



*Issue Paper
No. 83, October 2017*

Can the EU structural funds reconcile growth, solidarity and stability objectives?

A study on the role of conditionalities in spurring structural reforms
and reducing macroeconomic imbalances

*by Robin Huguenot-Noël and Alison Hunter
with Fabian Zuleeg*

Authors note

This report has been produced by the European Policy Centre (EPC) at the request of the European Commission DG REGIO to produce a study on “the role of structural funds in the European Union’s economic governance – is there scope for moving towards more structural reforms and stronger macroeconomic conditionality?”.

This study builds on the outcomes of the workshop on “The role of structural funds in EU economic governance: towards increased structural reforms and macroeconomic conditionality?” held at the EPC on Wednesday 31 May 2017.

We would like to thank everyone who has directly or indirectly contributed to this report, including all participants of the EPC workshop, our interviewees and the European Commission. Special thanks also go to Marc de Fleurieu for his advice and pro-active editing, Janis A. Emmanouilidis and Claire Dhéret for their respective input and Carolin Löprich for supporting the preparation of the EPC workshop.

Linguistic versions

Original: EN

Summary: EN, FR

Disclaimer

The information and views set out in this report are those of the authors and do not necessarily reflect the official opinion of the Commission. The Commission does not guarantee the accuracy of the data included in this study. Neither the Commission nor any person acting on the Commission’s behalf may be held responsible for the use which may be made of the information contained therein.

Table of contents

ABBREVIATIONS	4
EXECUTIVE SUMMARY	5
RÉSUMÉ	6
1 INTRODUCTION	7
2 A RETROSPECTIVE: THE EVOLUTION OF ESI FUNDS	9
2.1 THE ORIGINS OF COHESION POLICY	9
2.2 ALIGNMENT WITH THE EUROPE 2020 STRATEGY	9
2.3 CONTRIBUTION TO MACROECONOMIC SURVEILLANCE	10
3 THE IMPACT OF CONDITIONALITIES ON ESI FUNDS	13
3.1 EX-ANTE CONDITIONALITY	13
3.2 MACROECONOMIC CONDITIONALITY	15
4 A PROSPECTIVE OUTLOOK: THE CHALLENGES AHEAD	19
4.1 A CLEARER CASE FOR STRUCTURAL REFORMS	19
4.2 CONFLICTING OBJECTIVES BETWEEN MEC AND COHESION POLICY	20
4.3 POLITICAL ECONOMY CONSTRAINTS	22
5 A PROSPECTIVE ROADMAP: HOW TO STRENGTHEN THE LINK BETWEEN ESI FUNDS AND THE EU'S ECONOMIC GOVERNANCE	24
5.1 THE OBJECTIVES	24
5.2 RECOMMENDATIONS	25
6 CONCLUSION	29
7 REFERENCES	30

About the authors

Robin Huguenot-Noël is a Policy Analyst at the European Policy Centre (EPC). Alison Hunter is a Senior Adviser to the EPC on regional policy, regional innovation and industrial growth. Fabian Zuleeg is Chief Economist at the EPC.

Abbreviations

AGS	Annual Growth Survey
CEF	Connecting Europe Facility
CP	Cohesion Policy
CPR	Common Provisions Regulation
CSF	Common Strategic Framework
CSR	Country Specific Recommendation
EAFRD	European Agricultural Fund for Rural Development
EDP	Excessive Deficit Procedure
EFSI	European Funds for Strategic Investment
EMFF	European Maritime and Fisheries Fund
EMU	Economic and Monetary Union
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
ExAC	Ex-ante Conditionality
GNI	Gross National Income
ICT	Information and Communication Technology
LRA	Local and Regional Authorities
MEC	Macroeconomic Conditionality
MFF	Multiannual Financial Framework
MIP	Macroeconomic Imbalance Procedure
NRP	National Reform Programme
OP	Operational Program
PA	Partnership Agreement
RIS3	Research and Innovation Strategy for Smart Specialisation
SGP	Stability and Growth Pact
SME	Small or Medium Sized Business
SR	Structural Reforms
SRSP	Structural Reform Service Programme
YEI	Youth Employment Initiative

Executive summary

The European Union (EU) has set new priorities to respond to new **challenges** such as climate change, migration and security while Brexit risks unbalancing the EU budget. Ahead of the post-2020 Multiannual Financial Framework (MFF), there are heightened demands for Cohesion Policy (CP) funding, also referred to as European Structural and Investment Funds (ESI Funds), to be reduced in the EU funding strategy, either in line with the overall **budget reduction** or, more radically, as a lower share of the total budget than was the case in previous programming periods. Comprising 34% of EU expenditure, the reform of Cohesion Policy will represent a major element of the upcoming MFF debate.

In this context, there is a growing **consensus that CP** – its objectives, conditionalities and budget allocation – **must be reformed** to address today's needs. There is no agreement, however, on the nature of a possible reform. A wide range of proposals have emerged on how the ESI Funds could be **increasingly tied** to European values (e.g. respect of the rule of law, integration of migrants) or economic governance objectives (e.g. EU growth targets or the reduction of fiscal and macroeconomic imbalances). The community in charge of implementing CP (referred to as the 'CP community') is concerned that proposed reforms may result in additional responsibilities that risk **diluting** – or further complicating the realisation of – the **original mandate** of economic, social and territorial convergence.

A critical element of the future CP debate will be the proposal to bolster the **link** between ESI Funds and the EU's enhanced **economic governance system**, a set of rules and conditions that have been adopted during the eurozone crisis.

This study draws on desk research, a series of semi-structured interviews and data gathered during a workshop held on 31 May 2017 at the European Policy Centre (EPC). It examines the scope for strengthening the link between Cohesion Policy and EU economic governance objectives in the next Multiannual Financial Framework by looking more specifically at two instruments: ex-ante and macroeconomic conditionalities.

Our research has identified **three major challenges** in this regard:

- A **lack of clarity** about the purpose and nature of structural reforms, including their role in boosting the effectiveness of ESI Funds;
- A **possible conflict** between the stability objectives of macroeconomic conditionality and Cohesion Policy's long-standing pursuit of growth and investment;
- A set of **political economy constraints** that have, so far, prevented the adoption of the coercive measures aimed at correcting macroeconomic or fiscal imbalances in member states. This, in turn, limits the impact of ESI Funds on boosting the impetus for macroeconomic stability.

In this study, the authors suggest that the post-2020 MFF constitutes a **window of opportunity to reform** Cohesion Policy and position it more clearly in the EU's funding strategy. Our findings indicate that the integration of economic governance objectives into CP can help showcase **EU added value** in the growth and investment agenda. For this, there is a need to **reframe the political vision** linking ESI Funds to economic governance. This requires taking a **holistic perspective** that moves beyond the focus on macroeconomic stability and positioning sound economic governance in the wide spectrum of EU objectives and policies.

The report thus presents a set of strategic and concrete recommendations for how Cohesion Policy could be reformed to strengthen the link between its objectives and tools (e.g. ESI Funds) with those of the EU's economic governance. We notably propose that the **Commission take a role of 'strategic enabler' in the implementation of the EU's growth agenda** by re-positioning growth-enhancing reforms and reforms linked to CP's cohesion objectives at the heart of a new growth strategy for the EU. Accordingly, we recommend to:

- **Clarify the added value of EU action in regions** by clearly defining the EU's economic governance objectives and the role of its policies (namely CP) and providing evidence of how the Union can help achieve them;
- **Provide a stronger rationale for growth-enhancing reforms** by better linking reforms to all relevant EU policies and integrating them into a new, more comprehensive strategy for growth and cohesion in Europe;
- **Lay out how ESI Funds can contribute to the EU's growth and cohesion objectives** thanks to a reform package that builds on existing pre-conditions attached to the disbursement of ESI Funds. The macroeconomic conditionality should be considered as part of this 'package' and its status revised to an ex-ante measure;
- **Build a stronger regional ownership of the EU's economic governance agenda** by increasing the involvement of subnational players in the EU's economic governance processes and ensuring that conditionalities on ESI Funds are better aligned with CP's objectives of economic, social and territorial cohesion.

Résumé

L'Union Européenne (UE) s'est fixée de nouvelles priorités pour répondre aux **défis** de notre temps, au premier rang desquels la lutte contre le changement climatique, le développement d'une politique migratoire commune et le renforcement de sa politique de sécurité et de défense. Dans le même temps, la sortie programmée du Royaume-Uni (Brexit) laisse planer le risque d'une réduction substantielle du budget européen. A l'aube des **négociations sur le Cadre Financier Pluriannuel (CFP)**, des voix s'élèvent pour demander une réduction du budget de la politique de cohésion (aussi appelés Fonds structurels et d'investissement européens (Fonds ESI)), proportionnelle à la réduction éventuelle du budget global de l'Union européenne. Certains évoquent même une diminution de la part du budget total qui lui était traditionnellement réservée. Représentant 34% des dépenses de l'UE, la politique de cohésion constituera un élément majeur des débats sur le futur CFP.

Dans ce contexte, une **réforme de la politique de cohésion** – ses objectifs, leur allocation budgétaire et les modalités d'obtention des crédits – semble s'imposer. Le débat reste toutefois entier sur le contenu et la nature de la réforme. Plusieurs propositions récentes soutiennent le besoin de **lier davantage** les Fonds ESI aux valeurs européennes (telles que le respect de l'Etat de droit ou l'intégration des migrants) ou à des objectifs de politique économique (objectifs de croissance ; réduction des déséquilibres macroéconomiques et fiscaux). Ces propositions inquiètent les parties prenantes qui mettent en œuvre la politique de cohésion. Elles craignent que les réformes annoncées **diluent son mandat historique** – le soutien à la cohésion économique, sociale et territoriale de l'UE – au service d'une myriade d'objectifs aux champs d'application mal définis.

La proposition de **conditionner** davantage le recours aux Fonds ESI au respect des règles et objectifs de la **gouvernance économique** de l'UE est au cœur du débat sur la réforme de la politique de cohésion.

Cette étude se fonde sur un travail de recherche documentaire, une série d'entretiens semi-structurés, et les conclusions d'une table-ronde organisée au European Policy Centre (EPC) le 31 Mai 2017. Elle se penche sur l'opportunité et les modalités d'un rapprochement de la politique de cohésion et des objectifs de gouvernance économique de l'UE dans le cadre du prochain CFP. Cette analyse se concentre sur deux instruments : les conditionnalités ex-ante et macro-économique.

A ce propos, cette recherche identifie **trois défis majeurs** pour la mise en œuvre d'une telle réforme :

- un manque de clarté quant à la **nature et la finalité des réformes structurelles** et leur rôle dans l'amélioration de l'efficacité des Fonds ESI ;
- la perception d'un **antagonisme** entre les objectifs de la conditionnalité macroéconomique et les objectifs de croissance et d'investissement poursuivis par la politique de cohésion;
- des **contraintes d'ordre politique** qui limitent les fonds européens dans le rôle de catalyseur de réformes visant à soutenir la stabilité macroéconomique (comme l'a montré la difficile mise en application des sanctions prévues par le mécanisme de conditionnalité macroéconomique).

Les auteurs soutiennent d'abord que l'ouverture des discussions sur le prochain CFP offre une **fenêtre d'opportunité** pour réformer la politique de cohésion et la resituer au sein de la stratégie financière de l'UE. Notre analyse révèle que l'objectif d'une gouvernance économique saine pourrait devenir un élément majeur de la « **valeur ajoutée** » que peut apporter une politique européenne dans le domaine de la croissance et des investissements. Pour se faire, un nouveau **souffle politique** est requis pour défendre la pertinence et l'efficacité d'une utilisation des Fonds ESI au service des objectifs de gouvernance économique de l'UE. Il convient en conséquent de suivre une approche intégrée du rôle de la gouvernance économique dans l'ensemble des objectifs et des politiques de l'UE et de **dépasser la seule logique de stabilité macroéconomique** qui prévaut aujourd'hui.

In fine, les auteurs proposent plusieurs recommandations pour permettre une plus grande complémentarité entre les objectifs et instruments des Fonds ESI et les priorités de la gouvernance économique européenne. Nous proposons que la **Commission assume un rôle de 'catalyseur stratégique' dans la mise en application de l'agenda de croissance de l'Union**, en repositionnant les réformes structurelles et de croissance au cœur d'une nouvelle stratégie de croissance pour l'UE. Concrètement, ce rapport propose de :

- **Clarifier la valeur ajoutée de l'action de l'UE avec ses régions.** Cela passe par une clarification des objectifs de gouvernance économique de l'UE et du rôle de ses dépenses d'investissement (notamment la politique de cohésion) reposant sur la constitution de données scientifiques solides;
- **Mettre en exergue les finalités des réformes structurelles.** Cela nécessite de démontrer le rôle des réformes structurelles dans la mise en œuvre de l'ensemble des objectifs des politiques publiques de l'Union et d'intégrer ces éléments dans une nouvelle stratégie de croissance et de cohésion pour l'UE ;
- **Définir les instruments permettant à la Politique de Cohésion de contribuer à la stratégie de croissance de l'UE.** Ces mesures doivent s'appuyer sur la logique des conditions aujourd'hui associée à la distribution des Fonds ESI. La conditionnalité macroéconomique peut être considérée d'après une logique similaire et son statut de condition *ex-post* devrait être repositionné en condition *ex-ante* ;
- **Permettre une meilleure appropriation de l'agenda de gouvernance économique de l'UE par ses parties prenantes.** Ceci peut être atteint en renforçant la participation des acteurs infranationaux dans la gouvernance économique de l'Union et en s'assurant que les conditions liées à l'utilisation des Fonds ESI, contribuent aux objectifs de « cohésion économique, sociale et territoriale » de la politique de cohésion.

1 Introduction

The European Union (EU) is facing all-encompassing challenges that have the potential to undermine the future development of the EU project. They include migration, security, rising Euroscepticism or the fight against climate change. Each of them carry both significant financial and political implications.

To address these challenges, a growing number of voices call for a realignment of budget priorities at the European level. Ahead of the upcoming negotiations on the post-2020 Multiannual Financial Framework (MFF), some are calling for a reduction of the share of Cohesion Policy and other 'traditional' policies (such as the Common Agricultural Policy) in the EU's funding strategy. Furthermore, 27 member states need to prepare for the implications of Brexit on the EU budget in a context of heightened pressure for fiscal consolidation.¹

Cohesion Policy currently comprises 34% of EU expenditure. As underscored in the European Commission's 2017 reflection paper on the future of EU finances,² Cohesion Policy – its objectives, conditionalities and budget allocation – will therefore be the subject of much debate.

Today, there is an **emergent consensus that Cohesion Policy after 2020 must reform** to respond to new demands and challenges. There is no agreement, however, on the nature of the changes to be made. Wide-ranging proposals are emerging concerning the reform of the European Structural and Investment (ESI) Funds to better support the implementation of Cohesion Policy objectives. Proposals include introducing stronger linkages between the rules governing the allocation of funds and the achievement of existing and additional EU objectives, such as economic convergence, macroeconomic stability, social inclusion, employment, skills, innovation, climate change, energy, and environmental transition.³ CP is also known as one of the Union's most visible policy. It serves as a **key vehicle of European solidarity**. Cohesion Policy is hence seen as a possible vehicle for championing European values, such as subsidiarity, the integration of migrants, the respect to the rule of law and the safeguarding of fundamental values.

In this context, there is growing concern across the community in charge of implementing CP (thereafter referred to as the 'CP community') that CP reform could lead to even more responsibilities to shoulder. **Concerns about 'policy overload' and 'policy dilution'** are exacerbated by the difficulty of local and regional players to keep track of all the priorities to be met in the name of Cohesion Policy.⁴

A critical item of the debate on the future of CP is the **proposal to strengthen the link between the ESI Funds and economic governance objectives** agreed during the euro area crisis. The crisis revealed how the negative spill-over effects of fiscal and macroeconomic imbalances of some EU countries could affect the resilience of the Economic and Monetary Union (EMU). To prevent the spill-over effects and correct the imbalances, member states adopted a set of measures referred to as an 'enhanced economic governance system'.

Among them, **new pre-conditions for the 2014-2020 CP on the disbursement of ESI Funds (referred to as "conditionalities")** were agreed. They include macroeconomic conditionality (MEC) and ex-ante conditionalities (ExAC). ExAC enable the Commission to condition the disbursement of CP funds on the adoption of sound and specific action plans from member states and regions to prevent fiscal and

¹ Chomicz, Ewa (2017), "EU budget post-Brexit: confronting reality, exploring viable solutions", *EPC Discussion Paper*, European Policy Centre (EPC), Brussels.

² European Commission (2017), "[Reflection Paper on the Future of EU Finances](#)", Brussels.

³ Ibid.

⁴ European Parliament (2017), "[Building Blocks for a Future Cohesion Policy – First Reflections](#)", Brussels.

macroeconomic imbalances. The MEC mechanism entitles the Commission to reprogramme or suspend the disbursement of ESI Funds when macroeconomic imbalances need to be corrected.

The rationale for these reforms is two-fold: first, the new conditionalities on ESI funds were developed to incentivise countries to conduct the reforms deemed necessary to **prevent negative cross-border externalities**. Second, the new pre-conditions are set to **ensure the effective implementation of ESI Funds** – and their contribution to the EU's economic growth and investment objectives. By incentivising member states to maintain a sound economic environment, the new conditionalities should help spur a favourable climate for private and public investment.

In this study, we look at the **scope for strengthening the link between Cohesion Policy and the EU's economic governance objectives** in the context of the next Multiannual Financial Framework. We draw upon data gathered in the framework of the EPC workshop held on the 31 May 2017, desk research and a series of semi-structured interviews.

We first describe the genesis of Cohesion Policy and its progressive alignment with the goals of the Europe 2020 strategy. We then explore how the provisions introduced in the wake of the financial and economic crisis have further conditioned the access to EU funding to the fulfilment of new objectives linked to, for example, the macroeconomic environment and/or the governance capacity of the beneficiaries (section 2).

We then analyse the rationale for linking ESI Funds to the fulfilment of EU economic governance objectives and the implementation of structural reforms (SR). We also assess the effectiveness of new pre-conditions associated to the use of ESI Funds in delivering on intended outcomes (section 3).

We also present how CP stakeholders perceive these provisions. For this, we focus in this paper on the so-called **Cohesion Policy community, i.e. the managing authorities, regional and local players who are responsible for CP management and delivery**. We assess the scope for increasing the link between the use of ESI Funds and the fulfilment of EU's economic governance objectives (section 4).

We then propose a set of strategic and concrete recommendations as to how Cohesion Policy could be amended to strengthen its coherence with the EU's economic governance objectives (section 5).

Finally, we draw our concluding remarks (section 6).

2 A retrospective: The evolution of ESI Funds

In this section, we review the initial objectives of the European structural and investment funds since their creation in the late 1980s and early 1990s. We then describe their incremental alignment with the two inter-related objectives of EU economic governance: preserving a stable macroeconomic environment and fostering growth and competitiveness.

2.1 The origins of Cohesion Policy

Cohesion Policy (CP) is the main instrument enabling the European Union to strengthen its “economic, social and territorial cohesion.”⁵ CP was introduced to counterbalance the negative externalities associated with single market integration. From the outset, Cohesion Policy entailed an important **solidarity dimension**. In the current programming period (2014-20), member states agreed that the main purpose of CP should be to help “reduce disparities between the levels of development of the EU’s various regions by promoting economic growth, job creation and competitiveness.”⁶

With EUR 351.8 billion set aside for the 2014-2020 programming period –a third of the EU budget – Cohesion Policy is also considered the Union’s **primary investment tool**. Following a continuous increase of the share of the structural funds in the EU budget over successive programming periods, this trend has stalled in recent periods. This abatement reflected the budget constraints imposed by member states coupled with apparent concerns about the effectiveness of EU structural funds. In a move to rationalise the diverse use of EU funds, the EU structural funds were grouped under the heading of ‘European Structural and Investment Funds’ (ESIF) in the 2014-2020 programming period. They were also integrated under a common investment strategy,⁷ called the Common Strategic Framework (CSF).

Cohesion Policy also serves a **communication purpose**. Through the funding of concrete projects, the EU intends to showcase its added value ‘on the ground’. In the eyes of EU citizens, Cohesion Policy should serve as the ‘face of the Union’.⁸ Funds are granted based on Partnership Agreements (PAs) between the EU and member states and are implemented through Operational Programmes (OPs) by member states or regions. Accordingly, the solidarity, investment and communication purposes of Cohesion Policy are tied to thorough scrutiny regarding the spending priorities, the accountability and the benefits of the policy.

2.2 Alignment with the Europe 2020 strategy

In 2010, the Union adopted the **Europe 2020 strategy**, a growth strategy for the ensuing decade. The overarching goal was to make the EU a smart, sustainable and inclusive economy. These three mutually reinforcing priorities were intended to help the EU and its members reach high levels of **employment**,

⁵ Article 174 of the Treaty on the Functioning of the European Union (TFEU).

⁶ Council of the European Union (2013), “Council adopts cohesion policy package for 2014-2020”, [Press release](#), Brussels.

⁷ Jointly managed by the European Commission and the EU countries, ESIF includes: (i) *European regional development fund (ERDF)*, which promotes balanced development in the different regions of the EU; (ii) *European social fund (ESF)*, which supports employment-related projects and invests in Europe’s human capital; (iii) *Cohesion Fund (CF)*, which funds transport and environment projects in countries where the gross national income (GNI) per inhabitant is less than 90% of the EU average; (iv) *European agricultural fund for rural development (EAFRD)*, which focuses on particular challenges facing EU’s rural areas; and (v) *European maritime and fisheries fund (EMFF)*, which helps coastal communities adopt sustainable practices and diversify their economies.

⁸ A recent Eurobarometer indicated that over a third of respondents – and above half of those based in net beneficiary member states of the Policy – had heard of EU co-financed projects. See European Commission (2017), “Citizens’ awareness and perceptions of EU regional policy”, Flash Eurobarometer 452, report, Brussels.

productivity and cohesion. Concretely, the Union set ambitious objectives in five areas – employment, innovation, education, social inclusion and climate/energy – to be reached by 2020.⁹

The Common Strategic Framework translates the objectives of the Europe 2020 Strategy into workable actions to be supported by the ESI Funds. For the 2014-2020 programming period, **eleven thematic objectives**¹⁰ were developed in line with the five objectives of the Europe 2020 strategy. These more specific objectives were conceived to help regions and member states propose concrete projects that were consistent with the overall priorities of the strategy.

This constituted a first attempt to **align the strategy (Europe 2020) and the tools (ESIF) of the European Union's economic policy.**

2.3 Contribution to macroeconomic surveillance

2.3.1 EU economic governance framework

In the wake of the financial and economic crisis, the EU's focus on achieving the objectives set out by the Europe 2020 Growth Strategy was gradually supplemented by the imperative to strengthen the rules governing macroeconomic surveillance in the EMU.

As a result, new, additional objectives were attributed to the distribution of ESI Funds.

In 2010, to strengthen the monitoring of fiscal and macroeconomic imbalances observed in the EMU, the *European Semester* process was introduced. According to this new framework, each member state must present annually to the European Commission its *National Reform Programme (NRP)* and a three-year budget plan.¹¹ Each programme details the specific policies each country will implement to pursue its growth objectives and prevent macroeconomic imbalances. Countries must also present concrete plans to comply with the fiscal rules of the *Stability and Growth Pact* and the *Country Specific Recommendations (CSRs)* formulated by the Commission in the NRPs.

With the adoption of the Common Provisions Regulation (CPR) in December 2013, the allocation of the ESI Funds was **further aligned with the EU's economic governance objectives**.¹² The aim was to push for the implementation of structural reforms to foster a sound macroeconomic and fiscal environment in each member state.

⁹ These objectives include: (1) 75% of the 20-64 year olds to be employed; (2) 3% of the EU's GDP to be invested in R&D; (3) addressing climate change and energy sustainability while aiming to diminish greenhouse gas emissions by 20%, increasing the share of renewables as well as energy efficiency to 20%; (4) investing in education while bringing the rates of early school leaving below 10% and having at least 40% of 30-34 year olds completing third level education; (5) fighting poverty and social exclusion while lifting at least 20 million people out of risk of poverty or social exclusion. Most member state have adopted their own national targets in each of these areas.

¹⁰ The eleven objectives are: (1) strengthening research, technological development and innovation; (2) enhancing access to, and use and quality of, ICT; (3) enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the EMFF); (4) supporting the shift towards a low-carbon economy in all sectors; (5) promoting climate change adaptation, risk prevention and management; (6) preserving and protecting the environment and promoting resource efficiency; (7) promoting sustainable transport and removing bottlenecks in key network infrastructures; (8) promoting sustainable and quality employment and supporting labour mobility; (9) promoting social inclusion, combating poverty and any discrimination; (10) investing in education, training and vocational training for skills and lifelong learning; (11) enhancing institutional capacity of public authorities and stakeholders and efficient public administration.

¹¹ The National Reform Programme is called Stability (for euro area countries) or Convergence (for non-euro area countries) Programme.

¹² [Common Provisions Regulations](#)

The link between ESI Funds and the EU's economic governance objective was strengthened through the introduction of **new procedures**. Today, the five ESI Funds¹³ are linked to economic governance procedures – including CSRs, relevant Council recommendations, or memoranda of understanding (in the case of member states under financial assistance). In addition, the CPR equipped the European Commission with **additional instruments**, including (i) a set of *ex-ante* conditionalities and (ii) a strengthened macroeconomic conditionality.

2.3.2 *Ex-ante conditionalities*

Broadly speaking, the ex-ante conditionalities on ESI Funds¹⁴ can be viewed as **incentive mechanisms** to ensure that the necessary conditions for the effective and efficient use of ESI Funds are in place. The ex-ante conditionalities are based on the CSRs and several thematic objectives set in the context of the 2014-2020 programming period. It also follows the logic that in lower income regions and countries, EU support to investment has to produce not only higher growth rates but also a '**transformative effect**', i.e. signs of development that will facilitate growth with less external support at a later stage.¹⁵

Accordingly, the use of ExAC covers a wide **structural reform agenda**¹⁶ which notably focuses on three types of conditions linked to:

- **policy and strategic frameworks** to ensure that the strategic documents at national and regional level which underpin ESI Funds investments are of high quality and in line with standards commonly agreed by member states at EU level;
- **regulatory frameworks** to ensure that implementation of operations co-financed by ESI Funds complies with the EU acquis;
- **institutional and administrative capacity** to guarantee the sound management of the Funds.¹⁷

The European Commission was also entitled with the right to introduce **reprogramming requests** in case a country fails to implement the CSRs and/or thematic objectives set out in programmes.

¹³ The European structural and investment funds were initially created to fulfil specific purposes:

- the European regional development fund (ERDF) promotes a balance development of all European regions of the EU;
- the European social fund (ESF) supports employment-related projects and invests in Europe's human capital;
- the Cohesion Fund (CF) supports transport and environment projects in countries where the gross national income per inhabitant is less than 90% of the EU average;
- the European agricultural fund for rural development (EAFRD) focuses on challenges facing EU's rural areas;
- the European maritime and fisheries fund (EMFF) helps coastal communities adopt sustainable practices and diversify their economies.

¹⁴ There are currently 48 ExAC established in the legislative framework of the ESI Funds. This notably includes:

- 7 'general ExAC' are linked to horizontal aspects of programme implementation and are applicable to all ESI Funds;
- 29 'thematic ExAC' set sector-specific conditions for investment co-financed by the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF);
- 12 'fund-specific ExAC' are directly linked to a fund in particular: 8 are linked to the European Agricultural Fund for Rural Development (EAFRD) and 4 to the European Maritime and Fisheries Fund (EMFF).

An overview of the content of ExAC is provided in Annex 1 of European Commission (2017), "The Value Added of Ex ante Conditionalities in the European Structural and Investment Funds", [Commission Staff Working Document](#), Brussels.

¹⁵ Andor, László (2017), "Cohesion and Conditionality in the EU", Progressive Economy blog, <http://www.progressiveeconomy.eu/sites/default/files/LA-cohesion-final.pdf>

¹⁶ European Commission (2017), "The Value Added of Ex ante Conditionalities".

¹⁷ Hamza C, Jeffrey P, Vincze M and Wihlborg M (2016), "The implementation of the provisions in relation to the ex-ante conditionalities during the programming phase of the European Structural and Investment (ESI) Funds", Final report to the European Commission (DG REGIO), Metis with ICF International, Vienna.

2.3.3 Macroeconomic conditionality

The mechanism of macroeconomic conditionality is composed of two strands. The **preventive and the corrective arm**¹⁸ serve different purposes:

- On the one hand, the 'preventive arm' of MEC allows the Commission to request a member state to re-programme part of its funding when this is deemed necessary to maximise the "**growth and competitiveness impact**" of the Funds. It also gives the possibility to the Commission to consider a suspension of payments when member states fail to address its reprogramming request.¹⁹
- On the other hand, the 'corrective arm' of MEC requests the Commission to propose a suspension of funding when it is deemed necessary to **correct imbalances** identified in the context of EU economic governance procedures. This includes the Excessive Deficit Procedure (EDP), the Macroeconomic Imbalances Procedure (MIP) as well as other macro-economic adjustment programmes.

ESI Funds have been subject to an **increasing number of objectives over time**. Beyond the objectives of economic, social and territorial cohesion set out in the Treaties, the Funds have been linked to Cohesion Policy's eleven thematic objectives and to the Europe 2020 strategy. More recently, the financial and economic crisis has led to an increasing focus on the role that ESI Funds should play in helping to safeguard a sound macroeconomic environment for the EMU.

It is the **connection between the two, inter-connected aims of growth and stability**, which has given rise to the assumption that ESI Funds can and should be further integrated in the enhanced economic governance system developed during the euro area crisis.

However, as alluded to in the introduction, the increasing number of objectives associated to the use of ESI Funds has created a feeling of 'policy overload' or '**policy dilution**' among the CP community, notably with regard to its ability to pursue its solidarity function. Our consultations reveal that this evolution has made the management and monitoring of Cohesion Policy ever more complicated. This also contrasts with the Commission's simplification agenda for the 2014-2020 MFF.²⁰

Against that background, the next section draws a first assessment of the **effectiveness** of the ex-ante and macroeconomic conditionalities in delivering on the two above-mentioned objectives and at what role the concerns of the CP community have played in the implementation of this agenda.

¹⁸ European Parliament (2014), "The European Structural and Investment Funds and sound economic governance: guidelines for the implementation of Article 23 of the Common Provisions Regulation", Briefing, Brussels. [http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/529088/IPOL_BRI\(2014\)529088_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/529088/IPOL_BRI(2014)529088_EN.pdf)

¹⁹ European Commission (2014), "[Guidelines](#) on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance according to Article 23 of Regulation (EU) 1303/2013", Brussels.

²⁰ European Commission (2012), "A simplification agenda for the 2014-2020 MFF", Brussels, http://ec.europa.eu/budget/news/article_en.cfm?id=201202080936

3 The impact of conditionalities on ESI Funds

In this section, we attempt to review the extent to which the introduction of (i) ex-ante conditionalities and (ii) macroeconomic conditionality has helped achieve the two aims identified in the previous section: (i) fostering growth and investment; and (ii) reducing fiscal and macroeconomic imbalances.

The contribution of ESI Funds to the EU's economic governance objectives is a sweeping issue that could be explored in several different ways and through a variety of analytical tools. Two caveats also that prevent us from addressing this issue in more depth:

- **Hindsight:** First, we do not have enough hindsight. The Common Provisions Regulation (CPR) on ESI Funds was adopted in December 2013. It is too early to report conclusively on the role and merits of making ESI Funds conditional on structural reforms and macroeconomic performance, whose effects usually manifest themselves in the medium to long-term.
- **Segmentation:** Growth and macroeconomic stability are complex processes that build on many factors beyond the role of ESI Funds. Other factors, such as framework conditions or alternative sources of public and private investment, can play an important role in achieving these objectives. Distinguishing and quantifying the net contribution of each factor to single that of ESIF conditionalities is a task beyond the scope of this paper.

Against this backdrop, this section focuses on highlighting some **emerging findings available to date** about the role that conditionality on structural reforms and macroeconomic criteria has played in strengthening the contribution of ESI Funds to the EU's economic governance objectives.

Given the imminent start of the negotiations on the post-2020 funding strategy, this section draws attention to the **political economy of these reforms** by looking both at the position of net contributors to the EU budget among member states and at the views of the wider CP community.

3.1 Ex-ante conditionality

We assess below the role played by two ExAC in setting incentives for the enactment of a sound business environment. Given the limited scope of this paper, we concentrate on the role played by ExAC in creating an impetus to deliver the implementation of reforms linked to two objectives: **investing in growth-oriented innovation**; and **building administrative capacity**.

3.1.1 Investing in growth-oriented innovation

As part of its 'Europe 2020' strategy, the EU has been encouraging regions to develop **Smart Specialisation Strategies (S3)** since the beginning of this programming period. The aim is to direct their investment efforts towards growth-oriented innovation. As such, it appears as "a valuable tool to tackle the innovation gap, and boost jobs and growth in Europe."²¹

Introduced as an ex-ante conditionality in the 2014-2020 programming period of Cohesion Policy, the development of smart specialisation strategies is currently a prerequisite to receive funding from the European Regional Development Fund (ERDF).

Linking the development of S3 to the allocation of ERDF funding has **improved the quality of the implementation of these strategies** across Europe. According to a 2017 study on the value of ExAC in

²¹ European Parliament (2016), "Report on Cohesion Policy and Innovation Strategies for Smart Specialisation" (RIS3), Brussels, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2F%2FEP%2F%2FTEXT%2FBREPORT%2BA8-2016-0159%2B0%2BDOC%2BXML%2BV0%2F%2FEN&language=LT>

the ESIF,²² the Commission sets out several concrete examples where ExAC is said to have incentivised the implementation of S3: In Mecklenburg-Vorpommern (Germany), the ExAC gave the region an impetus to increase the involvement of relevant stakeholders in its existing innovation strategy. ExACs also allegedly helped improve the mechanisms for monitoring technological development and innovation as well as investments in research in Italy, Lithuania, Malta, the Netherlands and Poland.

Other studies show that S3 has also helped boost the effectiveness of the ESI Funds in a more structural way. A recent Staff Working Document by the European Commission provides evidence that S3 has positively impacted “ the governance and [...] the behaviour of the stakeholders in the innovation systems.”²³ The European Parliament noted that S3 have helped **prioritise investments supported by the ESIF**.²⁴ Although results are unequal across the EU’s territories, it shows that conditionalities on the allocation of ESI Funds can impact positively both the EU’s economic governance objectives and the effectiveness of EU funds.

These developments indicate that EU *requirements* (or conditions) can be received positively when these take the form of a more **‘transformative’ effect**. Equally, the ‘formative’ approach pursued by ExAC in policies such as S3 could also be seen as a way to support the CP’s mandate of fostering economic and social convergence across the continent.

Acknowledging that the policy is still in its infancy, any further developments should continue to build evidence concerning how S3 is incentivising reform of regional and national research and innovation systems. However, to also fully champion CP’s objective of reducing disparities between regions, the Policy should also consider the territorial impact assessment of strategies such as S3 – notably regarding the **agglomeration rationale** that it allegedly favours.²⁵

3.1.2 Building administrative capacity

Administrative and institutional shortfalls are often identified as a major obstacle to the delivery of structural reforms in countries, especially those struggling with the consequences of the economic crisis.²⁶

Nevertheless, **evidence on the effectiveness of ex-ante conditionality in supporting the modernisation of public administration remains mixed**. An EPC case study found that the level of policy changes triggered by the ESI Funds is rather low.²⁷

On the other hand, evidence from some EU countries suggests that ex-ante conditionalities (ExAC) on **ESI Funds can incentivise public administration reform**.²⁸ Examples include building the policy-making capacity of civil servants or boosting the development of government information systems in Estonia. In Portugal, the ExAC on “institutional capacity and efficient public administration” seems to have played a role in the design of a new vocational training system as part of the government plan to modernise its public administration.²⁹ According to the Commission, ex-ante conditionalities have also

²² European Commission (2017), “The Value Added of Ex ante Conditionalities in the European Structural and Investment Funds”.

²³ European Commission (2017), “Strengthening Innovation in Europe’s Regions: Towards resilient, inclusive and sustainable growth at territorial level”, Commission Staff Working Document, Brussels, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017SC0264&from=EN>

²⁴ Ibid.

²⁵ See Hunter, Alison (2017), “Smart Specialisation: championing the EU’s economic growth and investment agenda?”, EPC Commentary, European Policy Centre, Brussels. http://www.epc.eu/pub_details.php?cat_id=4&pub_id=7861. It could also be argued that this effect could run against the original CP objective of counterbalancing the negative externalities associated with single market integration.

²⁶ European Parliament (2016), “Public Sector Reform: How the EU budget is used to encourage it”, Brussels: [http://www.europarl.europa.eu/RegData/etudes/STUD/2016/572696/IPOL_STU\(2016\)572696_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/572696/IPOL_STU(2016)572696_EN.pdf)

²⁷ Ibid.

²⁸ European Commission (2017), “The Value Added”.

²⁹ Ibid.

encouraged a stronger self-assessment component in the financial management of CP programmes by member states and regions.

The Council acknowledged the transformative effect of ex-ante conditionalities when it mentioned them as a **positive “facilitator”**³⁰ in the planning and set-up of structures supporting the implementation of Cohesion Policy. This shows that ex-ante conditionalities can incentivise member states and regions in conducting structural and growth-enhancing reforms, such as those identified in the CSRs.

Moving forward, the priority is to **gather further evidence** on the nature and size of the interactions between ExAC conditionality and the strengthening of administrative capacity. More specifically, there is a need to better understand the trade-offs at stake and to compare the costs of the measures in terms of financial and human resources against the benefits achieved. In addition, there is a need for the EU to ensure that its support fully considers of the uneven playing field which exists between EU regions regarding administrative capacity. In the absence of a **tailored approach**,³¹ there is indeed a risk that ESI Funds would be drifted away from the regions which need it the most.

This section has shown that ExAC can help the EU deliver on its structural and growth-enhancing reform agenda. Through ExAC, ESI Funds can represent an incentive to improve the investment environment across the EU. The transformative approach of ExAC can also play a positive role in fostering public administrations reforms and hence help boost the capabilities of some EU regions and countries.

These developments confirm emerging findings about the positive role played by ExAC on the implementation of Country Specific Recommendations³² and first assessments that *“had it not been for ExAC, reforms and changes might not have happened or they might have happened at a much slower pace.”*³³

However, our findings also confirm the Commission’s view that *“a lasting positive effect of these achievements depends on the **ownership by the Member States and regions** in carrying out the changes kick-started by the ExAc.”*

Ownership of the EU’s economic objectives is a major issue that may determine the success of the conditionality agenda. This is also evident in the implementation of the macroeconomic conditionality (MEC).

3.2 Macroeconomic conditionality

As previous sections have shown, there is much debate as to what is and what should be the exact purpose of MEC in (i) fostering growth and investment and (ii) incentivising member states to reduce fiscal and macroeconomic imbalances. This section looks at the role that MEC has played in delivering on its objectives of (i) enhancing macroeconomic and fiscal surveillance; and (ii) improving the investment environment.

³⁰ Council of the European Union (2016), [“Conclusions on results and new elements of cohesion policy and the European structural investment funds”](#), Brussels.

³¹ Barca, Fabrizio (2017) The European Union’s Great Opportunity. Keynote speech at the 7th Cohesion Forum (EU cohesionpolicy, a forward-looking perspective), 26-27 June, Brussels, <http://www.fabriziobarca.it/Files/Barca-Bruxelles-27-giugno.pdf>

³² A useful review of the support of the ESI Funds to the implementation of CSRs and to structural reforms in Member States is provided in European Commission (2016), “The implementation of the provisions in relation to the ex-ante conditionalities during the programming phase of the European Structural and Investment (ESI) Funds”, Brussels, http://ec.europa.eu/regional_policy/sources/policy/how/studies_integration/impl_exante_esif_report_en.pdf

³³ European Commission (2017), “The Value Added”.

3.2.1 Enhancing macroeconomic and fiscal surveillance

In the wake of the financial crisis, there has been an increasing recognition that, in the absence of a genuine budgetary capacity for the euro area, EU countries may be **vulnerable to the negative cross-border spill-over effects of fiscal and macroeconomic imbalances** arising in other member states. In this context, there have been heightened demands for ESI Funds to play a stronger role in the EU's enhanced fiscal and macroeconomic surveillance framework.

Some economic conditionality was applied to Cohesion Policy prior in the 2007-2013 programming period. Yet, although macroeconomic conditionality already applied to the Cohesion Fund, it had never been used in practice until 2012, and there were no *ex-ante* conditionalities. Introducing such pre-conditions was seen by the Commission as a way to ensure that the impact of **ESI Funds is not undermined by unsound economic policies or institutions**.³⁴ By providing incentives for member states to reduce fiscal and macroeconomic imbalances, the 'preventive arm' of MEC strengthens the link between ESI Funds and the economic governance objectives agreed in the context of the European Semester.

With the 'corrective arm' of MEC, the Commission has also a ***de facto* sanction mechanism** to prevent the emergence of imbalances that could affect the resilience of the euro area. In the EMU context, structural reforms include those measures that help prevent negative cross-border spill-overs. In this regard, the German government has recently stressed that ESI Funds should serve as a **"lever for necessary structural reforms and compliance"** with the macroeconomic surveillance framework. It also called for MEC to be "retained and developed further" in the next MFF with a view to a "more stringent application."³⁵ This approach suggests that MEC should help foster the implementation of reforms with a fiscal consolidation objective.

Our consultations have revealed **diverging views** on the effectiveness of MEC in encouraging member states to correct macroeconomic imbalances. Whereas some interviewees noted that the prospect of a suspension of EU funds may have played a role in pushing Spain and Portugal to correct their macroeconomic imbalances, others have argued that the decision of the Council not to effectively suspend ESI Funds had a **negative impact on the credibility of the mechanism**. This, in turn, was said to reduce the incentive for other member states to reduce their own imbalances.

Discussions held in the context of the EPC workshop have emphasised that MEC could in fact be **counter-productive** in going against its declared objective of reducing macroeconomic imbalances. Some participants have argued that sanctions could have a **pro-cyclical impact** by reducing the investment capacity of member states in economic downturns. Evidence suggests that the 'punitive' dimension may have discouraged government spending on productive investments for fear that increased public spending would lead to sanctions.³⁶ This is also true for local and regional administrations (LRAs) where MEC has put additional pressure towards fiscal consolidation at a time when increased spending could arguably have helped alleviate the social and economic restrictions during the financial crisis.³⁷

³⁴ European Commission (2015), "The impact of the economic and financial crisis on the reform of Cohesion Policy 2008-2013", Regional Working Paper 2015, Brussels, http://ec.europa.eu/regional_policy/sources/docgener/work/2015_03_impact_crisis.pdf

³⁵ On 20 June 2017, the German government and the German Länder published a "Joint Statement on EU Cohesion Policy after 2020" highlighting a set of common priorities for the future of CP in the next MFF, but also some diverging views (such as on the role of macroeconomic conditionality). For more information, see the The Federal Government of the Republic of Germany, (2017).

³⁶ Evidence suggests that countries the most affected by the sovereign debt crisis saw the share of 'productive investment' decline over the course of the crisis. See Haas, Joerg and Huguenot-Noël, Robin (2017), "Are the spending priorities of the Euro Area converging?", Jacques Delors Institute – Berlin, Berlin.

³⁷ Jouen, Marjorie (2015), "[The macroeconomic conditionality, the story of a triple penalty for region](#)", Jacques Delors Institute, Paris.

To sum up, there is currently an **absence of conclusive evidence regarding what MEC has achieved in practice**. There is no consensus on its rationale or its effectiveness in enhancing macroeconomic and fiscal surveillance. There are thus doubts about the ability of the MEC's 'corrective arm' to help deliver on structural reforms. There may also be a conflict with the objectives followed under its 'preventive arm' of improving the investment environment.

3.2.2 Improving the investment environment

The introduction of MEC also followed another, albeit complementary, logic. In the name of greater EU cohesion and to respond to significant macroeconomic imbalances, there has been increasing support in the EU for focusing on **growth-enhancing reforms**, especially in those regions where growth has stalled. At the same time, there is a general acknowledgement that ESI Funds should be more effective and that framework conditions can play an important role in this regard.

The MEC notably aims to incentivise member states to adopt the reforms required to **boost productivity or savings**, thereby increasing both the effectiveness and efficiency of a country's investment, and hence its **potential growth**. It is indeed widely acknowledged that a sound macroeconomic environment can foster economies of scale, the leverage effect, and thus lead to further positive spill-over effects on investment. A favourable business climate is often a pre-condition for public investments, such as ESIF, to reap social and economic benefits.

At this stage, there is however **scarce evidence** about how effective MEC has been in incentivising member states to improve their business and investment environment.

Preliminary findings indicate that the '**corrective arm**' of MEC and the prospect of sanctions may have **negatively affected the investment environment**. Many local and regional authorities (LRAs) consider that MEC has created a less stable environment for local and regional investment.³⁸ Although the provisions linked to the 'corrective arm' of MEC have not yet been implemented, it could also be argued that a mechanism that can pressure member states / LRAs to reduce investment is in fact **detrimental to the implementation of structural reforms**. Furthermore, there can be a compounding effect since the negative impact on investment is more likely to occur in economies which have less fiscal capacity.

Moving beyond this issue, it may be argued the lack of evidence, to date, regarding the relationship between MEC and structural reforms is also due to an **insufficient alignment between ESI Funds and the EU's enhanced macroeconomic governance framework**. Stakeholders³⁹ pointed to a timing mismatch between the European Semester and CSRs – which look at yearly processes – and the medium and long-term programme planning strategy required for the ESIFs. Participants at the EPC workshop also stressed that while EU economic governance instruments look at yearly processes, large-scale investments usually take years to produce results. As a result, MEC could possibly affect projects in the 'pipeline' due to this timing mismatch.

³⁸ According to a study published by the Committee of the Regions, 57% of the LRAs consider that the enforcement of the macroeconomic conditionality creates a "high-risk situation" for the co-funding of programmes, while 32% consider it to be a "moderate risk". See Committee of the Regions (2014), "[CoR online consultation on public investments, growth and the national co-financing of ESIF](#)", Brussels.

³⁹ The Federal Government of the Republic of Germany (2017), "[Joint statement by the German government and German Länder on EU Cohesion Policy beyond 2020](#)", Berlin.

Moving forward, there is a need to understand how MEC could be used as a **positive incentive** to foster growth-enhancing reforms based on an **‘invest to save’ narrative**. However, several questions remain unanswered regarding how such incentives could work in practice, including on the provision of the funds, the nature and the value of structural reforms as well as the timing and the accountability of their implementation.

This section showed that **ex-ante conditionalities, overall, can help enable reforms**. There is thus a tendency to view them **positively**. Our consultations suggest that they have played a constructive role in supporting member states and regions to build robust regulatory and capacity foundations and deliver key CP objectives. Moving forward, CP should build upon the positive experience of ExAC to bring back the transformational dimension of the Funds at the top of the EU’s investment agenda.⁴⁰

This positive assessment should, however, be balanced with concerns that any greater role foreseen for ExAC should be considered in the context of applying these in a **proportional way, linked to both capacity and need**. This means that any developments should also consider how ExAC could better consider the new geographical divides – created by new global trends affecting EU territories differently – in determining how to ensure a sound implementation of ESIF in EU countries and regions.⁴¹

At this stage, it remains **difficult to provide conclusive evidence about the role of the macroeconomic conditionality (MEC)** in reducing imbalances and boosting growth and investment. Some stakeholders have argued that MEC could have had a counterproductive impact on both intended outcomes. Given this scepticism, we recommended that any continuation or strengthening of the MEC’s role be supported by a **compelling evidence** about its contribution to wider growth objectives in member states and regions. More specifically, one should focus on gathering evidence on whether MEC has been effective in fostering national structural reform agendas, in spurring growth, in facilitating the implementation of CP objectives, or in boosting adherence to the EMU’s macroeconomic and fiscal stability objectives.

Moving forward, a more **comprehensive review of MEC** could help build consensus in the debate on the reform of Cohesion Policy and the negotiations of the next multi-annual financial framework (2020-2026). There may be merit in exploring the extent to which shifting MEC from an ex-post to an ex-ante conditionality as part of a wider package of ex-ante support measures could prove beneficiary. This option is further explored in the following sections.

⁴⁰ Andor, László (2017), “Cohesion and Conditionality in the EU”

⁴¹ Dhéret, Claire (2017), “Achieving social triple A: What role for EU cohesion policy?”, EPC Policy Brief, European Policy Centre (EPC), Brussels, http://www.epc.eu/documents/uploads/pub_7715_achievingsta.pdf

4 A prospective outlook: The challenges ahead

Building upon the findings of the previous sections and the interviews conducted in the framework of this study, we assess in this section the challenges that could arise in setting more structural reform and macroeconomic conditionalities in the management of ESI funds and Cohesion Policy.

We have identified **three main challenges**: (i) the need to **clarify the rationale** for structural reforms based on evidence of its role in boosting the effectiveness of ESI Funds; (ii) the need to **ensure coherence and consistency** between the stability objectives pursued by the EU's economic governance system and the growth objectives pursued by Cohesion Policy; (iii) the need to address a set of **political economy constraints** associated with some conditionalities that can limit the anticipated impact of ESI Funds on boosting the impetus for structural reforms and macroeconomic stability.

4.1 A clearer case for structural reforms

According to the Common Provision Regulations, conditionalities are intended as a tool to strengthen the link between ESI Funds, structural reforms and economic governance objectives. Yet, the CPR does not define the kind of structural reforms which ExAC and MEC are aiming at. Also, the definition of what constitutes 'structural reforms' may differ by country and region. The below findings indicate how the lack of clarity about the purpose of structural reforms has created **confusion** about its purpose in the Cohesion Policy context.

4.1.1 Is structural reforms part of the CP mandate?

Since the beginning of the 2014-2020 programming period, the EU has taken several measures to further link the use of ESI Funds to the implementation of structural reforms. The EU has set up a three-year **Structural Reform Service Programme (SRSP)** that has started in 2017. The SRSP enables the Commission to use ESI Funds to support the implementation of structural reforms at the request of a member state.⁴²

Several policy documents have emphasised the **priority given to structural reforms**. Since 2016, we can list the Annual Growth Survey (AGS), the March 2016 Council conclusions,⁴³ as well as various CSR reports. Furthermore, the final legal framework of 2014-2020 ESI Funds introduced a legal requirement to conduct the reforms deemed necessary to **address country-specific recommendations (CSR)** in the partnership agreements and operational programmes.

However, in the context of growing concerns that the current CP has been subjected to 'policy overload', the focus on structural reforms has in fact been considered by many among the CP community as an **additional set of secondary objectives** or at least not a central CP feature. Our consultations indeed indicate that some interviewees even challenged the fact that CP had an underpinning imperative to address EU structural reforms.

As a result, the structural reform agenda was **not considered a central CP feature to many in the CP community**. Beyond the 2020 period, this implies a strong need for much greater clarity on both the structural reforms to be promoted using ESI Funds and their likely impact on the effectiveness of ESI Funds.

⁴² European Commission, [Press release](#) "Political agreement reached on Structural Reform Support Programme – a new tool to help Member States implement reforms", 08.02.2017.

⁴³ Council of the European Union (2016), "[Council conclusions on in-depth reviews and implementation of the 2015 Country Specific Recommendations](#)", Brussels.

4.1.2 Structural reforms: in which policy areas?

The confusion about structural reforms also stems from the lack of clarity about the nature of structural reforms that ESIF should target in the CP context. The Common Provision Regulations do not clearly spell out **the kind of structural reforms that should be made conditional on the disbursement of ESI funds**.

A debate has thus emerged as to which reforms should be promoted through ESI Funds. Some believe that conditionalities on the use of ESI Funds could become an effective incentive to push reforms linked to EU objectives in other policy areas, such as pension, taxation, judicial or banking sector reform in the member states.

Others argue that pre-conditions should foster the implementation of reforms in policy areas that would help achieve the CP objectives, namely the eleven **'thematic objectives'**. This includes objectives such as boosting energy efficiency, digital connectivity or social inclusion.

The EPC has long argued that Cohesion Policy needs to be embedded in a broad policy direction and that in the context of growing social divergences across the EU, **social investment** should be put at the centre of this policy agenda.⁴⁴

In any case, there seems to be an evident **need to clarify which reforms should be targeted** within the context of pre-conditions associated to the disbursement of ESI Funds.

4.1.3 Structural reforms: what purpose?

Diverging views about the purpose of structural reforms also fuels **confusion** in the Cohesion Policy context.

For most, 'structural reforms' are viewed as measures with **a growth-enhancing potential**. They should help deliver on CP goals such as those defined by the thematic objectives or the Country Specific Recommendations set in line with the Europe 2020 Strategy.

Following the financial and economic crisis, 'structural reforms' have also referred to measures aimed at **fostering a sound macroeconomic environment**. Yet, reforms that aim at alleviating economic and macroeconomic imbalances vary depending on the specific economic conditions of each member state as shown by the country-specific focus of NRPs and CSRs.

The confusion about the purpose of structural reforms in the CP context echoes the **more fundamental divergences among EU members about the EU's economic governance objectives**. Should the Commission attempt to foster economic convergence through financial instruments such as ESI Funds? Or should the Commission use the Funds to promote greater adherence to the EU's macroeconomic surveillance framework? In the absence of clear answers to these questions, concerns have emerged that some of the objectives pursued by the macroeconomic surveillance framework – including the 'corrective arm' of MEC – may conflict with Cohesion Policy goals.

4.2 Conflicting objectives between MEC and Cohesion Policy

Another challenge lies with the way the MEC mechanism is perceived by the CP stakeholders. For them, the MEC hinders the fulfilment of the CP's growth and investment objectives, its solidarity ethos, as well as the wider CP reform agenda.

⁴⁴ Dhéret, Claire (2017), "Achieving social triple A".

4.2.1 MEC and Cohesion Policy's growth and investment objectives

Many in the CP community do not adhere to the rationale for the MEC mechanism. The fact that MEC was not 'tested out' during the consultation phase prior to the set-up of operational programmes has undermined its legitimacy. It has, arguably, fed the perception that Cohesion Policy had been taken 'hostage' to address wider EU macroeconomic imbalances. Some argue that the MEC's introduction was the result of a victory of the "Friends of better spending" over the "Friends of cohesion" in the negotiations on the MFF and CP post-2013.⁴⁵ In their eyes, MEC was introduced on the premise – shared by net contributors – that a perceived lack of effective spending should be dealt with through financial penalties.

These initial divergences about purpose and legitimacy have been **echoed by the divide between the stability and growth objectives of MEC.** On the one hand, a sound macroeconomic environment can foster a more favourable business and investment environment, thereby enhancing the effectiveness of ESI Funds. Controversies, however, exist as to the extent to which measures aiming at fiscal consolidation can effectively lead to growth.⁴⁶ Discussions during the EPC workshop have revealed that the EU's attempt to reconcile fiscal consolidation and growth objectives⁴⁷ in the context of MEC is still a point of divergence among the CP community. In this context, the perception of **MEC as a fiscal consolidation mechanism** has overshadowed the more positive growth-enhancing rationale traditionally associated with ESI Funds.

4.2.2 MEC and Cohesion Policy's solidarity mandate

Cohesion Policy historically encompasses a strong solidarity dimension. Yet, as previous sections have shown, MEC has been seen as entering in contradiction with one of the most important feature of the ESI Funds, namely that they provide **certainty and security of investment resources in low-income regions.** This contradiction, combined with the perception of MEC as a fiscal consolidation mechanism, has created concerns among the CP community that MEC may have a negative in fact negatively affect the reduction of disparities between EU regions.

By focusing on **cyclical fluctuations rather than addressing structural gaps and discrepancies,** the 'punitive arm' of MEC has also been regarded as pursuing another other function than Cohesion Policy's original and still standard mandate. During the EPC workshop, some explained that using MEC as a tool to prevent imbalances amounts to imposing an "exogenous conditionality", i.e. a pre-condition linked to objectives different from those traditionally attributed to the ESI funds.⁴⁸

4.2.3 MEC and Cohesion Policy's reform agenda

The high level of ambition for MEC to deliver on a wide range of objectives (including the far-reaching challenge of reducing fiscal and macroeconomic imbalances in the EMU) is perceived by many to have contributed to **overstating the CP's ability to support the EU's wider structural reform agenda.** There are concerns that this ambition has affected the credibility of the Policy, especially regarding its 'reach'.

The possibility opened by the MEC mechanism to allow for **reprogramming** has also been seen by many as a **step too far towards a centralisation of the delivery of the Funds.** Many local and regional authorities feel they are losing ownership of the management of the Funds. The Committee of the Regions also claimed that MEC had changed the "balance of power" within Cohesion Policy by "eroding

⁴⁵ European Commission (2015), "The impact of the economic and financial crisis".

⁴⁶ A good overview of the academic controversy surrounding this debate is provided in Rannenberg, A, C Schoder, and J Strasky (2015), "The macroeconomic effects of the euro area's fiscal consolidation 2011-2013: A simulation-based approach", Research Technical Paper 03/RT/2015, Central Bank of Ireland, Dublin.

⁴⁷ In the wake of the financial and economic crisis European leaders regularly referred to the objective of "growth-friendly consolidation". See Haas and Huguenot-Noël (2017). See also http://ec.europa.eu/economy_finance/enewsletter/49_120202/

⁴⁸ Andor, László (2017), "Cohesion and Conditionality in the EU".

the bottom-up approach and subsidiarity principle and strengthening top-down, centrally and sectorally managed solutions.”⁴⁹ As such, the **shared management principle** is increasingly viewed as being under attack.

Reprogramming has also fuelled the **apprehension of more red tape** imposed on the CP community.⁵⁰ The European Parliament and the Committee of the Regions have recently called for removing and amending significantly the MEC’s “reprogramming” provisions in the Common Provision Regulations.⁵¹ At a minimum, they argue that the mechanism should be invoked in exceptional circumstances and in clear pursuit of CP’s wider goals.

Against this background, the CP community sees **MEC as a challenge to some of the key enduring characteristics of Cohesion Policy, including simplification and subsidiarity.**

4.3 Political economy constraints

There is also a need to evaluate the limitations in the EU’s governance framework that may constrain the Commission’s ability to push forward its agenda.

4.3.1 *The EU budget: A leverage to support structural reforms?*

ESIF conditionalities present key limitations that can hamper their ability to deliver on structural reforms.

Support through ESI Funds need to be matched by national spending so that a first key limitation may arise when member states have **limited fiscal capacity**. Other constraints may arise when member states or regions have **diverging national priorities** (where, for example, structural reforms do not feature strongly).

Different levels of development also provide different constraints for ESIF conditionalities. On the one hand, less-developed economies – with the largest potential for reform⁵² – may have limited resources (e.g. administrative capacity) to ensure a sound implementation of the Funds. On the other, for more developed member states and regions, ESI Funds may not represent a strong enough incentive to push a structural reform agenda domestically.

The relative influence of EU policies and funding needs to be carefully considered when assessing what **EU added value** can be achieved for each member states using conditionalities. Moving forward, this suggests that greater consideration should be given to the kind of levers that can help the EU provide more targeted incentives to deliver on the EU structural reform agenda.

4.3.2 *The limits of Realpolitik*

The full implementation of the **MEC mechanism is subject to political interferences**. It is often politically difficult for member states to support sanctions in the Council as shown by the track record in the excessive deficit procedure. It may also prove politically sensitive for the Commission to suggest a suspension of funding to a member state at a time when it already struggles to achieve fiscal consolidation and such punitive sanctions could only make things worse. This is even more true in countries confronted with high levels of Euroscepticism.

⁴⁹ Bachtler, John, Oliveria Martins, Joaquim, Wostner, Peter and Zuber, Piotr (2017), “Towards Cohesion Policy 4.0 – Structural Transformation and Inclusive Growth”, Regional Studies Association, Brussels.

⁵⁰ Jouen, Marjorie (2015).

⁵¹ European Parliament (2015), “[How the EU budget is spent](#)”, Briefing, Brussels.

⁵² Mendez C and Bachtler J (2015), “Permanent revolution in Cohesion policy: restarting the reform debate”, [European Policies Research Paper](#), No 93, European Policies Research Centre, Glasgow.

Previous MFF negotiations have shown that the **principle of ‘fair return’ (juste retour)** and the **divide between net contributors and net beneficiaries** have often prevented fair and ‘rational’ consensus to emerge. In fact, EU policies, such as the CP, are thus hijacked by net contributors, who believe that financial penalties are required to discipline members with perceived lack of effective public spending. Resulting internal tensions are detrimental to both EU solidarity and further decrease the likelihood of reaching positive consensus. This falls far short of the leadership spirit that can be expected from the EU project, especially in a challenging global environment.

In a nutshell, the piling up of different – if not diverging – objectives has blurred the **rationale and the primary goal of structural reforms** and the scope for increasing the relationship between ESI Funds and economic governance. Furthermore, the extension of economic governance objectives to the CP area may hamper the CP’s ability to deliver on its initial objectives, namely long-term growth and investment.

Criticism has so far predominantly focused on two aspects: (i) first, the tools to boost growth and investment are not well-defined, understood or integrated into the CP framework or the broader EU policy and funding framework; (ii) second, the suggested reforms could imply a divergence from, and thus undermine CP core objectives of economic, social and territorial cohesion.

Moving forward, the EU should reframe the relationship between ESI Funds and economic governance with a **political vision** that goes beyond structural reforms and macroeconomic conditionality and fully espouses the wider objectives and policies of the European Union.

5 A prospective roadmap

The final section presents a road map to overcome the challenges described in section four. It also argues in favour of integrating the relationship between ESI Funds and EU economic governance objectives as part of a wider EU growth strategy.

5.1 The objectives

Building upon the findings of the previous section, we first define a short list of concrete needs or objectives that need to be addressed. We latter present an agenda to help strengthen the link between ESI Funds and the EU's economic governance objectives.

5.1.1 More clarity

Conditioning the use of structural funds to the implementation of growth-enhancing reforms has the potential to highlight 'EU added value' in supporting the EU's growth and investment agenda.

However, there is a need to recognise that this direction for a suggested CP reform agenda is **not universally supported or well understood** across the CP community. Given this lack of ownership, there is a risk that the ongoing post-2020 debate is characterised by entrenched positions from different CP constituent groups. This, in turn, risks limiting the extent to which the debate about the Policy's future can be underpinned by truly innovative and progressive options.

Against that backdrop, the conditionalities underpinning CP need to be further clarified and integrated into a **more compelling narrative** that re-states the political rationale of CP reform. In this context, it is also essential that a positive consensus is reached regarding the key features and the direction for the Policy, in pursuit of CP's enduring goals and principles.

5.1.2 Focus on added value

Considering its strong relevance for the growth and investment agenda and the high level of scrutiny of the CP, proposals aiming to strengthen the links between the ESI Funds and the economic governance agenda are likely to represent a major item of the negotiations on the future MFF. As a result, this agenda could represent an opportunity for the Juncker Commission to be "more ambitious on big things, and smaller and more modest on small things."⁵³

However, delivery will only match this level of ambition if the reform agenda rests upon a **strong, positive narrative** as to why it constitutes an area where the EU can provide **added value**. A stronger political ownership of this agenda is necessary to ensure that the rationale for the CP reform is well-connected to the EU's future growth and investment agenda.

5.1.3 More alignment with the wider EU framework

The context of the post-2020 MFF review opens a **window of opportunity for a new deal to be struck** between EU member states on a revamped CP, positioning it more clearly *vis-à-vis* the wider spectrum of EU policies. The linkages between ESI Funds, structural reforms and economic governance objectives hinge upon a set of interdependencies, whereby any change in each policy can generate externalities across the EU's territories.

⁵³ European Commission (2014), "A New Start: European Commission work plan to deliver jobs, growth and investment", Press Release, Strasbourg, http://europa.eu/rapid/press-release_IP-14-2703_en.htm

It is essential to link any specific reform of the way ESI Funds are distributed with the wider CP reform agenda and to link it to the EU's future priorities. This approach could help integrate CP, but also the whole MFF, in a **more connected operating framework** able to boost the impact of the EU budget.⁵⁴ This also assumes a **wider reform of the EU's economic governance system** to provide greater oversight and alignment of other growth-orientated EU policies.

5.2 Recommendations

Moving forward, we have identified four sets of recommendations to address the challenges identified in section four in line with the objectives described above. In summary, these are:

1. **To clarify the added value of EU action in regions**
2. **To provide a stronger rationale for growth-enhancing reforms**
3. **To lay out how ESI Funds can contribute to the EU's growth and cohesion objectives**
4. **To build a stronger regional ownership of the EU's economic governance agenda**

5.2.1 Recommendation 1: Clarify the added value of EU action in regions

- a) **Put the reforms into perspective:** the upcoming negotiations on the post-2020 Multiannual Financial Framework are an opportunity to address the challenges mentioned in the introduction and present a new set of priorities that can fit with a reduced budget. Sparked by Europe's "poly-crisis"⁵⁵ there is also an ongoing reflection on the future of Europe.⁵⁶ This provides an opportunity to reposition the role of Cohesion Policy in this new context and to clarify how CP can add value, through ESIF, to the achieving of a range of objectives – such as growth and investment or macroeconomic stability – which would benefit the EU as a whole.
- b) **Set the level of ambition:** the EU budget has only limited leverage to foster structural reforms in the richer member states. Equally, the restricted budget of Cohesion Policy and the addition of objectives assigned to the policy over time leave limited room for developing new financial incentives. Finally, proposals need to be politically realistic and consider the challenges for both the member states and the Commission to apply sanctions to countries experiencing macroeconomic imbalances.
- c) **Build a consensus based on evidence and positive incentives:** in an overall context of mistrust among EU countries and *vis-à-vis* the Commission on the implementation of the enhanced economic governance system, the new reform agenda needs to rely on sound and strong evidence. Furthermore, there is a need to address the perceived 'punitive' approach underpinning the 'corrective arm' of MEC. This should be replaced by positive incentives and a more positive narrative to drive commitments and align efforts.

5.2.2 Recommendation 2: Provide a stronger rationale for growth-enhancing reforms

- a) **Link structural reforms to a new, comprehensive, EU growth strategy:** there is an urgent need to develop a new EU growth strategy in an inclusive and participatory way that fully engages all EU stakeholders. This would help clarify the nature and the purpose of structural reforms and the priority areas where EU funds should be invested. To ensure stronger ownership of this agenda,

⁵⁴ Huguenot-Noël, Robin, and Hunter, Alison, 'Cohesion Policy: how can the EU sustain solidarity and investment at the same time?' in European Commission, "Cohesion Policy looks to the future", Panorama Summer 2017 N° 61, Brussels, http://ec.europa.eu/regional_policy/sources/docgener/panorama/pdf/mag61/mag61_en.pdf

⁵⁵ Emmanouilidis, Janis A and Zuleeg, Fabian (2016), "EU@60 - Countering a regressive and illiberal Europe", *EPC Issue Paper*, European Policy Centre (EPC), Brussels, http://www.epc.eu/pub_details.php?cat_id=1&pub_id=7020

⁵⁶ See the White Paper and subsequent reflection papers. European Commission (2017), "White Paper on the Future of Europe: the way ahead", Brussels, https://ec.europa.eu/commission/white-paper-future-europe/white-paper-future-europe-way-ahead_en

all EU policies and programmes supporting it should be better aligned with national and regional growth strategies.

- b) **Position Cohesion Policy as the champion of the EU’s investment and solidarity agenda.** A new rationale would help address concerns about the lack of clarity of CP objectives and challenge the perceived lack of profile of the Policy (in comparison to other, sector-specific, budget lines). A stronger identification with the EU’s structural reform agenda would help clarify the logic underpinning the introduction of conditionalities in CP.⁵⁷ Equally, conditionalities should be assessed in the light of their ‘transformational impact’ and applied in a proportionate way so as to ensure that they fully embrace the solidarity dimension of the CP mandate.
- c) **Clarify the role of structural reforms *vis-à-vis* CP objectives:** The Commission should build stronger evidence on the structural reforms that can help achieve the CP objectives of economic, social and territorial cohesion. Pre-conditions on the use of ESI Funds should target objectives that are consistent with the goals pursued by CP and avoid links to ‘exogenous’ types of conditionality, such as ‘political conditionality’ (e.g. on the implementation of the rule of law) or other types of reforms that do not fit in the remit of the CP’s mandate.
- d) **Extend the conditionality on growth-enhancing reforms to other EU policies and programmes:** the European Semester process is considered to have placed undue pressure on the role and influence of CP and the ESIF. A new EU growth strategy would need to clarify what role CP should play in that agenda, how ESI Funds can help deliver on those objectives, but also what should be the role and pre-conditions attached to the use of other financial instruments – such as the Connecting Europe Facility (CEF), the European Fund for Strategic Investment (EFSI) and the future Research & Innovation (R&I) Framework Programme. This more holistic approach should also help avoid competition between EU funding tools.
- e) **Build on the creation of the Structural Reform Service Programme to support growth-enhancing reforms through the EU budget:** the SRSP, which will link EU financial support requested by member states to the implementation of CSRs, represents a good example of the kind of mechanisms that could be developed in the next programming period. Moving forward, the experience of the SRSP should be used to inform the development of similar EU funding tools. Several options have been suggested regarding how such fund could work in practice. For example, the Commission’s reflection paper on the future of EU finances highlights that such fund could “either be reinforced under cohesion policy or established under a new, stand-alone fund open to all member states”.⁵⁸ Such fund would need to be a genuine ‘structural reform fund’ cutting across all EU growth-enhancing policies. This would have the advantage of increasing the leverage of the EU budget in fostering the implementation of structural reforms both in traditional beneficiaries of CP but also *vis-à-vis* richer member states.

5.2.3 Recommendation 3: Lay out how ESI funds can contribute to the EU’s growth and cohesion objectives

- a) **Build the evidence for conditionalities linked to reforms boosting growth and cohesion:** ex-ante conditionalities are gaining widespread support for the role they can play in facilitating the implementation of reforms ‘on the ground’. There is now a need to build stronger evidence on how ex-ante conditionalities can help implement the kind of structural reforms that will help Cohesion Policy deliver on objectives of its original mandate.
- b) **Set out the case for MEC and a wider reform of the economic governance system to deliver on the growth-enhancing reform agenda.** This requires explaining how MEC may support the

⁵⁷ John Bachtler et al (2017)

⁵⁸ European Commission (2017), “Reflection Paper on the Future of EU Finances”

implementation of growth-enhancing reforms. Considering the existing controversies about the impact of MEC, the effectiveness of MEC must first be assessed against the objective of supporting the establishment of a sound macroeconomic environment. Notwithstanding the political pressures and challenges concerning a continued role for MEC, more constructive mechanisms should be explored to link the use of ESI Funds with a country's macroeconomic performance. This requires looking at the *drivers* for macroeconomic imbalances and considering how MEC or similar mechanisms could help incentivise the implementation of the kind of structural reforms which can effectively help tackle them.

- c) **Explore the scope to turn MEC into an ex-ante conditionality:** the upcoming debate concerning the EU's funding strategy post-2020 provides an opportunity to review the MEC mechanism. This is also an opportunity to explore, with the CP community and other stakeholders involved in the post-2020 MFF negotiations, whether its value may be better positioned as an ex-ante mechanism, i.e. as a tool *incentivising* member states to achieve a sound business environment.

Considering the high share of pre-allocation of ESI Funding, this new mechanism should consider non-financial incentives. It could, for example, give an **increased flexibility in ESIF implementation for member states fulfilling the conditions related to macroeconomic and fiscal criteria** at the start of the programming period. Accordingly, countries struggling to respect these conditions could be required to use a higher share of ESI Funds for conducting the kind of reforms which are deemed to improve their business environment.⁵⁹

An ex-ante MEC mechanism would have the advantage of mutually reinforcing the **two existing conditionality instruments** (MEC and ExAC). It would also facilitate the monitoring of how **ex-ante conditionalities** help improve the macroeconomic environment and thus the effectiveness of the Funds. It could finally help reposition **MEC as an 'enabler' for the EU's growth-enhancing reform agenda**.

However, in light of the controversies about the existing MEC mechanism, the authors of this paper wish to stress that the effectiveness of a 'revamped MEC' is unlikely to prove successful if it fails to **address the concerns** expressed by the different communities. For this, any proposal aimed at moving towards increased MEC should (a) be able to rely on **compelling evidence** that ESIF-related conditionalities can contribute to the objective of creating a sound macroeconomic environment; (b) be **tested** with the stakeholders involved in the negotiations of the post-2020 MFF and the CP community. Considering the usual constraints surrounding MFF negotiations (see "The limits of Realpolitik"), we recommend that consultations on this proposal start as soon as possible.

5.2.4 Recommendation 4: Build a stronger regional ownership of the EU's economic governance agenda

- a) **Propose a wider reform of the economic governance system:** to increase regional ownership of the structural reform agenda, there is a need to clarify how the European Semester, CSRs and conditionalities on the use of ESIF are linked to long-term development strategies in member states and regions. A possible option would be to turn the economic governance system into a *multi-annual framework* which create more robust connections to the European Semester including PAs, NRPs, structural reforms, CSRs and ESI Funds.

⁵⁹ The reforms aimed at 'institutional and administrative capacity building' identified in the context of existing ESIF-related ex-ante conditionalities could serve as a useful indicator for determining what reforms should be prioritised, in collaboration with the managing authorities.

- b) **Provide a multi-level governance framework for growth-enhancing reforms:** to respond to the perceived lack of ownership, there is a need to better integrate national and subnational players in the definition and implementation of the kind of structural reforms that the EU can support through ESIF. This could, for example, take the form of a new assessment framework aimed at identifying the nature of the structural reforms that should be prioritised for each member state and what should be the contribution of each level of governance to their delivery. This framework could be extended to a more tailored analysis of the contribution of each region, for example, in highly decentralised member states (e.g. Germany, Italy or Spain).
- c) **Integrate territorial and cross-border impact assessments in the European Semester:** There is currently no regional or cross-border dimension in the CSRs and the European Semester process does not currently provide for a tailored approach looking at the role played by regional authorities in implementing Cohesion Policy. Territorial and cross-border impact assessments could prove helpful to ensure stronger coherence between EU policy objectives.⁶⁰

This study has demonstrated that to strengthen the link between EU structural funds and the EU’s economic governance objectives, there is first and foremost a need to build a **clearer narrative of what EU’s economic governance objectives aim to achieve.**

Against this backdrop, these recommendations focus on positioning **structural reforms at the heart of a new EU growth strategy in an inclusive and participatory way** that fully engages all EU stakeholders. As our analysis has shown, the priority is to boost ownership by member states and regions of the EU’s economic governance agenda and alignment of their public investment with commonly agreed objectives.

In light of this, our package of supporting measures could help deliver greater **clarity, visibility** and a more **compelling narrative** for the EU to champion this agenda.

⁶⁰ Committee of the Regions (2016), [“Simplification of ESIF from the perspective of Local and Regional Authorities”](#), Brussels.

6 Conclusion

This study assessed the extent to which European Structural and Investment Funds could further foster growth-enhancing reforms as well as a sound macroeconomic environment. It looked at the existing ex-ante and macroeconomic conditionality instruments and considered whether and how these provisions should be extended in the next programming period.

Our analysis has revealed that the recently introduced **macroeconomic conditionality mechanism** is increasingly seen as **conflicting with the traditional CP objectives of investment and growth**. This problem is compounded by the lack of a shared understanding across regions and stakeholders on the content and purpose of structural reforms. The perceived misalignment of EU tools and objectives fuels confusion and doubt among the CP community at both national and regional levels about the ownership and credibility of existing conditionality measures.

Our analysis, however, shows that **conditionality instruments could play a more positive and enabling role** in generating the growth and investment-friendly conditions which the EU requires. To do so, the EU should build a clearer narrative based on concrete evidence showing how conditionalities can help deliver on structural reforms. Impact assessments must be undertaken to demonstrate the role played by ex-ante and macroeconomic conditionalities in member states and regions, ahead of the next multiannual financial framework negotiations.

MEC remains subject to several controversies. Disagreements on the 'conflicting' outcomes targeted by MEC are persistent among stakeholders and the level of commitment to MEC remains **ambiguous**. The next MFF is an opportunity to review the effectiveness of MEC. One should consider the possibility to turn it from an ex-post to an ex-ante mechanism, especially as support for the ExAC appears stronger in that regard.

Nevertheless, there is a risk that any attempt to move towards increased macroeconomic conditionality without the appropriate consideration for the ownership of Cohesion Policy could frustrate the 'conditionality agenda' or thwart **the much-needed debate on the reform of Cohesion Policy**.

To overcome these challenges, we suggest that the Commission reposition the rationale for EU action and clearly set out a positive and prospective agenda for change. This means proactively addressing the concerns around MEC by **taking a more constructive approach that would** prevent unrealistic expectations from arising as to the extent to which the EU budget alone can help deliver on the EU's growth and investment agenda.

In light of this, we propose that the Commission take a role of 'strategic enabler' in the implementation of the EU's growth agenda by re-positioning structural, growth-enhancing reforms at the heart of **a new growth strategy for the EU**. This new growth strategy could bring forward the possible '**multiplier effect**' of **targeting ESIF towards enabling reforms**, and reposition CP as the EU's main tool to sustain investment and solidarity at the same time in the new era.

7 References

- Andor, László (2017), “Cohesion and Conditionality in the EU”, Progressive Economy blog.
- Bachtler, John, Oliveria Martins, Joaquim, Wostner, Peter and Zuber, Piotr (2017), “Towards Cohesion Policy 4.0 – Structural Transformation and Inclusive Growth”, Regional Studies Association, Brussels.
- Barca, Fabrizio (2017) The European Union’s Great Opportunity. Keynote speech at the 7th Cohesion Forum (EU cohesion policy, a forward-looking perspective), 26-27 June, Brussels.
- Committee of the Regions (2016), “Simplification of ESIF from the perspective of Local and Regional Authorities”, Brussels.
- Committee of the Regions (2014), “CoR online consultation on public investments, growth and the national co-financing of ESIF”, Brussels.
- Common Provisions Regulations (2013), Brussels.
- Council of the European Union (2013), “Council adopts cohesion policy package for 2014-2020”, press release, Brussels.
- Council of the European Union (2016), “Conclusions on results and new elements of cohesion policy and the European structural investment funds”, Brussels.
- Council of the European Union (2016), “Council conclusions on in-depth reviews and implementation of the 2015 Country Specific Recommendations”, Brussels.
- Chomicz, Ewa (2017), “EU budget post-Brexit: confronting reality, exploring viable solutions”, *EPC Discussion Paper*, European Policy Centre (EPC), Brussels
- Dhéret, Claire (2017), “Achieving social triple A: What role for EU cohesion policy?”, EPC Policy Brief, European Policy Centre (EPC), Brussels.
- Dhéret, Claire and Roden, Julie (2016), “Towards a Europeanisation of Youth Employment Policies?”, *EPC Issue Paper*, European Policy Centre (EPC), Brussels.
- Emmanouilidis, Janis A. and Zuleeg, Fabian (2016), “EU@60 - Countering a regressive and illiberal Europe”, *EPC Issue Paper*, European Policy Centre (EPC), Brussels.
- European Commission (2017), “Citizens’ awareness and perceptions of EU regional policy”, Flash Eurobarometer 452, report, Brussels.
- European Commission (2017), “Reflection Paper on the Deepening of the Economic and Monetary Union”, Brussels.
- European Commission (2017), “Reflection Paper on the Future of EU Finances”, Brussels.
- European Commission (2017), “Strengthening Innovation in Europe’s Regions: Towards resilient, inclusive and sustainable growth at territorial level”, Commission Staff Working Document, Brussels.
- European Commission (2017), “The Value Added of Ex ante Conditionalities in the European Structural and Investment Funds”, Commission Staff Working Document, Brussels.
- European Commission (2017), “White Paper on the Future of Europe: the way ahead”, Brussels.
- European Commission (2017), Press release “Political agreement reached on Structural Reform Support Programme – a new tool to help Member States implement reforms”, 08.02.2017
- European Commission (2016), “The implementation of the provisions in relation to the ex-ante conditionalities during the programming phase of the European Structural and Investment (ESI) Funds”, Brussels.
- European Commission (2015), “The impact of the economic and financial crisis on the reform of Cohesion Policy 2008-2013”, Brussels.
- European Commission (2014), “Guidance Fiche – Performance Framework Review and Reserve in 2014-2020”, Brussels.

European Commission (2014), "A New Start: European Commission work plan to deliver jobs, growth and investment", Press Release, Strasbourg.

European Commission (2012), "A simplification agenda for the 2014-2020 MFF", Brussels.

European Commission, 'Europe 2020 targets'

European Parliament (2017), "Building Blocks for a Future Cohesion Policy – First Reflections", Brussels.

European Parliament (2016), "Report on Cohesion Policy and Innovation Strategies for Smart Specialisation" (RIS3), Brussels.

European Parliament (2016), "Public Sector Reform: How the EU budget is used to encourage it", Brussels.

European Parliament (2015), "How the EU budget is spent", Briefing, Brussels.

European Parliament (2014), "The European Structural and Investment Funds and sound economic governance: guidelines for the implementation of Article 23 of the Common Provisions Regulation", Briefing, Brussels.

Haas, Joerg and Huguenot-Noël, Robin (2017), "Are the spending priorities of the Euro Area converging?", Jacques Delors Institute – Berlin.

Hamza C, Jeffrey P, Vincze M and Wihlborg M (2016), "The implementation of the provisions in relation to the ex-ante conditionalities during the programming phase of the European Structural and Investment (ESI) Funds", Final report to the European Commission (DG REGIO), Metis with ICF International, Vienna.

Huguenot-Noël, Robin, and Hunter, Alison, 'Cohesion Policy: how can the EU sustain solidarity and investment at the same time?' in European Commission, "Cohesion Policy looks to the future", Panorama Summer 2017 N° 61, Brussels.

Hunter, Alison (2017), "Smart Specialisation: championing the EU's economic growth and investment agenda?", EPC Commentary, European Policy Centre, Brussels.

Jouen, Marjorie (2015), "The macroeconomic conditionality, the story of a triple penalty for region", Jacques Delors Institute, Paris.

Mendez C and Bachtler J (2015), "Permanent revolution in Cohesion policy: restarting the reform debate", European Policies Research Paper, No 93, European Policies Research Centre, Glasgow.

Rannenbergh, A., C. Schoder, and J. Strasky (2015), "The macroeconomic effects of the euro area's fiscal consolidation 2011-2013: A simulation-based approach", Research Technical Paper 03/RT/2015, Central Bank of Ireland, Dublin.

The Federal Government of the Republic of Germany (2017), "Joint statement by the German government and German Länder on EU Cohesion Policy beyond 2020.", Berlin.

MISSION STATEMENT

The European Policy Centre (EPC) is an independent, not-for-profit think tank dedicated to fostering European integration through analysis and debate, supporting and challenging European decision-makers at all levels to make informed decisions based on evidence and analysis, and providing a platform for engaging partners, stakeholders and citizens in EU policymaking and in the debate about the future of Europe.



European Policy Centre
14-16 Rue du Trône/Troonstraat
B-1000 Brussels
Belgium

Tel: +32 (0)2 231 03 40 - Email: info@epc.eu

Twitter: [@epc_eu](https://twitter.com/epc_eu)

www.epc.eu

In strategic
partnership with



Europe for Citizens
Programme