Effectiveness and Added Value of Cohesion Policy

Non-paper assessing the implementation of the reform in the programming for cohesion policy 2014-2020

Introduction

Cohesion policy plays a key role in delivering investment and an integrated approach to support key European priorities. First and foremost, its investments will contribute to boosting jobs, growth and investments and support the EU Investment Plan through an increased use of financial instruments. Cohesion policy investments in the field of information and communication technologies (ICT) will contribute to the Digital Single Market, and investments in energy efficiency and renewable energy sources will foster the objectives of the Energy Union. Investments in small and medium-sized enterprises (SMEs) and research and innovation (R&I) will contribute to the deepening of the internal market. The ex ante conditionalities applicable in these areas will ensure that investments will take place within a sound policy, regulatory and institutional framework at Member State level whilst at the same ensuring better compliance with the EU legislation. Cohesion policy has thus a crucial role to play in contributing to the achievement of the Europe 2020 strategy and its five headline targets1.

Cohesion policy has undergone a far-reaching reform for the 2014-2020 period. Based on the legislative proposals presented by the Commission in October 2011, the Regulations that entered into force in December 20132 contain a number of wide ranging changes to:

(i) improve effectiveness by targeting resources on key Europe 2020 objectives, establishing a performance framework and introducing ex ante conditionalities to ensure better investment;

(ii) create closer linkages between Cohesion Policy and sound economic governance and European Semester processes;

(iii) strengthen the intervention logic, simplify and harmonise implementation through a common set of rules applicable to all European Structural and Investment (ESI) Funds, better coordination of Union instruments, and measures for the reduction of administrative burden for beneficiaries;

(iv) reinforce the territorial dimension of the policy through greater involvement of cities, new territorial delivery mechanisms and reinforced territorial cooperation; and

(v) provide increased opportunities for the use of financial instruments.

All of the above imply a fundamental redirection of how the policy is delivered in Member States and regions. For the reform to be successful and the policy to deliver the best contribution to EU priorities, it is essential that the new orientations are clearly

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1 Related to employment, research and development/innovation, climate change/energy, education and poverty reduction.

reflected in the programming documents (partnership agreements and programmes) and effectively applied in the implementation of programmes on the ground. In order to provide better information about the policy and support a broader political debate, the regulations also foresee increased reporting requirements for the Commission about the achievements of the reformed cohesion policy\(^3\), to make sure that implementation of the reform is appropriately monitored and followed up. The Council has also acknowledged the need for a detailed assessment of the quality of spending and has asked\(^4\) at several occasions for discussions on the implementation and results of the ESI Funds at the highest political level.

As of now, all Partnership Agreements and more than three fourths of cohesion policy programmes under the Investment for Growth and Jobs Goal have been adopted\(^5\). This means that for 20 Member States the programming exercise for cohesion policy is completed and the framework for investments is in place for EUR 254 billion of cohesion policy resources under the Investment for Growth and Jobs Goal\(^6\). It is therefore a good moment to take stock of how the key elements of reform have been taken up in the programming process. This paper provides a first assessment of how six key elements of the reform - thematic concentration, ex ante conditionalities, linkages with country-specific recommendations (CSRs), territorial delivery modes, financial instruments and results orientation - have been integrated in cohesion policy programming under the Investment for Growth and Jobs Goal. The Commission will be in a position to provide a more complete assessment once all cohesion policy programmes have been adopted.

I. Thematic concentration

The reformed cohesion policy concentrates investment on main European priorities to ensure a critical mass to increase the effectiveness of support. The regulations set out a menu of thematic objectives directly derived from the Europe 2020 strategy and its headline targets for employment, research and development/innovation, climate change/energy, education and poverty reduction. Minimum shares of total funding to be allocated to are established for core thematic objectives, for different Funds and different categories of regions. Thematic concentration is a key tool to ensure the targeting of cohesion policy on Union priorities\(^7\).

Cohesion policy investments have been clearly focused on European priorities

A first assessment of Partnership Agreements (see chart 1 below) shows that cohesion policy resources have been redirected to priorities contributing to growth and jobs. Amounts allocated to R\&I, SME support, ICT and the low-carbon economy as well as to

\(^3\) Articles 46(4), 53, 113 Common Provisions Regulation 1303/2013 (CPR).
\(^4\) EUCO 37/13, Council conclusions on the Sixth report on economic, social and territorial cohesion: investment for jobs and growth of November 2014 (15802/14).
\(^5\) By end of March 2015, 242 of the 311 expected operational programmes (OPs) have been adopted. This includes 93 OPs financed by the European Regional Development Fund (ERDF) and/or the Cohesion Fund, 68 ESF mono-fund OPs and 81 multi-fund OPs supported by the ERDF and/or the Cohesion Fund and the European Social Fund (ESF). The remaining programmes under the Investment for Growth and Jobs goal should be adopted after the revision of the Multi-Financial Framework (MFF) regulation and the adoption of the related amending budget providing for the transfer of 2014 unused allocations.
\(^6\) This amount corresponds to the cohesion policy Funds (ERDF, Cohesion Fund, ESF including the specific allocation for the Youth Employment Initiative - YEI) allocated to all 242 adopted programmes by 23 March 2015. This represents 75% of the overall cohesion policy Funds allocations.
\(^7\) Council conclusions 15802/14.
employment, social inclusion, education and administrative capacity building for the 2014-2020 period have increased in comparison to the previous programming period, while support to basic transport infrastructure has decreased. The same applies to climate change and environment. However, the amounts allocated to climate change and environment (TO5 and 6) considered together with those allocated to the shift towards low-carbon economy (TO4) show an overall increase in investments related to environment (under TO 4, 5 and 6).

1) Analysis of ERDF thematic concentration

For the ERDF, the regulation (Article 4 ERDF Regulation\textsuperscript{8}) foresees a concentration of resources on four core priorities (research and innovation, SME support, ICT and the shift towards a low-carbon economy), with requirements differentiated to reflect the development needs of Member States and regions\textsuperscript{9}. Moreover, a minimum percentage of resources has to be set aside for investments supporting the shift towards a low carbon economy in all Member States, with the possibility to count Cohesion Fund expenditure towards this target.

First analysis of Partnership Agreements and operational programmes under the Investment for Growth and Jobs goal\textsuperscript{10} demonstrate that the regulatory requirements for the four thematic objectives covered by thematic concentration have been fulfilled.

\textsuperscript{8} Regulation (EU) No 1301/2013 of 17 December 2013.
\textsuperscript{9} The percentages to be respected differentiate between the level of development of the regions, with the obligation to concentrate more in more developed and transition regions (respectively 80% and 60% of ERDF funding at national level on the four thematic objectives, with a minimum of respectively 20% and 15% for the shift towards a low carbon economy) than in less developed regions (50% for the four, 12% for the low carbon economy).
\textsuperscript{10} This analysis covers all 214 operational programmes under the Investment for Growth and Jobs goal financed by the ERDF (including 172 adopted programmes by end of March 2015). As mentioned in Article 4 of ERDF Regulation, it excludes ERDF resources allocated to technical assistance, as well as the specific allocations to northern sparsely populated regions and outermost regions.
Overall, at EU level, these four priorities absorb almost two thirds of ERDF resources (64%), as indicated in chart 2 below.

In Member States eligible for the Cohesion Fund\textsuperscript{11} 60% of ERDF allocations are concentrated on these four thematic objectives, while the concentration effort amounts to 72% of ERDF resources in more developed Member States\textsuperscript{12}.

When looking at thematic objectives in detail, research and innovation is the area where most ERDF resources (22%) have been allocated. All Member States will invest in this area in the 2014-2020 period (with fifteen of them considering it as a top priority for the period). Support to SMEs comes second in terms of ERDF allocation (first in six Member States). Investments in the low carbon economy account for the third largest investments (first in four Member States).

![Distribution of ERDF allocations between Thematic objectives](chart2.png)

Overall, ERDF thematic requirements have been exceeded, but there are variations among Member States

As shown in chart 3 below, a number of Member States exceed considerably the regulatory requirements for thematic concentration. Three Member States devoted 100% of their ERDF allocation to innovation, SMEs and low carbon economy, and seven Member States went up to 20 percentage points beyond their regulatory requirements for

\textsuperscript{11} The fifteen Member States whose GDP is below 90% of the average GNI per capita of EU-27: BG, CY, CZ, EE, EL, HR, HU, LT, LV, MT, PL, PT, RO, SI, SK.

\textsuperscript{12} The other thirteen Member States: AT, BE, DE, DK, ES, FI, FR, IE, IT, LU, NL, SE, UK.
the four core priorities. However, in some Member States, foreseen investments in operational programmes only just meet the targets established in the Commission decisions on Partnership Agreements. In eleven Member States, ICT investments contribute to meeting the concentration requirements, while eight others will not use their ERDF allocation to finance ICT at all under TO2 (although this is often done under other TOs, e.g. mainly 3, 4, 7 and multi-TOs)\textsuperscript{13}.

Cohesion Fund resources also contribute to meeting the ERDF concentration targets for the low carbon economy

Looking now at the minimum requirements established for the low carbon economy, most Member States exceeded the regulatory requirements, which confirms the importance they attach to investments in this area, although there are great differences among Member States. Three Member States have concentrated more than one fourth of their ERDF allocation on investments supporting the shift to the low carbon economy and ten others more than 20% of their ERDF allocations. Seven Member States have made use of the possibility to count Cohesion Fund allocations towards the thematic concentration requirements established for the ERDF. A detailed overview is presented in chart 4 below.

\textsuperscript{13} ICT was not foreseen in the Commission's legislative proposals as part of the thematic objectives covered by ERDF thematic concentration requirements, but was added in the course of the negotiations on the ERDF regulation by the co-legislators.
2) Analysis of ESF thematic concentration

ESF thematic concentration requirements have been met

Thematic concentration has two dimensions for the ESF. The first one is reflected in Article 4(2) ESF Regulation\(^\text{14}\) that requires a minimum of 20% of the ESF resources in each Member State to be allocated to thematic objective 9 ("Promoting social inclusion, combating poverty and any discrimination"). Overall, more than one fourth of ESF allocation\(^\text{15}\) has been allocated to this thematic objective, i.e. well above the 20% threshold (see chart 5 below). Furthermore, according to the most recent data (see chart 6 below), this minimum target has been met and often exceeded in a large number of Member States.


\(^{15}\) This analysis excludes the specific allocation for the youth employment initiative, as well as resources allocated to technical assistance.
The second dimension of thematic concentration under the ESF is established in Article 4 (3) ESF Regulation according to which in each operational programme 60, 70 or 80% of ESF funding (depending on the category of region) must be concentrated on up to five investment priorities. According to the latest data at EU level (see chart 7 below), there is a concentration of 60.54% of ESF and youth employment initiative funding on the following five ESF priorities: active Inclusion (9i), sustainable integration of young
people (8ii), access to employment (8i), early school leaving (10i) and life-long learning (10iii).

While every ESF operational programme respects the regulatory provisions on thematic concentration, focusing the investment in key labour market and educational challenges, there is still a certain degree of dispersion of the remaining ESF resources among 13 investments priorities, particularly in the regional operational programmes, which might have a negative impact on the effectiveness of the ESF interventions. It is worth mentioning that 4.4% of the ESF resources are allocated to thematic objective 11 administrative capacity building.

II. Ex ante conditionalities

Ex ante conditionalities have been introduced as a new element in the 2014-2020 programmes to maximise the effectiveness of investments. They are an essential mechanism to ensure the right framework for optimising the use of resources and have also supported the transposition of the EU *acquis*16. In case of non-fulfilment at the stage of adoption of programming documents, Member States need to draw up action plans with clear measures and deadlines that will lead to the fulfilment of ex ante conditionalities.

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16 CY Presidency Council conclusions as an outcome of the Informal Meeting of Ministers responsible for cohesion policy (Nicosia, 6 November 2012).
Overall, the applicable ex ante conditionalities have been fulfilled in a majority of programmes and Member States.17

Around two thirds of the thematic ex ante conditionalities (i.e. those that relate to a particular sector or policy, such as R&I or social inclusion) applicable at programme level were considered as fulfilled at the time of programmes adoption (see chart 8 below). As regards general ex ante conditionalities (i.e. those relevant to all sectors, such as public procurement or anti-discrimination rules), around three quarters of the conditionalities assessed at Member States level were considered at this time as fulfilled (see chart 9 below). This indicates that as a general rule the overall framework for investment is satisfactory. Furthermore, the situation has improved since the adoption of programmes, as Member States make progress in the completing their action plans.

17 The analysis of applicable ex ante conditionalities covers all cohesion policy programmes under the Investment for Growth and Jobs goal adopted by 23 March 2015. Data relating to DK, EE, LU, LV and FI are taken or completed by data included in their respective Partnership Agreements. “Partially fulfilled” ex ante conditionalities correspond to ex ante conditionalities for which only some of the criteria mentioned in Annex XI CPR are fulfilled. Ex ante conditionalities considered as “not fulfilled” are ex ante conditionalities for which all criteria have been assessed as not fulfilled. For thematic ex ante conditionalities, the analysis sums up all ex ante conditionalities considered as applicable in the operational programmes at the time of their adoption, whereas general ex ante conditionalities are analysed at Member State level, i.e. only counting once each general ex ante conditionality per Member State for all corresponding adopted programmes.
However, there are major variations in the degree of fulfilment of ex ante conditionalities among Member States.

The analysis of thematic and general ex ante conditionalities per Member State shows that there are important divergences. For three Member States, all thematic ex ante conditionalities were considered as fulfilled at programmes adoption, while in ten other Member States, more than half of applicable ex ante conditionalities were considered at the time as only partially or even not-fulfilled.

The same applies for general ex ante conditionalities: at the time of programmes adoption, there were seven Member States fulfilling all general ex ante conditionalities and seven other Member States where more than half of their general ex ante conditionalities were considered as partially or not-fulfilled.

The assessment of thematic ex ante conditionalities indicates areas where further work is necessary for effective investment in European priorities.

As indicated in chart 10 below, the share of not-fulfilled ex ante conditionalities in some policy areas was particularly high at programmes adoption, which could undermine the effectiveness of investments in these fields and thus ultimately the achievement of European priorities. This was the case in particular for areas that are important for Cohesion Fund investments (environment, transport and network infrastructure), but also for key priorities for the ERDF or ESF covered by thematic concentration requirements (research & innovation, social inclusion).

These fields tend to coincide with policy areas where evaluations and the European Court of Auditors reports had already identified some weaknesses (see chart 11 below), for instance: lack of transport master plans\(^\text{18}\), inappropriate water pricing policy, poor ex ante analysis and forecast of future needs in the design of new water supply infrastructures\(^\text{19}\).

\(^\text{18}\) ECA Special Report No 21/2014 "EU-funded airport infrastructures: poor value for money".

\(^\text{19}\) ECA Special Report No 9/2010 "Is EU Structural Measures spending on the supply of water for domestic consumption used to best effect?"
inappropriate waste management and prevention programmes, lack of strategy for health, lack of smart specialisation strategies, insufficient measures to ensure energy efficiency (especially in buildings).

Not fulfilled general ex ante conditionalities indicate areas where additional work is required for the effective delivery of the policy

As shown by chart 12 below, the main issue of concern in this context is the lack of reliable statistical systems and system of result indicators to assess the effectiveness and the impact of the policy, as these are an essential pre-condition for the set-up of programmes. Likewise, the lack of arrangements for the effective application of EU public procurement law can contribute to errors in the implementation of the Funds. Overall, respectively 40% and 33% of the Member States had to deal with partial or not-fulfilment of both ex ante conditionalities at the time of programmes adoption.

These were followed by the general ex ante conditionalities relating to anti-discrimination, gender and disability. At this time, almost one fourth of the Member States did not fulfil them or only partially. These are, however, of particular importance given that the CPR establishes these as horizontal principles of EU support that are thus to be mainstreamed.
The weaknesses created by non-fulfilment have been satisfactorily addressed by action plans adopted with the programmes

Where the non-fulfilment of ex ante conditionalities would lead to a significant risk to the effectiveness and efficiency of the achievement of specific objectives, the Commission could suspend all or parts of the related interim payments for the priority axis concerned at the moment of programme adoption. No cases of such significant prejudice have been established so far by the Commission services. However, in some cases, investments potentially at risk due to not-fulfilled ex ante conditionalities have been delayed by Member States at their own initiative.

In all policy areas where thematic or general ex ante conditionalities have not been fulfilled, action plans have been adopted by Member States and will have to be implemented at the latest by the end of 2016. This process has already started – Member States are implementing their action plans, which has already led to the fulfilment of additional ex ante conditionalities as compared to the situation at programme adoption. Progress will be closely monitored by the Commission.

The introduction of the new system of ex ante conditionalities should therefore contribute significantly to improving the quality of spending under Cohesion policy compared to the previous period.

III. Linkages between the European Semester and cohesion policy programming

The 2014-2020 reform reinforced the links between the objectives of the European Semester process and the programming of the ESI Funds. Relevant country specific recommendations (CSRs) and the National Reform Programmes have been established as
reference points in the programming exercise\textsuperscript{20}, thus ensuring that cohesion policy is clearly linked to the European Semester and the Union’s overall top economic priorities.

Moreover, in the Council conclusions on the 6\textsuperscript{th} Cohesion Report\textsuperscript{21}, Member States stressed that the new programming period exercise needs to ensure the quality of the interventions and compliance with the relevant country-specific recommendations and recalled the supportive role that cohesion policy could play in promoting important reforms.

\textbf{A number of CSRs are relevant for cohesion policy investments}

Out of a total number of 157 CSRs for 2014, more than two thirds of them – namely 110 – have been considered as relevant for cohesion policy. This includes 56 CSRs which are relevant for the ERDF and Cohesion Fund and 78 CSRs relevant for the European Social Fund; 20 CSRs are relevant for both of them.

In broad terms, the CSRs that are of most relevance for cohesion policy are those concerning improvements to labour market functioning, the reform of education systems, the functioning of public administration, improvements to the business and R\&I environment, social inclusion and poverty reduction, access to finance for SMEs and the functioning of network industries.

However, the linkages between investments planned and the CSRs are not always straightforward. In the Partnership Agreements and programmes, some Member States have clearly flagged a CSR as part of the rationale for programme interventions. But this was not done systematically for all cohesion policy funds.

Understanding how the cohesion policy fund intervention supports the policy response to the challenges identified in CSRs will depend on how Member States connected their structural reforms, better spending and the use of the cohesion policy funds through the National Reform Programmes and the ensuing programme implementation.

\textbf{Alignment with CSRs will improve the quality of investments}

By focussing ESI Funds' support on the priorities identified in the CSRs, the Funds directly contribute to boosting competitiveness, jobs and growth. The main areas relevant for the ERDF and Cohesion Fund investments most frequently covered in the CSRs are energy and natural resources and R\&D and innovation. In the case of the ESF, the fields most frequently covered in the CSRs are labour market policy, education and administrative capacity.

\textbf{Alignment with CSRs will encourage support for structural reforms}

Most ESI Funds / investment-relevant CSRs identify necessary structural reforms or other regulatory measures. There are often clear links between such CSRs and ex ante conditionalities related to thematic objectives. In many areas therefore, ex ante conditionalities are powerful tools to encourage institutional change to support structural reforms. This is also the case even if there is no specific CSR linked to every relevant ex

\textsuperscript{20} Articles 15(1)(a)(i), 96(2)(a) CPR.

\textsuperscript{21} 15802/14.
ante conditionality. Sometimes the links with structural reforms are even clearly spelled out in the programming documents. In the ESF operational programmes, the relevant CSR challenges are thematically reflected in the selection of the investment priorities.

**Alignment with CSRs requires improved quality of public administration**

The quality of public administration has a direct impact on the economic environment and is thus crucial to stimulate productivity, competitiveness, jobs and growth, the ultimate objective of the CSRs. Therefore, and in the new programming period, the ERDF, the Cohesion Fund and the ESF may contribute to institutional capacity building through a dedicated thematic objective, which highlights the importance cohesion policy attaches to this area. Support under this thematic objective includes actions to reform structures and processes, human resource management and service delivery. Member States have planned EUR 4.5 billion of cohesion policy Funds for specific actions under this thematic objective to enhance the institutional capacity of public authorities and stakeholders. Furthermore, actions to reinforce administrative capacity of authorities involved in the management and control of ESI Funds programmes can be financed from technical assistance at the disposal of Member States (EUR 10.3 billion planned by Member States for 2014-2020).

Administrative reforms – some of them called for in CSRs - are not only needed in relation to the management of ESI Funds but also at a more general level to improve governance and the performance of public administrations and institutions. This includes judicial reforms but also reforms in the areas of business environment, anti-corruption and public procurement. The European Court of Auditors highlighted systemic weaknesses in the administrative capacity of some Member States to handle public procurement, state aid and environmental impact assessment rules. The rules do not only have an effect on the implementation of cohesion policy, but also on the efficient functioning of product and service markets and public administration. The failure to implement anti-discrimination and gender legislation effectively can lower participation rates.

**Linkages between the European Semester, cohesion policy and the Investment Plan for Europe**

In its Annual Growth Survey 2015\(^\text{22}\), the Commission recommends a renewed commitment to structural reforms as one of the three main pillars for the EU's economic and social policy in 2015. This is also reflected in the Investment Plan, which establishes the improvement of the investment environment as its third pillar. Both relevant country specific recommendations resulting from the European Semester and ex ante conditionalities have a key role to play in this context, as they have important positive spill-over effects from cohesion policy to the broader environment for investments.

\(^{22}\) COM(2014) 902 final.
IV. Results orientation

Results orientation is a key feature of the reformed cohesion policy 2014-2020. It means that the design and implementation of programmes should be driven by a careful analysis of needs, a decision on clear objectives, the monitoring of programme achievements and policy learning based on high quality evaluations and debate among the main stakeholders.

Overall, the intervention logic of programmes has improved and result indicators are better developed

Specific objectives

Establishing clear objectives is the first and arguably most important step to achieve results orientation, being the basis for all following steps. The new regulations provide a flexible yet guiding framework for this task.

Identifying and improving specific objectives was at the heart of the dialogue between Commission and future managing authorities. This was a new demanding feature.

Most new programmes provide a picture of intended changes in the economies or among the participants from the different target groups (e.g. labour market status, qualification gained) that is clearer than in previous programme generations. The concept of specific objectives and result indicators linked to them is from the Commission’s point of view workable and enhances the quality of programmes substantially. Most programmes found the task challenging. It became clear that setting clear objectives requires political will and endorsement; it is not a merely technical exercise.

In areas that have been part of cohesion policy intervention for a long time such as support for start-ups and entrepreneurship, Member States coped well with the formulation of specific objectives and related result indicators. In other areas, especially those combining several thematic objectives and relatively new objectives such as integrated urban development, a significant number of managing authorities experienced more difficulties. In not all of these cases enough time and effort was invested to develop meaningful and clear objectives.

Result indicators

Result indicators are the measurable variables providing information on some or all aspects of the result (the programme’s specific objectives). They measure the actual state and the development of the change intended by a programme.

Although the identification of result indicators and their baselines was a challenge in many programmes, it resulted in a better understanding by both Member States and the Commission of the changes sought by programmes and the ways to measure and subsequently evaluate these changes. On average, an operational programme co-financed by the ERDF or the Cohesion Fund includes 15 specific objectives, with the same or higher number of result indicators. For roughly 10% of the result indicators, the required information on the situation at the beginning of the programming period (the baseline information) was not available, but was addressed through action plans to ensure that these data will be provided at the latest by the end of 2016.
The corresponding values regarding the ESF and YEI are fairly similar to those calculated for the ERDF and the Cohesion Fund. On average, an operational programme financed by ESF and YEI includes close to 15 specific objectives, and 21 result indicators. Roughly 12% of the result indicators are not based on information on the situation at the beginning of the programming period (baseline values).

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<th>Overview of result indicators for investment priorities under the thematic objective of supporting the shift to the low carbon economy</th>
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To illustrate the choice of results indicators, an overview of result indicators selected in ERDF and Cohesion Fund programmes[^23] is provided below. These relate to the investment priorities "promoting the production and distribution of energy derived from renewable sources" and "promoting energy efficiency and renewable energy in enterprises".

**Results indicators chosen for the increased production of energy from renewable sources:**
- Units of energy produced or available (electricity in the vast majority of OPs, green heat only in few cases);
- Units of energy/share consumed (in most of OPs);
- Number of innovative approaches/technologies having given rise to increased production;
- Expanded storage capacity (2 OPs only);
- Reduced levels of GHG emissions (2 OPs only)

**Improving energy efficiency and increased use of renewables in enterprises:**
- Reduced levels for GHG emissions by companies;
- Reduced consumption and energy savings in companies (used by a large number of OPs);
- Raising productivity levels;
- Decreasing energy intensity of enterprises (only 1 OP)

It is difficult to identify a global direction of change, since the programmes have different specific objectives. It can however be deduced that altogether the programmes seek to raise the overall consumption of energy from renewable sources as a percentage of total consumption of between 1.2 and 27 percentage points. Some operational programmes set to align these to the country’s national Europe 2020 target. In a similar vein, the reduction of greenhouse gas emissions cannot be exactly quantified, but it is calculated to be in the vicinity of 50 million tons of CO₂ equivalent for the 78 studied operational programmes. This represents about 11% of reduction against established baselines.

As far as ESF is concerned, preliminary estimates of targets set by Member States are available based on the OPs approved so far and on the targets using common indicators. These will be revised once all OPs are approved and the targets using specific indicators are included. The preliminary estimate is that ESF seeks to support, as a minimum, 77 million participants (cumulative by 2023) in total. This includes 21.7 million participants as part of the promotion of sustainable and quality employment and the support to labour mobility (thematic objective 8) and 23.8 million participants as part of efforts to invest in education, training and vocational training for skills and life-long learning (thematic objective 10). Focus of ESF support on certain target groups is also an important

[^23]: Based on an analysis of 78 adopted OPs (cut-off date 06/02/2015) covering 19 Member States.
concern: at least 20% of all participants reached by the ESF should be part of disadvantaged groups.

Intended results are clearly formulated. In particular, at least 24% of all participants without a job are expected to be in employment upon leaving ESF support, not including those who will successfully enter the job market after some time. Additionally, the Youth Employment Initiative is expected to support 2.1 million unemployed young people by 2018, out of which 980 000 should gain a qualification or be in employment upon leaving the supported intervention. Also by 2018, YEI should help at least another 353 000 young inactive not in education or training to gain a qualification or employment, out of the 694 000 who should complete a YEI-supported intervention.

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<th>Main ESF common result indicators</th>
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<tr>
<td>- Inactive participants engaged in job searching upon leaving</td>
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<td>- Participants in education/training upon leaving</td>
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<td>- Participants gaining a qualification upon leaving</td>
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<tr>
<td>- Participants in employment, including self-employment, upon leaving</td>
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<tr>
<td>- Disadvantaged participants engaged in job searching, education/training, gaining a qualification, or in employment, including self-employment, upon leaving</td>
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<tr>
<td>- Participants in employment, including self-employment, 6 months after leaving</td>
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<tr>
<td>- Participants with an improved labour market situation 6 months after leaving</td>
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<table>
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<tr>
<th>Main YEI common result indicators</th>
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<tr>
<td>- Unemployed participants who complete the YEI supported intervention</td>
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<tr>
<td>- Unemployment participants who receive an offer of employment, continued education, apprenticeship or traineeship upon leaving</td>
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<tr>
<td>- Unemployment participants who are in education/training, gaining a qualification, or in employment, including self-employment, upon leaving</td>
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<tr>
<td>- Inactive participants who complete the YEI supported intervention</td>
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<tr>
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<tr>
<td>- Inactive participants who are in education/training, gaining a qualification, or in employment, including self-employment, upon leaving</td>
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This overview shows that, contrary to the 2007-2013 programming period in which the intended results were not explicitly formulated, and partially as a consequence of which did not lend themselves to be measured, current OPs formulate what they intend to change and how they will contribute to generating that change.

Overall, the refined concept of result indicators has thus facilitated the agreement of clear objectives.

**Common indicators provide a good basis for accurate reporting at Union level**

**Output indicators**

Output indicators capture the actions financed or the participants supported under a programme in order to achieve specific objectives. Member States and regions were
familiar with the concept and coped well with the tasks to select output indicators and to set targets for them.

For the 2014-2020 period, the use of common output indicators has become obligatory for the ERDF (whereas it was already the case for the ESF in 2007-2013). Their core task is to deliver information that can be aggregated at EU level for all programmes and thus provide a meaningful basis for reporting on investments. As a first analysis of the adopted programmes shows, the common indicators met this objective. Practical difficulties in the use of common indicators have so far been limited and usually could be solved in dialogue between the Commission and Member States.

**The establishment of performance frameworks has progressed satisfactorily**

*Performance frameworks*

Performance frameworks are another essential tool of performance orientation. They provide the framework to monitor the implementation and delivery of programme outputs as planned. They incentivise timely delivery as achievement of milestones is a pre-condition for the release of the performance reserve. Most operational programmes coped well with this task. The establishment of a performance framework proved a relatively straightforward exercise where actions and their outputs had already been decided as part of a clear programme intervention logic earlier on. The legal requirement to document how the indicators for the framework were selected and how milestones and targets were established were an opportunity to discuss targets and can be seen as a good practice for all parts of the monitoring system of programmes.

*Ex ante evaluation*

The purpose of ex ante evaluations is to improve the quality of the design of each programme. Most Member States launched these evaluations early enough to influence programmes and implemented the evaluations as required by the regulations. Substantial means were deployed for this exercise. However, quality problems in the intervention logic of a number of programmes became evident in the negotiations and raise questions on the design and utility of ex ante evaluations. It seems that ex ante evaluations are not always critical enough and do not fully exploit their potential to improve draft programmes. The current provisions on the independence of ex ante evaluations and their broad coverage of topics therefore deserve a more detailed analysis.

*Continuing the focus on results*

The adoption of programmes with a clear intervention logic, including objectives, actions and a performance framework was a first and essential step to anchor the results orientation in cohesion policy. More will need to be done during the implementation stage of programmes to ensure the necessary focus on the delivery of results: the adoption of selection criteria for projects in line with the specific objectives, as well as evaluation plans to ensure evaluations of good quality that can adequately capture the contribution of programmes to the agreed objectives. The annual implementation reports submitted in 2016 will provide for the first time data on outputs and progress towards objectives and the milestones of the performance framework.
V. Territorial delivery modes

Mixed experience with the integrated approach to territorial development in programming

Member States were required to present in their programmes an integrated approach to territorial development. This should comprise an analysis of territorial disparities and the identification of development needs and challenges serving as a basis for setting objectives and choosing instruments for the proposed territorial approach. The analysis of programmes shows that certain elements of this framework are often absent, potentially undermining the added value of the approach.

- The territorial analysis is often not elaborate enough to allow for identifying clear priorities at territorial level;
- In certain cases, the conclusions of the territorial analysis are not fully reflected in the choice of the investment priorities or in the territorial focus of the territorial instruments.

Data\(^{24}\) suggests that around EUR 32 billion or 10% of the cohesion policy budget will be programmed using various tools for integrated approaches to territorial development, most of this (EUR 26.2 billion) coming from the ERDF. Half of this allocation will be channelled through the new territorial instruments (ITIs and CLLD).

Member States use Integrated Territorial Investments (ITI) to address complex territorial challenges

Despite the novelty of the instrument, twenty Member States decided to use ITIs to address complex territorial challenges in 101 OPs with a total allocation from cohesion policy of EUR 13.6 billion. Among them, thirteen Member States will combine ERDF and ESF funding when using ITIs (see chart 13 below).

\(^{24}\) The analysis covers all 311 operational programmes under the Investment for growth and Jobs goal submitted to the Commission (125 financed by the ERDF and/or the Cohesion Fund, 95 by the ESF, and 91 by the ERDF/CF and the ESF). Among these, 242 have been adopted so far by the Commission.
Urban ITIs: seventeen Member States will use ITIs as a delivery mechanism for the implementation of sustainable urban development (SUD) under Article 7 ERDF Regulation with a financial allocation of EUR 7 billion (96% of all urban ITIs and 62% of all ITIs). Only two Member States use ITIs for integrated urban development outside the framework of Article 7 ERDF Regulation.

Other ITIs: fourteen Member States plan to support other territorial strategies using ITIs. Over EUR 4.2 billion of ERDF is programmed to be spent on the implementation of such strategies. In eight of these cases, ERDF will be complemented by ESF funding. These ITIs will be set up in a wide range of territories, namely:

- Areas with specific challenges: remote regions; regions undergoing economic restructuring; regions with protected natural environment;
- A more integrated implementation of territorial strategies at the level of administrative regions (regional ITIs at NUTSIII level in two Member States);
- Complementary investments to urban ITIs or ITIs for towns of regional importance.

Looking at the choice of thematic objectives contributing to the ITIs, it is clear that ITI support differs substantially from the thematic concentration of ERDF in general. The overall concentration of ERDF expenditure on research and innovation, ICT and SMEs is not reflected in the allocations to ITIs, which will contribute predominantly to sustainable and inclusive growth.

A number of Member States are reluctant to make use of Community-Led Local Development (CLLD)

Inexperience with the bottom-up approach and an alleged lack of capacity at local level coupled with the strong performance orientation of cohesion policy has led to a reluctance of a number of Member States to experiment with this instrument. At the same time, the figures suggest that its use favours the integration of ERDF and ESF funding.

A total of seventeen Member States intend to support the implementation of local development strategies. In twelve of these, ERDF will be complemented by ESF. Four Member States will use solely ERDF, while one Member state will support CLLD exclusively through ESF. One Member state will dedicate an entire OP for CLLD, whereas the majority of the CLLD funding will be provided by a specific priority axis of an OP (in most cases a regional OP).

The overall targets for the ERDF for sustainable urban development have been exceeded, but Member States are cautious about delegation of tasks to urban authorities

Chart 14 below show that the regulatory requirement to allocate a minimum of 5% of the national ERDF resources under the Investment for growth and jobs goal to integrated actions for sustainable urban development (SUD) will be met or exceeded in all Member States. In total, EUR 16 billion is programmed for the implementation of SUD under Article 7 of the ERDF, which corresponds to 8.6% of the overall EU ERDF allocation. Half of the Member States will allocate more than 7.5% of their ERDF budget to this end. Amongst these, there are four Member States who dedicate more than 15 percent of the national ERDF allocation to SUD.
Analysis suggests that with regards to delegation of tasks to urban authorities Member States in most cases limited themselves to fulfilling the minimum requirements laid down in the regulation: most Member States opted for the minimum level of delegation and there is a relatively limited use of Funds other than the ERDF.

Sustainable urban development will be financed through 111 ERDF or multi-fund OPs. As regards the choice of Member States programming arrangements, our findings reveal the following picture:

- 52% of the financial allocation to SUD (EUR 8.3 billion) is programmed via a specific, multi-thematic priority axis in 50 OPs;
- 43% of SUD allocations (EUR 7.0 billion) will be implemented using ITIs through 57 OPs;
- Three metropolitan areas will have OPs dedicated to SUD;
- One national OP for Metropolitan Cities will finance SUD, including a 25% ESF contribution via a separate priority axis.

Programming arrangements for SUD will support a significantly different thematic mix of interventions than ERDF as a whole, as indicated in chart 15 below. In the framework of SUD, funding will be concentrated on sustainable and inclusive growth, with the bulk of the allocation (85%) contributing to the ERDF investment priorities related to the most relevant urban challenges: energy efficiency, sustainable urban mobility, urban regeneration and the physical, social and economic regeneration of deprived urban communities.
VI. Financial instruments

Financial instruments are not a new delivery mode for cohesion policy programmes. There were already some pioneers implementing a fraction of cohesion policy through financial instruments in 1994-1999 and this expanded further during the 2000-2006 and 2007-2013 programming periods. The estimated amount allocated from Structural Funds to venture capital, loan and guarantee funds in 1994-99 was EUR 0.57 billion, rising to EUR 1.2 billion in 2000-2006\(^25\) and in 2007-2013 to EUR 9.6 billion as of 31 December 2013\(^26\). However, this was mainly confined to the field of enterprise support.

Implementation of financial instruments through regional policy during 2007-2013 posed a number of challenges highlighted not only by those directly involved in implementation (Commission, Member States, Managing Authorities, European Investment Bank - EIB Group) but also by the European Court of Auditors and the European Parliament. These included: the need for successive legislative amendments and guidance notes to clarify the scope and rules for financial instruments as their use in structural funds programmes became more widespread during 2007-2013; the limited practical experience by key stakeholders of financial instruments in some cases; problems in matching supply with demand, which led in some cases to over-allocation of finance, delays before finance reached SMEs or 'parking' in funds; and the challenge of balancing private sector objectives of maximising financial returns on investment with the regional policy objectives of contributing to growth and jobs in given Member States and regions. In some Member States the absorption rate of financial instruments has proven a cause for concern, in particular where instruments were affected by the economic and financial crisis or were established later in the programming period.

To address these issues and to support an optimised use of financial instruments in cohesion policy in the 2014-2020 programming period, the new legal and policy framework therefore introduced a number of improvements based on past experience: the need for clear and comprehensive rules for all five ESI Funds from the outset; a compulsory ex-ante assessment before deciding to contribute resources to financial

\(^{25}\) Comparative study of venture capital and loan funds supported by the Structural Funds, Centre for Strategy and Evaluation Services, 2007, page 8.

\(^{26}\) Total ERDF and ESF paid to financial engineering instruments (FEIs), summary of data on the progress made in financing and implementing FEIs reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006, situation as at 31 December 2013.
instruments and ensure proper dimensioning; a system of payments linked to disbursement to final recipients; and improved monitoring and reporting. It also includes innovations to help encourage use of more financial instruments in the future, including expansion of eligibility to all thematic objectives; the 'off-the-shelf products', offering predefined standard terms and conditions including compliance with the relevant state aid regimes; and the possibility to contribute resources to EU-level instruments such as the SME initiative and the EU programme for Employment and Social Innovation (EaSI).

This new legislative framework is further complemented by particular efforts by the Commission to encourage and optimise the implementation of financial instruments in 2014-2020, notably the new advisory hub 'fi-compass' providing horizontal information and guidance for the use of financial instruments. This has been backed up by political target-setting at Council level\(^ {27}\) and, more recently, by the Investment Plan for Europe, which in November 2014 urged Member States to boost the impact of the ESI Funds by committing to increase significantly their use of financial instruments in key investment areas leading to at least an overall doubling in their use in 2014-2020.

The necessary conditions were therefore put in place to ensure that future use of financial instruments to deliver ESI Funds programmes: will be better informed and designed; will cover a broader scope of interventions; will be easier to implement than in the programming periods to date; and will be more transparent than today.

**First results show an overall increase in the use of financial instruments**

Firm decisions about amounts to be allocated to financial instruments are for the moment rather limited and many ex-ante assessments are still ongoing. Firm quantitative results will only become available once implementation and reporting starts (under the regulation\(^ {28}\) in 2016 or an additional earlier ad-hoc reporting exercise as mentioned in the Investment Plan - IP) and the confirmation of any amounts is subject to the normal decision-making and selection procedures.

Nevertheless, during January – March 2015, the Commission services have conducted a stock-taking exercise on the basis of available sources. The results show an increase in aggregate terms:

<table>
<thead>
<tr>
<th>Planned amounts for financial instruments (in billion Euro)</th>
<th>ERDF and CF</th>
<th>ESF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of the planned amounts for financial instruments against the total budget of each ESI Fund</td>
<td>9%</td>
<td>1%</td>
</tr>
</tbody>
</table>

For the ERDF, ESF and Cohesion Fund, aggregate allocation for the past period and planned allocations can be broken down by Member State as follows. The figures for 2007-2013 are based on the commitments from ERDF and ESF to financial engineering instruments.

\(^{27}\) EUCO 169/13, point 26.

\(^{28}\) Article 46(4) CPR.
For the ERDF, ESF and the Cohesion Fund, aggregate results can be broken down by thematic objectives.

Discussions between Commission staff and managing authorities are on-going (see below) and latest, albeit still incomplete, information suggests that the total amount planned to be used via financial instruments reached the order of EUR 23.0 billion, out of which EUR 22.1 billion come from ERDF or the Cohesion Fund.

Whilst almost all Member States already used financial instruments under ERDF in the period 2007-2013, financial instruments were far less known and used by Member States under the ESF. For the period 2014-2020, a picture of the state of play based on first estimates shows that to date 12 Member States have so far planned to use financial instruments (BG, DE, ES, EL, HR, HU, IT, LT, PL, PT, RO, SK) whereby EUR 950 million is directly financed by the ESF. Compared to the previous programming period, this represents a tripling of the ESF contribution to financial instruments and a stark increase of the number of the Member States that are planning to use financial instruments co-financed by the ESF.

Loan schemes seem to be the most frequently used type of ESF co-financed financial instruments, although some managing authorities support guarantee funds and exceptionally equity funds. Most, if not all, focus on micro and/or social enterprises often targeting specific populations, such as the self-employed and/or disadvantaged people.
Benefits of financial instruments are recognised, but further scope for uptake of financial instruments needs to be explored

There is recognition of the benefits of financial instruments, in particular in a context of budgetary and fiscal constraints. Use of financial instruments is seen not only as a way to leverage more financial resources and thereby increase the impact of ESI Funds programmes, but also to secure revolving funds, which are expected to stay in the programme area for future use and to help attract coveted private sector support and financing. There is in general also recognition and appreciation of the new elements included in the legislative framework, including the expansion of thematic scope and enlarged implementation options.

On the other hand, the first results by thematic objective and further qualitative feedback show that many managing authorities prefer 'business as usual'. There is little interest in use of financial instruments outside the 2007-2013 thematic areas of enterprise support, urban development and energy efficiency in housing/renewable energies. There is even less interest in the new implementation options: only two Member States have opted for the SME initiative and there is little or no interest in other new options such as contribution to other EU-level instruments or using options such as off-the-shelf instruments or direct management.

Furthermore, a number of obstacles to further increased use of financial instruments have been presented by some Member States. These include the existence of national instruments already addressing the market gap, availability of original funds or reflows from 2007-2013 ERDF-funded instruments, over-capitalisation and implementation problems with 2007-2013 instruments, preference for repayable assistance, lack of critical mass, and the nature of activities foreseen under specific thematic objectives (i.e. not revenue-generating).

Supporting the uptake of financial instruments

ESIF DGs are in ongoing contact with managing authorities to actively explore further scope for use of financial instruments to deliver ESI Funds support in 2014-2020. Desk officers are asking managing authorities for more information about their plans, informing managing authorities about the existing support from the Commission, in particular "fi-compass" and "off-the-shelf instruments", and asking managing authorities what support from the Commission might be helpful in this context (e.g. additional off-the-shelf instruments).

Following the signature of the SME Initiative for Spain on 26 January and the expected signature for Malta in the coming weeks, a DG REGIO-AGRI workshop on the SME Initiative will be held in Brussels on 23 April. From May onwards a series of regional, fund-specific and national workshops for managing authorities will be delivered under fi-compass. The new "TAIEX REGIO" peer-to-peer mechanism will allow ERDF and Cohesion Fund managing authorities to access peer-learning on financial instruments. At the same time, the Commission services will continue to work on production of a series of guidance notes on key legislative and implementation questions.

The Commission will continue to monitor the uptake of financial instruments and counts on cooperation from Member States and managing authorities in providing reliable data to enable a clearer and more conclusive picture by the end of 2015.