alternative forms of entrepreneurship and incomes. In stronger areas the focus can be set in supporting services for the final consumer while in weaker regions in providing services to the primary sector. **Policy response** will have to emphasize stronger on satisfying the domestic EU market but in an environment of weak if any growth; hence SME policy will have to focus on small, flexible units that can adjust their output and on flexible

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<sup>139</sup> see for example Brink A., Nordblom K., Wahlberg R., 2007 “Maximum Fee vs. Child Benefit: A Welfare Analysis of Swedish Child- Care Fee Reform.

entrepreneurs. This would be the micro-SME and the sole traders considered to be an indicator of underdeveloped economies nowadays.

### **3.5 Feasibility of policy responses**

The content of this chapter was formed in the course of two workshops by the authors using a two stage approach: a brainstorming session for an initial screening of the report's findings to that point and a subsequent "meta-plan"<sup>140</sup> session for the definition of the single variable occurrences. No strict thresholds exist for them since the prevalent logic is an "expert opinion" ordinal one.

While the methodology is not bias-free it can be observed as viable approach in the context of the report. Though iterations and the use of a formal-structured matrix, biases are reduced or at least made transparent.

In this step possible policy responses per scenario and sectorial field are categorised along the following lines:

- Intensity of the impact of the scenario on the sector;
- Direction (increasing or decreasing efficiency, resp. equality);
- Reversibility of the effects if the scenario changes;
- Urgency (meaning that urgent are those "actions" whose effects need a long time to materialise, hence in order to encounter the scenario effect, action must be taken immediately);
- Thematic Relevance to CP;
- Extent of financial means needed;
- Likelihood of political support.

Those responses where "Urgency" is high, "Thematic Relevance to CP" and "Likelihood of political support" are medium or better and "Extent of financial means needed" is medium or better are further considered.

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<sup>140</sup> Bernhard Schnelle (Hrsg.) (1978). "Neue Wege der Kommunikation. Spielregeln, Arbeitstechniken und Anwendungsfälle der Metaplan-Methode". Veröffentlichungen der Stiftung Gesellschaft und Unternehmen (in German) (Königstein/Ts.: Peter Hanstein Verlag). Heft 10.

As can be seen by the Impact Matrix in the next pages, the policy responses put forward are:

- for the “instability but resource abundance” scenario in the fields of “Social policies and health” and “Network development and Infrastructure” and
- for the “instability and resource scarcity” scenario in the fields of “Environment”, “Labour Market”, “Social policies and health”, “Education and research and innovation” and “SME and entrepreneurship”.

**Table 12. Impact Matrix for the scenarios “instability but resource abundance” and “instability and resource scarcity”**

Sector	Scenario	Policy reaction statement	Impact of the scenario	Effect on efficiency /equality	Reversibility	Urgency	Relevance to Cohesion Policy	Financial means necessary	Political Support likely
Environment	„instability but resource abundance“	Policy reaction in general however will focus on exploiting natural resources by infrastructure investments, although the protection level might be lower than today.	Medium	Positive	Limited	Low	High	Low	High
	<b>“instability and resource scarcity”</b>	<b>Policy response overall will have to emphasize stronger than today in resources security of supply, eco-efficiency and protection and risk management.</b>	<b>Medium to high</b>	<b>Positive</b>	<b>High</b>	<b>High</b>	<b>High</b>	<b>Medium</b>	<b>Medium</b>
Labour market	„instability but resource abundance“	Policy reaction in the labour market will follow a similar pattern to the current but with a stronger emphasis on regulation and control.	Medium	Negative	High	Low	High	Medium	High
	<b>“instability and resource scarcity”</b>	<b>Policy response as a whole will be placed in front of big challenges, having to re-adjust its objectives, its tools and its very-notion of what labour market inclusion means.</b>	<b>High</b>	<b>Positive</b>	<b>High</b>	<b>High</b>	<b>High</b>	<b>Medium</b>	<b>Medium</b>
Social policies and health	„instability but resource abundance“	<b>In general policy response must become more innovative and reinvent itself in order to accommodate changing and heavily fragmented types of demand.</b>	<b>High</b>	<b>Neutral</b>	<b>Low</b>	<b>High</b>	<b>Medium</b>	<b>Medium</b>	<b>Medium</b>
	<b>“instability and resource scarcity”</b>	<b>Policy response as a whole will have to undergo a paradigm shift and invest in resilience and pro-activeness.</b>	<b>High</b>	<b>Positive</b>	<b>Low</b>	<b>High</b>	<b>Medium</b>	<b>Medium</b>	<b>Medium</b>



Sector	Scenario	Policy reaction statement	Impact of the scenario	Effect on efficiency /equality	Reversibility	Urgency	Relevance to Cohesion Policy	Financial means necessary	Political Support likely
Education and research and innovation	„instability but resource abundance“	Policy reaction will have to change, on the one hand in order to attract people for education, research and innovation fleeing from geopolitical instability and on the other hand in adapting to the potential and needs of regions the way the RIS3 approach has started, since geopolitical instability will also influence logistics chains and potential markets.	High	Positive	Medium	Medium	Medium to high	Medium to high	High
	“instability and resource scarcity”	<b>Policy response as a whole will move stronger in the same path it has entered, putting emphasis on green skills, decentralisation and innovation, open innovation and shared use of resources; proprietary approaches and strong commercialisation will be weakened.</b>	<b>High</b>	<b>Positive</b>	<b>Low</b>	<b>High</b>	<b>Medium to high</b>	<b>Medium to high</b>	<b>High</b>
Network development and Infrastructure	„instability but resource abundance“	<b>Policy reaction will deviate from its current form in the sense that it will become more specific; instead of providing for basic technical infrastructure, it will have to provide for multimodal and alternative routes and also for security.</b>	<b>High</b>	<b>Negative</b>	<b>Low</b>	<b>High</b>	<b>High</b>	<b>High</b>	<b>High</b>
	“instability and resource scarcity”	Policy response will have to stronger prioritises investments but at the same time maintain some level of connectivity guaranteeing the functionality of the Union.	High	Positive	Medium	Medium	High	High	Medium

Sector	Scenario	Policy reaction statement	Impact of the scenario	Effect on efficiency /equality	Reversibility	Urgency	Relevance to Cohesion Policy	Financial means necessary	Political Support likely
SME and entrepreneurship	„instability but resource abundance“	Policy reaction will have to emphasize stronger on satisfying the domestic EU market (assuming that pro-austerity policies are weakened in order to sustain demand in an ageing Europe).	Medium	Negative	Medium	Medium	High	Medium	Medium
	“instability and resource scarcity”	<b>Policy response will have to emphasize stronger on satisfying the domestic EU market but in an environment of weak if any growth; hence SME policy will have to focus on small, flexible units that can adjust their output and on flexible entrepreneurs. This would be the micro-SME and the sole traders considered to be an indicator of underdeveloped economies nowadays.</b>	Medium	Positive	Medium	High	High	Medium	High

As a general observation the impact of the scenario is expected to be medium to high, meaning that the developments within the scenario can trigger a policy response. Differences are expected in those sectorial policies where the public sector is not leading (SMEs) or where other considerations (e.g. in the labour market and the need to “defend” the labour market in favour of residents) might be stronger than the impact of the scenario. The policy response is expected to be positive on the orientation of the scenarios; exceptions exist in the “instability but resource abundance” due to the stronger short-term gains and the evolving vested interests.

The matrix shows that in both scenarios, the urgency is always at least medium and often high with regards to all policy fields analysed. There are only two exceptions, where the urgency is considered to be low, namely ‘environment’ and labour market’ in the “instability but resource abundance” scenario. The relevance is also medium to high in any case scenario and for all policy fields analysed. The reason for these conclusions lies in the fact that the policy response requires to a certain point paradigm shifts in the policy delivery. While these are not necessarily costly they need a long time to mature and are not necessarily directly relevant to the thematic topic in the narrower sense. In the course of preparing for the programming period 2014-2020 this has been evident in the way TO11 was utilised and also in the efforts to fulfil the general ex-ante conditionalities and especially Nr.4 on public procurement and Nr. 7 on statistical systems and result indicators.

Looking at the possible responses to those expected challenges, the likelihood of political support is medium to high for all policy fields in any case scenarios. The financial means necessary are medium to high in both scenarios for all policy fields except, again, in the case of the ‘environment’ in the first scenario and “Network development and Infrastructure” in both. In fact, the assumption is that policy reaction in general will focus on exploiting natural resources by infrastructure investments, although the protection level might be lower than today.

### **3.6 Policy frameworks and delivery mechanisms**

In the table below a formal structured overview is offered on the different policy responses put forward in the former chapter and the potential delivery mechanisms. The conclusions out of the table are summarised in the next sub-chapters.

The points of analysis are:

- **Roles of the MS and the LRAs** in the delivery mechanisms of CP. Here the assumption is that the MS will retain their strong role the predominantly regulatory level of governance and in the coordination of national policies. However it is assumed that successful CP will need a stronger involvement of LRA. The role of the EU is considered to be the same as nowadays as explained in the Given Conditions of the scenarios. Actually the diminishing ability of the MS to allocate funds to the EU means that the former will have to attain a more supervisor role, while the MS and the LRA are expected to be more central.
- Related to that is the potential for an **area based approach**. Area based approaches are characterised by being specific, integrated participatory and flexible. Obviously such an approach benefits from homogeneity of the area applied. Hence the role and the capability of the LRAs are crucial.
- Building on the turn towards **results** in current CP possible result “indicators” are outlined; those addressing topics closer to the operations of an LRA indicate a larger impact of an area based approach of CP;
- Regarding the **Governance quality** required the distinction is made between cases where a level of “good implementation and compliance” (i.e. doing the things right) is needed and those cases where it is necessary to “...restructure or develop regions, enabling them to take full advantage of the opportunities presented by the single market”<sup>141</sup> (i.e. doing the right things).
- Regarding the respect of **equal opportunities and sustainability** a simple check is conducted on the potential to integrate them. Whereas sustainability (in its environmental dimension, as defined in the CPR) is usually well established in the delivery systems by a series of regulatory mechanisms (e.g. through EIAs), equal opportunities are still an *underdeveloped* field.
- Taking in account that CP usually reacts to a market failure, it is still necessary to keep in mind that **private funds** can be still attracted and strategically used via PPPs. PPPs can offer a number of advantages in comparison to public procurement or privatisation that should be used as a leverage by LRAs. In this aspect the combination with high governance quality is a condition *sine qua non*.

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<sup>141</sup> LSE 2011, p. 12.

- Last but not least, a link to the current Thematic Objectives is offered in order to establish continuity especially regarding authorities engaged in current CP which are expected to carry on in the future and the implications on their structure, the decentralisation and the devolution required, if LRA are to play an increasingly important role.

**Table 13. Overview on different policy responses**

<b>Policy Response</b>	<b>Role of Central State</b>	<b>Role of LRA</b>	<b>Potential for an area based approach</b>	<b>Results measurable in:</b>	<b>Governance quality required at the LRA level</b>	<b>Respect of equal opportunities</b>	<b>Respect of sustainability</b>	<b>Potential for Mobilisation of private funds investment</b>	<b>Related TOs of the 2014-2020 period</b>
Environment	Regulation and definition of standards	Increasing role in management, regional and local adaptation and contracting	High	Resource consumption Prices Emissions Extent of natural land	Average to Advanced	Medium potential	Strong	Strong potential for PPP in utility services and in service contracting	TO6, TO4, TO5
Labour Market	Regulation and certification	Matching local skills and needs, utilising public procurement for local employment,	Medium	Persons employed (per segment) Stability of working relations Income	Leaders	High potential	Strong	Medium potential in terms of brokering and offering VET opportunities	TO3, TO8, TO11
Social policies and health	Framework definition	Local adaptation of schemes, civil society stimulation, social entrepreneurship, volunteers organisations	Strong	Level of needs coverage Social activity and autonomy Cost per unit delivered	Average to Leaders	High potential	Strong	Strong potential for PPP in specific services where unit cost calculation is possible	TO8, TO9, TO11
Education and research and innovation	Regulation framework definition, provision	Matching local needs and offerings, stimuli for location choice, clusters, local value chains	Medium	Introduced innovations Innovation investments Turnover changes based on OSLO	Advanced to leaders	High potential	Medium	Necessary condition	TO1, TO10, TO11

<b>Policy Response</b>	<b>Role of Central State</b>	<b>Role of LRA</b>	<b>Potential for an area based approach</b>	<b>Results measurable in:</b>	<b>Governance quality required at the LRA level</b>	<b>Respect of equal opportunities</b>	<b>Respect of sustainability</b>	<b>Potential for Mobilisation of private funds investment</b>	<b>Related TOs of the 2014-2020 period</b>
				categories					
Network development and Infrastructure	Regulation specification, provision	Provision, maintenance, operation of services	Medium	Output metrics Connectivity	Developing or better	Low potential	Medium	Strong potential for PPP in utility services and in service contracting	TO2, TO7, TO11
SME and entrepreneurship	Regulation framework definition, incentives	Matching local needs and offerings, stimuli for location choice, clusters, local value chains	Strong	Nr. of SMEs Financial resilience Local/Regional Embedment	Average to Advanced	High potential	Medium	Necessary condition	TO3, TO8, TO10

## **3.7 Outlook and recommendations for new ideas and choices of EU CP**

The following paragraphs are concluding statements resulting from the scenarios and analyses for the CP beyond 2020. They include recommendations for policy-makers shaping the future CP.

### **3.7.1 Creating a less uniform regulatory framework**

As stated in Chapter 2.3 “...*the specificities of territories must be placed in the centre of the debate.*” This implies a more strategic programmatic approach at the MS level and a stronger role for LRA, which is foreseen in the current 2014-2020 period. This seems to be a trivial conclusion, but experience in the 2007-2013 period shows that this is not the case; instead an ad-hoc selection and implementation of “projects” deriving from national sectoral strategies at the regional level is the norm<sup>142</sup>. In the course of preparation for the 2014-2020 period a lot of effort has been given to strategic programming and the approved OPs formally do that. Experience has showed however that the delivery system (e.g. in social and health infrastructures funds management lie at the regional level, however implementation is controlled centrally) can severely distort such efforts in the pursuit of efficiency and absorption. Also the intervention logic adopted by the programmes, especially the chain between funds-output-(generic) result indicator is a sign of weak LRA involvement.

For that reason a paradigm shift from conditional programming towards a “final determination” (i.e. focusing on the objective rather than the implementation means) approach is needed. Current CP has “good intentions in that aspect but ends to be ambivalent, e.g. putting emphasis on programming but also pre-defining “major projects”, as a guarantee for absorption. Managing Authorities in the member states usually attain an administrative position and understandably prefer the “conditional programming” modus operandi even if they pay lip service to “objective driven” OPs.

The experience made in the current programming period with the Ex-Ante Conditionalities (e.g. on regional/decentralised strategies related to Conditionality 1.1 on Innovation, 6.2 on Waste Management or 9.1 on Poverty) could be a model to follow.

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<sup>142</sup> Compare the findings of the study currently under finalisation “Work package 10 - Urban development and Social infrastructure” in the course of DG REGIO ex-post evaluations.



### **3.7.2 Ensuring effective and efficient use of resources**

Although the need for a functioning basic infrastructure is undeniable, LRA and MS will have to reconsider the urge to comply with an “industry standard” and focus on satisfying needs rather than demand. In the case of “hard infrastructure” e.g. water treatment this is already challenging (while regulatory frameworks still favour demand-oriented designs) but the biggest challenge lies in the design and operation of labour market, social policies and education. Here the role of the volunteer sector is expected to gain in importance. The challenge for the LRA is refocusing from “delivery” to “effect”. This will lead to greater effectiveness and efficiency but will also pose our implementation, monitoring and reporting system before great challenges. Possible actions in this direction are the definition of delivery “units” and the identification of their costs components (the ISO 9001 or EMAS logic could be patterns to follow). Such an approach is also necessary for successful PPPs. Hence such an introduction could increase the discretionary space of an LRA dramatically. A second step is the stronger and “compulsory” involvement and participation of citizens and users. In most MS “participation” is usually understood as mono-directional information with some alibi options for commenting. This needs to move towards “co-decision making”.

Especially in the area of financial control and audit the re-orientation towards needs and effects could meet resistance, especially since the regulation bodies and the standards are focusing on preparing the infrastructure to be delivered according to the Terms of Reference; path dependencies, high cost for maintenance and expansion (e.g. in urban transport) or isolated local solutions in areas such as RDTI infrastructures are not yet considered.

For that reason Cost Benefit Analysis and Life Cycle Assessment Methodologies need to be used more widely and not only for big projects (where political vested interest can bias the result). Standardisation of models for smaller projects and weaker LRAs are existing in some MS and should become more widespread. However the value of such tools lies in the collection of “big data” to extract lessons and inform decisions. In the case of auditors these models must be used as justification of ex-ante decisions and not for ex-post verifications.

### **3.7.3 Public-private partnerships and the mobilisation of private funds and investments**

Immediately related to the above is the need to deliver in an environment of qualitative governance able to define policy in an area based approach, in an integrative manner and to measure results. However the real test of the

governance performance would be in the ability to attract private funds and in the design and launch of successful PPPs. PPPs are useful when their achieving one or more of the following aims: (1) risk sharing, (2) acquirement of know-how, (3) time gains, (4) room for financial manoeuvre in the short term and (5) exploitation of positive opportunity costs. Such an effort demands from an LRA to “revolutionise” its entire modus operandi by being forced to (i) define strategic and operational objectives, (ii) quantify effects, (iii) calculate units of reference, (iv) define levels of desired quality of services going beyond infrastructure construction and (v) impose a system of monitoring and feedback.

### **3.7.4 Governance and territorial dimension**

Regarding governance and territorial dimension, future CP can an enormous strain on the MS delivery mechanisms, in order to be able to cope. These must have:

- A high governance quality at the LRA level, going beyond the level of decentralised units of the central state. This would be easier to accomplish in urban rather than rural areas; for that reason governance quality must also emphasize on the ability to operate in functional rather than only formal regions.
- An ability to formulate a based approach<sup>143</sup> and integrate it among the principles of CP (i.e. multiannual, participatory, at the correct level and subject to evaluation and feedback to the policy makers). This would require also a rethinking of MLG in terms of effectiveness but also in terms of citizens’ understanding (which think in geographies and spatial relations instead of TOs and OPs) and finally acceptance. Also genuine area-based approaches must allow for some deviation from CP imperatives, e.g. in South-Eastern Europe basic infrastructure might be more highly praised than innovation support; failure to understand this discredits CP as a whole.
- An ability to measure effects and identify linkages to policy and budget. This also included the ability to “measure” non-quantifiable effects, e.g. in terms of territorial capital. In the latter case not the absolute value but the relative change are of importance.

These three elements correspond to the many replies of the stakeholders and the participants in the survey and in the interviews. The respondents tend to appreciate the efforts made to improve governance and reduce administrative

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<sup>143</sup> Harfst, J, 2012, A Practitioners Guide to Area Based Development Programming, UNDP Regional Bureau for Europe and CIS.

burden, but they generally complain about the remoteness of EU policy. In the words of one respondent:

*“It is a matter of growing concern that EU funding could be detaching and isolating itself from funding policy of MS and regions, if complexity is no longer in any reasonable proportion to the value added by the planning process. The learning effect secured in recent decades then threatens to vanish away, to be replaced by an overgeneralised scepticism towards strategic and results-oriented methods of funding policy. The result would be that EU support would no longer be perceived as a success factor, not even in the eyes of the citizens, but rather as just another example of the alleged remoteness of the EU from those same citizens. This must be avoided in the interests of all concerned.”<sup>144</sup>*

According to most respondents, the governance mechanism must be improved in the future to ensure CP is implemented in a more effective manner. This will require investment in the capacity for strategic planning, which should be based not only by precisely defined objectives and accompanied by explicit indicators and targets, to be clear and detailed actions to achieve them, because these are the main - but not the only - factors that lead to good levels of expenditure, also in terms of effectiveness.

A stronger focus of the whole EU budget on results and performance - accompanied by simplification and removing procedures, which have little value added in terms of policy results, will help developing and implementing integrated projects involving actors at different levels of the government. Moreover, the existing instruments should complement each other and work in integrated way.

The adequate level of administrative or in general institutional capacity will be even more crucial when implementing the integrated projects with clear results, at all levels of policy-making and across sectors.

In particular, simplifications are considered necessary with regards any procedures, especially for final beneficiaries (for example in some MS SMEs are reluctant to apply for ESIF support, if they have alternatives, due to the high complexity and the long time needed to come to a decision) and a better integration among available instruments of ESIF. Simplification is also needed for projects with public procurement which now cannot benefit from simplified costs with more streamlined audit (similar to procedures in the EU level instruments).

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<sup>144</sup> Survey: Michael Heinke, State Chancellery of Saxony-Anhalt, Germany.

According to one respondent, the administrative requirements enacted for the implementation of the ESIF fail to take account of the objective of the reduction of the administrative burden including for the administration itself. These have reached the limits of any reasonable load. One focus of any reform proposal must therefore be the reduction of administrative burden, including not only the design of the general requirements of structural policy but also the process towards the implementation and execution of the individual programmes and projects: *“The cumbersome negotiation process between the Commission, the MS and the regions should be organised much less bureaucratically and much more transparently.”*<sup>145</sup>

While a place-based approach and locally-focused policies are supported by the respondents, the involvement of too many actors and hence too many administrative steps hinders the efficiency, looking at survey results (see chapter on MLG).

The participants of the online survey see the delivery of CP as being further complicated with different layers of governance that often “distort the original purpose of the policy and are more geared to ensure buy in of the national and intermediate bodies than to ensure efficiency.” The same respondent suggests having a consolidated EU Territorial Development fund (ETDF) that is multi-purpose, multi-actor (i.e. national, regional and local authorities being potentially eligible) to simplify the existing delivery of EU funds. In his opinion, the partnership principle is an “ex post tool to optimise an uneasy relationship”. An Integrated Territorial Development fund should be developed. It should be “multi-purpose, and entirely geared to deliver Europe 2020 priorities. The ITDF (a single fund but that can be managed by separate DGs if that when necessary) would not be pre-allocated from the outset (as the rest of CP would still do). It rather it would be open for application by Local Authorities, provincial, regional or national authorities or a combination of them as they see fit. So rather than preordained geographies the partnerships would be demand led”.

This point is shared by other participants in the survey who think that MLG has been introduced in an unnatural forced manner which often does not coincide with the MS’ set-ups or ways. Many still perceive the involvement of local actors to be lacking while it is key to effective policy delivery.

### **3.7.5 Approaches to capacity building for improved governance at LRA-level**

Capacities of LRAs in terms of staffing and budgets differ strongly across Europe. The general points are:

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<sup>145</sup> Survey: Michael Heinke, State Chancellery of Saxony-Anhalt, Germany.

### Technical capacities

- Capacity-building with a view to inherent risks regarding moral hazard.
- Dedicated training along the shortages reflected in audit and control findings – prime example is procurement

### Governance capacities

- Capacities for increasingly participatory approaches.
- Place-based approach – capacities at LRA level as pre-condition.

A major point with obvious implications for the actual outcome of CP – see the limited capacities for project generation of LRAs in least favoured areas in EU-12.

Flo Clucas, counsellor of Shelton an interviewee for this study, sees in EU CP on the one hand “*one of the best policy instruments of Europe because it brings people to exchange*” and on the other hand a need to “*really re-think the policy*”. Especially in terms of capacity building she sees room for improvement:

- using Cohesion funding by any particular project/programme the advice needs to be consistent. “*Yes, you can use the funding*” in the beginning, not in two years. The EC should approach the recipients earlier, not later.
- those regions which are in receive of cohesion funding need to have people trained. The civil servants have to be trained together “*so that we all know and understand what we are talking about. This needs to be done by the EC. At the moment there is not much clarity about what can and can't be done. There is a lack of proper advice, we would need to receive clear advice and the MS also have a responsibility to make sure that local regions are able to do the job.*”

So far there are limited levers of the EU to interfere – IP 11 and ex-ante conditionalities; n+3 as the ultimate enforcement lever does not cover this aspect but rather works towards mature projects and ‘safe’ beneficiaries.

As a conclusion capacity building at the LRA level must focus on:

1. The development of skills related to "escaping" the constraints of public financing and "n+3": While these constraints are well meant they usually introduce their own logic. Topics could be multiannual planning, Public Private Partnerships, financing instruments, revolving funds and risk management.

2. The development of skills for strategic planning and feedback loops: Here possible topics could be programmatic planning, decision support systems, area based development approaches, participation, stakeholder involvement and transparent documentation.
3. The development of skills for evaluation and interventions in the policy cycle: In this section evaluation techniques, monitoring, introduction of TQA and ISO9001 principles, controlling, standards definitions, “result oriented” audits and reporting have to be mentioned.

### 3.7.6 The cost of non-cohesion

Last but not least in this chapter the cost of non-cohesion is discussed. In the course of the definition of the two scenarios to be analysed it was stated that:

- In the case of “Instability but resource abundance” “Cohesion” would still be relevant as a policy pursuit, but it would be largely used as a disguise for ad-hoc alliances and short-term objectives. Its funds could be directed towards exploitation of resources, increasing return of investment rates and eventually leading to grower disparities thus undermining its own strategic orientation.
- In the case of the “Instability and resource scarcity” scenario it was stated that “cohesion” could gain significance as a policy tool, inasmuch as it could offer groups of MS / regions (such as the EU) tangible objectives towards better coordination, and ultimately towards a preservation of the quality of life their societies consider as a minimum. In contrast with today's CP, the *raison-d-etre* of “cohesion” would be less on “integration through one-dimensional economic development” and more on “optimisation of scarce resources through sense of common purpose. The focus within the group of Member States / regions would, correspondingly, shift from trying to emulate the economic orthodoxy of disputed benchmarks of the leader(s), to attaining a sustainable synergistic state of risk mitigation.”

The cost of the lack of a CP would be thus very different in the two scenarios. In the “instability but resource abundance” it would be a co-efficient, meaning that CP absence will accelerate some trends but will not systemically change the modus operandi of the MS. It has been already stated that Cohesion Policy could be used to covertly achieve other aims assuming that CP would favour ad-hoc alliances and short-term objectives. The lack thereof will lead to slower achievement of these objectives, in the sense that a co-financing source will be absent. This will not change however the fundamental operational model.

In the “instability and resource scarcity” lack of CP would be a decisive factor; without it MS would not be able to cope with instability AND scarcity at the same time, since the “retreat” to the National State would not bring (short term) relief. Hence CP would be expected to play a role which is closer to the original conception; this role will be accentuated by the pressure of the scenario’s uncertainties. Lack of CP would thus affect fundamentally the modus operandi in the sense that scarce resources and funds will be channelled towards satisfaction of immediate demand and short term relief in a motley approach; the case of policy delivery endemic in weaker areas. Hence the cost is expected to be considerable.

### **3.7.7 Communication of Cohesion policy**

As in every other policy field, communication is of strategic importance also in the field of CP. DG Regio therefore presents on a website the various channels where CP is communicated and where there is communication about CP. Examples of communication activities from a wide range of EU countries are:

- [RegioNetwork](#) (any new communication examples shall be uploaded in the good practice section/communication).
- [Presentations made at INFORM network conferences](#).
- [RegioStars awards](#) section, communication category.
- The issue of [storytelling](#) is a powerful tool to communicate in a more persuasive and accessible way about the results of cohesion funding and the real benefits of the policy for people (see also Open days communication example below).
- There are presentations with good practice examples and the CP communication rules – “Questions and answers” available on the DG Regio communication website (see link in the footnote).

Furthermore the EC conducts periodic surveys on the perception of CP:

- [Citizens’ awareness and perceptions of EU Regional Policy](#).
- [Cross-border Cooperation in the EU](#)<sup>146</sup>.

Looking at the various options how to communicate, we decided to highlight one aspect which is of course mono-directional. If one wants to think about bi-

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<sup>146</sup> [http://ec.europa.eu/regional\\_policy/en/policy/communication/how-to/](http://ec.europa.eu/regional_policy/en/policy/communication/how-to/).

directional ways to communicate there have to be introduced certain elements of public participation, formally structured comment templates (also for establishing histories) and also citizens boards due to the complexity of the material (one needs long-term engagement to understand and communicate).

*Practice example: Open Days 2015 – Open Data Platform*

The Open Days in Brussels 2015 presented an interesting discussion about a CP open data platform<sup>147</sup>. The aim of the meeting was to present the open data platform approach to experts and discuss on the different groups to be served and on simple and creative ways to improve the visualisation of programme geographies. The main narratives were:

- The often detected mismatch of programme areas, statistic areas and also of the topology of projects and effects. Normal citizens do not search for projects by operational programmes, they are looking for every-day landmarks in their neighbourhood.
- Looking at the 2014-2020 Operational Programmes and its “inputs-outputs-results”-logic, the focus is on the difference between socio economic data (e.g. Eurostat) and data on programme activities. The question is if the common platform can lessen the gap. Obviously the geographical location of a project is a parameter but also some information about it (budget and action). For “action” the most standardised form is the “intervention category” code, this could be invaluable. But the problem remains, what will a citizen understand of the Programme data to be included in the common platform (outputs, results, financial data) and structured along e.g. TOs.
- When thinking about data on beneficiaries of cohesion policy funding the discussion was on the obligation to publish beneficiaries’ data, the need for transparency but also on the different approaches taken by the MS. The CPR requires in Annex XII a set of fields to be delivered. These data fields are very useful and allow a “story to be told”.

The discussion in the following had to answer these questions:

- Which data would you prioritise in order to track the impact of CP funding?
- How would you present this data in an accessible, interactive and engaging way?

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<sup>147</sup> Contributions in this example coming from Hugo Poelman (Economic Analysis Unit, DG Regio), John Walsh (Evaluation Unit, DG Regio) and Tony Lockett (Communication Unit, DG Regio).



- How can we show the geography of the different programmes and indicators in a simple and attractive manner?

The results presented different approaches on approaching the data based on the questions:

- Who will use the data, paying attention for providing meaningful information to different users;
- How they are going to be accessed (e.g. data warehouse, graphs, smart phone app?) and
- What are they going to be used for? (Research, inquiry, policy?).

For instance, to a citizen it is much more interesting to see location, action, a picture, a budget or a story that he or she can relate to. Following these examples for future communication in CP first of all target groups have to be defined. These are:

1. citizen,
2. policy maker,
3. administrator,
4. researcher.

Furthermore communication needs and relevant media channels have to be identified.

As a third step a definition of access and actualisation rate has to be highlighted.

And as a fourth step the “three messages” for the target groups “citizens” have to be pointed out:

4. Where in my neighbourhood is CP visible?
5. How much money was invested in the project?
6. How is the measure of CP of use for me?



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