Joint position of the national, regional and local governments of the Netherlands on reform of the ESI funds

Coherence and simplification post 2020

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Non-paper on reform of ESI funds

In 2018, the European Commission will publish policy proposals for the European Structural and Investment Funds (ESIF) after 2020, as part of the new post-2020 Multiannual Financial Framework (MFF). The Dutch central, regional and local governments has given their opinion on desirable reforms to equip the ESI funds for the European challenges of the future. There are two key concepts here: policy coherence and simplification. The joint position of state and local governments on the ESI funds does not outline an opinion on the size and allocation of resources.

1. Policy coherence: increasing coherence and synergy

1.1 Ensuring EU instruments respond to societal challenges

The efforts of the EU through policy programmes and instruments should be in line with the strategic priorities of the EU. During the period up to 2020, the objectives of the Europe 2020 growth strategy aimed at smart, sustainable and inclusive growth will play a central role here. In this period, significant steps have been taken to ensure that the various EU programmes and instruments contribute to the strategy. At the same time, it must be acknowledged that this has not led to a sharp focusing of priorities and goals. It seems that the Europe 2020 strategy is too general to play much of a guiding role, and instead – in combination with 'path dependency' (the present is determined by decisions made in the past) – is resulting in a multitude of objectives and sub-priorities in EU programmes. Efforts should be made to make more clear-cut choices and focus on concretely formulated priorities and on achieving these through – where relevant – greater coherence and synergy between various EU programmes at the strategic, programmatic and project level.

In line with the Commission's work programme and the strategic agenda of the European Council, the ESI funds should be more focused on the big societal challenges which will require attention after 2020. This relates to issues which can be more effectively tackled together at the European level, rather than only at the national, regional or local level. For example, societal issues in the field of employment, social inclusion, migration, climate, health, food, energy, sustainability, biodiversity, and technology development. Many of these challenges are felt at all levels, from global to local, and should be the leitmotiv in all EU instruments after the year 2020. This will first of all require a strategy for each challenge relating to the implementation of the individual EU instruments, which will create greater coherence and synergy between the various EU instruments. Secondly, this strategy should be mission-focused, and thus go a step further than merely identifying relevant themes or topics. This should help clarify what the contribution of the individual instruments and levels is to the relevant challenge, thus making the whole process more result-oriented as well.

1.2 European Added Value (EAV) through prioritising, synergy and cross-border cooperation

By focusing on European priorities and synergy it is furthermore envisaged that complementarity is achieved between the instruments in aiming for common goals, resulting in the prevention of fragmentation and avoidance of overlap. This approach aims at improved coherence, not only between the various European Structural and Investment Funds, but also with other instruments such as the EU Framework Programme for Research and Innovation (from 2020 FP9) and the European Fund for Strategic Investments (EFSI). This focus, critical mass and synergy in respect of issues that can be addressed more effectively at the European level results in European Added Value.

For the ESI funds, this means a sharper focus on fewer goals or themes.

EU-wide, greater emphasis should be placed on innovation in the context of ESI funds (excluding ESF), because innovation efforts lead to more cross-border spill-overs, which also results in European Added Value. But Europe really adds value when these spill-overs are transformed into strong cross-border ecosystems (development-oriented knowledge, information and funding flows between cooperating parties). In addition, a greater emphasis should be placed on sustainability EU-wide.

The internal market creates added value, but at the same time, there are people who are being left behind in the single labour market (leading to a social divide). Therefore, the focus of the ESF is on improving the labour market participation of vulnerable groups and promoting social inclusion. Taking a common approach to the refugee problem with rapid reintegration and supporting Member States in combating youth unemployment (among vulnerable young people) has also resulted in added European value.

European Added Value will also have to be reinforced via programming, which is currently too strongly confined within programme boundaries, often based on national and regional borders of the Member States (except Interreg C). This unnecessarily thwarts collaboration between, for example, clusters, knowledge hubs and smart cities, unnecessarily impeding the upscaling of solutions to societal challenges and knowledge sharing. Opportunities for cooperation between regions in two or more countries should be extended, regardless of whether these regions are physically adjacent. More opportunities for international/regional cooperation offers regions the chance to find the best partner in all EU Member States.

The regional innovation strategies for smart specialisation (RIS3) provide a good basis to address European challenges – such as energy transitions, circular economy and climate adaptation – on a regional level. However, the potential of smart specialisation strategies can be increased if the focus on innovation is complemented with a growth strategy that dovetails with the regionally available workforce through a better link with other important investments (among others, education and training, infrastructure, SMEs, and the environment). Broadening the RIS3 to local and regional investments to support smart specialisation provides a broader framework for investment with European and other funds, to promote economic growth and create new and better jobs. A 'broader' RIS3 is also a good tool for establishing smart links between the various ESI funds during the preparation of the ESI programmes, and with other EU initiatives such as FP9, EIT and the Urban Agenda, resulting in improved coordination and less overlap. Regional ecosystems cannot be limited by national borders, which is why cross-border ecosystems should also be included in the broadened RIS3 strategy. The importance of cross-border cooperation should increase and help budding and existing ecosystems to be strengthened against the backdrop of a broader RIS.

Two important points must be made here: first of all, the broader RIS3 should not replace national, regional or local development plans and programmes. Bottom-up initiatives form the basis of economic growth and create jobs. A broader RIS3 should be seen as a smart top-down approach to interconnect various initiatives.

To accommodate such smart connections, it is very important that the EU puts forward a clear set of guidelines to help guide the process of setting up a broader RIS3 in a timely manner. What is needed in this regard is less conditions – rather than more – compared to the current programming period. Smart connections between European, national, regional and local initiatives cannot be captured and defined in an exhaustive set of rules, but in fact need a broad framework within which the relevant authorities and partners can reach agreements within their own context.

1.3 Using the ESIF to strengthen European research and innovation cooperation

Various member states have noticed that they are receiving less funding from the Framework Programmes than other countries. This is mainly because these countries invest relatively little in R&D compared to other EU countries, so the quality of their research proposals is lower.
The Netherlands would like to solve this. However, a solution should not thwart the guiding principles of the Framework Programme: impact and excellence. Partial regional investment of Framework Programme funds, or the use of distribution criteria, is excluded because this would be at the expense of the underlying purpose of research collaboration. It should be possible to find a solution for better participation in research and innovation cooperation within the ESI funds. A sharper focus in the spending options aimed at societal challenges and interregional cooperation, together with the utilisation of ESI funds for capacity building, should be able to provide scope to remedy the lagging performance in the area of research and innovation.

Coherence and synergy should not be sought in:

- Making ESI funding a condition for receiving funds from the Framework Programme and other EU programs.
- Safety net constructions such as the Seal of Excellence where funding from ESI funds is sought for projects for which insufficient funds are available within the Framework Programme. The low success rates of the projects this seeks to address is also seen as a problem by the Netherlands. Nevertheless, this kind of safety net construction often features unnecessary overlap between funding options from different programmes and a failure to apply the principle of subsidiarity fully.

1.4 Uniform regulation

In Europe, the ESI funds are programmed in a range of different ways. One of the forms is a multi-fund approach. This is currently not working optimally due to sectoral regulations with fund-specific rules. It is important that different funds are not held back by unnecessary obstacles that stand in the way of a coherent programmatic implementation. The capabilities of a multi-fund approach can be improved by setting up a uniform regulation, possibly including specific provisions for each fund, but no separate sector-specific regulations, and related implementing regulations. This will lead to a single set of rules and procedures for interpretation in Brussels, to prevent one sector among the various programmes from getting the upper hand. It is not desirable to establish separate sector-specific regulations, and related implementing regulations.

In the current programming period, when drafting the partnership agreement, so many conditions must be met that, especially in the case of Member States with a limited financial envelope, the costs of drafting the partnership agreement must not outweigh the benefits of the agreement on the effectiveness of the Operational Programmes. All the conditions imposed on the partnership agreement must be assessed according to the principles of relevance and proportionality.

A close cooperation between the various tiers of government (European, national and local) is extremely important for the smooth implementation of the cohesion programmes. Also, the involvement of businesses, knowledge institutions and social institutions and employers' and workers' organisations is important to achieve the objectives of the programmes. In this context, a strong partnership principle is desirable in the uniform regulation. After the partnership agreement has been simplified based on the principles of relevance and proportionality, it is preferable to include any legally binding provisions regarding this principle in the regulation rather than in a code of conduct, with the precondition that said legal provisions not should lead to an increased burden on the design and implementation of the programmes.

1.5 Financial instruments

In recent years, the use of Financial Instruments within the European Commission has been increasingly promoted and used across the board. The number of rules on the use of Financial Instruments has soared. On the one hand, this increases legal certainty; while on the other hand, it makes tools less flexible. To make the use of financial instruments easier and more attractive, reform should take place in three ways:

- *Increasing synergy between financing arrangements*: schemes at the European, national and regional levels should be better aligned. Because of differences in terms, technical conditions and areas of application, the schemes are not combinable.
- *The criteria of financial instruments should be clear to the user in advance*: the criteria of many schemes, particularly at EU level, are not clear in advance. A certain amount of discretionary power in assessing the projects/funds of the EIB/EIF is obviously necessary, but more clarity on the criteria is needed, so as to not to impose unnecessary costs on applicants (particularly SMEs), financial intermediaries and non-profit institutions (NPIs) when preparing their applications.
- *Greater risk appetite:* For many companies the problem is not so much in the acquisition of financing; the problem lies in financing projects or activities that involve risk. This is why, for instance, it is difficult to finance projects with long-term or low yields. In order to be of greater added value, the set of financial instruments should provide more room for risk (thus taking bigger losses). This can be done, for example, by offering more options for mezzanine financing. However, this should never lead to the Netherlands taking on guarantees that fall outside of the Dutch Assessment Framework for Risk Regulations ('*Toetsingskader Risicoregelingen*').

2. Administration and implementation reforms

Due to complexity and a heavy control burden of the ESI funds, legal uncertainty poses a problem for beneficiaries. In addition, administrative burdens and implementation costs for both beneficiaries as well as member states are disproportionally high. In many cases, control costs are significantly higher than corrections. To make spending of ESI funds more effective and efficient, the ESI funds need to be severely simplified and control costs strongly decreased. A new programme period should aim for a better balance between prevention and control and between system and project audits. Current adjustments being made to the Financial Regulation and General Regulation for ESI Funds (Regulation 1303/2013) are steps in the right direction in terms of performance budgeting and the use of simplified costs options. The following sets out how further improvements can be made in (the process towards) the new post2020 programme period. It should be noted that not all of these simplification proposals are applicable to Interreg, due to specific aspects of these programmes.

2.1 Risk based differentiation in the accountability regime

In the previous and current programme period, the same accountability regime applies to all member states. However, the size of the funds, the experience with public investments and (quality of) implementation differs greatly. This means that accountability costs for some member states, including the Netherlands, are disproportionally high. The introduction of risk based differentiation, where member states would have to comply with certain criteria to be eligible for a lighter accountability regime, would bring about a fairer degree of proportion in accountability without increasing risks of unlawful spending of European funds.

Risk based differentiation in the accountability regime for certain member states and/or Operational Programmes could be based on several criteria. A combination of objectively observable qualitative and quantitative criteria would be preferable. The several criteria could then be linked to certain aspects of a lighter accountability regime. In this way, every member state could be eligible for a lighter accountability regime, or an aspect of it.

2.1.1 Quantitative criterion – Experience and Ownership
The percentage of ESI funds plus national co-financing in the total of public investments of a certain member state, or the amount of ESI funds in relation to national co-financing, could be

taken as quantitative criterion, provided that it does not lead to perverse effects in complying with such a criterion.

High national investments indicate experience and acquired knowledge of member states with managing public investments and controlling them.

In addition to experience and knowledge, a strong sense of ownership leads to significantly better spending of funds and attributes to preventing projects from becoming unnecessarily expensive or extensive. One of the ways a sense of ownership can be guaranteed is by applying a mandatory percentage of national co-financing. The sense of ownership increases as that percentage rises.

Member states or Operational Programmes complying with quantitative criteria for differentiation should be eligible for an alternative, lighter implementation method, substituting shared management of (shared implementation by) the European Commission and the member state. This method is complex and is based on 4000 pages of regulation. This proposal changes the way the EU's financial interests are protected: not based on detailed checks ordered by the European Commission, but based on a significant financial incentive for member states (a high own contribution providing an intrinsic incentive for adequate financial management by a member state).

There are many options imaginable to simplify shared management (shared implementation). Two examples, presented as food for thought, are trusted management and budget support.

With trusted management, programming is still a joined undertaking with the European Commission, but implementation and accounting and control will be based entirely on national law (costs will still be invoiced to the European Commission). Controls will no longer be based on European rules regarding financial management, but on relevant national rules applying to subsidy management.

With budget support, a budget is supplied to the member state justified by result agreements with the European Commission. In this way a link can be made with the European semester. This allows the focus of spending of the EU budget to be solely goal-oriented. Instead of payments based on project invoices, payments would be made to national treasuries.

2.1.2 Qualitative criterion – the quality of management and control systems

A material appreciation of an Operational Programme's management and control system could be used as a qualitative criterion.

In the current ESI funds assurance model, a maximum of only 30% certainty can be derived from the quality of a management and control system. A more material appreciation of an Operational Programme's management and control system could show to what extent a system could be trusted, resulting in a significantly lower percentage of certainty needed to be derived from (a large number of) project audits.

2.2 Other simplifying and cost reducing adjustments

2.2.1 Cross reliance

One of the goals of revising the Financial Regulation of the EU budget is to reduce control burdens. One of the ways this could be done is to rely on previous examinations ("cross reliance"). This builds on the principle of Single Information Single Audit (SiSa). The Netherlands supports cross reliance if it results in lower administrative costs and control burdens.

2.2.2 Conditionalities

Lastly, a significant reduction of burdens can be achieved by putting more focus on relevance and proportionality when using conditionalities. Even though conditionalities are in principle in line with the desire for a result oriented MFF, a question of proportionality emerges due to the amount of rules and conditions that are in place.