STUDY

Requested by the REGI Committee

Absorption rates of Cohesion Policy funds

Regional Development

Policy Department for Structural and Cohesion Policies
Directorate-General for Internal Policies
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RESEARCH FOR REGI COMMITTEE

Absorption rates of Cohesion Policy funds

Abstract

This study analyses the absorption rates of the EU Cohesion Policy funds in 2014-2020 over time across funds (ERDF, ESF, CF, and REACT-EU), and across Member States and regions. It also provides a comparison with 2007-2013 absorption. A summary of absorption drivers, obstacles and undertaken solutions is presented based on the relevant literature and the findings of case studies. Conclusions and recommendations on improving the absorption of funds are set out.

This document was requested by the European Parliament's Committee on Regional Development.

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LIST OF ABBREVIATIONS

AA	Audit Authority
BN	Billion
CA	Certifying Authority
CF	Cohesion Fund
CP	Cohesion Policy
CARE	Cohesion's Action for Refugees in Europe
CPR	Common Provisions Regulation
CRII	Coronavirus Response Investment Initiative
CEU	Council of the European Union
EC	European Commission
ECA	European Court of Auditors
EP	European Parliament
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
FAST CARE	Flexible Assistance to Territories
GDP	Gross Domestic Product
MA	Managing Authority
MS	Member State
MN	Million
MFF	Multi Annual Financial Framework
NGEU	Next Generation EU

OP	Operational Programme
OECD	Organisation for Economic Co-operation and Development
PP	Percentage points
RRF	Recovery and Resilience Facility
REACT-EU	Recovery Assistance for Cohesion and the Territories of Europe
SCO	Simplified cost options
TFBI	Task Force for Better Implementation
YEI	Youth Employment Initiative

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EXECUTIVE SUMMARY

Absorption rates can be defined as the percentages of EU funding that have been paid by the European Commission to Members States' Operational Programmes (OPs) at a certain point in time. Understanding the drivers of the absorption of Cohesion Policy funds is crucial for shaping the future of this policy aimed at promoting economic growth and social cohesion and reducing disparities among the EU Member States (MS) and their regions. In particular, it is crucial to understand what influences the speed of the absorption, how that is related to the effects of the Cohesion Policy, and if the factors that speed up (or hinder) the absorption of the funds can and should be encouraged (or removed) at the EU as well as at the MS level.

Absorption rates in 2014-2020 and comparison with 2007-2013

A prolonged trend in the absorption of funds was observed in the first years of the 2014-2020 programming period, and in fact, **just a quarter** of the total resources **had been paid out at the end of 2018**, while a significant catch-up took place near the end of the programming period. By the end of 2020, only 52.5% of the total financial resources available from the European Regional Development Fund (ERDF), Cohesion Fund (CF), European Social Fund (ESF), and Youth Employment Initiative (YEI) for the 2014-2020 period had been paid to MS. **At the end of 2023**, though, the absorption **increased significantly to 94.4%** (not considering REACT-EU funds) **or 90.4%** (when including REACT-EU).

The absorption rate of REACT-EU funds was about 62% at the end of 2023, meaning that nearly 40% of the resources still need to be paid out in the remaining months. Apart from REACT-EU, there are no significant differences in the absorption rates across the funds of the Cohesion Policy. In relation to the different regions category, the "Transition" regions perform worse than the "More developed" and "Less developed" (between these two, there is no significant difference).

Differences in absorption rates are significant across countries in 2014-2020. Approximately half of the MS had, as of the end of 2023, an absorption rate higher than the EU average. This group includes several countries that joined the EU relatively recently (e.g. Poland, Slovenia, Czechia, Estonia, Lithuania, Hungary, Cyprus), while most of the largest and "older" EU MS registered a lower performance (e.g. most notably Spain and Italy, which receive a big "chunk" of the total funds). These have a less satisfactory performance, also in the absorption of REACT-EU funds.

The absorption rate in 2014-2020 was consistently lower than in 2007-2013. Compared to the initial years of 2014-2020, early information on programming progress in 2021-2027 shows that absorption is even lower in the current cycle. **Low absorption rates pose a challenge** as they, amongst others, **may weaken the programmes' relevance and capacity to achieve the intended objectives**.

Absorption drivers and barriers

The **factors that explain the key trends** observed in the expenditure of Cohesion Policy funding and why the financial performance may differ across Member States can be divided into four groups:

- Those related to the European policy and legal context;
- Those related to the national institutional, policy, and legal context;
- Those linked to the national socio-economic context; and
- Those related to the administrative capacity and the delivery modes, one of the strongest predictors of absorption.

Barriers to absorption are related to these groups of factors and may include:

- Delays in adopting EU legal frameworks and guidelines, which may also change frequently, as well as late adoption and overlaps between Multiannual Financial Frameworks periods and Operational Programmes;
- Limited quality of government and lack of continuing political support, political instability, patronage, and clientelism;
- GDP per head, limits in available matching funds, low level of infrastructure development and innovation, low investments, vulnerability to external crises, low exposure or capacity to benefit from knowledge spillovers, limited labour force capacity; and
- Inefficient institutional structures, training gaps, low public administration workforce engagement, inadequate practices and procedures for the selection of operations, and insufficient digitalisation.

The **solutions** aimed at overcoming absorption obstacles include EU simplification initiatives, performance frameworks, provisions allowing flexibility, reduction of co-financing rates, reprogramming, phasing of projects, more intensive use of digitalisation, improving operation selection processes and practices, reinforcement of human resources, reorganisation of Cohesion Policy governance, revisions of domestic legislation, simplification of procurement, strategic plans/projects to support the project pipeline, guidelines, information events targeting beneficiaries, and strengthening the role of audit authorities, etc.

Case studies

Case studies of different OPs were conducted in six Member States to gain an in-depth understanding of the absorption barriers and solutions aimed at overcoming obstacles. These case studies highlighted that **the absorption delays reflect the rules of Cohesion Policy** and **seldom imply significant decommitments but may weaken the programmes' relevance and capacity to achieve the intended objectives**. Thus, it is important to identify the main obstacles and related solutions.

The **solutions** taken in the OPs covered in the case studies are varied and include strengthening capacity (e.g. through training, hiring of experts, task forces, and guidelines), improving operation selection, digitalisation, stakeholder consultation, coordination, and communication, adjusting co-financing rates, front-loading (e.g. tenders published with a payment schedule that includes a pre-financing payment), “phasing” of large projects, and the use of simplified cost options.

Conclusions and recommendations

The absorption trends highlighted in this study mainly depend on the rules of Cohesion Policy and on the capacity of MS or specific authorities to adapt to changes introduced at the beginning of a new programming cycle or as a consequence of a crisis (e.g. COVID-19, war in Ukraine). A potential solution for substantially enhancing the typical absorption patterns observed in the 2014-2020 period, as well as in previous programming periods, may involve the adoption of an alternative policy approach. But, while the potential benefits of embracing a different model (e.g. a Recovery and Resilience Facility (RRF)-like approach or another) are uncertain, there are clear disadvantages to abandoning the current Cohesion Policy framework (e.g. reduced role of territories, less funds for lagging behind regions, risk of eroding consensus towards EU institutions). On the contrary, an effective strategy to ensure that the Cohesion Policy meets expectations and achieves its intended intervention could involve removing or mitigating absorption obstacles, as identified in the study.

At the EU level, this may involve:

- Reducing the complexity of rules;
- Being more attentive to the specificities of the national contexts and avoiding one-size-fits-all approaches;
- It would also involve minimising uncertainties, providing timely and clear guidelines on the application of key principles and eligibility rules, and supporting administrative capacity building in MS.

At the national (or regional) level, authorities could envisage to take the following actions:

- Enhance their capacity;
- Enhance the effectiveness and efficiency of selection procedures and delivery modes;
- Bolster coordination between stakeholders and provide support for the capacity of beneficiaries.

1. ANALYSIS OF ABSORPTION RATES IN 2014-2020 AND COMPARISON WITH 2007-2013

KEY FINDINGS

- By the end of 2020, only 52.5% of the total financial resources available from the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF), and the Youth Employment Initiative (YEI) for the 2014-2020 period had been paid to Member States, while at the end of 2023, the absorption rate amounted to 94.4% (not considering REACT-EU funds) or 90.4% (when including REACT-EU funds). Overall, a very slow trend in the absorption of funds can be observed in the first years of the 2014-2020 programming period. In fact, just a quarter of the total resources had been paid out at the end of 2018, while a significant catch-up took place near the end of the programming period.
- There are no significant differences in the absorption rates across the funds of Cohesion Policy (excluding REACT-EU funds), with the only exception of the YEI, which shows higher payment rates in the first years of implementation but a lower rate as of the end of 2023. In relation to the different categories of regions, the "Transition" regions perform worse than the "More developed" and "Less developed". Between the latter two, there is not a consistent difference at the EU level.
- Overall, the absorption rate of funds allocated under REACT-EU is about 62% at the end of 2023, 17 percentage points more than the value observed at the end of 2022. However, almost 40% of resources need to be paid out. The ESF shows a lower absorption rate than the ERDF in the additional funds allocated under REACT-EU.
- Differences in absorption rates are significant across countries in 2014-2020. Approximately half of the Member States had, as of the end of 2023, an absorption rate higher than the EU average. This group includes several countries that joined the EU relatively recently, while most of the largest and "older" EU Member States registered a lower performance. These have a less satisfactory performance also in the absorption of REACT-EU funds.
- The absorption rate in 2014-2020 was consistently lower than in 2007-2013, even without considering REACT-EU. For example, at the end of 2020, the absorption rate was ten percentage points lower than the absorption rate in the previous programming period, at the end of 2013. This concerns most countries, with a few exceptions (e.g. Romania, Czechia, Hungary). Early information on the progress of the 2021-2027 programming period shows that absorption is even lower in the current cycle compared to the initial years of 2014-2020.

This chapter of the study provides an analysis of the absorption rates in the 2014-2020 programming period and a comparison with the previous programming period, 2007-2013, highlighting the general trends and the changes that occurred at the country level. The analysis covers all EU Member States (MS), including the UK, and focuses on the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF), and the Youth Employment Initiative (YEI)[1]. REACT-EU funds

[1] In detail, the analysis covers 389 programmes implemented in the 2014-2020 programming period, out of which 76 are Interreg programmes.

are analysed separately, given their specificity as additional resources introduced in response to the COVID-19 crisis in 2021 by Regulation (EU) 2020/2221[2].

According to the latest available data (end of 2023), the total EU resources programmed in the 2014-2020 programming period, not including national co-financing, amount to approximately EUR 404.8 billion, of which EUR 49.7 billion are REACT-EU funds.

1.1. Absorption rates of Cohesion Policy funds in 2014-2020

Absorption rates are defined as the percentages of EU funding that have been paid by the European Commission to Members States' Operational Programmes (OPs) at a certain point in time[3]. As mentioned for the programmed resources, the present analysis considers the payment data as updated as of the end of 2023[4].

1.1.1. Absorption trends at European level

General overview

Cohesion Policy payments increased only gradually over the 2014-2020 programming period, and the absorption rate did not pick up until 2018-2019, just two years before 2020, the last year of programming[5] (see Figure 1).

At the end of 2020, only 52.5% of the financial resources available from the ERDF, CF, ESF, and YEI for the 2014-2020 period had been paid to Member States. As of the end of 2023, the EU payments for ERDF, CF, ESF, and YEI amounted to EUR 335.5 billion, against EUR 355.1 billion of planned resources, with an absorption rate of 94.4%. If REACT-EU funds are also considered, this leads to a lower absorption rate of 90.4% as of the end of 2023.

The overall trend observed after 2020 shows that the COVID-19 pandemic did not negatively affect the programmes' absorption rate[6]. This is also due to the effectiveness of the support and flexibilities provided through the Coronavirus Response Investment Initiative (CRII) and the Coronavirus Response Investment Initiative Plus (CRII+) to Member States.

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[2] Regulation (EU) 2020/2221 of the European Parliament and of the Council of 23 December 2020 amending Regulation (EU) No 1303/2013 as regards additional resources and implementing arrangements to provide assistance for fostering crisis repair in the context of the COVID-19 pandemic and its social consequences and for preparing a green, digital and resilient recovery of the economy (REACT-EU).

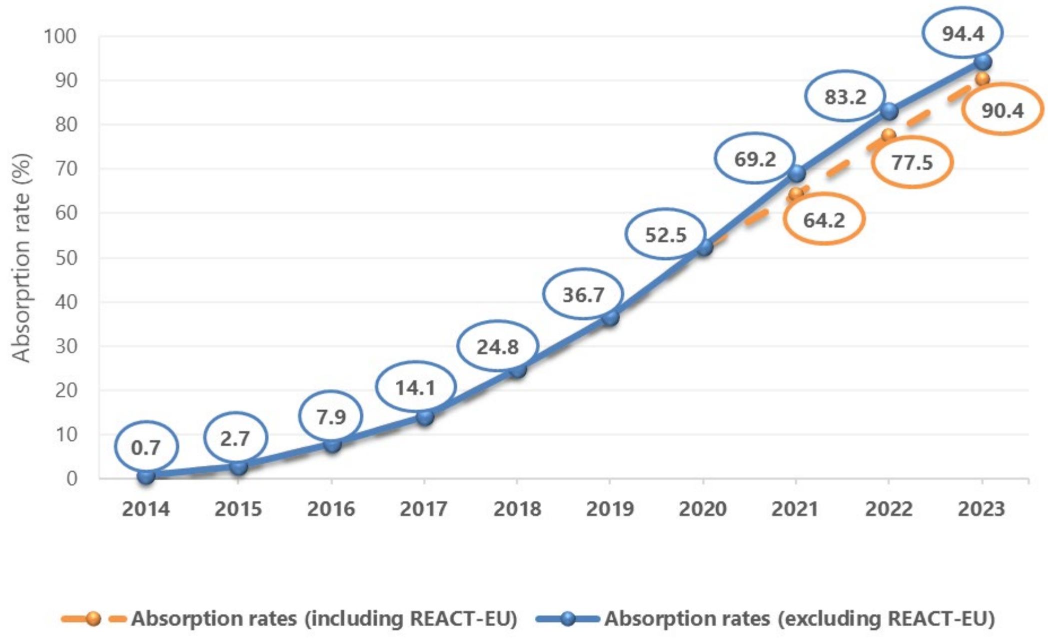
[3] The same definition of absorption rate is used in ECA, 2018b. Our approach is also consistent with that adopted by the European Commission in analysing the EU budget's absorption in 2014-2020 and 2021-2027 (see: https://cohesiondata.ec.europa.eu/stories/s/2jjj-66bt). However, it is worth noting that other studies may use different absorption measures. For example, the expenditures declared by beneficiaries are also used to calculate absorption (e.g. Santos A. M. et al., 2023 or Mendez C. and Bachtler J., 2022). Though at the EU level, the two approaches produce similar absorption rates, as shown in Box 2 in the Annex, at a more granular level (by country, types of programme, etc.), there can be differences between absorption rates calculated using official payments made by the EU and those calculated based on the expenditures declared by beneficiaries and reported by the Managing Authorities.

[4] The main source of information for this analysis is the database "ESIF 2014-2020 EU payments", which is available on the Cohesion Open Data Platform and updated daily. The database can be downloaded here: https://cohesiondata.ec.europa.eu/2014-2020-Finances/ESIF-2014-2020-EU-payments-daily-update-/gayr-92qh . Data used in this report were extracted on January 12, 2024.

[5] Though Member States, based on the N+3 rule, can spend their resources until the end of 2023. With a view to alleviating the administrative burden on programme authorities and preventing possible loss of funds at the time of closure for administrative reasons, the recent Regulation (EU) 2024/795 establishing the Strategic Technologies for Europe Platform (STEP), has extended the deadlines for the administrative closure of the programmes under the 2014-2020 period. More specifically, the deadline for the submission of the final payment application and the closure documents has been extended by 12 months.

[6] Regarding ESF, see, for example, Ecorys and 3s. (2023) 'Study supporting the preliminary evaluation of the support provided by ESF and the Fund for European Aid to the Most Deprived (FEAD) under the Coronavirus Response Investment Initiatives (CRII and CRII+)', Directorate-General for Employment, Social Affairs and Inclusion. doi:10.2767/44044

Figure 1: Absorption rates of Cohesion Policy funds (ERDF, CF, ESF, and YEI) over time

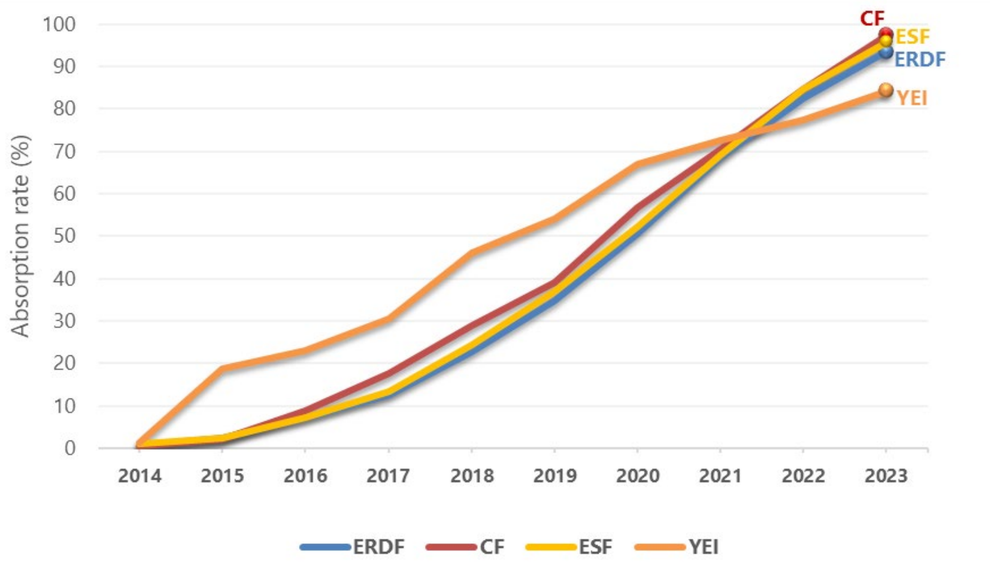


Source: Cohesion Open Data Platform, database on EU Payments

Absorption rate by fund

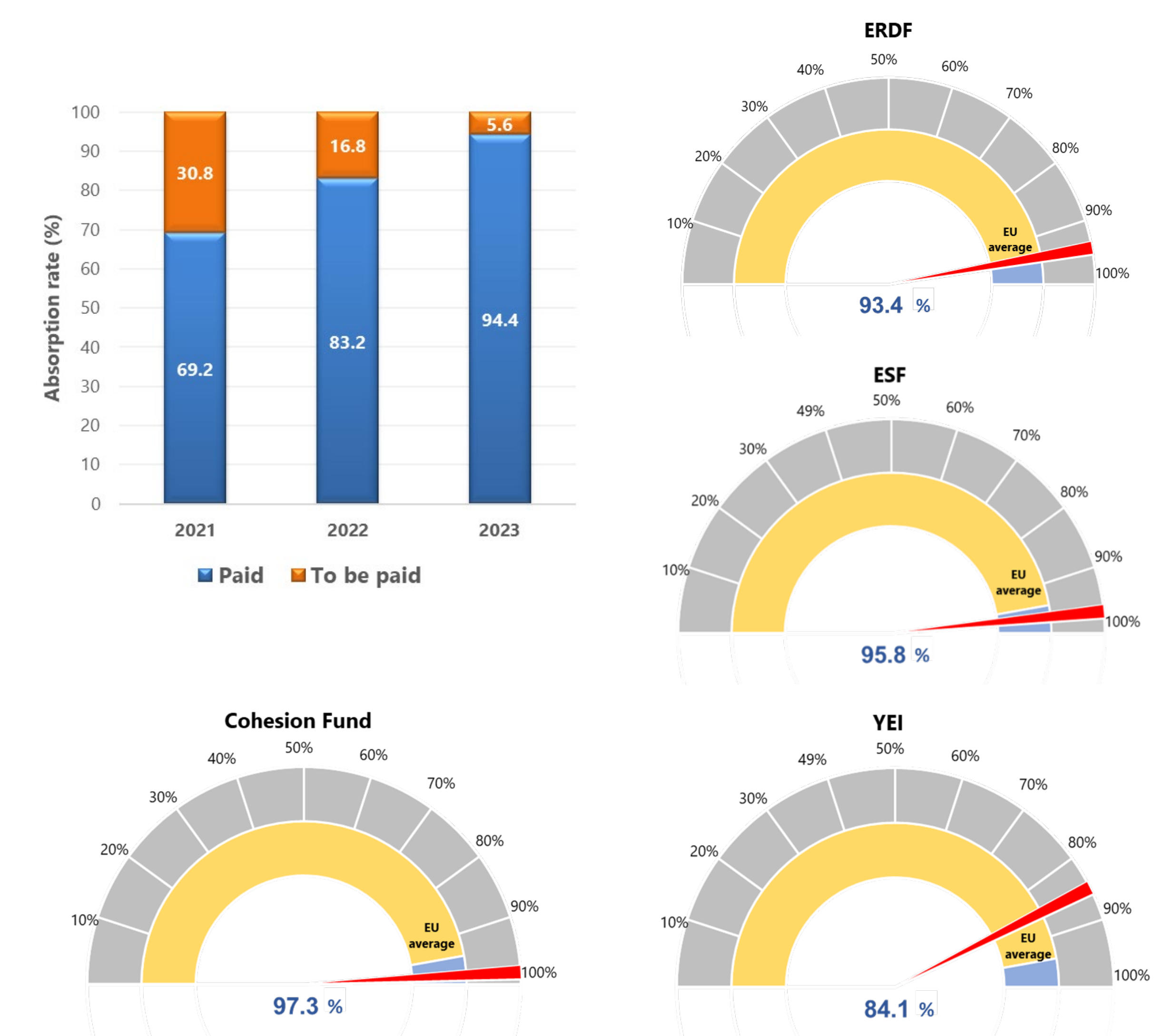
The absorption trend is not considerably different across funds (see Figures 2 and 3), except for YEI, which showed a significantly higher absorption rate since the first years of programming but lower absorption rates in the last few years. However, ERDF payments show a slower trend than CF, which can be surprising given that CF supports infrastructure projects that take longer to be completed. Furthermore, the ERDF absorption rates remain lower than the ESF and CF rates, both at the end of 2022 and at the end of 2023.

Figure 2: Absorption rates at EU level by fund, over time



Note: REACT-EU funds not included
Source: Cohesion Open Data Platform, database on EU Payments

Figure 3: Absorption rates of Cohesion Policy as of the end of 2023, total (bar chart), and by fund (speedometers)

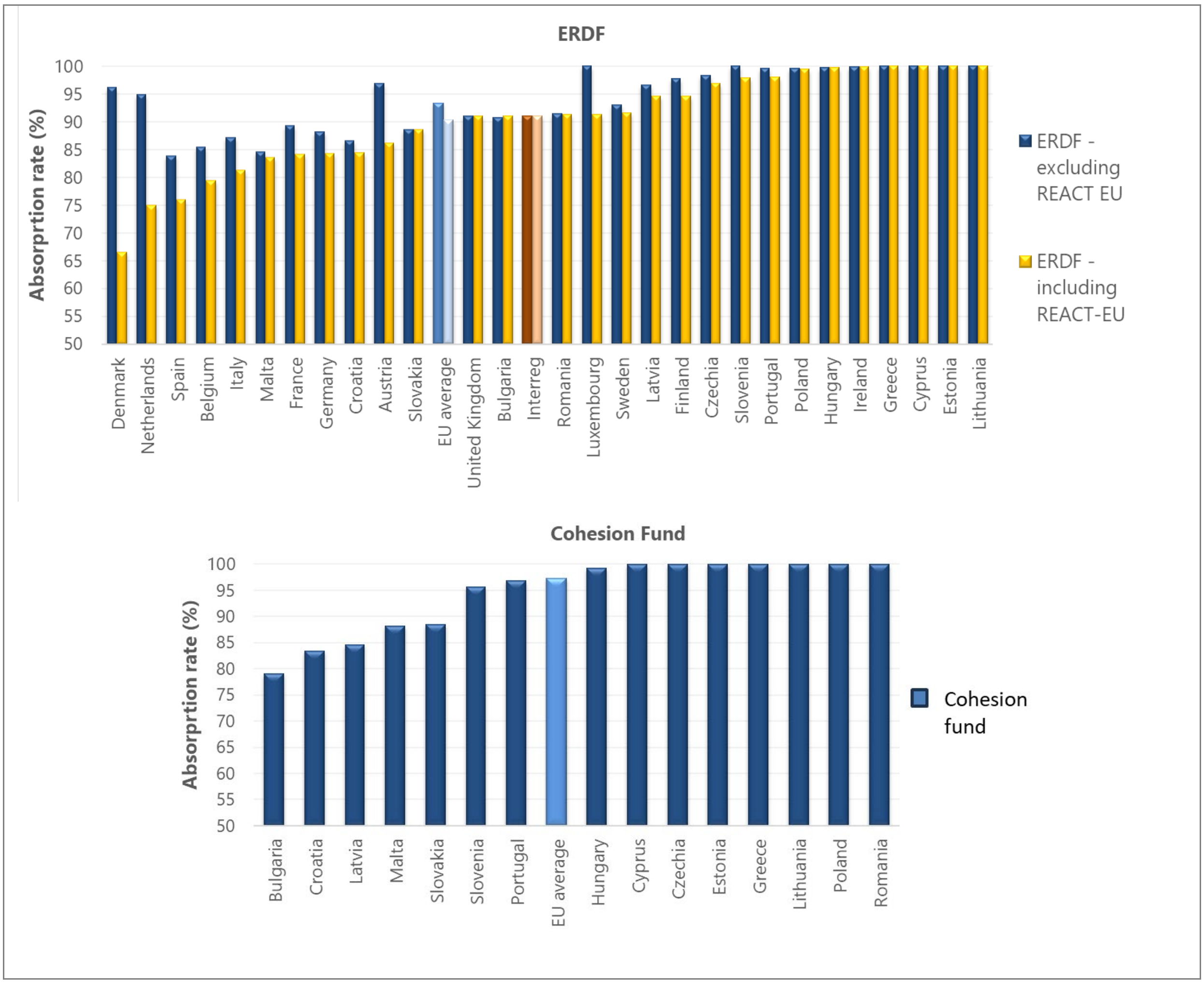


Note: REACT-EU funds not included. In the speedometers, the red needles indicate visually the absorption rate of each fund.
Source: Cohesion Open Data Platform, database on EU Payments

The detailed situation of absorption rates at the end of 2023 across countries and in the different funds of Cohesion Policy is shown in Figures 4 and 5. As far as the Cohesion Fund is concerned, the worst performance in terms of absorption rate can be observed in Bulgaria (79%), followed by Croatia, Malta, Latvia, and Slovakia, all of which show payment rates below 90%. When it comes to the ERDF, the correlation between the two series of absorption rates with or without REACT-EU is high (the correlation index is 0.70), meaning that, apart from some exceptions (notably Denmark, the Netherlands, and Austria), the position of countries does not change substantially, at least in relation to the EU's average, including or not REACT-EU. Besides the three mentioned countries, Spain, Belgium, and Italy are the Member States with the lowest absorption rates, but Malta, France, Germany, Croatia, and Slovakia are also below the EU average. In relation to the ESF, the position of countries changes depending on whether or not REACT-EU is taken into consideration. Excluding REACT-EU, the lowest absorption rates of ESF are in Malta, Sweden, the UK, and Italy, all of them below 90% at the end of 2023. When REACT-EU funds are considered, Spain shows the lowest absorption rate (67%), followed

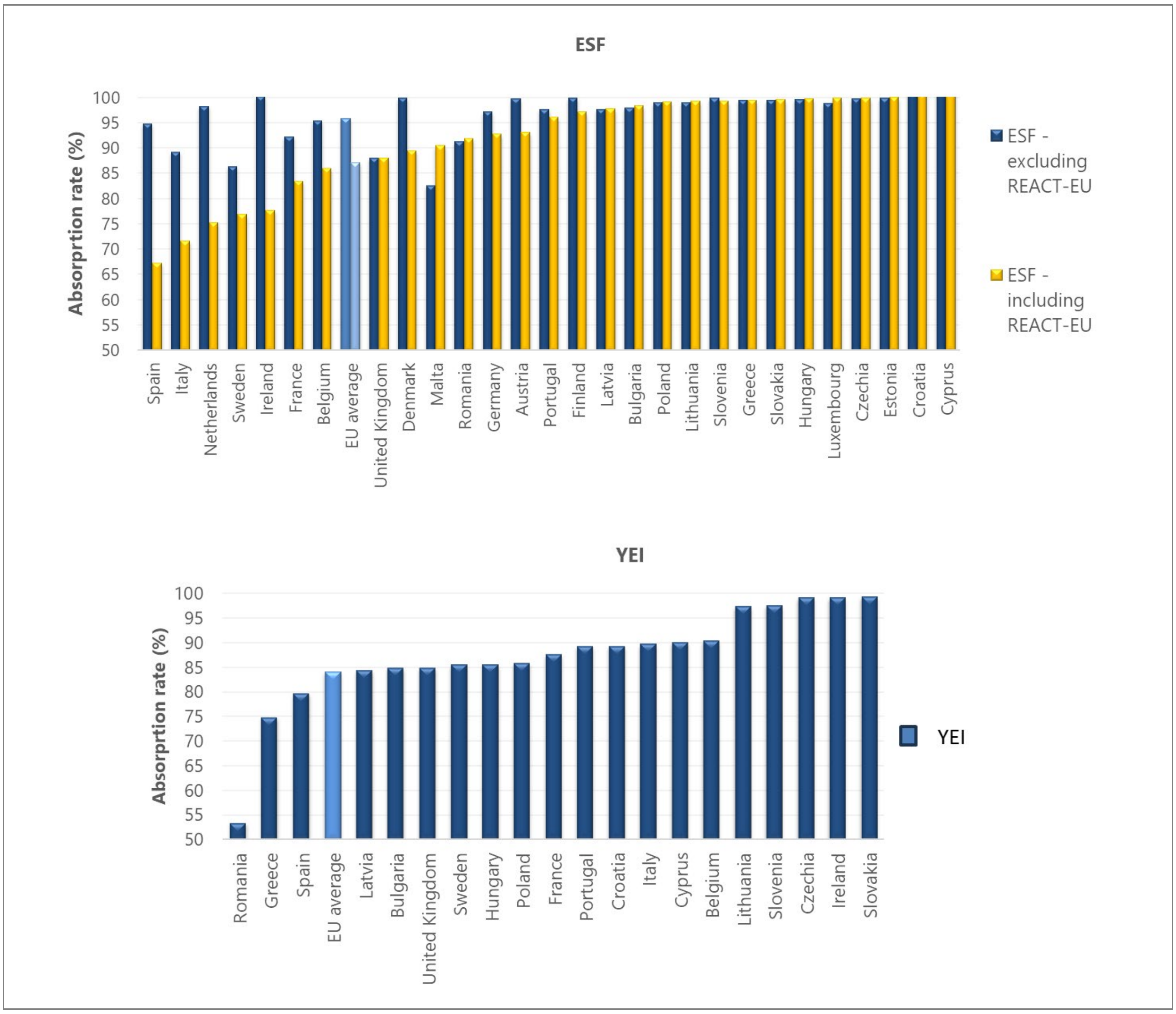
by Italy, the Netherlands, Sweden, and Ireland (all of them below 80%). With regards to the YEI, Romania shows a very low performance (54%), but also Spain and Greece have absorption rates below 80%.

Figure 4: Absorption rate of ERDF and CF as of the end of 2023, by country



Source: Cohesion Open Data Platform, database on EU Payments

Figure 5: Absorption rate of ESF and YEI as of the end of 2023, by country



Source: Cohesion Open Data Platform, database on EU Payments

Absorption rates by category of regions

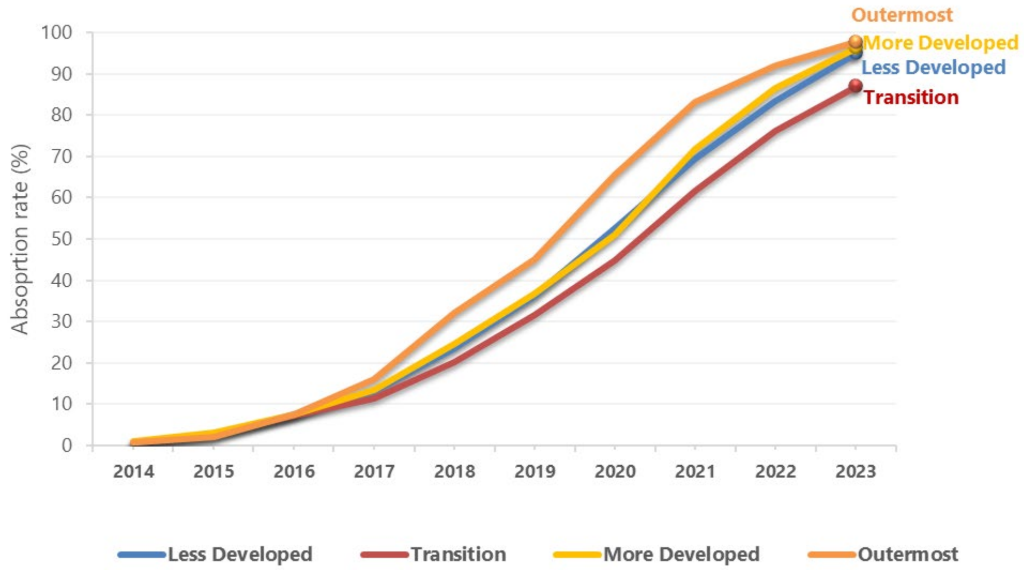
Data on EU payments also show that, considering all the funds together, payments for regions in "Transition" have been slower than the payments made for "More developed" and "Less Developed" territories throughout the analysed period (Figure 3), and still in 2022-2023 the absorption rate is 7-8 percentage points (pp) lower in transition regions. With the exception of France and the UK, at the end of 2020 in all countries with transition regions[7], these have a lower performance than the other categories of regions (the situation is slightly more varied at the end of 2023). It can also be noted that, overall, "More Developed" and "Less Developed" regions show the same trend, without relevant differences. However, this is not the case for all countries: in France, Italy, Spain, and, to a lesser extent in Romania, the absorption rate is lower in less developed regions[8]. It is worth noting that the EU

[7] Austria, Belgium, Denmark, France, Germany, Greece, Italy, Malta, Portugal, Spain, and the UK.

[8] At the end of 2023, in Italy, Spain and France, the differences between absorption rates in "Less developed" and "More developed" regions are significant, respectively, at -14 pp, -20 pp and -22 pp. In the other countries, the situation is more balanced between the two categories of regions.

Outermost Regions exhibit the highest absorption rates throughout the period, even though they only represent approximately 0.4% of the total planned EU Cohesion Policy funds[9].

Figure 6: Absorption rates of Cohesion Policy funds, by category of regions



Note: REACT-EU funds are not included. Also, CF, YEI, and Interreg programmes are not included since the programmes are not regionalised in terms of payments.

Source: Cohesion Open Data Platform, database on EU Payments

Absorption rates by types of programmes

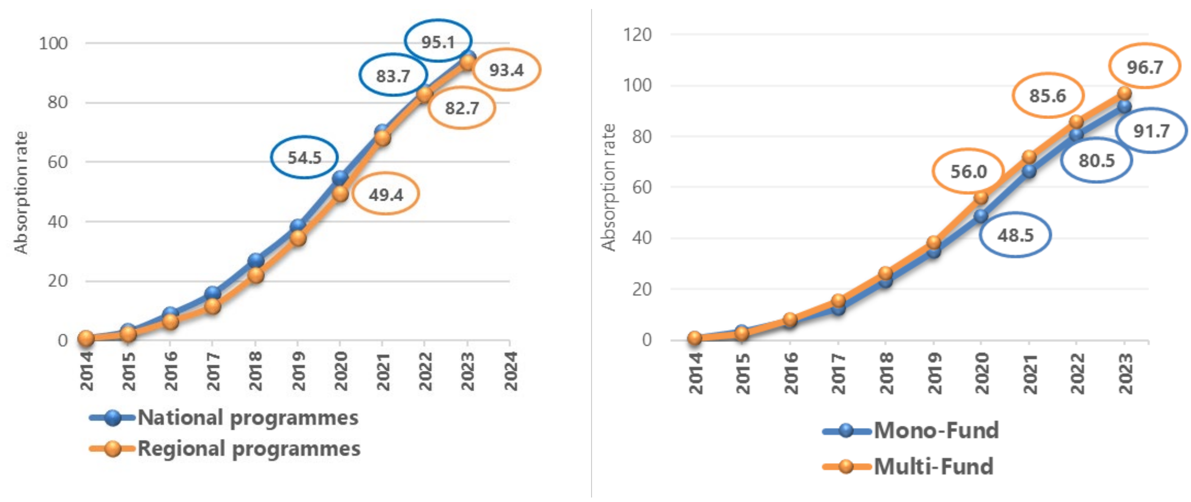
OPs can be distinguished between national (programmes managed by a central administration, which may cover several sub-national territories) and regional (programmes managed by sub-national authorities and targeting specific regions)[10]. Excluding the Interreg programmes, the national programmes are 93 out of 313 OPs, and they absorb more than 60% of total ERDF/CF and ESF/YEI resources. National programmes show higher absorption rates in the first years of the programming period, while the difference disappears later on, most notably after 2020 (see Figure 7, left-side chart). There is variation among different member states (Figure 17 in the annex). In Poland, Italy, and Finland, the differences between national and regional programmes are not substantial over time. On the contrary, in France and Germany, national programmes consistently show higher absorption rates. While in other countries, such as Hungary, Portugal, and the Netherlands, the advantage for national programmes tends to diminish over the years. Regional programmes show higher absorption rates, most notably in Spain and Sweden.

OPs can also be distinguished between mono-fund or multi-fund OPs. Multi-fund programmes have a better performance in terms of payments, and at the end of 2022 and of 2023, their absorption rate is about 5 pp higher than mono-fund programmes (see Figure 7, right-side chart).

[9] Figure 6 includes the nine programmes targeting the Outermost Regions of France, Spain, and Portugal, as well as the programmes for sparsely populated areas in Finland and Sweden.

[10] Definition of national and regional programmes is taken from the official definition of the European Commission, contained in the file "Programme Lookup Table 14-20 + 21-27" – https://cohesiondata.ec.europa.eu/2014-2020/Programme-Lookup-Table-14-20-21-27/f5vn-zy5i/about_data. We only changed the definition of the OP ESF Federal Germany 2014-2020 from regional to national.

Figure 7: Absorption rates of Cohesion Policy funds by type of programmes, national vs. regional (left), and multi-fund vs. mono-fund (right)



Note: REACT-EU funds not included

Source: Cohesion Open Data Platform, database on EU Payments

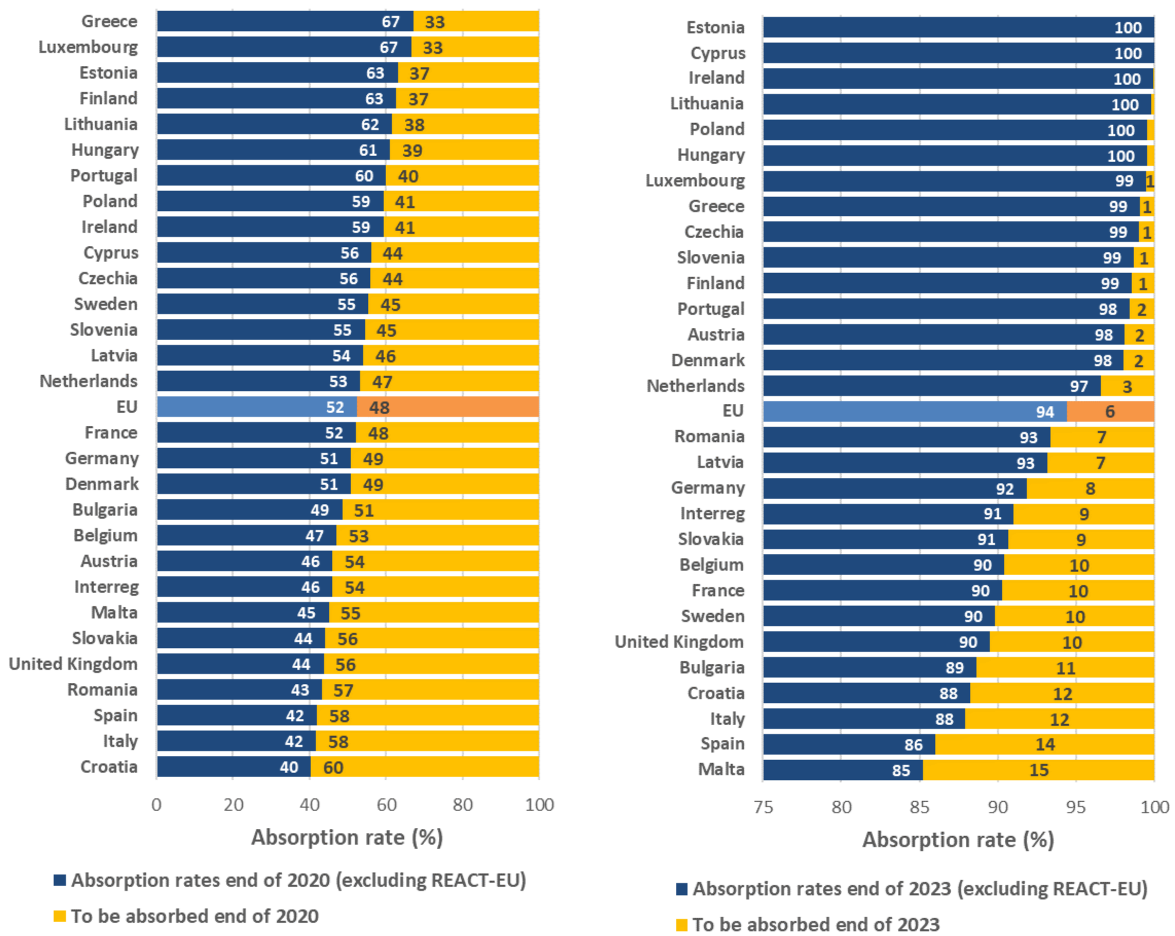
1.1.2. Differences in absorption across countries (without REACT-EU)

In 2020, at the end of the 2014-2020 programming period, slightly more than half of the total available ERDF, CF, ESF, and YEI resources had been paid out (52.5%). This implies that, in just three years, between 2020 and 2023 (the last year for spending funds according to the N+3 rule), Member States, on average, had to spend the same amount of resources spent in the previous seven years[11], between 2014 and 2020.

Not all countries were under pressure to the same extent. Some Member States were confronted with a higher risk of losing resources, and this may have produced pressure to prioritise expenditure rather than the selection of quality projects and their effectiveness. More specifically, Croatia, Italy, Spain, Romania, and the UK had the lowest absorption rates at the end of 2020, but also in five other countries (Slovakia, Malta, Austria, Belgium, and Bulgaria) the payments-to-planned funds ratio was less than 50%. The countries with the best performances in terms of payments were Greece, Luxembourg, Estonia, Finland, and Lithuania (Figure 8, left-side chart). The position of each country did not change substantially between 2020, the formal end of the programming period, and end of 2023, the last available payment data considered in the analysis. Approximately half of the Member States had, at the end of 2023, an absorption rate higher than the EU average (Figure 8, right-side chart). This group includes several countries that joined the EU relatively recently (Poland, Slovenia, Czechia, Estonia, Lithuania, Hungary, Cyprus). Most of the largest and "older" EU MS registered a lower performance (e.g. Italy, France, Spain, and the UK) as of the end of 2023.

[11] Or six years, considering that the actual start of the implementation phase in the programming period 2014-2020 was in 2015.

Figure 8: Absorption rates of Cohesion Policy funds (ERDF, ESF, CF, and YEI), as of the end of 2020 (left), and the end of 2023 (right), by country

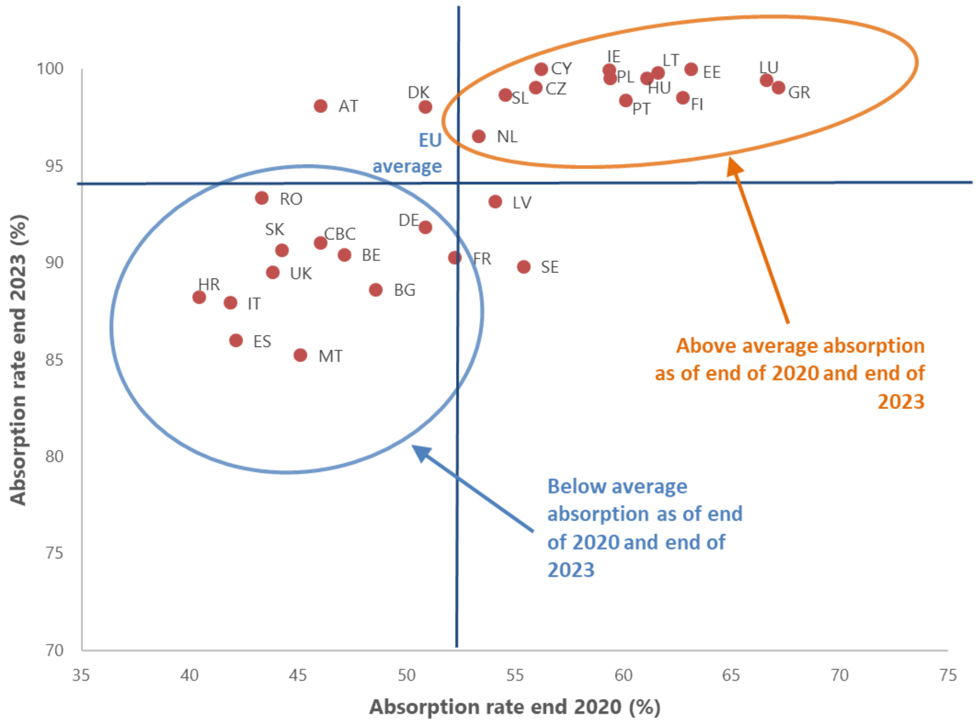


Note: REACT-EU funds are not included
Source: Cohesion Open Data Platform, database on EU Payments

Figure 9 (see below) combines the absorption rates at the end of 2020 and at the end of 2023. Figure 9 shows that there are countries (top-right quadrant) that had absorption rates higher than the EU average both at the end of 2020 and in 2023: Ireland, Luxembourg, Cyprus, Poland, Slovenia, Lithuania, Portugal, Finland, Estonia, Czechia, Hungary, Greece, and the Netherlands. Then, there are countries (bottom-left quadrant) that performed worse than the EU average, both at the end of 2020 and of 2023: Italy, Romania, the UK, Belgium, France, Denmark, Spain, Slovakia, Malta, Germany, Bulgaria, and Croatia. Austria is a particular case, as it is the only country[12] in the top-left quadrant of the figure. It experienced a high increase in the absorption rate between the end of 2020 and of 2023, going from 46% to 98%, meaning that about half of all available resources were paid in 36 months between the end of 2020 and of 2023.

[12] Denmark is also in the top-left quadrant, but near the line of the EU average.

Figure 9: Combined absorption rates of European countries as of the end of 2020 and the end of 2023



Source: Cohesion Open Data Platform, database on EU Payments
Note: REACT-EU funds are not included. The lines represent the EU average. CBC = Cross border cooperation

1.1.3. Absorption of REACT-EU funds

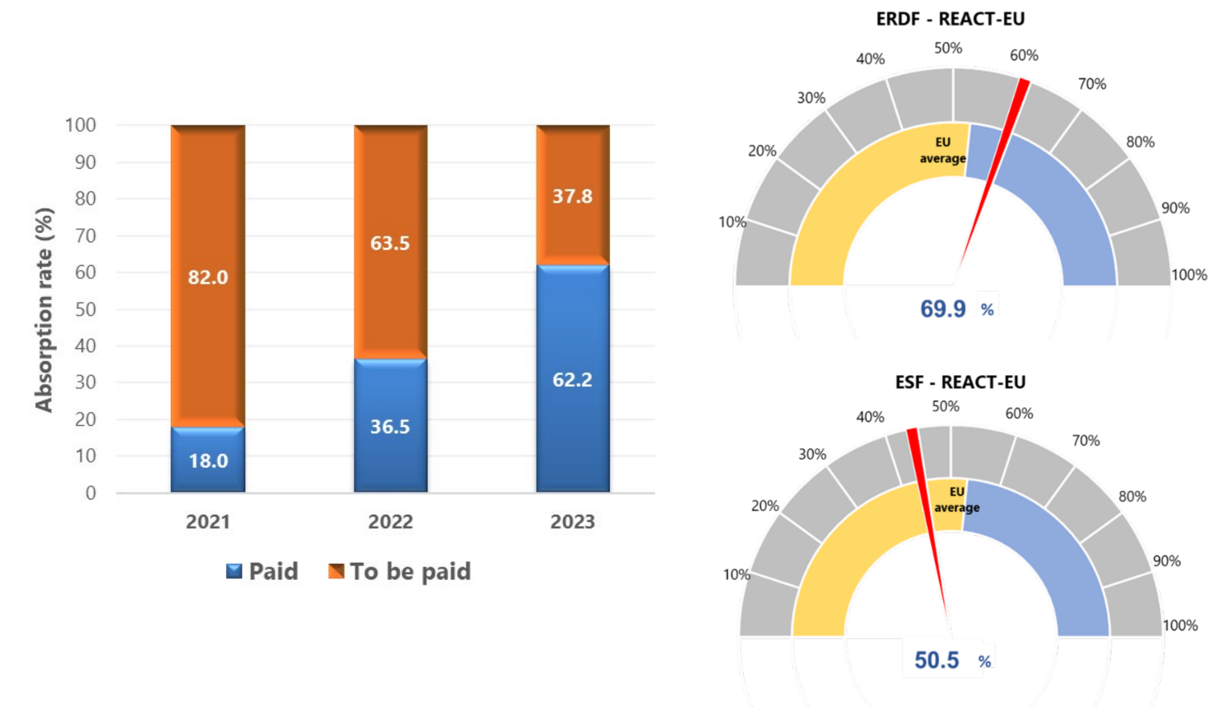
REACT-EU funds are additional EU resources financed by the Next Generation EU (NGEU). The total budget is almost EUR 50 billion, allocated in 2021 and 2022 to the existing Cohesion Policy programmes for financing interventions in response to the COVID-19 pandemic. REACT-EU funds were allocated to ERDF and ESF programmes, and to the Fund for European Aid to the Most Deprived (FEAD), which is beyond the scope of the present analysis. Though REACT-EU is not a new fund but a "topping up" instrument, it was analysed separately, as requested in the specifications, and because REACT-EU has its own specific rules[13].

As of the end of 2023, out of the available EUR 49.7 billion, EUR 30.9 billion of REACT-EU had been paid. This means an absorption rate of 62.2% (Figure 7, left-side bar chart). Compared to REACT-EU, ERDF programmes outperformed ESF programmes. Indeed, at the end of 2023, the REACT-EU absorption rate in ERDF programmes was approximately 70%, whereas in the ESF programmes it was just 51% (Figure 10, right-side speedometers)[14].

[13] Among others, the national co-financing is not obligatory, the pre-financing rate is established at 11% (increased then to 15% because of the Russian aggression in Ukraine on 24 February 2022). It is possible to reimburse retroactively projects that started on 1 February 2020.

[14] Another stylised fact to observe at the European level is that when the additional funds from REACT-EU were allocated to national programmes (67% of the total REACT-EU funds), the performance was higher than when they were allocated to regional programmes (65% vs 56% as of the end of 2023). Similarly, the absorption rates of REACT-EU are higher in multi-fund programmes compared to single-fund programmes (77% vs 54% as of the end 2023), though mono-fund programmes represent two third of the total REACT-EU funds.

Figure 10: Absorption rates of REACT-EU, total (left) and by fund (right)

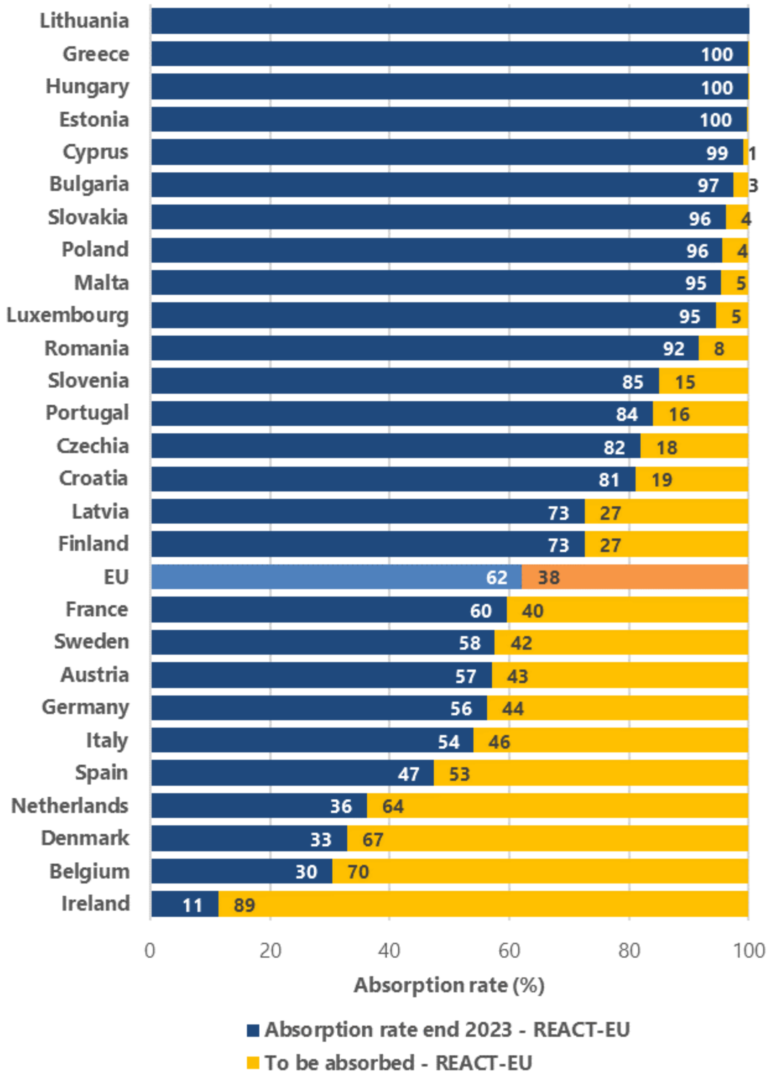


Note: In the speedometers (right-side graphs), the red needles indicate visually the absorption rate of the ERDF and of the ESF.

Source: Cohesion Open Data Platform, database on EU Payments

As shown in the following figure, Ireland and Denmark, which are in line or above the EU average when REACT-EU funds are not considered, show the lowest absorption rate of REACT-EU at the end of 2023, together with Belgium and the Netherlands (less than 40%). Other countries with low absorption rates in REACT-EU funds are France, Sweden, Austria, Italy, Germany, and Spain. The low performance of Spain and Italy, which together account for more than half of total REACT-EU funds, explains the overall low EU absorption rate.

Figure 11: Absorption rate of REACT-EU as of the end of 2023, by country



Source: Cohesion Open Data Platform, database on EU Payments

1.1.4. Overall absorption: Cohesion Policy funds and REACT-EU

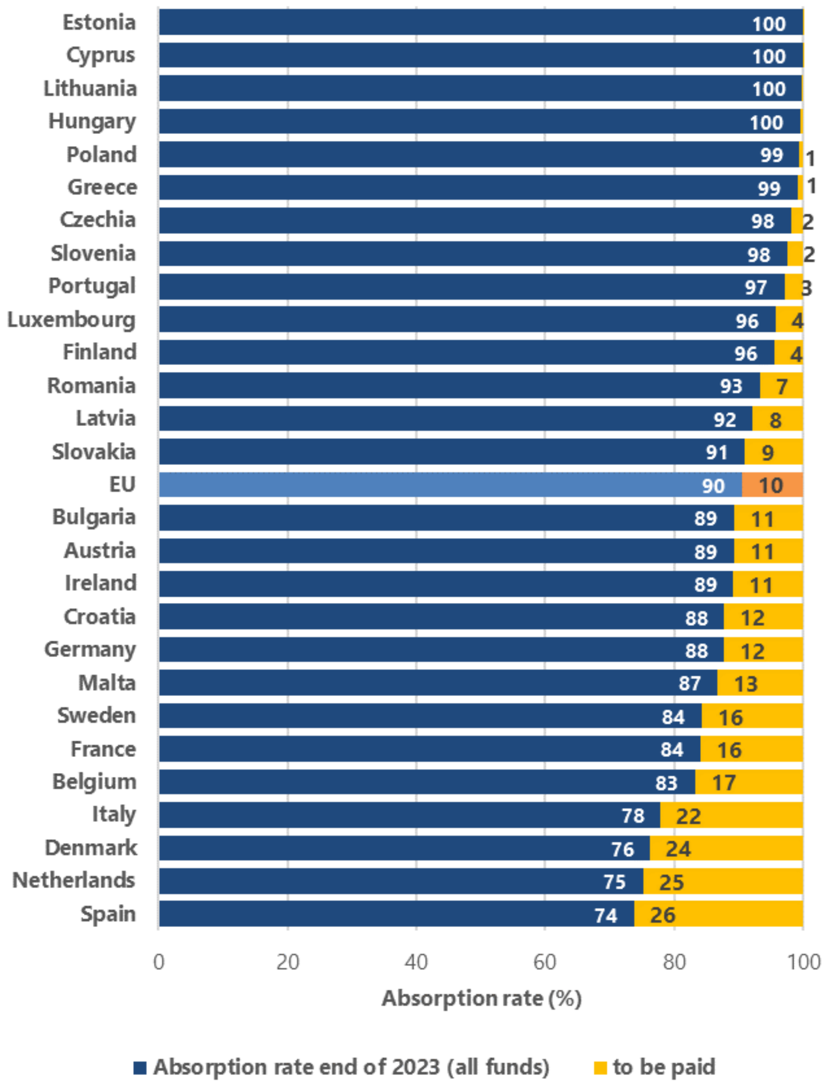
If all programmed funds (including those allocated under REACT-EU) are considered, as in Figure 12, which shows the absorption rates across countries as of the end of 2023, several conclusions can be drawn:

- A group of eight countries[15], which account for 30% of the total resources, are below the EU average in terms of absorption. Among these, Spain, Italy, the Netherlands, and Denmark have absorption rates lower than 80% and lower than the EU average by over 10 pp. For Denmark and the Netherlands, the overall low absorption rate is due to the low performance in spending funds allocated under REACT-EU, as seen above.

[15] Italy, Spain, France, the Netherlands, Denmark, Belgium, Sweden, and Malta.

- Other eight countries, - Germany, Croatia, Ireland, Austria, Bulgaria, Romania, Latvia, and Slovakia - are in line with the EU absorption average (approximately 0-3 pp from the average)[16]. This group accounts for 10% of the total programmed resources.
- The remaining countries[17], accounting for 48% of the total programmed resources, have an absorption rate higher than the EU average. The situation in Ireland is to be noted, since the country shows a low level of absorption in the funds allocated under REACT-EU, whereas its situation is the opposite for the Cohesion Policy funds excluding REACT-EU.

Figure 12: Absorption rates of Cohesion Policy funds (including REACT-EU) as of the end of 2023, by country



Source: Cohesion Open Data Platform, database on EU Payments

[16] As a reminder, the UK did not receive extra funds under REACT-EU.
[17] Luxembourg, Portugal, Slovenia, Greece, Poland, Hungary, Lithuania, Czechia, Cyprus, Finland, and Estonia.

1.2. Comparison between the 2014-2020 and the 2007-2013 programming period

Previous analyses highlighted that the delays in the expenditure of European Structural funds tend to accumulate across programming periods.

For example, the ERDF ex-post evaluation of 2007-2013 programming period underlined that "the rate of payment, and by implication, the rate at which programmes were implemented, was slower than in the 2000-2006 period, which, in turn, was slower than in the 1994-1999 period preceding it". In the EU-15, the ERDF absorption rate decreased by nearly 7 pp from the end of 2006 to the end of 2013. The reports also show that only after the sixth year of programming did the absorption rate of 2007-2013 start to catch up with that in the previous programming period (European Commission, 2016)[18]. The following chapter of this study summarises the findings of a literature review and provides information on potential causes of the accumulation of delays (see below) both at the European and national levels. These include delays in adopting legal frameworks and guidelines, overlaps between different programming periods, and delays in designation procedures.

Both programming periods (2007-2013 and 2014-2020) have been affected by exogenous factors, more specifically the great international recession in the 2007-2013 programming period and the COVID-19 pandemic followed by the war in Ukraine in the 2014-2020 programming period. These external factors interact with internal factors (e.g. the administrative capacity of the public administrations) and affect the absorption capacity of the Member States.

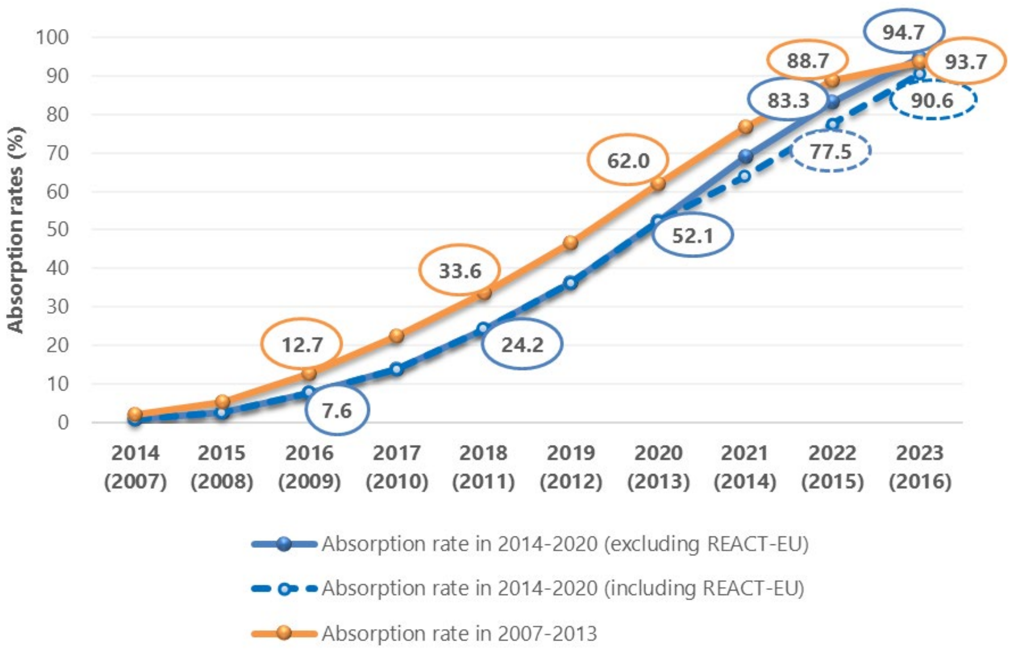
In the following paragraphs, we compare absorption rates in the 2014-2020 and 2007-2013 programming periods and analyse the general trends and relevant changes across Member States. The analysis was carried out comparing the years from 2007 to 2016 for the 2007-2013 programming period and from 2014 to 2023 for the 2014-2020 programming period[19].

Figure 13 illustrates that, since the start of the programming period, absorption rates during the 2014-2020 programming period remained consistently lower than those recorded during the 2007-2013 period across all nine years considered. At the end of 2020, the absorption rate of ERDF/CF/ESF was 10 pp lower than the absorption rate of the same funds in 2007-2013 at the end of 2013. The gap narrows to approximately 4 pp in 2022 compared to 2015, when REACT-EU funds are excluded. However, when REACT-EU is considered, the difference between the two programming periods at the end of 2022 (2015) closely resembles what was observed at the end of 2020 (2013), meaning that overall, the additional REACT-EU funds complicated the catch-up process in terms of financial absorption. This is clear when comparing the absorption rates of the two programming cycles at the end of the period (2023 and 2016). When REACT-EU funds are excluded, the absorption rates are similar (around 94%), while if REACT-EU funds are considered, 2007-2013 absorption is 3 pp higher than in 2014-2020.

[18] European Commission (2016), *WP1: Synthesis report. Ex post evaluation of Cohesion Policy programmes 2007-2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF)*, report prepared by Applica.

[19] The main source of information is the database "SF 2007-2013 Funds Absorption Rate", which is published on the Cohesion Open Data Platform. We used the version updated on 22 January 2024. The database contains information on payments for the ERDF, the CF, and the ESF, broken down by countries, funds, and year, and can be downloaded here: https://cohesiondata.ec.europa.eu/2007-2013-Finances/SF-2007-2013-Funds-Absorption-Rate/kk86-ceun. It is worth noting that the database for 2007-2013 includes payments to the territorial cooperation programmes distributed to the countries, whereas in the database for 2014-2020, the payments to the territorial cooperation programmes are provided separately and not distributed to the countries. This affects only the ERDF funds, however, the incidence of programmed resources for territorial cooperation absorbs only 4.6% of the total budget.

Figure 13: Absorption rates of Cohesion Policy funds (ERDF, CF, and ESF) in 2007-2013 and 2014-2020

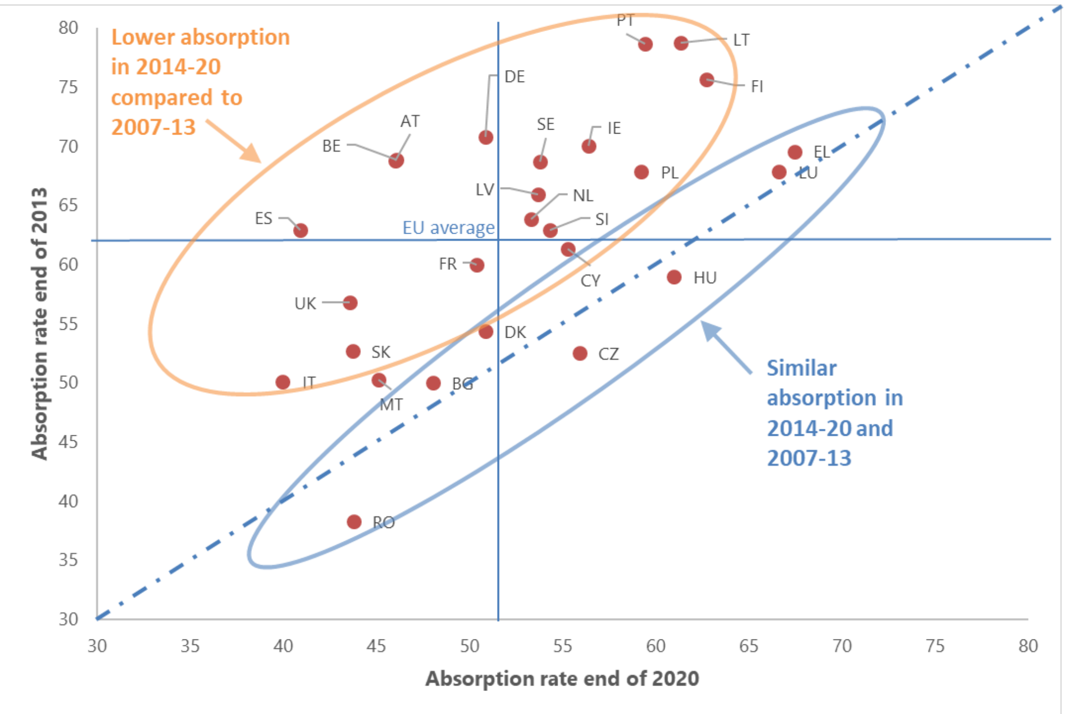


Source: Cohesion Open Data Platform, database on EU Payments for 2014-2020 and for 2007-2013.

Note: YEI is not included in 2014-2020 in this figure to ensure coherence between the two periods. Due to the absence of YEI, the absorption rates of 2014-2020 shown here are slightly different from those presented earlier.

At the end of 2020, when assessing the situation across various countries, it was evident that almost all countries experienced lower absorption rates compared to the end of 2013. Notably, Germany, Belgium, Austria, and Spain witnessed relatively significant decreases. The only exceptions are Romania, Czechia, and Hungary, which had absorption rates in 2014-2020 higher than in 2007-2013 by 2-5 pp. The differences between the absorption rates of individual countries and the EU average absorption rate did not change substantially from 2007-2013 to 2014-2020. Figure 12 illustrates that Czechia and Hungary, which had lower absorption rates in 2007-2013, exceeded the EU average in 2014-2020. Conversely, Belgium and Austria, and to a lesser extent, Spain and Germany, showed an opposite trend.

Figure 14: Differences between absorption rates of Cohesion Policy as of the end of 2013 and the end of 2020

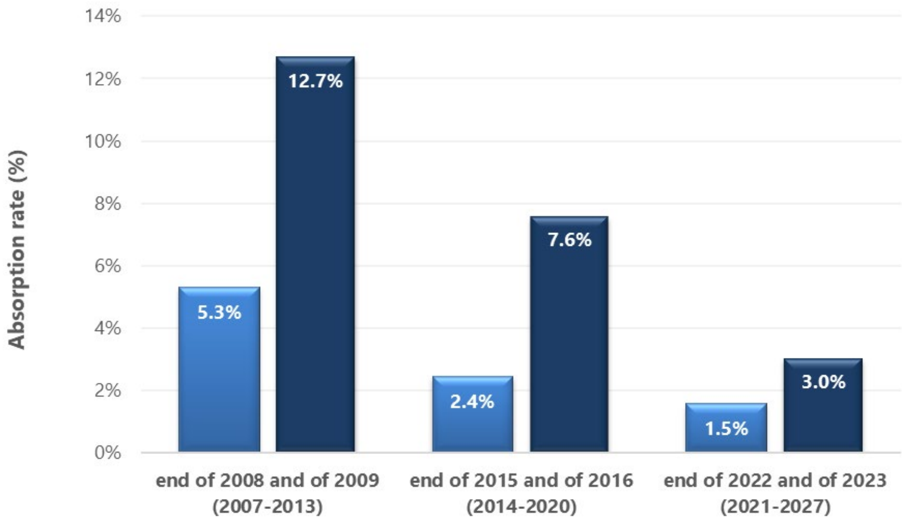


Source: Cohesion Open Data Platform, database on EU Payments for 2014-2020 and for 2007-2013.

Note: YEI is not included in 2014-2020. The vertical and horizontal lines represent the EU average. The diagonal line indicates the cases that have the same absorption rates in the two programming periods; below the diagonal line, there are countries with higher absorption rates in 2014-2020 than in 2007-2013. Croatia has not been included since it joined the EU in 2013.

Finally, though 2021-2027 is beyond the scope of this study, it can be observed that after three years of implementation (Figure 15), the absorption rate of Cohesion Policy programmes in 2021-2027 at the end of 2022 and 2023 is lower than the absorption after two to three years of implementation in 2014-2020 and in 2007-2013 (namely at the end of 2008/2009 and at the end of 2015/2016). These data confirm that over time, across different programming periods, the absorption rates show a deterioration.

Figure 15: Differences between EU absorption rates in the second and third year of programming during 2021-2027, 2014-2020, and 2007-2013



Source: Cohesion Open Data Platform, database on EU payments for 2014-2020, 2007-2013, and 2021-2027.
Note: Just Transition Fund is not included in 2021-2027.

2. ANALYSIS OF ABSORPTION DRIVERS, BARRIERS, AND SOLUTIONS

KEY FINDINGS

- The factors that explain the key trends observed in the expenditure of Cohesion Policy funding and why the financial performance may differ across Member States can be divided into four groups: 1) those related to the European policy and legal context; 2) those related to the national institutional, policy, and legal context; 3) those linked to the national socio-economic context; and 4) those related to the administrative capacity, one of the strongest predictors of absorption, and the delivery modes.
- Barriers to absorption are related to these groups of factors and may include: 1) delays in adopting EU legal frameworks and guidelines, which may also change frequently, as well as late adoption of OPs and overlaps between MFF periods and between OPs; 2) limited quality of government and a lack of continuing political support for EU-financed policies, political instability, political patronage, and clientelism; 3) GDP per head, limits in available matching funds, low level of infrastructure development and innovation, low investments, vulnerability to external crises, low exposure or capacity to benefit from knowledge spillovers, limited labour force capacity; 4) inefficient institutional structures, training gaps, low public administration, workforce engagement, inadequate practices and procedures for the selection of operations, and insufficient digitalisation.
- Solutions aimed at overcoming absorption obstacles may be adopted at the EU level and/or at the Member States level. The former include EU simplification initiatives, performance frameworks, and provisions allowing for flexibility. Domestic solutions include a reduction of co-financing rates, reprogramming, phasing of projects, more intensive use of digitalisation, improving operation selection processes and practices, reinforcement of human resources, reorganisation of Cohesion Policy governance, revisions of domestic legislation, simplification of procurement, strategic plans and projects to support the project pipeline, guidelines, information events targeting beneficiaries, strengthened role of audit authorities, etc.

The effective absorption of EU Cohesion Policy funds is essential for promoting economic and social convergence among MS and their regions. The funds are pivotal in advancing the EU's overarching goal of reducing disparities and fostering sustainable development. However, as we explore the details of how the EU Cohesion Policy is implemented, we are confronted with significant disparities in absorption rates among MS and even within individual MS across different regions (as shown in the previous chapter). To address these challenges, this chapter seeks to unravel the underlying factors contributing to the variations in absorption rates. The critical solutions that have the potential to enhance absorption rates are discussed, paving the way for more effective policy implementation.

2.1. Absorption drivers and obstacles

Absorption drivers can be defined as the factors that explain the key trends observed in the expenditure of Cohesion Policy funding. Most notably, absorption tends to start slowly. Then it accelerates in the last years of programming, a pattern that, where it is more pronounced, may jeopardise the achievement of a programme strategy and an adequate selection of projects, leading to unsatisfactory results and reducing the expected effects of EU funding. This issue did not show signs of improvement over time. Still, delays do seem to accumulate across programming periods, as highlighted in the literature and confirmed by the analysis of payments carried out in the previous chapter of this study (ECA, 2017; Mendez, 2017; EP, 2017; EP, 2023). Moreover, absorption rates vary greatly across countries and regions (ECA, 2021; Mendez et al., 2022), which may magnify disparities in the effectiveness, efficiency, relevance, and coherence of policies, a pattern that may harm especially the most disadvantaged regions.

Based on an extensive literature review, the most important drivers of absorption have been grouped as follows: 1) drivers related to European policy and legal context; 2) drivers related to national institutional, policy, and legal context; 3) drivers related to national socio-economic context; and 4) drivers linked to administrative capacity and delivery modes.

Absorption obstacles can be defined as dimensions of those drivers that, in a particular context, have a negative (constraining) impact on expenditure, causing low absorption and/or delays that, ultimately, can also translate into less effective use of funds or a lack of achievement of pursued Cohesion Policy objectives.

2.1.1. European policy and legal context

Absorption drivers falling in the realm of the EU policy context are related to the capacity to adapt and respond to changes in the legal framework, comply with new rules, and minimise overlapping among programming cycles by closing timely and without delaying a programming period. Several factors can be mentioned for this group of drivers. These include rules and regulations governing the planning, implementation, monitoring, and controls (e.g. new priorities introduced across programming periods, regulations of the funds of the Cohesion Policy and novelties of those, concentration, partnership, programming, additionality principles, ex-ante conditionalities, N+3, overlapping of programming periods, and overall complexity of rules and controls). Changes introduced for simplifying and accelerating implementation (e.g. e-cohesion, simplified cost options (SCOs)[20], etc.) and policy changes introduced to respond to crises (e.g. Next Generation EU (NGEU) and the Recovery and Resilience Facility (RRF), REACT-EU, CRII and CRII+, CARE, and FAST-CARE) are also relevant in this respect.

Corresponding barriers to absorption include delays in adopting legal frameworks and guidelines by the EU and national institutions, late adoption of MFF periods and OPs, difficulty adapting to complex rules and procedures, a lack of coherence in legislative requirements, and frequent changes in regulations. These are among the most common challenges MS encounters in the EU fund absorption

[20] For example, SCOs may include: flat rate financing, when specific categories of expenditures are calculated by applying a fixed percentage to other categories of costs (for instance, direct personnel costs can be used to calculate other eligible cost categories based on a flat rate of up to 40%); standard unit costs, when all or part of the eligible costs of an operation are calculated on the basis of quantified activities, input, outputs or results multiplied by standard scales of unit costs established in advance (for instance, the cost of a training programme could be calculated on the basis of established standard costs per participant or per hour, regardless of the actual expenses incurred); lump sums, when all eligible costs or part of eligible costs of an operation or project are calculated on the basis of a pre-established amount duly justified by the MA, which is paid if predefined activities and/or outputs are completed (for instance, lump sum payments can be used for research projects). See European Commission (2021).

process. In more detail, based on the literature review, the most important factors hindering absorption that contribute to explaining cross-country differences in performance are discussed below.

Delays in adopting legal frameworks and guidelines: Adopting the legislative framework is a crucial prerequisite for preparing OPs, as it provides legal certainty to MS regarding the alignment of their spending plans with EU objectives. Furthermore, the adoption of OPs by the Commission marks the commencement of payments from the EU budget for these programmes. The delays at these stages negatively affect the timely implementation of projects on the ground (ECA, 2021). For example, in the last four programming periods, the regulation laying down common provisions (CPR) on the Structural Funds was adopted just before the start of the programming cycle but with an increasing delay: in June 1999 for the 2000-2006 programming (CEU 1999); in July 2006 in relation to the 2007-2013 programming cycle; in December 2013 for the 2014-2020 programming (CEU and EP, 2013); and in June 2021 for the 2021-2027 programming cycle (CEU and EP, 2021).

Overlaps between MFF periods and various funding sources hinder the absorption of EU funds, as MS often continue to spend money from previous OPs while the new MFF is in effect. Additionally, the need to reconcile spending from previous periods with the differing requirements of the new MFF can create administrative burdens, potentially slowing down the absorption of funds (ECA, 2018a). Furthermore, MAs are currently concerned that the urgent need to quickly use the RRF funds, which have shorter timeframes and tight schedules, might lead to a focus on them at the expense of the ESIF for the 2021-2027 period (Ferry et al., 2021).

Designation procedures of authorities[21] are considered the most complex in ESIF management by some MAs, despite initial intentions to simplify them. The EC guidance on designation procedures[22] and MS cautious approach have increased the workload and led to more elaborate procedures (OECD, 2020).

During the 2014-2020 financial period, notable difficulties arose from delays in the appointment of national authorities and the audit process related to such appointments. Meeting the prerequisites of **ex-ante conditionalities**[23] when adopting the 2014-2020 OPs took longer than initially expected (ECA, 2018a). MS need to prepare and adopt national and/or regional Smart Specialisation Strategies, Strategic Policy Framework for Digital Growth, national or regional Next Generation Network (NGN) plans, adoption of river basin management plans, etc.

Lack of feasibility assessment: The European Commission did not perform a pre-implementation impact assessment to assess the viability and potential need for simplified funding models, such as performance-based financing, in 2014-2020 (ECA, 2021).

Other barriers relating to both European and national policy and legal context include the complexity of rules, a lack of coherence in legislation, regulatory changes, and uncertainty regarding how to interpret EU requirements.

[21] According to the Regulation 1303/2013, Art.123, each Member State must designate the Managing Authority, the Certifying Authority, and the Audit Authority for each programme. The regulation also sets out the procedures for the designation of the Managing Authority and the Certifying Authority.

[22] European Commission (2014)

[23] The ex-ante conditionalities were introduced in 2014-2020 and specify certain conditions that must be fulfilled before the launch of the programme implementation. For example, in relation to the Thematic Objective 1, on research and innovation, each MS had to demonstrate the "existence of a national or regional smart specialisation strategy in line with the National Reform Program". In the context of the Thematic Objective 7, an ex-ante conditionality required to prove "the existence of a comprehensive plan/plans/frameworks for transport investment in accordance with the Member States' institutional set-up (including public transport at regional and local level), which supports infrastructure development and improves connectivity to the TEN-T comprehensive and core networks".

The complexity of rules and procedures spanning areas like human resource management, audit, procurement, and financial management poses a significant obstacle to the efficient absorption of EU funds. The intricate regulations prove to be a significant burden for MA's time-consuming and meticulous compliance efforts. There is also the absence of practical guidance, particularly affecting beneficiaries' efforts to understand and apply these regulations (e.g. guidance on the application of the horizontal principles, how to deal with conflicts of interest, procurement rules for SMEs and other private sector companies, etc.). To address the uncertainty, which is generated by the lack of practical guidance, some countries introduce additional and often stricter control measures, increasing administrative burdens and transaction costs for MAs (OECD, 2020).

The lack of coherence and overlap in legislative requirements creates an administrative burden by requiring adaptation to various sets of regulations, which consumes time and resources. This adds extra bureaucracy related to compliance and documentation of adherence to different standards, introducing the risk of ambiguity and inconsistencies in the interpretation and application of overlapping regulations, potentially leading to errors and administrative issues (OECD, 2020).

Changes in regulations and strategies: MA's encounter significant challenges due to frequent changes in rules, regulations, and strategic documents, requiring constant interpretational effort (e.g. changes in de minimis rules or the General Block Exemption Regulation (GBER[24])).

Uncertainty regarding eligibility criteria: The procedures and guidelines for OP project selection, control, verification, and audits are subject to interpretation, causing uncertainties in eligibility criteria, complicating applications, and impacting monitoring and control. This inconsistency can cause delays, hinder absorption, and reduce the appeal of ESIF co-financing for beneficiaries (Hapenciuc et al., 2013; OECD, 2020).

'One-size-fits-all' approach in management and control: Many cases demonstrate a uniform approach to administrative and management procedures for project implementation, lacking differentiation based on project type, sector, or size. This results in heavy requirements and obligations for projects of varying scales and natures (OECD, 2020). An example is the use of a uniform project application form, which might be suitable for one type of project (e.g. infrastructure) but not for others (e.g. investments in SMEs or other projects).

Furthermore, some barriers to absorption are at the intersection of the European policy context and the administrative capacity of national and regional governments. These include, for example, a **low uptake of simplification measures**. In other words, in 2014-2020, MS were hesitant to adopt new simplified funding models, such as performance-based models, due to uncertainties regarding their implementation, complexity, and concerns about audit arrangements. Uncertainties on financial control, especially in areas like state aid and procurement, particularly discourage their use despite some attempts at clarification (ECA, 2021)

Finally, there are other EU framework rules whose effects on absorption are unclear. For example, there is mixed evidence on the role of **N+2/N+3 rules**, which extend the timeframes for utilising allocated funds, allowing for more flexibility in project implementation. This can reduce the rush to spend funds within the traditional N+1 framework and potentially lead to better planning and execution of projects, ultimately increasing absorption rates. However, a longer timeframe may also produce complacency and reduce urgency, potentially decreasing absorption rates. An additional issue is the increased

[24] The GBER exempts EU countries from the obligation of notifying state aid to the Commission and waits for the Commission's clearance of this notification obligation if all the GBER criteria are fulfilled. The exemption is designed to reduce administrative burdens on national and local authorities and to encourage EU governments to channel aid towards economic growth without giving recipients an unfair competitive advantage.

administrative burden caused by overlapping funding periods and OPs, which hinders effective project design and implementation (Carrión, 2020; ECA, 2018a; Incaltarau et al., 2020).

2.1.2. National institutional, policy, and legal context

Absorption drivers belonging to this group are related to the distribution of competencies in a particular country (e.g. centralisation, decentralisation, degree of regionalisation), coordination arrangements, political stability, quality of government and judiciary (corruption, clientelism, quality and impartiality of the health and education sectors, and politics), state aid, and public procurement rules, etc.

At the national level, absorption obstacles include a limited quality of government, a lack of continuing political support for EU-financed policies, political instability, political patronage and clientelism, and decentralisation, etc.

Government quality: "Quality governments"[25] are more likely to promote transparency and accountability in the allocation and use of EU funds, are better equipped to select projects that align with regional or national development priorities, and tend to manage well-established administrative structures and skilled personnel (Mendez et al., 2022; Surubaru, 2017a).

Lack of political support: The active involvement of politicians can shape the creation of more robust institutional structures, processes, and the expertise needed for the daily administration of EU funding (Surubaru, 2017a). However, there is a thin line between promoting the use of EU funds by politicians and treating the funds in a clientelist manner, as described in absorption barriers. Political support frequently plays a role in adopting suitable legal and institutional measures aimed at enhancing the efficiency of management and implementation procedures (Surubaru, 2017a).

Political clientelism involves using political power to distribute benefits, such as EU-funded projects and public procurement contracts, to loyal supporters, potentially leading to inefficiency and favouritism in the allocation of resources and ultimately undermining the efficient absorption of EU funds (Surubaru, 2017b). The existing literature is, however, inconclusive regarding whether a high level of clientelism reduces the absorption of funds or, on the contrary, serves as motivation for their full utilisation.

Political instability and alternating ruling parties: Frequent shifts in political party control over OPs, coupled with limited capacities, contribute to absorption issues. The changes result in delays in project funding and implementation as parties modify OPs as well as exchange projects, priorities, and staff within the management and control systems (Hagermann, 2019; Surubaru, 2017a). However, some research focusing on the 2007-2013 programming period suggests that political stability's effect on absorption rate is rather weak compared to other factors, especially administrative capacity (Incaltarau et al., 2020).

Political patronage refers to appointing individuals to key positions within institutions based on their political loyalty rather than their qualifications, which can potentially disrupt managerial continuity and hinder the development of expertise in institutions responsible for managing EU funds (Surubaru, 2017b).

[25] Here, we refer to the data collected and the indexes developed by the Gothenburg Institute of Quality of Government. In this context, the Quality of Government is intended as a measure of citizens' perceptions of impartiality and corruption, focusing on three policy areas: education, health services, and law enforcement. For more information on the European Quality of Government index: https://ec.europa.eu/regional_policy/information-sources/maps/quality-of-government_en

Change in national rules: Some countries alter eligibility rules mid-project, affecting already-approved projects (OECD, 2020)[26], while shifts in sectoral strategies by line ministries or new governments can impact investment priorities at the OP level. The linkage of OPs to sectoral budget plans, rather than overall sectoral strategies, further affects OP implementation stability, especially when sector budgets are annual with limited year-to-year forecasting (OECD, 2020).

Other factors, still related to the institutional and policy context, have unclear effects on absorption. These include, among others, regional autonomy and fiscal decentralisation.

2.1.3. National socio-economic context

Absorption drivers that belong to this group are related to the national and regional socio-economic context, including growth performance and prospects, level of development and regional disparities (e.g. developed, less developed, and transition regions), the existence of complementary and/or overlapping policies at the national and regional level, etc. In this case, obstacles to the absorption of funds include GDP per head, limits in available matching funds, a low level of infrastructure development and innovation, low investments, vulnerability to external crises, low exposure or capacity to benefit from knowledge spillovers, and limited labour force capacity.

Lower GDP is a good predictor of high absorption, as lower-income countries are significantly more likely to strive for fast fund allocation to accelerate economic growth (EC, 2014). In those countries, the Cohesion Policy funds usually represent the biggest and most important funding source for public investments.

However, **higher allocations** can often correlate with higher absorption rates (Incaltarau, 2020; Mendez et al., 2022), due to reasons such as increased capacity (with more funds available, implementing agencies may have the resources to expand their capacity, such as hiring more staff) and project scalability (higher allocations can enable the scaling up of successful projects, allowing for the replication of models that have proven effective).

Higher labour force capacity correlates positively with higher absorption of EU funds as it ensures a larger pool of skilled and available workers, which can facilitate the successful implementation of selected projects (Kersan-Škabić et al., 2017).

Spillover effect: The data regarding the effective use of pre-accession assistance (Special Pre-Accession Programme for Agriculture and Rural Development, 2000-2006) in Slovakia show that there is a spatial spillover effect in terms of financial and political knowledge that is beneficial for the effective utilisation of EU funds. This means that communities adjacent to regions with high income and administrative capacity have higher absorption rates (Zubek et al., 2016)[27].

Financial means of countries positively correlates with higher absorption of EU funds (Tigănasu et al., 2018), as the projects typically require co-financing from the beneficiaries. **Low financial capacity** adversely affects the absorption of funds, as it hinders the ability to provide co-financing, making it challenging to leverage external resources (Hapenciuc et al., 2013). Some countries nevertheless use specific loan arrangements with the international development banks to cover the co-financing part (sometimes also on behalf of regional and local beneficiaries). For example, the EIB offered a so-called Structural Loan Facility to support the 2014-2020 programmes.

[26] Ibid. The study on which the findings are based on was conducted in Bulgaria, Croatia, Greece, Poland (Lubelskie), and Spain (Extremadura). However, the analysis presented in the publication does not allow for determining whether the described problem occurred in all the studied countries and regions.

[27] Zubek, N. and Henning, C.H.C.A. (2016). *Local Government, Spatial Spillovers and the Absorption of EU Structural Funds. Journal of Agricultural Economics*, V: 368-397.

A low level of development in terms of, e.g. infrastructure, innovation, and investments poses challenges for regions with serious infrastructure needs. These regions struggle to rapidly implement and maintain ambitious projects, leading to difficulties in efficiently utilising available resources (Kersan-Škabić et al., 2017; LSE et al., 2013). Paradoxically (regarding their needs), less developed and transition regions often struggle to effectively utilise EU funds in sectors like R&D, innovation, ICT, or the low-carbon economy due to their weaker innovation systems and less robust business sectors, which limit their capacity to implement projects in these areas (Darvas et al., 2019).

Vulnerability to financial crises and recessions has a detrimental effect on the absorption of funds, as they require abrupt programme adjustments and limit the availability of local matching funds (Darvas et al., 2019). The recent COVID-19 pandemic and unexpected natural disasters (e.g. earthquakes in Italy and Croatia) have disrupted the planned investment cycle across EU regions.

Beneficiaries' capacities: Beneficiaries, especially subnational governments, are significantly limited in effectively designing infrastructure projects. About two-thirds of subnational governments did not consider the entire life cycle of infrastructure investments during the project design phase. Furthermore, they face capacity gaps in meeting project selection criteria, participating in the call process, and dealing with complex procurement requirements (OECD, 2020).

The connection between familiarity with EU rules and absorption appears somewhat nuanced. Specifically, some Member States that have recently joined the European Union tend to face more challenges in absorption, as indicated by the payment data, even though this is not always the case. Some analyses highlight that **new Member States** are more likely to absorb significant funds. This may be caused by a greater need for investment in infrastructure, economic development, and institution building and a high motivation to utilise available EU funding to bridge development gaps (EC, 2014).

2.1.4. Administrative capacity and delivery modes

Administrative capacity at national and regional levels is one of the key factors in explaining the different performances of Cohesion Policy in Europe (Smeriglio, 2015). Absorption drivers that relate to administrative capacity include the quantity (total staff and turnover) and quality (competencies and skills) of human resources in the public administrations in charge of programming, implementing, monitoring, and controlling interventions. Delivery modes are closely related to these drivers because the public administrations establish them. Delivery modes include rules and practices governing the programming and implementation of programmes, including the degree of digitalisation and effective selection of operations (e.g. sound intervention logics, appropriate needs analysis to avoid a lack of proposals, sound budgetary planning, timely appraisals of proposals, effective complaint, and contract management, etc.).

In addition to insufficient and not sufficiently competent human resources, the obstacles to the absorption of funds related to administrative capacity and delivery modes may include inefficient structures, training gaps, low workforce engagement, inadequate practices and procedures for the selection of operations (including an excessive top-down approach to priority setting), insufficient digitalisation, and a lack of communication[28].

[28] An ex-post evaluation of the delivery system of ERDF programmes 2007-2013 identified several factors causing the implementation delays, such as "problems in setting up systems for project preparation and selection, insufficiencies in the public procurement systems, and the setting up of systems for managing and following up projects, leading to a constantly high discrepancy between contracted amounts and payments to beneficiaries. Another factor is the high turnover among key staff in the EU12". European Commission (2016). COMMISSION STAFF WORKING DOCUMENT Ex-post evaluation of the ERDF and Cohesion Fund 2007-13.

Administrative capacity is one of the most frequently emphasised factors correlating with high absorption rates (EC, 2014; Incaltarau et al., 2020; Kersan-Škabić et al., 2017; OECD, 2020; Tigănasu et al., 2018; Tosun, 2014). Administrative capacity has several dimensions, such as organisational structures, human resources, systems and tools, as well as favourable framework conditions (EC, 2020).

Inefficient organisational structures: complex, multi-layered institutional structures, a lack of coordination, and excessive oversight can significantly hinder efficient fund absorption. Inefficient structures result in role uncertainty, task duplication, fragmentation, and uneven workloads among staff. Ineffective working groups and oversight mechanisms further compound the problem, causing delays and preventing critical knowledge from informing management and strategic processes (Hapenciuc et al.; OECD, 2020).

Training gaps: Existing training programmes often fall short in keeping the staff updated on legislative, regulatory, procedural, and process developments, hindering their ability to effectively manage EU funds. The absence of a competency framework in most MAs contributes to these issues, as training is not aligned with organisational and individual development needs, making it less effective in addressing the organisation's long-term objectives and staff's motivation and engagement (OECD, 2020).

Low workforce engagement is also an important obstacle related to issues such as poor management practices, limited career development opportunities, perceived unfairness in promotions and training allocation, and high workloads, especially for those interacting with beneficiaries and government institutions. Bureaucratic procedures further contribute to frustration and hinder effective job performance (OECD, 2020).

Call design: Calls for proposals that are not well designed or are not based on a sound needs-analysis can encounter a restricted response.

Procurement practices pose a significant challenge for both MAs and beneficiaries, particularly smaller ones, due to the limited resources and technical expertise needed to navigate these processes. Also, imposing complex procurement rules to beneficiaries who are not normally using them, such as SMEs, is detrimental. Ineffectual procurement practices, coupled with unclear or frequently changing procurement laws and lengthy procedures, can hinder the efficient execution of projects, thereby impeding the absorption of funds (OECD, 2020).

Top-down priorities can hinder the absorption of EU funds by restricting stakeholder input and failing to account for the beneficiaries' diverse needs and capacities, including regional or local authorities, the private sector, and civil society (OECD, 2020). This often results from inadequate consultation among MAs, intermediate and sector bodies, or other beneficiaries. The problem may also stem from a broader misalignment between priority axes and the actual conditions and needs of the recipient pool targeted by the funds (OECD, 2020; Zubek et al., 2016).

Limited use of digital technologies: Without robust digital tools and platforms, MAs and beneficiaries may face challenges in effectively tracking, reporting, and optimising the use of EU funds, potentially leading to delays and inefficiencies in allocation and implementation (Hapenciuc et al., 2018). On the other hand, in some countries there are multiple platforms in use related to different EU funding opportunities (e.g. one platform for ERDF/CF, another platform for ESF and yet another platform for RRF). This causes confusions, especially among the project applicants and beneficiaries. Furthermore, it complicates the monitoring and reporting from the side of the MAs and Intermediate Bodies (IBs).

Lack of communication: Stakeholders, including beneficiaries, face serious difficulties in accessing information about available support and funds. It is crucial to have a clear understanding of both the

advantages and disadvantages, as well as the benefits and costs associated with utilising EU funds, especially innovative financial instruments. This clarity is essential for fostering participation and, consequently, ensuring effective absorption of these funds (OECD, 2020). During the 2014-2020 programming period, Article 5 of the CPR has made it mandatory for every Member State to establish a partnership for each programme, in line with its institutional and legal framework, at all levels and throughout all programme stages. A European Code of Conduct on Partnership[29] has been adopted in order to support and facilitate Member States in the organisation of partnership. A recently conducted study[30] has shown that despite the fact that the application of the partnership principle has improved compared to previous programming periods, it still needs further improvement, especially in mobilising relevant partners, building their capacities to participate and add value to the relevance, efficiency and effectiveness of the programmes.

2.1.5. Other factors, mainly related to the institutional sphere, with uncertain effects

Decentralisation and regional autonomy have a double-edged-sword impact on absorption rates. In 2007-2013, it was observed that regional autonomy can increase absorption rates in areas with high capacities of sub-national authorities, whereas in other cases, the opposite effect may occur (Mendez et al., 2022). This observation can also be extended to 2014-2020.

Fiscal decentralisation has a similarly unclear effect, with some studies showing a negative correlation with high absorption rates (European Commission, 2014; Surubaru, 2017a), while others suggest a weak positive correlation (Kersan-Škabić et al., 2017).

2.2. Solutions aimed at overcoming absorption obstacles

Solutions aimed at overcoming absorption obstacles may be undertaken at the EU level and/or at the MS level (solutions implemented by central or regional governments). Examples of EU-level solutions may include EU simplification initiatives, performance frameworks, provisions allowing flexibility between priority axes, and other flexibility rules introduced after a crisis (e.g. CRII and CARE etc.). Examples of domestic solutions include reduction of co-financing rates, reprogramming, phasing of projects, and more intensive use of digitalisation (e.g. advanced e-Cohesion systems that are internally and externally interoperable). Additionally, solutions should make operation selection more effective (e.g. ensuring adequate needs and market analysis, accelerating preparation and selection of proposals with the timely set up of evaluation committees), reinforcement of human resources, reorganisation of Cohesion Policy governance (e.g. improving coordination mechanisms, creation of a government task force in direct contact with Commission staff, etc.), revisions of domestic legislation, including SCOs, simplification of procurement, strategic plans/projects to support pipeline and impact, guidelines, information events targeting beneficiaries, and strengthening the role of audit authorities, etc.

It is important to note that a division between EU and domestic solutions is blurred because, as previously highlighted, several challenges arise at the intersection of EU and national domains (such as overlapping regulatory frameworks) or occur at both levels to a similar extent (such as ambiguity in interpreting laws and guidelines).

[29] European Commission (2014), The European code of conduct on partnership in the framework of the European structural and investment funds, available at: https://op.europa.eu/en/publication-detail/-/publication/93c4192d-aa07-43f6-b78e-f1d236b54cb8/language-en/format-PDF

[30] European Commission (2016), Implementation of the partnership principle and multi-level governance in 2014-2020 ESI funds, available at: impl_partner_summary_en.pdf (europa.eu)

2.2.1. EU-level solutions

Apart from flexibility rules and provisions, such as those introduced in the aftermath of the COVID-19 pandemic and the war in Ukraine, other solutions that mitigate absorption drivers include cost simplifications, flexibility in reporting, and tailored support.

Simplified cost options have the potential to enhance absorption by streamlining administrative processes, reducing the bureaucratic burden on MAs and beneficiaries, and enabling them to allocate resources more efficiently towards project implementation (ECA, 2021). However, it needs to be ensured that its application is straightforward.

Flexibility in reporting for performance reviews improves the absorption of EU funds by allowing MS to adapt their reporting of outputs and expenditures to better meet spending targets. The flexibility accommodates variations in project implementation and financial flows, ultimately enhancing the efficiency of fund utilisation (ECA, 2021).

Tailored support, as exemplified by the Task Force for Better Implementation (TFBI)[31], is crucial for increased absorption. It involves creating individualised action plans, permitted by the legislative framework, that improve programme design and implementation. Moreover, the organisation of technical meetings and seminars allows for targeted assistance, enabling the exchange of best practices and administrative capacity improvement, thereby facilitating more effective utilisation of EU funds (ECA, 2018b).

Besides reviewing the solutions undertaken at the EU level to mitigate absorption problems, the existing literature puts forward several suggestions:

Importance of sticking to the timeline: To prevent delays, the European Commission, in agreement with the EP and the Council, could consider creating a schedule that incorporates crucial milestones (such as the proposal and adoption of the legislative framework) to guarantee the timely commencement of OP implementation at the outset of the programme period (ECA, 2018b).

Monitor challenges: To respond quickly to absorption issues, it is essential for the European Commission to consistently oversee budget implementation and respond promptly if any delays in implementation are identified (ECA, 2018b).

Test various flexible arrangements: To ensure the efficiency of EU fund management, it is important to balance the benefits and risks associated with granting greater flexibility to MS. To achieve this, further experimentation with the relaxation of rules could be considered, allowing MS to have more autonomy in defining and adapting their action priorities. Additionally, there is a need to continue promoting results-based control while exploring various modes of reducing the reporting burdens on stakeholders. A continuous monitoring of the effects of these changes should be maintained to assess what impact they have on the effectiveness of fund utilisation.

Clarify regulations: To increase the interest of MA and beneficiaries in ambitiously using EU funds, it is crucial to simplify and clarify fund management, reporting, and audit regulations. This involves creating explicit and unambiguous guidelines for managing critical issues and risks. Collaborative

[31] At the end of the 2007-2013 programming period, in 2014, the European Commission set up a Task Force for Better Implementation to assist Member States suffering from low absorption rates of Cohesion Policy funds. Eight Member States received support from the Task Force for Better Implementation: Bulgaria, Croatia, Czech Republic, Italy, Romania, Slovakia, Slovenia, and Hungary. The Task Force, in cooperation with the Member States, developed action plans with measures aimed at improving the funds absorption. The TFBI finished its work at the end of 2015. Afterwards, the Commission continued to provide assistance, for example, through the REGIO Peer2Peer + scheme which enables staff of authorities and other public bodies involved in managing and implementing ERDF, CF and JTF programmes to meet and exchange knowledge (see: https://ec.europa.eu/regional_policy/policy/how/improving-investment/regio-peer-2-peer_en).

efforts between the European Commission and MS could be encouraged to address complex matters at the intersection of European and national regulations to ensure a unified understanding among all relevant parties.

2.2.2. Domestic solutions

The most common solutions implemented at the national and/or regional level to overcome absorption problems include deciding on higher co-financing, reprogramming, retrospective financing, and project phasing.

Increasing the EU co-financing rate and decreasing the co-financing requirement from the beneficiaries, e.g. in the less developed territories, alleviates the financial burden on MS, making it more affordable for them to initiate and complete projects. A trade-off includes a reduction in the scale of projects and a diminished sense of ownership by national authorities (ECA, 2018b; Mendez et al., 2022).

Reprogramming OPs allows MS to adjust and reallocate resources to align with changing priorities and circumstances. The flexibility prevents decommitment; however, it also risks jeopardising a long-term vision in favour of short-term gains (ECA, 2018b).

Retrospective financing allows beneficiaries to receive funding after successful project implementation, which obviously increases absorption. Nonetheless, there is a potential risk that projects funded in this way may be less in line with the objectives of EU funds, as they might not have been initially conceived with the specific goals of the EU in mind. Additionally, questions may arise regarding the necessity of using EU funds for financing if national resources are already available for the same purpose (ECA, 2018b).

The phasing of projects enhances the absorption of EU funds by allowing funds to be progressively disbursed as key outputs are achieved, ensuring a more efficient allocation of resources throughout the project's lifecycle (ECA, 2018b). It is worth noting that project phasing may also have some disadvantages, such as increased project length and increased labour and material costs, and may cause delays anyway, if there are too many changes in the project plan. Therefore, phasing should be applied carefully.

A 110% **overbooking** is used in some cases. This happens when the selected amount is greater than the planned amount to ensure better absorption in case some projects fail during implementation, when irregularities lead to financial corrections and repayment of the received funds or in case extra money becomes available (EC, 2023).

Besides identifying the most common solutions undertaken at the national and/or regional level to mitigate absorption problems, based on the literature review, suggestions on how to improve absorption can also be identified:

Strengthen (partnership with) beneficiaries: One suggestion is to provide tailored capacity-building programmes for fund beneficiaries and intermediate bodies. The programmes could cover general EU funding mechanisms and administrative requirements while also addressing specialised topics such as effective project design and procurement challenges. Engaging stakeholders effectively can enhance programming and align projects with beneficiary needs and capacities (ECA, 2021; OECD, 2020). Furthermore, additional capacity-building efforts in the application of the partnership principle in all stages of the programmes (preparation, implementation, monitoring and evaluation), as stipulated in the CPR, are needed. The involvement of stakeholders outside the programme management structures is crucial to improving the place-based focus of the programmes, leading to more efficient and effective

policy, stakeholder ownership and support, as well as empowerment at the sub-national level and building trust and social capital[32].

Improving coordination: Efficient coordination among various public investment stakeholders, including MAs, intermediate bodies, beneficiaries, and government entities at different levels, is crucial for maximising the effectiveness of public investments. However, it is essential to prevent dialogue fatigue, as many MAs already engage in numerous meetings and coordination activities related to fund management (OECD, 2020). Efforts are usually concentrated at the programming stage, but as the situation changes, there is a need for additional market and needs analyses, which do not happen often, leading to more badly designed calls.

Enhancing communication: It would be useful to create a customised information and communication strategy for the OPs and their beneficiaries, employing straightforward language and using various communication channels tailored to different beneficiary groups. Additionally, it would be beneficial to consider establishing a centralised contact point or disseminating a comprehensive and complete contact list with department descriptions and responsibilities. This will streamline access for beneficiaries, ensuring they can easily reach out to the appropriate contact (OECD, 2020).

Improving needs assessment: It would be beneficial to conduct a survey or an analysis of municipalities, counties, and enterprises, even those not using EU funds, to acquire insights into their needs and capacities. This data can be utilised as a foundation for designing future programmes and call initiatives (OECD, 2020).

Improving risk management: Supporting efficient drafting and approval of programming documents is essential. At the national level, it is crucial to have early Partnership Agreements in place, designate operational entities, and establish a pipeline of prepared projects to launch programmes in the new period swiftly. Maintaining effective risk management and early project issue identification throughout the investment cycle is vital to preventing decommitments (OECD, 2020).

Enhancing the skills of staff working in EU funding offices: MAs must create strong learning and development strategies that tackle staff challenges. These strategies could also match hiring needs. An important first step is to analyse gaps in skills and competencies using tools such as the European Commission's competency framework. Additionally, capacity-building policies could not only prioritise training but also emphasise staff retention and competitive manager compensation. It is also crucial to depoliticise the EU funds unit to promote a fair distribution of resources, ultimately strengthening the effectiveness and credibility of the EU funding programmes (Hagemann, 2019).

[32] "Application of the principles of partnership and multi-level governance in Cohesion Policy programming 2021-2027", European Committee of the Regions, 2021; available at: https://op.europa.eu/en/publication-detail/-/publication/effcb753-a6ff-11eb-9585-01aa75ed71a1

3. FINDINGS OF CASE STUDIES

KEY FINDINGS

- The case studies confirm that the typical trend of Cohesion Policy absorption (i.e. being very low at the beginning of programming and catching up only in the final years) reflects the rules of Cohesion Policy. The delays seldom imply significant decommitments but may weaken the relevance of programmes and their capacity to achieve the intended objectives. For these reasons, it is important to identify the main obstacles and related solutions.
- Most of the absorption obstacles highlighted during the interviews relate to the complexity of EU rules, the difficulties of authorities and beneficiaries in adapting to them, and, most notably, the lack of administrative capacity, which may produce negative impacts on all the phases of policy management, from planning to the selection of operations, project implementation, monitoring, evaluation, and controls.
- Often, capacity issues are related to a limited number of staff and/or a lack of skills of the administration due to public employment constraints or turnover, inability to make the most of digitalisation opportunities, and limits in the governance of the funds (too complex implementation systems, lacking vertical and horizontal coordination).
- The solutions taken to deal with absorption challenges are various and include strengthening capacity, e.g. through training, hiring of experts, task forces, and guidelines; improving operation selection, digitalisation, stakeholder consultation, coordination, and communication; adjusting co-financing rates; “front-loading” (e.g. tenders published with a payment schedule that includes an initial pre-financing payment backed by a bank guarantee from the winning bidder); “phasing” of large projects; and using simplified cost options.

3.1. Purpose and scope of case studies

The case studies conducted in the study on the absorption of the funds of Cohesion Policy are aimed at assessing the achievements of different Member States and/or regions in absorption and identifying possible best practices that could be used in other Member States. The case studies offer an in-depth analysis of the absorption of the funds, specific characteristics of the analysed Member State and/or regions, and best practices or important obstacles.

The case studies have been selected balancing several criteria, including absorption performance, time of joining the EU, institutional framework (e.g. centralised vs regionalised MS, coverage of all funds of Cohesion Policy, and all categories of regions that are “Less developed”, “More developed”, and in “Transition”). All case studies are based on a combination of desk research and in-depth interviews with relevant national/regional stakeholders (MAs of OPs). On average, three to four interviews per case study were conducted, and each case study covered at least two OPs. The following paragraph summarises the key findings of the case studies. The full text of the case studies is annexed as a separate file.

3.2. Summary of absorption obstacles and solutions in the OPs covered in the case studies

The case studies confirm that the typical trend of Cohesion Policy absorption (i.e. being very low at the beginning of programming and catching up only in the final years) reflects the rules of Cohesion Policy, but it seldom implies a decommitment, meaning that the total amounts made available are eventually used in most of the cases.

However, delays in fund absorption may weaken the intervention strategies, the relevance of programmes, and the capacity to achieve the intended objectives. For these reasons, it is important to identify in-depth reasons for delays and solutions.

3.2.1. Italy

In Italy, the absorption rate of Cohesion Policy funds was 77.9%, as of the end of 2023, and below the EU average (90.4%). The interviews emphasised that the EU funds' flexibility, introduced to address the impacts of recent global crises like the pandemic and the effects of the war in Ukraine, initially added pressure on administrations due to the need for substantial reprogramming efforts. However, in the end, it ultimately positively affected absorption (e.g. highlighted by the authorities of the OP Enterprises and Competitiveness ERDF). In some cases, the extra resources made it possible to finance more projects than possible with the funds initially planned (e.g. OP Emilia-Romagna ERDF and OP Emilia-Romagna ESF).

The most important 2014-2020 **absorption obstacles** mentioned during the interviews include crowding out effects caused by the new instruments introduced to respond to the crises (e.g. this happens, for example, when the support provided by the RRF or national policies is too generous[33], such as the national incentives for energy efficiency of buildings in Italy; as mentioned by the authorities of the OP Campania ERDF); uncertainties on how to interpret EU rules also due to misalignment between EU and national legislation (e.g. in procurement law regarding admissible % of subcontracting; eligibility of VAT), excessive complexity of EU rules (e.g. competition legislation tends to penalise mid-caps (middle-size capitalisation companies that are neither SMEs nor large enterprises); as mentioned by the authorities of the OP Enterprises and Competitiveness ERDF), implementation problems of infrastructures and public works (e.g. due to increase in prices, overlapping of works in the

Italy: OPs covered in the analysis

National OP on Enterprises and competitiveness (ERDF) 2014-2020

Budget: total EUR 5.5 billion, EU contribution 4.5 billion

Objectives: (1) strengthen research, technological development, and innovation in less developed and transition regions, (2) enhance access to ICT, as well as ICT infrastructure quality and use, (3) enhance competitiveness of SMEs, and (4) support a shift towards a low carbon economy.

OP Emilia-Romagna (ERDF) 2014-2020

Budget: total EUR 481.9 million, EU contribution 240.9 million

Objectives: contribute to Europe 2020 targets for smart, sustainable, and inclusive growth; promote private and public research and innovation investments in line with the regional smart specialisation strategy (RIS3); improve the energy efficiency of the region; promote SME diversification and competitiveness.

[33] Crowding out effects refers to situations where the implementation of new crisis response measures, such as the RRF, potentially diverts resources and attention away from the Cohesion Funds, thus hindering absorption.

Italy: OPs covered in the analysis

OP Emilia-Romagna (ESF) 2014-2020
Budget: EUR 786.3 million; EU contribution 393.1 million

Objectives: support employment; social inclusion and fight against poverty; education and training; build a better public administration.

OP Campania (ERDF) 2014-2020
Budget: total EUR 4 billion, EU contribution: 3.1 billion

Objectives: improve the regional system of research and development; contribute to increasing SMEs competitiveness; improve energy efficiency; boost ultra-broadband diffusion; preserve natural and cultural heritage; develop and improve environmentally friendly and low-carbon transport systems; promote social inclusion and regenerate deprived communities in urban areas; invest in education, training, and infrastructure.

same site, archaeological findings etc.), and limited financial and administrative capacity of local administrations, such as municipalities (e.g. OP Campania ERDF). Some potential obstacles are related to the 2021-2027 period, such as uncertainties in applying the Do No Significant Harm (DNSH) principle[34] and climate-proofing[35] (e.g. OP Enterprises and Competitiveness ERDF and OP Campania ERDF).

The **solutions adopted** by Italy to overcome absorption obstacles in 2014-2020 include strengthening of planning, managing and reprogramming capacity, more extensive use of digitalisation including efficient systems for electronic exchange of information between MAs and beneficiaries (e.g. OP Emilia-Romagna ERDF and OP Emilia-Romagna ESF)[36]; promoting a constant dialogue with beneficiaries, including local institutions responsible for implementing projects (e.g. this has sometimes permitted the recovery of unused documents valid for financial reporting; as mentioned by the authorities of the OP Campania ERDF) and supporting them during the launch of activities and in implementation (e.g. training on applying to tenders, project management, financial reporting), consultation and coordination tables with social parties to plan relevant tenders, internal reorganisation of offices aimed at increasing efficiency, including creating an ad hoc mission structure/task force with personnel from various offices with monitoring and financial reporting skills, and enhanced cooperation with local public agencies in the management of tenders/projects in some areas (e.g. Campania agency for mobility which acts as a central procurement body).

[34] The EU Member States have committed to ambitious climate and sustainability targets to achieve climate neutrality by 2050. To ensure that no negative environmental impact is made, all investments financed by the EU funds must be assessed and comply with the DNSH principle, as defined under Art. 17 of the Taxonomy Regulation EU) 2020/852. Article 17 of the Taxonomy Regulation determines when economic activities shall be considered to do significant harm to any of the environmental objectives. To determine whether an activity that substantially contributes to one of the taxonomy's objectives does no significant harm to any of the others, the Commission developed a list of environmentally sustainable activities by defining technical screening criteria for each of the objectives through delegated acts.

[35] According to the CPR, 'climate proofing' means a process to prevent infrastructure from being vulnerable to potential long-term climate impacts while ensuring that the 'energy efficiency first' principle is respected and that the level of greenhouse gas emissions arising from the project is consistent with the climate neutrality objective in 2050; Adequate mechanisms to ensure the climate proofing of supported investment in infrastructure should be part of the programming and implementation of the EU funds.

[36] European Commission (2022), In-depth case study – SFINGE2020 e-Cohesion system of Emilia-Romagna, report prepared by a PPMI consortium.

3.2.2. Malta

In Malta, the absorption rate of Cohesion Policy funds was 86.7% as of the end of 2023. There are constraints in administrative capacity linked to the difficulty of finding adequate staff with adequate skills due to the limited size of the Maltese labour market. The rigidity of EU rules and practices was also mentioned among the **absorption obstacles**. For example, in relation to the ESF, the Commission's push for using competitive procedures such as calls for proposals also applies when for some type of action there is a limited number of beneficiaries, as in the Maltese case, where direct awards work better because they allow a direct engagement with the beneficiaries, given the limited market size (e.g. OP Investing in Human Capital ESF). The rigidity of rules also affects the use of financial instruments, which should be treated differently from grants with respect to audit processes and the eligibility of expenditures. In the area of ICT, the global context has changed, and currently, capital investments are being replaced by subscription-based models. However, to date, such expenditures have been considered eligible only following very long bilateral discussions and negotiations with the Commission and only for a few years. Uncertainty of rules is another issue. The much-awaited General Block Exemption Regulation (GBER) amendments to further simplify and speed up support for the EU's green and digital transitions took very long (the Commission formally adopted them in June 2023). This led to a situation where an Intermediate Body (IB) in Malta, offering grants to the private sector, launched a grant scheme under the 'old' GBER regulation and had to wait until the formal amendments to the GBER regulation to be able to launch a second version of the same scheme with more favourable conditions (e.g. OP Fostering a Competitive and Sustainable Economy ERDF/CF). Difficulties in applying simplification measures (e.g. SCOs) in the context of state aid rules were also considered an obstacle.

Malta: OPs covered in the analysis

OP Investing in Human capital (ESF) 2014-2020

Budget: total EUR 279.5 million; EU contribution 245.8 million

Objectives: improve education and training systems with a view to better matching labour force skills with market needs, in particular for tertiary and vocational education; support early childhood education and care; provide primary and secondary education; help people in difficulty and from disadvantaged groups; improve the efficiency of public administration.

OP Fostering a Competitive and Sustainable Economy (ERDF/CF) 2014-2020

Budget: total EUR 672.9 million; EU contribution 555.5 million

Objectives: strengthen research, technological development, and innovation; improve ICT access, use, and quality; increase the competitiveness of SMEs; support the shift towards a low-carbon economy; environment preservation and resource efficiency; sustainable transport and key network infrastructure; promote social inclusion, combat poverty and discrimination; invest in education, training, and vocational training.

The main **strategies to address the mentioned challenges** include implementing training programmes to improve administrative capacity; utilising front-loading, which involves publishing tenders with a payment schedule that includes an initial pre-financing payment backed by a pre-financing bank guarantee from the winning bidder; opting for overbooking and selecting multiple projects, each receiving a capped amount of funding, rather than allocating the entire EU funding to a single project. This means that if one project were to default on payments or encounter difficulties in implementation, the risk would be mitigated by disbursements from the other project.

3.2.3. Poland

In Poland, the absorption rate of Cohesion Policy funds was 99.4%, as of the end of 2023, and well above the EU average (90.4%). The interviews highlighted **absorption obstacles** related to the complexities of EU rules and uncertainty regarding their application (OP Śląskie Voivodeship ERDF/ESF). For example, a poor alignment between the national and EU procurement legislation caused uncertainty in 2014-2020, while a further cause of doubt in 2021-2027 is the application of the DNSH principle. In general, especially in relation to large infrastructural investments, the very complex and prolonged public procurement procedures are a considerable delaying factor (OP Infrastructure and Environment ERDF/CF). The specific EU provisions on eligibility of certain categories of aids are also considered difficult to apply or inadequate (e.g. monitoring and claw-back mechanisms[37] in investment aid for research infrastructures, Art. 26 of Reg. No 651/2014, or eligibility of costs for the modernisation of buildings' heating) and limit the absorption capacity of beneficiaries. The significant increase in costs in the construction sector, partly due to the influx of investments/market saturation and partly due to external factors, such as the consequences of the war in Ukraine, are also notable obstacles.

Poland: OPs covered in the analysis

OP Infrastructure and Environment (ERDF/CF) 2014-2020

Budget: total EUR 33 billion; EU contribution 28.1 billion

Objectives: support the shift of Poland towards a more competitive and low-carbon economy that makes efficient use of natural resources, favours low power consumption and results in a significant reduction of CO_2 emissions; invest in more sustainable transport and energy networks; provide environmental protection; climate adaptation and mitigation; health and culture.

OP Śląskie Voivodeship (ERDF/ESF) 2014-2020

Budget: total EUR 4,143.7 million; EU contribution 3,529.7 million

Objectives: increase the competitiveness of the region, ensuring in parallel the improvement of the living conditions of its inhabitants. All 2014-20 thematic objectives were supported with a focus on research and innovation, SMEs, a shift to a low-carbon economy, energy efficiency, and transport infrastructure. The ESF focused mostly on employment, workers' mobility, and the adaptability of enterprises to change.

The **solutions adopted** in Poland to address implementation obstacles include legislative initiatives undertaken to stimulate behavioural change and the uptake of funds in some policy areas, such as environment and energy, where absorption experiences more difficulties (e.g. specific initiatives taken to encourage the replacement of fuel-based heat sources in public buildings and households); carrying out an assessment of the readiness of various beneficiaries to propose projects (absorptive potential), to have a pool of projects ready to be financed; using a phasing mechanism for major infrastructural projects (e.g. rail infrastructure); strengthening the capacity of contracting departments (e.g. temporarily moving some experienced employees from implementation or controlling departments to contracting); and enhancing digitalisation of the application, selection, and contracting processes.

[37] This mechanism is applied to public R&D labs, renting their capacities to private entities, and results in monitoring the public aid ratio within the very long period of depreciation of fixed assets (as long as 40 years). It poses the threat of returning the funds over the long term. The mechanism limited the absorption of Investment Priority 1b (promoting business investment in R&I) in Poland. Despite interventions and efforts to address these issues, the claw-back mechanism remains unchanged for the 2021-2027 perspective.

3.2.4. Bulgaria

In Bulgaria, the absorption rate of Cohesion Policy funds was 89.2%, as of the end of 2023. Significant **absorption obstacles** are encountered in large infrastructure projects, which require a longer time to prepare technical documentation, procurement, execution, and final approval. For example, the delay in implementing railway projects influences the overall absorption rate of the programmes (OP Transport ERDF/CF). A problem affecting public works is related to archaeological findings, which block investment projects immediately, and sometimes it may take a year or more to continue. Another cause of delay is related to the fact that some projects start only with a pre-feasibility-study, but need to be changed significantly during the technical design-phase. Fragmentation of projects is also an obstacle, as it creates a management burden. The difficulty of using some initiatives, such as CARE, in investment programmes with totally different objectives (e.g. infrastructure development), is a further limit. The frequent change of national rules is also considered a cause of delay and uncertainty (e.g. the Public Procurement Act was changed and amended several times, as was the Spatial Development Act). Furthermore, a complex appeals procedure in procurement poses a significant obstacle. Issues related to administrative capacity include delays in evaluating project proposals, which negatively influence project implementation, and, in general, red tape and gold plating. Other obstacles have an external origin. For example, after the pandemic and the war in Ukraine, MAs had to face global changes in prices and supply conditions (OP Environment (ERDF/CF)).

Bulgaria: OPs covered in the analysis

OP Transport and Transport infrastructure (ERDF/CF) 2014-2020

Budget: total EUR 1,763.5 million; EU contribution 1,520.8 million

Objectives: develop the Trans European Network for Transport (TEN-T) in Bulgaria; make transport safer and more sustainable; stimulate the Bulgarian economy with the construction of new infrastructure; better transport connections for creating new business opportunities and lowering the costs of transporting goods.

OP Environment (ERDF/CF) 2014-2020

Budget: total EUR 1,668.5 million; EU contribution 1,440 million

Objectives: support the preservation and protection of the environment, climate change adaptation, and risk prevention and management. The OP is structured in five priority axes (in addition to technical assistance): water, waste, Natura 2000 and biodiversity, flood protection and landslide prevention, and air quality.

Several **solutions** have been taken to address implementation obstacles. These include investing in training; promoting digitalisation in various phases of the project cycle, including in reporting; improving selection of operations thanks to sound intervention logic and appropriate needs analysis; introducing specific norms believed to motivate the structures dealing with EU funds to apply a more efficient and effective approach to work (e.g. deadlines for the execution of tasks in the context of project cycle management – duration of evaluation, period for execution of checks, etc.); and "phasing" of investments to streamline implementation.

3.2.5. Croatia

In Croatia, the absorption rate of Cohesion Policy funds was 87.7%, as of the end of 2023. The **absorption obstacles** highlighted during the interviews mostly relate to the national context and administrative capacity (e.g. OP Efficient Human Resources ESF). Project preparation procedures are very long, as solving property issues and obtaining permits are necessary. Complaints are also a significant source of delays. There is a clear need to strengthen the capacity of technical bodies in relation to project planning (e.g. the capacity to identify a stock of projects ready to be financed). Furthermore, during the implementation, numerous errors and irregularities occurred because of the incorrect application of public procurement rules by beneficiaries. At the root of the problems is an insufficient number of public employees, which did not grow in parallel with the increase in available funds, a lack of a systematic training strategy, and a complex operating structure, which includes a central coordinating body (the Ministry of Regional Development and EU Funds, which is also MA), the MAs, and two levels of IBs. The first level IBs (e.g. the Ministry of Labour, the Ministry of Entrepreneurship and Crafts, the Ministry of Science, Education and Sports, the Ministry of Economy) perform delegated functions related to the selection of projects. The second level IBs check if the financed products and services have been delivered and if the expenditures declared have actually been incurred and comply with national and EU rules.

Croatia: OPs covered in the analysis

OP Efficient Human Resources (ESF/YEI) 2014-2020

Budget: total EUR 2,418.9 million; EU contribution 2,151 million

Objectives: access to sustainable and quality employment for job-seekers and inactive persons (e.g. NEET); adequate match between the skills of the workforce and the labour market needs; high-quality social services, adapted to specific needs, to tackle the high risk of poverty and social exclusion; support the national reform of the public administration.

OP Competitiveness and Cohesion (ERDF/CF) 2014-2020

Budget: total EUR 8,161.6 million; EU contribution 6,963.8 million

Objectives: economic competitiveness by building up scientific excellence, encouraging R&D, innovation, and diffusion of next-generation broadband; compliance with EU Directives in the waste and water sectors; promoting energy efficiency and renewable energy; biodiversity and ecosystems; connectivity to trans-European networks; sustainable urban development.

A number of **solutions** have been introduced in Croatia to address the implementation obstacles. These include organising task forces to reduce the number of irregularities (e.g. the MA of the OP Competitiveness and Cohesion ERDF/CF organised three "task forces": a network of coordinators in public procurement, a network of coordinators in state aid, and a management network aimed at standardising practices and ensuring better and more efficient procedures); Issuing guidelines and instructions to ensure more transparent management and control systems for managing irregularities[38]; strengthening capacity through training and vouchers for acquiring support services; enhancing digitalisation and using SCOs; implementing wide-reaching information campaigns and Q&A services.

3.2.6. Spain

In Spain, the absorption rate of Cohesion Policy funds was 73.7%, as of the end of 2023. A key **obstacle** was the late approval of the OPs, a problem that concerned not only Spain but several MS, and the late

[38] Available online at the following address: https://struktrunifondovi.hr

appointment of the IBs. The adoption of all programmes was more than one year late, while an independent audit body's validation of the authority designation took longer than expected, delaying the appointment of IBs. Another significant shortcoming lies in the delays in intervention planning, the publication of calls, the selection of operations, and the awarding of tenders. Lack of or insufficient human resources are also obstacles to effective and efficient fund management. Furthermore, there are difficulties in the communication and coordination between the stakeholders involved in the implementation (e.g. management centres and organisations executing the actions, regional and local administrations) regarding establishing the requirements and procedures to be followed. Initially, applying SCOs was challenging for certain OPs, as it required interpretation of the regulation and modification of previously used procedures. Moreover, the changes in the regulatory framework for public procurement have created uncertainties. For instance, the introduction of the new Contracts Law (Law 9/2017 on Public Sector Contracts) and the Budgetary Management Procedure for Public Expenditure (regulated by Order of 6 April 2018) have adversely affected internal procedures. Additionally, within the EU legal framework, the high complexity of administrative processes required for fund management, coupled with uncertainty surrounding regulations and their application, has a detrimental impact on implementation. Strict control, verification, and audit requirements impact the time and resources required for administrative procedures, which are sometimes affected by inconsistent criteria on the eligibility of expenditures or their accreditation. These elements increase the risk of decommitment and reimbursement of funds and discourage potential targets from participating.

Spain: OPs covered in the analysis

OP Andalucía (ERDF) 2014-2020

Budget: total EUR 5,298.7 million; EU contribution 4,540.1 million.

Objectives: promote R&D and innovation; SME competitiveness and diversification of business activities; more efficient and respectful use of natural resources; reduction of carbon emissions; preserve biodiversity; support social housing, education, infrastructure and ICT capacity.

OP Castilla y León (ESF) 2014-2020

Budget: total EUR 273.9 million; EU contribution 185.9 million.

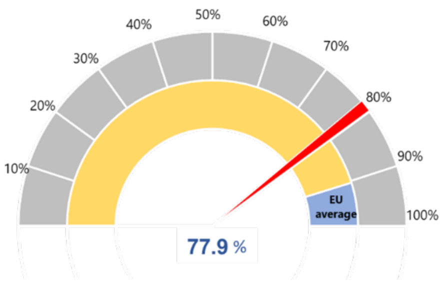
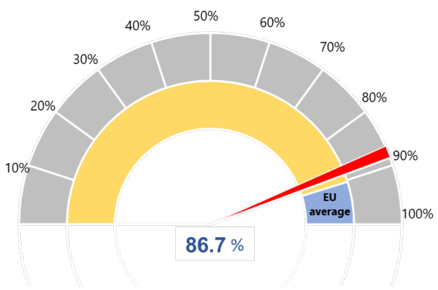
Objectives: facilitate the transition of unemployed people into the labour market; contribute to activation, improved employability or the personal situation of very disadvantaged job seekers at risk of poverty and exclusion; raise the level and relevance of the skills of the workforce.

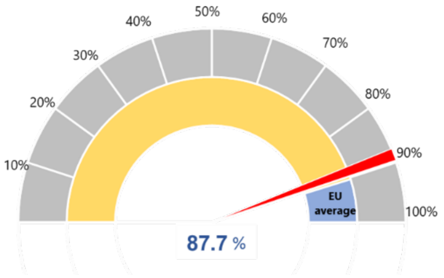
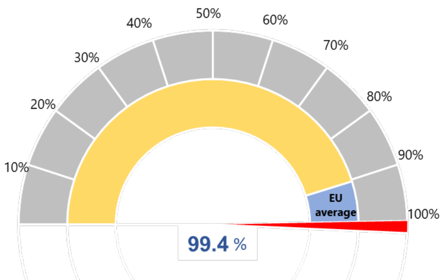
The **measures taken to enhance absorption** in Spain include: increasing the OPs co-financing rate and reallocating the budget among OPs; implementing enhanced digitalisation, such as developing a new module to streamline the processing of funding requests; strengthening the administration's human resource base, including hiring more technical staff and appointing interim civil servants; intensifying the dissemination of information about funding opportunities through various communication channels; utilising SCOs for certifying all expenses, as with the ESF in Castilla y León; and hiring interim personnel to bolster administrative capacity, as seen in ERDF OP Andalusia.

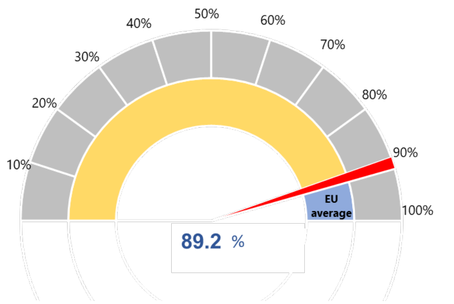
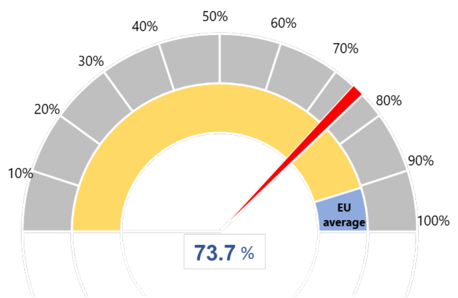
3.3. Summary table with examples of absorption obstacles and solutions

The following table summarises the main obstacles to Cohesion Policy fund absorption, as well as examples of solutions taken to improve implementation and absorption of funds in each Member State covered in the case studies and related to the OPs that were sampled.

Table 1: Absorption obstacles and solutions adopted in the OPs covered by the case studies

Absorption rates of 2014-2020 Cohesion Policy funds	**Key obstacles to absorption**	**Examples of solutions**
Italy – absorption rate (end of 2023) 	• Significant effort required and challenges encountered in reprogramming. • Crowding out effects in some policy areas: initiatives launched to mitigate the crisis have reduced demand for Cohesion Policy funds. • Uncertainties due to the poor alignment between EU and national legislation in procurement law; in relation to 2021-2027, the application of DNSH and climate proofing is a source of further uncertainty. • The complexity of EU rules, e.g. competition rules, may penalise support for some types of firms, such as mid-caps. • Implementation problems with infrastructure and public work projects. • Economic/financial and administrative capacity of local administrations.	• Strengthen capacity for planning, managing, and reprogramming. • Simplification of measures. • Digitalisation. • Constant dialogue with beneficiaries and provision of support to them. • Consultation and coordination with social parties to plan relevant tenders. • Internal reorganisation of offices aimed at increasing efficiency and coordination. • Enhanced cooperation with local public agencies. • Limited political interference: the strategy remains valid throughout the programming period.
Malta – absorption rate (end of 2023) 	• Limited capacity in terms of staff numbers and skills, given the size of the labour market. • Rigidity of EU rules and practices that do not take fully into account the contexts (e.g. a limited number of beneficiaries makes direct awards more appropriate than calls). • Bias towards grants, while financial instruments would need different eligibility rules and audit processes. • Limited adaptation of EU rules to global changes. For example, ICT investments tend to be based on a subscription-based model rather than capital investments, which deserve adapted eligibility rules. • Delays in the adoption of GBER amendments caused delays in the launch of grant schemes. • Difficulty in introducing simplifications (e.g. difficult to apply SCOs in the context of state aid rules).	• Training programmes aimed at strengthening capacity. • Front-loading: tenders are published with a payment schedule that includes a pre-financing payment supported by a pre-financing bank guarantee provided by the winning bidder. • Overcommitment: selection of multiple projects with a capped amount.

Absorption rates of 2014-2020 Cohesion Policy funds	Key obstacles to absorption	Examples of solutions
Croatia – absorption rate (end of 2023) 	• Limits in administrative capacity, especially in relation to project planning (e.g. limits of MAs in identifying a stock of projects ready to be financed or in respecting the planned timetable concerning the launch of the calls, with a delay of usually 3-4 months). • Excessively lengthy project preparation procedures are often caused by uncertainties in laws and a cumbersome bureaucracy. This can include issues like unresolved land registry problems, resource shortages, and lengthy processes to obtain permits. • Errors and irregularities due to incorrect application of public procurement rules. • Lack of capacity among beneficiaries in relation to proposing quality projects for funding. It concerns especially larger infrastructural projects, which undergo many revisions before acceptance. • Frequent and numerous complaints delay implementation. • Uncertainties due to significant changes required by the public authorities at the contract stage compared to the tender documentation. This may lead to significant implementation delays. • Long periods of verification of the eligibility status (e.g. NEET population 'Not in Employment or Training', SMEs, absence of state aid, etc.) due to still lacking fully integrated national registers.	• Set up of "task forces" by the MA to reduce the number of irregularities: a network of coordinators in the field of public procurement, a network of coordinators in the field of state aid, and a management network aimed at standardising practices and ensuring better and more efficient procedures. • Provision of guidelines/instructions for the management of irregularities, coupled with availability of trainings on contract implementation and management. • Advancements in digitalisation. A significant upgrade was introduced to improve the reporting system (but further improvements, especially in relation to interoperability are needed). • Increase capacity by supporting the development of digital competences and the acquisition of support services through vouchers. • Increased used of "simplified cost options". This is especially relevant in the calls with many contracts, such as calls for SMEs or calls under the ESF. • Wide-reaching info-campaigns and extensive Q&A processes.
Poland – absorption rate (end of 2023) 	• Uncertainties arise from the lack of harmonisation between EU and national procurement legislation. In the context of 2021-2027, applying DNSH and climate-proofing adds a layer of uncertainty. • Problematic or too slowly developed methodologies for calculating eligible costs by EC, e.g. monitoring and claw-back mechanisms in investment aid for research infrastructures (Art. 26 of Reg. No 651/2014) or eligibility of costs for the modernisation of heating systems in buildings. • Significant increase in construction producer price and construction cost indices (partly due to the influx of investments/market saturation and partly to external factors). • Very complex and prolonged public procurement procedures, especially for the most significant infrastructural investments.	• Tailoring national legislation to complement EU implementation rules or stimulating required behaviours or changes, especially in the environment and energy sectors. • Accelerating the contracting of projects by strengthening capacity and digitalisation. • Phasing of major projects (splitting implementation between two periods). • Having a pool of projects ready to be financed. • Simplification of measures during COVID-19.

Absorption rates of 2014-2020 Cohesion Policy funds	**Key obstacles to absorption**	**Examples of solutions**
	• Increasing complexity of regulating conflicts of interest is putting some pressure on implementation systems.	
Bulgaria – absorption rate (end of 2023) 	• Delays in large infrastructure projects require longer preparation, procurement, execution, and final approval. This is sometimes aggravated by archaeological findings that block public works. • Fragmentation of projects creates more management burden. • Difficulty of using some initiatives, such as CARE, in the context of investment programmes. • Internal political instability hindered the functioning of the National Assembly (e.g. difficulties in adopting legislative changes and strategic decisions). • Frequent change of national rules (e.g. Spatial Development Act: more than 70 changes after its adoption). • Administrative capacity issues such as improper application of the Procurements Law, which may lead to financial corrections, delays in the evaluation of project proposals, and a cumbersome appeals procedure in procurement. • Global changes in prices and supply conditions.	• Investing in staff training. • Digitalisation is promoted in most of the phases of the project cycle (e.g. information campaigns, application, reporting). • Effective selection of operations thanks to sound intervention logic and appropriate needs analysis. • Specific norms aimed at regulating the work of MAs and intended to motivate them. • "Phasing" projects across programming periods saves time and reduces the risk of appeals and unforeseen work. This is because the procurement process covers the entire project, even though two separate programmes finance it.
Spain – absorption rate (end of 2023) 	• Late approval of the OPs and appointment of the Intermediate Bodies. • Delays in the intervention planning, the publication of calls, and the operation selection. • Lack of or insufficient human resources. • Difficulties in communication and coordination between the stakeholders involved in the implementation. • Challenging application of simplified cost options. • Changes in the regulatory framework for public procurement have created uncertainties. • In relation to the EU legal framework, the high complexity of the administrative processes necessary for the management of the funds and the uncertainty surrounding the regulations and their application. • Strict control, verification, and audit requirements; inconsistent criteria on the eligibility of expenditure.	• Change in the co-financing rate. • Enhanced digitalisation (e.g. a new module developed to improve the processing of funding requests). • Strengthening of the human resource base in the administrations (e.g. more technical staff, appointment of interim civil servants). • Reinforced dissemination of information on funding opportunities through different channels of communication. • Use of simplified cost options for costs' certification (ESF Castilla y León). • Hiring of interim personnel (ERDF-Andalusia).

Note: In the speedometers, the red needles indicate visually the absorption rate of different countries.

4. CONCLUSIONS AND RECOMMENDATIONS

KEY FINDINGS

- The absorption trends described in this study (i.e. slow start in the first years of programming and then acceleration near the end of the period) mainly depend on the rules of Cohesion Policy and on the capacity of authorities and beneficiaries to adapt to the changes and novelties of each programming cycle.
- Overturning the ordinary absorption patterns that can be observed in the 2021-2027 and in the previous programming periods could require adopting an approach different from that of the EU Cohesion Policy. But, while the potential benefits of embracing a different model (e.g. an RRF-like approach or another) are uncertain, there are clear disadvantages to abandoning the current Cohesion Policy framework (e.g. reduced role of territories, less funds for lagging behind regions, risk of eroding consensus towards EU institutions).
- On the other hand, Cohesion Policy can be strengthened, for example, by combining performance-based methodologies with the territorial dimension and by removing or mitigating absorption obstacles, such as those identified in the present study, which is a viable strategy to ensure that the policy delivers according to expectations and intended intervention logics.
- At the EU level, it is essential to reduce the complexity of rules, be more attentive to the specificities of the national contexts and avoid one-size-fits-all approaches, minimise uncertainties and provide timely and clear guidelines on the application of key principles and eligibility rules, and support administrative capacity building in MS.
- At the national (or regional) level, it is important to strengthen their administrative capacity, take full advantage of digitalisation, improve the effectiveness and efficiency of selection procedures and delivery modes, reinforce coordination between stakeholders, and support the capacity of beneficiaries.

The absorption of Cohesion Policy funds follows a known trend, starting slowly in the first years of programming and then accelerating near the end of the programming period. This pattern concerns most of the EU Member States, despite significant variations across countries. It also concerns all the programming periods considered in the analysis. Moreover, delays tend to accumulate over time, and absorption during 2014-2020 was slower than in 2007-2013. The initial information available for 2021-2027 confirms that delays continue to accumulate (see Chapter 1 of this study for detailed information on these trends). However, it can be claimed, based on monitoring data and interviews with authorities, that such delays do not usually translate into significant decommitments or losses of resources because most administrations are able to find solutions to avoid losing funds. Nonetheless, spending delays can still be considered an issue insofar as they may weaken the relevance of programmes and jeopardise intervention strategies.

These trends in absorption, based on the evidence provided by the existing literature and the findings of the case studies conducted in this study, mainly depend on the rules of Cohesion Policy and on the capacity of MS or specific authorities to abide by and adapt to changes and novelties introduced at the beginning of each programming cycle as well as during the implementation of a programming period as a consequence of a crisis.

Therefore, the delays in implementation and absorption tend to be more significant where there are unfavourable conditions, e.g. in terms of administrative capacity, low effectiveness and efficiency of delivery modes, and a weaker socio-economic context, which may make it more challenging to adjust to the EU rules and changes introduced at the EU level.

Overturning the ordinary absorption patterns observed in the 2014-2020 and the previous programming periods may involve the adoption of an approach different from that of the EU Cohesion Policy. This may necessitate a heightened emphasis on a select set of key priorities, initiatives, or eligible expenditures and could imply, for instance, a reduced role of territories as observed in the case of the RRF, which, however, has different objectives and, in any case, has not yet proven to be completely free from constraints and delays (European Commission, 2024a and 2024b)[39]. Moreover, assessing the RRF's European added value and transformational potential is difficult, considering that there are significant limits in the RRF monitoring framework (ECA, 2023b)[40]. Therefore, while the potential benefits of replacing a typical Cohesion Policy approach with a different model (e.g. an RRF-like approach or another) are uncertain, some disadvantages are clear. Indeed, abandoning the Cohesion Policy or downsizing its role could be done only at the price of giving up on the participation of territories, scaling down the partnership approach to programming, and/or cutting back on the funds made available for addressing specific issues or communities. Opting for such an approach may exacerbate the lack of consensus towards EU institutions and contribute to a perception of increasing detachment from citizens.

Certainly, it is possible to think about combining performance-based methodologies with the territorial dimension (European Commission, 2024c)[41], by designing a tailored approach that differs from that applied under the RRF. This involves strengthening governance and participation at different levels and with different actors. Engaging with stakeholders below the national level is crucial for identifying the needs and actions that suit each territory. Such a comprehensive approach can promote commitment and improve capacity-building.

In addition to reforming or updating the policy, what could be done is to remove or mitigate implementation and absorption obstacles such as those identified in the present study. Some obstacles are linked to the national context and require national or regional solutions. Other absorption obstacles are linked to the EU regulatory and legal context and require EU-level solutions. Nonetheless, the EU level may intervene not only by removing supranational obstacles (e.g. those related to EU regulations as well as their changes and flexibility) but also by encouraging national and regional authorities to adopt initiatives to improve their respective institutional and administrative contexts. Thus, by roughly distinguishing between those targeting the EU level and those targeting the national level, several recommendations can be proposed.

4.1. EU level recommendations

Based on the carried-out analysis, the recommendations that can be proposed at the EU level include, for example, simplifying the rules and procedures further, tailoring them more to the instrument used, fostering the involvement of MS in policy making and adapting policy to specific needs, reducing

[39] European Commission (2024a), Mid-Term Evaluation of the Recovery and Resilience Facility: Strengthening the EU through ambitious reforms and investments, SWD(2024) 70 final; and European Commission (2024b), Study supporting the mid-term Evaluation of the Recovery and Resilience Facility, Final Report Prepared by ECORYS, CEPS, CSIL, NIESR, and Wavestone.

[40] ECA Special report 26/2023, "The Recovery and Resilience Facility's performance monitoring framework – Measuring implementation progress but not sufficient to capture performance".

[41] European Commission (2024c), Forging a Sustainable Future Together: Cohesion for a Competitive and Inclusive Europe, Report of the High-Level Group on The Future of Cohesion Policy.

uncertainties regarding the application of key principles and eligibility, minimising crowding out effects between policies, promoting mutual learning, and the exchange of good practices.

- **Simplifying the rules** as much as possible is a must. Excessive complexity makes it more difficult for national-level policymakers to adapt and abide by, and for beneficiaries to access funding. An example of unnecessary complexity is provided by the fund-specific regulations, which could be further aligned. Indeed, the ERDF, JTF, and RRF can fund almost the same operations but have different implementation rules. The need for simplification was stressed by nearly all interviewees, especially in the context of public procurement rules and procedures. In Italy, the example made was about competition law, which tends to harm mid-caps, while in Poland, an example of bad alignment between the national and EU procurement laws was mentioned, which caused confusion in 2014-2020. The uncertainty in the eligibility of some types of investment aids for research and energy efficiency and the implementation of the DNSH principle were also mentioned as sources of uncertainty in 2021-2027. In Spain, the high complexity of administrative processes needed for fund management, along with the uncertainty about regulations and their application, has a negative impact on implementation. Strict control, verification, and audit requirements affect the time and resources needed for administrative procedures, which are sometimes affected by inconsistent criteria on the eligibility of expenditures. Sometimes, complexity can be attributed to the national context. For instance, a complex appeals procedure in public procurement is considered an obstacle in Bulgaria.
- A combination of targeted reforms and streamlined procedures can help address the complexity of EU procedures. **Flexible interpretation and adaptability**, as happened with the COVID-19 pandemic and the war in Ukraine, help to address the possible negative consequences of complexity. This aligns with the ongoing debate about whether Cohesion Policy should include a mechanism permitting its use in emergency situations, or if a separate instrument should be established for such cases. Allowing flexible interpretation and adaptability is not necessarily easy or straightforward, as the EU needs to strike a delicate balance between enforcing discipline and allowing flexibility to adapt to changing economic circumstances and strategic challenges. In addition to simplifying rules and allowing flexibility, it is important to tailor them more to the instrument used. For example, some interviews highlighted that financial instruments should be treated differently from grants, with respect to audit processes.
- It is also important to be more attentive to the **specificities of the national context and avoid one-size-fits-all approaches**, for example, in relation to the choice of selection methods/delivery modes. Indeed, in certain situations, it may be more appropriate to consider direct awards rather than competitive procedures, especially in cases where market size is a factor. Recommending or mandating an exclusive delivery approach could potentially hinder the absorption process. This issue was flagged, for example, in the Maltese case where there is a limited number of beneficiaries, and for this reason, direct awards work better because they allow a direct engagement with them. To ensure a better tailoring of policy to specific needs and foster a sense of ownership of EU policies, it could be beneficial to identify mechanisms to involve Member States in the European Parliament sub-committees and to further promote participation in administrative capacity building initiatives of the European Commission (e.g. REGIO Peer2Peer+ learning scheme and communities of practice, training sessions, and the Competency Framework Tool to help programme authorities identify and address potential gaps). It is worth noting that, despite a big need for simplification, as a matter of fact, EU Cohesion Policy has become increasingly more complex over time. The European Commission

has tried hard to achieve 'simplification', for example by setting up a High-Level Group on Simplification for Post-2020 Cohesion Policy in 2015. However, its recommendations (e.g. consistent horizontal rules across EU funds; fewer, simpler, and shorter rules; real subsidiarity and proportionality with respect to controls and audits, expansion of the single audit principle instead of a multi-layered level of audit to avoid duplications, a stable but flexible framework) have only been partially implemented. The growing complexity of EU Cohesion Policy is a challenge for authorities and beneficiaries. Local and regional officials may prefer to give up on innovative and valuable projects that have more risk for more conventional interventions that fit all eligibility criteria. For beneficiaries, administrative processes make it difficult and lengthy for them to access funds. In some Member States, Cohesion Policy funding is avoided for simpler and less risky national funding.

- Besides **incremental improvements** (such as streamlining administrative procedures, reducing paperwork, more use of simplified cost options, providing more technical support, and greater hands-on assistance for applicants, etc.), the challenge of achieving simplification may also require **systemic changes**, such as making sure that procedures are consistent across EU funds, allowing greater reliance on national rules and greater flexibility for Member States to determine eligibility.
- In any case, **avoiding uncertainties and providing well-timed and clear guidelines** regarding the application of key principles and eligibility is crucial, as was mentioned during most of the interviews. This means that clear, unequivocal, and timely guidance on how to interpret and apply rules should be made available, providing concrete application examples (even sector-specific examples). For example, looking at the DNSH principle and climate proofing, much of the uncertainty could be overcome by the early provision of detailed guidelines.
- The **crowding out effects should also be avoided**. This may happen, for example, when the support provided by the RRF or national policies is very generous and hinders the usage of Cohesion Policy funds, as it was mentioned during the interviews with Italian MAs in relation to the incentives for energy efficiency in buildings in Italy.
- Another important EU-level recommendation, backed by the evidence collected in this study, is to continue supporting Member States by **promoting mutual learning and exchange of good practices**, e.g. in relation to the use of SCOs, selection procedures, and digitalisation of all phases of fund implementation, and by providing various tools (such as guidelines, toolkits, and peer-to-peer events) aimed at improving administrative capacity. In fact, there is valuable knowledge and expertise scattered across EU administrations, and this asset deserves to be exploited rather than dispersed. For example, an easy-to-read comprehensive handbook with best practices on solutions to implementation and absorption problems to guide MAs could be a useful tool that the EU institutions could produce.

4.2. National and regional level recommendations

Following the analysis of this study, several recommendations can be suggested to national and regional policy makers, including strengthening administrative capacity, improving the effectiveness and efficiency of selection procedures and delivery modes, strengthening coordination, ensuring that national and regional legislative initiatives align with EU rules and regulations to avoid uncertainties, and supporting the capacity of beneficiaries.

In general, considering that administrative capacity is one of the strongest predictors of the absorption of funds, action is required at both the EU and the national/regional level. At the EU level, for example, the High-Level Group on the Future of Cohesion Policy suggests[42] making institutional and capacity building integral to Cohesion Policy, putting it on a similar level as investment in infrastructure, human capital, and innovation, as a basic development pillar within the policy. At the national/regional level, on the other hand, there is a significant room for intervention.

The administrative capacity limits are related to inefficient institutional structures, training gaps, low public administration workforce engagement, inadequate practices and procedures for the selection of operations, insufficient digitalisation and an ineffective or too-limited partnership consultation process. Therefore, strengthening administrative capacity through training, recruitment, better planning, and enhanced digitalisation, also in line with the roadmaps for administrative capacity building, is essential. Limited administrative capacity may also produce a low uptake of simplification measures. In 2014-2020, Member States were hesitant to adopt new simplified funding models, such as performance-based models, due to uncertainties regarding their implementation, complexity, and concerns about audit arrangements.

- Strengthening institutions is particularly crucial for regions that are less developed or in danger of getting stuck in a development trap, as underlined by the High-Level Group on the Future of Cohesion Policy. This means **building up the abilities and skills of the whole administrative system**, from Managing Authorities to beneficiaries. More technical assistance should go to non-salary investment in specialist skills for analysis, strategy development, project development, and financial management. It also means improving local government capacity by increasing the skills, resources, and policy capacity of government officials to effectively take part in the development process, including training in data analysis, stakeholder involvement, and coordination with other government levels.
- To help spread the best institutional practices and improve the quality of governance in less developed regions, **mobility initiatives** such as encouraging and rewarding civil servants who participate in the existing 'Erasmus' programme can be very effective.
- The **reinforcement of coordination** between national authorities and between national and regional authorities in regionalised states is also important for smooth implementation and absorption. This is an essential aspect of improving governance. One of the obstacles to effective governance is poor coordination on the ground, within and between regions, and among various European policies. This often stems from a lack of communication among the actors involved in the process, causing inefficiencies. Furthermore, some stakeholders are not always involved, which means that their voice and input are reduced by the problems with stakeholder participation.
- Governance can be strengthened by **supporting participation** (e.g. enhancing stakeholder awareness and engagement through public consultation and inclusive policy dialogue),

[42] European Commission (2024c), Forging a Sustainable Future Together: Cohesion for a Competitive and Inclusive Europe, Report of the High-Level Group on the Future of Cohesion Policy.

platforms (such as local forums or work groups, ensuring that all groups, including those in vulnerable situations, have a say) and vertical coordination (e.g. through a clear distribution of responsibilities, establishing efficient communication channels, committees, joint task forces, working groups, or councils with multilevel representation). It is also important to **ensure that national and regional legislative initiatives align with EU rules and regulations** to avoid uncertainty.

- The solutions and good practices aimed at overcoming absorption obstacles, which were identified in this study during the desk analysis and in the interviews, can be recommended to national and regional-level authorities. These include:
    - **reduction of co-financing rates** (mentioned in the Spanish case), timely **reprogramming** (mentioned in the Italian case);
    - phasing of projects (mentioned in the case of Poland);
    - more **intensive use of digitalisation** (mentioned in nearly all interviews);
    - **improving operation selection processes and practices**;
    - reinforcement of human resources (in Spain, an effort was undertaken to strengthen the human resource base in the administrations with more technical staff and the appointment of interim civil servants);
    - the reorganisation of Cohesion Policy governance by improving **coordination mechanisms**. For example, in Italy, consultation and coordination with social parties to plan relevant tenders and internal reorganisation of offices are aimed at increasing efficiency and coordination;
    - **ad hoc task forces** with personnel from various offices with monitoring and financial reporting skills were set up in Italy, while in Croatia they were set up with the main aim of reducing the number of irregularities (a network of coordinators in the field of public procurement, a network of coordinators in the field of state aid, and a management network aimed at standardising practices and ensuring better and more efficient procedures);
    - **enhanced cooperation with local public agencies** in the management of tenders/projects in some areas is also a possible solution for improving implementation (mentioned in Italy);
    - revisions of domestic legislation, simplification of procurement, strategic plans/projects to support the project pipeline, guidelines and instructions for the management of irregularities (e.g. mentioned in Croatia), information events targeting beneficiaries, strengthened roles of audit authorities, etc. are all valuable examples whose utilisation can be assessed by other administrations.
- An important recommendation for national and regional authorities, which deserves to be stressed, is to undertake all possible initiatives to improve the effectiveness and efficiency of selection procedures and delivery modes, including through digitalisation. An essential step for a smooth selection process is to have a **clear intervention logic and a focused approach** (European Commission 2023a)[43]. To achieve this, the authorities could, for example, involve stakeholders and experts in call preparation and design, learn from previous interventions and review the previous calls to see what worked well and what did not, use a small number of clear and relevant selection criteria (too many criteria make the selection process longer, while unclear criteria make the proposal evaluation phase harder), tailor such criteria so that they

[43] European Commission (2023a), Towards simplification - Analysis of selection of operations: Taking stock of practices in the EU Member States, available at: https://ec.europa.eu/regional_policy/information-sources/publications/reports/2023/selection-of-operations-taking-stock-of-practices-in-the-eu-member-states_en

make it possible to measure how well a project meets the needs of the territory and how likely it is to produce a significant positive impact.

- The attractiveness and efficiency of the European funds may suffer when the selection procedures are too complex and long. To simplify the process for both applicants and authorities, several recommendations can be made. The entire selection process could be digitalised. This allows a smooth and efficient flow of information from the application submission to the contract signing. **Complete digitalisation** can reduce the chance of incorrect or missing information and enhance the transparency of the process. Connecting the submission and evaluation tools with external systems is very important. In fact, linking the tools with other databases and registers (interoperability) could allow users to automatically fill in parts of the application form as well as automate some eligibility checks. Given the high workload that administrations have to deal with during the selection process, it is also important to note that digitalisation helps to increase staff productivity and address possible human resource shortages.
- The **standardisation of the selection process** is very important to achieve simplification and reduce the administrative burden. In fact, standardisation enables process automation, which will notably speed up and ease the entire selection process. Effective complaint management can also be important to avoid delays and problems in the selection process. To be able to proceed with the contracting phase while dealing with the complaints, authorities could consider setting aside a financial buffer or reserve.
- To ensure a smooth implementation and facilitate the absorption of funds, it is equally important, at national/regional level, to **support the capacity of beneficiaries**, particularly those who are less prepared, to implement the European Funds by providing a range of tools, including regular communication, training, and helpdesks. From the call for proposal applications to project closures, this accompanying support should target beneficiaries throughout all the implementation phases. The absorption of Cohesion Policy funds may also be significantly affected by the implementation of large infrastructural investments (e.g. those involved in major projects). Delays in just one major project can significantly affect the absorption rate of a whole programme, and this is a challenge that affects especially the "newer" Member States, which still lack proper project preparation and scheduling capacity, while the EU Cohesion Policy funds represent the majority share of their public investments. Very often, the project approval becomes very lengthy due to flawed feasibility studies, cost-benefit analyses, or a lack of clarity in relation to ownership issues and permits. This, coupled with public procurement problems (e.g. an incomplete understanding of the market conditions and availability of suppliers), can lead to massive delays and even the need for phasing the projects or postponing them to the next programming period. Therefore, **continuous capacity-building support in project preparation as well as the availability of technical assistance** (such as JASPERS[44] or similar instruments) are still needed.

[44] JASPERS, the joint assistance to support projects in European regions was launched in 2005. It is a partnership funded by the European Commission and the European Investment Bank, which advices on strategies and projects that contribute to a greener, more connected, and more innovative Europe.

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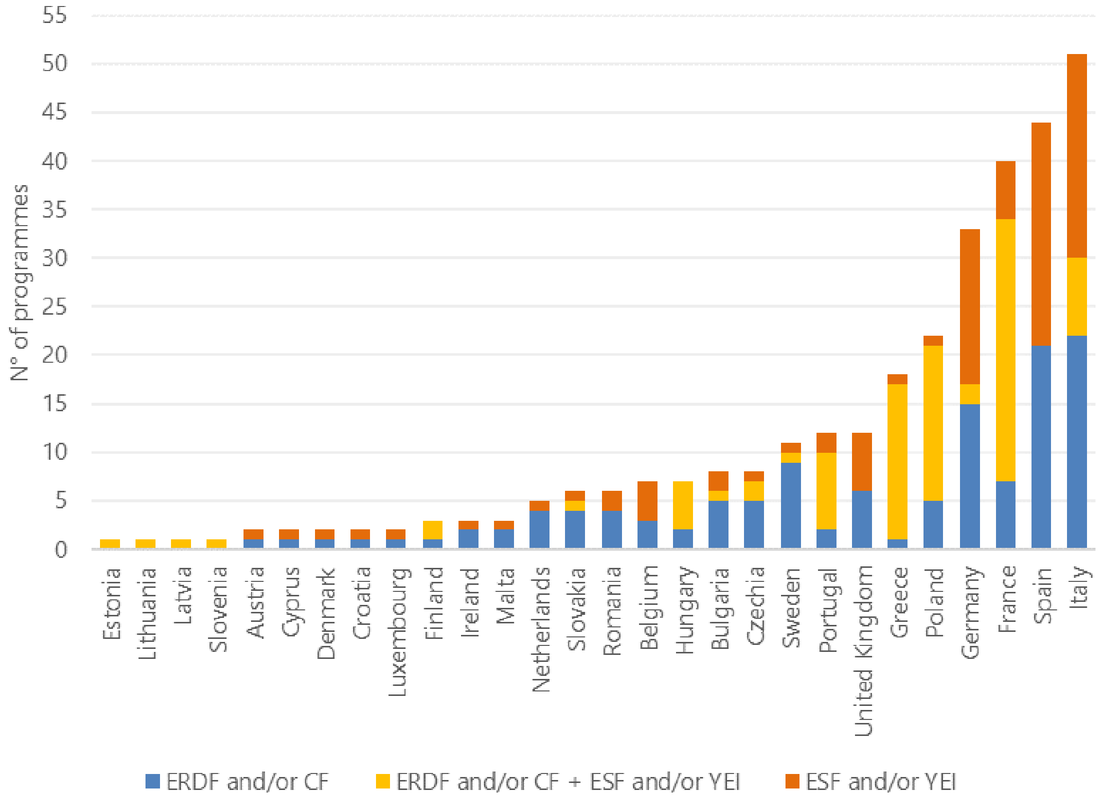
ANNEX: ADDITIONAL INFORMATION AND FIGURES FROM THE ANALYSIS

Scope of the analysis

The analysis covers 389 programmes implemented in the 2014-2020 programming period, out of which 76 are Interreg programmes. Countries with the largest number of programmes are Italy, Spain, France, Germany, Poland, and Greece. All together, these countries account for 208 out of 313 programmes managed by countries and regions, or more than 60% of the total number of programmes. Estonia, Lithuania, Latvia, and Slovenia have only one programme. Multi-fund programmes integrating ERDF and/or CF with ESF and/or YEI are widespread in France, Greece, and Poland (see the following figure).

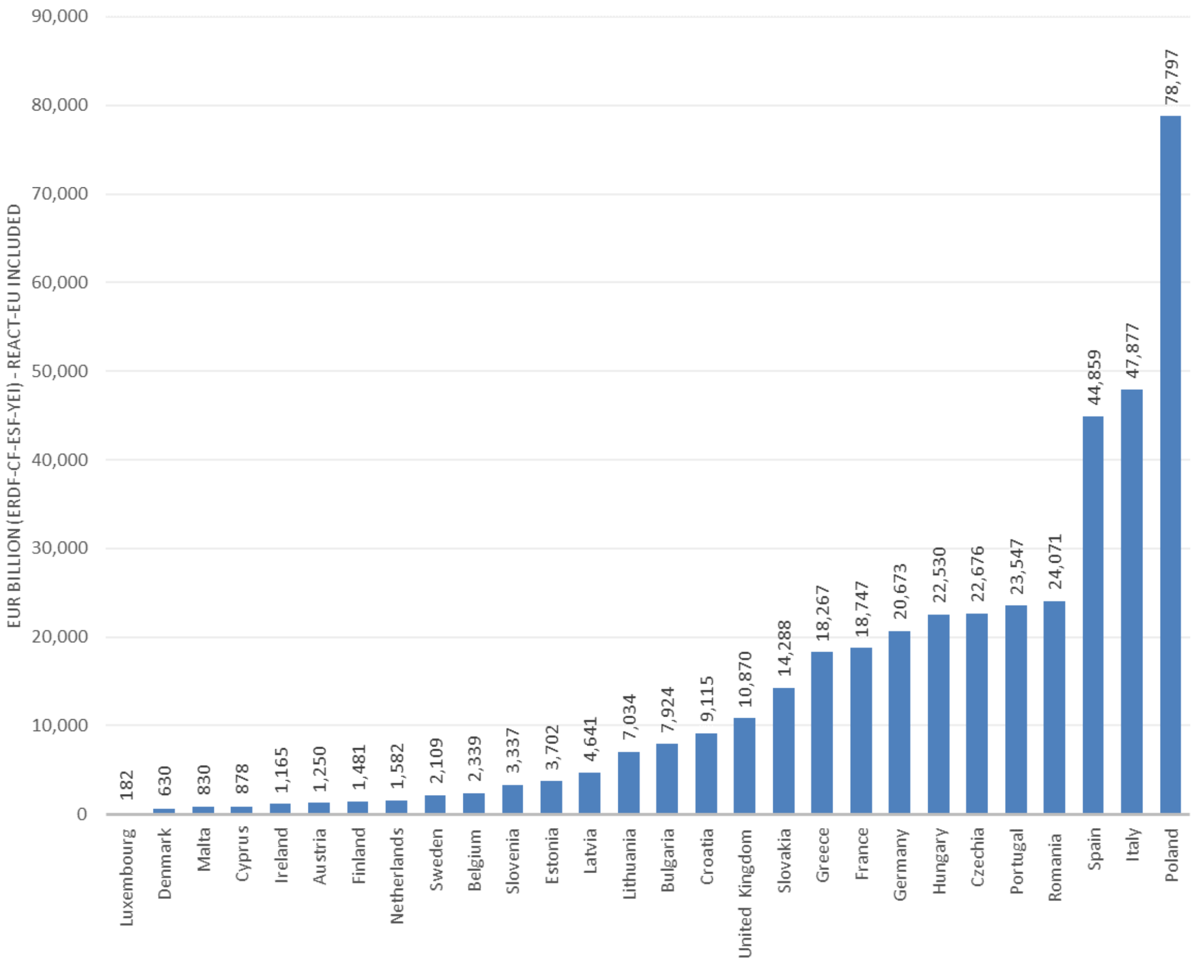
Figure 16: Number of OPs covered in the analysis of payments, by country



Source: Cohesion Open Data Platform

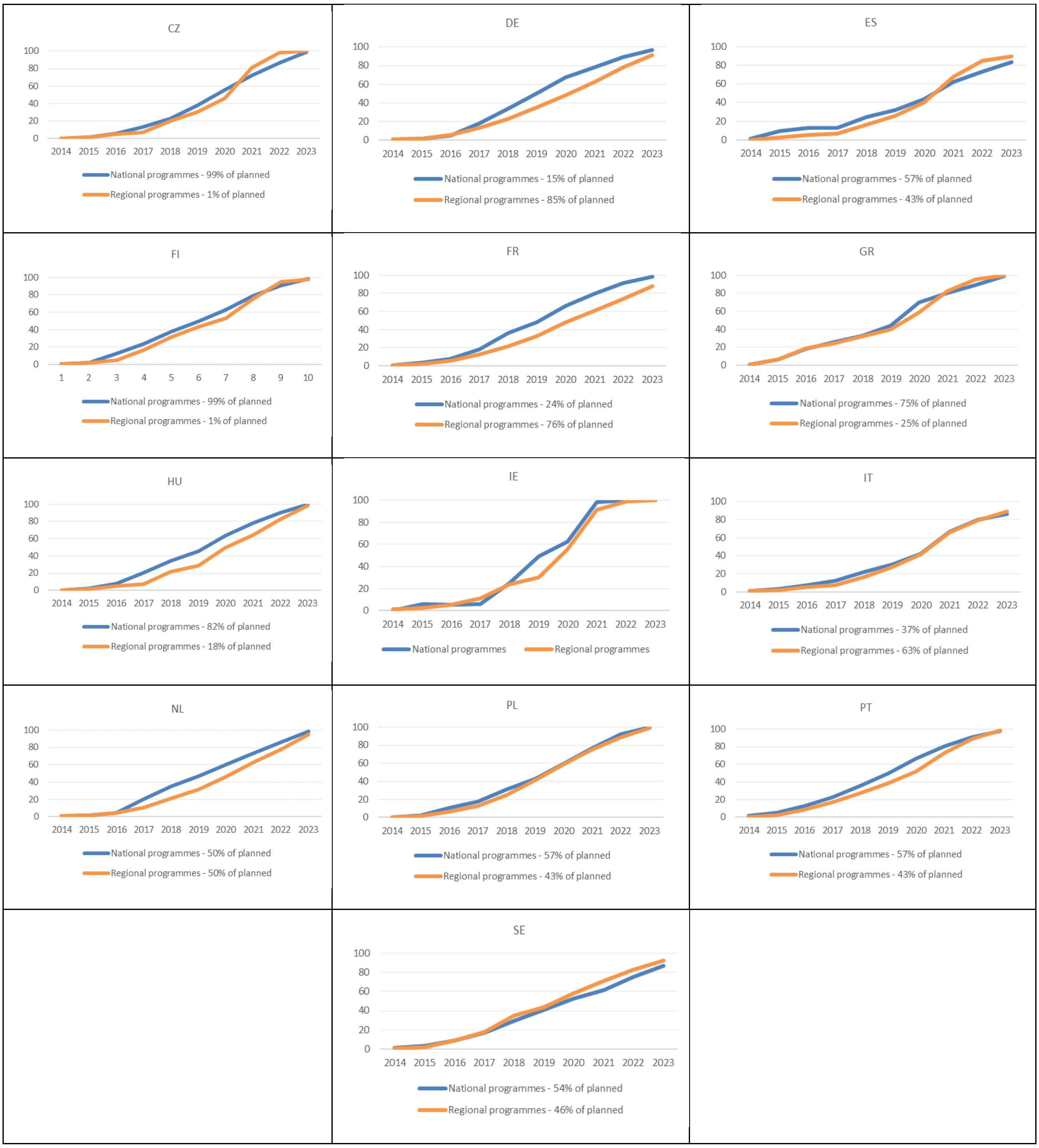
In line with what has emerged regarding the number of programmes, even in terms of financial resources, the countries receiving the greatest amount of funds are Poland, Italy, and Spain, which together account for 42% of total funds. They are followed by Romania, Portugal, Czechia, and Hungary (see the following figure).

Figure 17: Total resources programmed (ERDF, CF, ESF, and YEI), including REACT-EU funds (in EUR billion)



Source: Cohesion Open Data Platform

Figure 18: Absorption rates of Cohesion Policy funds in MS with national and regional OPs



Notes: the percentages shown in each graph's legend indicate the distribution of the total budget across national and regional programmes; REACT-EU funds are not included in the calculation. BE and UK have only regional programmes, while AT, BG, CY, DK, EE, HR, LT, LU, LV, MT, and RO have only national programmes. In the legend, the percentages show the distribution of total budget between national and regional programmes

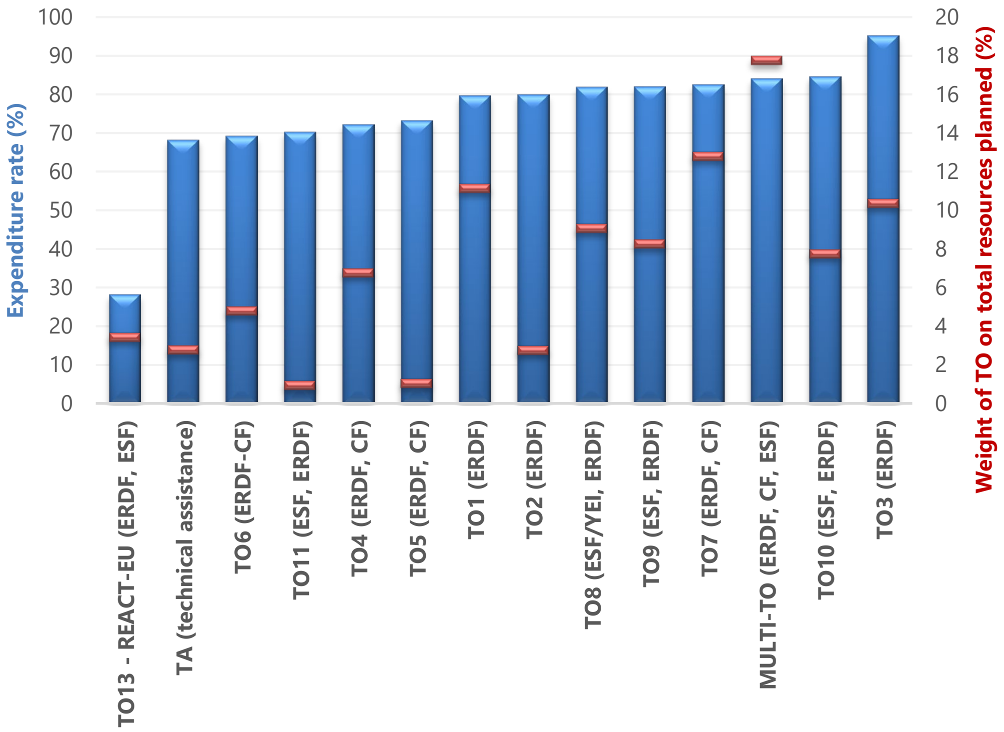
Source: Cohesion Open Data Platform, database on EU Payments

Box 1: Differences across 2014-2020 Thematic Objectives

To compare financial performance across 2014-2020 Thematic Objectives (TOs), the expenditures declared by the beneficiaries can be used, since the Managing Authorities must report these figures in the Annual Implementation Reports, while payments are not available at this level of detail.

Figure 10 shows the expenditure rates by TO, which are available at the end of 2022. The TO3 (Competitiveness of SMEs) has the highest expenditure rates, equal to 95% of the total resources programmed. There are then several TOs with expenditure rates between 80% and 85%, such as the TO10 (Education, mainly financed by ESF and YEI), the TO7 (Transport), the TO8 (Employment, mainly ESF), the TO9 (Social Inclusion, mainly ESF), the TO2 (ICT), the TO1 (Research, technological development and innovation), as well as a Multi TO category. A last group of TOs shows expenditure rates equal to or below 70%. These are the TO5 (Climate change adaptation), the TO4 (Low-carbon economy), the TO11 (Administrative Capacity) and the TO6 (Environment). It is worth noting that infrastructure projects are mainly financed in the context of three TOs out of four in this group (namely TO4, TO5, TO6), which is also true for the TO2 and the TO7 that have a better performance. Therefore, large infrastructural projects cannot be considered the main factor explaining the low rate of expenditures in TO4, TO5, and TO6.

Figure 19: Rate of expenditure across TOs in 2014-2020



Source: Cohesion Open Data Platform, database on Expenditures

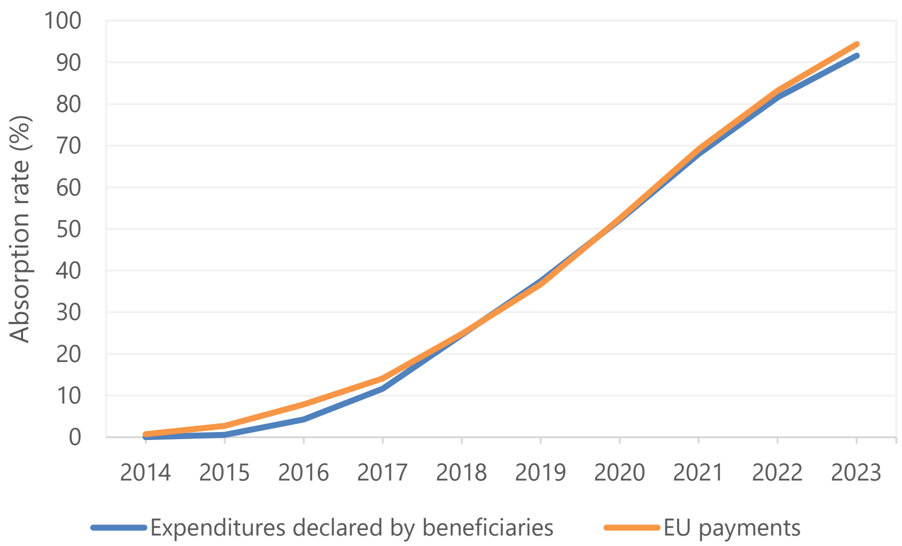
Note: National co-financing is included in the expenditures. Next to the TO name, the funds that finance those TOs are indicated.

Box 2: Alternative measures of absorption: payments vs declared expenditure

In this study, absorption rates are measured on the basis of payments made by the European Commission, in line with the study specifications and the literature (e.g. the ECA definition of absorption). However, as noted above, it is possible to measure Cohesion Policy funds' absorption also based on the expenditures declared by the beneficiaries, which are reported by the Managing Authorities in the annual implementation report and, quarterly, to the European Commission. The Cohesion Open Data Platform also makes this data available, and the absorption rates measured using both indicators (EC payments vs declared expenditures) are compared in the following figure. Data on expenditures was extracted, as were payments, as of the end of 2023.

The graph shows that there are no significant differences between the two absorption indicators, apart from the first years of the programming period. This is due to pre-financing, which makes the payments higher than the expenditures declared, and it is in line, for example, with the evidence provided in the "2020 Summary report of the programme annual implementation reports covering implementation in 2014-2019" (COM(2021) 213 final). It is worth noting, however, that the situation varies considerably across countries. For example, some Member States have a 2023 absorption rate measured through payments lower than expenditures declared (the highest differences, 10 pp or more, are recorded in Malta, France, the Netherlands, and Croatia). In other countries, the absorption rate calculated on the basis of payments is higher than the absorption calculated on the expenditures declared (the largest differences are in Ireland, Luxembourg, Slovakia, and Spain).

Figure 20: EU payments vs expenditure declared by beneficiaries



Note: REACT-EU is not included. National co-financing is included in the expenditures, while EU payments refer only to EU resources.

Source: Cohesion Open Data Platform, database on EU Payments and database on Expenditures

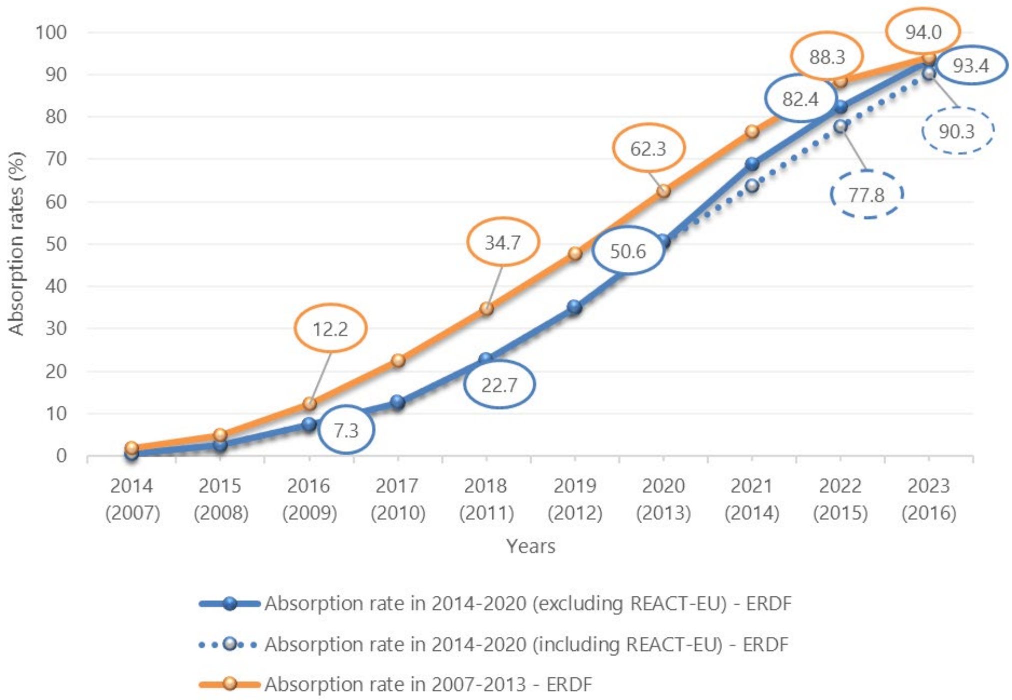
Additional data and figures on comparison between the 2014-2020 and the 2007-2013 programming period

The following figures provide a separate comparison across programming periods for the three funds: ERDF, ESF, and CF.

By the end of 2020, there was a significant disparity in absorption rates between the 2007-2013 and 2014-2020 periods, particularly for ERDF and ESF, with a decrease of -12 pp and -14 pp, respectively, compared to the 2007-2013 rates. In contrast, the absorption rate of CF in 2014-2020 closely resembled that of 2007-2013.

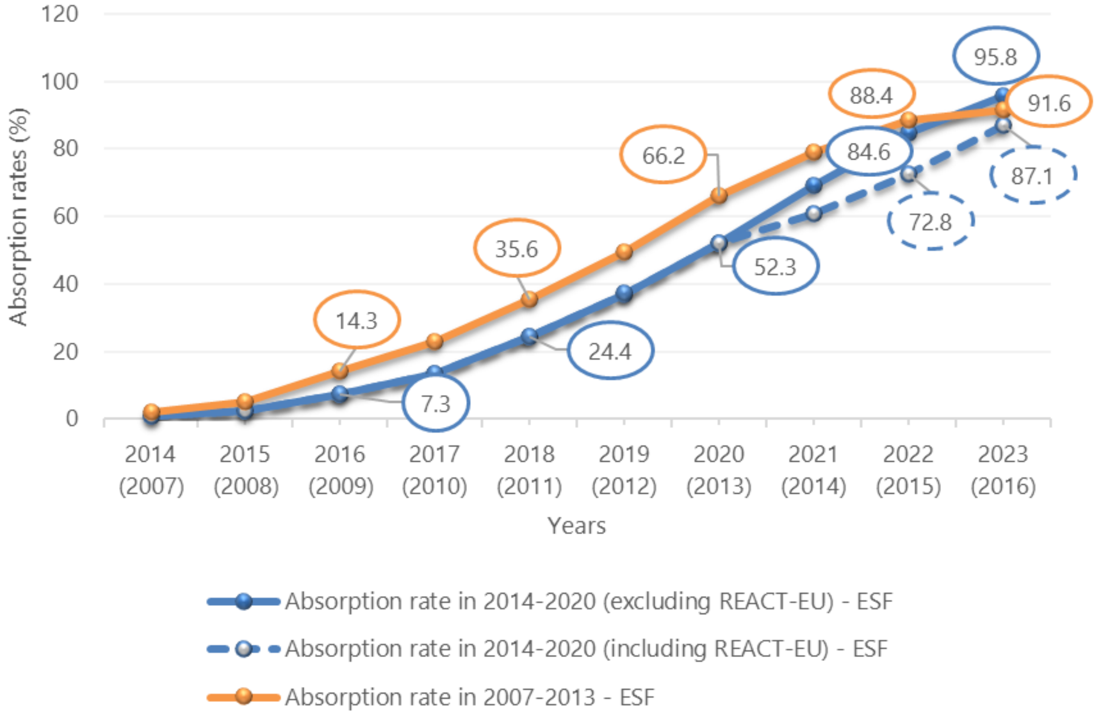
Examining the situation at the end of 2022 and of 2023, it is evident that a convergence process with the previous absorption rates is noticeable for ERDF and ESF if additional funds allocated under REACT-EU are not considered. However, if these additional funds are considered, the gap with the previous programming period (2007-2013) remains similar to what is observed at the end of 2020.

Figure 21: Absorption rate of ERDF in 2007-2013 and 2014-2020



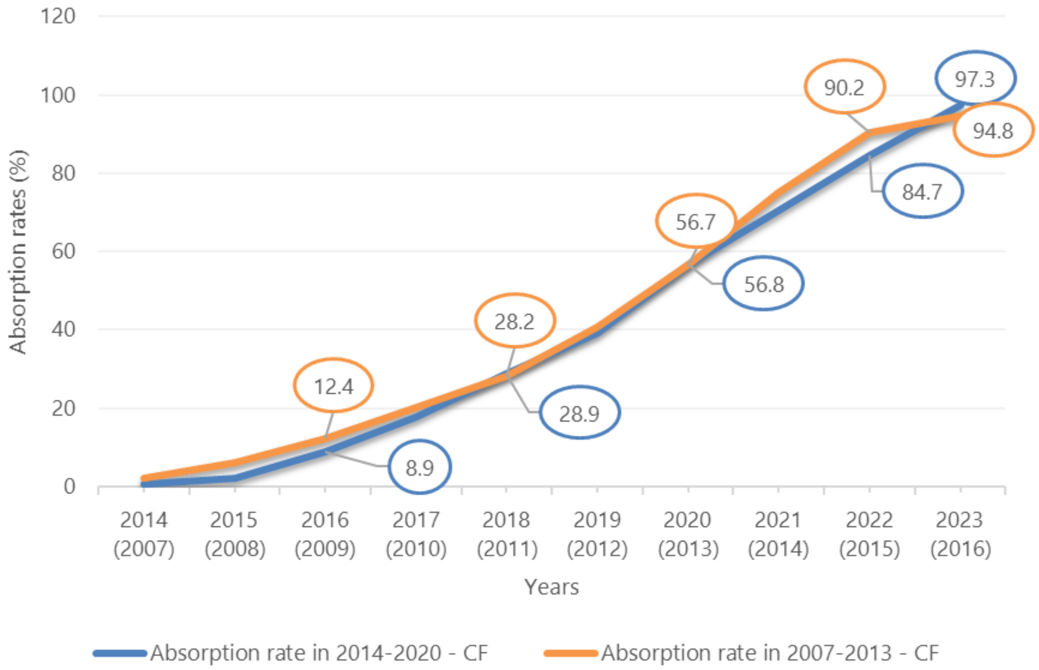
Source: Cohesion Open Data Platform, database on EU Payments for 2014-2020 and for 2007-2013.

Figure 22: Absorption rate of ESF in 2007-2013 and 2014-2020



Source: Cohesion Open Data Platform, database on EU Payments for 2014-2020 and for 2007-2013.
Note: YEI is not included in 2014-2020

Figure 23: Absorption rate of the Cohesion Fund in 2007-2013 and 2014-2020



Source: Cohesion Open Data Platform, database on EU Payments for 2014-2020 and for 2007-2013.

This study analyses the absorption rates of the EU Cohesion Policy funds in 2014-2020 over time across funds (ERDF, ESF, CF, and REACT-EU), and across Member States and regions. It also provides a comparison with 2007-2013 absorption. A summary of absorption drivers, obstacles and undertaken solutions is presented based on the relevant literature and the findings of case studies. Conclusions and recommendations on improving the absorption of funds are set out.

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