



MINISTERIAL MEETING
of the Visegrad Group of countries and Bulgaria, Croatia,
Romania and Slovenia

Cohesion Policy – challenges of the current implementation and future perspective post 2020

ISSUE PAPER

Under Czech Presidency of the Visegrad Group

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Aim of the issue paper and format of the meeting

The Czech Republic, represented by the Ministry for Regional Development, organises, at the end of its presidency of the V₄ group of countries, a meeting of ministers in charge of Cohesion Policy (CP) from V₄ group of countries + Bulgaria, Croatia, Romania and Slovenia. The meeting is to be a follow up to the January meeting of ministers of V₄₊₄ held in Prague and it will take place in Ostrava on 23 June 2016. Representatives of the EU institutions are also invited.

In the Joint Statement adopted in January 2016 in Prague by V₄₊₄ ministers responsible for CP, the ministers reached an agreement about a number of important aspects relating to the common as well as the future format of CP. Besides articles that speak clearly about the need of CP, its preservation and links to the budget, the Joint Statement also contains articles that need to be discussed further and should be looked at in order to find possible alternative solutions for the future – solutions concerning e.g. what the V₄₊₄ countries can do proactively in the area of cohesion and where is room for further or deeper co-operation.

The purpose of the Ostrava meeting will be to discuss issues that will be crucial as regards the setting of the future architecture of CP. The discussion should be set around issues which stir the debates in the EU and put into a context in which CP is or will be debated in the EU – such as the economic crisis, structural challenges, budgeting, migration or others. They are simplification, shared management, Cohesion Policy versus EU budgeting and practical visibility of Cohesion Policy.

During the meeting the discussion will be divided into four blocks in the course of which the ministers and representatives of the EU institutions will be offered the opportunity to respond to the issues presented in this issue paper (approx. 3 to 4 minutes). In the time frame available for thematic discussion ministers need not necessarily answer / present the formal position of the countries or express an opinion to all issues. Thanks to the discussion the parties present should be offered the opportunity to consider the aspects that the beneficiaries of CP wish to preserve / amend / modify, and explain why.

The outcome / result of the meeting will then be a set of conclusions, “ideas” and opinions to the proposed topics which will be shared further in the V₄₊₄ countries and in the EU and developed as a part of preparation for the future programming period.



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1. Simplification

1.1 Starting points for discussion

Incorporating a number of new elements into the ESI Funds (ESIF) in the 2014 – 2020 period brought certain changes in implementation at the level of the Member States (MS) and beneficiaries that had not been yet experienced previously. Although many amendments are positive, they also mean an immense burden for the managing authorities / managing and control bodies and the beneficiaries as well. Simplification has appeared as a must since the very beginning of the 2014 – 2020 Programming Period, also in the context of initiatives of the “new” European Commission (COM) whose political priorities look for an *“EU that is bigger and more ambitious on big things, and smaller and more modest on small things.”*¹. MS and COM started to look for options to interfere less in the lives of the beneficiaries of the ESI Funds and, at the same time, to ensure that the European money is invested efficiently and in keeping with the rules corresponding to the principles of good governance. New instruments of COM that are to seek options for improving regulatory environment or seek possible modifications, include, for example, the Better Regulation Initiative, REFIT or setting up of the High Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of ESI Funds by the COM at the Directorate-General for Regional and Urban Policy.

To start with, simplification means to think about **legislative modifications**, in particular. Legislative environment and the Multiannual Financial Framework that governs the implementation of ESI Funds was already established and contains a number of reform elements. Nevertheless, time is needed before assessing whether these elements have the desired effects. That is why it is necessary to be careful with introducing fundamental legislative amendments / modifications to ESI Funds and it is essential to ask whether or not, and which ones should be appropriate to be introduced. The application of the possible amendments / modifications should not undermine the stability of the environment or general rules, nor should it bring new requirements to beneficiaries or entities of the implementation structure. What is important is also the timing of the potential amendments / modifications – for example in terms of the process of designation, its burden as regards time and administrative requirements is self-evident and even the COM had not been able to take them into account at the beginning. Under certain circumstances legislative amendments / modifications can be useful – and only then they should be adopted / implemented. Adopting the changes at a time when some MS already completed the process of designation and for the others the process is still ongoing would be finally counterproductive.

Legislative amendments also frequently involve phenomena such as **gold-plating**. It is a negative aspect of the environment which is introduced in an environment where the rules are not set in a transparent manner, where “grey” places are, in case there is not clear interpretation of the rules or where the guidance and legal certainty are missing. Through gold-plating MS frequently try to obtain higher legal certainty or want to resolve potential problems, or the gold-plating originates from already applied corrective measures in response to findings from previous audits. It is a negative phenomenon which could be eliminated by common efforts of the MS and COM. In this respect the COM and MS have an equal position and an equally important role. In order to achieve improvements it is necessary to set transparent, coherent and consistent rules, to involve auditors into the development of guidelines from the very beginning of the programming period, to remove

¹ A New Start: European Commission work plan to deliver jobs, growth and investments, 16 December 2014

redundant procedures and processes and to simplify the existing procedures and processes by common effort of the COM, MS and the managing and control bodies.

COM would be able to dramatically simplify the implementation by **harmonisation of the state aid rules between the ESI funds and the EU directly managed programmes and instruments, public procurement rules or by removing inconsistencies in the application of the state aid across various EU policies and financial instruments**. In such a case we might be able to avoid the potential horizontal audit problems in the future.

From the perspective of the MS and beneficiaries it seems that simple aspects such as **unified interpretation of rules and legislation, less controls or wider use of simplified cost options (SCO) or flat rates** might be a key to simplification. Many steps applied at the level of a MS have dramatic impact also on reporting of errors at the level of the EU. For example the errors rate of SCO is reflected in the overall error reporting, via Annual Control Reports of audit bodies, at the level of zero because the COM approves the manner in which these expenditures are to be calculated in advance. In addition to reduction in administrative burden the impacts are also factual and positive for the functioning of the EU budget. However, certain aspects still need to be improved: the deadlines for the approval of Delegated Acts of the SCO are long (at least 4 months) or in spite of agreeing on SCO, they cannot be applied before they had been approved by a delegated act. It would be useful to introduce some assurance which would allow for using them immediately.

There is plenty of other room for improvement which is applicable and desirable in the current Programming Period. For example **the current approach to the system built upon corrections or repressions** is understandable and welcome in a healthy system. However, it must not be deflected one-sidedly because it then results in behavioural changes in the society which brings negative perception of the EU and implementation of CP. In administrative terms, controls and corrective elements along with applied corrections can be very demanding both for the COM as well as for the MS. It is possible to ask whether or not and to what degree the expenditures of repressive actions (administrative as well as financial) are proportionate to the amount of protected money (in particular if an error and not an abuse of the system is involved) and whether the price of the funds acquired in this way does not produce negative PR for the EU or disproportionate exerted efforts. Therefore it is another task for this Programming Period to find a balance between repressions and prevention.

A high-quality system must be built upon awareness of why and how it is established and what is its objective. If it is concerned with quality of the investment, prevention of errors, assistance to beneficiaries, improvement of life of the EU citizens or reduction of differences between development of various EU regions, it should include a system of high-quality **preventive measures**. In order to reduce the error rate or in order to create a stable environment, preventive elements are a basis from which it needs to rebound – their absence is a weakness of the system. The early warning mechanism, preventive audits of the system, collection and analysis of repetitive errors and their removal, involvement of auditors into the methodological environment, sharing of information and transfer of experience have both the potential to lower the overall error rate at the level of the EU and to contribute towards building a more stable environment at the level of the MS. These elements, however, have also certain negative aspects – mostly, they are associated with increased time demands and administrative capacity requirements, in particular during their implementation.

1.2 Questions for debate

- *What is simplification, how to define it? Should the objectives of simplification involve modifications of current technical procedures and processes while preserving the current legislation? When is it still possible to refer to simplification and when we already speak of changing the system?*
- *How should we define "material change" of the legislation and under what conditions should we carry it out?*
- *Do we want to apply fundamental legal changes still in the 2014-2020 Programming Period, or will we go along with the maximum technical simplification of the established processes?*
- *Can we accept simplification which would be beneficial only for beneficiaries (i.e. not leading for factual simplification implementing and control bodies)? Where do we see the role of the MS and where the role of the COM?*

2. Shared management

2.1 Starting points for discussion

Shared management is a long-term concept of application of CP that reinforces the principle of partnership and allows for improving the quality of the MS's administrative capacity. Shared management is about common commitment and responsibility of the EU and the MS which is unique in a way – this accent is missing in other EU policies.

The current system is far from perfect and there is still a lot to improve. Therefore you can find a summary of opportunities and threats of shared management below, which is, by no means, exhaustive, but which can be discussed and developed further by the ministers in charge:

Opportunities	Threats
Common commitment and political ownership at the level of the EU, MS, regions as well as towns and municipalities	Low flexibility and proportionality, challenging accommodation of the system to new elements or changes
Focusing on results and indicators, performance framework, concept with measurable results (mid- and long-term agreed and approved on the basis of a joint agreement)	High level of controls at various levels (question of financial efficiency)
Integration of the system of strategic management at the level of the MS or a region with long-term impact	Failure to ensure a transparent, coherent, consistent, predictable and timely environment
Robust system including control mechanisms	Incomprehensibility of the system
Reduction and removal of differences between the MS and regions at the economic and administrative level	Over-regulation, Gold-plating
Wide range of investments with effect upon the population of the EU, possibility of better targeting of interventions as opposed to directly managed programmes	Favouring corrections and sanctions over prevention

Improving the quality of administrative capacity (public administration, increasing the quality of management, etc.)	Missing debate at political and strategic level concerning the results of cohesion policy and their visibility
System of multi-level management with the maximum role of the MS where work is spread across various administrative levels;	Insufficient visibility of results – insufficient communication of results
Leverage effect for further sectoral policies, application of changes in public policies at the level of the MS (harmonisation of rules, creating unified conditions and unified environment)	
Principle of partnership and involvement of various levels and players (European, national, regional, local, citizens, representatives of businessmen)	

The above table is just an indicative list of possible opportunities and threats of the shared management system without allocating weight to individual items that would allow for distinguishing between more and less important aspects in terms of quality. The same method could be applied for risks or benefits if we focused on EU directly managed programmes and instruments.

Active co-operation with various stakeholders and collecting their good and bad experiences is an important factor for shaping of CP. Experience from the top and from the bottom tends to be an input for reforming CP and shared management but also for other systems and policies – e.g. by harmonisation of rules at national or EU level.

In light of the above it appears that the relevant question to ask in discussion concerning the future of CP is how shared management should be reformed or “modernised” and which components should be reformed so that it could fulfil the expectations of its users and co-authors. Only if needed, a “more radical reform” of the CP should be considered.

The basis is always tangible as well as intangible aspects, such as trust, prevention, financial sustainability of controls and audits, unified audit system, information sharing, focus on results and performance and their visibility, unified and timely guidance and methodological environment and suitable balance when applying the principle of proportionality and flexibility. **Trust** is an essential part of the entire system – given the shared responsibility and commitment it can be considered to be of principal importance. It needs to be developed both horizontally and vertically at all levels and in all entities of the implementation structure.

Prevention has already been considered in the section on simplification. Its vital part is the **audit environment**. The issue of unified shared administration of ESI funds is connected to the shared administration. Commonly, there are situations when one project can be controlled more times or by more entities because the shared management system with responsibility of a MS seems to lead to it.

Another issue of a stable system is **responsibility** for potential faulty findings of an audit authority. The determination of responsibility of auditors and possibility to appeal against the decision in question should be a part of the debate about prevention or about the role of the shared management.

Closely related to the above is **good governance of ESI funds with spill-over effect to**

administrative capacity of the MS and implementation and strategic management of their own national policies. Governance includes a number of elements, such as transfer of experience and know-how taking the form of development of various instruments (fi-compass or peer-to-peer), creating a single database containing various information at the level of the EC (e.g. SCO used in various forms, MS and their programmes, most frequent findings and repetitive errors with subsequent recommendation for their removal, collecting up-to-date methodologies at a single place etc.). Ensuring unified interpretation of rules should be stressed very much; this involves ensuring co-ordination between individual directorates general of the European Commission as well as across individual administrative levels or managing authorities in the MS or, more precisely, other entities engaged in the administration of the ESI funds.

Governance is linked to **administrative capacity** both at the level of the COM and at the level of individual MS (in particular, in the form of experience sharing etc.). If the system is to be efficient it is necessary to pay appropriate attention to administrative capacity and quality of staff across all levels of public administration.

Supplemental elements of governance are **completing of the system of electronic governance, its unification, monitoring** etc. Guidance and methodological environment must be a common work of the COM and the MS; COM, however, has a leading and co-ordinating role. Guidance is a time-consuming activity that requires great experience and during which it is necessary to build upon already applied experience, data and know-how. Various applications collecting relevant information and QaA at one place might be of assistance.

3.2 Questions for debate

- *What are the challenges involved in the shared management and how could this be changed? What is, on the other hand, positive and needs to be preserved? How would you complete the above table, what is essential for you?*
- *Where and how should proportionality of reporting and administration of funds in relation to allocation be applied? Are we willing to accept the principle of proportionality depending on allocation also provided that this principle would not be related to us? What aspects would we consider as important, on the other hand; and which could be "exchanged" for positive approach to higher proportionality?*

3. Cohesion Policy in the context of MFF

3.1 Starting points for discussion

Since the 1990s, cohesion policy has ranked, along with common agricultural policy, to the largest EU budget policies; its basic missions as defined in the TFEU being reduction of disparities between the levels of development of the various regions and the backwardness of the least-favoured regions. Till 2013, the funds for cohesion policy had grown dynamically in each EU financial framework, nevertheless its increase in Multiannual Financial Framework (MFF) 2014-2020 has been only moderate² and the relative share of cohesion policy funds on expenditures of the EU budget in the period of 2014-2020 has dropped.

² Nominal increase expressed in common prices; in real terms, the funds for cohesion policy have dropped.

Cohesion policy should continue – also according to our Joint Statement from January this year, to be one of the most important EU policies in budgetary terms even beyond 2020. However, with regard to the ongoing discussions and actual development, it is likely that the efforts will aim at further reinforcement of the funds for programmes centrally managed by the Commission, which will put pressure on policies in shared management.

In the light of the current discussions it is very likely that the amount of the final cohesion policy envelope will significantly depend on how the future cohesion policy will reflect the topics and proposals referred to below. Therefore, we should start already now a discussion on possible amendments and conditions of cohesion policy in the post 2020 period which it will ensure that it remains a relevant and budgetary important policy bringing benefits for the entire EU.

The discussions about the future of EU budget policies will be held in the context of broader initiatives such as **budget focused on results** with objective to ensure the maximum impact of funds of the EU budget in particular in the area of support to economic growth, competitiveness and creation of jobs, or the currently discussed concept of **European added value**, including its definition in policies funded from the EU budget. **Ensuring direct relation to the EU priorities and strategies** will also be a key task.

The relation between cohesion policy and thematically close programmes directly managed by the Commission (especially Horizon, CEF) as well as its relation to new schemes operating with the EU budget guarantees (e.g. EFSI) will also affect the future of cohesion policy. In this context, it would also be useful to evaluate the scheme of transfer of funds from the Cohesion Fund to CEF in order to draw appropriate conclusions for upcoming discussion about the 2021+ programming period.

The issue of flexibility of the EU budget and the ability of its expenditure policies – including the cohesion policy – to respond in a flexible way to the ever-changing environment in (and out) the EU will be yet another major topic. In the context of cohesion policy, this will mean finding a right balance between modification of the policy in response to (potential) new EU priorities and, at the same time, ensuring a stable environment for investments to long-term EU priorities. The topic of flexibility of the EU budget and its policies will be closely related also to the discussion about **the duration of the future programming period** and to proposals for its harmonisation with the length/ of the European Commission and the European Parliament (EP) mandates. Such adjustment of the programming period would have significant impacts on preparation and implementation of multiannual programmes funded from the EU budget. In case of cohesion policy, discussion will also be held on future setting of conditionalities and the link of cohesion policy to the European Semester.

Another issue to be discussed in connection with the above-mentioned topics is the very **architecture of cohesion policy and the issue of maintaining the existing system of categories of regions**. In this context, it would be good to clarify whether or not we support the preserving of the current limits for defining (under)developed regions and Member States (i.e. at 75% and 90% GDP/GNI per capita compared to the EU average). At the same time, we need to reflect on whether cohesion policy is to continue to be open for all regions (this has the support of, inter alia, the Committee of the Regions in the Statement) and EU Member States or whether it should be a policy reserved only for less developed areas (regions or Member States). Furthermore, with regard to new



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EU priorities; other proposals cannot be excluded, for example to amend the traditional social-economic indicators, key for determining the eligibility of regions (primarily GDP or GNI per capita of the average of the EU, labour market indicators).with new indicators, reflecting future priorities of the EU. This could, have significant impact upon eligibility of regions as well as upon future direction of cohesion policy.

Further topics for the future discussion can be expected in the Commission's proposal for the mid-term review of the EU Multiannual Financial Framework for 2014-2020, which is to be presented in the second half of 2016 and which should evaluate the functioning of the current EU budget policies and could also indicate their future heading.

3.2 Questions for debate

- *If one of our common priority is to ensure a budgetary strong cohesion policy also beyond 2020, do you have any specific proposals how to achieve that? In the context of the above considerations and proposals are there any concessions you are prepared to consider in order to preserve the significant envelope of EU cohesion policy?*
- *Should cohesion policy continue to be a policy for all Member States (in such case e.g. taking the form of support for structural reforms) or only for less developed states or regions?*
- *Are you open to discuss the existing categories of regions– less developed, transitional, more developed, and the GDP per capita limits (75% and 90%) defining their eligibility? Do you expect any of your region(s) to change category? Do you think GDP per capita at the level of the regions and GNI per capita at the level of Member States should remain the key eligibility indicators and the basis for calculation of financial allocation of Member States and/or are you open to adjust/amend them?*

4. Visibility of the results and value of Cohesion Policy

4.1 Starting points for discussion

Every system should have a **process of regular presentation of results achieved** in place. Mid-term review of the Europe 2020 Strategy in 2014 has shown, inter alia, the problem of visibility of cohesion policy. Most of the Flagship initiatives have served their purpose, yet their visibility has remained weak. Also due to that fact, the visibility of results of cohesion policy has been highlighted in the Joint Statement which says that CP brings added value for the European Union as a whole, and contributes to the balanced functioning of the Single Market.

In certain aspects, the results of a EUROBAROMETER survey display a very low visibility of the results of cohesion policy, despite very strict rules. The awareness level is at different levels in different countries. It is higher in cohesion countries (for various reasons, from targeted campaigns to negative articles about corruption) and, typically, it tends to be lower or negative in countries of net contributors.

Lack of visibility of achieved results leads to discussions about efficiency and benefits of cohesion policy and, in particular, about its added value and about benefits for net contributors. How are results and benefits presented now? In many cases, complexity, problems and obstacles in the

overall configuration of cohesion policy are discussed; mass media is not often correct and they are contributing to a negative image of CP. What is presented is mainly the amount of corrections, suspended programmes, failure with spending all funds and failure to reach the potential offered and created by Cohesion policy in Member States or, for example, unclear and non-coordinated system of controls. The mass media space is occupied by negative reports, naturally so, because they bring the desired conflict to the general public and news consumers; we should discuss the issue of what options we have to at least balance that trend.

Despite the above, Cohesion policy has an important macro-economic impact upon national economies of the Member States. Through the ESI funds, financial resources are allocated to projects focusing on competitiveness and to lower economic and social disparities between regions and they contribute to achieving the objectives of the Europe 2020 Strategy. What needs to be highlighted as well are the links to the European Semester and specific recommendations. Seen from macro-economic perspective, the main contribution of the EU funds is seen in the benefits for public expenditures and private investments in respect of which multiplication effect has been reached thanks to co-financing from the EU funds. Not only for net beneficiaries but also net contributors in EU funds.

Visibility of cohesion policy can be perceived in different ways, specifically:

1. How to show examples of projects, interventions, good practice, i.e. what impact EU funds have; what specific benefits they bring to citizens, end users?
2. How does Cohesion policy affect the stories of people (citizens or, for example, specific groups of citizens), how does it help to support innovative approaches and creative thinking and ideas?
3. How does Cohesion policy allow the Member States to make their own policies efficient and to govern certain areas strategically or to find proper elements of good governance, etc.?
4. How does Cohesion policy show mirror to all players to get the relevant feedback to set appropriate policy for development of regions, reducing disparities between them and support competitiveness, jobs and harmonious development across the EU.

All these levels are significant and it is necessary to develop them further.

Attention should be focused also on increasing credibility of cohesion policy, positive change in thinking about cohesion policy, increasing credibility among various subjects (not only the stakeholders involved in the implementation but also other institutions), demonstrating specific examples of good practice as well as co-operation across the EU countries.

Visibility can also be understood as an opportunity of the current programming period; through straight intervention logic, it is possible to expect meaningful and sophisticated investments into public and private sectors, increasing thus the trust of citizens in public institutions. Added value of Cohesion policy is brought by focusing more on results (and real benefits) - instead of focusing only on quantitative indicators with target values but on evaluation and interpretation of results externally. Visibility of results of Cohesion policy can be reinforced through strategic management of ESI funds when specific strategic objectives and measures of national policies (embodied in the objectives of ESI funds) are clearly linked to specific financial resources that are distributed and spent efficiently.

Improvement of the visibility of the policy can be assisted by boosting the creation and quality of the feedback system or evaluation as implemented and used within Cohesion policy. Evaluation, including the achievement of performance framework, can provide feedback to Cohesion policy

about how specific countries stand. It is also necessary to prepare for discussion on new topics (migration, solidarity) and their links to Cohesion.

4.2 Questions for debate

- *What is the efficiency of the current presentation of results in individual countries? What can be improved in order to Cohesion policy to be perceived in a more positive manner? What communication tools are effective (for example, vis-à-vis the European Commission / representatives of net contributors)? What is your experience with application of the tools?*
- *Do we have sufficient data to build our arguments on (analyses, evaluation, etc.) to demonstrate the effects of CP or the spill-over effect? Why is it worth for the net contributors to invest to cohesion policy?*
- *What examples or case studies can be used?*
- *Is it possible to agree a common communication strategy for benefits of cohesion policy in the V4+4 countries?*