

Deffaa, Walter

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Walter Deffaa*

The New Generation of Structural and Investment Funds – More Than Financial Transfers?

The European Structural and Investment Funds make up more than 40% of the EU budget and are thereby the EU's most important financial support to growth, employment, investment and structural change. The funds are programmed for (overlapping) seven-year periods, and all programmes for the new 2014-2020 period were adopted by the end of 2015. What can the EU and its taxpayers expect from this new generation of programmes? How do they fit into the EU's efforts to strengthen its economic governance and performance, and what role do they play in the Juncker Commission's "Investment Plan for Europe"?

The European Structural and Investment Funds (ESIF) comprise five EU funds which promote investment and structural policies in the EU: the European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF), European Agricultural Fund for Rural Development (EAFRD), and European Maritime and Fisheries Fund (EMFF). All have operated under shared management,¹ yet now for the first time they are governed by a common conceptual and legal framework to ensure consistency and synergies as well as simpler implementation on the ground through a single set of basic legal rules.

For the period 2014-2020, the EU budget will provide €454bn to ESIF; as Member States have to co-finance the EU contribution, the overall ESIF allocation will amount to €637bn. Member States receive fixed allocations for the whole programming period which depend mainly on objective criteria such as regional or national GDP per capita, unemployment rate, population and population density. Poland (€86bn) is by far the biggest beneficiary, followed by Italy (€42.8bn), Spain (€37.4bn), Romania (€30.8bn) and Germany (€27.9bn); the smallest allocation goes to Luxembourg (€140m). Looking at the aid intensity (EU allocation/number of inhabitants), for which the EU average is

€896, it is highest (around €3000 per capita) in Estonia, Lithuania, Latvia and Slovakia and lowest (below €300 per capita) in Belgium, Denmark, Luxembourg, the Netherlands and the UK (see Figure 1), showing clearly the redistributive nature of the overall allocation.

Whereas the overall allocations are rather impressive in absolute terms, their relative weight compared to GDP is limited, with an EU-wide average of just 0.4%. However, this figure reaches over three per cent in countries like Bulgaria, Croatia, Hungary and Romania.² The importance of the funds for investment can be very significant. As shown in Figure 2, for many countries, in particular in Eastern Europe, the ESIF allocation represents more than 50% of public investment, which shows that the ESIF significantly impact the allocation of investments in these regions.

Reform triggered by the financial and economic crisis

The new generation of programmes were designed in the midst of the financial and economic crisis that started in 2008. The situation in the financial sector severely deteriorated, which led to the collapse of private and public investment, which resulted in a dramatic fall in economic activity and employment. Some Member States and regions were particularly affected, and as a result, the convergence process which had been at work in the EU for decades almost came to a halt. This was a wake-up call for EU Cohesion Policy,³ which, according to the Treaty of the Functioning

* The text represents the personal views of the author, which do not purport to represent the view of the European Commission.

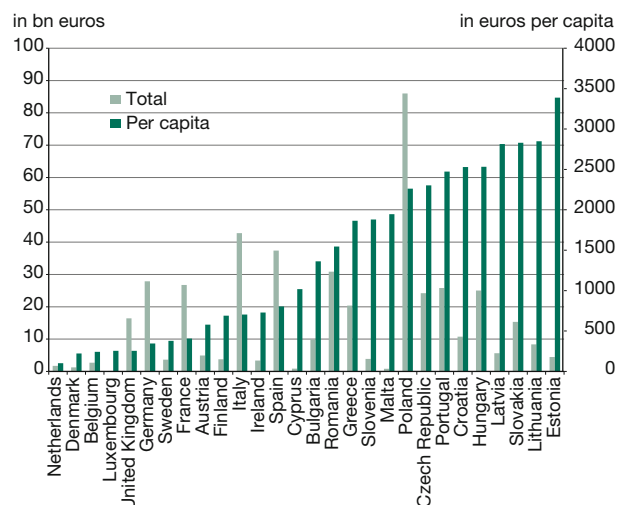
¹ European Commission: European Union Public Finance, 5th Edition, Luxembourg 2014, Publications Office of the European Union, pp. 224-225.

² These figures correspond to the maximum ratio of expected expenditure by Member States (constructed by DG Regional and Urban Policy on the basis of past observations and specific features of the 2014-2020 programming period) and projected GDP (DG Economic and Financial Affairs forecasts and projections).

³ In terms of funding, Cohesion Policy comprises the ERDF, the CF and the ESF.

Walter Deffaa, Directorate-General for Regional and Urban Policy, European Commission, Brussels, Belgium.

Figure 1
ESIF allocations 2014-2020



Source: European Commission, DG Regional and Urban Policy.

of the European Union (articles 174 to 178 TFEU), aims at reducing regional disparities.

The collapse of investment during the crisis revealed a number of weaknesses in those Member States and regions:

- macroeconomic (in particular financial and fiscal) risks
- structural rigidities (insufficient structural reforms)
- governance problems (administrative capacity)
- some questionable public investment decisions (for instance, in transport infrastructure).

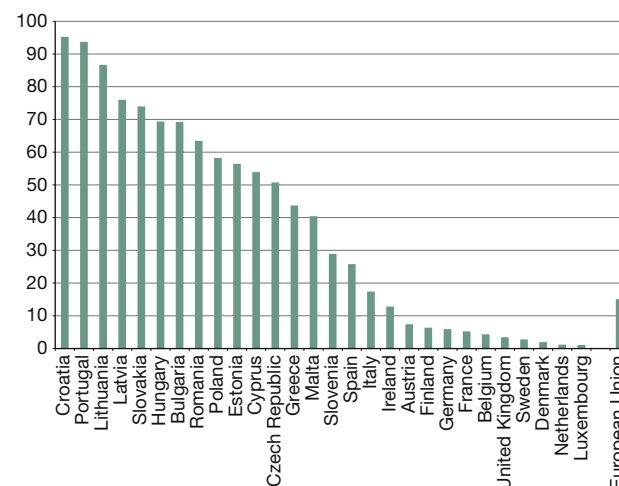
Those weaknesses will make investment more risky and less profitable until they are tackled.

Taking a lesson from the crisis, the ESIF have undergone a substantial reform, in two directions.

First, it has been ensured that the programmes support investment in areas that are key for growth and jobs and supported by a strong performance logic rather than aiming mainly at transferring and absorbing the allocation.

Second, the programming and implementation of ESIF is fully aligned with the overall economic policy coordination that was reinforced at the EU level following the crisis.

Figure 2
ESIF allocations 2014-2020 as percentage of public investment by Member State
in %



Source: European Commission, DG Regional and Urban Policy.

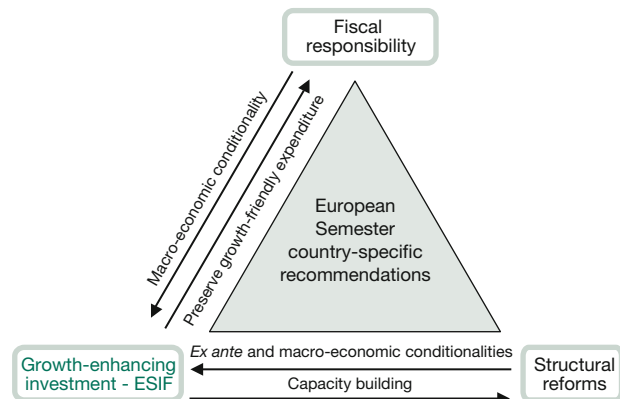
The ESIF will be devoted to 11 thematic objectives that are directly derived from the European strategy for smart, sustainable and inclusive growth.⁴

ESIF programmes have to be strategically aligned with the overall economic policy of the EU and its Member States, coordinated in the so-called European Semester with its country-specific recommendations and the implementation of specific macro-economic governance procedures, such as the excessive deficit procedure.⁵ The European Semester process can be seen as building a policy mix of fiscal and financial consolidation on the one hand and structural reforms on the other, complemented by an active growth policy to promote competitiveness, investment, jobs and growth. In this policy mix triangle (see Figure 3), ESIF play a key role in growth-enhancing investment. This does not occur in isolation, but through linkages to the other elements of the policy mix, in particular through newly introduced conditionalities that can lead to the suspension of funds: macro-economic condi-

⁴ Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006; short: Common provisions regulation (CPR), Art. 9.

⁵ European Commission: On steps towards Completing Economic and Monetary Union, COM(2015) 600 final, Brussels, 21 October 2015, pp. 3-7.

Figure 3
ESIF in the EU economic policy mix



Source: European Commission, DG Regional and Urban Policy, 6th Cohesion Report, p. 235.

tionalities linked to the excessive deficit procedures and the macro-economic adjustment programmes in Member States under financial assistance, and so-called *ex ante* conditionalities that require certain structural investment-enabling conditions in place before funds can flow.

Thus, conceptually we can see a paradigm shift from a transfer/absorption-oriented policy to a growth-oriented investment policy focussed on results and fully embedded in the coordination of economic policy.

More than money? Do new programmes deliver reform?

The regulations for the new period were adopted in December 2013. The programming process (comprising two

steps: the Partnership Agreement at the national level, followed by individual programmes at the regional or sectoral level – in total more than 500 programmes EU-wide) was finalised for all Member States and Funds by the end of 2015. Therefore, a first assessment of the programming exercise can now be made to evaluate the extent to which the thrust of the reform for the 2014-20 programming period has been realised in practice.⁶

Country-specific recommendations

The link with the European Semester process should ensure that the ESIF expenditure is strategically aligned with the general EU coordinated economic policies and demonstrate added value.⁷ For the new generation of programmes, the 2014 country-specific recommendations (CSRs) endorsed by the Council were key. More than two-thirds of these CSRs were relevant for the Funds (non-relevant CSRs concern fiscal policy, tax measures, pension systems, etc.), and all relevant CSRs were addressed in the programmes. They concern mainly the following areas, with Table 1 referencing the Member States concerned:

- improvement of and better access to the labour market and education/training systems
- research, development and innovation

⁶ European Commission: Investing in jobs and growth – maximising the contribution of European Structural and Investment Funds, COM(2015) 639 final, Brussels, 14 December 2015.

⁷ This point was underlined by the German Finance Minister W. Schäuble in a speech on EU Budget Focused on Results: <http://www.bundesfinanzministerium.de/Content/EN/Reden/2015/2015-09-28-key-note-eu-budget-focused-on-results.html>.

Table 1
Number of country-specific recommendations taken up in ESIF programmes, by Member State

	AT	BE	BG	CZ	DE	DK	EE	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	UK	Total
Labour market	1	1			1		1	1	1	1	1	1	1	1	1		1		1	1	1		1	1	1	1	19
Education and skills	1		1	1	1		1					1		1	1	1	1					1			1	1	13
Poverty and social inclusion			1	1								1										1			1		5
Health and long-term care			1	1							1						1					1			1		6
Public administration capacity				1							1	1		3		1									1		8
Transport														1						1	1				1		4
Research and innovation							1										1		1								3
Business environment and access to finance											1							1				1					3
Total by Member State	2	1	3	4	2	0	3	1	1	1	4	4	1	6	2	0	5	2	1	2	2	5	0	1	6	2	61

AT = Austria, BE = Belgium, BG = Bulgaria, CZ = Czech Republic, DE = Germany, DK = Denmark, EE = Estonia, ES = Spain, FI = Finland, FR = France, HR = Croatia, HU = Hungary, IE = Ireland, IT = Italy, LT = Lithuania, LV = Latvia, MT = Malta, NL = Netherlands, PL = Poland, PT = Portugal, RO = Romania, SE = Sweden, SK = Slovakia, UK = United Kingdom.

Source: European Commission, DG Regional and Urban Policy.

- sustainable energy investments such as energy efficiency and renewables
- health sector
- access to finance
- the business environment and administrative capacity.

As the link between the ESIF programmes and the European Semester CSRs is now established, it will be important to monitor whether the support measures for the CSRs are actually implemented. This will initially be the task of the monitoring committees of the individual programmes; it will then be reported in the national progress reports and synthesised by the Commission in the first Strategic Report, to be submitted in 2017.⁸

Any new CSRs to be endorsed in the future by the Council which are relevant to the ESIF can lead to direct follow-up in the programme implementation process, possibly requiring an amendment of the relevant programme(s). The new architecture of the ESIF gives powers to the Commission to launch a reprogramming request for that purpose if necessary.

Macro-economic conditionalities

In the extreme, the link between the macro-economic governance processes and the ESIF programmes can lead to a suspension of funds if the Member State concerned does not meet its respective obligations.

If a Member State does not follow up on a Commission request to address a CSR through a reprogramming of ESIF and would not amend the relevant programmes accordingly, the Council could eventually suspend part or all of the payments for the programmes concerned.⁹

If a Member State does not take the actions required by the Council in an excessive deficit procedure, an excessive macro-economic imbalance procedure or under a macro-economic adjustment programme, the Commission shall make a proposal to the Council to suspend part or all of the commitments of the programmes of that Member State.¹⁰

Ex-ante conditionalities

The links to the European Semester are not the only strings attached to the ESIF. The funds can only flow if certain conditions are fulfilled that are conducive to the investments being efficient and effective as well as compliant with prevailing rules and laws. These newly intro-

duced conditions are called *ex ante* conditionalities, and they fall into three different categories: strategic, regulatory and administrative.¹¹

Strategic conditionalities

Past experience has shown that programmes risked being collections of one-off individual projects that were neither sustainable nor embedded in a regional or national strategy. This limited the effectiveness of EU funding. In the new generation of ESIF programmes, projects co-financed by the EU should correspond to and transpose strategies. Thus projects in a specific policy field should not be financed if there are no corresponding strategies. The Common Provisions Regulation sets out the strategic *ex ante* conditionalities for different types of investments, requiring for instance transport plans/frameworks, health strategies, strategic policy frameworks for digital growth, a water pricing policy, waste management plans, and a strategic policy framework for improving vocational, education and training systems.

The so-called small specialisation strategies merit a special mention in this respect. Formally, they are an *ex ante* conditionality for spending ESIF on research, technology and innovation, but they have a much wider impact for the new generation of ESIF programs, as innovation should be a cross-cutting objective for investments in many areas. More than 120 national or regional smart specialisation strategies have been officially submitted to the European Commission. Smart specialisation strategies bring together public authorities, private sector companies and research bodies at the regional or national level to undertake a SWOT analysis of their economic potentials and define a limited set of innovation and development priorities for the future. A financial plan to stimulate research and investments has to be established, and continuous monitoring by all stakeholders should maintain the momentum for implementation and necessary adaptations of the strategy. In total €44 billion from ESIF and an additional €22 billion is allocated directly to implement the strategies. The individual smart specialisation strategies are primarily region or country-focussed. However, there is a clear value added to support cooperation across regions in smart specialisation areas, which will help optimise efficiency along value chains, create European value chains, synchronise private and public investments, and increase impact. Such trans-national, inter-regional and cross-border cooperation will also help industries find missing competences, access different research and innovation infrastructures located in other European regions, and identify new business opportunities beyond their geographical boundaries.

⁸ Art. 53.2 CPR, cf. footnote 4.

⁹ Art. 23.1-8 CPR, cf. footnote 4.

¹⁰ Art. 23.9-10 CPR, cf. footnote 4.

¹¹ Annex XI CPR, cf. footnote 4.

Regulatory conditionalities

Financing investments in certain sectors only makes sense if the relevant legal provisions are in place. This applies in particular to investments in energy efficiency (application of the EPBD 2010/31/EU directive), and in the waste (application of Waste directive FW 2008/98/EC) and water sectors (application of Water FD 2000/60/EC directive).

Administrative capacity conditionalities

Finally, experience has shown that the capacity of Member States and regions to absorb the funds (and to use them efficiently and effectively) largely depends on the capacity of the administrations in the beneficiary countries to devise strategies, build up project pipelines, manage projects, organise proper tender procedures and run efficient internal controls. Therefore, a series of *ex ante* conditionalities relate to horizontal issues, like the effective implementation of EU public procurement, state aid, Environmental Impact Assessment rules, as well as a strategic policy framework for reinforcing administrative efficiency. On the financial management side, Member States are for the first time obliged to develop an anti-fraud strategy to better protect the EU funds from abuse.

Action Plans to be fulfilled by the end of 2016

At the moment of adoption of the programmes, about 75% of the *ex ante* conditionalities were fulfilled, so that funds could flow immediately.

For the outstanding *ex ante* conditionalities, Member States had to agree with the Commission action plans for every programme concerned. In total there are more than 700 such action plans which will be monitored closely by the Commission. If not fulfilled by the end of 2016, the Commission will have to decide on suspending payments for the programmed actions concerned.¹²

What results can be expected from the new programmes?

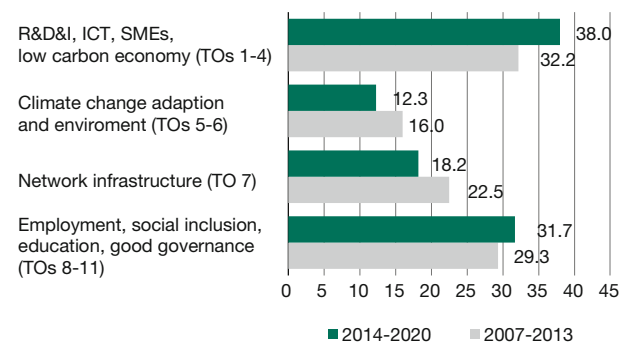
For the first time, ESIF programmes have to demonstrate what results they will achieve and how they will achieve them. They have to clearly state what the objectives of the programme are and what changes are intended to be implemented. For this, an intervention logic has to be developed defining development needs, objectives (change) to be achieved and how the programme intervention will contribute. Programme-specific indicators for the objec-

¹² European Commission: Investing in jobs ..., op. cit., p. 5.

Figure 4

Structural Funds and Cohesion Fund allocation by Thematic Objective (TO), 2014-2020 and 2007-2013

in % of total (excl. technical assistance)



Source: European Commission, DG Regional and Urban Policy.

tives have to be defined with clear baselines and target values. In addition, common general indicators have to be used by all programmes in order to allow aggregate reporting on achievements.

Concentration of budgetary means on Thematic Objectives

The funding of all ESIF programmes is limited to 11 Thematic Objectives derived from the European Strategy for smart, sustainable and inclusive growth.¹³ In order to achieve critical mass and maximum impact for growth, funds have to be concentrated to different degrees – depending on the categories of regions – on four Thematic Objectives which are most relevant for smart and sustainable growth: research/development/innovation, digital economy, small business support and low carbon economy. And there are also minimum requirements for ESF measures supporting the Thematic Objectives related to inclusive growth. As shown in Figure 4, both clusters of Thematic Objectives financed through Structural Funds and the Cohesion Fund (1-4 and 8-11) have increased their share and will reach nearly 70% in the new programming period.

Expected achievements in key areas

For each of the 11 Thematic Objectives, Table 2 gives some common output values for results to be achieved. This subset of data shows the important impact that the ESIF will have for the economic and social development of the EU.

From the programming process that was completed at the end of 2015, there is now extensive data available on planned financing and for expected achievements at the EU level, but also at the Member State and programme level.

¹³ Art. 9 CPR, cf. footnote 4.

Table 2

Selected expected achievements by Thematic Objective, ESIF 2014-2020

Thematic Objective	Indicator	Measurement unit	Achievement target
1 Strengthening research, technological development and innovation	All firms receiving support	Enterprises	129 500
	Research, Innovation: Number of new researchers in supported entities	Full time equivalents	29 400
	Research, Innovation: Number of researchers working in improved research infrastructure facilities	Full time equivalents	72 000
	Research, Innovation: Number of enterprises cooperating with research institutions	Enterprises	71 300
	Research, Innovation: Private investment matching public support in innovation or R&D projects	€ m	9 936
2 Enhancing access to and use and quality of information and communication technologies	All firms receiving support	Enterprises	77 500
	ICT Infrastructure: Additional households with broadband access of at least 30 Mbps	Households	14 600 000
	Health: Population covered by improved health services	Persons	2 045 000
3 Enhancing the competitiveness of small and medium-sized enterprises	All firms receiving support	Enterprises	801 500
	Startups supported	Enterprises	140 400
	Private investment matching public support to enterprises (grants)	€ m	14 200
	Private investment matching public support to enterprises (financial instruments)	€ m	7 800
	Direct employment increase in supported enterprises	Full time equivalents	354 300
	Total investment (private and public) in agricultural physical assets	€ m	16 800
	EAFRD - Farm holdings supported for investments in agricultural physical assets	Number	334 400
	EAFRD - Young farm holders supported (business development plan or investments)	Number	175 400
4 Supporting the shift towards a low-carbon economy in all sectors	Renewables: Additional capacity of renewable energy production	MW	7 700
	Energy efficiency: Number of households with improved energy consumption classification	Households	875 000
	Energy efficiency: Decrease of annual primary energy consumption of public buildings	kWh/year	5 180 000 000
	Energy efficiency: Number of additional energy users connected to smart grids	Users	3 076 000
	GHG reduction: Estimated annual decrease of greenhouse gas emissions	Tonnes of CO ₂ eq	24 400 000
	Total investment (private and public) for energy efficiency in agriculture and food processing	€ m	2 800
	Total investment (private and public) in renewable energy production	€ m	2 711
	Agricultural land under supported management contracts to reduce GHG and/or ammonia emissions	Hectares	5 100 000
	Livestock units concerned by investments in specific management to reduce GHG and/or ammonia emissions	Number	922 300
5 Promoting climate change adaptation, risk prevention and management	Risk prevention and management: Population benefiting from flood protection measures	Persons	13 200 000
	Risk prevention and management: Population benefiting from forest fire protection measures	Persons	11 800 000
	Farm holdings participating in supported income stabilisation tool	Number	624 500
6 Preserving and protecting the environment and promoting resource efficiency	Increase in the coverage of Natura 2000 or other areas or other spatial protection measures - Fisheries (12 of 27 MS covered)	km ²	342 800
	Solid waste: Additional waste recycling capacity	Tonnes/year	5 793 000
	Water supply: Additional population served by improved water supply	Persons	12 382 000
	Wastewater treatment: Additional population served by improved wastewater treatment	Population equivalent	16 853 000
	Nature and biodiversity: Surface area of habitats supported to attain a better conservation status	Hectares	6 374 000
	EAFRD - Area of organic farming supported	Hectares	10 043 000
	EAFRD - Agricultural land under management contracts supporting biodiversity and/or landscapes	Hectares	30 602 000
	EAFRD - Forest area under management contracts supporting biodiversity	Hectares	4 063 000
7 Promoting sustainable transport and removing bottlenecks in key network infrastructures	Railway: Total length of new railway line	km	628
	Railway: Total length of reconstructed or upgraded railway line	km	6 800
	Roads: Total length of newly built roads	km	3 090
	Roads: Total length of reconstructed or upgraded roads	km	9 600

Table 2

Selected expected achievements by Thematic Objective, ESIF 2014-2020 (continued)

Thematic Objective	Indicator	Measurement unit	Achievement target
8 Promoting sustainable and quality employment and supporting labour mobility	Unemployed, including long-term unemployed	Number	6 813 000
	Economically inactive	Number	752 800
	Below 25 years of age	Number	1 228 000
	Supported micro/small/medium-sized enterprises, including cooperatives, social economy	Number	362 700
	Participants who complete the YEI-supported intervention	Number	2 378 000
9 Promoting social inclusion, combating poverty and any discrimination	Unemployed, including long-term unemployed	Number	2 291 000
	Economically inactive	Number	998 600
	Health: Population covered by improved health services	Persons	38 809 000
	EAFRD - Rural population potentially benefiting from supported basic services	Number	50 751 000
10 Investing in education, training and vocational training for skills and life-long learning	Unemployed, including long-term unemployed	Number	926 900
	Economically inactive	Number	816 500
	Below 25 years of age	Number	2 034 000
	Childcare and education: Capacity of supported childcare or education infrastructure	Persons	6 676 000

Source: European Commission, DG Regional and Urban Policy.

This data can be retrieved from the ESIF Open Data Platform for Cohesion Policy.¹⁴

Monitoring and social control (open data)

The Open Data Platform will increasingly allow interested stakeholders and the public to follow progress in the implementation of the programmes. The platform currently shows planned financing under the 11 Thematic Objectives and over 100 common indicators across the five funds. This will be expanded and regularly updated, starting later in 2016, based on implementation data from the more than 500 programmes. This data resource will not only be interesting for research purposes (to monitor realised vs expected achievements or absorption of funds) but will also be important for accountability and “social control” of the public expenditure, which represents a large amount of the EU budget financed by European taxpayers.

Adapting programmes to new needs

The programmes have been discussed and prepared between 2013-15 on the basis of a needs assessment and forecasts at the time – in principle for the whole programming period 2014-20. In the course of the programming period, new needs and priorities may arise, and they can be taken into account through programme modifications. Against the backdrop of the refugee crisis in Europe, the European Commission has encouraged Member States to reassess their needs and if appropriate to propose programme modifications to finance integration measures for legal immigrants in the years to come.

¹⁴ <https://cohesiondata.ec.europa.eu/>.

The new Investment Plan for Europe and ESIF's role

Shortly after taking office, the Juncker Commission proposed an Investment Plan for Europe (IPE) to support economic recovery in the EU and to stimulate investment, which had dropped by 15% between 2007 and 2013.¹⁵ The IPE consists of three main pillars:

- I. *Mobilising finance for investment*, in particular through the establishment of the European Fund for Strategic Investment (EFSI). An EU budget guarantee (€16bn) complemented by a contribution from the European Investment Bank (EIB) (€5bn)¹⁶ is expected to generate some €61bn of additional investment by the EIB Group, which will generate a total of €315bn of investment in the EU by 2017.
- II. *Supporting investment in the real economy* through a European Investment Advisory Hub (EIAH) offering a single point of entry to a wide number of sources for investment advice as well as good practices, lessons learnt and real-life case studies on project finance and project management. In addition, a European Investment Project Portal (EIPP) to ensure that investors have reliable information on which to base their project-financing decisions.
- III. *Improving the investment environment*, in particular through better regulation and by removing non-financial, regulatory barriers in the single market.

¹⁵ European Commission: An Investment Plan for Europe, COM(2014) 903 final, Brussels, 26 November 2014.

¹⁶ In addition, several Member States have already announced contributions, mainly through their promotional banks. External investors such as China have also shown interest.

The ESIF are expected to play a key role in helping ensure the delivery of the IPE under all three pillars.

As to the first pillar, ESIF and the newly created EFSI not only have very similar acronyms but in fact share the overall objective of increasing investment in the EU. However, they are based on different intervention philosophies. EFSI focuses on strategic investments from an EU perspective, and as EFSI investments are intended to attract private funds which look for profits, these investments must normally be revenue-generating, while ESIF have an underlying regional or national development logic and are not only focussed on profitable investments but also on the (free) provision of public goods. They also differ in the scope of the instruments they use: whereas EFSI works exclusively with loans, guarantees and equity instruments, the prevailing instrument for ESIF is grant financing.

The role of ESIF in mobilising more investment is twofold. First, ESIF will expand their own capacity to mobilise financial instruments (loans, equity and guarantees) to trigger more investment through an increased leverage effect.

In the old generation of programmes, only €12bn was used for financial instruments and mainly in the field of SME support. In the new generation, this amount should be more than doubled to reach nearly €30bn and include fields such as CO₂ reduction, ICT, sustainable transport, R&D&I and resource efficiency. Over the whole programming period, this new approach would result in a direct leverage effect, generating additional investments between €40bn and €70bn and with an even larger multiplier effect in the real economy. At this early stage of the programming process, there are already plans to deliver at least €20bn through loan, guarantee and equity instruments. More still needs to be done, however, and the Commission is currently examining the framework for ESIF implementation to see whether additional measures might be needed to further stimulate the use of financial instruments during 2014-2020.

Second, despite the clear differences between EFSI and ESIF, there are many opportunities for them to leverage synergies. It goes without saying that those who administer the respective funds are expected to fulfil their functions with a careful view to ensuring complementarity and avoiding duplication and crowding-out. In addition, the combination of ESIF and EFSI is also possible under both regulatory frameworks, with the aim that the funds work together to catalyse more private sector involvement and greater economic impact.

There will be many areas where the eligibility criteria and policy objectives of ESIF programmes will overlap with

those of EFSI. Financing from an ESIF operational programme could be combined with an EFSI loan to enable a larger investment for which not all parts are eligible under the ESIF programme. Or an EFSI loan could be combined with a grant under an ESIF operational programme to enable the joint financing of a transport infrastructure project. Or an ESIF equity fund could join with an EFSI equity fund in an investment platform and co-invest in a larger number and broader range of SMEs than either would have been able to do separately. This should also increase the number of EFSI projects in less developed regions and Member States, as a combination of EFSI and ESIF can cope better with their specific economic conditions and risk profiles.

The aim of the second pillar of the IPE is to provide strengthened support for project development across the EU. These efforts can build on the existing expertise of the Commission, the EIB, national promotional banks and the managing authorities of the ESIF. To this end, a one-stop shop has been established – the EIAH – to point project promoters, investors and public managing authorities to the most appropriate advisory support, or, in case of a gap in support, to provide it itself. A comprehensive needs assessment has been launched to identify important gaps in advisory services.

The existing JASPERS programme¹⁷ and the new advisory platform for the use of innovative financial instruments (“fi-compass”) are key elements of this strengthened support for project development. Both structures are already up and running for 2014-2020 with a built-in regular review of the respective work programmes in order to adjust as necessary to the developing needs of project promoters and managing authorities under the IPE.

For the third pillar (improvement of investment environment), the newly introduced *ex ante* conditionalities (mentioned above) will help ensure that the institutional, legal and strategic policy arrangements are in place for effective investment by ESIF.

Relevant *ex ante* conditionalities in this context include the following:

- The public procurement *ex ante* conditionality addresses barriers in the functioning of the Single Market in public procurement, for example by ensuring transparent procedures in the awarding of public contracts which have a cross-border interest.

¹⁷ JASPERS: Joint Assistance to Support Projects in European Regions, http://ec.europa.eu/regional_policy/en/funding/special-support-instruments/jaspers/.

- The Small Business Act *ex ante* conditionality deals with barriers to setting up businesses in line with the Small Business Act.
- The transport *ex ante* conditionalities tackle transport bottlenecks.
- The digital *ex ante* conditionalities support fighting obstacles in completing the Digital Single Market.
- The energy *ex ante* conditionalities trigger legislative changes in Member States towards consuming less energy.
- In the “administrative capacity” *ex ante* conditionality, strategies are being designed and implemented in Member States to reinforce the institutional and administrative efficiency of public administration.

Thus, the second and third pillars of the IPE provide an overall framework that can build on elements present in the new generation of ESIF and eventually provide for a more comprehensive approach to improve investment conditions and advisory support for investment projects in the EU. The newly created European Fund for Strategic Investment and the new generation of European Structural and Investment Funds can complement each other and create synergies that will both expand the EFSI portfolio and increase the leverage of the ESIF programmes.

Outlook

With €637bn (€454bn contribution from the EU budget, to which national and regional budgets add another €183bn of co-financing), the ESIF programmes will continue to be the most important financial support for growth and investment at the EU level over the coming years.

While the majority of research papers dealing with the growth and development effects of EU Cohesion Policy find positive or weakly positive effects for the past, they also show very heterogeneous impacts across regions, with many different factors influencing success.¹⁸ The new generation of ESIF addresses such success factors as set out above, in particular:

- A stronger performance orientation, moving away from a focus on absorption or transfer;

- A clear link between the various programmes with the macro-economic coordination at the EU level and the implementation of structural reforms in the EU Member States – not only conceptually, but also through conditionalities which, if not respected, can lead to a suspension of the funding.

The new smart specialisation strategies, at the regional level in particular, introduce an innovative approach of regional development which is neither one-size-fits-all, top-down nor picking the winners, but instead tries to support territorial place-based development strategies that are conceived and implemented not only by public authorities but also in partnership with business, social partners and research institutions.

The foundations are now laid in the new programmes, but the proof of the pudding is in the eating. Only implementation will tell whether the new generation of programmes delivers on the ambitions of the reform for the 2014-2020 period. The implementation will not only be monitored and steered “bureaucratically” at the programme level, for instance in the monitoring committees and at the EU level through Commission reports. Through increased transparency and the availability of open data, the potential of effective “social control” will increase, which should provide pressure for good performance to the benefit of citizens and also help in the fight against fraud and corruption.

The EU Cohesion Policy remains a policy in constant evolution; indeed, the debate for the next programming period has already started.¹⁹ However, improvements will not have to wait until then. For instance, the increased use of financial instruments and a concerted effort at the EU and national levels to simplify²⁰ the sometimes too complex rules and procedures could feed into the mid-term review of the current budgetary framework²¹ and increase the impact of the new generation of ESIF for growth, jobs and competitiveness in the EU.

18 P. McCann: The Regional and Urban Policy of the European Union. Cohesion, Results-Oriented and Smart Specialisation, Cheltenham 2015, Edward Elgar, p. 65.

19 See for instance Joint Statement of the V4+4 Countries on the Cohesion Policy, 27 January 2016, http://www.mzv.cz/representation-brussels/en/news_and_media/joint_statement_of_the_v4_4_countries_on.html.

20 European Commission: Decision setting up the High Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of the European Structural and Investment Funds, C(2015) 4806 final, Brussels, 10 July 2015.

21 Council of the European Union: Council Regulation (EU, EURATOM) No. 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020, Article 2, in: Official Journal of the European Union, L 347/884, 2013.