Integrated territorial investment – Implementation and future prospects

SUMMARY

An optional territorial development tool, integrated territorial investments (ITIs) make it possible to combine resources from the European Social Fund, European Regional Development Fund or Cohesion Fund under priority axes of one or more operational programmes. While ITIs may be used to implement sustainable urban development as well as other territorial strategies, they also allow Member States to delegate management tasks to the local level. Their take-up in the current period, however, has been relatively low, leading to questions regarding their current form.

Commentators have highlighted a number of obstacles to implementing ITIs, such as their complex structure, the administrative burden they represent for local authorities and the reluctance of many Member States to delegate responsibilities to the local level, with the European Parliament also adopting a resolution on this topic in 2016. There is clearly room for improvement and the current discussions on the future cohesion policy framework provide fresh impetus to further develop this tool.

Stakeholders have put forward a number of proposals, finding common ground on issues such as ensuring the wider use of ITIs and a place-based approach, the need for greater simplification, and the importance of strengthening the sub-delegation of powers to involve the local level more in selecting projects. With a commitment to maintaining a key role for cohesion policy in the EU budget after 2020, the Bulgarian Council Presidency has made this policy one of its priorities. Yet in a context of increasing budgetary pressure, it remains unclear whether Member States will wish to strengthen a tool that devolves greater power, at some financial risk, to the local level.

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Introduction

Following the introduction of territorial cohesion as an objective under the Lisbon strategy and its subsequent inclusion in the Europe 2020 strategy, the 2014-2020 cohesion policy framework has put a new emphasis on a place-based approach to policy making, which involves ensuring that objectives set at EU level are delivered by taking greater account of local needs. This approach has been reflected through the inclusion of appropriate provisions in the European structural and investment fund (ESIF) regulations, measures to increase the urban and territorial dimension of cohesion policy, and the introduction of new delivery mechanisms, such as integrated territorial investments.

Under the rules, at least 5% of the European Regional Development Fund resources allocated at national level under the investment for growth and jobs goal must be set aside for integrated actions for sustainable urban development, giving cities ring-fenced funding, with ITIs identified as a tool for delivering sustainable urban development. Their use is not restricted to sustainable urban development actions, however, and Member States may also use them to deliver territorial development strategies in other territories such as rural or coastal regions that require an integrated approach.

Legal background

Established by Article 36 of the Common Provisions Regulation, the ITI tool enables territorial strategies to be implemented in an integrated manner, combining investments from the European Social Fund (ESF), the European Regional Development Fund (ERDF) or the Cohesion Fund. An optional territorial development tool, ITIs allow Member States to use funding from several priority axes of one or more operational programmes to deliver an integrated strategy in a specific territory or area. Article 36 also enables ITI actions to be complemented with financial support under the European Agricultural Fund for Regional Development and the European Maritime and Fisheries Fund. Integrated territorial investments are specifically mentioned under Article 7 of the ERDF Regulation as one of three possible methods, alongside dedicated operational programmes and priority axes, for implementing sustainable urban development. The role of the ESF in supporting ITIs is, meanwhile, set out in Article 12 of the ESF Regulation, with Article 11 of the ETC Regulation outlining the use of ITIs for territorial cooperation programmes.

Integrated territorial investments in practice

According to information published by the European Commission, the key elements of an ITI include the existence of a designated territory, an integrated territorial development strategy, a package of actions to be implemented and governance arrangements to manage the ITI. On the issue of governance, one innovative aspect of this tool is that it allows a Member State or managing authority to designate intermediate bodies, which can include local authorities, to carry out the management and implementation tasks of an ITI, giving local stakeholders a greater role in delivering funding. In this context, it is worth noting that when ITI is used to deliver sustainable urban development actions under Article 7 of the ERDF Regulation, urban authorities must be responsible for at least the selection of operations, in line with the rules on the delegation of tasks applicable to all sustainable urban development actions. No such delegation requirement is in place for ITIs established to implement other types of territorial development strategies.

Use of ITIs across the Member States

A total of 20 Member States are using ITIs during the current period, according to data provided in the European Commission’s December 2017 study on integrated territorial
and urban strategies, with the total amount of funding allocated to ITIs across the Member States amounting to €13.8 billion. Some 85 % of this amount, €11.8 billion, is funded under the ERDF, with around 12 % funded via the ESF (€1.7 billion), the remainder being financed through the Cohesion Fund (€0.3 billion). As shown in the table below, nine Member States account for nearly 80 % of the total amount of ITI funding, with around 28 % of all ITIs being implemented in one country, Poland.

Figure 1 – Cohesion policy support delivered by ITI

Overall, only 28 % of the 880 sustainable urban development (Article 7) strategies identified by the study are using integrated territorial investment, the vast majority applying a multi-thematic priority axis. However, the situation is somewhat different when it comes to financing. While just 15 countries are delivering sustainable urban development (SUD) strategies using ITI, the funding involved actually amounts to €7.1 billion, which is almost 50 % of total ERDF funding allocated to SUD (€14.5 billion). Beyond the field of sustainable urban development, the study finds that 12 Member States are using ITI to deliver strategies in other areas, with a total of 154 ‘non-SUD ITIs’.

Geographically speaking, SUD strategies that use ITIs are more common in urban areas with larger and higher density populations and also in functional urban areas. Conversely, only a small percentage of non-SUD strategies delivered through ITIs are in urban areas. Although often based around a small urban centre in a rural region, they are more common in rural areas, with the majority in regions that include both rural and urban areas. In addition, some 11 % of these ITI strategies encompass areas with particular geographical features such as river basins or mountainous regions. Looking more specifically at the differences between sustainable urban development strategies delivered via ITI and other methods, the study finds that ITI SUD strategies have a higher number of investment priorities and thematic objectives and are more often multi-funded in nature than non-ITI SUD strategies. In particular, a high degree of thematic integration is typical of ITIs established to deliver sustainable urban development in less developed regions. These have, on average, double the number of investment priorities when compared with strategies in less developed regions delivered via priority axes. Furthermore, sustainable urban development strategies delivered via ITI involve greater delegation of responsibilities than other sustainable urban development strategies, which implies that local stakeholders are more involved in delivering such strategies when ITIs are used.
Assessing integrated territorial investments

The above overview of the implementation of ITIs across the Member States suggests that ITIs provide an effective means of integrating numerous investment priorities, thematic objectives as well as different funds and that their use can promote the greater involvement of local stakeholders in the rollout of sustainable development strategies. In addition, their popularity in functional urban areas suggests that they can play a useful role in establishing closer links between urban areas and their rural hinterlands.

This positive view is shared by the European Commission, whose 2017 strategic report on the implementation of ESIF notes that sustainable urban development, ITIs and community-led local development (CLLD) have all led to a change in local and regional planning culture, promoting cooperation across sectors and different levels of government, including across administrative boundaries, with other commentators also highlighting the benefits of ITIs. According to a paper by Georgiana Raluca Ladaru and Florian Marin, ITIs have not only made it possible to integrate a broad range of funds which can support the development of a given region, but have also empowered local authorities to get more involved in regional development together with regional stakeholders, thereby creating synergies between local stakeholders. The ability of ITIs to integrate various funds and levels of administration across a defined spatial area is also highlighted by Germany's Federal Institute for Research on Building, Urban Affairs and Spatial Development. Polish academics Tomasz Kaczmarek and Dagmara Kociuba meanwhile argue that ITIs have helped kick-start the process of decentralising urban policy to local level. This point is also stressed by the Council of European Municipalities and Regions (CEMR), which notes that ITI is a valuable tool for devolving decision-making to specific local areas. However, as outlined in the European Commission’s seventh report on economic, social and territorial cohesion, Member States have been relatively slow to take up ITIs, which suggests that a number of challenges remain to their implementation.

European Parliament

While acknowledging that ITI and CLLD represent a step change in the ability of local stakeholders to combine funding streams and plan well-targeted local initiatives, Parliament’s resolution of 10 May 2016 on new territorial development tools in cohesion policy 2014-2020 stresses that stakeholders continue to find the integration of multiple funds a challenge, particularly with regard to CLLD and ITI, and highlights the need for simplification to facilitate implementation of these tools. The report calls on the Commission and Member States to provide extra support, training and guidance for smaller localities with more limited resources that find it difficult to use tools such as ITI, urging the Commission to develop training courses on ITI for local and regional actors.

Parliament considers that ITI should not be limited to urban areas but also encompass areas such as urban neighbourhoods, metropolitan areas, and also urban-rural, sub-regional or cross-border areas. It notes that ITIs provide an appropriate structure for addressing territories that have poor access to services or that include isolated communities. It emphasises that the key to future ownership is to ensure greater delegation of responsibilities to local authorities and stakeholders, including civil society, and their early participation in the territorial development strategy, and calls on Member States to adopt a multi-fund approach to ITI to ensure synergies between funds in a given area. The resolution also notes that the late decision by Member States to use ITI has had an impact in terms of the development of territorial strategies, the budget setting process and the creation of a legal basis for ITIs at national level and calls on the Commission to introduce more flexible rules for regions or countries with low allocations and to improve co-financing mechanisms in the Member States.
Challenges to implementation
One issue raised by observers concerns the **complexity of the tool** itself. To start with, multi-fund financing is a key part of the integrated approach inherent to ITIs, yet stark differences remain between the ERDF and the ESF, which can make the process of combining investments under these funds particularly challenging. An equally fundamental problem is the apparent **contradiction between the ITI's integrated, place-based approach and the principle of thematic concentration**, as noted by academic Ivan Tosics, which means that priority objectives set at national level can differ significantly from the needs identified by authorities at local level, making it difficult to fulfil local needs. Questions have also been raised regarding the **complex nature of ITI implementation structures**, which require the creation of intermediary bodies. The European Committee of the Regions (CoR) considers this requirement to be disproportionate given the scant resources and limited powers of the bodies in question. In addition, observers note that the very **provisions of Article 7 on delegating tasks to urban authorities are unclear**, something that Eurocities believes has led directly to delays in delivery and unnecessary difficulties. This problem is arguably compounded by the **late publication of guidance** by the European Commission, which the CoR argues delayed the development of the rules needed to implement ITIs in the Member States.

Several commentators note that **local authorities often lack the necessary resources** to prepare and implement projects involving ITIs and do not have the technical know-how required to implement ITIs. Georgiana Raluca Ladaru and Florian Marin contend that as the successful delivery of ITIs is largely dependent on the operational capabilities of local actors, their level of expert knowledge and the extent to which they are able to deliver projects, manage budgets, work together and identify synergies, this **lack of experience poses a severe risk to the successful delivery of ITIs in many countries**. This is particularly true in the newer Member States that do not have a strong tradition of working with integrated approaches. Yet even in countries that do have adequate resources to cope, the fact that ITIs often involve many operational programmes, axes and priority measures means there is a **high risk of additional bureaucracy and problems** due to differences between operational programmes, increasing the administrative burden for local authorities. Against this backdrop, commentators such as Ivan Tosics consider that the evidence suggests that **many local authorities do not actually want these new responsibilities as they entail additional red tape**.

An additional problem raised by some observers is the **unwillingness of many managing authorities to delegate responsibilities to the local level**, a point highlighted by the CEMR, whose 2015 study finds that managing authorities in some Member States, such as the Czech Republic and Germany, are not always convinced of the importance of this instrument for the development of local areas. In a similar vein, Tosics argues that regional and national authorities in certain countries appear to be keen to hold onto their exclusive responsibilities. The **limited involvement of local partners** is also stressed in the CEMR report, which points to the negative experiences of local associations of municipalities in Belgium and Romania whose requests to take part in the process of selecting the cities covered by ITIs were ignored. This situation is arguably exacerbated by the lack of technical expertise among many local authorities, which merely serves to reinforce the view among certain managing authorities that the local level is inexperienced in cohesion policy issues and that its involvement increases the financial risk for the managing authorities concerned, who have the ultimate financial responsibility for the projects in question. Some commentators have also drawn
attention to the relatively low level of funding available, with the CEMR study emphasising, for instance, that several ITIs in the Czech Republic are not adequately funded. Perhaps more worrying still, the CoR notes that some countries have failed to carry out the mandatory allocation of operational programme resources to ITIs, which ultimately calls into question the whole viability of the ITI project in certain countries.

**Integrated territorial investments post 2020**

Given the existence of challenges relating to the complex structure of ITIs, the associated administrative burden for local authorities as well as the reluctance of many managing authorities to delegate responsibilities to the local level, it is clear that there is still significant room for improvement. The next programming period provides an opportunity to enhance and further develop integrated territorial investments and, as discussions get under way on the future shape of cohesion policy post 2020, stakeholders have already begun to share their views on the possible role of ITIs in the next cohesion framework.

**Eurocities**

Highlighting the importance of a policy approach that takes account of the situation on the ground, Eurocities' June 2017 policy paper argues that local authorities need to have better access to instruments such as ITIs in the future and a greater voice when it comes to the selection of thematic objectives and investment priorities. Eurocities considers that the use of territorial instruments such as ITI and CLLD should be encouraged post 2020 by providing greater flexibility in the area of thematic concentration. It calls for the integrated approach to sustainable urban development to be reinforced in the next programming period by extending the minimum 5% earmarking to cover ESF alongside ERDF and for the introduction of a simple procedure for involving urban authorities in project selection. Eurocities' working group on metropolitan areas, meanwhile, considers that if urban authorities are to make optimal use of ITIs, action must be taken to simplify rules and reduce the administrative burden. The working group argues that the EU should continue to build on the success of metropolitan cooperation through ITIs in the future period yet acknowledges that joint project development can be a lengthy process. It emphasises the need for greater simplification, flexibility and trust if ITIs are to genuinely fulfil their potential as integrating tools that can enable cities to develop sustainable urban development strategies across administrative borders. In addition, it calls for the use of ITIs to be restricted to functional urban areas only.

**Council of European Municipalities and Regions**

Calling for the five ESI funds to be governed by a single regulation, the CEMR's June 2017 position paper argues that the relevant rules should be simplified and clarified to enable new and more ambitious integrated territorial development instruments in the future. In particular, it outlines a specific recommendation to strengthen post 2020 the sub-delegation of powers to competent and willing local and regional authorities for project selection or management of EU funds. According to the position paper, as local and regional authorities are best placed to identify the thematic priorities of EU investments and the location of related projects, their inclusion ensures good governance and the efficient use of funds. It therefore advocates devolving greater responsibilities to those local authorities that have the power to implement large-scale programmes in their local area, noting that full use was not made of the scope for the sub-delegation of powers provided for in the regulations, largely in view of managing authorities' concerns over liability. It also adds that future territorial development instruments that expand on the CLLD or ITI model should be designed bottom-up and not be pre-conditioned by
considerations such as geography or size. Its January 2018 position paper on the MFF post 2020, meanwhile, calls for an ambitious cohesion policy budget via the structural funds and recommends that the territorial dimension be strengthened, thereby bolstering delivery mechanisms such as ITIs which make it possible to devolve and integrate funds at local level.

**European Commission study**
The European Commission's 2017 study on strategies for integrated development argues that consideration should be given to extending the principles of a place-based approach to a higher proportion of programmes after 2020. Noting that ITI has the potential to ensure good levels of thematic and fund integration, the study emphasises that the use of integrated territorial investments should be promoted in all relevant cases, adding that the rollout of integrated place-based approaches should be encouraged for functional urban areas in particular. Furthermore, it draws attention to the fact that ITI is especially well-suited for projects that extend beyond administrative boundaries and notes that further consideration should also be given to using ITI to develop urban networks between cities.

**European Committee of the Regions**
In its February 2018 opinion entitled 'Integrated territorial investments – a challenge for cohesion policy after 2020', the CoR emphasises that if it is to contribute more effectively to achieving the EU's objectives, EU cohesion policy must adopt a place-based approach to reflect the actual conditions and requirements of each territory. It argues that the significant potential for integrated investment could be optimised in future by building on current examples of good practice and by further adjusting the place-based approach and considers that it should be compulsory for all Member States to facilitate the implementation of ITI in the period beyond 2020. It notes that this could allow ITI to realise its potential of becoming a key tool for delivering cohesion policy and providing real European added value for EU citizens.

In particular, it recommends that the ITI approach be used more outside urban areas and implemented more widely in rural and functional areas. It also calls for further simplification by focusing all resources for a given ITI in one multi-fund operational programme where possible and avoiding complex links to individual sectorial operational programmes. In addition, the CoR recommends that management and financing be carried out using a global grant that clearly identifies the objectives, indicators, resources and responsibility for delivery. The CoR emphasises that specific indicators for this programming tool are essential and that regional authorities must have the option to be able to provide their own indicators for assessment by the Commission during the design stage of the operational programmes.

**European Parliament**
On the issue of ITI post 2020, Parliament's resolution of 10 May 2016 emphasised that ITI should play an even more important role in future cohesion policy. It called for the bottom-up approach to ITI to be formalised in future cohesion policy during both programming and implementation phases. It also recommended that guidance on ITI be developed at the same time as the proposal on new cohesion policy legislation for the post-2020 period, to provide greater legal certainty for all parties involved. More recently, Parliament's resolution of 13 June 2017 on building blocks for a post-2020 EU cohesion policy considers that the urban dimension and specific provisions for sustainable urban development should be further developed and financially
strengthened post-2020 and that the sub-delegation of competences to lower levels should be reinforced, stressing also the future role of territorial development tools, such as integrated territorial investment. Parliament’s resolution of 18 May 2017 on future perspectives for technical assistance in cohesion policy, meanwhile, has drawn attention to the need to improve technical assistance for local authorities in future. It emphasises that the capacity of the lower levels of governance is also essential for the success of the new territorial development tools, such as integrated territorial investment, and considers that Member States should make technical assistance available to support their valuable contribution to sustainable local development in the EU.

Outlook

While stakeholders have put forward a wide range of different proposals regarding the future position of ITI in the cohesion policy framework post-2020, it is nonetheless possible to identify a number of common themes, with observers finding common ground on issues such as encouraging the wider use of ITI and a place-based approach, particularly in functional urban areas, the need for greater simplification, or the importance of strengthening the sub-delegation of powers to involve the local level more in selecting projects or investment priorities. With the Bulgarian Presidency recently organising a workshop in cooperation with ESPON on indicators for integrated territorial and urban development, this issue remains high on the political agenda. The presidency work programme meanwhile reveals that the future of cohesion policy itself will also be an important priority for the EU during the first half of 2018. In particular, the Bulgarian Presidency will work to maintain a key role for cohesion policy in the EU budget after 2020 while taking into account the need to simplify legislation, rules and procedures, mirroring the views of stakeholders on ITI, with a high-level conference on cohesion policy after 2020 scheduled for 8 June 2018. Yet in a context of increasing budgetary pressure, put into even sharper focus by the UK’s planned departure from the EU, questions remain regarding the extent to which Member States will be willing to strengthen an instrument that delegates greater powers to the local level given the risks this entails for managing authorities, who bear the ultimate financial responsibility for the investments in question.

Main reference


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