



European Committee
of the Regions

Commission for
Economic Policy

ECON

Active subsidiarity and the European Semester: the involvement of cities and regions in policy-making for investment and structural reform



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Acronyms

AGS: Annual Growth Survey

ASGS: Annual Sustainable Growth Strategy

BICC: The Budgetary Instrument for Convergence and Competitiveness

BMWi: German Federal Ministry of Economic Affairs and Energy

CoR: European Committee of the Regions

CSR: Country Specific Recommendation

EC: European Commission

EP: European Parliament

EPRS: European Parliamentary Research Service

ES: European Semester

ESO: European Semester Officer

EU: European Union

LRAs: Local and Regional Authorities

LRAA: Local and Regional Authority Association (representing LRAs within a Member State)

MLG: Multilevel Governance

MPK: German Ministerial Conference of the Federal States

MS: Member State

NRP: National Reform Programme

RSP: Reform Support Programme

SDG: Sustainable Development Goal

SGP: Stability and Growth Pact

SRSP: Structural Reform Support Programme

SRSS: Structural Reform Support Service

Executive summary

The aim of this study is to provide insights for a more permanent and structured involvement of Local and Regional Authorities (LRAs) in the European Semester (ES) by fostering 'active subsidiarity'.

Active subsidiarity is intended as a Multi-Level Governance (MLG) dynamic cooperation principle more than as a legal demarcation of competencies. Fully embedding active subsidiarity in the ES would both enable LRAs to play a more active role in shaping EU objectives while also encouraging more effective and efficient ES implementation on the ground.

Challenges and opportunities for involving LRAs in ES

The study first provides an overview of challenges and opportunities for involving LRAs in the ES. There is shared criticism on the effectiveness of ES in fostering reforms, with ownership recognised as one of the most important factors. The European Committee of the Regions (CoR), the European Parliament (EP), and the European Commission (EC) perceive that the lack of ownership mostly concerns LRAs. Paradoxically, LRAs should be the main actors implementing the Country Specific Recommendations (CSRs) that result from the ES process.

In theory, during the ES cycle there are several windows of opportunity to involve LRAs and Local and Regional Authority Associations (LRAAs):

- In the preparatory phase, the Annual Sustainable Growth Strategy (ASGS)¹ could include or be accompanied by a territorial analysis debated with LRAA-CoR involvement. Moreover, for Annex D of Country Reports, national LRAAs should be formally consulted.
- In the first ES phase, which involves preparing National Reform Programmes (NRP), LRAs and LRAAs could be consulted.
- In the second phase, which covers CSRs, the EC can involve LRAs and LRAAs during preparation of the CSRs. The CoR territorial analysis can be the basis for the discussion (COR 2017a).
- In the third phase, implementation of CSRs, LRAs can be fully committed if they have increased ownership

¹ Annual Sustainable Growth Strategy (ASGS) have replaced Annual Growth Surveys (AGS) as of 2019.

Three issues hamper the involvement of LRAs in these phases:

- a) The ES is not sufficiently sensitive to territorial differences in social-economic needs and regional policy performance (CoR 2017a).
- b) Consultation methods are inappropriate to ensuring LRA input at national and EU levels (CoR 2017a).
- c) LRAs are consulted as stakeholders and not as partners in European MLG.

Recently, various proposals from EU institutions include introducing subsidiarity assessment tools, increasing LRA consultation during the policy making process, enhancing the capacity of LRAs and adopting a code of conduct. There is also a need to expand the concept of ‘active subsidiarity’ not only as a power-sharing principle but also to push for more open MLG dialogue and collaboration.

Evidence from the four case studies

The study then highlights common patterns in the four case studies (Croatia, Germany, Italy and Netherlands). LRA involvement in the ES could involve specific interinstitutional arrangements or the usual constitutional path. It can be formal or less formal and involve only the regional level, the municipal level or both. For institutional involvement, the role of LRAAs is pivotal. There is very little time for LRAs to comment on the draft NRP, if they are even considered by the Member State (MS) at all, which stifles in-depth contributions and reflections.

Overall, LRAs are important actors in the ES, but their involvement is currently minimal and mostly confined to one-way information provision and implementing reform measures. At EU level, there is almost no formal process for interacting with LRAs throughout the cycle. Although the EC, through its European Semester Officer (ESO), advocates the active involvement of LRAs and their associations in the ES process and encourages MSs to take steps to this effect. Currently, LRAs do not actively contribute to the preparation of key ES documents, apart from responding to requests from ministries for information and data to support their analyses and policy options.

Cross analysis of the case studies highlights common obstacles:

- Constitutional set up: there is no legal obligation for the central level to include LRAs in the process in any of the case studies.

- Lack of technical capacity and institutional capability of LRAAs: along with low awareness of regional and local policy makers, this diminishes willingness and ability to take part in the process.
- Complex nature and timing of the ES.

The role of LRAs in Country Reports – Annex D and RSP...

The ES interacts with other EU policies. Annex D recommendations have an impact on LRAs as Managing Authorities of Operational Programmes and Rural Development Programmes even without formal consultation. This seems unconnected to the traditional ESIF governance framework and could create an institutional short circuit.

LRA involvement in the Structural Reform Support Programme (SRSP) has been very low even though it aims at facilitating governance and institutional reform also at regional and local level. Therefore, the coming Reform Support Programme (RSP) risks violating the principle of subsidiarity if LRAs are again not significantly involved .

...and the need for an empowered role in response to COVID-19 crisis

While LRAs and national authorities have been on the front line in confronting COVID-19, the EC has put in place several initiatives to face the health emergency and support the economic recovery (i.e. SURE, Corona Virus Initiatives, etc.). The EC also proposed the ambitious €750 billion recovery plan - Next Generation EU. It aims not only to revive economic conditions but also to change the European economic growth paradigm. Its delivery, especially the Recovery and Resilience Facility, should be within the framework of the ES. If the Next Generation EU comes into force, LRAs involvement in the ES will be even more urgent to ensure recovery from COVID-19 crisis is territorial balanced and fully embedded in EU MLG.

How to integrate active subsidiarity in the ES

To improve the situation, EU MLG should embrace active subsidiarity in its true and genuine meaning, i.e. as a principle enabling open and constant dialogue between different levels of governance. This can help overcome the obstacles described above, turning hampering factors into enabling factors. This would not only increase the active participation of LRAs but also reinforce the legitimacy and effectiveness of the ES itself. Beyond the active participation of LRAs, active subsidiarity should also see change of attitude in national and EU institutional actors.

Finally, the study suggests 30 actions divided into three scenarios:

- **‘Improved involvement’** to facilitate involvement of LRAs and make LRAAs ‘ES information hubs’, this could be developed within one year. It does not entail any changes in the process or institutional framework. Financial and organisational costs are relatively low.
- **‘Active engagement’** should enhance not only ‘involvement’ but also foster the active role of LRAs especially at national level. It envisages LRAs being more active in exploiting opportunities coming from the ES (e.g. RSP and the Budgetary Instrument for Convergence and Competitiveness - BICC) and in influencing the development of Annex D.
- **‘Full participation’** leads to complete integration of LRAs and European Association of LRAs in the ES enabling them also to shape the policy framework. Naturally, the time horizon is medium-long term, and demands changes in the institutional framework and the way the ES is delivered.

Introduction

The involvement of cities and regions in policy making in the European Union (EU) is extremely important. Not only are LRAs commonly the main outlet for implementing policy at MS subnational levels, they are also best placed to understand the needs of their own constituents in a sophisticated and nuanced manner. In the EU, democracy in the sense of *ruling by the people* directly depends on LRAs and higher level regional representative organisations like LRAAs and CoR involvement in all levels of policymaking. Indeed, this democratic notion is recognised by the EU itself in the principle of ‘active subsidiarity’. This concept was promoted in 2018 by an EC task force (European Commission 2018) and in a more formal setting in Article 5 of the Treaty on European Union which defines the principle of subsidiarity. The aim of this principle is to ensure that decisions are made as near as possible to the citizens they affect and that ongoing examinations are carried out to confirm that EU actions are justified in light of the ability to act at national, regional, or local levels.

Active subsidiarity is the basis of this report which aims to provide the CoR with supportive rationale, examples and suggestions on how to integrate ‘active subsidiarity’ in the ES context. An associated objective of the study is to promote greater involvement of LRAs and their representative organisations in the ES policymaking process. Until now, LRAs have almost always only provided information and been involved in non-binding consultation. The study aims to show how ‘active subsidiarity’, integrating LRAs, LRAAs and the CoR into the ES process could improve ES performance.

It is important to note that, as part of the ES process, EC Country Reports address structural reforms, economic imbalances and progress with CSRs, contain - in their Annex D - a guidance section on Cohesion Policy funding, identifying priority investments under certain objectives. These investment suggestions under Cohesion Policy funding are mainly targeted at regional levels for implementation and therefore directly affect LRA operations. As such, it is crucial to include LRAs in the policymaking process where they are impacted.

To increase active subsidiarity, based on document analysis and purposefully selected case studies, the stated outcomes are to:

- Discover and elucidate in what ways and to what extent local and regional areas with their national level counterparts are engaged in policymaking for ES investments and structural reforms, highlighting difficulties / challenges as well as good / best practices; and

- Propose recommendations to support a greater role for LRAs in the ES, especially regarding NRP design, considering the notion of ‘active subsidiarity’ and the principles of partnership and MLG. The recommendations are to relate to both the EU and country levels. At the EU level, recommendations are to concern strengthening the role of the CoR in the ES, in its capacity as institutional representative of LRAs. Nationally the outcome is to address the involvement of national associations which represent LRAs to their national governments, also in the context of the ES.

The involvement/ participation of LRAs is even more important in the light of the COVID-19 crisis, which is threatening the lives and wealth of millions of European Citizens. LRAs, together with European Institutions and National Authorities are in the front line to provide healthcare, social support and to sustain the economic recovery. Among the EU common response instruments, the proposed recovery plan - Next Generation EU - will be implemented within the ES governance framework. Therefore, embedding active subsidiarity in the ES is also crucial to optimising responses and better liaison within European MLG.

Results of this analysis will support CoR resolutions and other ES related documentation, as well as feed into the implementation of the Bureau decision of 4.12.2018 on ‘Developing ‘Active subsidiarity’ in the political work of the CoR’, particularly in engaging with LRAAs.

The study is divided into the following parts:

- I) An outline of key terms, concepts and rationales in this study, especially:
 - Active subsidiarity, and why it is an issue in the EU context;
 - An overview of ES and its relationship to active subsidiarity;
 - Division of Powers including (De)centralisation and Federal/Unitary aspects;
 - A reflection on the principle of active subsidiarity and its possible development.
- II) Descriptions of the four case studies: Germany, Italy, the Netherlands and Croatia.

III) Analysis of the cases in relation to LRA relevance for ES and the national process as well as connections between ES and other EU policies. A specific section is dedicated to the COVID-19 crisis and the implications of LRA involvement in the ES.

IV) Conclusions and recommendations on the basis of feasibility and suitability.

An overview of the division of power (decentralization and federal/unitary) is provided in Annex I while Annex II describes the methodology used for the case studies.

1 European Semester and ‘active subsidiarity’, review of ES criticalities and involvement of LRAs in the light of active subsidiarity

Section 1.1 explains the ES, followed by 1.2 detailing factors that hinder and facilitate LRA involvement in the ES. Section 1.3 covers the concept of active subsidiarity and suggestions for LRA involvement in the ES.

1.1 Description and Performance of the ES

Prior to the ES, economic policy coordination procedures were conducted independently of one another. However, a stable recovery from the economic crisis, especially in the eurozone, that avoided the potential of a debt and/or currency crisis required a more consolidated approach. As the EU includes highly integrated economies, enhanced policy coordination was needed to prevent disparities and to support balanced growth and stability both at EU and MS level. MSs thus realised the need to synchronise budgetary and economic timetables to streamline the process and to function and grow effectively and harmoniously. As such, and as part of a broader EU reform of economic governance, the European Council decided to establish the ES in 2010. Its legal basis is six legislative acts which reformed the Stability and Growth Pact (SGP). The first ES cycle was in 2011.

Box 1-1: European Semester

The ES is a policy process, part of the EU economic governance framework, and coordinates MS economic and fiscal policies. It runs in a 6-month cycle each year, hence the name ‘semester’. During the ES, MSs align their budgetary and economic policies with objectives and rules agreed at EU level. Policy coordination under the ES includes:

- structural reforms for promoting growth and employment, aligned with the Europe 2020 strategy;
- fiscal policies, for sustainability of public finances aligned with the SGP;
- macroeconomic balancing policies.

The legal foundation for the ES process is six legislative acts (the ‘six-pack’) which reformed the SGP. The first ES cycle was in 2011.

Source: European Council (2020).

The ES has evolved over time: from a mechanism focusing solely on annual economic and fiscal policy, it became a wider policy coordination tool also covering social and environmental aspects. In addition, the EC set up instruments to actively support the reforms empowering MSs to implement administrative fiscal changes and large investments. The box below describes the changes and instruments associated with the ES.

Table 1-1 Changes and instruments associated with the ES

Area of Change or Proposed Change	Synopsis
SRSP / Technical Support Instrument	This can be closely linked to the ES and especially to CSR implementation. Providing LRAs / LRAAs with an avenue to directly submit requests for support to the EC in response to CSRs would significantly improve active subsidiarity, building on preliminary steps under the SRSP.
Annex D	As the EC pays more attention to identifying investment needs and difficulties connected to regional and territorial disparities, it looks to give a larger territorial dimension to the ES. Corresponding investment guidance on Cohesion Policy funding for 2021-2027 is in Annex D of each MS Country Report. This guidance directly addresses LRAs responsible for implementing investments, which requires involvement of those LRAs.
Integration of the Sustainable Development Goals (SDGs) in the ES	The EC has decided to integrate the United Nations SDGs into the ES (von der Leyen, 2019). It notes that the ES has established itself as the integral tool for economic policy. It can help drive policies towards SDGs by monitoring progress and ensuring tighter coordination of national economic and employment policy initiatives. Future Country reports will feature SDG analysis and monitoring, including macroeconomic policies supporting SDG realisation and an annex highlighting individual MS SDG performance. The EC invited MSs to evaluate progress on SDGs in their NRPs. EC proposals for CSRs will indicate the contribution of national reforms to delivering specific SDGs in line with the ES legal basis.
MSs under the European Pillar of Social Rights	The EC is committed to strengthening the social dimension of activities it undertakes. The European Pillar of Social Rights is supported by a ‘Social Scoreboard’ which monitors trends and performance in EU countries for social activities (education, employment, income inequality, etc.). The Scoreboard is to feed into the ES.

Area of Change or Proposed Change	Synopsis
InvestEU	The InvestEU Programme builds on the Juncker Plan and consolidates the European Fund for Strategic Investments and 13 EU financial instruments under one roof. The Programme intends to boost investment, innovation and job creation in the EU. The EC noted in a 2019 press release (European Commission 2019 <i>i</i>), that it is making strong endeavours to better align EU funds with ES recommendations to increase the added value of EU funds like InvestEU (as well as Connecting Europe Facility, Horizon Europe and Cohesion Policy Funds).
European Green Deal	The Green Deal involves both EU and national budgets and several funding instruments. The ES can be a coordination mechanism, with a big role for LRAs. Integrating the Green Deal into the ES also makes sense given that SDGs, especially environmental ones, will already be coordinated through the ES.
The Budgetary Instrument for Convergence and Competitiveness (BICC)	BICC is an EU budgetary tool which will finance structural reform and public investment packages to strengthen growth and resilience in the euro area. Presently, fiscal policy is not a shared endeavour between MSs, but is a national authority decision, though it must respect commonly agreed fiscal rules. In promoting convergence and competitiveness, this tool will help to align euro area economies more closely, promoting monetary policy efficiency and easing concerns about the need for permanent fiscal transfers. Selection of reforms and investments supported by the BICC will build on the ES timeline. Euro area MSs will agree reform and investment priorities as a first step. This will be followed by strengthened euro area CSRs, a crucial aspect of the ES. MSs will then submit proposed packages of reforms and investments linked to the NRPs. In its project assessment, the EC will consider existing CSRs.

Despite this evolution, the ES is not yet seen as fully satisfactory. CSRs are recommendations drafted by the EC as part of the ES. These call for structural reforms, but since the success of the initial recovery their implementation has slowed and remains unsatisfactory today. In addition to the legitimacy issues (Coman 2017), overall efficiency and effectiveness of the ES is also a concern.

While there is inherent complexity and associated difficulties in undertaking structural reforms, there is nonetheless widespread agreement (see CoR 2018b, pp.23-26; EC 2019a; EC 2019b) that the key reasons for slow CSR implementation are a lack of ownership (Munta 2020), as well as a lack of administrative and institutional capacity at country level. This implementation issue has been a concern since at least 16 June 2016 when the Employment, Social Policy, Health and Consumer Affairs Council convened to discuss, *inter alia*, the ES. Several ministers indicated the importance of involving more actors in the cycle to improve ownership (Eurodiaconia 2016, p.11). The EC is trying to address some of the issues, noting (EC 2019a) that investment is sometimes needed to facilitate CSR implementation and mentions an intention to identify public and private investment priorities to further facilitate implementation of CSR growth-enhancing reforms. However, the issue of greater involvement of LRAs is still outstanding.

1.2 Issues with, and opportunities for, LRA involvement in the ES

The ES includes various steps that could benefit from LRA involvement. Issues for LRA involvement are based on previous findings from opinions and studies scrutinising the ES. Opportunities for LRA involvement will be highlighted by differentiating access points during the policy process.

1.2.1 Issues

The ES faces several challenges including building strong connections with Europe 2020, limited implementation of CSRs and weak LRA (and general) sub-national level engagement. The CoR notes the following LRA concerns (CoR 2017b):

- **Territorial differences overlooked.** The ES process leaves major territorial differences/disparities outstanding in relation to needs and policy performance despite significant easily available and usable EU analyses. NRPs and CSRs often do not recognise that many policy notions relate to territorial issues and very much depend on active LRA involvement.
- **Inappropriate Consultation.** Consultation methods are vague and weak in ensuring that LRA input is integrated into NRPs and the overall ES process. The methods compare unfavourably with other policy areas (e.g. EU Cohesion policy which has formal regulatory support and clearly defines LRAs as partners).

The CoR notes that LRAs are crucial in the policymaking process given the division of powers and competencies in MSs (CoR 2017*b*). A substantial proportion of CSRs cannot be fully implemented without active LRA involvement. The CoR also stresses that LRAs are the governance level nearest to citizens. They better understand territorial opportunities and threats and can interact closely with citizens, businesses, social partners, and civil society on a territorial basis. As such LRAs are crucial interlocutors for central government not solely on the basis of governance functionality and effectiveness, but also on the basis of true democracy and fulfilling the will of those with unique territorial needs.

In the same report the CoR notes that LRAs are not only a common stakeholder in the ES but rather a vital component in policymaking given the division of powers and competencies in each MS (see detail in the case study section). It also highlighted that, in recent years, around three-quarters of CSRs have been territory-related with regionally differentiated issues and implementation that depends on LRA involvement. This indicates that a sizable proportion of CSRs cannot be implemented without active LRA engagement.

A recent CoR survey on the involvement of EU LRAs in the 2019 ES confirms their limited involvement (see main findings in the box below).

Box 1-2 Main findings of the CoR survey on the involvement of EU LRAs in the 2019 ES

- Along the 2019 European Semester process, EU cities and regions had either no role at all (58% of replies) or a consultative (non - binding) role (31%) in the preparation and follow up of the Country Reports, National Reform Programmes and Country - specific Recommendations. It is only in federal Member States (11% of replies) that they could somewhat negotiate the content of these documents.
- In particular, when it came to discussing with political counterparts (ministers, top EC officials) on the Investment Guidance on Cohesion Policy Funding 2021 - 2027 (Annex D of the Country Reports), 77% of LRA associations and regions reported having had no involvement whatsoever.
- Slightly improved opportunities for cities and regions to be heard came only between the publication of the Country Reports and that of the National Reform Programmes, when 50% of respondents were consulted and
- another 14% (belonging to federal Member States) were able to negotiate with their national governments.
- Annex D provided a (fairly or fully) accurate assessment of regional investment needs for two thirds of respondents, while for one third of them it was not accurate enough.
- Overall, two thirds of respondents felt they did not contribute to shaping the Country Reports, while the remaining third had a more positive view.

- 72% of the reported barriers preventing regions, cities and their associations to successfully engage in the European Semester stemmed from the way in which the process was led by the national governments (scant requests of involvement, limited top - down flow of information, scant time allowed to give comments).
- However, problems of limited capacity of regions and cities, and their organizations, were also mentioned, as well as limited use of the resource represented by the European Commission's presence in the capitals.

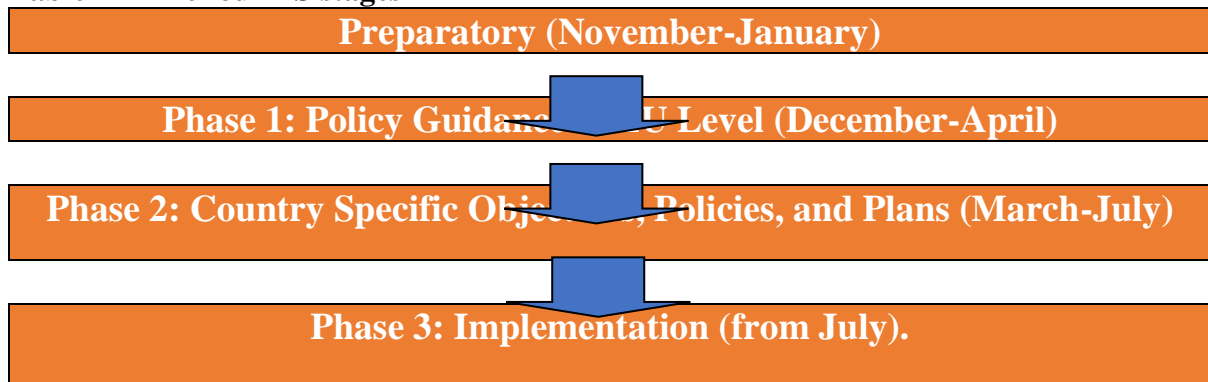
Source: CoR (2020).

1.2.2 Opportunities

Since the ES is related to active subsidiarity, it has to be tailored to each MS with their different governance systems. While aspects of LRA involvement in the ES will be the same for all MSs, the arrangements for their involvement need to be determined according to constitutional principles as well as institutional arrangements and traditions in each MS. For example, in all MSs the LRAs should be given the opportunity to review the Country Report and share their conclusions and policy responses or help prepare the NRP. However, there is no unique model of how this is implemented.

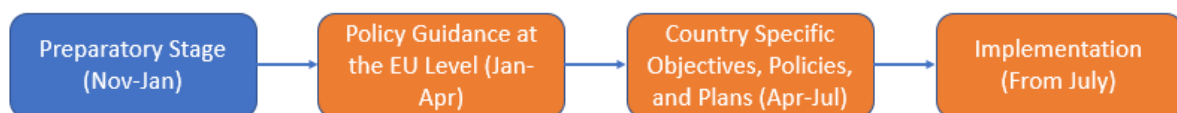
An assessment of the opportunities that could be tailored to each MS is provided below. It offers a visual overview of the ES process focusing on areas for more meaningful input from LRAs/CoR. The ES has four key stages:

Table 1-2 The four ES stages



Each stage is described in detail below along with visual aids and a description of how it may be suitable for greater input.

Preparatory Stage

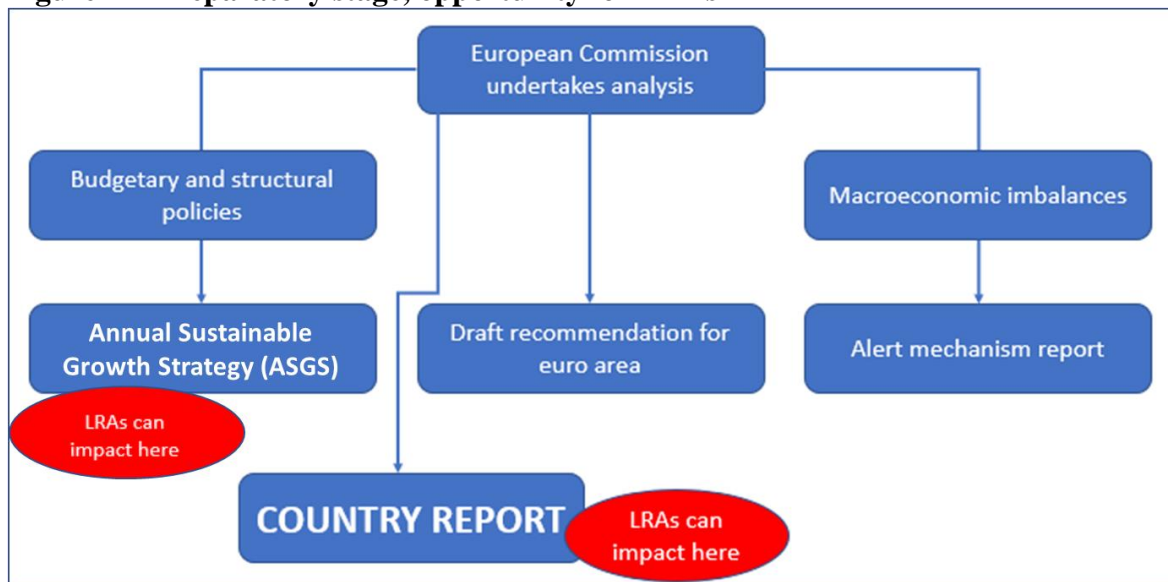


The Preparatory Stage is undertaken by the EC and involves analysis of budgetary and structural policy as well as macroeconomic imbalances and drafting reports on the findings. At this point there is no MS involvement as the EC is working on following up on the previous year’s performance and analysis. There is scope outside of LRA engagement for the Council to look carefully at the territorial dimension in advance of adopting the ASGS.



At this stage, the ASGS could include or be accompanied by a territorial analysis, which could be debated with LRA-CoR involvement. Moreover, and critically, as Country Report Annex Ds provide guidance for Cohesion Policy funding, LRAAs should be consulted. Here also the CoR could provide the facility to conduct territorial analyses for the ASGS and /or Country Reports.

Figure 1-1 Preparatory stage, opportunity for LRAs



Source: own elaboration.

Phase 1: Policy Guidance at the EU Level

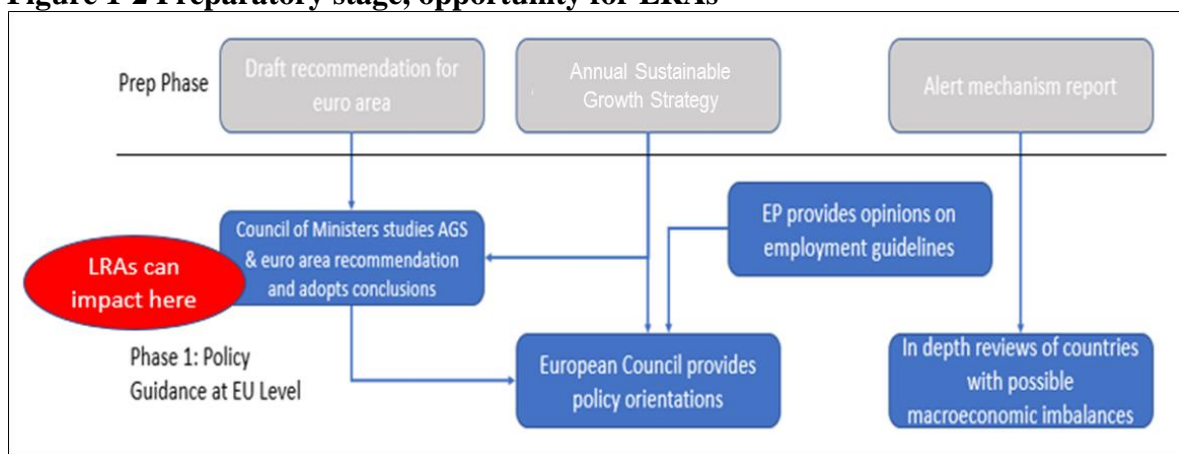


In this stage the Council of Ministers studies the ASGS and euro area recommendations proposed by the EC and adopts conclusions. These are passed to the European Council which in turn provides policy orientations on this basis, and on the opinion of the EP, which also provides an opinion on employment guidelines.

Concurrently, countries collect information from ministries on implemented and future plans to contribute to their NRPs.

At this point there is significant scope for LRA involvement. LRA's could be consulted for their input² in the NRP development process, especially in areas where they will be responsible for implementation or where they have competencies outside the ES process. Above this level the EC could ensure that NRPs account for regional concerns highlighted in Country Reports.

Figure 1-2 Preparatory stage, opportunity for LRAs



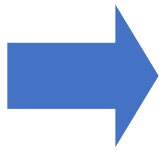
Source: own elaboration.

Phase 2: Country Specific Objectives, Policies, and Plans



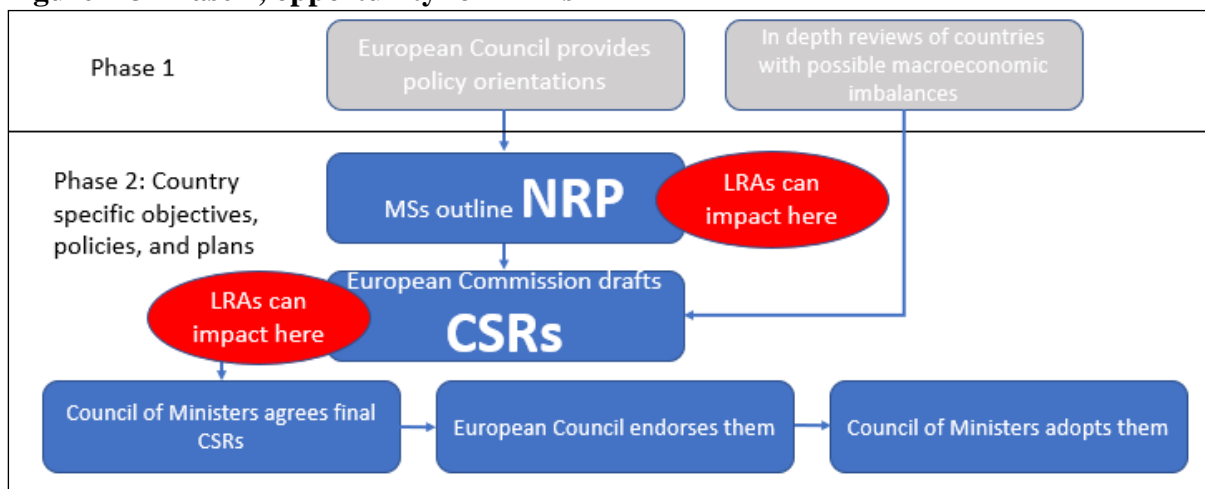
MSs receive the policy orientation of the European Council, based on the EC analyses as well as Council of Ministers and EP input. Once the plans at MS level are outlined, the EC integrates them with information collected in the Preparatory Phase on economic imbalances and Phase 1 and drafts CSRs. The Council of Ministers and European Council agree and endorse the CSRs, which the Council of Ministers then adopts. At this point the NRPs are finalised and sent (April).

² The CoR can base the discussion on the two yearly ES Resolutions.



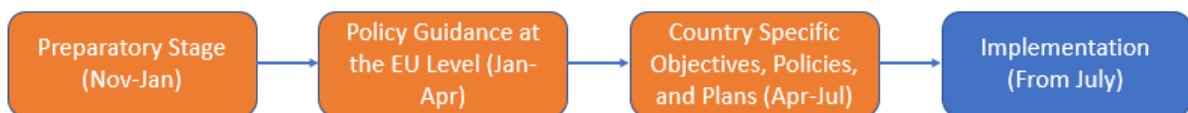
There is also scope for LRAs to be involved in the CSRs outside the NRP process. The EC could combine NRP information with LRAA submissions for the country under review or give the LRAA the ability to view and comment on draft CSRs directly. The CoR could be formally engaged in this stage of the process, providing a territorial analysis for the CSRs which is already performed (COR 2019). The EC could also account for LRA roles in implementing CSRs.

Figure 1-3 Phase 2, opportunity for LRAs

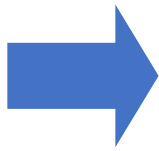


Source: own elaboration.

Phase 3: Implementation

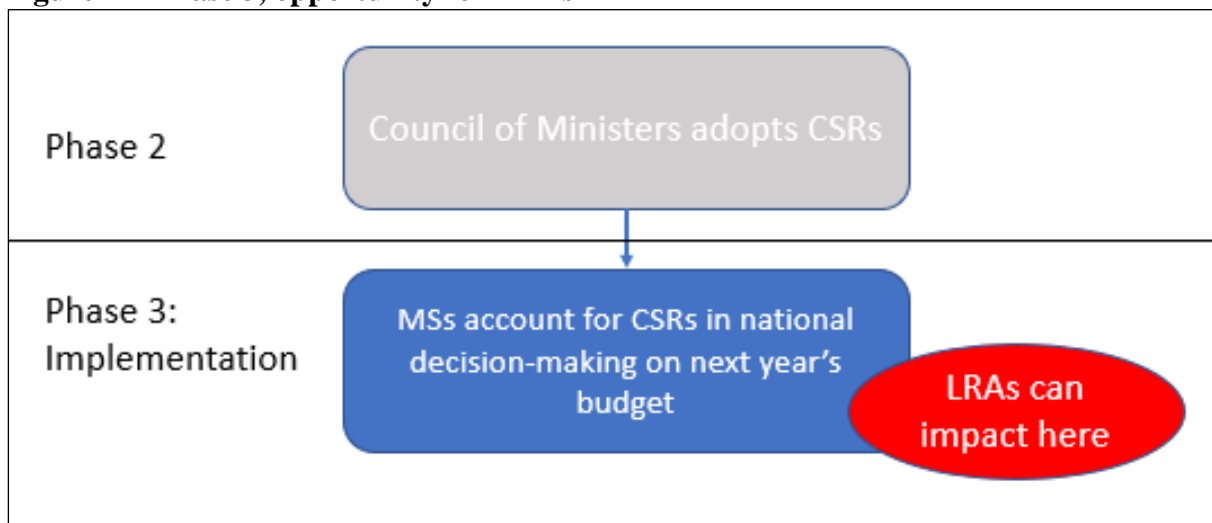


MSs take into account the CSRs during decision making on the next year's national budget. However, this has encountered problems, where implementation of CSRs calling for structural reforms has slowed and remains unsatisfactory (see European Commission 2019a).



Here LRAs can also have an impact, especially as there is broad consensus that this slow-down in implementation is due to a lack of ownership at country level (European Commission 2019b). It is logical that detailed and sophisticated ownership can best take place, provided the resources are available, at the level with the best understanding of the area involved, namely at local or regional level. This should occur in a meaningful and integrated way where LRAs are trusted and promoted to co-design and co-author policy making for their own areas, before delivering these.

Figure 1-4 Phase 3, opportunity for LRAs



Source: own elaboration.

1.3 Concept of ‘Active Subsidiarity’ and proposals for changing

This section discusses the concept of subsidiarity as developed by the EC task force³ and the proposals.

1.3.1 Active Subsidiarity

The concept of active subsidiarity (see box below) as a new way of working was introduced in the Report of the Task Force on Subsidiarity, Proportionality and

³ The President of the EC established the Task Force with the objective of understanding a) how to better apply the principles of subsidiarity and proportionality b) policy areas where, over time, decision making and/or implementation could be re-delegated to MSs c) how to better involve regional and local authorities in the preparation and the follow up of Union policies. The Task Force itself was under the chairmanship of the First Vice-President Frans Timmermans and comprised three members from national parliaments and members from the European Committee of the Regions. The Task Force was asked to present its findings to the President of the European Commission on 15 July 2018.

‘Doing Less More Efficiently’ (EC 2018a). The Task Force noted the need to address important emerging challenges such as security, defence, migration, climate change and innovation. The EU needs to use its limited resources in a prioritised and more efficient way. In doing so it noted that this will allow LRAs and national parliaments to contribute more effectively to policymaking, in designing legislation while considering the principles of subsidiarity and proportionality. The report stated that this new way of operating will entail a shared understanding of subsidiarity and proportionality and the greater participation of all stakeholders, but specifically national authorities and LRAs. The report envisaged that this active subsidiarity should imply more ownership and greater understanding of the EU by those involved.

A role for LRAs in relation to the ES was explicitly and unambiguously requested by the EC (2018a). The Task Force heavily recommends that MSs align with EC guidance on greater participation and ownership of CSRs. Since EU financial programmes increasingly support MS economic reforms with more implications for the country, its regions and its citizens, the Task Force notes that involvement in ES should ‘go beyond the national administrations and include local and regional authorities, social partners and civil society generally (EC 2018a, p.14). The report also notes that MSs should engage meaningfully with LRAs in NRP preparation and in designing and implementing structural reforms as part of ES, to improve ownership and implementation of the reforms.

Box 1-3: Subsidiarity and Active Subsidiarity

Subsidiarity:

- Article 5 of the Treaty on EU defines the principle of subsidiarity. Decisions should be taken as closely as possible to the public and that ongoing checks should verify that EU actions are justified given the possibility to act at national, regional, or local levels:

‘Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the MSs, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level.’

- A 2018 communication from the EC on the principles of subsidiarity and proportionality highlighted the essence of subsidiarity: ‘In practice, subsidiarity is about identifying the best level of governance to make and implement policies. [...] Subsidiarity is often characterised as a choice between EU action or no action at all. This is not correct. Subsidiarity means leaving room for the most appropriate level of governance to assume its responsibility to act.’ (EC 2018b, p.3).

Active Subsidiarity:

While there is no strict definition of active subsidiarity, the Report of the Task Force on Subsidiarity, Proportionality and ‘Doing Less More Efficiently’ (EC 2018) notes that active subsidiarity is one step further than the previous notion of subsidiarity. It is based on actively engaged, improved participation of national parliaments and LRAs in creating and executing policies, aligned with MLG. This more active subsidiarity notion should ensure a broader and more thorough appreciation of the EU with greater ownership of policies at all levels of governance

1.3.2 Proposals to increase active subsidiarity

High-level insight from reports by the EC Task Force, the European Parliamentary Research Services (EPRS), and the CoR give various recommendations on how to improve LRA involvement in the ES in the light of active subsidiarity. The section reviews these recommendations per institution.

a) Recommendations from the EC Task Force Report on Subsidiarity, Proportionality and ‘Doing Less More Efficiently’

Recommendations in this report stem primarily from the EC Task Force Report on Subsidiarity, Proportionality and ‘Doing Less More Efficiently’ (EC 2018a). Based on several meetings, a public hearing and the input of various stakeholders, the Task Force reached nine recommendations for best practices. These address national parliaments, national, regional and local authorities, the EP, the Council, the CoR and the EC.

The following table provides the recommendations directly relevant for LRAs and subsidiarity. Overall, the main message is that institutional infrastructure and culture is needed to promote LRA / general subsidiarity, which runs through and between supranational, national and subnational bodies. Also, consultation with regional and local agencies needs to be enshrined in MS governance processes. In addition, legislative processes and implementation need to account for LRA and subnational needs by design.

Table 1-3 Recommendations – EC Task Force

No.	Recommendation
1	EU, national and regional institutions and bodies should use a common method or assessment grid to assess subsidiarity, proportionality and the legal grounds for new and existing legislation.
4	Alongside national parliaments and the CoR, the EC should raise awareness of opportunities for national governments and LRAs to contribute to policymaking at an

No.	Recommendation
	<p>early stage. The EC should fully involve LRAs in its consultation processes, accounting for their unique role in implementing EU legislation.</p> <p>MSs should follow the EC's lead and engage purposefully with LRAs in preparing their NRPs and in designing and implementing structural reforms in the ES to drive ownership and implementation of the reforms.</p>
5	<p>The EC should make sure that its own impact assessments and evaluations consider territorial aspects and assess where these are significant for LRAs. LRAs should help identify possible impacts through consultation and feedback.</p> <p>The EC should review its Better Regulation Guidelines and Toolbox and confront issues on the implementation and EU added value of legislation. It should also ensure better visibility of its assessments on subsidiarity, proportionality, and important territorial impacts in its proposals and memoranda.</p>
6	<p>The EP and the Council should use the subsidiarity grid on an ongoing basis during their discussions to promote greater awareness of issues relevant to LRAs.</p> <p>The EC should indicate to co-legislators any review it obtains from LRAs in the time for scrutiny after adoption of its proposals.</p> <p>MS governments and parliaments should request LRA expertise at the beginning of their legislative procedures. EU co-legislators are invited by the Task Force to bring LRA representatives to their discussions, hearings and events.</p>
7	<p>Regional and national parliaments must investigate ways to better link their information sharing platforms (REGPEX and IPEX26) to ensure that legislative procedures and subsidiarity control mechanisms better mirror their concerns.</p>
8	<p>The EC should be able to identify and examine legislation from the viewpoint of subsidiarity, proportionality, simplification, legislative density and the role of LRAs. This may elaborate on the REFIT Programme and Platform. Experiences of LRAs and their networks should be wholly accounted for when EU legislation is monitored and evaluated.</p>

The EC task force developed an assessment grid specifically designed to assess subsidiarity as an operational follow up of proposals 1 and 6. The box below details the sections specifically devoted to assessing the subsidiarity principle. The grid has been officially adopted by the Commission and embedded in the impact assessment process⁴.

⁴ See Annexes to EC (2018*b*).

Box 1-4 Assessment subsidiarity grid

2.3. Based on the answers to the questions below, can the objectives of the proposed action be achieved sufficiently by the Member States acting alone (necessity for EU action)?	
(a)	Are there significant/appreciable transnational/cross-border aspects to the problems being tackled? Have these been quantified?
(b)	Would national action or the absence of EU level action conflict with core objectives of the Treaty or significantly damage the interests of other Member States?
(c)	To what extent do Member States have the ability or possibility to enact appropriate measures?
(d)	How does the problem and its causes (e.g. negative externalities, spill over effects) vary across the national, regional and local levels of the EU?
(e)	Is the problem widespread across the EU or limited to a few Member States?
(f)	Are Member States overstretched in achieving the objectives of the planned measure?
(g)	How do the views/preferred courses of action of national, regional and local authorities differ across the EU?
2.4 Based on the answers to the questions below, can the objectives of the proposed action be better achieved at Union level by reason of the scale or effects of that action (EU added value)?	
(a)	Are there clear benefits from EU level action?
(b)	Are there economies of scale? Can the objectives be met more efficiently at EU level (larger benefits per unit cost)? Will the functioning of the internal market be improved?
(c)	What are the benefits in replacing different national policies and rules with a more homogenous policy approach?
(d)	Do the benefits of EU-level action outweigh the loss of competence of the Member States and the local and regional authorities (beyond the costs and benefits of acting at national, local and regional levels)?
(e)	Will there be improved legal clarity for those having to implement the legislation?

Source: European Commission 2018a.

B) Recommendations from EPRS documentation

The following information is based on ‘Linking cohesion policy and the European Semester’ (EPRS 2019b). The EPRS notes that for LRAs, rather than being involved in all ES stages, many of which do not align well with territorial aspects, focusing on stages they could more appropriately influence could be considered.

The EPRS notes two major problems: the unequal treatment of LRAs by MSs in the ES and their consideration as stakeholders rather than the substantial part of

general government which they are. According to EPRS the latter infringes on the principles of MLG and, likely, subsidiarity.

The EPRS believes in greater LRA participation in the ES process, and that participation in the development of NRPs and stability and convergence programmes is the best way to influence the ES and increase ownership. National governments have the biggest voice and the ability to manoeuvre in these elements of the ES. The EPRS claims that being very involved would facilitate LRAs in covering deep and broad territorial aspects. The EPRS notes that LRAs may benefit from concentrating on Country Reports and CSRs.

The EPRS concludes that greater ownership at LRA levels will have positive effects on EU policies, especially on CSR implementation, noting that an effective Code of Conduct-inspired MLG would assist in many ways. The key issue is to acknowledge the place of LRAs in general government and grant them appropriate rights and capacities to shape policy from an early stage, especially within the ES framework.

The EPRS evidence aligns with the CoR Code of Conduct which the EPRS notes could assist in creating an environment favourable to LRA and CoR involvement in the ES. To elevate the role of LRAs and CoR at European level, EPRS notes that substantial parts of the Treaties would need to be changed.

The EPRS document notes three ways to better involve LRAs in the ES:

- territorial participation in NRPs and stability/convergence programmes;
- aligning the way LRAs are treated during ES among MSs;
- considering LRAs as full stakeholders rather than just ancillary.

The EPRS proposes a division of labour where CoR raises EU-wide territorial awareness, while LRAs influence the ES as a national delegation or privileged national government partner. The EPRS analysis results align with the CoR Code of Conduct, and EPRS argues that the Code of Conduct may assist in creating an environment favourable to LRA and CoR involvement in the ES.

C) Recommendations from CoR documentation

In addition to the CoR Opinion (2018a), the following also builds on other CoR external expert best practice studies regarding LRAs/CoR in the ES cycle.

The CoR Opinion notes that:

- LRAs, despite their role in implementing over **40% of CSRs** and responsibility for over **50% of public investment, are not involved enough in the ES, especially regarding design and implementation of NRPs;**
- The ES relies on work **without systematically accounting for territorial differentiation by MS**, with regions and cities having different levels of development and resources, including public administration capacities.

And thus:

- proposing a **Code of Conduct as best practice would bring a territorial aspect to the ES** – both at the *analytical level* (bolstering the ASGS, NRPs and CSRs by examining territorial trends and impacts of EU policies) and at the *operational level* (by facilitating better systematic engagement of LRAs, building on MLG approaches).

A CoR commissioned external study (CoR 2017*b*) concludes that:

- There is a notable **lack of specific and dedicated arrangements to ensure the adequate involvement of LRAs in the ES across MSs**. Experience has indicated that when LRAs are actively engaged in the ES, either independently or with other government levels, there is more ground-level ownership and commitment to reforms and targets with inefficiencies and underperformance mitigated and avoided.
- It **confirms that the Code of Conduct adds value** as a reference framework and baseline across MSs, indicating that implementing the Code of Conduct will increase LRA involvement in the EU to full partner level.
- Furthermore, the paper mentioned that its case study investigations show that **Code of Conduct implementation is feasible** in a pragmatic fashion, **within two years**, respecting country disparities and as well subsidiarity.
- However, it highlights that for LRAs (and their associations) to be make meaningful and worthwhile contributions **they must have adequate administrative capacity and financial commitments**. It claims also that **more substantial LRA political engagement is key** to ensuring ownership and commitment.

1.4 Some further reflection on active subsidiarity

The main insights from examining documentation of the EC Task Force working on active subsidiarity, the ERPS, and the CoR, are that the lack of real inclusion of LRAs in the policymaking aspect of the ES constitutes neglect of the principle of active subsidiarity. There needs to be a renewed focus on creating political and institutional infrastructures at the LRA, as well as MS and EU levels to create a platform for their greater involvement. This includes:

- Cultural changes;
- Changes in MS processes;
- Legislative changes.

It is interesting to note that the EC task force report opens by questioning the lack of common understanding of subsidiarity suggesting an inconsistency in the interpretations of EU and national institution.

The EC task force has operationalised the subsidiarity principle by designing an assessment grid. However, the grid only applies to the legislative approach and not to the ES. Moreover, the grid cannot suit the ES because it aims to establish if the EU level is the most appropriate to attain an objective and if the national level appears insufficient⁵. In other words, the grid assesses if the EU should act or not, in a yes/no style.

While ES implementation entails synergies and collaboration among European MLG actors, application of ‘active subsidiarity’ in the ES should be more sophisticated. It should embrace the full meaning of subsidiarity, which entails a dynamic approach to MLG rather than a rigid *yes or no*⁶ approach.

The term ‘subsidiarity’ derives from the Latin verb *subsidio* (to aid or help) and noun *subsidium* (aid or assistance). In the ancient Roman army, the *subsidia* were the reserve troops coming into play, but not replacing, the regular troops when there was the need (Valenza, 1996). This etymological digression helps to understand subsidiarity in a wider way (Delhomme 2019). So, the higher authority, primarily the EU, can intervene only to support and not substitute the lower authority (or individual) which has not shown or proved their incapacity. In this sense, active subsidiarity is provisional, with support only as far as needed and is specific, only where it is needed. This wider interpretation of subsidiarity

⁶ The term ‘subsidiarity’ derives from the Latin verb *subsidio* (to aid or help), and the related noun *subsidium* (aid or assistance). It also has in fact the name given in Antiquity to reserve troops. This means that the higher authority, primarily the state, can intervene only to support, not to substitute, the lower authority (or the individual) which has shown or proved its incapacity.

seems to be much more useful in the context of ES, which is cyclical, temporary and sector specific.

This concept of active subsidiarity applied to the ES turns the prospective upside down. LRAs need to show compliance with superior guidance but, on the contrary, the EC should identify where its support can leverage and empower national, local and regional authorities. Here, the ES is an open and constant dialogue, not only a list of things to do, or an ex post review of what has been done. It also calls on all the actor for full commitment and ownership.

2 Case Studies

The case studies are based on divisions of power and other criteria detailed in Annex I, which describes the selection process, interviewees and questions. It also offers an overview of where LRAs may become more involved in the ES. Case study analysis builds on the interviews as well as national and regional ES documentation.

In each case study, the first section points out different perspectives of LRA relevance and involvement in the ES phases. It also differentiates between current and potential involvement in view of suggested changes. The limited number of interviews hint at principal differences but these may not be representative, especially of LRAs.

The second section investigates and assesses the role of LRAs with more detail of mechanisms, tools and governance processes. The case study concludes with lessons on strengths and weaknesses, addressing potential areas for better LRA involvement.

2.1 Germany

2.1.1 Relevance of LRA Involvement in ES

In Germany, the national commitment to fiscal policy goals requires contributions and commitment by the Länder. This impacts directly on LRAs, particularly at Länder level. The national commitment was implemented as a crisis management tool in the first place and invoked a new instrument at Länder level with the so-called ‘Schuldenbremse’ (debt brake). A constitutional change introduced requirements for the federal level and the Länder to strictly limit or prohibit any net borrowing (Art. 115 Grundgesetz).

This component is highly relevant for sub-national levels as it limits spending by LRAs. In turn, however, it may contradict requests for investments outlined in economic policy recommendations of the ES.

The ES is continuously changing with new EC approaches, for instance the social pillar, the Green Deal and SDGs. These changes increase ES relevance for LRAs.

Regional policy regains importance in view of growing disparities especially:

- regional policy decision making related to ES, as outlined in Annex D of the 2019 country report (SWD(2019) 1004);

- investments suggested in the ES process as they need to be taken by LRAs;
- assessing priorities for recommendations that fall under their responsibility due to different territorial structures (e.g. types of regions).

LRAs are affected in different ways. In addition to the fiscal policy commitment, CSRs also matter for the Länder in terms of justifying policy priorities. For communal LRAs, CSRs requiring local investments are important, especially when related to unemployment or social infrastructure.

Annex D is directly linked to Cohesion Policy, which is implemented via the Länder and directly involves local governments as applicants and beneficiaries. This link to Cohesion Policy especially contributed to raising awareness among the Länder for their spending priorities and thus highlighted that the ES may be a way to lobby for their priorities.

The involvement of LRAs in ES processes in Germany is limited (see following section), particularly below Länder level, although the importance of the ES for LRAs is highly acknowledged. There are access points for LRA involvement in the ES but the national level, LRAAs and LRAs perceive them differently.

Table 2.1 below summarises aspects of relevance and involvement from different perspectives. Reference to the involvement of LRAs in developing the NRP refers not only to Phase 2 when the NRP is submitted to the EC but also to the Preparation Phase and Phase 1.

Although the Länder are involved in developing the NRP, their degree of in-depth knowledge may be questioned. Indeed, interest in new approaches such as the Structural Reform Support Service (SRSS) is perceived to be limited. This varies considerably between Länder. Implicitly, the ES is a consistent policy process due to the variety of themes it covers, but the link between the ES and sector policy making is currently hardly acknowledged.

Despite the different aspects of relevance for LRAs, local involvement is limited. Local governments lack insights into the ES, even in larger cities other than the city states (Berlin, Bremen and Hamburg) that are involved as Länder. For local governments only their associations⁷ understand the ES and can provide information to their members.

Given this limitation, the assessment from the perspective of LRAs is based only on insights from the Länder, including city states.

⁷ There are three associations of local governments; the Association of German Cities, the Association of German Counties and the German Association of Towns and Municipalities.

Table 1-4 Relevance and involvement of LRAs in the ES in Germany

	Preparation	Phase 1	Phase 2	Phase 3
Current state				
National level			Input to NRP	
LRAAs		Country report Annex D important for LRAs	Commenting NRP draft	
LRAs (Länder)	General effects of ES on policy making, e.g. debt brake			
			Bundling information for NRP	
Additional future perspectives				
National level		BICC & investment guidance – collaboration in definition & implementation		
LRAAs		Ideally: requesting information on needs from LRAs	Ideally: structural inclusion of LRAs in processes	
LRAs		Communication tool: themes relevant for LRAs		

Source: own presentation based on interviews.

Summing up, a lot of policy processes related to the ES happen in parallel. In a federal country, regional and local policy development is influenced by many processes at different levels, to which the ES contributes. In other words, the ES is one of many factors relevant for LRA policy making. In particular, the CSR impacts LRAs when it touches on themes and challenges that are acknowledged by them.

2.1.2 Role of LRAs in the ES Process

LRA involvement in the ES process is related to the economic policy component, since fiscal policy is part of national policy processes. In summary, this component may be described as a communication and soft-law making tool between different government levels in Germany, where information flows are mostly top-down with limited communication bottom-up.

At the centre of LRA involvement in the ES process is NRP development. The Federal Ministry of Economic Affairs and Energy (BMWi) coordinates NRP development, while responsibility for the ES process lies with the Federal Ministry of Finance. The federal government structure in Germany requires involving the Länder in EU matters via the federal council (Art. 23 Grundgesetz). Due to this federal structure, the role of LRAs requires a differentiation between the Länder and other LRAs (cities, counties, municipalities). In drafting the NRP, their roles differ substantially.

The NRP development process lasts from August to April and ends with the submission of the NRP to the EC. BMWi is responsible for drafting and inter-ministerial consultation at federal level. Draft versions are also provided to Länder, LRAAs and other civil society associations.

The Länder furthermore contribute inputs to the NRP. These are coordinated by the Ministerial Conference of the Federal States (MPK). BMWi directly interacts with the MPK presidency to coordinate this process. The MPK presidency, in turn, is responsible for collecting Länder contributions through various standing conferences of Länder ministers. Each standing conference, again via its presidency, develops their inputs to the NRP. Examples of such standing conferences are the Conference of Economic Ministers, the Conference of Ministers for Employment and Social Affairs, the Conference of Environmental Ministers, the Conference of Education Ministers and the Conference of Transport Ministers.

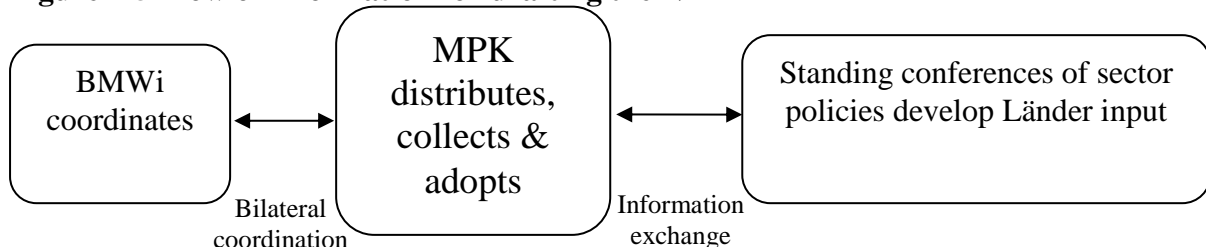
Länder inputs to the NRP concern mainly:

- Implemented policy measures addressing recommendations and objectives of the NRP; and
- A joint position of the Länder on thematic challenges.

For each theme that falls under shared or full responsibility⁸ of the Länder, the corresponding ministers develop their input for the NRP. A joint position of the standing conference is developed and forwarded to the MPK, who collects and adopts the thematic joint positions.

illustrates the process for developing and integrating Länder contributions. Apart from this coordination between the Länder there is no further participation in the ES through the German federal council despite its constitutional role.

Figure 1-5 Flow of information for drafting the NRP



Source: own presentation based on interviews.

⁸ Examples for policies under full responsibility of the Länder are education, tertiary education and culture.

Apart from the contributions provided by the Länder to the NRP, they can further contribute to draft revisions. MPK distributes NRP drafts and collects comments and opinions. However, for these revisions the timing is very tight and thus commenting is limited.

Other LRAs only comment on the NRP draft, for which the timing is very tight. Often there is about one week between the country report being received at the federal level and submission of the NRP to the EC. In view of this timing and the limited capacity of LRAs below Länder level, commenting is limited to LRAAs (Bundesvereinigung der kommunalen Spitzenverbände, 2019). These remain general given the tight deadlines, which in turn limits their consideration in the final NRP. The three national LRAAs develop a joint position based on decisions by their boards and committees during the usual decision-making procedures on themes relevant to them and taken independently from the ES. All comments by LRAAs and civil society associations are public, contributing to transparency.⁹

LRAs other than the Länder are equally invited to comment as are other civil society associations (NRP 2019). Thus, there is no differentiation in their participation, although local governments play different roles than civil society associations in implementing policies.

LRAAs may distribute country reports, CSRs and NRPs to their members for information. Despite the possibility for feedback this is usually not proactively asked for and has rarely been used by association members. This may be explained by the non-binding nature of the NRP and CSR. The inclusion of LRA members in the ES information flow is not pre-defined.

In addition, there are occasional consultations in workshop format. In Summer 2019 representatives of associations were invited by BMWi to discuss CSR and important measures. This aimed at including more opinions at the earliest stage possible for drafting the NRP. In 2019 this additional consultation was spurred by the country report investment guidelines that stimulated discussion.

The Länder are also involved in the ES via delegates of the German federal council in EU Council working groups. This allows for direct access to documents not available to regions of most other countries.

Thus, the extent of exchange is limited and informative rather than collaborative. This is also due to the character of the NRP, which is a federal government report. Thus, feedback from LRAAs and LRAs beyond the Länder is not proactively

⁹ <https://www.bmwi.de/Navigation/DE/Service/Stellungnahmen/NRP-2019/stellungnahmen-nrp-2019.html>

sought. This will change with introduction of the BICC. However, the Länder rather than the federal level may have to involve other LRAs more proactively.

LRAs could provide more high-quality and valuable input through concrete information. They experience challenges to investments from legal, organisational or other factors. Their experience is important for the country report and the NRP as it provides background information not visible otherwise. This may help to specify problems in the country report and the NRP could benefit from solutions to address these problems. This may provide added value to the country report, NRP and CSR.

Example: Local authority plans to modernise its utility vehicles

To increase the share of clean vehicles by public authorities, e.g. utility vehicles, a local administration made plans and funds available but could not buy the vehicles due to a lack of their availability. In this case, the problem was related to the vehicles market and their production.

Example: Budget deficits of local governments

In Germany, there are national funding programmes for local investments, for instance for infrastructure, health and broadband. However, not all local governments may be allowed to take these investments forward when they have high budget deficits.

So far, no capacity-building infrastructure is in place to enhance LRA involvement in the ES. It is expected, however, that the BICC will require institutionalisation of LRA involvement including new structures and monitoring.

2.1.3 Connecting the ES and other aspects of EU policies

Most content-related policy development collaboration between different levels of government and including all levels of LRAs happen over the course of policy development in general. For instance, there are intensive consultations in the framework of ESIF programming, albeit with different intensities and approaches by the Länder.

Another example is the annual economic report drafted by the BMWi that happens outside EU policies. It builds on discussions with various associations including LRAAs (BMWi, 2018, p.6).

Länder and LRAA representations to the EU in Brussels directly communicate with the EC and other EU officials. This may be through individual

representations or by Länder jointly, depending on the theme. However, this is linked to general policy making rather than the ES.

More generally, LRA inclusion in the development of other policies depends on the themes and responsibilities. LRAs use the ES, and vice-versa, to initiate exchanges with the federal level on the challenges and themes. For instance, LRAAs use the Country Report to support their positions and those of their members at national level.

The increasing breadth of themes covered by the ES in country reports means more are subject to other policy processes in the federal and MLG system in Germany.

2.1.4 Lessons learned

Overall, the ES mainly serves as a framework to justify themes relevant to cities and regions or LRAs in general. Policy content is agreed between different government levels through other sector policy and policy programme development processes. Overall, policy making and LRA involvement in the federal system is through several access points and does not follow a linear process as may be suggested by the ES structure.

Despite this inclusion in general policy making, consideration of LRA positions in the ES nevertheless faces certain weaknesses:

- Time limitations for commenting on the draft NRP hamper in-depth contribution and reflection of positions.
- The focus on informative contributions to NRP as provided by the German government to the EC. Thus, the NRP may not favour stronger LRA involvement.
- Some weaknesses are rooted in the legal system:
 - Economic policy is the responsibility of the federal government. Thus, the formal requirement to involve LRAs in the ES is limited beyond sector policies under responsibilities of the Länder;
 - Bilateral talks between the EC and the federal government take place without the Länder, despite any thematic relevance for them;
 - Under constitutional law the municipalities are part of the Länder.
- There is a perceived lack of top-down communication on the reasons behind ES processes. For instance, for non-Länder LRAs it is not apparent why the

Country Report mentions digital infrastructure investment but does not refer to Policy Objective 2 in the investment guidance, while this directly addresses LRA investment needs.

- There is a broad range of stakeholders in a country the size of Germany, with a federal structure. This limits bilateral consultations to inter-ministerial relations and the Länder ministries.
- A more structural inclusion of LRAs in the process beyond commenting on draft reports should enhance ownership.
- The ES covers many themes (e.g. broadband, employment). Thus, it is not always easy to differentiate what is implemented because of CSR and the ES and what results from awareness of general challenges.
- The level of discussion may not always be appropriate. It is usually relatively abstract while several themes require concrete measures by LRAs (e.g. regional policy, investments in environmental protection and infrastructure, public services).
- Phases of laws and policies and their impacts are not aligned with the ES phases. Policy implementation often takes longer, which leads to repetitions in NRPs and CSR in subsequent years. An example is the ‘Gute- KiTa-Gesetz’ (‘good day-care law’) which was adopted at federal level at the end of 2018 and requires implementation by the Länder.

Overall, there is room for improved LRA involvement in the ES. Ideas for alternative access points include:

- Involving LRAAs in a more structured way on themes relevant to them, possibly through standardised processes. Ideally, the EC should ask for needs of LRAs rather than only the MS before drafting the country report. To avoid by-passing national competences, this may be done via the CoR.
- Regional policy has been neglected for some time. This needs to be enhanced and requires LRA involvement. With a focus on investments LRAs could better contribute to the ES and CSR implementation could be enhanced.
- A current request of the Länder is to include their representative in bilateral talks between the federal level and the EC. This raises questions regarding the appropriate representative and their mandate. One option is the delegate of the German Federal Council in the corresponding EU council working group.

- When kicking off the ES process between the EC and federal government, a pragmatic rather than a legally limited formal approach could be to invite an LRAA representative.
- LRAAs could pro-actively approach EU representation in their capital. Senior economic advisors in EC representations in the MS could be approached to initiate ES thematic discussions.
- A stronger focus on investments and regions, particularly consideration of the BICC provides important openings for more LRA involvement. The CoR and LRAAs should use this to strengthen LRA positions in the ES.
- In an ideal world all relevant levels of government should be included in developing the ES to highlight implementation challenges and collaboratively develop solutions to be described in the NRP. This is however difficult to realise in an already highly complex process given the time constraints.

Despite these ideas for stronger LRA involvement in an ideal world, the principal issue is the limited mandatory inclusion of LRAs in the ES process. EC and CoR and other stakeholders can appeal for more involvement as proposed above, but this is not required by the Treaty. The national level is always addressed, but MSs could develop procedures to address requests for more systematic inclusion of LRAs in the ES.

2.2 Italy

2.2.1 Relevance of LRA involvement in ES

In Italy, LRAs and especially the Regions (NUTS2) play a crucial role. The Italian Constitution gives ‘concurrent’ and ‘residual’ legislative powers (Art. 117 of the Italian Constitution) to the Regions related to several ES policy domains. Taking into account the 2019 CSRs¹⁰, the table below shows the distribution of powers.

Furthermore, the Regions are particularly important for environment and energy which are becoming cornerstones of EU policy e.g. in the European Green Deal.

¹⁰ COUNCIL RECOMMENDATION, of 9 July 2019 on the 2019 National Reform Programme of Italy and delivering a Council opinion on the 2019 Stability Programme of Italy.

Table 1-5 Overview of Distribution of Power between Regions and Central Government in relation to 2019 CSRs

CSRs	Policy Domain	State competences	Concurrent Regional competences
1)	National Public Budget and taxation		
2)	Active labour market		
3)	Social policies		
	Research and innovation		
	Infrastructure		
	Competition		
	Public administration		
4)	Judicial matters and rule of the Law		
5)	Bank and credit system		

Source: own presentation based on interviews.

In addition to the legislative powers, LRAs are relevant:

- for **administration**: LRAs are delegated by the State to implement policies (for example, most social interventions such as childcare and basic social services – CSR n. 3 –are implemented at municipal level).
- **financially**: LRA investments and current expenditure are deeply impacted by the CSR for debt reduction and taxation (e.g. in 2019 CSR n. 1) as well as by Stability and Growth Pact.

Example of Region involvement in the ES

A recommendation related to **SME credit access (i.e. CSR n. 5)** has a direct impact on the Region:

- Regional financial public intermediaries/ promotional banks are governed by regional regulations together with national banking law;
- Regional promotional banks are owned by the Regions;
- Financial instruments are also managed through ESIF financial instruments with implementation under the responsibility of the Managing Authority, which is in the regional administration.

Another example is the **modernisation of Public Administration (CSR n.3)**. Any commitment at central level would involve directly LRAs which employ many Italian public servants.

Regions are even more relevant since the introduction of Annex D in the Country Report (see section 2.2.3).

Therefore, from the EU and national perspectives, it is important that LRAs and particularly Regions are aware of the ES to ensure consistency across the different local/regional, national and European governance levels. However, LRAs and especially politicians and decision makers, still do not have a deep interest in the ES or understanding of its implications. This is also due to the limited involvement of LRAs in the ES, which will be described in the next section. Only the Regions are actively engaged in collecting information for the NRP, and they do not play a significant role in actively shaping the related political decisions.

2.2.2 Role of LRAs in the ES Process

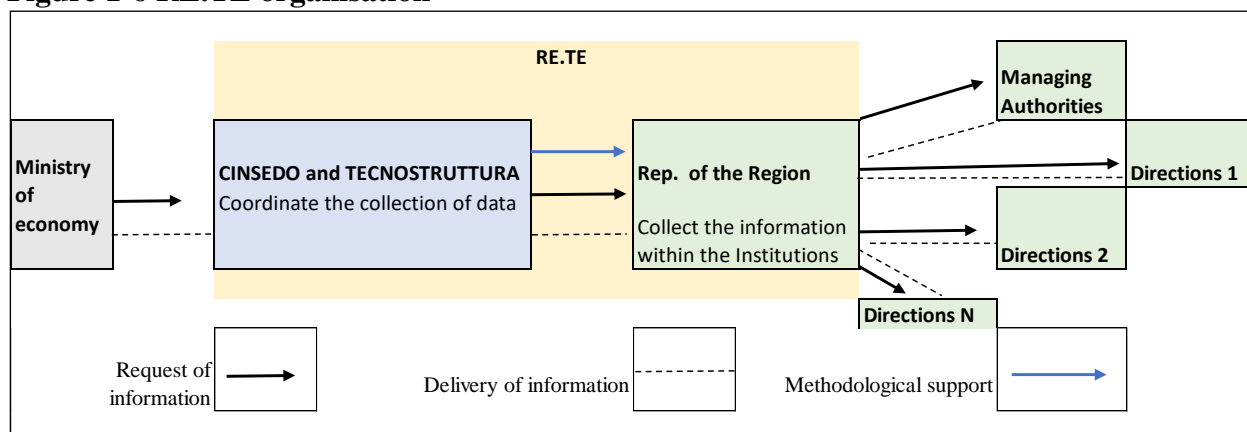
Region contributions to the ES is synthesised in a specific chapter of Italian NRP¹¹ reporting for each CSR on interventions implemented. A more analytical document including more information and regional best practices related to ES is the Regional Contribution to NRP (Conferenza delle Regioni e delle Province Autonome, 2019).

Information collection and analysis is led by CINSEDO (the technical secretariat of the Conference of the Regions) with the support of TECNOSTRUTTURA (governmental agency supporting implementation of ESIF Programmes). These are the main contact points for the Regions as well as the interface with the central government (i.e. Ministry of Economy and Finance - MEF). CINSEDO and TECNOSTRUTTURA together with all Italian Regions set up a task force, the ‘Regional Team per il PNR (NRP) – Re.Te. PNR’. They organise not only data collection to support the central level with information for the NRP but also activities linked to ES including training and awareness raising. The RE.TE. organisation is:

- TECNOSTRUTTURA / CINSEDO: request information in the form of grids and provide methodological support to the Regions; collect, analyse and transfer the information and transmit to MEF.
- Representatives of the Regions: request information from different services of the Regional institution (e.g. Managing Authorities, Managers); collect, (sometimes) analyse and transfer the information to TECNOSTRUTTURA and CINSEDO.

¹¹ See: ‘*interlocuzioni istituzionali con le regioni e le province autonome nella preparazione*’, p. 123 Italian NRP).

Figure 1-6 RE.TE organisation



Source: own presentation.

The methodological tool to transfer the information is a **grid** mirroring one used by MEF to collect information with the Italian Ministries. All the grids collected by CINSEDO/TECNOSTRUTTURA are available [online](#).

Figure 1-7 Grid for NRP information collection

Measure	Legal Base	Description	Region	CSR/ target 2020
MISURA	RIFERIMENTI NORMATIVI	DESCRIZIONE	REGIONE	RACCOMANDAZIONI/TARGET UE2020
Promuovere la stabilità macroeconomica globale attraverso il coordinamento e la coerenza politica (SDG 17.13)				Racc. n. 1 Mis. n. 1
Riduzione rapporto pubblico/PIL utilizzando entrate straordinarie	debito LR 48 art. 3 del 21/12/2018 (Legge di stabilità regionale 2019) DGR 338 del 30/07/2018	Attuazione Accordo Stato-Regioni in materia di concorso regionale alla finanza pubblica sottoscritto il 15/10/2018. Variazione al bilancio di previsione 2018-2020 - annualità 2018 - per utilizzo quote vincolate del risultato di amministrazione assegnate ai sensi del c. dal 495 al 500 della L. 232/2016 nonché dell'intesa tra Stato e Regioni sancita il 22/02/2018.	Calabria	Racc. n. 1 Mis. n. 1
			Calabria	Racc. n. 1 Mis. n. 1

Source: own presentation.

To facilitate compilation, a table correlating the CSRs with objectives/ goals includes the CSRs, EUROPA 2020 targets, Agenda 2030 - the 17 SDGs, the European Social Pillar, the 11 ESIF 2014-2020 objectives, objectives for 2021-2028 and the National Strategy for sustainable development (Strategia nazionale per lo sviluppo sostenibile-SNSvS) 5 Ps: People, Planet, Prosperity, Peace, Partnership. The table is a result of an incremental process. Since 2012, strategic objectives from different levels of government have been systematically added and cross matched. This is a big help for the Regions since the main difficulty in filling out the grids is to identify measures consistent with CSRs. The table has logic links cross-cutting different levels of programming, helping the Regions to identify the measures they implement and connect these to the CSRs.

The information required for the grids is related to measures consistent with the CSRs/ 2020 objectives and can be: Regulations/ legislation; Interventions funded by ESIF Operational Programmes; Interventions funded by national/ regional resources; Regional budget adjustments and fiscal measures; Interinstitutional

agreements/ memorandums of understanding; Administrative/ institutional modifications.

Data collection by RE.TE is in parallel with the ES and starts with publication by the Council of the CSRs in May/ June and lasts until the delivery of the NRP by the MEF. As already anticipated, the process (see figure below) consists not only of data collection but also awareness raising, analysis and ongoing support to the Regions. For instance, at the beginning of summer, a seminar is organised to present and explain the new CSRs to the Regions. At this seminar the ESO from the EC representation is also invited. In this regard, CINSEDO/ TECNOSTRUTTURA act as an institutional broker between the different governance levels.

Figure 1-8 RE.TE. activities and the ES process

	European Semester cycle	RE.TE
MAY	CSRs	
		Analysis of CSR impact on Italian Regions
JUNE	↓	
.....		Seminar presenting CSRs to the Regions with EC and Ministry representatives
OCTOBER		
		Design grids and guidance for data collection by the Regions
NOVEMBER	ASGS	
DECEMBER	↓	Deliver the grids to the Regions
JANUARY		
		Data collection from the Regions
FEBRUARY	Country Report	Analysis of the data
MARCH	↓	
		Draft the Regional contribution to NRP
APRIL		Approval by the Conference Regions and Autonomous Provinces of the Regional Contribution to NRP
	NRP	Deliver the contribution to MISE

Source: own presentation.

Besides data collection, the Regions and more generally the LRAs are not involved in the ES. Their role is to provide information in drafting the NRP, but they are not involved in any policy co-creation process. This limited role in the ES partially leads to a lack of interest from regional policy makers and frustration in the Regional bureaucracy, where regional officers involved in RE.TE see themselves as only information providers without an influential role.

At the central level, there seems to be limited scope for involving LRAs in the ES for three reasons:

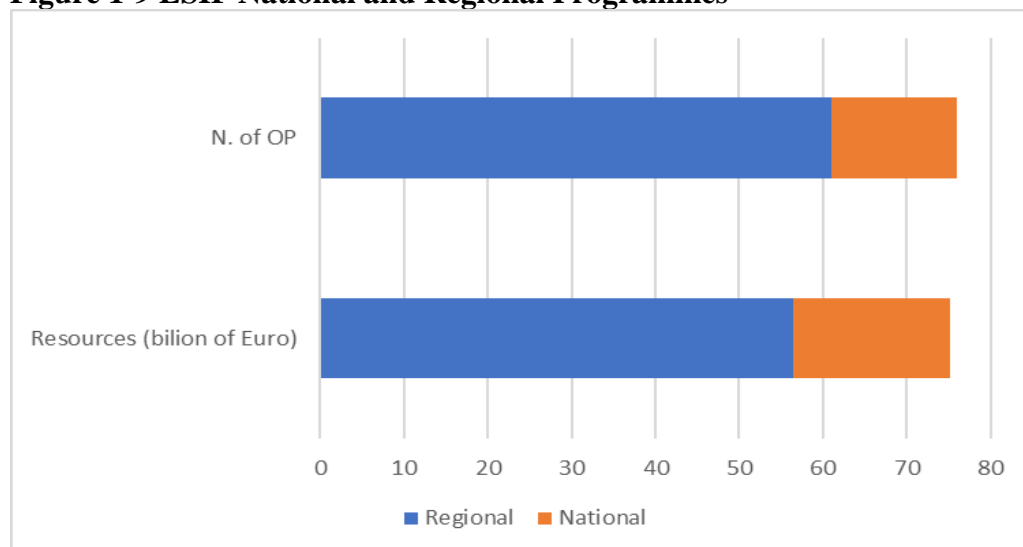
- a) The Constitution does not envisage any regional direct contribution in shaping national policy, i.e. there is no institutional channel for systematic and active contribution where they can contribute to designing national policies. Therefore
- b) institutional dialogue with the Regions is difficult when they are asked to define a common vision. The number and political differences of regions means reaching a consensus over policies is problematic especially due to
- c) ... the short timing of the semester.

However, CINSEDO and the regions perceive the exercise as useful. As by-products, the grids are ever more a fully-fledged part of regional policies, allowing incremental alignment with national and EU levels. In other words, Regions using the grids have an MLG dashboard of what is happening. In some Regions, these grids increasingly inspire economic and financial programming documents. In this regard the grids are not seen as mere information collection tools but also as functional to policy design.

2.2.3 ES connections with other aspects of EU policies

The link between ES and ESIF is clear for the Italian regions while other EU policies and Structural Reform Support Programmes (SRSP) are considered less relevant. Indeed, the Regions are Managing Authorities of most ESIF Programmes (see the chart below).

Figure 1-9 ESIF National and Regional Programmes



Source: own presentation based on [Cohesiondata](#).

Most interventions identified by Regions in the grids also relate to Operational Programmes since the ESIF are the main financial source for regional development. Hence the Regions see the ES as an opportunity to better understand the EC perspective and as a potential risk to be by-passed. For instance, in Annex D of the Italian Country Report (2019), the EC recommendation ‘to increase the number and the scale-up of innovative firms in knowledge-intensive sectors with the highest growth potential’¹² directly addresses the Regions since its application depends greatly on Regional Managing Authorities. However, this recommendation is not provided through the usual communication channels (e.g. the monitoring committee of Programmes) and the usual interlocutors (e.g. the geographic unit of DG EMPL or DG REGIO) and cannot be discussed / negotiated directly by the Regions. On the contrary, in this case the central government receives the recommendation and liaises directly with the EC. In the process of increasing regional self-government, Structural Funds have played an important role and the Regions have great autonomy to manage ESIF funds directly with Brussels. From this perspective, the ES and Annex D represent more of a challenge for Regions losing powers. Further on, the Regions in their normal relations with DGs when managing Operational Programmes are not confronted with the ES. Therefore, relations between the ES and ESIF could produce an institutional short circuit.

In this regard there is an interesting case where CINSEDO played an active role as institutional facilitator in the multilevel dialogue between the Regions and the EC. In preparing the Country Report 2020 for Italy, the EC inquired about green economy development with a focus on southern regions (notably Calabria,

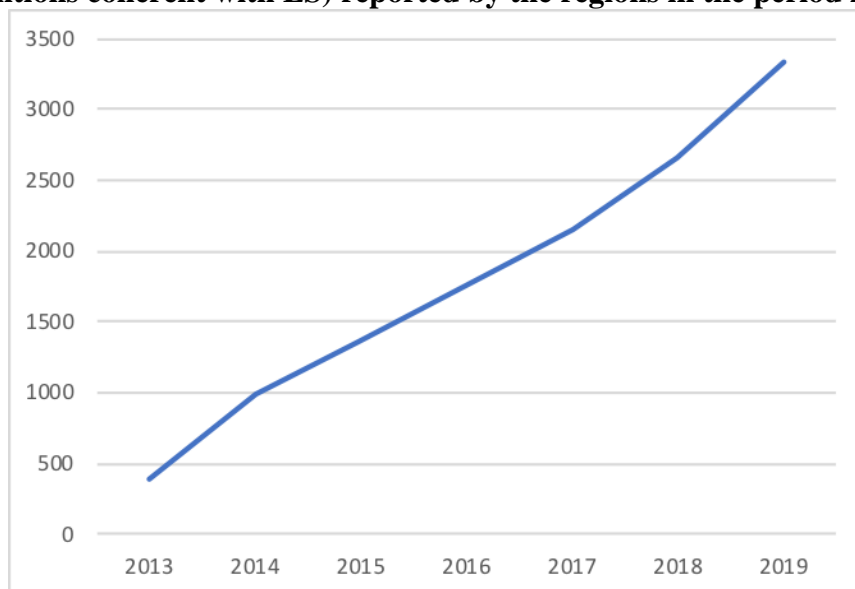
¹² See p. 75, COMMISSION STAFF WORKING DOCUMENT Country Report Italy 2019 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances.

Campania and Sicily). CINSEDO facilitated the dialogue between EC services and the three regions. A videoconference was organised, and Campania and Calabria prepared two dossiers analysing challenges linked to pre-existing disparities, bottlenecks and solutions to unlock ‘green’ investments, as well as employment opportunities and skills needs in the green economy.

2.2.4 Lessons learned

The participation of Italian LRAs in ES is limited to collecting data for the NRP where there is a specific section. In recent years, this process has become broader in terms of the quality and quantity of information (see the chart below). However, the collection process demands methodological guidance helping Regions to identify measures consistent with the CSR.

Figure 1-10 Number of inputs provided by the regions (interventions coherent with ES) reported by the regions in the period 2013-2019



Source: own presentation based on data from TECNOSTRUTTURA.

The main obstacle to involving LRAs also in policy co-creation is mainly the constitution and, to a lesser extent, a partial lack of interest from policy makers.

Even if regional participation in the ES is now limited to information collection, this is becoming more important because:

- Progressively, LRAs become aware of the relevance of ES at both administrative and political levels.
- Shared/transferred responsibilities mean regions can ensure a unified approach and verify the ‘vertical coherence’ of their policies with EU strategies (EUROPA 2020, 2030 climate and energy framework, five

objectives of 2021-2028), avoiding fragmentation from multiple sources of financing.

- Regions could become aware of additional resources and be prepared for new EU policies (e.g. the Green Deal).
- Even if indirectly and informally involved, Regions can be consulted on issues related to ESIF policies (i.e. Annex D) in preparing the Country Report.

The Italian case suggests:

- There is a need to raise awareness of the ES especially with LRA decision makers. This should be done through leveraging all existing European institutional networks including the Europe Direct Information Centre.
- Facilitating involvement of LRAs in the ES requires methodological guidance as well as an ‘institutional facility’ to interact with LRAs constantly (for example through LRAAs).
- The EC should convey messages on the ES in a homogeneous way with all services interacting with LRAs. Especially recommendations on ESIF (i.e. ANNEX D) should be co-shared in the traditional Cohesion Policy channel (i.e. Monitoring Committee/ bilateral annual meetings) involving the key actors, such as EC Directorates and geo-units as well as the Managing Authorities.
- The ES timing is an obstacle to wider participation of EU stakeholders (not only LRAs).

2.3 Croatia

2.3.1 Relevance of LRA Involvement in ES

The Republic of Croatia is divided into 556 local self-government units (128 towns and 428 municipalities) and 21 counties (including Zagreb, with the status of city and county). Counties (županije) are the third level of the NUTS system (NUTS3). Croatian counties are units of regional self-government comprising towns and municipalities. They are responsible for education, health care, economic development, traffic and road infrastructure, scientific, social and

cultural development, physical planning and a number of other activities. There are two units at NUT2 level; Adriatic Croatia (7 counties) and Continental Croatia (14 counties). The system of local government is enshrined in the Constitution (Art. 133-138) while the responsibilities of LRAs are defined in the Local and Regional Self-government Act (2001), the Public Services Act and other special laws.

The EC supports greater participation from LRAs in the ES to promote ownership of reforms and facilitate their implementation. There is however no specific interaction with LRAs in Croatia and their associations during preparation of the Country Report.

The Prime Minister Office in charge of coordinating the ES in Croatia considers that it is a government-driven process focussing on macro-economic policies which do not require substantial contributions from LRAs. The NRP and Convergence Programme are regarded almost as manifestos of the central government, setting the course for the entire administration. It is therefore considered inappropriate and impractical for the government to broaden the circles of institutions involved in their elaboration.

Strictly speaking, line ministries do not share policymaking with lower levels of government, although they rely on working groups with local/regional representation to discuss policy options while ministers maintain contacts with elected representatives across the country. There is no demand for greater involvement of LRAs in the ES from line ministries.

While they claim that their involvement in the ES process would strengthen policymaking, LRAs are not actively involved in preparing ES reference documents¹³ outside basic information and consultation organised during the process. According to the Prime Minister Office, LRAs are seen as partners for implementing the NRP but not as a source of policy analysis. The government recognises that it is in their interest to obtain the support and cooperation of LRAs. As governmental bodies these are an essential vector to achieve NRP objectives and the success of social welfare or fiscal reform. An example is the introduction of a recurrent property tax, which was abandoned by the government but would have required a strong support from self-government units¹⁴. Reflecting the importance of LRAs for implementing reforms, the NRP under each measure identifies activities that require involvement of the sub-national level. For example, under the measure '*Improvement of the Welfare System*', the NRP foresees integrating the reporting system on social benefits, including those

¹³ Country Report, National Reform Programme, Convergence Programme and Country Specific Recommendations.

¹⁴ A recurrent value-based property tax was recommended by the EC in the CSR 2018.

granted at the local government level, in line with the ESSPROS methodology¹⁵. Specific activities and funding are targeted at self-government units, which are key partners for the Ministry of Demographics, Family, Youth and Social Policy in implementing the reform¹⁶.

While the government is in principle in favour of greater partnership with the regional and municipal levels, it has strong reservations as to the extent of active subsidiarity during the ES in Croatia.

First, Croatia remains a highly centralised country despite a decentralisation process that began almost twenty years ago. This has certainly allowed a transfer of competences to the sub-national level, but there has been insufficient strengthening of the human, administrative and financial resources to make it truly effective. In particular, limited fiscal autonomy prevents self-government units from effectively implementing the policies for which they are responsible. This often results in unequal public services for citizens across the country as poorer municipalities are unable to muster the necessary resources.

It should be noted that recent Country Reports highlighted Croatia's shortcomings in terms of territorial organisation and decentralisation¹⁷. CSRs cover territorial fragmentation and inefficient distribution of powers between levels of government. These have been slowing down reforms and preventing LRAs from actively engaging in the economic and social development of the country¹⁸.

Second, effective cooperation between tiers of government is traditionally hampered by strong party politics in Croatia making MLG difficult to promote. LRAs belonging to another political colour than the majority are often reluctant to cooperate with the central government.

¹⁵ The European system of integrated social protection statistics (ESSPROS), is a common framework developed in the late 1970's by Eurostat and EU MSs providing a coherent comparison between MS of social benefits to households and their financing, enabling an international comparison of national data on social protection.

¹⁶ The reform is connected to CSR 2019 2c: 'Consolidate social benefits and improve their poverty reduction capacity'.

¹⁷ Croatia Country Report 2018: 'Following the decentralization of public functions initiated in 2001, regional and local subnational units assumed the responsibility to provide and administer some social benefits (such as housing benefits, the lump-sum grant for newborn children and childcare services). However, due to the lower fiscal capacity of poorer local units to finance such benefits, this system results in an unequal treatment of citizens and exacerbates existing inequalities across the territory and weakens the social inclusion impact of the social safety net'.

¹⁸ CSR 4, Croatia Country Report 2017: 'Reduce the fragmentation and improve the functional distribution of competencies in public administration, while enhancing the efficiency and reducing territorial disparities in the delivery of public services ». The Country Report 2018 concluded that no progress was achieved while the Country Report 2019 noted that while there was some progress with public administration reform, the territorial fragmentation at the local government level remained a challenge.

Third, the capacity of LRAs and their associations is limited, with the government claiming that they lack the analytical skills and knowledge to make substantial contributions to the ES. The response of Croatian LRAAs to this survey seems to suggest the limited involvement: of the three associations representing LRAs in Croatia¹⁹, only the Association of Cities was able to provide substantial information and express an opinion. The other two explained that they were insufficiently involved in the ES to form a view although they were generally in favour of a more subsidiarity in Croatia, which would give more responsibility to sub-national governments in defining and implementing government policies.

The LRAs interviewed are in favour of more active involvement for sub-national government in the ES giving them a chance to influence policies which concern them. At present, they do not feel included at all in the decision-making process leading to the CSR. LRAs would be particularly interested in discussing investment priorities linked to NRP measures. At present, it is felt that the NRP does not recognise the diversity of regional needs which calls for better tailored policies and investment decisions.

The Association of Cities would strongly welcome greater participation of LRAs in the ES process. First, it feels that the sub-national level can contribute to curbing excessive government debt as envisaged in the NRP, but only if it is informed and consulted in time. Second, the involvement of LRAs would help better target investment where it is needed and facilitate implementation of structural reforms in the country. Third, a greater role for LRAs and their associations during the ES would help counterbalance the centralisation of Croatian administration and strengthen ownership of reforms. At present LRAs and their associations have no say on the measures proposed by the government in the NRP/Cohesion Policy. Nor can they express their views on the CSRs formulated each year by the EC, although many recommendations immediately concern them and they are often called to contribute to their implementation.

2.3.2 Role of LRAs in the ES Process

Croatia has been involved in the ES since 2013. To ensure policy coordination within the administration, the country has established an Interservice Working Group for the ES composed of all relevant Ministers²⁰. In addition, a Coordinator for the ES has been appointed in each line ministry in the Working Group. It monitors and coordinates implementation of the ES in close cooperation with the Ministry of Finance and other government bodies. The Prime Minister Office is

¹⁹ Croatian County Association (Hrvatska Zajednica Županija), Association of Cities in the Republic of Croatia (Udruga gradova u Republici Hrvatskoj), Croatian Association of Municipalities (Hrvatska Zajednica Općina).

²⁰ [Decision on the coordination of activities within the European Union's economic governance framework](#)

responsible for coordinating Working Group tasks in cooperation with the Ministry of Economy, Entrepreneurship and Crafts, in particular preparation of the NRP. The Ministry of Finance is responsible for preparing the Convergence Programme.

There is no formal mechanism to ensure interaction between LRAs and their associations during the ES. Since 2016, social partners can be invited to attend Working Group sessions as necessary. Moreover, when preparing the NRP, the government organises thematic meetings with social partners. Later in the process, the draft NRP is presented to the social partners before being adopted by the government and submitted to parliament²¹.

During implementation of NPR measures, the government uses the usual consultation channels such as the legal obligation to seek the opinion of social partners (including LRAs) before adopting new legislation. Social partners, including LRAs, can therefore in theory influence legislative decisions in accordance with the legal procedure. This interaction is however not specific to the ES. It should be noted that the Croatian Economic and Social Council (ESC) composed of representatives from the government, trade-unions and employers (but not LRAs) is normally tasked with examining national strategies, draft laws, regulations, programmes and other policy documents, on the basis of the government's Annual Plan of Normative Activities and interest expressed by the social partners, before initiating the governmental procedure.

Moreover, the government does not organise any specific events to raise awareness of the ES among LRAs. Before the consultation of social partners, LRAs are informed about the ES mostly from public sources, including the EC website, the media and social networks. On the EC side, the ESO maintains regular contacts with LRAs and their associations as part of their mandate to explain EU economic governance to national stakeholders. These contacts enable the associations to remain aware of the ES steps and communicate information to their members as appropriate.

Overall, the associations consider that there is insufficient information on the ES. This prevents them from contributing effectively to the policy cycle, as there is no clarity on what is expected from LRAs and how policymaking promoted by the ES could be enriched by increasing the territorial dimension through inputs from the sub-national level. This explains to a large extent the lack of interest shown by the associations in the ES. They consider this to be an exercise that is mainly within the remit of the government and the EC where they participate only

²¹ In 2019, the consultation process took place in March and the presentation of the draft NRP to social partners in mid-April.

marginally as external stakeholders in the same way as social partners, through their regular contacts with the government and during the consultation process.

LRAs and their associations are consulted during preparation of government programmes along with other social partners. During the course of NRP 2019 programming, four thematic sessions were organised with representatives of line ministries (measures holders) and social partners to discuss proposed measures covering public administration, social protection, health, labour, science and education. In addition, line ministries rely on existing working groups where regional and municipal levels are represented to gather information or discuss policy options. Moreover, LRAs lobby the government on specific policies, either directly or through their associations, but allegedly with limited results.

On the EC side, EC officials hold bilateral meetings with their counterparts in the government at least once a year²². Here EC officials generally try to also meet Croatian social partners, including the associations, to exchange views on the progress of reforms in specific sectors. Such meetings are organised in cooperation with the Representation of the EC in Croatia. They allow the associations to better understand the functioning of the ES and learn about EC proposals. Moreover, they are also invited to the presentation of the Country Report or during EC Commissioner visits to Croatia, which happen at least once a year. However, such meetings are more of an informative nature and do not allow LRAs to have a real influence on policy design.

There is no specific tool to collect information from LRAs during preparation of the NRP (i.e. before the consultation process). The line ministries involved in drafting these documents contact the associations or self-government units on an *ad hoc* basis if they need information. As part of the consultation process²³, social partners can submit written comments on the proposed measures, to which the ministries are required to respond in writing. However, the associations interviewed did not seem aware of this procedure, which seems directed more to trade unions and representatives of employers.

It should be noted that NRP do not include territorial analyses contrary to the EC Country Report which has recently added a section on regional disparities. From the associations' point of view, this is a missed opportunity to present a more accurate picture of the country's socio-economic situation and to better target reform measures and investment priorities.

²² The last meeting was in May 2019.

²³ Organised in March 2019 for the NRP 2019.

The government claims that consultation of social partners and sectoral coordination bodies where LRAs are represented, as well as contacts with and pressure from elected representatives at national, regional and municipal levels, are sufficient to ensure that the needs of the regions are taken into account in policies formulated in the NRP. The LRAs interviewed, on the other hand, regret not being able to exert a greater influence on the direction of national policies owing to the country's high level of centralisation. Although they appreciate the work of their associations in representing their interests, they are sceptical about the impact of their lobbying on government policy and this also applies to the ES. LRAs consider that their associations do not have sufficient leverage to get the government to listen to their demands. It should be noted, however, that the Association of Counties has sometimes been able to change the course of national policies in the past, as in the territorial organisation reform to which LRAs were strongly opposed.

It is not clear, however, how much LRAs and their associations have contributed with remarks and suggestions. They consider existing meetings and contacts during the ES cycle, both with the EC and the government, as insufficient to allow for a substantial contribution from the sub-national level. Selected complaints are that the information shared with them is both inadequate and too late in the drafting process, preventing them from having sufficient insight to be able to influence the programme measures. The government side, as already noted, feels that LRAs and their associations lack the capacity to analyse the NRP and make sound recommendations.

The Association of Cities has direct contact with the CoR as one of its staff works as coordinator of the Croatian delegation to the CoR and, in this capacity, is responsible for logistical and technical issues. There are no staff specifically responsible for the ES and only occasional contacts with other EU institutions. The other two associations have even less to do with the ES, which they consider to be the responsibility of the Association of Cities.

2.3.3 ES connections with other aspects of EU policies

The EU is the main source of funding for public investment and the government considers that there is a strong degree of complementarity and synergy between Cohesion Policy priorities and the strategic reform goals agreed under the ES.

Fourteen NRP reform priorities are funded partly through ESIF, including social welfare, justice, public administration, education and life-long learning and research. Some of these are directly relevant to LRAs, such as the '*decentralisation and rationalisation*' measure. An ESIF project is helping to implement this through activities to reduce excessive functional fragmentation

and inadequate division of labour between central and local authorities to ensure more uniform service delivery to citizens. Another example is the NRP measure *‘integration of social benefits at national and local level’*, which is linked to an ESIF project supporting the upgrade of self-government unit’s reporting systems of social benefits in line with EU methodology. Likewise, the measure *‘development and expansion of social services networks’* which aims to broaden the range of social services for disadvantaged people at the local level is funded through ESIF projects involving LRAs along with other local stakeholders.

The discipline brought by Croatia’s participation in EU Cohesion Policy means that regional development policy has moved away from a project to a multi-annual programme-based approach with investment concentrated on a few priorities and responsibilities shared across levels of government. The challenge, however, remains for Croatia’s administrations, particularly at regional and local level, to meet the stricter requirements and conditionalities introduced by EU Cohesion Policy. Until now, the absorption of funds has been slow with only 28% of the funding spent and 82% allocated to projects by the end of 2019. As noted in the Country Report 2019, ‘fragmented public administration, as well as insufficient administrative capacity at regional and local level, weighs on the overall capacity to attract and implement investment, particularly as regards the absorption of EU funding’.

Nevertheless, LRAs would like to have a greater say in the use and management of ESIF based on the EU-funded Integrated Territorial Investment model²⁴. This gave Croatia’s seven largest cities responsibility for implementing development projects in line with their territorial strategies²⁵. The EC’s view on the performance of LRAs in this programme is however mixed²⁶.

The government views the SRSP as an important source of funding for implementing national reforms. By 2019, the EC had approved funding for 50 projects in Croatia (EUR 9.2 million), of which 18 have been approved in 2019 (EUR 4.9 million)²⁷. Several of them are directly related to NRP measures such as improving the business environment, harmonising social benefits, establishing a framework for eHealth and implementing a comprehensive curriculum reform.

²⁴ ITI was introduced under ESIF 2014-2020. Its purpose is to support the implementation of strategic projects in major cities to strengthen their economic and social development through investments for growth and jobs. The programme in Croatia is implemented through an agreement between the Ministry of Regional Development and EU Funds and the mayors of Osijek, Pula, Rijeka, Slavonski Brod, Zadar, Zagreb and Split.

²⁵ With a total allocation of EUR 345 million from three different ESI Funds.

²⁶ Country Report 2019: ‘However, experience in implementing sustainable urban development strategies with EU funded assistance is so far inconclusive. Cities have made valuable efforts to define strategies integrating the wider needs of their neighbouring municipalities, but there have been considerable delays in their implementation.’

²⁷ In 2016, EUR 1.03 million was approved during the pilot phase for nine projects (Source: NRP).

The LRAs are not very familiar with the SRSP and none of them have participated in projects supported by the facility. The government, for its part, considers that SRSP projects should remain in the hands of central government. It does not envisage delegating responsibilities to LRAs as it did in the framework of the ESIF-funded Integrated Territorial Investment, again arguing that they lack capacity.

2.3.4 Lessons learned

All stakeholders interviewed agreed that LRAs are important actors for the ES, but in practice LRA involvement in Croatia is minimal throughout the cycle and mostly confined to implementing identified reform measures. There is no formal process for interacting with LRAs throughout the cycle, with the government applying the same consultation procedure as laid down by law requiring consultation with social partners.

The involvement of self-government units in implementing specific NRP measures with the support of ESIF funding is an example of MLG that can improve the delivery of national reform policies, as promoted both the ES and Cohesion Policy. The ESIF project supporting the upgrade of self-government unit reporting for social benefits in line with EU methodology is a good example of cooperation between the central government and self-government units in carrying out the important NRP measure *‘integration of social benefits at national and local level’*.

However, for MLG to be effective, Croatia needs to address the fragmentation of administration, which has often been highlighted in previous national reports and has been the subject of CSRs. However, no significant progress has been made, as evidenced by persistent variations in the provision of public services, which exacerbate regional disparities²⁸.

There is a need for the associations to increase their analytical and strategic capacity and to become more proactive in selecting policies where their inputs would be valued by the EC and the government during preparation of key ES documents. In order to influence government policy in areas that affect them, associations should have a stronger voice in the ES cycle. Associations should also consider strengthening their dialogue with members to better coordinate their lobbying efforts towards the government, as LRAs often feel that associations perform poorly in promoting their interests.

²⁸ Country Report 2019: ‘many small local governments units have devolved competencies and responsibilities in providing public services, but often lack the adequate financial, administrative and personnel resources to carry out their duties. This creates large disparities in public service provision between financially and administratively strong and weak local units across Croatia’.

The CoR should encourage the strengthening of skills of associations so they become capable of expressing and defending the interests of LRAs in the ES. The CoR should encourage associations to be more active during preparation of ES policy documents. It should disseminate best practices from associations in other EU countries when lobbying their governments and the EC in the context of the ES.

Further efforts should be made to convince the EC and MS to give more space to LRAs and their associations during the ES by applying the Code the Conduct. This should bear in mind the specificities of countries like Croatia, which are highly centralised. LRAs should be recognised by the government not simply as another stakeholder but as government bodies entitled to participate in national policy decision making.

2.4 Netherlands

2.4.1 Relevance of LRA involvement in ES

In the Netherlands LRAs are very important. The Dutch Constitution recognises three tiers: regions, provinces and municipalities which are responsible for regional/local public issues. These levels are without hierarchy but have different competences. The twelve provinces are responsible for spatial planning, health policy and recreation. The 418 municipalities are responsible for education, spatial planning and social security. The major cities of Amsterdam and Rotterdam are subdivided into administrative areas, which have their own responsibilities. While provinces and municipalities do not have legislative capacities, they do have executive fiscal and administrative powers appropriate to their levels.

Moreover, the trend in the Netherlands is towards increasing regional and local importance even more.

The extent of sub-national independence and interdependence can be seen by LRAs cooperating together flexibly in an MLG capacity on common issues, practicing subsidiarity, often working together on a regional scale, above the level of municipality but below the province level. An example of this is education in schools.

Examination of the relationship between CSRs for the Netherlands (2019/2020) and the role of LRAs in Dutch society indicates that LRAs are a major stakeholder in implementing the CSRs. For housing, LRAs and particularly the regional level,

have a major part in shaping policy implementation. The regions allocate quotas for social housing and decide on grants to municipalities. Municipalities then build and manage social housing (in collaboration with housing associations) and manage community land. Thus, the CSR directly affects LRA work in this area given the role of LRAs under this remit to fix distortions in the housing market.

Regarding increasing household income and strengthening conditions to support wage growth, LRAs are also important in relation to employment. It is the provinces' role to set-up investment banks and to support cooperation between public authorities and business. Furthermore, the municipalities are in charge of reintegrating unemployed citizens into the labour market and providing related training. As such, any policies aimed at strengthening conditions that support wage growth will impact both levels, so LRA involvement in this area is critical.

For labour market policy, municipalities define their own agendas and implement their own strategies with limited oversight by the Ministry for Social Affairs and Employment. Similarly, for education, municipalities manage state primary schools and influence private primary schools, subsidising all private primary school expenses in their area. So, labour market policy on self-employment is an LRA issue and LRAs are very influential in lifelong learning too, developing the early age skills to enable life-long learning.

Provinces are in charge of establishing investment banks and are responsible for cooperative relations between public bodies and business organisations. Thus, fiscal and structural policies to support investment will likely affect LRAs significantly, in shaping or supporting decisions over investment bank set-up and policy or for public-private relationships of the provinces.

In relation to the environment, the provinces create and implement protection plans for environmental concerns and monitor compliance with air, soil, and water quality environmental laws. Provincial authorities address pollution, conduct soil remediation, generate and maintain nature areas and oversee the regional water authority. Environmentally friendly energy R&D will be monitored and overseen by the provincial authorities, so they are major stakeholders in any public investment in this area.

Similarly, with transport, the provinces are in charge of developing and maintaining roads, cycle lanes and bridges, so the CSR will have a big impact on LRAs in this area as well.

In theory the deep devolution described above should imply that all levels of government are involved in the ES as they are responsible for implementation on the ground. They must be able to implement policy, so it makes sense to involve LRAs from the start to ensure that plans are logical and appropriate. However,

this is not the case. Despite a high level of devolution in the Netherlands, the increasing importance of regions, municipalities and counties and institutional dynamism, LRAs are not heavily involved in the ES process.

While LRAs and LRAAs are fully aware that their roles include implementation of CSRs, they have been unclear in recent years as to the value of their participation in the ES process. They are not very convinced of being heavily involved as their previous inputs, when they have attempted to provide them, have not been obviously integrated into the NRP.

Increased regionalisation has meant that the problems LRAs are dealing with are becoming ever more divergent, leading to difficulties in aligning different interests in the first place. For example, there are clusters of innovative organisations and research facilities (in Eindhoven, for example, which has Philips and TU Eindhoven) with high housing prices high and strong labour market employment. Other parts of the Netherlands are on the periphery, where unemployment means that citizens have different needs. However, these are all addressed under a single plan in the NRP for the ES. Labour market policy, for instance, can involve learning German in certain places but not in others. Such issues are diverging more and more, so the needs of these regions should not be accounted for on a highly aggregated basis as per today. This disregards LRAs and diminishes their interest in participating fully due to a lack of belief that their input will benefit their own region.

Another reason for scepticism about the ES from an LRA perspective can be the relative unimportance of EU resources. Financially speaking LRAs and LRAAs have only a fraction of financing from EU funds to support their functioning. Furthermore, Dutch LRAAs have regular consultations with the national government compared to other EU countries in terms of general policy making. Thus, to now changes in the NRP were not so important as their voluntary nature means the LRAs and LRAAs were not so concerned, especially given their significant role in policy making and implementation through other mechanisms. Policy analysts might, on an LRAA level, disagree with the government but not be too concerned as little would happen whether they were involved or not.

In addition to the perceived relevance of LRAs and LRAAs in the ES, there are general issues of capacity. LRA participation is constrained by resource limitations and see the ES as a trade-off between the value they might (or might not) get from more involvement with the time and people they would need to dedicate. Smaller LRAAs in the Netherlands often do not even have policy officers, and no people to deal with the economy at large. Economic/ fiscal policy in such cases may be made by the biggest municipality in the region. This is a reason to consider at what level and how LRAs and LRAAs may work in future.

From the national perspective, deeper LRA policymaking involvement is not considered as appropriate because ES is seen as a national government issue. In general, the ES as ‘soft law’ is not regarded as a key institutional process. This is seen in the lack of mechanisms for information exchange between the national government and LRAs/LRAAs in the NRP process (just one-way information-gathering) and highlighted by the annual turnover of NRP coordination officers who, while learning on-the-fly do not have the time to amend this process.

Nonetheless, inclusion in the Country Report of Annex D connecting EU funding to specific regional objectives, and the New Green Deal amplify the relevance of the ES for LRAs, especially in the devolved governance structure in the Netherlands.

2.4.2 Role of LRAs in ES Process

It was noted that if the LRAs or LRAAs give input to the NRP and the government disagrees, then the government can ignore it. The government encourages factual, reflection-based feedback on the LRA-level rather than promotional or forward-thinking and innovative engagement. There are conflicting opinions over whether the NRP is the appropriate mechanism for debate over controversial policy issues, and to what extent and in what way LRAs and LRAAs should be involved.

Even if greater LRA involvement is taken for granted and the NRP is deemed an appropriate platform for policy debate and subsidiarity-informed policy formation, the appropriate role for LRAs within the process in the Netherlands would not be obvious. LRA involvement ought not to be on a city-by-city basis as this would be impractical, with unjustifiable disruption, delays, and deadlocks, but the process for information gathering needs to be considered.

A dual process could be constructed for LRA involvement, where a large or national LRAA plays an expanded role in policymaking for the NRP on issues of uniform concern for LRAs in the Netherlands. Another possibility would be where LRA issues for certain regions or a certain class of LRA are represented by smaller association groups independently as part of a policy dialogue over the NRP.

In practice the former type of interaction would be best represented by the VNG (*Vereniging van Nederlandse Gemeenten* a.k.a. *Association of Dutch Municipalities*) which currently represents all Dutch LRAs and their interests in different forums. Such interaction, i.e. for specific regional or class-of-LRA issues could however be better represented by the G4 or the G40. The G4 (*De Grote Vier*) is a strategic network of the four largest cities in the Netherlands, namely Amsterdam, Rotterdam, The Hague and Utrecht. The G40 is a mutually

collaborative network between 40 medium and large cities excluding the G4. These networks of similar cities already share information, resources and strengths, so their participation in policy making could be formalised for the ES.

The current process works as follows:

- The NRP coordinator working in the Ministry for Economic Affairs and Climate sends emails in the NRP format to ministries, the VNG, and selected LRAs.
- The VNG shares this concept NRP with local and regional governments, social partners and the G4 and G40.
- The ministries have the first deadline. When their work is completed and submitted a renewed version is sent to the VNG and selected LRAs.
- Within a week the VNG and selected LRAs must submit their comments.
- Thereafter the ministries are once again provided with a copy of the NRP, this time with VNG and selected LRA comments included.
- The EC publishes its Country Reports.
- The ministries provide their final comments.
- The draft is shared internally in the Ministry for Economic Affairs and Climate and discussed at senior levels.
- The draft is edited and translated, then sent to the Minister for Economic Affairs and Climate.
- It is sent to Parliament before submission to the EC.

Overall, the exchange is currently limited mostly to broader national policy making with only specific information requested and provided. There is no consultation with the national government for the ES. In general, the Netherlands has a very strong consultation and cooperation culture, and the MLG system is broadly functional and effective. Further to this, for the ES, at national and LRA levels, the ESO also has regular informal contact with LRAs and LRAAs in the Netherlands. However, it remains substantially unclear for LRAs and LRAAs how much their interactions with various ministries and the EU feeds into the ES. While this is also in part due to the nature of the NRP, which is a national government report, it nonetheless represents an obstacle for subsidiarity, which cannot be defined as ‘active’ in the Netherlands for the ES, if subsidiarity means active LRA involvement including ongoing exchange in the policymaking for the NRP or any core ES product.

2.4.3 Lessons learned

Overall, the ES mainly serves as a framework to justify action in themes already relevant to LRAs rather than as a proactive policymaking tool at either national or LRA level. Policy content is agreed between different governance levels through other processes related to sector policy and policy programme development. In the Netherlands, policy making and LRA involvement generally evolves through continuous interaction between LRAs and LRAAs with ministries and does not follow a linear process as suggested by the structure of the ES.

Despite this inclusion in general policy making, consideration of LRA positions in the ES nevertheless faces certain weaknesses:

- Time limitations in the process for commenting on the draft NRP stifles in-depth LRA contributions and reflections, even if they were considered by the national government.
- There is no notification of how any feedback from LRAs during the information-gathering component influences the NRP, as it is a report provided by the Dutch government to the EC. Thus, the nature of the NRP may not favour stronger LRA involvement.
- There has till now clearly been a lack of a strong internal push from LRAs to be more involved in the ES, due to the perception that this will not be effective and they will not be listened to. Also, they lack the resources to take on such work unless necessary. In addition, Annex D and other regional aspects is new (where before there was no clear territorial dimension).

Overall, there is room for more LRA and CoR involvement in the ES and the ES could be improved to benefit LRAs, LRAAs and the CoR. There is a variety of ideas for alternative access points:

- SDGs and Cohesion Policy areas are considered as new aspects in the ES where LRAs and LRAAs could shape agendas for future cycles.
- Ideally all levels of governance should be included in the ES development to highlight challenges and opportunities in implementation and otherwise, also to consider and work through solutions in an in-depth and informed way. This is because of the much deeper on-the-ground local and regional understanding and experience. A dual mechanism could be considered and has been proposed

with greater involvement by the VNG on an overall level, and the G4 and G40 on more topic-, region- or class-of-LRA levels.

- Social partners and the EC have tripartite meetings, where the EC are part of social dialogue with employer associations and unions. The CoR could try to set up such a dialogue with the ES in mind for ongoing feedback and territorial input, which would need to be documented for the ES.

As with other countries however, the principal issue is the lack of proper and interactive inclusion of LRAs and their data and solutions in the ES process in the Netherlands. As in every country the direct interlocutor with the EC is the national government, who could develop procedures for more inclusion of LRAs in the ES but may not do so in the Netherlands due to reasons mentioned above in this section.

3 Lessons learned from the case studies about the involvement of LRAs in the European Semester

This part of the study discusses active subsidiarity and MLG approaches to the ES on the basis of the Case Studies and expert opinions. It also verifies if lessons from the cases are representative of the EU overall.

3.1 How are LRAs relevant for the ES?

In the cases, the involvement of LRAs in the ES is evident for CSR analysis. This is particularly true where the Constitution recognises powers for LRAs. In the four case studies the ES and especially the CSRs involve LRAs as follows:

- Germany, CSR 1 (2019)²⁹ says to ‘(...) use fiscal and structural policies to achieve a sustained upward trend in private and public investment, notably at regional and municipal level. Focus investment-related economic policy on education; research and innovation; digitalisation and very-high capacity broadband; sustainable transport as well as energy networks and affordable housing, taking into account regional disparities (...)’. The recommendation explicitly requires the involvement of LRAs as beneficiaries and implementing actors of public investments. Furthermore, the recommendation emphasises a regional dimension for the investments since they should be tailored to the different needs.

- Italy, CSR 3 (2019)³⁰ notes ‘Focus investment-related economic policy on research and innovation, and the quality of infrastructure, taking into account regional disparities. Improve the effectiveness of public administration, including by investing in the skills of public employees, by accelerating digitalisation, and by increasing the efficiency and quality of local public services (...). The regional dimension is, again, the key factor to be considered when locating the investment. The recommendation calls on LRAs as public services providers, to ensure quality and efficiency.

²⁹ Recommendation for a COUNCIL RECOMMENDATION on the 2019 National Reform Programme of Germany and delivering a Council opinion on the 2019 Stability Programme of Germany - COM/2019/505 final.

³⁰ Recommendation for a COUNCIL RECOMMENDATION on the 2019 National Reform Programme of Italy and delivering a Council opinion on the 2019 Stability Programme of Italy COM/2019/512 final.

○ Netherlands, CSR 1 (2019)³¹ says ‘*Reduce the debt bias for households and the distortions in the housing market, including by supporting the development of the private rental sector(...)*’. In this case, the recommendation addresses LRAs, and especially municipalities, since they regulate the housing market and well as urban planning and social housing.

Even when the MS is more centralised, LRAs are relevant in the CSRs. For example, the CSRs for Croatia (2019)³² directly and indirectly involve LRAs in relation to, for example, reducing territorial fragmentation of public administration, urban sustainability, capacity to design and implement public projects, as well as combatting corruption . It is also worth noting that the CSRs addressing Croatia refer to ‘*taking into account regional disparities*’ introducing a territorial dimension in the public investment decision.

Beyond these cases and for other MSs (see the figure below), the 2019 CSRs directly or indirectly involve LRAs in four policy aspects:

○ *Strategic investment*: CSRs ask that investment always considers the territorial dimension i.e. regional disparities.

○ *Institutional/ fiscal framework reform*: CSRs demand changes in relations between different levels of government related to financial, administrative, economic and organisational aspects.

○ *Delivery of service*, CSRs often refer to social, educational and transport services which are normally delivered by LRAs (especially municipalities).

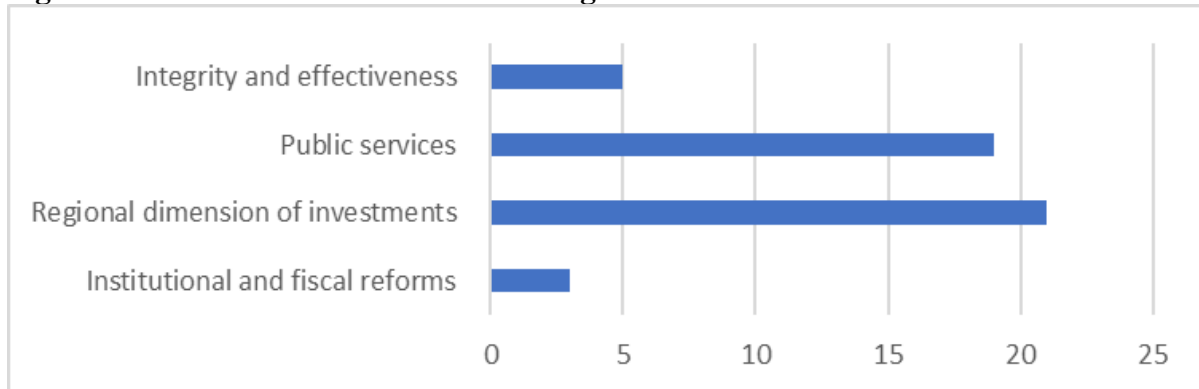
○ *Integrity/ capacities of public servants*, CSRs advocate empowerment of public administration for quality management, public procurement and integrity. Since most are employees in regional and municipal administration, this recommendation directly addresses LRAs.

It is worth noting that such recommendations target almost all MSs, but do not explicitly address LRAs.

³¹ Recommendation for a COUNCIL RECOMMENDATION on the 2019 National Reform Programme of the Netherlands and delivering a Council opinion on the 2019 Stability Programme of the Netherlands COM/2019/519 final.

³² Recommendation for a COUNCIL RECOMMENDATION on the 2019 National Reform Programme of Croatia and delivering a Council opinion on the 2019 Convergence Programme of Croatia COM/2019/511 final.

Figure 3-1 Number of 2019 CSRs involving LRAs



Source: own elaboration.

The result of the above screening is fully mirrored by the territorial analysis carried out by the CoR (CoR 2019a). The analysis found out that ‘territory-related’ CSRs represent 62% of all (see the figure below).

In addition to the CSRs, the key role of LRAs is even more evident in the Country Report, and more precisely Annex D and ESIF policy (see chapter 3.4).

Against this implication of LRAs in ES through the CSRs and Annex D, the case studies show a common consensus of involving LRAs in the ES. National and central authorities and European institutions reckon their awareness is essential to increase the chance that CSRs are taken up and implemented. In more detail:

- **EU officers** in National EC Representations and Brussels are very aware of the importance of LRAs for grounding the ES in the territories. Beside the importance of subsidiarity as a guiding principle of the Union, the officers have a pragmatic approach. LRAs are a key element in European MLG especially with the introduction of ANNEX D and the country report. A great deal of the reform process takes place at regional level and LRAs are key actors in implementing EU policies. So, it is important that the Regions are aware of the ES to ensure consistency across the regional, national and European levels. But this is not ‘top down’ as a correct understanding of the semester implies that regional authorities have a better overview of opportunities for the EU to fund their intervention.

At **national level** there are almost the same opinions. Independent of the constitutional set-up and level of centralisation, all the officers agree that LRA support is essential in implementing NRP.

For **LRAAs**, again, the involvement of Regions and local authorities in the ES process would strengthen policymaking and implementation.

LRAs are not always aware of the ES and how they are relevant. More specifically decision makers seem less interested in the ES and have less understanding, while people directly involved in ESIF implementation are very much aware of its importance.

LRAs have a role in the ES as they are directly or indirectly involved in the CSRs and are the main actors in implementing the policies of CSR Annex Ds. Therefore, independently of the national constitutional set-up and the level of deregulation, LRAs are perceived as very relevant by the different levels of European Governance since they are key to implementing ES policies. However, LRAs, especially policy makers, are not fully aware of this relevance

3.2 How to involve LRAs?

LRA involvement in the ES process, and especially in NRP drafting is different in the four cases:

- In Italy, an ‘ad-hoc’ system was set-up by CINSEDO and TECNOSTRUTTURA. The process is structured and specifically designed to collect information on the implementation of CSRs at regional level. The contributions are displayed in the NRP in a dedicated section.
- In Germany, involvement is based on existing institutional channels (standing conferences of Länder ministers coordinated by the Ministerial Conference of the Federal States - MPK) and follows a defined path. Further on, the Länder and LRAs are asked to comment on the draft NRP. In the German NRP there is no specific section, however there are many references to LRAs. In addition, and case by case, the LRAAs can be invited by the central level to discuss specific topics.
- In the Netherlands, the process is through the association of Regions and Municipalities and mainly consists of commenting on the draft NRP through their associations. However, contributions are also channelled by Municipalities and Regions directly and informally to the relevant ministry.
- In the Croatian case, there is no formal mechanism to involve LRAs and their associations during the ES. Occasionally, they are invited with other social partners to attend working groups to provide specific contributions to the NRP. The draft NRP is presented to social partners before it is adopted by the government and submitted to the parliament.

The table below synthesises the main features of the four processes in relation to the type of interactions.

Table 3-1 Process for LRA involvement in ES

	Type of interaction	Type of channel	Main Level of LRAs involved	Contribution
Italy	Structured	Specific institutional	Regional	Providing information
Germany	Structured	Traditional institutional	Regional	Providing information, consultation of draft NRP
Netherlands	Not structured	Traditional institutional / informal	Regional and municipalities	Providing information, consultation of draft NRP
Croatia	Not structured	Not consolidated	Counties and municipalities	Consultation on draft NRP

Source: own elaboration.

In all four MSs, the processes are very different and partly depend on the constitutional set-up, central government approaches and institutional *modus operandi*. However, in Italy, Germany and the Netherlands where the processes are more consolidated and the involvement of LRAs deeper, LRAs play a pivotal role. They interface directly with the central government, coordinating the collection and elaboration of information and eventually providing a synthesis.

Beyond the differences and despite the different contexts, the cases studies highlight some interesting common points:

- A) LRAs are formally involved only at national level in elaborating the NRP. They are not formally engaged at European or national level in defining other key products of the ES (e.g. country reports, CSRs).
- B) At national level, LRAs only provide information and if consulted for the NRP have a very tight timing.
- C) LRAs can have a role in the country report Annex D. For ESIF, especially Regions, Länder and large municipalities informally or formally enter in a dialogue with EC services through their representatives in Brussels (in Germany), the national association (in Italy), or directly (in the Netherlands).

It is also interesting to note that participating in the ES has some unintended benefits. In Italy, providing information in a structured and methodologically

supported way allow Regions to have a very useful functional policy dashboard to align domestic policies with national and European levels. This improves the quality of strategic programming and allows the Regions to have a better vision of possible financial opportunities at EU level.

The process of involving LRAs in the ES is limited to providing information and consultation in the framework of NRP. The process can be designed ‘ad-hoc’ or follow the usual institutional path. It can be formal or less formal and eventually involve only the regional level, the municipal level or both. In the case of institutional involvement, the role of LRAAs is pivotal.

3.3 What are the main factors and conditions shaping the process?

However even if LRAs are crucial for implementing the ES and ad-hoc or institutional process are in place, there was no LRA involvement beyond providing information or being consulted for on the final draft of the NRP, normally with very tight timing. In other words, any involvement is informative rather than co-creative even in Germany, Italy and the Netherlands where there are federal systems and a high level of devolution.

The reasons for limited LRA involvement can be categorised as follows:

- **Constitutional set up:** in Italy, Germany and the Netherlands LRAs are involved in formulating the NRP while in Croatia LRAs have a very minimal role. The reason is that in the first three countries the Constitution devolves power to several domains while in Croatia there is a more centralised set-up. However, it is worth noting that also in Italy, Germany and Netherlands where LRAs have a crucial role, their contribution to ES is limited. The Constitutions do not foresee a clear role for LRAs in designing national policy and the NRP is considered as national policy. Therefore, even in a federal, highly deregulated constitutional set-up, there is no legal obligation for the central level to include LRAs in the process.
- **Capacity of LRAs and LRAAs.** One limit emerging from the case studies and the interview with the subsidiarity expert is the capacity and capability of national LRAAs. LRAAs are essential in driving the views of regions or municipalities into the ES but they need to have analytical and coordination capacity. The ES entails good macroeconomic understanding together with in-depth sectoral knowledge. LRA’s can add value only if they can master both which requires high skilled personnel. Probably more important, to fully represent the views and needs of different territories, LRAAs should

have an effective coordination mechanism and high legitimacy enabling a final political synthesis. If the association lacks political legitimacy from their members it will be very difficult to consolidate the needs and align the different interests. And even when an LRAA has technical know-how and institutional capacity, the investment to actively participate in the ES is significant. Even more structured and mature LRAAs (e.g. VNG) make a cost and benefit calculation. Eventually, if the role in the ES is limited, the LRAA would prefer to make a different kind of investment.

- **Complex nature and timing of the ES:** Complexity is repeatedly considered as hampering better LRA involvement, although administrative systems and MS sizes differ considerably in the sample. The ES is a complex mechanism and entails many different policy domains and approaches. Furthermore, it is perceived more as an ‘ex post’, highly abstract exercise. The timing is extremely tight despite a cycle of almost a year, the most critical steps i.e. reporting and drafting the NRP take place in two months.
- **Attitude of central authorities.** Even if all ministries interviewed show a genuine understanding of the importance of LRAs, all are hesitant to engage them more due to the absence of a constitutional clear mandate, lack of technical and institutional capacity in LRAAs as well as the complexity and timing of the ES. They see more involvement as a potential obstacle to the efficient drafting of the NRP.

All in all, these factors do not allow the full realisation of active subsidiarity, reducing the benefit of functional MLG.

Three factors reinforce each other and hamper the full involvement of LRAs: ES complexity requires institutional and technical capacity and demands intense investment from LRAAs; the need for efficient ‘institutional investment’ makes LRAAs reluctant to fully be involved in the ES process; the lack of clear added value for LRA contributions increase the negative attitude of central authorities. However, the lack of a clear constitutional mandate is probably the main impediment limiting LRA involvement.

3.4 What are the connections between ESIF and other EU policies?

The ES, especially with Annex D of the country report, is very connected with ESIF policies. Indeed, Annex D provides Commission views on priority investment areas for effective delivery of 2021-2027 policy objectives:

1. A Smarter Europe;
2. A low carbon and greener Europe;
3. A more Connected Europe;
4. A more social Europe;
5. A Europe closer to citizens.

The recommendations impact on Operational and Rural Development Programmes in the way investments are designed, planned and selected. The box below contains a sample of recommendations from country reports covering policy objectives³³, directly calling on regions and municipalities and are related to:

- Smart specialisation, which typically has a regional dimension and / or is designed and implemented by regional authorities;
- Cooperation and synergies between different levels of government and among territories, also through Community Led Local Development;
- Urban and metropolitan development, calling for a leading role of cities as drivers of innovation and economic development.

Table 3-2 Sample of recommendations from Country report Annex Ds

Germany³⁴	<ul style="list-style-type: none"> -facilitate the transition towards new technologies, based on smart specialisation strategies - support Smart City initiatives in cities, in particular in cooperation with universities, experimental projects, smart urban mobility -build synergies and joint projects with other Länder, regions and MSs / develop urban-rural cooperation, especially around growing major cities
Italy³⁵	<ul style="list-style-type: none"> -enhancing research and innovation capacities (...) in line with national and regional smart specialisation strategies. - metropolitan functional areas need to address poverty challenges, caused also by agglomeration effect and population trends; -reinforce partnership and bottom-up policy setting with greater involvement of cities, other local bodies
Croatia³⁶	<ul style="list-style-type: none"> -strengthen innovation performance (...) identifying smart specialisation areas on the basis of national and regional needs and potential; - support community building by integrated territorial development strategies in rural/sparsely populated areas, empowering local

³³ The recommendations are all belong to Policy objectives 1 and 5 since they are common for all Country Reports.

³⁴ COMMISSION STAFF WORKING DOCUMENT Country Report Germany 2019 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances.

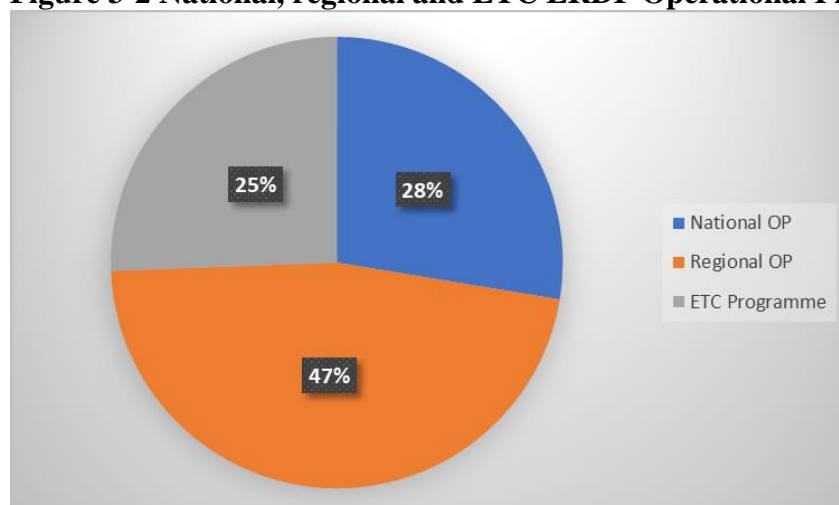
³⁵ COMMISSION STAFF WORKING DOCUMENT Country Report Italy 2019 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances.

³⁶ COMMISSION STAFF WORKING DOCUMENT Country Report Croatia 2019 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances.

	stakeholders possibly through the use of Community-Led Local Development - reinforce the role of leading economic centres as drivers of regional growth and of sustainable and integrated development.
Netherlands³⁷	- enhance research and innovation capacities (...) within the framework of regional smart specialisation strategies that identify priority areas based on regional needs and potential - strengthen investment by cities in research and innovation, in cooperation with all stakeholders - promote cooperation in these areas between cities,

These are only a few examples of recommendations directly addressing LRAs. In Germany, Italy and the Netherlands, the Regions, Länder and Provinces directly manage the majority of ESIF programmes i.e. they are Managing Authorities. In other words, they are not only ‘addressed’, but have the responsibility to implement. This is the case in most MS. Almost half of ERDF programmes are implemented by regional Managing Authorities or, at least, by regional implementing bodies (see chart below). In addition, most ETC Programmes are managed directly by regional authorities, so Commission views on priority investment areas target LRAs with these as well.

Figure 3-2 National, regional and ETC ERDF Operational Programmes



Source: own elaboration.

The case studies highlight that LRAs are in close contact with EC services via the formal institutional channels of ESIF governance, including control committees. There is other contact via the informal daily relations between Managing Authorities and EC desk country officers. This cooperation is seen by both LRAs and EC services as consolidated and collaborative. However, the Country Reports are outside this framework, so regional authorities see these recommendations as

³⁷ COMMISSION STAFF WORKING DOCUMENT Country Report the Netherlands 2019 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances.

outside their usual interaction with the EC. This can provoke an institutional short circuit and harm relations between the two levels. In other words, regional authorities implement their Operational Programmes separately under the ESIF governance framework. Changes in investment priority or re-orientation of the use of ESI funds are negotiated mostly bilaterally and directly with the relevant Directorates General.

The Country Report introduces another layer where LRAs are not formally involved. This has two potential negative effects in weakening the ESIF governance framework as well as commitment toward the EC recommendations.

The cases do not show additional connections with other EU policy tools or frameworks and no reference was made to the SRSP. This is not obvious as SRSP has supported about 1000 reform projects in 27 MS since 2015 and some areas of support are very relevant for LRAs. Areas of support include governance and public administration, public financial management, anti-corruption, anti-money-laundering, investment climate, public assets and education. More importantly, SRSP is designed to offer assistance to *‘the different levels of government in EU Member States (national, regional and local) on reforms targeting effectiveness and efficiency in administration’*³⁸.

However, the limited knowledge of SRSP is confirmed by data on Programme implementation. Analysing the projects funded since 2016³⁹, only one in Spain and a couple in Belgium directly involve LRAs. The reason for this discrepancy between the orientation of SRSP and its actual implementation for LRAs is the selection mechanism. All national applications are filtered by one central authority, normally a ministry and this is the only interface with the EC service in charge of SRSP implementation i.e. DG REFORM.

The extremely limited participation of LRAs in SRSP opportunities is even more alarming in light of the coming expansion of EC support for reforms and the new BICC. This is a budgetary tool dedicated to the euro area supporting structural reforms and public investments to support potential growth and resilience. It is expected to have a budget of EUR 25 billion and become operational in the 2021-2027 programming period.

Eventually it is important to underline the link between ES and ‘The European Green Deal Investment Plan’ which involves both EU and national budgets and a number of funding instruments. The significant territorial dimension of such

³⁸ See p. 10, Report on the 3 years of the SRSS, EC 2018

³⁹ The analysis was conducted on the *‘Approved technical support requests under the Structural Reform Support Programme’*. The list available on the EC web site: https://ec.europa.eu/info/files/approved-technical-support-requests-under-structural-reform-support-programme_en

funding instruments is highlighted in the EP assessment of the ‘Just Transition Fund’ proposals (European Parliament 2020). Therefore, the ES as a coordination mechanism can be highly relevant, and the nature of the interventions calls for a big role for the LRAs.

Most of the Regions and local authorities interviewed in case studies have climate and energy goal on their political agenda and sometime stronger ambitions than national government. However, LRAs have not been so successful in getting their opinion on board with national issues. LRAs are left with the feeling that they should not present information or designs which are controversial.

The evidence collected by the cases studies is supported by other CoR studies (CoR 2019) which confirm that European local and regional authorities are fully engaged in designing and implementing strategies to achieve SDGs. However, subnational governments are not regularly engaged in the reporting process by the national government. The study (CoR 2019b) notes that 65% of the 169 targets within the 17 SDGs ‘can only be reached with the coordination and inclusion of local and regional governments’.

Therefore, integrating the SDGs in the ES and coordination over SDG policymaking presents another major opportunity for deeper LRA involvement in the ES. According to EP study EP 2019 dynamizing MLG holds great possibility for sustainable progress for LRAs and broader society and is indeed a requisite to accelerate SDG implementation at all levels.

The ES is tightly linked to ESI Funds, since Annex D recommendations addresses LRAs as Managing Authorities of Operational Programmes and Rural Development Programmes. This looks unconnected to the traditional ES governance framework and could create an institutional short circuit. The SRSP is not currently used by LRAs despite aims to facilitate reform also at regional and local level.

3.5 Subsidiarity at work during the COVID-19 emergency

This section is not covered in the case studies but is based on desk research mainly using ECONomic bulletins on COVID-19 impact and response measures published since end of March 2020⁴⁰ as a source. The COVID-19 crisis will be central in the ES and LRAs are playing a crucial role in facing the economic and social consequences.

⁴⁰ <https://cor.europa.eu/en/news/Pages/ECON-responses-at-local-level-Covid-19-crisis-05.aspx>

The COVID-19 pandemic set off a global crisis of exceptional proportions with dangerous socio-economic consequences. The measures already taken in response by many LRAs indicate their relevance and preparedness to tackling the specific needs of their territories. The table below illustrates LRA measures adopted in several fields of intervention.

Table 3-3 LRA measures in response to COVID-19 crisis

Field of intervention	Type of LRA measure	Example
Support to SMEs	Liquidity (direct aid through grants, expansion of guarantee schemes for loans)	Dusseldorf (DE): Aid fund of EUR 500 000 for local companies, serving as interim aid to overcome their potential financial problems before the State of North Rhine-Westphalia and Federal Government offer concrete measures for businesses.
	Information and consultancy services	The city of Gothenburg (SE) enhanced its support towards SMEs through ‘Business Region Gothenburg’ by expanding its support team for consultancy and advisory services, accessible via e-mail and phone.
	Exemption, suspension, deferment or discount of rent linked to public premises	The Warsaw (PL) support package for entrepreneur tenants of the city’s commercial premises includes the reduction, deferment or reschedule of rent.
Fiscal policy	Exemption, discount, deferment or incremental payment of regional and local taxes	The Lombardy (IT) regional resolution 2965/2020 provides for the suspension of the payments of some regional taxes for companies with tax domicile, a registered office or operational headquarters in the region.
Employment	Liquidity	Azores (PT): the regional government injected EUR 45 million for two national measures supporting continued employment in particular, through anticipated liquidity and a regional complement to the simplified layoff regime.
Social policy	Support to the most vulnerable categories of the population	The EUR 30 million plan announced by the Corsican Executive Council (FR) foresees support for people in precarious situations including by paying part of their rent (EUR 3.2 million) and ensuring full payment of social benefits.
Health policy	Purchase of medical equipment	The regional and local governments in Istria region (HR) cooperate by collectively contributing to the purchase of medical equipment. Each municipality contributed with some EUR 10 000 to 26 000 and the regional government with about EUR 40 000. Lubelskie region (PL): the region reallocated funds within the ESF to enable a new project to finance new medical equipment and pay medical staff.

Field of intervention	Type of LRA measure	Example
	Research and development	In Andalucía (ES) , the regional Health Department together with Info UMA have designed a ventilator prototype to improve medical assistance. The regional Ministry of Economy has launched a platform which connects companies, R&D and other innovative entities to offer quick and efficient solutions to confront COVID-19.
Rural development	LEADER initiatives	The LEADER Local Action Group of Valla del Jerte (ES) , a community of 11 villages and about 12 000 inhabitants, has taken several initiatives involving all key stakeholders. These include looking at ways of offering jobs in the upcoming cherry season to people who have lost their jobs in tourism –helping those in need and covering a shortage of workers caused by the confinement.

Source: CoR (2020) *ECONomic bulletins on COVID-19 impact and response measures*, own elaboration.

At the same time, numerous measures have already been taken at EU and national levels. The EC immediately proposed and adopted measures and initiatives to alleviate the economic effects of the crisis. The table below provides an overview of EU measures adopted so far in different fields and possible LRA involvement.

Table 3-4 EU COVID-19 response measures and possible LRA involvement

Field of intervention	Coronavirus EU response measure	LRA involvement
Support to SMEs	Liquidity EIB financing package: <ul style="list-style-type: none"> • Dedicated guarantee schemes based on existing programmes for immediate deployment. An EUR 1 billion guarantee tranche will mobilise up to EUR 8 billion of SME financing. • Dedicated liquidity lines to banks to ensure additional working capital support for SMEs and mid-caps of EUR 10 billion; • Dedicated asset-backed securities (ABS) purchasing programmes to allow banks to transfer risk on SME loan portfolios, mobilising another EUR 10 billion of support. 	Indirect role <ul style="list-style-type: none"> • Facilitate the access of SMEs to EIB support measures Direct role <ul style="list-style-type: none"> • Redesign ERDF interventions (grants) for SME support and competitiveness (TO 3)
	State Aid: procedural facilitations to enable a swift approval process for State aid notification. The main fiscal response to the crisis will thus come from MS budgets as EU State aid rules	Direct role <ul style="list-style-type: none"> • By exploiting the new flexibility of State aid, LRAs (MAs) can support SMEs through ESIF interventions in

Field of intervention	Coronavirus EU response measure	LRA involvement
	will enable MSs to take swift and effective action to support citizens and companies, in particular SMEs, facing economic difficulties due to the crisis.	fields such as a shift to smart working and use of e-learning/training.
Fiscal policy	Fiscal flexibility: the EC will accommodate exceptional spending to counter the crisis when assessing compliance with EU fiscal rules and will adapt the fiscal efforts required from MSs (i.e. activation of the general escape clause under the Stability and Growth Pact), taking into account country-specific situations of negative growth or large drops in activity.	Direct role <ul style="list-style-type: none"> • With the new flexibility at national level, LRAs can provide exemption, discount, deferment or incremental payment of regional and local taxes.
Social policy and employment	Support to employment: the Support mitigating Unemployment Risks in Emergency (SURE) initiative will provide financial assistance of up to EUR 100 billion in total to MSs in the form of loans on favourable terms cover the costs of national short-time work schemes which sustain family incomes and preserve productive capacity, human capital of enterprises and the overall economy.	Indirect role <ul style="list-style-type: none"> • Facilitate local/regional SMEs in exploiting opportunities provided by the SURE initiative. Direct role <ul style="list-style-type: none"> • Redesign regional ESF interventions under TOs 8 and 9 (e.g. support to vulnerable groups hit by the crisis, support for citizen services, public awareness).
Health policy	The Coronavirus Response Investment Initiative (CRII) and CRII+: EUR 37 billion under ESIF will be redirected to respond to the crisis by renouncing the EC obligation to request refunding of unspent prefinancing for ESIF currently held by MSs (currently EUR 7.9 billion from the EU budget which MSs will be able to use to supplement EUR 29 billion of structural funding across the EU). Additional EUR 28 billion of unallocated structural funds should also be fully eligible. The new CRII+ package will complement CRII by introducing extraordinary flexibility to allow all non-utilised support from ESI funds to be fully mobilised.	Direct role <ul style="list-style-type: none"> • Coordination of local and regional health authorities • Hiring of medical staff • Coordination of testing facilities • Coordination and harmonisation of procedures to tackle the emergency • Provision of health surveillance and assistance mechanisms at territorial level • Management of financial resources • Management of ESIF ROPs <ul style="list-style-type: none"> ○ Redesign of ERDF interventions under TO1 (Research and innovation projects in the medical field in partnerships of research

Field of intervention	Coronavirus EU response measure	LRA involvement
		<p>centres, businesses and universities; aid to technological development in medical enterprises, investments to strengthen capacities of healthcare services to respond to crises).</p> <ul style="list-style-type: none"> ○ Redesign of ERDF interventions under TO9 (Medical supplies, testing, protective and medical devices, treatment, remote diagnosis, disease prevention, disease prevention initiatives).

Source: EC, KPMG⁴¹, own elaboration.

To optimise the EU initiatives, especially CRII/CRII+, LRAs shall carefully identify needs, re-allocate resources, reformulate their programme strategies, as well as plan, implement and monitor the activities.

More than this, LRAs shall be able to offer feedback and proposals to EU Institutions and MSs since their role is crucial in implementing the EU initiatives. In this context, future ES cycles will most likely be shaped to respond to the current crisis, taking into account the greater coordination needed for effective deployment and implementation of Coronavirus response measures in MSs.

Finally, the proposed EC recovery Plan - Next Generation EU - will provide unprecedented amount of resources with 750 billion euros and its three pillars:

- *Supporting Member states recovery*: a package of both traditional (e.g. cohesion policy) and new (e.g. Recovery and Resilience Facility RRF) investment tools should directly support reforms and investments;
- *Kick-starting the economy and helping private investment to get moving again*: EIB-led financial mechanisms to support companies' liquidity and restart;
- *Learning the lessons of the crisis and addressing Europe's strategic challenges*: common emergency management programs.

⁴¹ KPMG (2020), *COVID-19: i Fondi della Politica di Coesione UE, Opportunità di impiego dei Fondi Strutturali e di Investimento Europei per fronteggiare l'emergenza sanitaria ed economica dovuta al COVID-19*.

Next Generation EU - especially the first pillar – will be implemented within the ES framework. A unique opportunity for the Regions without which the crisis will be very hard to manage. But it is also true that it is impossible not engaging LRAs, directly or indirectly for the recovery activities. Therefore, embedding active subsidiarity in the ES is crucial to optimising to the European economic re-boot.

4 Conclusions and recommendations

This part is divided into two sections:

- Section 4.1 summarises conclusions from the desk analysis and case studies;
- Section 4.2 offers recommendations for the EC, CoR, MSs, LRAAs and LRAs.

4.1 Conclusions of desk analysis and case studies

Analysis of the literature and official documents, as well as interviews from case studies across four MSs, shows that LRAs are crucial to implementing the ES as they enact CSRs in their territory.

LRA relevance in the ES is evident with their involvement in four policy aspects of the 2019 CSRs, even though LRAs are not explicitly addressed:

- **Strategic investments**, where regional disparities always need to be taken into account.
- **Institutional/ fiscal framework reform** in different levels of government related to financial, administrative, economic and organisational aspects.
- **Delivery of services**, where CSRs refer to services usually delivered by LRAs (social, education and transport).
- **Integrity/capacities of public servants**, most of whom are regional and municipal administration employees, means the empowerment of public administration for quality management, public procurement and integrity.

Furthermore, the key role of LRAs is even clearer in Annex D of the Country Reports, more precisely with ESIF policies and guidance for the effective delivery of 2021-2027 policy objectives. The recommendations impact on investment design, selection and planning for Operational and Rural Development Programmes, directly calling on regions and municipalities in areas related to:

- **Smart specialisation**, which typically has a regional dimension and / or is designed and implemented by regional authorities;
- **Cooperation and synergies between different levels of government** and among territories, also through Community Led Local Development;

- **Urban and metropolitan development**, with a leading role for cities as drivers of innovation and economic development.

Finally, the case studies indicate **National authorities** as well as **EU institutions** believe LRA awareness is essential to ensure consistency across regional, national and European levels and a correct understanding of the ES. This would increase the chance that CSRs are taken up and implemented, independently of the national constitutional set-up and the institutional routine. On the other hand, **LRAAs** reckon that involvement, more than mere awareness, is needed to strengthen policymaking and implementation. **LRAs**, however, are not always aware of their relevance in the ES process, especially decision makers not directly involved in ESIF implementation.

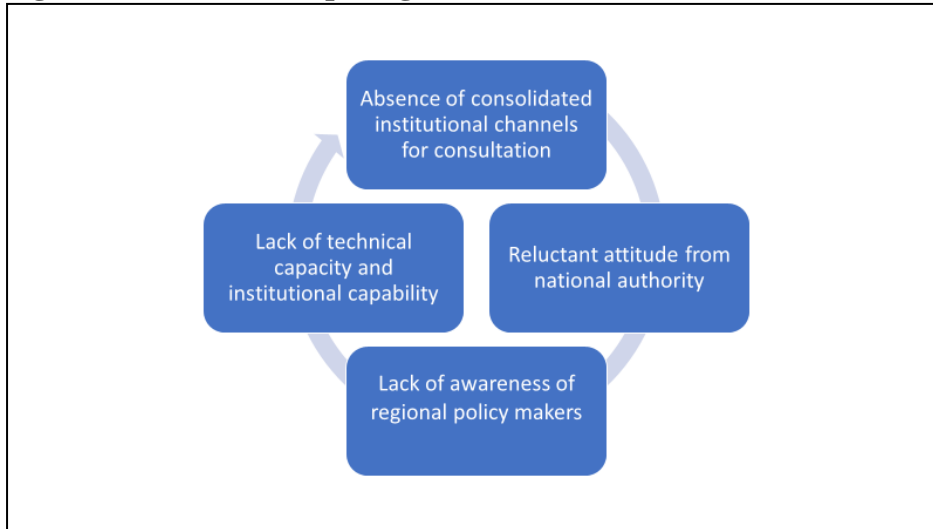
Despite this evidence, LRA involvement appears to be minimal in the ES cycle and mostly confined to one-way information provision and implementing reform measures. There is almost no formal process for interacting with LRAs during the cycle.

There are **issues** that hamper the involvement of LRAs at different levels:

- At **EU level**: the ES overlooks the territorial dimension leaving major territorial differences/disparities in relation to needs and policy performance. Consultation is inappropriate to ensuring LRA input at both national and EU levels (CoR 2017a). LRAs and LRAAs are consulted as stakeholders rather than as partners in MLG.
- At **national level**, involvement is difficult because ministries are reluctant to involve LRAs in the ES, and less keen when drafting the NRP. This also because of the constitutional set up. None of the case studies included a legal obligation for the central level to include LRAs in the process.
- At **LRA level**, there is a lack of technical capacity and institutional capability in national LRAAs. Together with the low awareness of regional and local policy makers, this diminishes any internal willingness to participate in the process.

All these issues are self-strengthening. For instance, reluctance at central level is reinforced by low quality inputs from LRAs, which in turn is determined partially by the lack of interest from local and regional policy makers. This does not promote debate on the ‘active role and involvement of LRAs in the EU’ and does not encourage consultation. This affects the national government, which does not feel the need to consult LRAs and so on.

Figure 4-1 Factors hampering the involvement of LRAs in the ES



Source: own elaboration.

The lack of involvement endangers ES effectiveness and is also a **risk** for LRAs themselves:

- LRAs may be by-passed in the implementation of Cohesion Policy.
- LRAs will not fully exploit opportunities coming directly from the reform process (i.e. SRSP and BICC) or indirectly (Invest EU). LRAs are missing an opportunity to better frame and align their policies with EU governance.

More importantly, the ES already suffers from a lack of legitimacy and ownership. A lack of involvement of LRAs and LRAAs increases the political distance of European institutions to regions and cities. This will make the ES, in the best-case scenario, a formal exercise while at worst it could be perceived as top down imposition. As a result, since LRAs are the main driver for implementing the ES on the ground, the reform process will slow down or not happen.

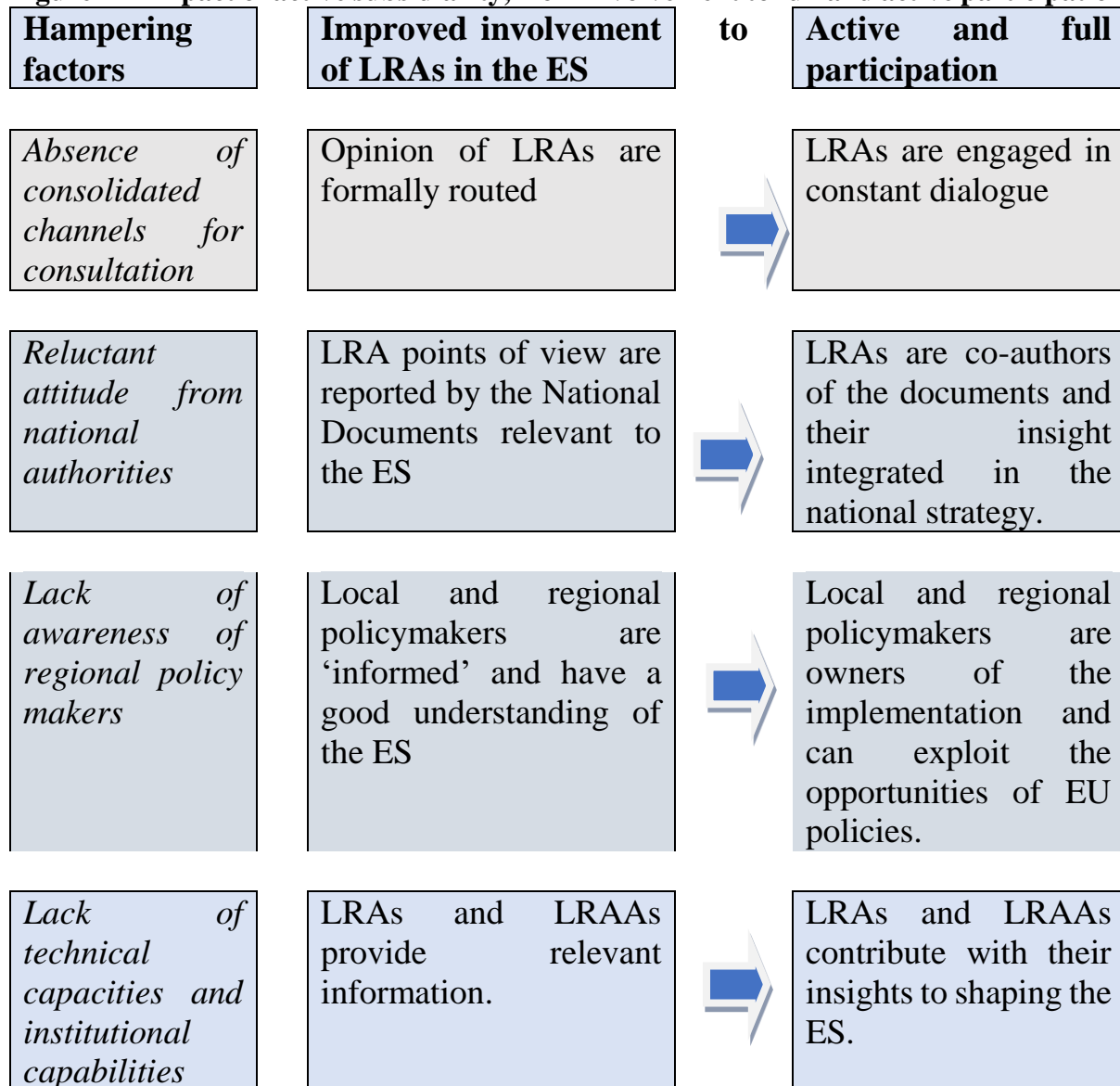
Finally, in the context of the COVID-19 crisis, full involvement of LRAs in the ES is even more obvious and urgent. Indeed, LRAs have an important role in implementing EU initiatives (e.g. CRII, CRII++). Therefore, the ES becomes the main point of institutional coordination entailing deeper involvement for LRAs.

To reverse the situation, beyond increasing the involvement of LRAs in the ES, they must play an active role. So, EU MLG must embrace active subsidiarity in its true meaning. Active subsidiarity, when interpreted as more than mere competence sharing but more widely as enabling open and constant dialogue between different levels of governance (as well as with civil society and the private sector), can break the vicious circle of negative factors described above. **Integrating active subsidiarity** entails a new approach from the EC and national

governments in engaging regional and local governments as well as a proactive approach of LRAs to the ES.

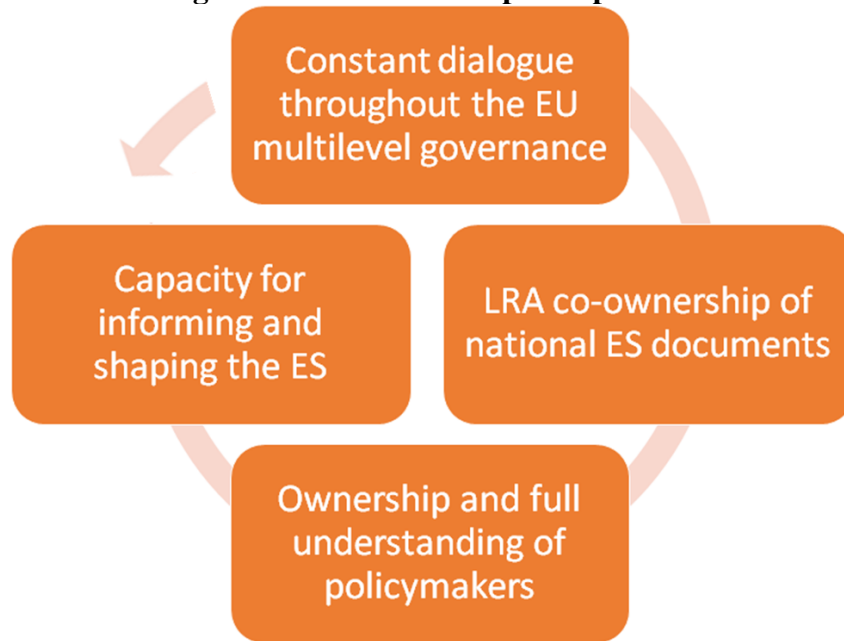
Embedding active subsidiarity in the ES can increase the involvement of LRAs and full participation. Active subsidiarity for each of the hampering factors will move the contribution of LRAs to ‘involvement’ and then to ‘full and active participation’ (see figure below).

Figure 4-2 Impact of active subsidiarity, from involvement to full and active participation



Active subsidiarity can thus turn the ‘hampering factors’ into ‘enabling factors’ not only to increase the active participation of LRAs but also to reinforce the legitimacy and effectiveness of the ES itself.

Figure 4-3 Factors enabling the involvement and participation of LRAs in the ES



In particular, active subsidiarity may be promoted through two pillars:

1. **Improvements** to the ES process, reflecting the arguments already advanced systematically by the CoR, reinforced by the drive for active subsidiarity;
2. **Opportunities** allowed by EU policy initiatives and instruments within the remit of the ES, including addressing threats derived by inconsistency with ESI Funds

4.2 Recommendations

The recommendations below are based on the *two pillars* outlined in the previous section, i.e. improvements to the ES process and opportunities provided by EU policy initiatives.

Both pillars are reflected in the issues explored in the rest of the study. Under each pillar, the recommendations provide indications of areas for deepening LRA involvement and MLG in the ES, in line with active subsidiarity.

Pillar 1: the ES process has several ‘products’ (ASGSs, Country Reports, NRPs, CSRs, etc.) with institutional arrangements and activities including consultations and partnerships associated with each stage of the process. The CoR's opinion on ‘Improving the governance of the European Semester: A Code of Conduct for the involvement of local and regional authorities’ (CoR 2017), aims at bringing a

territorial aspect to the ES, involving LRAs and the CoR in the ES proceedings. The active subsidiarity recommendations reinforce this approach, including specific references to the ES (e.g. regarding the Commission and MS involving LRAs).

This two-tiered approach is focused on analytical and operational levels. The analytical level proposes greater use of the Annual Growth Survey (AGS), NRPs and CSRs for LRA/CoR involvement in the ES process. The operational level includes better systematic engagement of LRAs, building on MLG approaches.

Pillar 2

Further **opportunities** arise from new EU policy initiatives and instruments to support greater LRA and CoR involvement in the ES, reinforcing the proposals identified under Pillar 1.

EU policy initiatives and instruments under the remit of the ES where LRAs might be more heavily involved include ‘The European Green Deal Investment Plan’ and policymaking for the best delivery of SDGs.

The SRSP / Technical Support Instrument should also be closely linked to the ES and particularly to implementation of the CSRs. Creating a window for LRAs (individually or as groups) or LRAAs to directly submit requests for support to the EC, in response to CSRs, would mark a decisive move in implementing active subsidiarity. This would build on tentative steps taken under the SRSP (CoR 2018c). Moreover, there is a threat, as explained above, of inconsistency between the overall ESIF governance framework and the ES.

In the next three sub-sections, the recommendations are condensed in **three scenarios**. The three scenarios are based on actions under pillar 1 and pillar 2 which are analysed in-depth in annex 2 which details the target of each action and the related pillar.

- The first scenario: ‘**improved involvement**’ aims to improve the involvement of LRAS and make LRAAs ‘ES information hubs’. This could be developed within one year. It does not entail any changes in the process or the institutional framework. Financial and organisational costs are relatively low.
- The second scenario: ‘**active engagement**’ is designed to enhance not only the ‘involvement’ but also to foster the active participation of LRAS, especially at national level. It also envisages LRAs being more active in exploiting opportunities coming from the ES (e.g. SRSP and BICC) and in developing Annex D.

- The third scenario: **‘full participation’** leads to the full participation of LRAs and European Associations of LRAs in the ES enabling them also to shape the policy framework. Naturally, the time horizon is medium-long term and demands changes to the institutional framework and the way the ES is delivered.

Furthermore, the three scenarios are not exclusive but can be implemented in continuity or in parallel. With continuity, the first scenario is to enhance LRA involvement with an incremental process towards full active participation (third scenario). In the parallel implementation option, specific actions of the three scenarios can be implemented at the same time.

Finally, in ANNEX II, the actions are presented as options which can be adopted in combination or alone. Each action is analysed across the following categories:

- Pillars: described above (1 or 2),
- Levels: local and regional, national and EU,
- Gaps: including the issues (technical capacity, institutional capability, central government attitude, channel of consultation) and risks (limited access to EU support reform programs and investments from New Green Deal / lack of consistency with Cohesion policy) as identified in the conclusions,
- Feasibility: low, medium, high, based on the financial and organisational resources required. If a recommendation needs several expensive actions outside ordinary activity, the feasibility is low. On the contrary, an almost ‘zero’ cost action is deemed as highly feasible.
- Suitability: low, medium, high, based on the political costs, i.e. consensus which the recommendation could meet. For instance, if the recommendation has the support of several EU institutions, the suitability is high. On the contrary, if clear opposition is expressed, the level is low.
- Time: an estimate of possible finalisation of the recommendation i.e. completion of all actions.

This complete ‘menu’ of actions therefore enables consultation and the use of single actions beyond the subdivision in scenarios and implementation on different time scales.

4.2.1 First scenario: ‘improved involvement’

The first scenario requires actions by **LRAs/ LRAAs** and at the **EU level** to make LRAAs the national information hubs for the ES. To achieve this, the first scenario directly addresses the lack of specific knowledge on the ES in LRAs as well as the low awareness of Regional and Local policy makers.

The **LRAs** lack of **specific knowledge on the ES** can be addressed with activities to increase their analytical and strategic capacities and institutional capabilities. During preparation of key ES documents, increased skills will allow LRAs to become more proactive in selecting policies where their inputs would be valued by the EC and their national government. LRAAs should also collect information from the LRAs. Systematic data collection could be a way to build LRA capacity as shown in the Italian case, which can be inspirational:

- An LRA/ LRAA task force with voluntary participation;
 - incremental approach based on useful tools (grids) and activities (seminars).
- Also, the CoR can play an important role in supporting the increase of technical capacity in LRAs by developing guidance, exchange of experiences and good practice.

Availability of resources and political legitimacy are indispensable for LRAAs to become ES information hubs. **Increasing the awareness of local and regional policy makers** is also an important condition. LRAAs should organise thematic (not general) conferences and high-level events with EU and national representatives on specific themes within the ES (i.e. CSR, ANNEX D, SRSP opportunities, etc.).

The CoR, EP and EC can also play a crucial role in raising awareness and enhancing the commitment of regional and national level policy makers. For the EC, ESOs should work more closely with LRAs leveraging on the Europe Direct Information Centre. The CoR and EC could exploit existing EU events (e.g. European Week of Regions and Cities) to increase the awareness of local and regional policy makers. Also, the European Associations of LRAs can support the visibility of ES and rising awareness cooperating with COR and national LRAAs.

The table below details specific activities related to the first scenario listed by target and pillar.

Table 4-1 List of actions under the first scenario

P.	Target	Actions
1	LRAAs	Increase LRA analytical and strategic capacities <ul style="list-style-type: none"> - Identify an ES officer in the organisation - Set up a multidisciplinary task force covering the ES including regional and local officers capitalising on existing skills and experience - Establish and consolidate collaboration with universities, research centres and regional think tanks.
1	LRAAs	Increase LRA institutional capacities <ul style="list-style-type: none"> - Prioritise the need to increase LRAA legitimacy in LRA agendas - Increase internal analytical capacity, also supported by universities, think tanks and study centres.
1	LRAAs	Systematic data collection <ul style="list-style-type: none"> - Set up data collection system, based on grids to identify and correlate regional/ local intervention consistent with the ES - Organise thematic (not general) workshops for each ES phase and product: AGS, CSRs and NRP, with support of national ESO.
2	LRAAs	Organise thematic (not general) workshops and seminars with EU and national representatives on BICC and New Green Deal.
2	LRAAs E. Associations of LRAAs	Facilitate the circulation of information <ul style="list-style-type: none"> - Identify critical issues in Annex D, to focus LRA attention - Facilitate contacts and information transfer between different levels of government - Lobby national authorities to involve LRAs in fully discussing the practical implications of Annex D.
1	EC	Empower ESO activities <ul style="list-style-type: none"> - Establish a regular meeting with LRAAs for each ES phase (ESO) - Develop communication plan at European level (EC Brussels) tailored to each national institutional framework - Organise regional level meeting (ESO and EDIC).
1	EC / COR	Promote active subsidiarity and territorial dimension of the ES in partnership with -wide high-level events (e.g. EWRC).
1	COR / E. Associations of LRAs	Support the technical expertise of LRAs <ul style="list-style-type: none"> - Organise technical seminar and workshops - Develop guidance on the assessment of territorial needs and ES functioning, specifically targeting LRAs and LRAAs also exploiting existing knowledge (ESPON) - Disseminate online tools and good practices capitalising on the ESPON experience - Promote exchange of experience and peer-to-peer learning among LRAs

4.2.2 Second scenario: ‘active engagement’.

The second scenario aims to enhance national cooperation between LRAs and central authorities. Furthermore, it aims to avoid:

- Regions and cities being marginalised in relation to tools supporting reform (e.g. SRSP and BICC) as well as the New Green Deal.
- Annex D by-passing regional managing authorities as well as questioning the existing ESIF governance framework.

Firstly, this scenario suggests that **at national level** there is a change of attitude in making the NRP, perceiving LRAs not only as information sources but also as partners. In other words, central authority needs to see the utility of this relationship, establishing a win-win approach. This can happen if LRAAs are supported as hubs for getting and receiving information which is included in the NRP. Also, the EC can support this process by suggesting a specific section in the NRP where the MS reports the contributions and views of LRAs. MSs adopting a **Code of Conduct** will help the structured and ongoing involvement of LRAs in the ES.

Furthermore, the EC can facilitate cooperation between LRAs and national authorities by:

- assessing CRSs on the subsidiarity principle. For each area/ sector entailing a role for LRAs, LRAAs should be involved.
- strengthening territorial dimension in the ES, especially in drafting the main products such as CSRs, County Reports and the ASGS.

Also, the Commission can help establishing the **Code of Conduct**. This will progressively establish a culture of active subsidiarity within the EC and MSs.

To also avoid ESIF governance inconsistencies related to **Annex D**, the EC and national governments should work in parallel. The national ministry should facilitate the relationship between LRAAs and the EC in a constant dialogue. The EC could communicate on the ES in a homogeneous way with all services interacting with LRAs. Especially on ESIF recommendations (i.e. Annex D) could be co-shared in the traditional channel of Cohesion Policy (i.e. Monitoring Committee/ annual bilateral meetings).

Finally, the second scenario envisages more active participation from LRAs in implementing reforms through wider access to **EU support reform programmes**

and investments from the European Green Deal. National governments should support LRAs in formulating applications and channelling them to the EC. In turn, the EC should promote communication and supervise LRA participation in EU reform support programmes and investments from the European Green Deal.

The table below details specific activities related to the second scenario listed by target and pillar.

Table 4-2 Actions under the second scenario

Pillar	Target	Actions
1	Ministry in charge of ES	Involving LRAs in the NRP <ul style="list-style-type: none"> - Dedicate a specific section of the NRP to LRA contributions for process and inputs - Organise a workshop with LRAs to discuss EC feedback on the proposals - Organise an open seminar for LRAs to review how inputs have been embedded in the NRP.
1	Ministry in charge of ES	Improve cooperation with LRAs. Organise meetings with LRAAs for specific phases of the ES (AGS, Country Report, etc.) to increase awareness and possible contribution to NRP.
2	Ministry in charge of ES	Increasing the relationship between LRAAs and the EC: <ul style="list-style-type: none"> - inform the LRA of specific EC requests in drafting the Country Report and involve any Managing Authority in the discussion - Facilitate dialogue between the stakeholders - Organise a meeting with the LRAA to share views on Annex D when it becomes public.
1	MS	The single MS shall endorse the code of conduct
1	National Parliament	The national parliament introduces a legal obligation institutionalising consultation with LRAs.
2	EC	Increase consistency of Cohesion Policy governance and ANNEX D <ul style="list-style-type: none"> - convey messages on the ES in a homogeneous way with all the services interacting with LRAs co-sharing recommendations of Annex D in the traditional channel of Cohesion Policy (i.e. Monitoring Committee/ bilateral)
1	EC	Assessment of subsidiarity in the process <ul style="list-style-type: none"> - Develop an ‘active subsidiarity’ grid to assess the impact on LRAs of CSRs - Cluster CSRs by topic, on the basis of the result of the above assessment, and co-organise with CoR thematic workshops with the national LRAA - On the basis of the two above points, suggest that MSs involve LRAs in the relevant area and report the result on the NRP - make sure that NRPs account for regional and territorial concerns highlighted in Country Reports and review, at sub-national level, progress in relation to Europe 2020 targets
1	EC	Endorse the role of LRAs in the NRP Suggest a specific section in the structure of an NRP where the MSs report contributions and views of the LRAs
2	EC	Supervise the participation of LRAs in the SRSP and the new reform programmes (e.g. BICC) as a true opportunity also for LRAs
1	EC	Officially endorse the code of conduct as a guidance for the ES

4.2.3 Third scenario: ‘full participation’

The third scenario envisages the implementation of full active subsidiarity in the ES by restructuring the institutional channels. Hence, it requires revising the ES legislation/regulations.

In **enhancing the ES institutional channels**, the CoR and the Council have an important role. In the same style as tripartite meetings, where the EC are part of a social dialogue with employer associations and unions, the CoR could establish a dialogue with the ES in mind for ongoing feedback, territorial input and active subsidiarity. Also, the EP would take active subsidiarity into account by increasing cooperation with the CoR (for example by systematically inviting the CoR to the ES European Parliamentary Week and similar hearings).

The European Associations of LRAs can also foster active subsidiarity at EU level joining and promoting the activities of CoR and other EU institutions.

Embedding the **territorial dimension** in the ES is also important. The Council should foster the territorial dimension especially for ES products which foresee its adoption.

The **nature and time frame of the ES should be changed**. There is a sentiment that the NRP is mostly reflective, looking back on what has been done rather than as a policy-making mechanism with a forward-looking objective. This implies redefining the NRP into a more dynamic and useful document setting guidance and plans. Furthermore, the narrow NRP time frame does not currently allow wider consultation with LRAs. The window between the Country Report and NRP is an obstacle to deep involvement from LRAs. This should change.

Eventually, since the importance of NRP legitimises LRA involvement, the EC should formulate a legislative act to make the involvement compulsory.

Table 4-3 Actions under the third scenario

Pillar	Target	Actions
1	EP	Cooperation with COR - coordinate with CoR on ES monitoring, - systematically invite the CoR to ES interparliamentary week and similar hearings.
1	COR / European Associations of LRAs	Facilitate interinstitutional dialogue also with LRAs by setting up a ‘tripartite’ dialogue with the EC and LRAs for ongoing feedback, territorial input and active subsidiarity.
1	Council	Foster the territorial dimension especially for ES products Council would look attentively at the territorial dimension in advance of adopting the ASGS and CSRs.
1	EC	Formulate a legislative act to make LRA involvement mandatory.
2	EC	Revise the ES timeframe.
1	EC	Redefine the character of the NRP into a more dynamic and useful document setting guidance and plans.

Annex I – An overview of the division of Power Decentralisation and Federal/Unitary

In the EU the level that authority is exercised and the institutional set up which enshrines or confers such authority differs between MS.

It is appropriate in this study to fix measures related to power division and attempt to focus on one type or pick as diverse a spectrum as possible. The former approach works well as a control when examining other factors while the latter can present a broad overview.

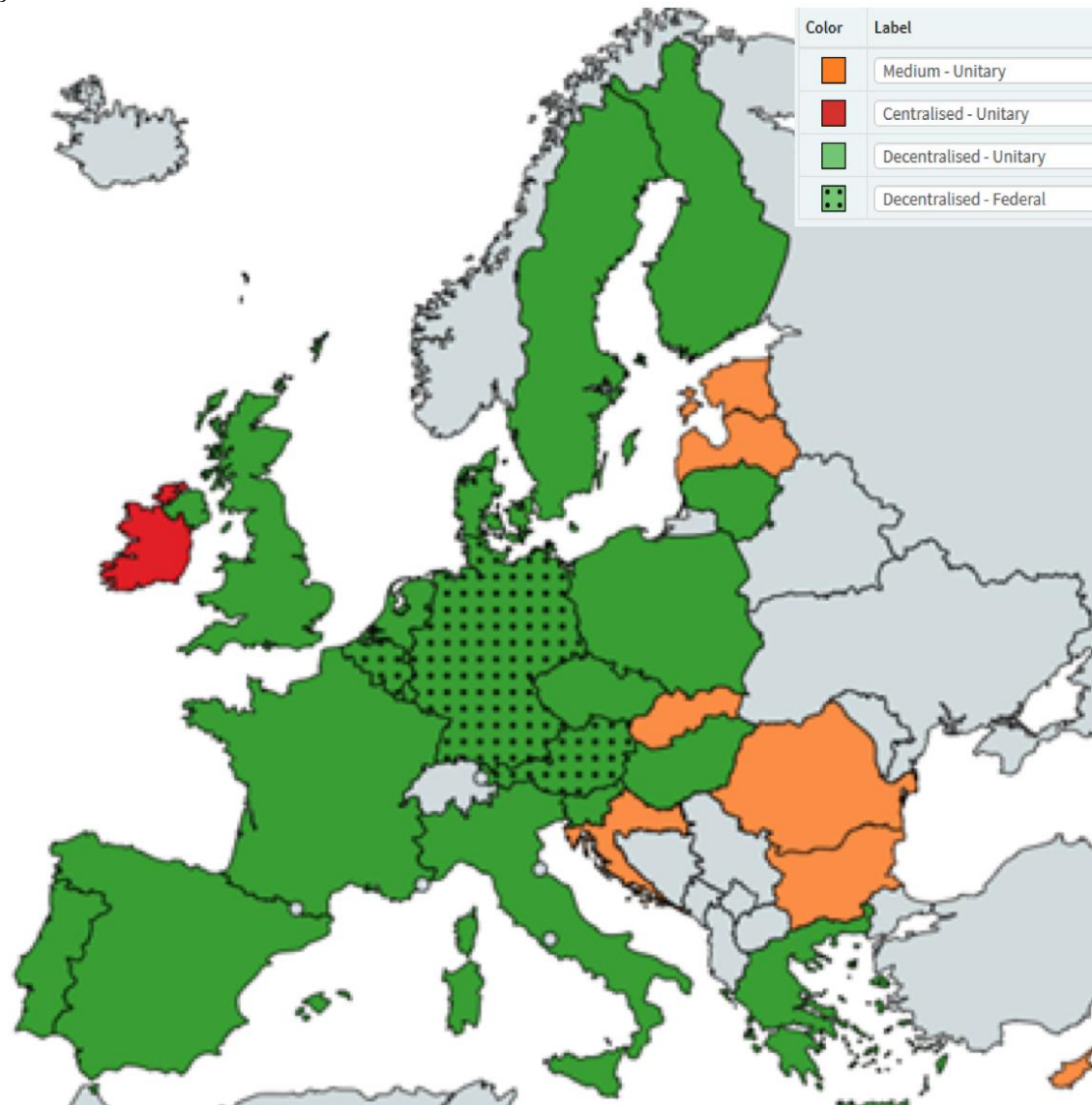
This study will take the latter approach as the study promotes LRA engagement in the ES for the EU countries as a whole, rather than one type of country. The measures to describe the divisions in power are also used by the CoR⁴² and are:

- *Unitary/Federal*: there are several related definitions for ‘unitary’ and ‘federal’. Here a unitary governmental system power and public decision-making authority resides in a single body or one central government whereas in federal power is divided into subsections, each with their own sovereignty which connect to the national government. In practice there are generally degrees of each but the standard to define unitary or federal states in this report will be the CoR’s.
- *Centralisation and decentralisation*: similarly, there is no set definition for ‘centralisation’ or ‘decentralisation’. This is related to the unitary/federal concept, but the core aspect is the degree that power or authority is concentrated or dispersed. As such, a country may be federal but nonetheless have very centralised power or unitary but with fragmented authority. Once more, the CoR’s Division of Power is used to determine the centralisation or decentralisation.

The map below shows how the two strata of centralisation and unitary/federal apply to MSs.

⁴² See: <https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx>

Figure 0-1 Distribution of Power in MSs



Source: t33 elaboration from: <https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx>

The table below describing each country I based on information from the COR website, the OECD, academic sources, and the Commission⁴³.

⁴³ <https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx>; European Commission (2018b); European Commission (2019h); Lidström (2018); OECD (2019).

Table 0-1 Case Study Systems and Levels of Centralisation

Country	Type of System	Level of Centralisation	Description
Croatia	Unitary	Fairly decentralised	<p>1 July 2001 marked the start of a substantial decentralisation process in Croatia. At this time elements of primary and secondary schooling, health care, welfare and firefighting were shifted from national to local governments budgets. At the same time, county towns received extended remits of independent governance.</p> <p>Croatia has 21 regional government units with 20 counties and the capital city, Zagreb. Within each County, towns with more than 35,000 citizens, have a substantial amount of self-government. Local government is codified in the Constitution (Art. 133-138). Counties have a fairly large degree of agency. LRAs are responsible for appropriate areas at their respective levels, exercising their capacities in accordance with the principle of subsidiarity (a principle recognised constitutionally in 2000).</p>
Italy	Unitary	Considered as 'regionalised' by CoR	<p>Regional autonomy in Italy was broadened particularly during the 1990s, through the 'Bassanini' laws which boosted sub-national governance and related institutions. Moreover, regional statutory autonomy was promoted by way of constitutional reform in 1999, and then in 2001 a large constitutional change modified legislative competence between government and the regions. While in 2006 a proposed constitutional reform to broadening regional autonomy was rejected by plebiscite, in 2016 a majority of Italians rejected a constitutional reform aimed at centralising decision-making power through fresh changes to the constitution.</p>
Germany	Federal	Decentralised	<p>Germany is a federal state, and laws are made through a bi-cameral process between the Bundestag and the Bundesrat. The Bundesrat comprises representatives of the 16 Länder (state) governments. The Länder are assured independent constitutions and municipalities also engage in self-governance within legal</p>

Country	Type of System	Level of Centralisation	Description
			<p>limits. Under the Länder are 401 counties (Kreise) and 11,054 municipalities (Gemeinden).</p> <p>Cities with 100,000+ citizens hold both county and municipal responsibilities, as do a few Kreisfreie Städte with less than the threshold. Constitutionally, the municipalities and counties belong to the Länder.</p> <p>In practice, however, municipalities are a third level of governance, with local authorities under a constitutional guarantee of self-administration.</p>
Netherlands	Unitary	Decentralised	<p>The principle of local self-government is codified constitutionally. The constitution recognises three tiers: Regions, provinces and municipalities. These are responsible for regional/local public issues, without a hierarchy between the levels of self-government, but with different competences.</p> <p>There are 20 regional authorities, known as 'landsting' acting as both autonomous entities and de-centralised State institutions</p> <p>The twelve provinces are responsible for spatial planning, health policy and recreation</p> <p>The 418 municipalities are responsible for education, spatial planning and social security. They are governed by the College of Mayors and Aldermen.</p> <p>The major cities of Amsterdam and Rotterdam are subdivided into administrative areas (stadsdelen), which have their own (limited) responsibilities.</p> <p>Provinces and municipalities do not have legislative capacities but do have executive fiscal and administrative powers appropriate to their levels.</p>

Annex II – Actions – full analysis

In the tables below, the activities linked to the scenarios to achieve a full LRA involvement in the ES process are presented.

Each action is analysed across different features:

- The **pillars**: described above (1 or 2)
- The **levels**: local and regional, national and EU
- The **gaps**: including the issues (*technical capacity, institutional capability, central government attitude, channel of consultation*) and risks (*limited access to EU support reform programs and investments from New Green Deal / lack of consistency with Cohesion policy*) as identified in the conclusions
- The **actions**: concrete initiative to be implemented to fulfil the single recommendation.
- The level of **suitability**: low, medium, high. It is assessed on the basis of the of political costs i.e. consensus which the recommendation could meet. For instance, if the recommendation has the support of several EU institutions, the level of suitability is high. On the contrary, if a clear opposition is expressed, the level is low.
- The degree of **feasibility** comes from the ‘costs’ in terms of financial and organisational resources. If a recommendation demands several expensive actions outside the ordinary activity, its level of feasibility is low (and the time frame for its implementation is usually long). On the contrary, an almost ‘zero-cost’ action is deemed as highly feasible in the short/medium-term.

Table 0-1 Full list of recommendations

N.	Pillar	Level	Target	Gaps	Rationale	Actions	Feasibility	Suitability
1	1	Local/ regional	LRAAs	Technical capacity	LRAAs need to increase their analytical and strategic capacities and become more proactive in selecting policies where their inputs would be valued by the EC and the government during preparation of key ES documents. For MS with no current institutional process, the Italian regional task force with a voluntary and incremental approach is one model.	<ul style="list-style-type: none"> - Identify an ES officer in the organisation - Set up a multidisciplinary task force covering the ES including Regional and local officers capitalising on existing skills and experience - Establish and consolidate collaboration with universities, research centres and regional think tanks. 	MEDIUM	HIGH
2	1	Local/ regional	LRAAs	Technical capacity	LRAs and not just LRAAs must be aware of ES. Without this LRA involvement in ES risk is only formal. Systematic data collection and capacity building can be useful. The Italian model has useful tools (grids) and activities (seminars).	<ul style="list-style-type: none"> - Set up data collection system, based on grids to identify and correlate regional/ local intervention consistent with the ES - Organise thematic (not general) workshops for each phase and product of the ES: ASGS, CSRs and NRP, with support of national ESO. 	HIGH	HIGH

3	1	Local/ regional	LRAAs	Institutional capability	LRAAs need to be able to generate political synthesis and align multiple interests. LRAAs must involve their associates in a political debate for critical mass to orient national decisions and to have the necessary analytical skills.	<ul style="list-style-type: none"> - Prioritise the need to increase LRAA legitimacy in LRA agendas - Increase internal analytical capacity, also supported by universities, think tanks and study centres. 	LOW	LOW
4	2	Local/ regional	LRAAs	Access to EU support reform programs and investments from New Green Deal	Regions and Towns risk being marginalised in relation to tools supporting reform (e.g. RSP and BICC) as well as the New Green Deal. LRAs must disseminate information and lobby at national level.	Organise thematic (not general) workshops and seminars with EU-national representative on BICC and New Green Deal.	HIGH	HIGH
5	2	Local/ regional	LRAAs	Consistency with Cohesion policy	Annex D risks by-passing regional Managing Authorities as well as questioning the existing ESIF governance framework.	<ul style="list-style-type: none"> - Identify critical issues in Annex D, to focus LRA attention - Facilitate contacts and information transfer between different levels of government - Lobby national authorities to involve LRAs in fully discussing the practical implications of Annex D. 	HIGH	HIGH

6	1	Local/ regional	LRAAs	Policy maker awareness	Regional and local policy makers need to be involved beyond administration. Without high visibility for the ES, it will be difficult to ensure resources and political legitimacy. Also, LRAAs must prioritise where to invest in engaging the political personnel of Regions and Towns	Organise thematic (not general) conference and high-level event with EU-national representative on Annex D, BICC, New Green Deal.	MEDIUM	HIGH
7	1	National gov.	Ministry in charge of ES	National central government attitude	Improve cooperation with LRAs. The central authority needs to perceive the utility of this relationship, establishing a win-win approach. This can happen if the LRAA becomes a hub for getting and receiving information.	Organise close meeting with LRAAs for specific phases of the ES (ASGS, Country Report, etc.) to increase awareness and possible contribution to NRP.	HIGH	MEDIUM
8	1	National gov.	Ministry in charge of ES	National central government attitude	The Code of Conduct for a structured and ongoing involvement of local and regional authorities in the European Semester can be a way to progressively establish a culture of active subsidiarity within MS	The single MS can endorse the Code of conduct on a voluntary basis	HIGH	LOW
9	1	National gov.	Ministry in charge of ES	National central government attitude	Involving LRAs in the NRP is crucial to empower their perspective and views. LRAs must see themselves not only as a source of information but also as government partners.	<ul style="list-style-type: none"> - Dedicated a specific section of the NRP to LRA contributions for process and inputs - Organise a workshop with LRA to discuss EC feedback on the proposals - Organise an open seminar for LRAs to 	HIGH	LOW

						review how inputs have been embedded in the NRP.		
10	2	National gov.	Ministry interfacing DG reform	Access to EU support reform programs and investments from New Green Deal	LRAAs can miss opportunities from the reform support programmes and the New Green Deal initiatives. Their participation should be enhanced through rising awareness, help in formulating the application and channelling to the EC.	<ul style="list-style-type: none"> - Organise an annual conference to raise awareness of reform programmes and/ or new centrally managed programmes - For EU reform programmes, establish dedicated window of opportunity 	HIGH	MEDIUM
11	2	National gov.	Ministry in charge of coordinating ESIF funds	Consistency with Cohesion policy	The ministry should facilitate the relationship between LRAAs and the EC in a constant dialogue.	<ul style="list-style-type: none"> - Inform the LRA of specific EC requests in drafting the Country Report and involve any Managing Authority in the discussion - Facilitate dialogue between the relevant actors - Organise a meeting with the LRAA to share views on Annex D when it becomes public. 	HIGH	MEDIUM

12		National gov.	National Parliament	Channel of consultations	Enhance full LRA participation as a legal obligation fostering consultation and involvement in ES.	Introduce a legal obligation institutionalising consultation with LRAs.	LOW	LOW
13	1	EU	EC	Policy maker awareness	ESOs are very important to increase overall awareness. They already enhance the visibility of the ES but should work more closely with LRAs. This could leverage on the Europe Direct Information Centre.	<ul style="list-style-type: none"> - Establish a regular meeting with LRAA for each ES phase (ESO) - Plan and develop communication plan at European level tailored to the specific national institutional framework of MS(EC Brussels) - Organise regional level meeting (ESO and EDIC) 	MEDIUM	HIGH
14	1	EU	EC	Policy maker awareness	Increase the visibility of ES by exploiting EU events	Promote active subsidiarity and territorial dimension of ES in partnership with CoR and EP during EU wide high-level event (e.g. OPEN DAY).	MEDIUM	HIGH

15	1	EU	EC	Channel of consultations	It is important the territorial dimension is strengthened in ES, especially in the drafting of the main products as CSRs, County report and ASGS.	<ul style="list-style-type: none"> - establish a fix working groups involving CoR to increase the territorial approach - assess the ES product adopting the criteria used in the (developing) territorial agenda 2030 - adopt and modify the assessment methodology used by CoR (CoR 2019) - provide, in addition to the ASGS, a sub-national analysis. - add a chapter on regional disparities in the Country Report , while acknowledging the role of local and regional authorities, as a permanent feature on the lines attempted in 2019; 	MEDIUM	LOW
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16	1	EU	EC	Channel of consultations	It is crucial the EC assesses also the CSRs on the prospective of subsidiarity principle. For specific area entailing a large role of the LRAs, there shall be a selected involvement of LRAAs.	<ul style="list-style-type: none"> - Develop a ‘active subsidiarity’ grid to assess the impact on LRAS of CSRs - Cluster CSRs by topic, on the basis of the result of the above assessment, and co-organise with CoR thematic workshops with the national LRAA - On the basis of two above points, suggest explicitly the MSs to involve LRAs on the more relevant area and report the result on the NRP - make sure that NRPs account for regional and territorial concerns highlighted in Country Reports and review, at sub-national level, progress in relation to Europe 2020 targets 	MEDIUM	MEDIUM
17	1	EU	EC	Channel of consultations	The NRP is the document where the LRAs can have a greater contribution, so it is important that their inputs find specific room in the document	Suggest in the structure of an NRP a specific section where the MSs shall report contribution and views of the LRAs	HIGH	MEDIUM

18	1	EU	EC	Channel of consultations	Since the importance of NRP as a way of legitimizing LRAs involvement, make the involvement compulsory	Formulate a legislative act to make the LRA involvement mandatory.	LOW	LOW
19	2	EU	EC	Access to EU support reform programs and investments from New Green Deal	The RSP and the new reform programs (e.g. BICC) shall be a true opportunity also for LRA	- Facilitate the actions reported in recommendation n. 4 and 10	MEDIUM	MEDIUM
20	2	EU	EC	Consistency with Cohesion policy	The EC could convey messages on the ES in a homogeneous way with all the services involved interacting with LRA. Especially the recommendations on ESIF (i.e. ANNEX D) could be somehow co-shared in the traditional channel of the Cohesion Policy (i.e. Monitoring Committee/ bilateral	facilitate the actions as reported in the recommendations n. 5 and 11	MEDIUM	HIGH
21	2	EU	EC	Channel of consultations	There is a sentiment that the NRP is mostly reflective in nature, looking back on what has been done to a greater extent than as a policy-making mechanism with a forward-looking objective.	re-define the character of the NRP into a document which is more dynamic and useful in relation to setting guidance and plans.	LOW	LOW
22	1	EU	EC	National central government attitude	The Code of Conduct for a structured and ongoing involvement of local and regional authorities in the European Semester can be a way to progressively establish a	Endorse officially the code of conduct officially as a guidance for the ES	MEDIUM	LOW

					culture of active subsidiarity within the EC services and MS			
23		EU	EC	Channel of consultations	NRP timing and framing does not allow a wider consultation with LRAs, especially the window between the Country Report and NRP is an obstacle to a deep involvement of LRAS	revise the overall timing and frame of the ES	LOW	LOW
24	1	EU	CoR	Channel of consultations	In the same style of the tripartite meetings, where the EC are part of social dialogue with employer associations and the unions, the CoR could try to set up such a dialogue with the ES in mind for ongoing feedback and territorial input and active subsidiarity	facilitate the actions as reported in the recommendations n. 5, 11, 12 and 16	MEDIUM	MEDIUM
25	1	EU	CoR	National central government attitude	CoR shall focus on promoting the principle of active subsidiarity EU-wide with the aim of MSs and EC endorsing the code of conduct and advocate for the involvement of deeper involvement of LRAs in the ES	Facilitate the actions n. 8 and 21	MEDIUM	LOW
26	1	EU	CoR	Institutional capability	Support LRAs influencing the ES as a national delegation or privileged national government partner.	<ul style="list-style-type: none"> - Organise seminars and workshops. - Develop studies identifying best practices - Advocate the role of LRAs with EPs and National Parliament 	MEDIUM	MEDIUM

						- Facilitate actions reported under recommendation n. 2		
27	1	EU	CoR	Policy maker awareness	CoR shall raise the awareness and enhance the commitment of the policy maker at regional and national level is crucial to empower the LRAAs to influence the ES.	Facilitate the action under the recommendation n. 14	MEDIUM	HIGH
28	1	EU	CoR	Technical capacity	Support LRAs technical expertise and know how	<ul style="list-style-type: none"> - Organise technical seminar and workshops. - Develop guidance on the assessment of territorial needs and on ES functioning targeting specifically LRAs and LRAAs also exploiting existing knowledge (ESPON) - Disseminate on line tools and good practices capitalising the ESPON experience - Promote exchange of experience and peer to peer learning among LRAs - Facilitate actions reported under recommendation n. 1 	LOW	HIGH

29		EU	Council	Policy maker awareness	Council can play an important role in fostering territorial dimension especially for the 'products' which foreseen its adoption	Council would look attentively at the territorial dimension in advance of adopting the ASGS and CSRs	HIGH	LOW
30		EU	EP	Policy maker awareness	the EP would account for territorial dimension and active subsidiarity cooperating with CoR.	'- coordinate with the CoR on ES monitoring, - invite the CoR to ES interparliamentary week and other similar related hearings - facilitate the action under the recommendation n. 14, n. 25 and n. 26	MEDIUM	MEDIUM

Annex III - Methodology

Case study

The case studies were undertaken in two steps:

- i) *Case Study Pilot*. A pilot case study uncovered the association(s) of LRAs to be contacted and how to approach them. This revealed any unforeseen issues before full roll-out of the study. It also gave some additional ideas before implementation of the other cases and justified full implementation of the study.

The pilot study was made in Italy, because this is considered a ‘regionalised’ country by the CoR Division of Power (CoR n.d.), rather than centralised or decentralised. So, it sits in the middle and might provide insight for both these types because it is unitary as per most EU countries and because it has LRA elements in its governance. So, it was likely the study would find early considerations of good practice.

- ii) *Full Case Study Research*: the full research programme on all case studies.

The remaining case studies should represent the EU MSs based on:

- Population;
- Geography;
- Constitution;
- Centralisation.

The selected cases (Italy, Germany, Croatia, Netherlands) represent a mix of centralisation/decentralisation, unitary/federal, large/small countries, South/North/West/East.

Each case study entailed 4-5 *semi-structured* interviews of various actors (national entities, LRAAs, LRAs). The EU level will also be investigated. The interviews covered understandings of the ES process and its current level of engagement, areas of engagement they excel at, how they ensure their wishes are realised, information to support better engagement in future, difficulties with the ES process/ MS level engagement in general, gaps where recommendations are not implemented and potential reasons, as well as other areas that could improve integration into the ES process. The interviews also investigated the links between the ES and national economic policymaking, to check that the Semester is not only a drafting exercise and to test the extent of its influence.

The questions were:

Interviewee	Subject	Questions
LRA association	Utility of LRA for ES and vice versa	<ol style="list-style-type: none"> 1. How and for which LRA is ES relevant in terms of policy making? 2. How much and which LRAs understand ES governance and dynamics?
	Efficiency of governance	<ol style="list-style-type: none"> 3. How are LRAs informed from the central level about the ES? Are you involved? 4. What mechanism is in place for LRA feedback on the ES by the Semester Country Teams? Are you involved? 5. Overall, what is your role in this process/national governance of the ES. What are the main questions you are asked in LRA feedback in relation to the ES from the governmental level? 6. What types of information do you believe are hard for national level representatives to interpret?
	Relevance of LRA involvement	<ol style="list-style-type: none"> 7. What is the quality of information collected? What is the added value? 8. Is there other information which should be collected from the LRA?
	Added value of the association	<ol style="list-style-type: none"> 9. In what ways do you feel the association is included in ES national governance? 10. Are there areas where the association acts as a joint policy maker on the national level, formally or <i>de facto</i> (rather than just consulted for one-way feedback)? Please elaborate. 11. To what extent does the association contribute to National Reform Programmes and in what way? 12. How can working with the CoR directly overcome or bypass LRA issues faced in the national context?
National government	General	<ol style="list-style-type: none"> 1. Which LRA information (type and source) do you think are most valuable for the ES functioning? 2. What system is in place to categorise and integrate association feedback for ES purposes?

Interviewee	Subject	Questions
	National and association relations	<p>3. Do you see any larger scope in the involvement of LRAs? How?</p> <p>4. To what extent are the Semester Country Team and LRA association interactions collaborative, or to what extent are they purely informative?</p> <p>5. Is LRAA feedback proactively sought, and to what extent is feedback followed up on for further clarification or elaboration in regard to the ES?</p> <p>6. Is there a capacity-building infrastructure in place which could facilitate greater association involvement, particularly in a policymaking capacity regarding the ES? Please elaborate.</p> <p>7. Given the level of regional and local authority in your country, are there aspects of the ES NRPs that could benefit from more involvement of LRAAs?</p> <p>8. What outstanding restrictions are identifiable which may inhibit or preclude greater association involvement? Procedural, legal, infrastructural, technical, etc.</p> <p>9. Are there mechanisms where LRAAs are involved in policy making outside the ES which might be manipulated to feed into the ES process?</p>
LRA	Efficiency of governance and procedural aspects	<p>1. Please describe the mechanism within which you interact with your LRAA, particularly in relation to the ES.</p> <p>2. What would you describe as the most effective aspects of the interaction with your authority and the association with regard to influencing the ES?</p> <p>3. Is there a procedure in place to work with your association to co-create policy suggestions specifically for the association presentation to the Semester Country Teams of the ES?</p>

Interviewee	Subject	Questions
		<p>4. Has your association discussed with you how to present information, so it has the best chance of affecting the ES?</p> <p>5. Is there a mechanism for you to interact with the CoR directly on ES issues? If so, do you believe this supports the realisation of your desired policy-changes?</p>
	Relationship and awareness aspects	<p>6. What are the most notable difficulties in guiding the association's agenda regarding the ES?</p> <p>7. In what ways could LRAs drive better LRAA intervention in the ES process?</p> <p>8. How are you made aware of whether issues raised by your authority to your association are forwarded to the Semester Country Teams or not?</p>

The table below details the interviewees.

Italy		
Institutions	Name	Position
Ministry of Economy	Francesco Felici	Manager (Dirigente)
EC Representation in Italy	Antonia Carparelli	European Semester Officer
CINSEDO	Andrea Ciaffi	EU and International Relations Manager
TECNOSTRUTTURA	Cecilia Cellai	Coordinator ES data collection
Sardinia Regional Authority	Sanna	Manager (Dirigente)
Germany		
Institutions	Name	Position
Federal Ministry of Finance	Dr. Wolfgang Merz	Head of division (Economic policy coordination in EU)
Federal Ministry of Economic Affairs and Energy	Dr. Anna auf dem Brinke & Dr. Franziska Lottmann	Experts (Division for basic aspects of economic policy)

Association of German counties	Michael Schmitz	Expert (EU Office Brussels)
Senate Department for Culture and Europe	Renate Völpel	Deputy Director (Berlin's Liaison Office to the EU)
State Chancellery Rhineland-Palatinate	Dr. Deniz Alkan	Head of unit (European and international cooperation)
Croatia		
Institutions	Name	Position
Zagreb County, Department for EU Funds, Regional and International Cooperation	Velimir Kokot	Head of Department
Istria Development Agency	Tamara Kirsic	Assistant Director
Regional Development Agency Dubrovnik-Neretva County DUNEA	Franica Miloš,	Regional Development and EU Funds Coordinator,
Croatian association of counties	Pavlek, Melita	Secretary General
Association of Cities in the Republic of Croatia	Nives Kopajtich Škrlec	Coordinator,
The Netherlands		
Institutions	Name	Position
Ministry for Economic Affairs and Climate Policy	Ellinore Wolternick	Dutch NRP coordinator
European Commission,	Hans Naudts	European Semester Officer
Municipality of Rotterdam	Hans Verdonk	EU Policy
VNG	Caspar Sluiter	NRP coordinator

Semi-Structured Interviews

As an additional tool (not foreseen by the service request), there was a round of semi structured interview. This additional information aims at better understanding the MLG dimension of active subsidiarity. Hence the semi-structured interviews were performed at LRAA and EU levels.

Subject	Questions
Legislative	1. What legislative steps does the EU still need to implement to promote active subsidiarity and greater LRA/CoR involvement in the ES?
Current implementation	2. How could the task force recommendations for better active subsidiarity be greater realised, in light of actions which have been taken since the 2018 report to implement them?
Future	3. Are there any additional recommendations today which were missed in the 2018 report that would support greater LRA (including CoR) engagement in the ES process?

The Table below reports the people involved in this round of interviews.

Institution / Organisation	Name
Convention of Scottish LRAs	Serafin Pazos Vidal
EC Active subsidiarity Task Force	Duncan Johnstone

Secondary Sources of information

For secondary source reading on active subsidiarity and its potential to involve LRAs in the ES, and information about how the ES performs in general, please see the documentation below (sources are in the 'References' section).

Author/ Organisation of Study	Content (short synthesis)	Performance of ES	Active Subsidiarity Aspects	Best practice ideas / outcomes for LRA in ES
European Commission (2018a)	Final task force report responding to 3 questions from Juncker: -how to better apply subsidiarity and proportionality principles within EU institutions;	X	X	X

Author/ Organisation of Study	Content (short synthesis)	Performance of ES	Active Subsidiarity Aspects	Best practice ideas / outcomes for LRA in ES
	-how to better involve LRAs in EU policymaking /implementation; -whether there are policy areas where responsibility could be returned to MSs.			
European Commission (2018b)	Response to the 2018 Report of the Task Force on Subsidiarity, Proportionality and ‘Doing Less More Efficiently’, reinforcing the importance of subsidiarity and outlining areas where action is necessary, including more active involvement of LRAs in EU processes.		X	
European Commission (2019a)	EU macroeconomic growth and challenges, and setting focus going forward	X		
European Commission (2019b)	Overview of growth, call for more targeted investment policies, progress with CSRs, addressing macroeconomic imbalances, overview of financial/demographic/other conditions on national level and recommendations to MS	X	X	
European Commission (2019c)	European Green Deal for EU and its citizens, resetting EC commitments climate change issues	X		
European Commission (2019d)	Entrusting Gentiloni with the role of Commissioner for the Economy and various tasks that are involved	X		
European Commission (2019e)	Entrusting Ferreira with the role of Commissioner for Cohesion			

Author/ Organisation of Study	Content (short synthesis)	Performance of ES	Active Subsidiarity Aspects	Best practice ideas / outcomes for LRA in ES
	and Reforms and various tasks that are involved			
European Commission (2019f)	Key elements of Cohesion Policy for 2021-2027 programming period	X	X	
European Commission (2019g)	Europe's economic outlook, a new paradigm to address key challenges which relate to one another, aspects on environmental sustainability, productivity growth, macro-economic stability, and ES	X		
CoR (2017a)	Opinion stressing defects of ES without LRA involvement and proposing greater LRA integration into the process, including Code of Conduct to give a territorial dimension to ES	X	X	X
CoR (2017b)	Report on the extent LRA involvement has increased or decreased in ES process from 2011 to 2017.	X	X	X
CoR (2017c)	Improving the European Semester by involving local and regional authorities: Overview of good practices	X	X	X
CoR (2018a)	Recommendations for Amendments to Reform Support Programme by CoR	X	X	X
CoR (2019)	Review of territorial aspects of EC recommendations and MS opinions on economic, employment and fiscal policies.		X	
Stevenson, Uni of Nottingham (2019)	A summary of research in relation to the ES and related industrial relations issues.	X	X	

Author/ Organisation of Study	Content (short synthesis)	Performance of ES	Active Subsidiarity Aspects	Best practice ideas / outcomes for LRA in ES
Swedish Institute for European Policy Studies (2016)	Interactions between the EU and MS within post-crisis socio-economic governance	X		
OSE (2017)	EU social partners (employers and trade union organisations) in ES procedures	X		
Council of European Municipalities and Regions (2018)	CEMR objective setting for stronger involvement of LRAs in the ES process		X	X
EPRS (2019a)	In depth overview of the ES including who is involved, how it works in practice, and evolving debates	X	X	X
EPRS (2019b)	MLG in general and its importance for decision making. Stressing importance of subsidiarity and positively mentioning the potential role of CoR Code of Conduct.	X	X	X
EPRS (2019c)	Briefing on relevant aspects of the EC's RSP, e.g. mentioning of work done to support CSRs under ES	X	X	X
European Council (2019a)	Conclusions for European Council meeting (20 June 2019) document			
European Council (2019b)	What the instrument is, when it will come into force, and how it links with the ES	X		

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**European Committee
of the Regions**

Created in 1994 following the signing of the Maastricht Treaty,
the European Committee of the Regions is the EU's assembly of 329 regional and
local representatives from all 27 Member States, representing over 507 million Europeans.

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