Issue paper 8 – Revisiting the delivery mode of Cohesion Policy

November 2023

Group of high-level specialists on the future of Cohesion Policy

The European Commission, the Directorate-General Regional and Urban Policy (lead) and the Directorate-General Employment, Social Affairs and Inclusion (associated) have set up a High-level Group on the future of Cohesion Policy. The group includes members from academia and practice and in 2023 will meet nine times to reflect on current and future needs and the functioning of Cohesion Policy.

The group will offer conclusions and recommendations that will feed the reflection process on Cohesion Policy post-2027 including through the 9th Cohesion Report in 2024 and the mid-term review of Cohesion Policy programmes in 2025.

Disclaimer

The opinions expressed in this paper are the sole responsibility of the authors and do not represent the official position of the European Commission.

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Issue paper 8:

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1 Background and objectives

As 2021-2027 programmes are at an early stage of implementation, it is still premature to assess the effectiveness of the recent changes introduced in Cohesion Policy, especially those linked to its delivery mode. Nonetheless, a debate on a possible delivery system post-2027 in the framework of the reflection on the future of Cohesion policy is necessary.

To substantiate the debate, this paper focuses on recent changes. These include elements of the 2021-2027 legal framework, new flexibilities to face the pandemic and refugee crises, and innovations introduced in the Recovery and the Resilience Facility (RRF). This paper also discusses delivery under shared management, its link with reforms and the need to adapt and simplify it further.

2 Recent changes

2.1 New features introduced for 2021-2027

Despite several efforts at simplification in successive programming periods, the delivery mode of Cohesion Policy is still perceived as too complex. Cohesion Policy rules post-2027 should be streamlined starting from the initial phase of programming and throughout the implementation cycle.

The regulatory framework for the 2021-2027 period aimed to simplify the delivery and management of Cohesion Policy. New features include:

- **Simplified costs schemes:** Simplification and flexible financing were introduced through an extended possibility to use Simplified Cost Options (SCOs), and Financing Not Linked to Costs (FNLC) schemes. These may be used for projects supporting policy objectives but also for technical assistance.
- **Audits:** Reduced in a proportionate way audit requirements and control systems.
- **Eligibility:** Simplified and harmonised eligibility rules for all CPR fund beneficiaries.
- **Reporting:** New common output and result indicators, fewer and simpler reporting obligations from programme authorities.
- **Result-oriented approach:** More focus on designing and implementing programmes with results-based reimbursements.
- **Mid-term review:** Up to 50% of the 2026 and 2027 allocations can be reprogrammed in the 2025 mid-term review.
- **Payment applications:** Simpler procedures for applications.

2.2 Flexibility and simplification in response to crises

To respond to the crises related to COVID-19 and Russia's war on Ukraine, the legal framework has been modified to provide for more flexibility, with the focus mostly on the 2014-2020 rulebook. The most prominent amendments include the CRII/CRII+, REACT-EU, CARE/CARE+, FAST-CARE, REPowerEU and SAFE initiatives. Each of these introduced additional flexibility and simplification measures for beneficiaries and programme authorities.

Simplification measures include:

- simpler and faster re-programming procedures;
- fewer steps for amending programmes;
- simpler reporting;
- simpler transfers of unused EU funding between funds and regions;
- SCO - unit cost to address the migration challenges under CARE;
- 100% EU-financing for operations addressing the crises.

Flexibility measures include:

- extended eligibility of expenditure;
- more measures eligible for funding;
- retroactive eligibility of operations;
- higher pre-financing to provide immediate liquidity and ensure a quick roll-out;

2.3 Potential lessons from the RRF and other EU instruments

The Recovery and Resilience Facility (RRF) was created as part of the NextGenerationEU to help the EU emerge stronger and more resilient from the COVID crisis.

Cohesion Policy and the RRF have some common aims, but their design is fundamentally different. Cohesion Policy is a long-term policy that focuses on fostering convergence and structural transformation across EU regions, while the RRF is a one-off response instrument addressing the challenges and consequences of the COVID-19 crisis through growth based on the opportunities offered by the green and digital transitions.

Important differences include:

- **Management mode**: The RRF is implemented under direct management, while cohesion policy funds are implemented under shared management. This means that EU and Member State authorities have different responsibilities in connection with each source of funding.
- **Financial support** under the RRF is provided through grants and loans. Cohesion policy funding mostly takes the form of grants, although Member States can design and implement financial instruments.

- **Allocation:** Cohesion Policy resources are allocated to Member States using a method which takes into account the level of development of regions. These regional disparities are not considered in the distribution of the RRF financial support, which has focused on the impact of the pandemic on national economic growth.
- **Programming:** The RRF is based on a single programming document for each Member State requiring Council approval. This Recovery and Resilience Plan provides details on the investments and reforms supported by the RRF grants and, where relevant, loans, the measures and the associated milestones and targets to be achieved. For Cohesion Policy funds, each Member State signs one Partnership Agreement with the Commission at national level that sets out the strategic orientation of the funding and contains details of national or regional programmes but does not constitute a financing document. For this, the Commission adopts programmes in form of implementing acts that cover one or more regions in Member States.
- **Governance mode**: The RRF management and decision-making process at the level of a Member State is driven mostly by national authorities. The multi-level governance structure and the partnership principle applicable to Cohesion Policy funds is not required to the same extent as for Cohesion Policy.
- **EU co-financing:** Cohesion Policy tends to require national public or private co-financing while the RRF requires no such co-financing.
- **Performance-based versus cost-based financing:** The support received from RRF is not linked to costs but based on the achievement of milestones and targets[1]. Cohesion policy supports operations primarily based on the reimbursement of incurred costs. Although performance-based funding is also possible under Cohesion policy, only a relatively small part of cohesion support had been reimbursed using such model. The relative novelty and optional characteristic of this funding model seems to discourage managing authorities from using it. Member States have also expressed some concerns regarding legal certainty in terms of subsequent checks and controls.
- **Linking investment and reforms:** The RRF simultaneously pursues reforms and investments. Contrarily to conditionalities used under Cohesion Policy which are applicable to all Member States, reforms under the RRF are tailor-made to each Member State and directly trigger funding. The ex-ante/enabling conditionalities of Cohesion Policy have led to important national level reforms, but a more systematic reform conditionality in Cohesion requires a reflection on how to best translate it into the regional

[1] i.e. performance-based financing as discussed at the 6th meeting; see presentations by Robin Huguenot-Noël, EUI, and Cinzia Alcidi, CEPS

context. Reforms at national and regional level can be an important part of unlocking development potential, particularly where this is linked to the strengthening of administrative capacity and financial management, including at subnational level.

- **Different control and audit provisions**: In Cohesion Policy, control and audit focus mainly on the eligibility and regularity of costs incurred by beneficiaries and declared by managing authorities for each of the programmes. The control and audit framework for the RRF focuses on the satisfactory fulfilment of milestones and targets. The parallel application of cohesion policy and RRF in similar fields of investments require checks to exclude the risk of double financing.

More in depth comparisons of the instruments were highlighted in reports by the European Court of Auditors (ECA)[2] and the Committee of the Regions[3].

3 Revisiting the policy delivery mode/mechanisms

Reviewing Cohesion Policy delivery may lead to further governance reforms.

Enhancing the place-based approach.

The set of challenges faced by regions call for enhancing the place-based dimension of the policy. This may require further empowerment of regional and local authorities, with changes in governance before altering the delivery mode, but also more diversified implementation tailored to the needs and challenges of regions with different development profiles (trapped, with special transition needs, with very low development levels, etc.).

Strengthening partnerships, including multilevel governance. For the policy to succeed, more participation from partners, stakeholders and citizens is necessary. This is not just a matter of reducing complexity and enhancing administrative capacity, but also of strengthening democratic values and mechanisms through reinforced institutions with better local and regional participation in design and implementation of the policy.

Reinforced citizen engagement. Citizens can improve transparency and the efficiency of investments. Their engagement will increase ownership and a sense of belonging, and will intensify their connection with the European Union. Thus, there is a significant opportunity to experiment with innovative ways to engage citizens in decision-making.

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[2] https://www.eca.europa.eu/Lists/ECADocuments/RW23_01/RW_RFF_and_Cohesion_funds_EN.pdf and https://www.eca.europa.eu/Lists/ECADocuments/SR-2023-07/SR-2023-07_EN.pdf

[3] https://op.europa.eu/en/publication-detail/-/publication/9fb67955-0fe4-11ee-b12e-01aa75ed71a1. The annex offers an overview of the ECA Report.

Adapting the delivery system by enhancing links between investments and reforms. Issue Paper 6[4] and the ensuing discussions stressed the need to enhance links with reforms, to reinforce the effectiveness of the policy. Combining investments and reforms seems to lead to better results, provided there is a clear impact at the territorial level. Bringing together performance-based approaches and the territorial dimension implies a degree of decentralisation and multilevel governance, to further territorialise the reform agenda and strengthen thematic coherence across EU 'cash-for-reform' tools. It also requires the involvement of regional and local authorities and partners.

Increasing the focus on performance, simpler delivery and management. Performance-based instruments shift the focus from inputs and compliance to results, but conditions must be met. Simplified Cost Options and other measures based on conditions, including financing not liked to costs, are already part of the Cohesion Policy delivery system, although to a different degree under the different funds. A large share of the ESF (around one third in 2014-2020) and ESF+ is delivered through SCOs. Performance-based funding elements are also taken up under ESF+. They have the potential to significantly reduce administrative burden for managing authorities, beneficiaries and audit authorities. Administrations can shift their focus from collecting and verifying financial documents to achieving policy objectives. The conditions-based measures also speed up implementation of funds 'on the ground' and are less error prone.

Strengthening administrative capacity and governance. Under Cohesion Policy, administrative weaknesses have been addressed so far through technical assistance. This support is dedicated to managing authorities and, more recently, also to beneficiaries, even though significant administrative capacity gaps remain at subnational level. At the same time, support to administrative capacity can only be effective if accompanied by measures and reforms addressing shortcomings in governance at all levels.

Reviewing financial instruments (FIs) as an appropriate form of financial support through Cohesion Policy, in particular the combination of grants and financial instruments.

Structures and administrative costs. As the RRF performance-based system has been implemented so far in parallel to Cohesion Policy, it has created new administrative structures and tasks. Some countries have parallel structures, in other countries, the RRF is handled by the same teams as Cohesion Policy. The former set up involves a coordination challenge, the latter risked further stretching administrative capacities.

[4] [please provide the link]

Striking a balance between the necessary stability of the programming, achieving long-term development goals and the **need to cope with emerging challenges and unexpected crises**. The necessary reactivity of the policy should not undermine its capacity to meet structural objectives.

The elements described above in this section need to be considered when discussing the delivery model and reflecting on improving policy effectiveness. This should lead to more place-sensitive programmes, territorialise reforms, empower regional and local authorities, reduce administrative burden, increase flexibility and enable more differentiation.

Questions for debate

- How should Cohesion Policy further support the implementation of reforms? Should Cohesion link payments to milestones and targets? How to identify the right reforms that can overcome growth bottlenecks, including sub-national ones? What subnational challenges could hinder the implementation of reforms?
- What are the advantages and disadvantages of performance-based payments systems for different types of regions and policy goals? Would stronger and differentiated technical support be necessary to ensure administrative and institutional capacity?
- More generally, what additional simplifications could reduce administrative burden and allow national and regional authorities to accelerate Cohesion Policy programming and implementation and to maximise its impact?

ANNEX – ECA overview tables

The 2023 review of EU financing through Cohesion Policy and the Recovery and Resilience Facility by the European Court of Auditors[5] includes a number of interesting overview tables.

FIGURE 0.1 ECA COMPARISON OF PROGRAMMING AND SPENDING

PROCESS	COHESION POLICY	RRF
DESIGN *Member States **draft their programming documents***	Several national and regional points of contact in the Member States; Directorates-General responsible: DG REGIO and DG EMPL	A single entity in the Member States acting as the national coordinator and point of contact for the Commission. Responsible bodies within the Commission: RECOVER and DG ECFIN
SUBMISSION *Member States **submit** their programming documents **to the Commission***	One partnership agreement at national level and one or several programmes (national or regional)	One main programming document, the RRP
ASSESSMENT *The Commission assesses the programming documents and **discusses them** with each Member State*	Three months to submit observations (for partnership agreement and programmes)	Two months to complete the assessment process, but can be extended. One month for the Council to approve
ADOPTION *The programming documents are **adopted***	The Commission adopts the partnership agreement within four months and the programme within five months from their official submission through implementing acts	Commission endorsement and Council adoption through Council Implementing Decision

Source: ECA, 2023

[5] https://www.eca.europa.eu/Lists/ECADocuments/RW23_01/RW_RFF_and_Cohesion_funds_EN.pdf

FIGURE 0.2 ECA COMPARISON OF SCOPE OF THE ASSESSMENT

CRITERIA	COHESION POLICY	RRF
EFFECTIVENESS *Article 11(1)(b) of the CPR* *Article 19(3)(g) and criterion 2.7 in Annex V of the RRF Regulation*	The partnership agreement describes the main results expected for each fund and the expected contribution to the selected policy objectives	RRP is intended to have a lasting impact in terms of structural changes in the administration or policies
EFFICIENCY *Articles 11(1)(c) and 22(3)(g) of the CPR* *Article 19(3)(i) and criterion 2.9 in Annex V of the RRF Regulation*	The proposed preliminary financial allocation respects the rules on thematic concentration and provides data by policy objective at national and regional level	Estimated total costs are reasonable and plausible. No examination of support at regional level
RELEVANCE *Article 22(3)(a) of the CPR* *Article 19(3)(c) and criterion 2.3 in Annex V of the RRF Regulation*	The main challenges to be addressed stem from economic, social and territorial disparities	RRP contributes to the economic, social and institutional resilience of the Member State by reducing economic vulnerability to shocks and increasing the capacity of economic and social structures and institutions to adjust and withstand shocks
COHERENCE *Articles 5(3) and 11(1)(b) of the CPR* *Article 19(3)(k) and criterion 2.11 in Annex V of the RRF Regulation*	Coordination and coherence between the funds and between the national and regional programmes, complementarities and synergies with other EU instruments (including the RRF) for each selected policy objective	Internal coherence of the measures included in the RRP, i.e. the measures proposed reinforce and complement each another

Source: ECA, 2023

FIGURE 0.3 ECA COMPARISONS OF CONDITIONS FOR MAKING PAYMENTS

CONDITIONS	COHESION POLICY	RRF
PRE-FINANCING *Member States **receive pre-financing***	Yearly pre-financing of 0.5 % of the total allocation from 2021 to 2026 for each fund	One pre-financing payment of up to 13 % only for the RRP adopted by the Council in 2021
PAYMENT REQUEST *Sent to the Commission, accompanied by a **management declaration***	Maximum of six payment requests per year per programme Requests based on the costs actually incurred unless use is made of SCOs and FNLTC National co-financing rates of at least 15 % – 60 % depending on the fund and the level of development of the supported region	Maximum of two payment requests per year per Member State Requests based on pre-agreed instalment amounts grouping the milestones and targets Projects are 100 % financed by EU funds
ASSESSMENT *Of the payment request **by the Commission*** **VALIDATION and PAYMENT** *To the Member States*	Assessment of the expenditure declared by the Member State in the assurance package The Commission validates the payment	Assessment based on the satisfactory fulfilment of the milestones and targets The Commission adopts decision authorising disbursement taking into account Council's opinion
POTENTIAL LOSS *Of funds not used*	Gradual loss of the yearly committed funds for which a payment request is not made within three years (from 2021 to 2026) or within two years (for 2027) (decommitment procedure)	Funds not paid to the Member State by the end of 2026 are lost

Source: ECA, 2023

FIGURE 0.4 ECA COMPARISON OF MONITORING, REPORT AND EVALUATION REQUIREMENTS

REQUIREMENTS	COHESION POLICY	RRF
MEMBER STATES *Monitoring and reporting arrangements*	Monitoring by programme, using indicators that are not linked to the payment requests Prescriptive rules on the role of the monitoring committee Submission to Commission: o Financial data: five times a year o Performance data: twice a year, including data on common indicators o Mid-term review (2025)	Monitoring at central level, using pre-agreed milestones and targets linked to the payment requests Member States can use their existing monitoring systems Submission to Commission: o Progress on milestones and targets, accompanying each payment request: maximum twice a year o Two-yearly reports, updating data on common indicators
COMMISSION *Monitoring and reporting arrangements*	Annual performance review meeting Annual Management and Performance Report to the Parliament, in the context of the discharge procedure Display aggregated data on the Open Data platform Report on the outcome of the mid-term review to the Parliament and Council (2026)	Monitoring embedded in the European Semester Analysis and appraisal of the data sent with the payment request Annual report on implementation addressed to the Parliament and the Council Posting of aggregated data on the RRF Scoreboard
COMMISSION *Evaluation*	During implementation, at the end of 2024 Ex-post evaluation (2031)	During implementation, in February 2024 Ex-post evaluation (2028)

Source: ECA, 2023

FIGURE 0.5 ECA COMPARISON OF CONTROLS AND AUDITS

BY TYPE	COHESION POLICY	RRF
INTERNAL CONTROL AND AUDIT		
BEFORE PAYMENT	Member States provide assurance on the set-up of their management and control systems The Commission assesses Member States' control systems when approving partnership agreements and programmes	Member States describe their internal control systems in their RRP's The Commission assesses Member States' control systems and sets further milestones where necessary
AT PAYMENT	Member State level o Legality and regularity of payments is based on the accuracy and veracity of expenditure, and compliance with the applicable EU and national rules o Managing authorities carry out first-level checks on operations and exclude irregular expenditure declared by beneficiaries o Audit authorities provide assurance on expenditure declared, management and control systems and the accounts The Commission carries out control and audit activities, including systems audits and audits on a sample of operations	Member State level o Legality and regularity of payments in based on achievement of milestones and targets. o Compliance with the applicable EU and national rules to protect the EU financial interests The Commission assesses whether milestones and targets have been satisfactorily fulfilled, failing which payment is suspended in part or in full
AFTER PAYMENT	The Commission: o Carries out compliance audits in respect of the legality and regularity of expenditure declared, and system audits o Suspends payments associated with expenditure affected by an irregularity or serious deficiency	The Commission carries out: o ex post audits of milestones and targets, reported by the Member States following a risk assessment o system audits of the monitoring data collection systems (before or after payment) o system audits of measures to protect the EU financial interests, and ad hoc audits where serious irregularities are suspected
EXTERNAL AUDIT	By the ECA	By the ECA

Source: ECA, 2023