What role for local and regional authorities in the post-2013 budgetary framework?

A territorial perspective on the interrelation between the Europe 2020 strategy, the Multiannual Financial Framework post-2013 and new EU economic governance

a Committee of the Regions study

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Executive Summary

This Committee of the Regions study has been produced by the European Policy Centre (EPC) under a Framework Contract on the EU budget. The paper focuses on the Multiannual Financial Framework 2014-2020 proposals that the European Commission has put forward last June, and on the possible interrelations of MFF post-2013 with Europe 2020 strategy and new economic governance mechanisms (European Semester and National Reform Programmes). Within this context, the study investigates the risks associated to a top-down approach and suggests mechanisms to reinforce the multilevel governance approach.

Taking Europe 2020 strategy as a central point of the new framework, the present paper takes a territorial perspective in analysing the strategic and budgetary implications of the Commission's proposals. Two broad questions underpin the analysis:

- How can local and regional authorities be best involved in the decision-making and decision-shaping under the new framework?
- How can we maintain a link between local and regional objectives and the EU strategic framework?

In order to answer the questions above, the work is structured into two main parts. Firstly, an analysis of the different pieces of the framework (MFF proposal, Europe 2020 and European Semester) is conducted, with the aim of sketching out the possible interrelations and potential missing links. Particular attention is drawn to the links between National Reform Programmes, the Common Strategic Framework and Partnership Contracts. Secondly, the paper focuses on how to ensure proper top-down and bottom-up links among the EU, the national and the regional level. Within this context, the dynamics between policy objectives and implementation in a multilevel governance system are analysed both in the budgetary and in the operational (i.e. Operational Programmes for Structural Funds) fields.

Samples of different EU regions were used to conduct empirical analysis on the main issues touched up by the paper. The chosen samples do not fulfil criteria of representativeness, given the high heterogeneity of EU regions with regard to administrative arrangements and levels of social and economic development. However, the information gathered allowed to concretely measure the potential implications of the novelties proposed in the MFF post-2013 proposal and by the new economic governance mechanisms.

The overall results of the analysis allow advancing the following conclusions and messages:

- Generally, for the new strategic (i.e. Europe 2020 and Economic Governance) and budgetary (i.e. Multiannual Financial Framework) frameworks to effectively complement each other, there is a clear need for a high degree of harmonisation of national economic policy. Although the framework acknowledges national specificities and varying levels of economic development, much pressure will be put on countries to provide meaningful contributions to the Europe 2020 targets and to adhere to the new economic governance provisions.
- The National Reform Programmes are likely to become a reference document, both at EU and regional/local level. However, their potential links with key instruments, such as the Partnership Contracts, appears weak, especially with regard to the time horizon and scope.
- The role of National Reform Programmes in setting out objectives and investment priorities for national territories implies that regions and local authorities need to be highly involved in the elaboration of national strategies. LRAs have to be able to 'upload' their preferences not only at EU level – for the MFF – but also at national level.
- The new economic governance, and in particular the reform Stability and Growth Pact, will result into a more direct link to the Multiannual Financial Framework and to the implementation of EU funds. The possible sanction mechanism consisting in macro-economic conditionality is however to be strongly rejected, as it would make local and regional authorities bear a responsibility pertaining to national central government.
- Regional and local governments need funding certainty and stability in order to effectively contribute to achieve Europe 2020 objectives on the ground. For this reasons, a suspension of funds would have disruptive

consequences. Moreover, stability can be granted only if there is real coordination between long-term (i.e. Europe 2020, Common Strategic Framework, Partnership Contracts) and short-term (i.e. National Reform Programmes) strategies.

- The Territorial Pacts put forward by the Committee of the Regions have the potential to enhance the coordination between different levels of governments, translating Partnership Contract into actions. They could add value in implementing partnership agreements, setting out regional development plans including programmes financed through the EU and national funds (or from own resources).
- In order to develop a multilevel approach in the budgetary field, there is a need for further coordination between EU, national and regional budgets. The empirical analysis shows missing links at strategic and operational level. However, the added value of enhanced coordination needs to be balanced out with the need for flexibility and the administrative costs of the exercise.
- The imposition of *ex ante* and *ex post* conditionality does not *per se* guarantee effective spending and reduced waste of money. Moreover, the practical implementation is fraught will difficulties linked to the definition of the targets and the measurability of the outcomes. Rather than elaborating stricter sanction mechanisms, the Commission should focus on creating a comprehensive central guidance for implementation, which would incentivise and encourage engagement from LRAs.
- Within the current difficult economic context, the introduction of 'thematic concentration' for structural funds could become counterproductive. Regions or local authorities might identify a major impediment to growth, not included in the few top-down imposed priorities, but for which they are struggling to find sources of financing.
- As far as priorities can be demonstrated to contribute to Europe 2020 goals, stricter concentration would not add specific value. On the contrary, a certain margin of flexibility in needed for regions to elaborate successful recovery and development strategies.

Introduction

Over the last two years, the European Union (EU) has taken several steps to build up a comprehensive framework to reinforce supervision and coordination of economic and social policies, aiming to support Member States in getting back to sustained economic growth. The Eurozone crisis has accelerated the need for further steps by necessitating further coordination of economic and structural policies and a sustained reduction of macro-economic imbalances.

The Europe 2020 strategy represents a key building block of this new framework, setting out the EU's strategic objectives. In order to reach its ambitious goals, the European Union needs to provide itself with the appropriate means through the Multiannual Financial Framework (MFF) 2014-2020, as well as ensuring that Member States are gearing their resources to the same long-term targets. Started in January 2010, the 'European Semester', part of the strengthened economic governance package, also serves the latter purpose, but potentially could put additional demands on Member States finances. This 'surveillance cycle' brings together the existing processes under the Stability and Growth Pact (SGP) and the Broad Economic Policy? guidelines, including through simultaneous submission of the stability and convergence programmes and the National Reform Programmes (NRP).[i] The current proposals of strengthening both the preventive and the corrective arms of SGP will imply deepening fiscal coordination, and therefore a stronger national commitment on debt reduction and deficit control.

As a result, the overall budgetary framework after 2013 will be constituted of several policy/strategy elements, within which EU funding will be implemented. Within this context, it is necessary to clarify purpose and content of each element, and ensure overall coordination and participation of the relevant stakeholders. Notwithstanding the yet to be developed nature of key Commission proposals with regard to the future budget, the present paper aims at outlining the interrelation between the different mechanisms and making forward-looking suggestions on how the framework can work effectively. The results of the analysis serves as input to the Committee of the Regions in the drafting of its opinion on the budget proposals, which will be adopted by the temporary *Ad hoc* commission on the EU budget in November 2011.

Taking the Europe 2020 strategy as a central point of the new framework, this paper takes a territorial perspective to analyse the strategic and budgetary dimensions of the Commission policy proposals for the post-2013 Multiannual Financial Framework. Two broad questions underpin the whole analysis:

- How can local and regional authorities be best involved in the decision-making and decision-shaping under the new framework?
- How can we maintain a link between local and regional objectives and the EU strategic framework?

In order to answer the questions above, the paper is structured into two parts. Firstly, an analysis of the different pieces of the framework (MFF proposal, Europe 2020 and European Semester) is conducted, with the aim of sketching out the possible interrelations and potential missing links. Particular attention is drawn to the links between National Reform Programmes, the Common Strategic Framework and Partnership Contracts. Secondly, the paper focuses on the question of how to ensure proper top-down and bottom-up links among the EU, the national and the regional level. Within this context, the dynamics between policy objectives and implementation in a multilevel governance system are analysed both in the budgetary and in the operational (i.e. Operational Programmes for Structural Funds) fields.

PART A. Towards a new frame for action: Europe 2020, MFF 2014-2020 and new economic governance

1. Building a comprehensive framework

The Europe 2020 strategy is one of the key building block in the new framework for the coordination of economic and social policies in Europe: it sets out a comprehensive "vision of Europe's social market economy for the 21st century" and it is relying on "two pillars: the thematic approach, combining priorities and headline targets; and country reporting, helping Member States to develop their strategies to return to sustainable growth and public finances."[ii] It sets the strategic goals for the Union, to be achieved both at national and European level, with an emphasis on smart, sustainable and inclusive growth. At EU level, action is to be taken via 7 flagship initiatives: 'Digital agenda for Europe', 'Innovation Union' and 'Youth on the move' referring to smart growth; 'Resource-efficient Europe' and 'An industrial policy for the globalization era' aimed at the sustainable growth objective; 'An agenda for new skills and jobs' and the 'European platform against poverty', which are targeted at the inclusive growth objective.

The financial means to implement these flagship initiatives will mainly be provided by the Multiannual Financial Framework 2014-2020, which is explicitly geared to deliver the objectives of the Europe 2020 strategy. But success in reaching the Europe 2020 targets also depends on the efforts of Member States. At national level, actions should be guided by the National Reform Programmes, which are envisaged as setting out a 'working plan' and to help the monitoring of progress towards the Europe 2020 national targets. The means for implementation are provided via the national budgets, which have to respect the new economic governance framework, as examined below.

Against this background, it is important to recognise that local and regional authorities (LRAs) have an important role to play, both at European and national level. At EU level, they are crucial in the implementation of structural/regional funding, and they often have the competences and instruments to significantly contribute to achieving the Europe 2020 targets. The MFF proposals of the Commission put forward instruments for the interaction of LRAs with the EU level, such as the Common Strategic Framework, or the so-called Partnership Contracts. The Committee of the Regions has also highlighted the potential use of Territorial Pacts for LRAs to facilitate the implementation of Europe 2020. At Member State level, LRAs can contribute to the realisation of the structural reforms envisaged in the National Reform Programmes, facilitated by transfers from national budgets which should work in a coordinated manner together with EU funds. The participation of local and regional authorities in the elaboration of NRPs, as well as the potential introduction of Territorial Pacts are key in ensuring coordination between the national and the regional level.

The chart below (Figure 1) sets out the position of the main building blocks, illustrating elements of the potential interrelations between them.

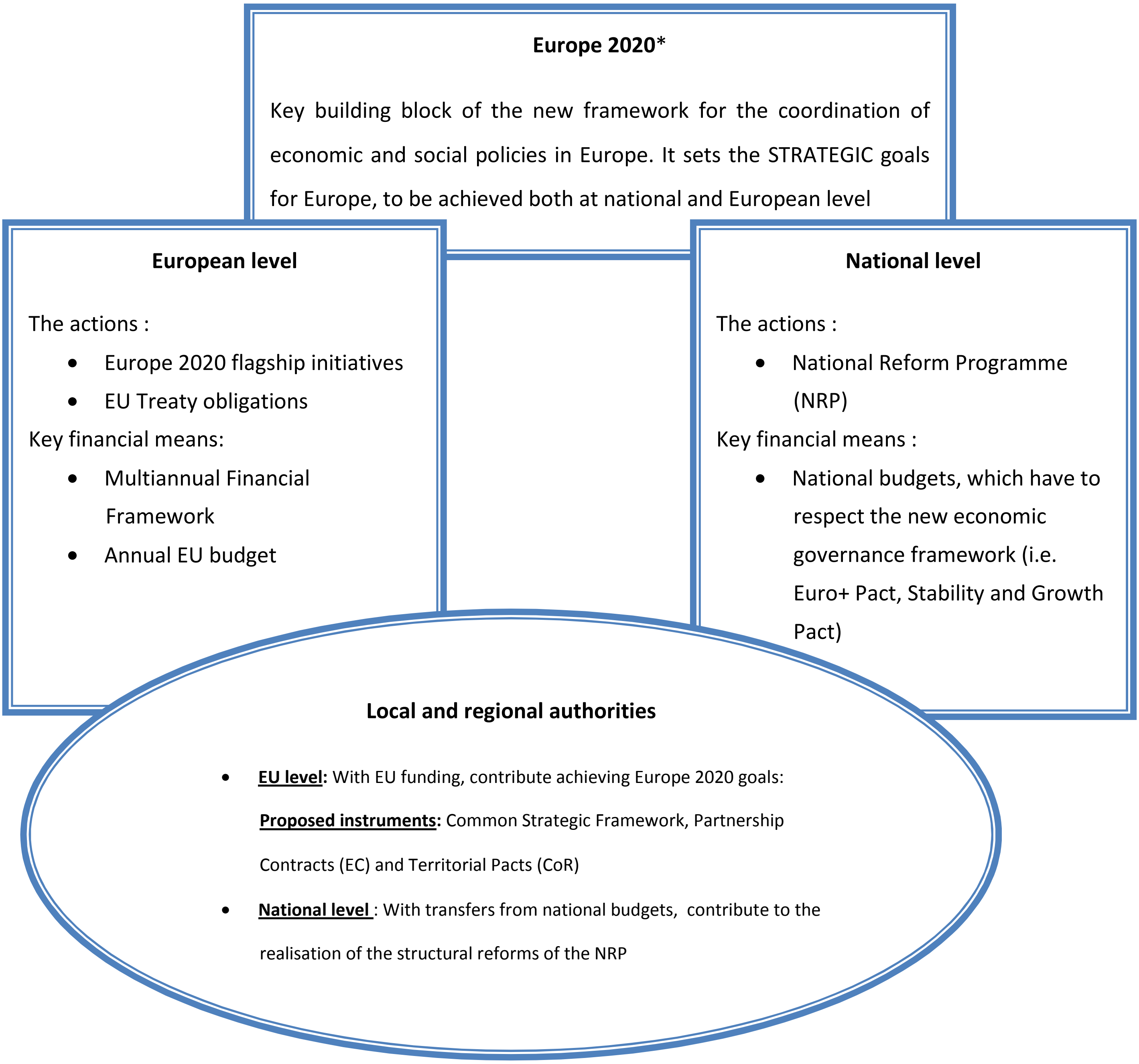


Figure 1 Representation of the main interrelations between the different parts of the framework for the

implementation of the EU and national budget after 2013

* In reality, not all EU spending can be sensibly subordinated to Europe 2020 (cf. other EU treaty obligations). However, for the purpose of this paper, we focus on this long-term strategy.

2. European Semester and National Reform Programmes

The European Semester, linked to the National Reform Programmes, is the first building block of the new economic governance and it has been put in place already. The new economic governance package is still a developing aspect of the framework being analysed, as legislators are currently discussing on its final form. Once the necessary legal instruments are adopted, it will have an impact both on the strategic and on the operational level of future EU funding. While the relationship to the MFF negotiations are not as direct as with Europe 2020, the implementation of the new Stability and Growth Pact (SGP) and of the National Reform Programmes constitute both constraints and opportunities for LRAs. In the framework of the present study, the initial impact of the economic governance package can already be studied, with reference to the first experience of running the European Semester.

2.1 Main features of the New Economic Governance package

The new economic governance is the result of the efforts to incorporate the lessons of the economic and financial crisis in the EU policy framework and to prevent further crisis in the Eurozone. The Stability and Growth Pact, a key instrument for fiscal policy coordination and surveillance, has thus been revised to take into account the shortcomings exposed by the crisis. The Preventive Arm requires Eurozone Member States to submit an annual Stability Programme, and the other Member States a Convergence Programme, together with the National Reform Programme.

The corrective arm of the SGP is also being revised so that the level of public debt is more tightly controlled, along the same lines as deficits, and they are subjected to decisions regarding the Excessive Deficit Procedure. Such changes in the SGP are accompanied by a new set of (gradual) financial sanctions.[iii]

Among these latter, it is important to recall the discussion around the linking of macro-economic conditionality to the payment of regional funding, which might imply that from 2014 onward structural funds will be suspended in case Member States do not remain within the maximum debt and deficit levels, or do not follow EU recommendations to correct a macroeconomic imbalance (cf. below). The imposition of such conditionality would transfer the consequences of a central government responsibility to regions and local authorities, with disruptive consequences for the implementation of their policy priorities.

The new architecture of European economic governance encompasses not only country monitoring under the Stability and Growth Pact, but also a thematic structural reform surveillance, monitoring the progress towards the Europe 2020 targets. A key element of this thematic monitoring is to identify the bottlenecks that stand in the way to deliver the Europe 2020 objectives, particularly in relation to the five headline targets.

One of the most significant developments in EU economic governance refers to the prevention and correction of macroeconomic imbalances. The Excessive Imbalance Procedure (EIP) has been introduced as a new instrument of EU economic surveillance, which aims to detect macroeconomic imbalances as early as possible, through regular assessments based on a scoreboard composed of economic indicators. Member States with dangerous imbalances will be issued recommendations by the Council, and placed within the EIP. This would require such Member States to draw up a corrective action plan, and to take corrective action accordingly in order to avoid sanctions.[iv]

2.2 The European Semester: defining national investment strategies through National Reform Programmes

Driven by the need for better economic governance and coordination at EU level, the creation of the European Semester was agreed in 2010. In March 2011, this mechanism of coordination of national economic policies was further strengthened by the signing of the Euro Plus Pact for competitiveness and convergence, which focuses on “growth-enhancing structural reforms”[v] to be enacted by Member States, and which builds on the European Semester instruments.

The European Semester is a six-month period each year when Member States review their budgetary and structural policies to ensure good coordination and to detect any inconsistencies. The timing is set to allow Member States to take EU recommendations into account while their national budgetary processes are still in early development to ensure *ex ante* coordination of budgetary and economic policies, in line with the SGP and the Europe 2020 strategy. Moreover, tight linkages are supposed to be established with the Partnership contracts, which will set the investment priorities for structural/regional funding. It therefore appears that National Reform Programmes, due to their timing and content, will become a key feature of the new framework as they will set out EU/Member States coordinated investment strategies.

The coordination of economic policies follows an annual cycle, and it is based on several steps. In January the Commission issues an Annual Growth Survey that identifies the EU priorities for increasing growth and job creation. In March, the European Council identifies the main economic challenges for the EU and offers guidance for national policies on the basis of this document. Taking this guidance into consideration, in April Member States then issue simultaneously their Stability or Convergence Programmes (regarding sustainable public finances) and their National Reform Programmes (referring to measures taken to ensure progress towards the smart, sustainable and inclusive growth set out in the Europe 2020 strategy). Based on ten guidelines outlined in ‘Europe 2020 - Integrated guidelines for the economic and employment policies of the Member States’, national governments are required to draw up their National Reform Programme outlining the actions they intend to take in order to implement the Europe 2020 strategy. Taking into account the specific national circumstances, the National Reform Programmes are designed to translate the five headline targets of the Europe 2020 strategy into national targets, and to specify the concrete actions and reforms through which they are to be met. Part 1 of the document specifies the broad guidelines for economic policies, and concerns two headline targets referring to R&D and innovation, as well as climate change and energy efficiency. Part 2 specifies the guidelines for the employment policies of member states, and concerns the other three headline targets, referring to: labour market participation, social inclusion and poverty reduction, as well as quality of education and provision of new skills.[vi] Those countries which have committed to Euro Plus Pact (Eurozone countries plus Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania) have to hand in an 'upgraded' version of the NRP, which has to detail all actions to be achieved in the 12 months having the objective to increase competitiveness and convergence.

In June, the Commission provides country-specific recommendations, which are then formally adopted by the Council by end of June or early July.

It is thus clear that the European Semester plays a crucial role in the new framework, by ensuring *ex ante* coordination of economic policies through better integrating all elements of economic surveillance, and by aligning such instruments with the Europe 2020 strategy.

2.3 Analysis of the first European Semester through sample NRPs: which role and what involvement for LRAs?

As explored further in the next chapter, the European Commission is seeking to establish synergies between the National Reform Programmes and the Partnership Contracts. The Partnership Contracts will be the result of discussions with Member States on the National Reform Programmes, setting out commitment of partners at national and regional level to utilise the allocated funds to implement the Europe 2020 strategy. Therefore, NRPs will have to feature linkages with the investment priorities set out in the Partnership Contracts, as the latter are to refer both to national and European resources deployed for the achievement of Europe 2020 targets. There is therefore an effort from the EU side to adjust the objectives and funding to national needs. However, this implies that LRAs have to get actively involved in these national level negotiations, to make sure their input is taken into account.

Against this background, it is worth taking a closer look to the National Reform Programmes for 2011, using five European countries as a manageable sample: Sweden, Germany, Spain, The United Kingdom and Poland. In order to have a heterogeneous sample, these countries have been chosen due to their diverse internal administrative settings, different levels of development in areas covered by Europe 2020 targets, but also different views with regard to the role that should be played by the EU in enhancing economic growth. A first round of National Reform Programmes was already submitted last spring, which allows an insight in how the territorial dimension has been taken into account and to what extent local and regional authorities were involved in the elaboration of the programmes.

Following the submittal of programmes by Member States as part of the first European Semester, the overall assessment of the European Commission has been that these programmes are a good initial step in addressing Europe's current challenges and that there is significant national commitment to the goals of the Europe 2020 strategy. Nonetheless, the Commission expressed its concern that the sum of these commitments will not be enough for the EU to meet its headline targets by 2020, and that more efforts will be necessary particularly regarding the employment, R&D, energy efficiency, tertiary education, and poverty targets. On each of these priorities, local and regional authorities have the potential to contribute to or even lead delivery, but there might be a need for a more regional/local tailored approach.

Rather than examining the recommendations following the release of the NRPs, this paper focuses on identifying the role and the degree of involvement for local and regional authorities regarding Europe 2020 targets outlined in the National Reform Programmes submitted by the Member States. The table in the annex (Annex 1) shows key elements of five sample National Reform Programmes, demonstrating great heterogeneity in the way the reference to local and regional authorities is made. This is a reflection of the different relation between centre/periphery existing in each country, and therefore of the different powers and competences attributed to local and regional authorities. However, the table also shows that, despite a common skeleton, the content of National Reform Programmes is highly heterogeneous, especially with regard to the operational details given by Member States. In some cases the document remains highly strategic, whereas in other cases countries are describing the actions already undertaken and future operational developments. Also, only some Member States have made reference to the process leading to the internal approval of the programme, and thus setting out the role of LRAs.

There are therefore diverse ways to link to Europe 2020 priorities in each document, which in some cases will need to be strengthened if clear interrelations between the national and the European level are to be established.

In addition, the importance of National Reform Programmes with regard to defining Partnership Contracts shows that LRAs need to simultaneously address the European and the national level in order to have their input taken into account. National Reform Programmes allow more ‘local tailored’ strategies for growth and development, but from 2014 these will have to be translated into more precise investment objectives, which will be decided at EU level. The operationalisation of structural and cohesion funding, through the Partnership Contracts, might not be effective if NRPs remain too vague with regard to regional needs and priority investments, especially when considering that the concentration of objectives will constraint the margin of manoeuvre. In this respect, the alignment of strategic priorities indicated in the NRP, in the Common Strategic Framework and in the Partnership Contracts will be needed, to avoid mismatch and duplication. For all three documents, Europe 2020 priorities and Annual Growth Strategy headlines should be the main reference framework

3. Achieving Europe 2020 through EU funding

The development of the post-2013 Multiannual Financial Framework is being accompanied by policy reforms and the development of strategic orientations of the European Union. Such a process should ensure that the translation of political objectives into budgetary envelopes and programmes will have a greater consistency and, therefore, guarantee better spending of EU money. As shown previously in Figure 1, the MFF provides the key EU financial means to realise Europe 2020 objectives.

As underlined in previous analysis[vii], linking Europe 2020 to the spending chapters of the Multiannual Financial Framework is a necessary condition for resources to be geared to the achievement of the EU's long-term objectives. However, the analysis also pointed out that a too strict translation of strategy priorities into funding envelopes could fail to take into account some areas of spending which are only loosely related to Europe 2020 goals, driving away the discussion from underpinning principles such as cohesion and solidarity. This is also important in the context of the present note, given that the aim is to analyse to what extent regional priorities and can be taken into account in the proposed budgetary framework.

If Europe 2020 remains the main policy reference around which the discussion and organisation of future spending is centred, the new mechanisms of economic governance have the potential to ensure further consistency; as have the Partnership Contracts. The latter are the connection between the MFF, policy development (from strategic objectives to policy implementation) and the National Reform Programmes.[viii]

3.1 Setting out a system of interrelations

To the national strategies set out in the National Reform Programmes, the analysis below adds the other (horizontal and vertical) layers, aiming to identifying coordination challenges. Within this context, the paper analyses the different documents by referring to the following variables and contrasting principles:

Time Horizons	Short-term versus Long-term
<u>Challenges</u>	1) ensuring that short-term objectives and operational programmes are correctly geared to long-term objectives 2) assure mid-term corrective mechanisms

Dimensions	Strategic versus Operational
Challenges	1) ensuring flexibility of the strategic dimension to adapt to the diversity of situations on the ground (e.g. economic development, administrative capacity) 2) give precise indication of how the operational programme contributes to achieving the strategic objectives

Decision-making level	EU versus National
Challenges	1) assure consistency between the two levels of decision 2) mutual trust among institutions/actors 3) ensure that all stakeholders taking part in the realisation of the objectives are involved in the process (i.e. LRAs)

Scope	Sectoral versus Horizontal
Challenges	1) avoid overlaps between different instruments 2) make sure the objectives set at horizontal level are reflected in single policy areas

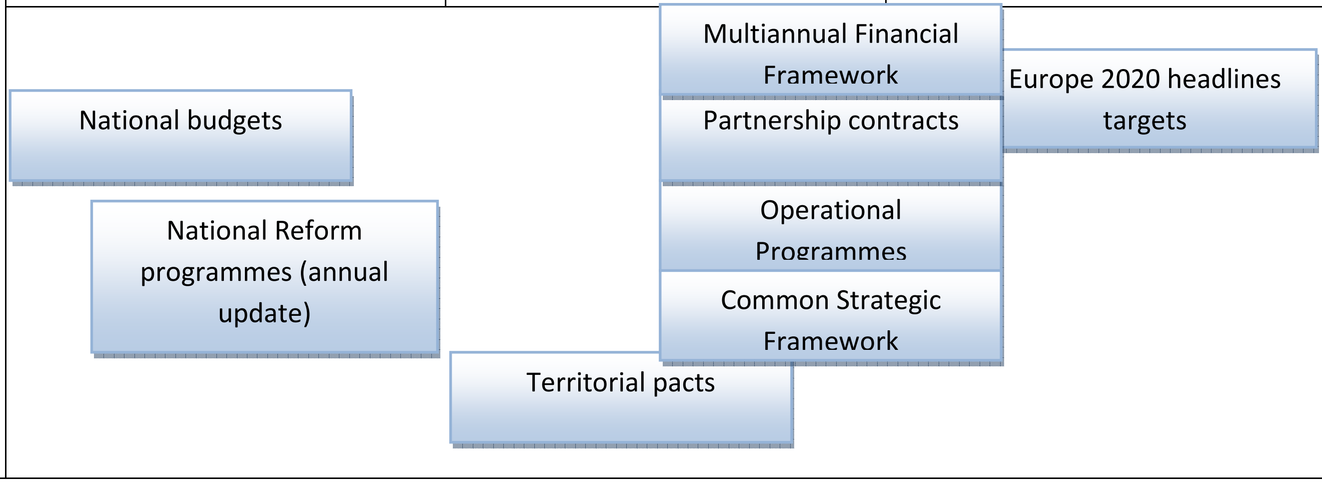
Financing	EU versus National
Challenges	1) ensuring that budgetary orientations are consistent 2) assuring enough resources to sub-national authorities for co-financing (i.e. structural funds)

Table 1 Challenges of the system

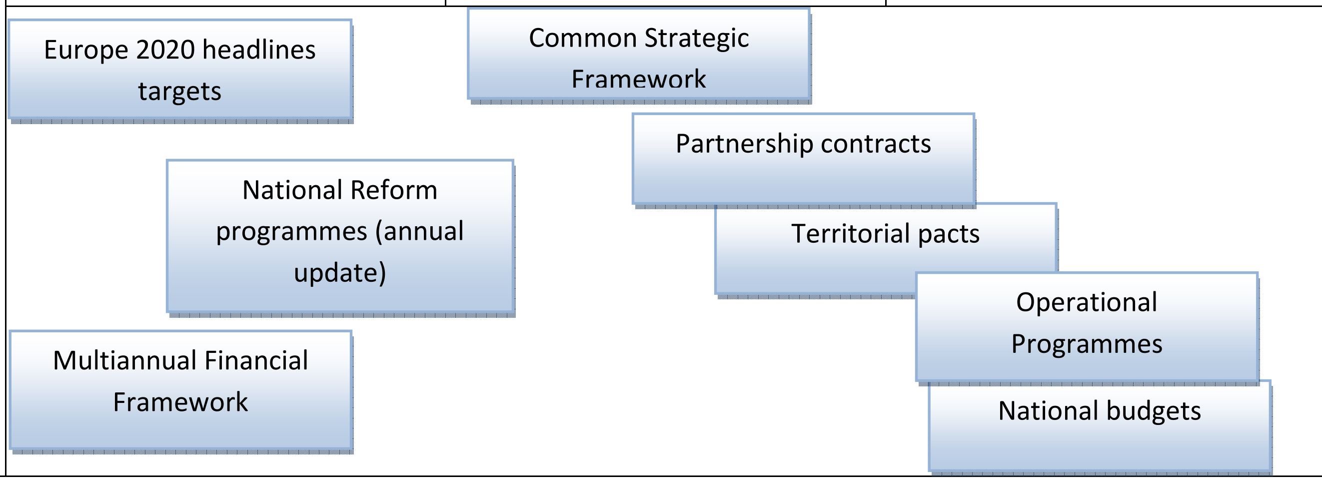
These variables help to classify the different documents composing the ‘package’ which will be in place from 2014 onwards, and trigger questions that need to be answered in order to define a mechanism able to achieve the EU’s long-term objectives.

The chart below (Figure 2) illustrates the position of each document in relation to the different variables.

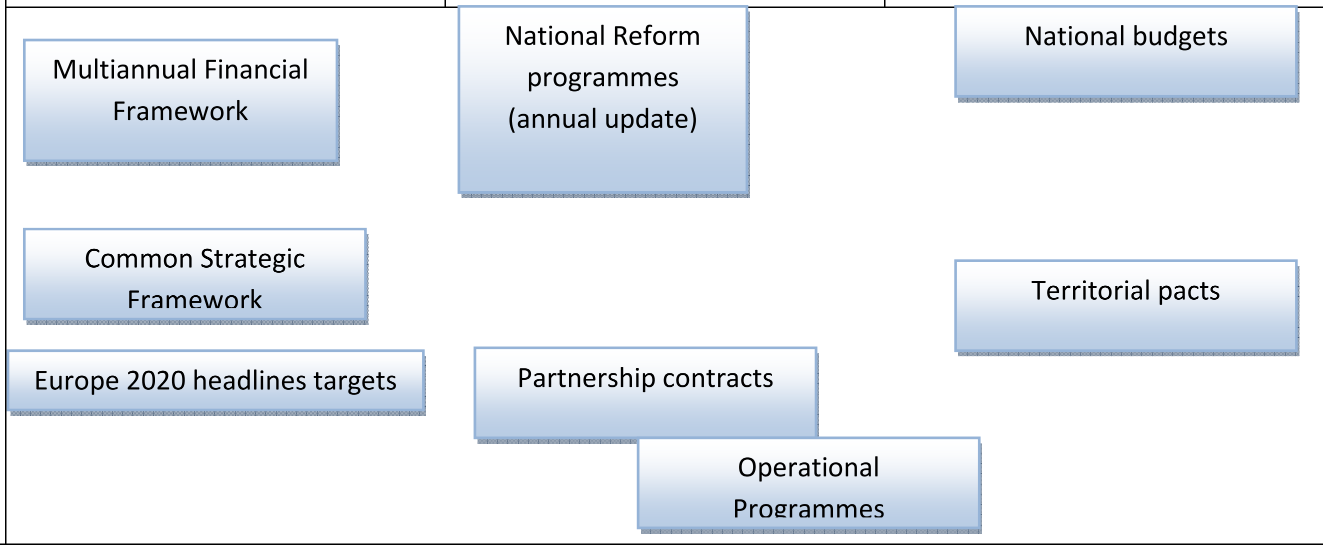
TIME HORIZON To what extent national strategic and budgetary planning can be able to reflect the Europe 2020 targets ?	Short-term	<= 1 year	> 5 years	> = 10 years	Long-term



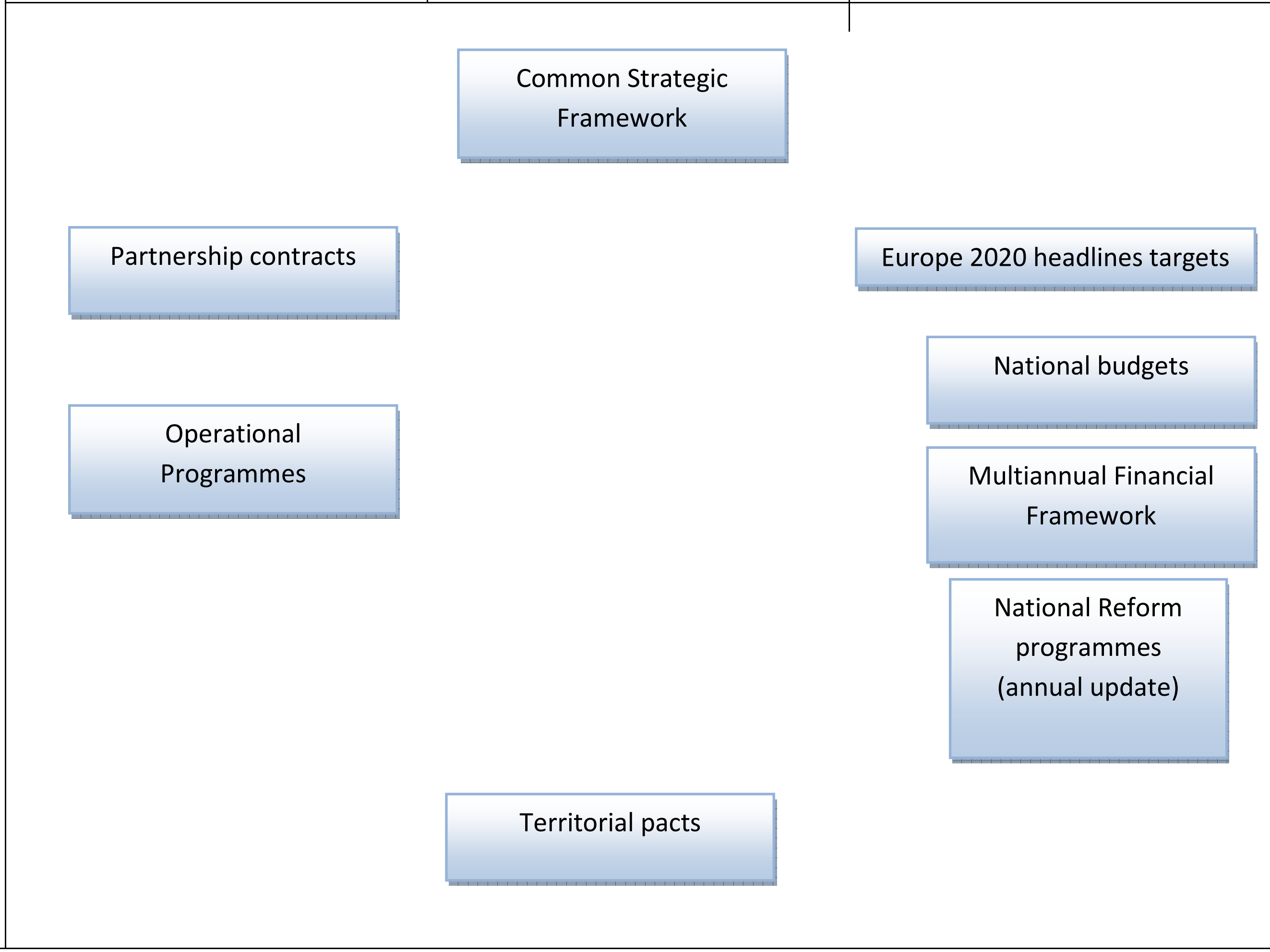
DIMENSION How to ensure the consistency throughout, given that different institutional and non-institutional actors participate?	Strategic	Political and strategic priorities for action and spending	Investment priorities based on strategic indications	Actions and indicators	Operational



DECISION-MAKING LEVEL How to ensure that national and EU level policy orientation are consistent (and/or compatible)?	EU	Supranational decision-making. Actors involved: European Comission, European Council, European Parliament and Committee of the Regions	Member-States and territorial level involvement in developing EU priorities and/or negotiation between the different levels	National governments decision, with involvement of regional/local level	National



SCOPE Are there risks of overlap among the different funds? [ix]	Sectoral	Single policy area/funding mechanism (i.e. cohesion policy)	Defining objective across several policy areas	Global indications for the European Union or the Member States as a whole	Horizontal



FUNDING How to ensure complementarity between national and European funding?	EU	Exclusive EU funding	Joint EU and national funding	Exclusive national funding	National

Table 2 The system of interrelation along five key variables

3.2 Building up an effective multilevel mechanism

If National Reform Programmes constitute a key vehicle for LRAs to input at the national level, Partnership Contracts are likely to become the most relevant strategic document with regard to a strengthened EU-regional partnership. The development of the Partnership Contracts will allow for discussion in which a territorial perspective will be required, as regions and local authorities will subsequently be obliged to adhere to the choices made when developing their programmes for the use of structural funds. Within this context, the concept of 'multilevel governance' is key, as Partnership Contracts will be negotiated between the EU and Member States, risking weakening the link between regional objectives and strategic framework.

Since the first proposal of using Partnership Contracts was made by the European Commission, the Committee of the Regions has stressed the need to involve local and regional authorities in the "drawing up, negotiating and implementing these contracts, insofar as they are directly involved in the operational level"[x]. Partnership Contracts can become key element of a multilevel governance system only if a true bottom-up approach is implemented. This would allow the Territorial Pacts to become the implementing partnership documents, to be concluded between the regions and the central governments. In order to increase their added value, Territorial Pacts could be the replication - at national level - of the link between (EU wide) strategic objectives and budgets.

Against this background, this section explores possible bottlenecks and missing links that still potentially hinder setting up an integrated and effective multilevel system for the achievement of the Europe 2020 objectives.

3.2.1 The Partnership Contracts: content and purposes

The discussion on 'development and investment' partnerships has been accompanying all of the process of the EU Budget Review, particularly in relation to cohesion policy.[xi] While their purpose appears to be clear, their exact content and the method for their approval are still vague in the Commission's budget proposals.

Partnership contracts have been put forward for the first time by the European Commission as a means to reinforce the strategic programming of cohesion policy. Their possible utilisation in other policy areas than cohesion policy was also debated, and it appears that they will apply also to rural development and maritime policies. For the purpose of clarity, this section begins by focusing on cohesion policy and the innovation proposed to structural funds. The

Conclusions of the Fifth Cohesion Report[xii] outline that the contracts will set out:

- **Investment** priorities;
- Allocation of **national** and EU resources between priority areas and programmes;
- Agreed conditionalities;
- Targets to be achieved.

The reference documents for the discussion of the contracts will be the Common Strategic Framework and the National Reform Programmes; the European Commission is tasked to discuss and develop the contract with each Member State. The need to involve regional and local stakeholders has been mentioned on several occasions by the Commission but the nature of this involvement is still unclear. The National Reform Programmes, which were analysed in the first part of the paper, are set to be the key documents from which the discussion about the Contracts will commence, aiming to make the priorities set out in the Common Strategic Framework fit with national needs.

3.2.2 Common Strategic Framework(s)

The envisaged 'common' framework should reduce fragmentation and make sure different funds are implemented in a more coordinated manner, as they include an increased number of funds to be put under the same strategic umbrella. Moreover, such new reference frame should also imply that eligibility criteria will be common for all funds.

In its proposal on the MFF 2014-2020 the European Commission has actually put forward the creation of two different strategic frameworks, which together encompass the major part of EU financing programmes. It is worth noting both of them, as they cover areas of funding with regional interests and therefore there is a need to ensure complementarity of EU and regional actions.

Horizon 2020 – A common framework for research, innovation and technological development

'Horizon 2020' will cover research, innovation and technological development, which "will be closely linked to key sectoral policy priorities such as health, food security and the bio-economy, energy and climate change."[xiii] It will bring together the three main existing initiatives and sources of funding: the 7th Framework Programme (FP7); the innovation part of the Competitiveness and Innovation Framework Programme (CIP); and the European Institute for Innovation and Technology (EIT).

The aim is to set out the main common strategic objectives and to have a more harmonised set of rules and procedures, to pursue, in a more effective manner, the research and innovation objectives of Europe 2020. 'Horizon 2020' seems to be oriented towards better coordinate of already existing actions, rather than setting strategic priorities for research and development.

In its proposal, the Commission explicitly mentions the need to ensure complementarity with regional funding in research and development. The Common Strategic Framework concerning the structural funds will therefore also have to cross-refer to 'Horizon 2020', in order for EU and national strategies to be well coordinated and to enhance the added value of EU spending.

Common Strategic Framework

The Common Strategic Framework (CSF) mentioned in the Fifth Cohesion Report and in the Commission's MFF proposal will cover the Cohesion Fund, the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). This framework will translate "the targets and objectives of Europe 2020 into investment priorities"[xiv]. The common strategic framework allows a close alignment with the Europe 2020 governance structure, as it indicates the priorities that member states and regions should use when developing Partnership Contracts and the structural fund programmes. Moreover, in terms of harmonisation, the framework clarifies the mechanisms of coordination between the funds under shared management and outlines cohesion policy priorities in relation to other EU policies and instruments.

It will be up to the European Commission to elaborate the investment priorities for the next period of funding, 2014-2020, which will then be formally adopted by the Council and the European Parliament. As Figure 2 below shows, the Common Strategic Framework is expected to be in place by the end of 2012, leaving enough time to develop partnership contracts and operational programmes (and territorial pacts?) on its basis.

Common Strategic Framework - Timeline[xv]

November/December 2011: Communication from the Commission on the Common Strategic Framework

June 2012: Proposal to the Council and the European Parliament on the Common Strategic Framework

End 2012 (expected): Adoption of the new legislative package

2013: Negotiation of new programming documents

2014: Entry into force and adoption of programmes

Figure 2 Common Strategic Framework - Timeline

The Common Strategic Framework will represent the first conversion of macro-strategic objectives into key actions and macro-budgetary envelopes. The scope of the framework will be quite extensive, as it covers several funds and, therefore, several policy areas. In this respect, one of the main purposes of the CSF is to improve the elaboration of multi-funds strategies, through the coordination of different funding mechanisms. The purpose of this framework will be to specify the 'thematic menu' that the Regulation on the Funds will present. The CSF content will be based on Europe 2020 and on the Integrated Guidelines.

Figure 3 illustrates an example of 'thematic menu' as presented in a working document of the European Commission.

Example of a Thematic Menu of Objectives

Smart Growth:

- Strengthening research and technological development
- Promoting innovation and smart specialisation
- Enhancing accessibility to and use and quality of information and communication technologies
- Removing obstacles to the growth of SMEs
- Improving the quality and performance of education and training system at all levels and increasing participation in tertiary or equivalent education

Sustainable Growth:

- Supporting in all sectors the shift towards a low-carbon, resource efficient and climate resilient economy
- Promoting renewable energy sources
- Upgrading Europe’s energy network
- Promoting sustainable transport
- Correcting and preventing unsustainable use of resources
- Removing bottlenecks in key network infrastructures

Inclusive Growth:

- Increasing labour market participation of women and men, reducing structural unemployment and promoting job quality
- Developing a skilled workforce responding to labour market needs and promoting lifelong learning
- Promoting social inclusion and combating poverty

Developing administrative capacity.

Figure 3 Example of a Thematic Menu of Objectives, in: High Level Group Reflecting on Future Cohesion Policy, Meeting Document, 2011

Local and regional authorities have generally been favourable to the creation of a Common Strategic Framework, as it can ensure more coordinated action among different funds. However, the document might risk remaining general, and yet at the same time will require all Member States to justify their programmes by the ‘menu’ which has been defined *ex ante*. In addition, the inclusion of the European Agricultural Fund for Rural Development and European Maritime and Fisheries Fund in the Framework brings forward the question of how to ensure the link with Europe 2020 strategy: rural development remains a cohesion objective, countering the growth-enhancing targets of the strategy, and possibly overlapping with cohesion funding purposes.

3.2.3 Converting strategic planning into action: the Partnership Contracts

From Partnership Contracts to Operational Programmes, the challenge will be to identify the category of expenditure which best contributes to deliver the objectives and key actions outlined in the Common Strategic Framework. This challenge will be made more difficult, and less flexible, given that the number of priorities from which to choose will be limited depending on the economic development of the regions. As it has been underlined in the MFF proposals, the 'thematic concentration' will result in a larger choice for convergence regions and a smaller one for competitiveness and transition ones. These two latter categories will be obliged to concentrate their resources on energy efficiencies, renewable energies, SME competitiveness and innovation.

In essence, when regarding Figure 3 above, competitiveness and transition regions could be excluded from the investment priorities regarding 'Inclusive growth' and 'Developing administrative capacity'. With regard to convergence regions, the larger scope of objectives foreseen by the reform might not, in practice, bring dramatic changes. Several convergence regions are located in small New Member States, where priorities are defined at national rather than regional level.

On the basis of the Common Strategic Framework, which will set EU-wide investment priorities, each Member State will have to define a national integrated policy for regional development, for the period 2014-2020. The ambitious purpose of the Partnership Contracts is to create an actual outcome agreement between the EU level (European Commission) and the funds beneficiaries. The strategy for regional development will take into consideration not only the CSF, but also the National Reform Programmes, with the aim of tackling the bottlenecks outlined in the latter. It is through the Partnership Contract that the link between the European Semester and the MFF becomes tangible.

The Lisbon Strategy had already introduced a similar document, at the cross-road between the NRPs and the Partnership Contracts: the National Strategic Reference Framework (NSRF). This latter would serve to set the economic context of the country and to illustrate the consequent strategic planning and programming (which would include the list of Operational Programmes). NSFR have been the first attempt to link domestic policies to EU objectives, but also to push Member States to increase the degree of internal coordination between levels of government.

Partnership Contracts represent a significant upgrade, as the actions and projects presented will be linked to conditionality. This implies that Member States will have to precisely define the outcome they expect, beside comprehensively illustrating why and how strategic objectives and OPs have been chosen. On the basis of the preliminary indications given by the European Commission, we present below (Figure 4) an outline of what a Partnership Contract could look like.

PARTNERSHIP CONTRACT 2014-2020

1) Context

Regional policy dimension of the bottlenecks outlined in the NRP

- Links to Europe 2020 priorities of smart, sustainable and inclusive growth
- Analysis of regional and local conditions and issues to be tackled in the seven years programming (2014-2020)

2) Definition of objectives

- Illustration of the objectives chosen
- *Ex ante* conditionality: analysis and indication of ex ante conditionality to be fulfilled (per Region)

3) Financial Envelopes

- Indication of annual national, regional and EU resources devoted to regional policy
  - Per thematic objective
  - Per fund
  - Per region

4) Inter-funds coordination mechanisms

- Existing national and regional mechanisms of coordination among funds
- Challenges and solutions for enhanced coordination

5) Multilevel coordination

- Existing national mechanisms of coordination among administration
  - Analysis of current challenges and changes needed
- Modalities of the set up of Territorial Pacts *(optional)*

6) Implementation: Operational Programmes

This chapter will contain the list of the Operational Programmes, for each of which the contract will include:

- Content and purpose
- EU and national financial allocations
- Definition of 'milestones' (i.e. outcomes)
- Definition of indicators and other mechanisms for performance measurement
- Mechanisms of review and adjustment of the objectives
- Methods of exchange of information between levels of government and monitoring

ANNEX

1) *Ex ante* evaluation of 2007-2013 Operational Programmes (analysis of the implementation and coordination challenges)

2) Skeleton of Territorial Pact *(optional)*

Figure 4 Main features of Partnership Contracts, based on the Commission's proposals

However, while choosing from the Common Strategic Framework thematic menu, Partnership Contracts will have to be adapted to the strategic planning foreseen by the National Reform Programmes. In this respect, only an open discussion involving all stakeholders can ensure that specific territorial challenges and resources are taken into account and that the Partnership Contracts do not become a sterile exercise of finding *ex post* justification to what the Member States have already decided to do.

3.2.4 Interrelations with the Economic Governance Package

So far, it is not clear to what extent and how Partnership Contracts will be matched to mechanisms such as National Reform Programmes or the Euro Plus Pact, which represent the 'national' (and regional/local) side of the investment and reform priorities. Ideally, the former should mirror the latter, in order to establish some consistency and credibility with regard to the commitment of Member States to implement structural reforms.

It appears that the main coordination challenge could be the different time horizons of regional funding and of economic governance mechanisms: the Common Strategic Framework and the Partnership Contracts will set seven years priorities, while NRPs will be annually updated. If major changes intervene to national programmes on a yearly basis, this might counter the need for stability (in strategic and operational terms) of the fund recipients (i.e. regions and local authorities).

Against this backdrop, it is important to underline the need for European economies to conceive long-term investment strategies in order to help exiting the crisis, and the necessity to include LRAs in the discussion on a continuous and permanent basis. The European Semester has the potential to create a 'virtuous annual circle' to coordinate national policies, but Member States should address in this context long-term investment as a priority. This would, in turn, create a sounder strategic framework for structural and cohesion funding.

Analysing in parallel the Common Strategic Framework and NRP, it emerges that the European Union has been outlining a mechanism which presuppose a high degree of coordination of national economic policies, which might prove difficult, from a political but also from an operational point of view.

3.2.5 Interrelation with the Territorial Pacts

Territorial Pacts have been proposed by the Committee of the Regions as a means to achieve Europe 2020 objectives on the ground. In this respect, they are aimed at giving an actual territorial dimension and territorial ownership to the European long-term strategy.[xvi]

The original idea of the Committee of the Regions has been to use such pacts for the strategic planning of Europe 2020 in the local and regional authorities. Within this context, Territorial Pacts are supposed to cover different policy areas and address all Europe 2020 targets by defining them down to national and/regional targets. In addition to setting out mid- and long- term objectives, Territorial Pacts would start from local specificities, ensuring a bottom-up approach of delivering Europe 2020. Moreover, they are proposed as a means to monitor the achievement of the targets: as ownership is granted to the signing parties, i.e. regional or local authorities, they have more flexibility and more capacity to adjust the policy action to possible challenges arising from changes to the economic and social environment.

Territorial Pacts have been developed as a positive contribution to the development of Europe 2020. However, within the context of the complex mechanisms of interrelations coming out from the MFF 2014-2020 proposals, the new economic governance and the reforms to structural funds implementation, Territorial Pacts might be in risk of being abandoned or to overlap with Partnership Contracts. Territorial Pacts could keep their original added value, i.e. territorial ownership, if used as horizontal, long-term operational programmes, rather than high level strategic documents.

The signing of Territorial Pacts could be a valuable option for those member countries wishing to increase multilevel coordination of resources, but they should not be mandatory. Requiring all regions to adopt such pacts might risk putting excessive burden on already weak administrative structures, where meeting the requirements would become sterile formal exercise.

The key element of Territorial Pacts is their adaptability to specific conditions and needs; therefore, the EU level should only contribute with general guidelines and advice, in addition to noting compatibility with EU level priorities.

Some countries, such as Italy for instance[xvii], have already developed mechanisms of coordination between the different levels of governments, aimed at creating a unitary regional development strategy. Such programming documents could be upgraded in their contents by including clear indication of outcomes and conditionality, in order to become actual Territorial Pacts. They would contain not only reference to the regional investments realised in the context of EU structural funds, but also all the regional and local actions for development: a comprehensive document on the regional plans which would ensure top-down and bottom-up coordination.

The Figure below (Figure 5) proposes an outline of a Territorial Pact's contents.

TERRITORIAL PACT 2014-2020

1) Context

Administrative authority's specificities

- Social and economic levels of developments: main challenges and resources
- Designing a global strategy for the region: main components

2) Translation of national objectives into a regional plan

- Key regional development actions *(should be consistent with the national Partnership Contract and the NRF)*
    - Structural Funds related actions
    - Additional actions/plans
- Mechanisms to ensure multi-level governance and consistency
    - Existing mechanisms and challenges

- Institutional bodies responsible for coordination and communication

3) Implementation

- **Operational Programmes (i.e. Structural Funds)**
- **Other implementing programmes**

Each programme should contain the description of the financial resources, expected outcomes, mechanisms of monitoring and review and indicators.

Figure 5 Skeleton of a Territorial Pact

On the basis of the analysis conducted so far, the Figure below (Figure 6) illustrates how the different documents could work following a multilevel governance approach.

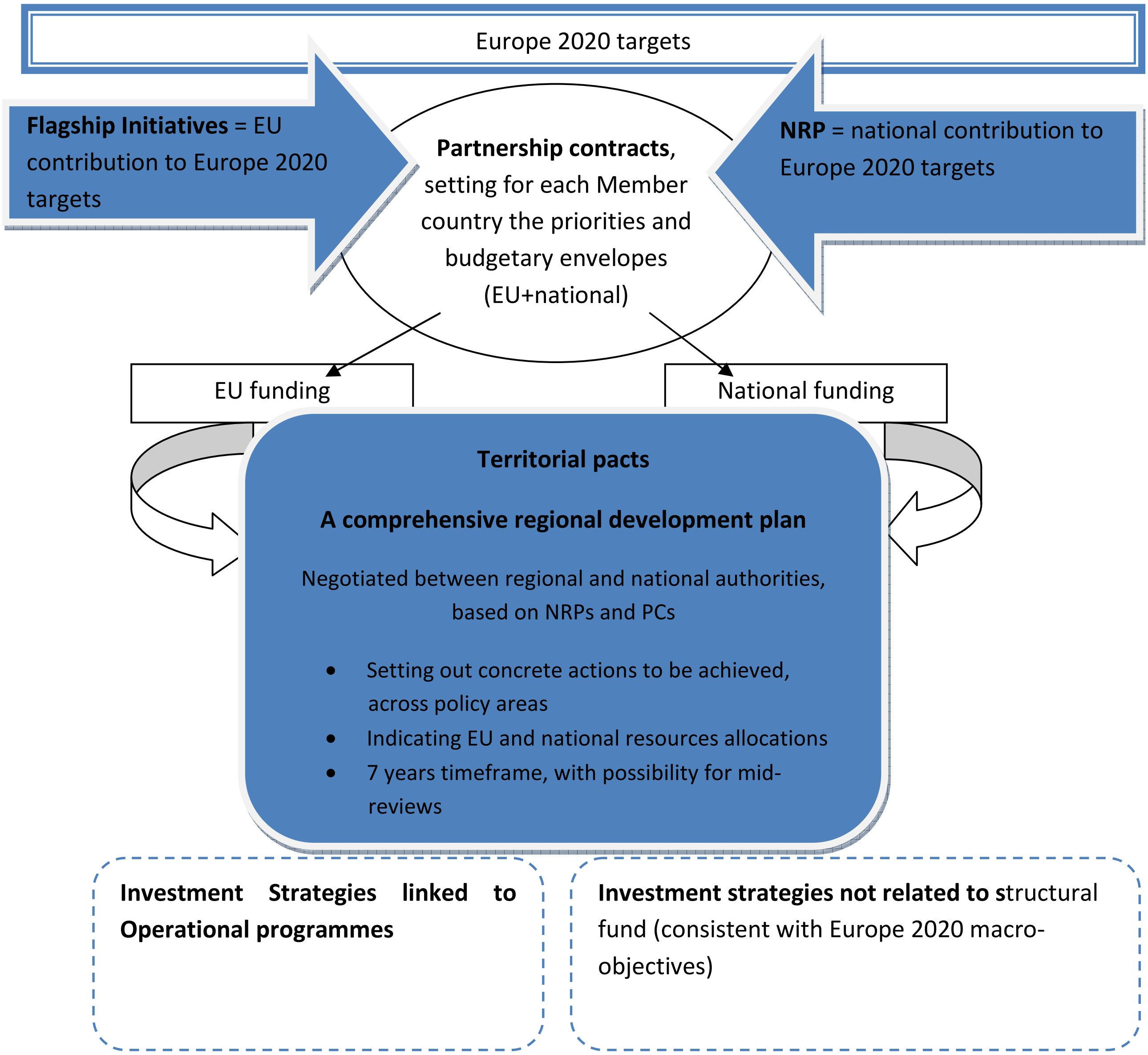


Figure 6 Illustration of a multi-level governance mechanism for the achievement of Europe 2020 objectives

3.2.6 Setting conditionalities

In addition to strategic planning and programming, the European Commission has proposed to introduce a stricter mechanism of conditionality for cohesion spending. It is proposed the introduction of *ex ante* and *ex post* conditionality, with the aim of enhancing effectiveness of EU spending and 'reward' regions which achieve the objectives. *Ex ante* conditionality would imply that the funding can be denied before the start of the period, if conditions are not met. *Ex post* conditionality would apply following the evaluation of achievement of targets which *a priori* had been established.

The Partnership Contract would again be the reference document for the setting of conditionalities, linked to the agreed objectives. The Fifth Report on Cohesion specifies however that conditionalities will be based on principles outlined in the Common Strategic Framework, such as: transposition of EU legislation, the financing of strategic EU projects or administrative, evaluation or institutional capacity. On this basis, specific conditionality will be agreed upon by the European Commission and Member States (and/or regions) in the Partnership Contract. It seems therefore possible that conditionality will be flexibly adapted to territories' capacity. However, two main issues might make the access to funding more difficult for regions:

1) It is still not clear to what extent regions and local authorities will be involved in the discussion of Partnership Contracts. Therefore, there might be a risk that the outcomes/targets which are decided in the PCs become the basis of *ex post* performance conditionalities which cannot be delivered by some of the regional beneficiaries. This would have strong consequences for regions and local authorities, especially concerning *ex ante* conditionality. For the Partnership Contract to make an assessment on the respect of *ex ante* conditionality, on the possible challenges and the solutions to overcome them, a strict coordination with LRAs is needed.

2) Regions having low administrative capacity and struggling with the management of the funds, might be in danger of losing them, should an *ex ante* conditionality on administrative capacity be imposed.

With regard to *ex post* conditionality, the hypothesis of suspension of funds has been put forward by the Commission, should the beneficiary not be able to achieve the outcomes set in the Partnership Contract/Operational Programme. In addition, a ‘positive’ *ex post* conditionality would be introduced by setting up a ‘performance reserve’ (amounting to 5% of the funds) to award virtuous regions achieving their ‘milestones’.

As a general concept, *ex post* conditionality is however fraught with shortcomings; making funds conditional to the achievement of pre-set targets always brings up two main issues:

- Definition of the targets: The long-term horizon of regional funding makes the exercise very difficult, as internal and external conditions vary overtime. Experience with previous funding programmes has shown that mid-term adjustments can be very significant, making almost impossible to build real long-term conditionality.
- Measurability: Results’ monitoring through indicators has often translated in a formal administrative exercise, in particular because of the very heterogeneous range of projects and local conditions, but also because of the difficulty linked to timescale, i.e. when should conditionality be measured?

At the very least, to make conditionality work there needs to be explicit guidance on a range of the elements which are required to determine SMART[xviii] targets: indicators, benchmarks, counterfactuals, policy models linking inputs to outputs to outcomes and mechanisms to attribute specific outcomes to the EU funding element, with the achievement of *ex post* conditionalities clearly within the control of LRAs. The Commission will have to have the capacity to assess all this in detail at the *ex ante* and the *ex post* phase. For the implementing authorities this will require a very detailed monitoring and evaluation framework, with key stages independent of the Managing Authority to ensure that results are collected and analysed objectively. It is questionable whether such detailed requirements add value: the regions with weaker capacity which most require support will struggle to implement such a framework.

In addition, conditionalities risk undermining the positive engagement with monitoring, evaluation, planning and learning. The system can easily become a tick box exercise where regions attempt to minimise the commitments and simply fill in the required boxes. This can lead to those being rewarded who are good at fulfilling the requirements but not those who are necessarily producing the best outcomes. A less strict approach to conditionality where the Commission works with the region and the member state, leaving significant scope for differing capacities and for learning without ultimately applying financial sanctions, seems to be a more productive way forward.

Against this background, it seems clear that conditionality is not *per se* a guarantee for effective spending and reduced waste of money, which appears to be the rationale of the proposed mechanisms. Challenges related to definition and measurability substantially weaken its added value, and the evaluation mechanisms seems to underestimate that responsibility for the achievement of objectives on the ground lies with beneficiary governments and implementing authorities. The European Commission has sought to increase its role as legal and compliance watchdog, but this does not constitute an open dialogue with local administrations. In this respect, the proposals do not support a role of the EU executive as a real partner of local and regional authorities, giving advice and guidance on how best implement programmes, rather than imposing sanctions. What it is missing is comprehensive central guidance and a common strong framework, which would incentivise and encourage engagement, instead of conditionalities and sanctions.

PART B. Multilevel governance: how to ensure coordination among levels of government

After having focused on the strategic planning and analysed the challenges linked to their implementation, we focus more closely on the regional and operational mechanisms, and to the possible challenges of a multilevel governance approach post-2013.

For the implementation of investment strategies to be effective, regional and local budgets will have to play an even more important role, and act in a coordinated fashion with national and EU budgets. It is therefore timely to analyse the current budgetary practices of local and regional authorities, in order to outline the main coordination difficulties and make forward looking suggestion on how to improve budget synchronisation.

Moreover, the operationalisation of Europe 2020 post-2013 is likely to change significantly, reducing the margin of discretion of LRAs. By analysing the previous experience of the Operational Programmes and building on the analysis of the previous part, the paper brings forward some conclusions trying to answer the question on how we can maintain the link between local and regional objectives and the overall strategic framework, and whether there are greater risks of a top-down approach in the implementation of post-2013 MFF.

1. What potential for a bottom-up approach in the budgetary field?

1.1 Linking strategic objectives and financial means

When discussing the next EU financing period, 2014-2020, it seems appropriate to investigate not only the interrelationship between strategic objectives, but also the extent to which the budgets of different administrative levels need coordination. The achievement of ambitious Europe 2020 targets and objectives is very much dependent on the capacity of national and regional budgets to reflect long-term targets in their money allocations, drawing not only on EU funding but also national/regional funds given the small size of EU budget. Moreover, national and regional governments invest to a significant degree into policy areas which are related to Europe 2020 objectives, e.g. education. Complementarity between EU and national financing should result into a virtuous coordinated dynamic, as the EU has to rely on MSs to achieve Europe 2020, given also the limited European competences in fields such as education or social protection.

For the purpose of the present paper, we focus on the role of local and regional authorities, and the potential of their budgets to create a leverage effect for effectively spending EU and also national money. The statistics show that the weight of subnational expenditure in the European economy is significant, amounting to €2.069bn in 2010 and representing the 16.9% of total public expenditure[xix]. But such aggregate data hides the important differences existing in member countries with regard to the powers and competences of decentralised entities. Across Europe, regions and local authorities manage a very big amount of public money, although they might not always have the power to decide on what to spend (their choices may be dictated by the State, or are restricted by regulatory and budget standards[xx]).

When looking at the main policy areas on which local and regional authorities spend their money, we find the following figures for the year 2010[xxi]:

- Education: 21%
- Social protection: 20%
- General public services: 16%
- Healthcare: 13%
- Economic affairs: 12%

In education, subnational authorities are on average responsible for 64% for the total expenditure, while they contribute funding of 41% for the provision of general public services. These data clearly demonstrate the extent to which subnational authorities are responsible for the actual implementation of public policies in the EU, and presuppose therefore that they have a specific expertise in responding to citizens' expectations.

Against this background, the potential of regional budgets to achieve public policy targets appears clearly. The evolution towards an effective multilevel governance system in the budgetary field seems necessary to exploit such potential, in light of the strict interrelations existing among the different documents of the new framework (MFF, NRPs, CSF, PCs) and the coordination of economic policies which should be created overtime.

As argued previously in this paper, EU and national budgets are key implementers for Europe 2020, for the new economic governance, and ultimately for the long-term growth of the European Union. However, local and regional authorities' budgets have an even more crucial role, as they have to combine national transfers and EU funds (plus locally raised taxes) into an integrated regional development policy.

For the purpose of the present analysis, there are here two aspects to consider. On the one hand, there might be top-down challenges in implementing investment strategies across levels of governments, such as:
- Fiscal challenge, linked to the difficulty of ensuring co-financing investments;
- Policy challenge, related to the complexity of exploiting synergies across different sectors;
-Capacity challenge, which refers to the administrative capacity of the beneficiary entity;
- Administrative challenge, linked to the fragmentation of investment projects at the local/municipal level.[xxii]

The effectiveness of the response to these challenges depends on the flexibility of the financing instruments, but also on the institutional capacities of the beneficiary entities.

On the other hand, there are bottom-up challenges which need to be addressed if LRAs want to take an active part within the multilevel governance system. The regional and local capacity to formulate their own development strategies highly depends on the national administrative arrangements (centre/periphery relations), on their institutional capacity, but also in their skills to *ex ante* upload their preferences at national and EU level. Targeting strategic and financing needs at the local level is key to elaborate policy options to be discussed at higher administrative levels. As it has already been stressed, LRAs should use, in parallel, the national and the European channels to contribute to the design of funding mechanisms and regional policies objectives. With the development of the European Semester and the start of the next multiannual financial period in 2014, such dual relations will become even more indispensable.

Within this context, it is particularly timely to analyse the current practices of local and regional authorities in defining their strategic priorities and in allocating budgetary envelops to their policies. The extent to which they are able to gear their planning and programming to the Europe 2020 objectives (more or less strictly) shall help to draw conclusion on how they can effectively participate in pan-European strategies and on the extent to which a multilevel governance approach in the budgetary field should be developed. It seems clear that a certain degree of alignment of regional priorities to the EU strategy is necessary, but the exact form and mechanisms for effective multilevel governance are much more difficult to determine.

The assumption is that the value and potential of a budgetary multilevel approach depends to a high extent on whether the region or local authority has the competence to elaborate its own development strategy, and it is directly proportional to the weight EU funds have in the overall revenues. Where the regional development strategy is mainly defined at central level, or where EU funds only constitute a minimal part of revenues, it should be more difficult to demonstrate any leverage effect, or analysing the role that the region should have in defining its own spending policies.

Given the scope of this CoR study, a small sample of five EU regions has been chosen in order to analyse: 1) budgetary arrangements (structure, calendar, presentation, approach); 2) reference to the sources of funding and their use; 3) reflection of strategic and budgetary pan-European priorities into regional – strategic or operational - documents; 4) the existence of good practices which could be extended to enhance the effectiveness of the spending in the next multiannual financial period 2014-2020.

Methodological note

The regions which have been chosen for the study are the following:
Piemonte, Italy
Andalucia, Spain
Aquitaine, France
Bruxelles Région Capitale, Belgium
Scotland, The United Kingdom
The sample does not fulfil statically representativeness requirements. The countries which have been chosen differ in their institutional capacities, resources and levels of development, but they also are the representation of the extreme variety of administrative arrangements existing throughout the European Union. The scope and the timescale of the study do not allow for the establishment of a representative sample, which would need to include more than five countries, and would be extremely difficult to build up.

Regional and local practices with regard to the design and implementation of the budget are very diverse, and do not always allow for meaningful comparisons. The aim of the present analysis is therefore limited, as are the conclusions which can be inferred on a more generalised level.

However, the analysis of the sample can give some hints on the extent to which regions estimate (or perceive) their involvement in the realisation of EU-wide strategic objectives. It is also argued that the comparative exercise can point at difficulties of regions both to ‘upload’ and ‘download’ policy and budgetary preferences, and therefore at the existing bottlenecks in realising a multilevel governance approach in the budgetary field.

Against this backdrop, the main variables which have driven the choice of countries to include in the sample are: the availability of the necessary documents, the language resources of the research team and the relevance of the information found on the given region.

1.2 Analysing regional budgets

The table below summarises the main elements relevant for our analysis, and tries to compare the budgetary practices of the different regions of the sample.

Region *Budgetary documents*	**Region's category under EU structural funds regulation 2007-2013**	**Existence of strategic/pluriannual orientation documents**	**Budget Structure (revenues and expenditures)**	**Indication of the percentage of EU funds used and their purpose Link to EU-wide strategic priorities**
Piemonte, Italy *Documento di programmazione strategico-operativa per la politica regionale 2007-2013* *Bilancio pluriennale 2001-2012-2013*	Competitiveness and Employment	Following the indications of the National Strategic Reference Framework, Piemonte has approved in 2006 the strategic-operational planning for European, National and regional funding. The aim of this document, which is elaborated by all Italian regions, is to ensure a coordinated implementation of regional development policies. The programming document establishes a first level link between European priorities (Lisbon Strategy in this case) and regional strategic objectives, which the budget is supposed to translate into budgetary envelops. The document is particularly interesting in that it represents a very good example of elaboration of strategic priorities based on the Lisbon Strategy and on the funds priorities. Starting from four priorities, the document outlines which specific fund (EU, regional or national) will be used to implement the operational programmes.	The regional budget is presented through a pluriannual document, detailing expenditures for the incoming three years. The budget for the years 2011, 2012 and 2013 indicates the yearly allocation per function/activities. The document present a high degree of detail, but it is structured per DG and accounting item, and not per policy areas or thematic objectives. For this reason, it is difficult to see a direct link with the strategic programming document (see column on the left).	While it is possible to obtain data on the total amount of EU funds and their relative importance in public spending, the regional budget does not explicitly link the operational expenditure with the strategic orientations. The presentation does not therefore allow to understand which actions and projects are co-financed by the EU. However, the use of EU funds appears in the sections education, environment and agriculture.

		In addition, the programming document indicated the total amounts of funding for the financing period 2007-2013: - EU funds: 807.870.389,00 - National co-financing: 1.616.222.382,00 - Regional financing: 897.501.788,80		
Andalucia, Spain *Presupuesto de la Comunidad Autónoma de Andalucía para el 2011* *Memoria del Presupuesto de la Comunidad Autónoma de Andalucía para el 2011* *Plan Economico-Financiero de requilibrio de la Junta de Andalucia*	Convergence	Within the context of the economic crisis and the consequent National recovery plan, Andalucia approved a multiannual economic and financial plan to equilibrate its finance. There does not appear to be other pluriannual orientation document and/or multiannual budget	**REVENUES** The budget features the total amounts of EU funding received within the chapter dedicated to external funding, which also include national transfer. For the year 2011, EU funds amount to 1.535.064.504 €, and they include: - OP Andalucia - OP Transborder cooperation - OP Transborder cooperation INTERREG - OP Atlantic - OP MED 2007-2013 - OP South East Europe - OP Andalucia ESF - Agricultural guarantee - Other (Leonardo da Vinci, Comenius) - Rural Development Programme - OP Fisheries Policy The EU funds represent around 1/10 of the total external sources of funding. **EXPENDITURES** The regional budget is structured per section and, within sections, per function. To each function are associated several programmes. The budget is presented in the form of	The revenues' chapter shows that, overall, the EU funds do not represent a very relevant amount of resources for Andalucia. The indication of the use of EU funds is only done at the level of single project. However, there is no precise indication of the percentage of co-financing. The budget is not structured following strategic priorities which can be linked to Lisbon Strategy priorities.

			'programme fiches', with list the main aims, activities and financial means of the programme. The budgetary envelops list the sources of funding, but do not distinguish between central government and EU transfer. The functions do not reflect, explicitly, to strategic objectives. For some of the functions related to specific policy areas (e.g. professional education and support to SMEs for innovation), the projects benefiting from EU co-financing are listed.	
Aquitaine, France *Orientation budgétaires – exercice 2011* *Projets cofinancés par l'Union Européenne – Fonds structurels 2007-2013*	Competitiveness and Employment	The Aquitaine Regional Council annually approves a document containing the budgetary orientations for the incoming year. The '*Orientations budgétaires*' are particularly interesting within the context of our research, as they contain both strategic and operational indication on the budget. For the year 2011, the budgetary orientations set out four main objectives to be achieved through public spending: 1) innovation for economic development and employment; 2) defence of environmental equilibria for a sustainable development; 3) mobility for stronger European orientation; 4) solidarity for an active Aquitaine and for social cohesion. In the detail of the spending policies attached to the strategic objectives, the document makes	The 'budget primitif' is structured per policy objectives. The document shows the evolution (2006-2010) of the resources allocated to each strategic objective: '*développement économique emploi'; 'intelligence'; 'management du territoire/environnement*'. In the '*Orientations budgétaires*', the budget is presented by macro-areas, and there is no indication of specific sources of financing. Each strategic objective is broken down into more specific envelops, to which a precise budget is allocated.	Aquitaine gives relevance to EU funding as a component of the public spending. In policy areas such as environment, support to SMEs and education, the structural funds give relevant contribution to the realisation of the strategic objectives. In addition to the above, it appears from the strategic planning of the '*Orientations budgétaires*' that the macro-priorities of the region well fit into EU-wide current priorities. However, it is difficult to appreciate the extent to which this represents a top-down translation of EU objectives, or a bottom-up elaboration coming from the region (and/or the central state).

		clear reference to the contribution of the European Social Fund and the Fund for Regional Development.		
Bruxelles Région Capitale, Belgium *Budget of expenditure 2011* *Budget of revenues 2011*	Competitiveness and Employment	While there appear to be sectoral pluriannual strategies, there is no multiannual budget for the implementation of a long term regional development policy.	The annual budget is articulated in 'Missions' (e.g. 'development and promotion of a mobility policy'), 'Programmes' (e.g. 'support for the promotion of mobility and citizens' participation') and 'Activities' (e.g. transfer to physical persons). From missions to programmes, the document translates strategic objectives into operational actions and financial allocations. Specific policy actions are accompanied by a justification of the expenditure.	The expenditure budget refers to the contribution of EU structural funds, in sectors such as support to SMEs, employment and city development policy. Also for the revenues, the budget refers to the financing coming from the European Union and their destination. However, a comprehensive overview of the amounts of EU funding used is missing, making the calculation of the actual impact quite difficult.
Scotland, The United Kingdom *Scotland's Spending Plans and Draft Budget 2011-12*	Phasing-out and Competitiveness and Employment (depending on the specific OP)[xxiii]	The Scotland's Spending Plan is a two years' budget, based on a long-term strategic document called 'Government Economic Strategy'. The Spending Plan includes both strategic and operational information, as its introduction sets the main objectives to be achieved and the expected outcomes. For the years 2011-2012, the strategic framework is oriented to ensure economic recovery, by protecting frontline services, ensure competitive advantage and tackling climate change.	The Draft budget for 2011 and 2012 details the portfolio for 9 thematic and functional sections, e.g. Office of the First Minister, Health and Wellbeing, Education and Lifelong Learning. The budgetary envelops are defined on the basis of the following strategic objectives: - supporting jobs, households and communities - investing in innovation and industries of the future - enhancing Scotland's human capital - mainstreaming and improving Scotland's physical capital - developing a comparative advantage in the world economy - reform to improve economic support The two years spending plan is a proposal on which the Parliament has voted the Budget	Within the portofolios 'Finance and sustainable growth' and 'Rural affairs and the Environment' specific budgetary lines are devoted to the implementation of EU funds. As for all budgetary lines, the draft budget illustrates 'what does the budget do', and it underlines how EU funds contribute to the strategic priorities of Scotland. On the basis of the 2011/2012 documents it is not possible to analyse the date related to the incidence of structural funds, as the dedicated budgetary lines are empty. However, it is important to underline that the Scottish government only lists the 'estimated spend likely to be required' from the implementation of the structural funds, not the EU contribution.

			Bill at the beginning of 2011. The presentation of the budget is structured per portfolio. For each portfolio the document details the responsibilities, the contribution to the national outcomes, the previous achievements and the priorities for the two incoming years.	While the budgetary documents do not offer the possibility to evaluate the concrete leverage effect of regional spending, given the absence of precise information, the Draft budget shows how the strategic priorities for Scotland very well fit into Lisbon Strategy's (and Europe 2020) priorities.

Despite the heterogeneity of regions object of analysis, there are a number of points which have implications with regard to the challenges and opportunities of multilevel budgetary coordination.

There does not seem to be a strict correlation between the institutional capacities and/or the economic development of the region with the sophistication of their programming and budgeting instruments. Each region organises its programming and operational documents with a high degree of discretion, unless national requirements impose specific conditions with regard to the format and the content (e.g. Regional Strategic Programming document in Italy). As a result, it is a difficult exercise to make comparisons which could help analysing the potential for multilevel governance in the budgetary field. In addition, the relative importance of EU funding varies to a great extent from region to region, and the available documents are not always very explicit about the sources and the destinations of financing. In this respect, no region of the sample translates EU-wide objectives both at a strategic and operational level. Looking at Piemonte, for instance, while the programming document refers clearly to Lisbon related priorities, the budget is structured in a less straightforward way (i.e. by function) which does not allow detecting what are the specific policy actions and programmes co-financed by the EU. While Piemonte may represent good practice with regard to the detailed presentation of financing sources, it would need a tighter link to strategic programming. The availability of comprehensive information is a necessary condition for multilevel governance to be effectively established.

For those regions presenting strategic long-term objectives, it is easy in most cases to see that regional priorities broadly fit into Lisbon (and Europe 2020) targets. However, the picture is further complicated by the different levels of economic development and the specific problems the region has to face.

The sample analysed reveals that in fields such as education, employment, support to SMEs and community development, EU funds represent an important part of total financing. However, it may also be noticed that in some cases, e.g. Aquitaine and Scotland, infrastructure investment constitute a major orientation for development, which might risk not to be covered by national transfers or EU funds. It emerges quite clearly that, in addition to the broad directions of spending similar to all regions, there are specific issues each territory is dealing with, and for which flexibility in the implementation of the funds is needed.
Against this background and given the current economic context, where LRAs are seeing the national transfers shrinking, it seems even more difficult to set strict top down priorities for the use of EU funds.

On a more practical level, one can see two main issues hampering top-down and bottom-up coordination: the lack of explicit reference to EU funds and the differences in budgetary calendars (i.e. duration of strategic programming, existence of 2 or 3 years pluriannual budgets, annual budgets). A strengthened coordination is needed at strategic and operational level, in order to ensure a bottom-up and a top-down development of policies and financing mechanisms.

While it cannot be imposed to all LRAs to adopt the same budgetary arrangements, it would constitute good practice if local and regional authorities produce long-term planning and programming documents that cover the EU financing period. The Territorial Pacts could serve this purpose, setting out financing plans in line with the Europe 2020 strategies. Annual (or pluriannual) budget would then be a translation into budgetary envelopes, which would keep the link with the annual allocation of EU and national funds.
As noted above in this paper, the design and elaboration of Territorial Pacts (or similar documents) might represent an additional administrative burden for beneficiary regions. Competitiveness regions, given also the declining importance of structural funds financing, might therefore not have the willingness to invest resources in the production of additional planning and programming documents.

2. Operational Programmes: which role in achieving Europe 2020?

Addressing the challenges of multilevel governance through a more coordinated budgetary approach might represent a positive evolution to enhance the effectiveness of spending. However, as has been underlined, such coordination presupposes a bottom-up method which should involve LRAs in the elaboration of spending priorities. In this respect, Operational Programmes represent the last step in the process of definition of spending objectives, which has to maintain a certain margin of flexibility by taking into account regional and local specificities.

However, as the analysis of the Commission's proposals show, there are concrete risks of a top-down approach in the definition of future regional policy (i.e. Partnership Contracts and Operational Programmes), which might impact not only on the weakest European regions but also have consequence on richer regions currently struggling with maintaining public investment. The current economic crisis requires an EU tailored approach to regional and local needs, able to address specific problems hampering the return to growth. However, the aim of the funding also needs to be in line with the political and strategic direction of the EU, i.e. Europe 2020 Strategy. Against this backdrop, potential tensions can occur between local/regional priorities and Member States/EU priorities, whose implications would need to be studied before entering the next financing period.

By looking at current Operational Programmes and at the Commission's proposal, this final chapter evaluate the nature and extent of the tensions which could create after 2013, and what could be the risks for traditional regional spending priorities.

2.1 The nature and purpose of Operational Programmes in previous MFF and the current proposals

Operational Programmes are the centre-piece of EU regional policy multi-annual planning. They specify the main priorities, targets, spending plans and partnership mechanisms: "The objectives and priorities for the use of the funds are laid down in individual Operational Programmes at national or regional level negotiated between the Commission and each Member State and formally approved by the Commission. […] The programme authorities select the projects to attain the objectives set and to which the funds contribute."[xxiv]

For the previous and current financing period, such documents were based on the National Strategic Reference Framework (NSRF), which sets the reference for programming Structural Funds and Cohesion Fund interventions in a manner consistent with the Strategic Guidelines on Cohesion. The NSRF presents a list of national and regional Operational Programmes (OPs) which it is seeking to implement, as well as an indicative annual financial allocation for each OP. For the next financing period, National Reform Programmes and Partnership Contracts will be the reference document for the definition of the OPs.

Despite their utility in setting out the concrete actions for regional spending, since the 2000-2006 funding period Operational Programmes have shown a set of issues concerning policy operationalisation. In many regions, there were insufficient mechanisms to involve local partners in building bottom-up regional priorities, which would result in OPs being a mere implementing tool of priorities decided elsewhere. Such tendency accentuated even more in the Operational Programmes of the current funding period (2007-2013), and the proposals of the Commission for post-2013 seem to go in the direction of a strengthened top-down approach.

In fact, the proposed concentration of objectives for the 2014-2020 cohesion policy will require regions to choose from a restricted thematic menu the priorities on which they want to concentrate the funding (and national co-funding). Such thematic menus are to be defined through regulation by the EP and the Council, and it will basically ensure that resources are geared towards Europe 2020 objectives. This is particularly true for competitiveness and transition regions, whose resources will be directed to energy efficiency, renewable energy, SME competitiveness and innovation. For what concerns convergence regions, the indications of the European Commission are not, at this stage, clear enough to determine the impact of the possible changes in investment strategies.

This move towards more alignment with EU –level objectives is not new, as it can also be observed in the so-called Lisbon Strategy "earmarking". Cohesion policy instruments were required to contribute to the Lisbon Strategy already during the 2000-2006 programming period, but it was in the 2007-2013 funding period that earmarking called for a specific alignment with the Lisbon objectives: *"The so-called "earmarking" exercise asks Member States to focus the funding on categories stemming from the renewed Growth and Jobs ("Lisbon") Strategy. These categories concern priority themes such as research and technological development, innovation and entrepreneurship, the information society, transport (for Convergence regions), energy, including renewable energy sources, environmental protection and human resources and labour market policy related issues. The level of expenditure to be earmarked for these is 60% for Convergence regions and 75% for regions under the*

Regional Competitiveness and Employment objective. The provisions only apply to EU15 and not to the new Member States."[xxv]

The proposal of the European Commission is therefore in line with previous trends, albeit even more focused. In general terms, linking policy actions to political objectives it is a welcome development, which goes into the direction of more effective and accountable spending. However, questions can be raised on the usefulness of reducing the number of priorities regions can 'use', especially when the overall regional strategy fits with EU-wide priorities.

This raises a key question: what is the purpose of the concentration of priorities? If priorities can be demonstrated to contribute to the goals of Europe 2020, there appears little reason to strongly limit regional choices, especially since a region might identify a major impediment to growth which is not included in the limited priorities. It can be argued that concentration of priorities will ensure that there is significant critical mass or that it ensures project funding which reaches a threshold level. However, this could be more effectively achieved by setting minimum project sizes and giving regions a longer list of priorities from which they can choose a limited number. In addition, a too strong limitation reduces flexibility and might mean that for certain regions the ability to engage in new funding instruments such as the Connecting Europe Facility is limited. The crisis should also lead to a reevaluation of what cohesion funding is spent on. For example, more funding will have to go to finance basic public services in countries or regions which are struggling. Again a strict limitation of priorities seems to go in the wrong direction.

2.2 Analysing the implications of thematic concentration

In order to analyse the potential implications of thematic concentration on competitiveness and transition regions, we have chosen a sample of 5 European regions, of which the Operational Programme (2007-2013) is studied:[xxvi]

- Aquitaine, France
- Piemonte, Italy
- Northern Finland, Finland
- East Wales, The United Kingdom
- Madrid, Spain

As for the analysis of sub-chapter 1.2, the chosen sample does not fulfill conditions of representativeness, but gives a good overview of the priorities on which competitiveness regions are currently focusing their spending.

The current OP for the region of Aquitaine, benefitting from a budget of 1.3 billion euros, is built both around regional issues identified during the analysis of the region's potential, and around the national guidelines set in the NSRF, as well as the strategic Community guidelines.

This OP is meant to contribute to the Lisbon objectives concerning competitiveness and employment "by providing significant support to intervention capacity for research and technology transfer and by targeting interventions geared to innovation and the information society, while at the same time focusing particular attention on the environment and sustainable development"[xxvii]. The main priorities of the region are targeted at innovation, ICT, energy, and SME growth, with the share of Community funding dedicated to the Lisbon objectives reaching "nearly 74% for the ERDF and nearly 81% for both the ERDF and the ESF."[xxviii] The EU contribution seems to be the highest in the Priority Axis 'Promoting the knowledge-based economy', amounting to 175 million euros.

The total budget of the OP for the Piemonte region of Italy is 1.1 billion euros, with around 71% of that being earmarked for the Lisbon objectives. The main priority regards research and innovation (48% of funds), followed by renewable energy sources and energy efficiency (26% of funds), and improving the attractiveness of the region (another 26% of funds). The priority concerning territorial development "is characterised by a strong territorial approach and will be implemented through integrated territorial programmes".[xxix] The Priority Axis 'Innovation and Production Transition' benefits from the largest EU contribution, more than 197 million euros.

The OP for Northern Finland benefits from a total budget of 1.1 billion euros, and its priorities are developed around innovative competitiveness, enterprise growth, and enhancing the region's attractiveness and accessibility. Expenditure towards the achievement of the Lisbon objectives will have a share of up to 76.2% of the total funds, which is more than the 75% Community target for Regional Competitiveness and Employment regions. The largest EU contribution is going to the Priority Axis 'Promotion of innovation activity and networking, and reinforcing knowledge structures', and amounts to more than 116 million euros. What is interesting to note at this OP is that for all 4 Priority Axes, the EU contribution is precisely equal to the National Contribution.

180 million euros represents the total budget of the OP for the East Wales region, in the United Kingdom. The main priorities target knowledge –base development and innovation (44.6% of funds), enterprise competitiveness and growth (19.5% of funds), climate change (19.5%), and inclusive growth (14.8%). It is worth highlighting the latter's notable alignment with the Lisbon

Strategy objectives for growth and jobs. The EU contribution for this Priority amounts to more than 10 million euros.

The region of Madrid, Spain, benefits from a budget of 694 million euros under its Operational Programme for the current funding programme. This OP was devised while taking into account the specific regional issues, the lessons learned from the previous programming period, and the national and EU-level guidelines. The priorities are focused around research and innovation, access to information and urban planning, particularly environmentally-friendly urban transport. The OP for Madrid will therefore consistently contribute to achieving the Lisbon objectives. The largest EU contribution in terms of funds is going to the Priority Axis 'Knowledge-based economy, Innovation and business development', and amounts to more than 213 million euros.

All the cases we analysed show that funds are mainly being concentrated in research, innovation and support to SMEs. In this respect, the proposed thematic concentration would not bring dramatic changes to the investment priorities of the sample regions. However, for some of the priorities funding would probably not be available: for example, the OP for East Wales also listed 'Regeneration for growth' as an ERDF priority, which is likely to be left out in the new financing period under the proposed thematic concentration.

More generally, it can be argued that the current difficult economic context might constrain regions to focus on other types of investment in the incoming years, away from Europe 2020 direct targets. Also richer regions are confronted with tight public finances, and might be in need of funding to supply basic public services and infrastructures, rather than programming growth-enhancing investments for research and technological innovation. In this respect, introducing thematic concentration at this moment might have disruptive consequences on the capacity of regions to use EU funds, also because the necessary national co-funding risks disappearing in several countries (i.e. freezing of budgetary transfers in France).

Furthermore, for those regions already struggling to spend EU funds, fewer priorities will negatively affect their absorption capacity, since it implies less possibilities of shifting resources from a spending chapter to another.

Conclusions

Although criticised by many for not being ambitious enough, the post-2013 MFF proposals has brought to the negotiation table a series of novelties which are likely to change the strategic and operational management of EU funds.

Moreover, the multiannual financial document constitutes just one of the pieces of a framework composed also of Europe 2020 (i.e. strategic long-term orientations) and new economic governance (i.e. European Semester, reform of the Stability and Growth Pact and Euro Plus Pact). The financial perspectives certainly occupy a prominent role in the new framework, but they will have to be coordinated with the efforts of Member States in achieving Europe 2020 objectives.

The paper has shown the extent to which the European Semester, obliging Member States to present their national development strategies, will require a stronger commitment from countries to gear their resources towards the same objectives the MFF is directed to. Moreover, deriving from National Reform Programmes, regional strategies will be detailed in the Partnership Contracts. It is therefore important that LRAs take an active role, starting from the elaboration of NRP, in order to avoid a top-down approach in the implementation of EU regional policy.

Our analysis of the Commission's proposals (i.e. Common Strategic Framework and Partnership Contract) reveals that several bottlenecks appears to exist, starting from the coordination challenges with NRP to the difficulties linked to determine a 'one-size-fits-all' set of thematic priorities and impose conditionalities to the beneficiaries of EU funds. Unfortunately, the details of the European Commission proposals are at this stage limited. However, the paper tries to make forward looking suggestions on how the bottlenecks can be tackled, also by insuring a strong involvement of LRAs. In this respect, it is proposed to elaborate Territorial Pacts as documents setting out an integrated regional development plan, including EU, national and regional sources of funding.

After having analysed the features of the framework composed by MFF 2014-2020, new economic governance and Europe 2020, the second part of the paper focuses on the implementation phase of public policies which will be determined in the strategic EU documents. The role of LRAs emerges as crucial, as well as the need to increase coordination between the different levels of government. By analysing regional budgets and the operationalisation of structural funds (i.e. Operational Programmes), the papers looks at the current practices of five sample regions, detecting challenges to a multilevel governance approach and potential solutions for stronger coordination.

As far as the budget is concerned, the case studies show that a direct link to strategic and operational EU-wide priorities is often missing at regional level. Despite the shortcoming of the analysis, whose sample is not representative of the extreme heterogeneity of regional budgetary practices, it is argued that given the importance of regional budgets in implementing EU policies, links between the EU, national and regional funds should be spelled out more clearly in a programming document. It is suggested that Territorial Pacts, as presented in the first part of the paper, could serve this purpose.

With regard to the operational programmes, the paper conducts an analysis of five sample OPs, aimed at studying the possible implications of the thematic concentration announced in the next MFF proposal. The imposition of top-down choices on competitiveness and employment regions investments might jeopardise regional investments in areas such as infrastructure or community development. Yet, our analysis of the sample shows that competitiveness regions tend already to focus on a small number of objectives linked to research, innovation and support to SMEs, driven by the Lisbon 'earmarking' process. However, now more than before, there might need to be specific funding facilities to support basic public services, given the shrinking amount of national transfers. Against this backdrop, the paper puts into question the added value of having a smaller number of thematic objectives, as this will not provide any specific assurance that the Europe 2020 targets will be reached more effectively. As long as the strategy of the region fits into the main strategic objectives of the EU, with the recognition of regional specificities and challenges, restricting the number of priorities for receiving EU funds might even be counterproductive, especially in a context of restricted public finances.

To sum up, the paper looks at the next MFF proposals of the Commission by analysing a number of critical issues with regional and territorial relevance. On the one hand, there are several elements which still need to be clarified, especially with regard to the functioning of the relations between NRF, CSF and Partnership Contracts. As far as it can be seen at the moment, the risks of a top-down approach seem high.

On the other hand, past and current financing periods show us shortcomings and coordination mechanisms to be improved, in order to implement a real partnership and multilevel approach in the next financing period. However, it is not clear the extent to which the current proposals are going into the right direction, in particular with regard to the thematic concentration.

LRAs have been delivering on EU-wide strategic objectives, and they have the potential for continuing doing so and contribute to the success of an exit strategy from the crisis. However, to ensure effective delivery, they have to be given an active role in the *ex ante* phases of design and elaboration of EU policy objectives.

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Annex 1

NRP Sweden	Energy efficiency	Renewable energy and environmental technologies	Role of local and regional authorities in the implementation of Europe 2020 strategy	Involvement of local and regional authorities in the discussion around the Europe 2020 strategy
	"In addition, the Riksdag has decided on a **target for energy efficiency, which is expressed as an economy wide target to reduce energy intensity by 20 per cent between 2008 and 2020**. The target concerns primary energy relative to GDP. To meet the target, mostly general economic policy instruments (for example, energy taxes, carbon dioxide taxes and emissions trading) and measures are employed. These are supplemented by other measures aiming to close significant information and knowledge gaps. In the Budget Bill for 2010, the Government allocated SEK 575 million for the period 2010–2012 for **further energy efficiency initiatives at the local and regional levels and for initiatives for sustainable energy use.** The main measures are support for municipal energy and climate advisory services for households and small business and work to encourage the market introduction of systems solutions for making the housing and service sectors more energy	"The Government allocated more funds for **environmental technology, renewable energy and energy research** in the 2011 Budget Bill. Measures for research, development and the demonstration of new technology are an important tool for meeting the climate and energy targets set by the Government. The Government has carried out a special initiative for commercialising new energy technology. The initiative, which primarily concerned second generation bio fuel, came to SEK 875 million for the period 2009-2011. **To strengthen the regional work on reducing the climate impact and on the transition to alternative energy sources, the Government designated three counties as pilots for green development. The intention is to develop the regional climate and energy work in order to promote a green economy through new jobs, growth and increased competition.**" (p.43)	"**Local and regional support for the Europe 2020 strategy's targets and intentions, and thus for regional and local development in Sweden, are crucial for the successful implementation of the strategy.** The national strategy for regional competitiveness, entrepreneurship and employment 2007–2013 sets out the Government's priorities for regional growth and constitutes an important instrument for **converting the EU's common targets for growth and employment into regional and local priorities.** It forms the basis of the regional development and structural funds programme. The national strategy together with the regional development programmes thus contributes to increased cooperation between the national and the regional levels. **The regional actors thus play a role in implementing the national reform programme based on their particular**	"At a national forum meeting in March 2011, **the implementation of the Europe 2020 strategy at the regional and local levels and the link to regional development work and cohesion policy were considered**. In many places in Sweden, local and regional initiatives are underway to develop processes that more clearly integrate the Europe 2020 targets into regional and local development efforts. There is a great need for learning between the national, regional and local levels about regional development experiences. The implementation of the structural funds has contributed to this work." (p.46)

	efficient. Moreover, the Government allocated SEK 300 million annually to finance a five-year programme for energy efficiency for the period 2010–2014. **The programme includes an expansion of regional and local energy and climate work**, initiatives for information, consultation, support for technology procurement, and market introduction of energy efficient technology, with particular focus on SMEs." (pp.42-43)		**conditions and opportunities primarily within the framework of the regional development programmes.** In the light of local self-government in Sweden, **the local level has a leading role in implementing some of the targets set by the Swedish Government**." (p.46)	
NRP Spain	**Science and Technology** "The Spanish Science and Technology Strategy will establish criteria and areas of **common action for the central and regional government so that their policies are coordinated and they share goals in scientific and technical research.**" (p.24)	**Employment** While promoting **active inclusion** the Spanish government will seek to "**reach agreements with the Autonomous Communities and local governments to increase the efficiency of minimum welfare benefits**, by providing flexible linkage to access to quality employment and making the range of primary social services more responsive to the protection and social insertion of individuals in situations of greatest social vulnerability, particularly the homeless." (p.38)	**Consistency between regional policies and the National Reform Programmes** "In view of the **considerable devolved powers of the Autonomous Communities in many of the policies covered by the Europe 2020 Strategy, an attempt will be made to promote the design of regional policies that are consistent with the goals of the NRP and to ensure that regional objectives are aligned with any European and national objectives.** The corresponding ministries will discuss these issues in bilateral thematic meetings with the Autonomous Communities, and a transparent, homogeneous and harmonised reporting system will be maintained to	**Responsibilities of local and regional authorities in addressing the fiscal Imbalances and contribute to Europe 2020 targets** **Country specific recommendations:** Art. 8: "**Regions account for a large share of total public expenditure and 9 out of 17 exceeded their fiscal objectives in 2010.** However, deficit and debt control mechanisms for regional governments have already been strengthened and the Spanish government has committed to take additional measures, if needed to meet the budgetary targets." Art. 9: "Achieving the foreseen fiscal consolidation in 2011 and 2012 requires strict application of the **deficit and debt control mechanisms that have been put in place for regional governments**."

			ensure monitoring of the NRP." (p.40)	Art.14: "Reform of the active labour market policies was adopted in February 2011, which also included measures to **strengthen the advisory and guiding role of employment services and their coordination at national and regional levels.**"
NRP Germany	**Growth and employment** "Key measures to stimulate growth and employment in Germany" –one area where there seems to be a particularly **large room for maneuver for LRAs is in "ensuring full utilisation of the economy's labour potential"**, as per the below examples of actions: 1. "Action name: Alliance for labour Description of action: **Stakeholders related to commerce and the labour market will link regional initiatives and projects in the regions** and thereby support the development and oversight of measures to secure the local workforce base. An innovation office has been set up to this end. Anticipated impact: Successfully counteract the impending shortage of skilled Workers	**Employment of older workers** 2. "Action name: 'Perspective 50plus' employment pacts for older workers in the regions Description of action: Since October 2005, long-term unemployed men and women aged between 50 and 64 have been supported by the "Perspective 50plus – employment pacts for older workers in the regions" programme in their endeavours to return to the general labour market. The federal programme is based on **a regional approach that allows authorities to address issues particular to their region when deciding on a strategy for inclusion and integration.** Both the job centres (with core responsibility) and partners of the regional networks are involved in implementing the programme. The latter include businesses, chambers and	**Labour support for migrant populations** 3. "Action name: XENOS – Labour market support for immigrants with residence rights and refugees Description of action: 2. In conjunction with the joint federal/municipal agencies (Arbeitsgemeinschaften) and approved municipal organisations, this programme **creates support networks at a local and regional level to assist as many people as possible towards long-term employment.** The interconnected advisory agencies are to work together with the business community to increase the rate and duration of employment of the target group in the labour market through job-related training courses to obtain qualifications. At the same time, the aim is to prevent or reduce claims for social security benefits.	**Skills' development** 4. "Action name: "Integration through Qualification" network (IQ) Description of action: Introduced in 2005, the "Integration through Qualification – IQ" advisory and information network has been **extended regionally since 2011 as part of a federal programme lasting until 2014. It aims to develop and expand the migration-related and intercultural skills of official institutions**, such as agencies, bodies that provide basic social security benefits, authorities responsible for evaluation procedures, providers of language courses and education, as well as businesses. Anticipated impact: Sustained improvement of the labour market situation of people with a migrant background. Status and schedule: 3rd phase of the project commences on 1/7/2011 with 10 regional networks. Plans to extend project to 25 networks from 2013." (p.44, Action

	<u>Status and schedule</u>: The alliance for labour was established in October 2010. The innovation office will commence work in March 2011." (p.40, Action no. 20)	associations, municipal establishments and educational institutions, policy-makers, trade unions, churches and social organisations. <u>Anticipated impact</u>: During the first phase of the programme (October 2005-December 2007), over 22,500 individuals were integrated into the primary labour market. In the second phase, (January 2008-December 2010) this figure increased to over 100,000. The government has set the goal of integrating 65,000 people in 2011. <u>Status and schedule</u>: Support of 78 regional pacts. In force since 2005, extended once more from January 2011 to December 2015." (p.40, Action no.23)	<u>Anticipated impact</u>: Greater scope for action of the target groups to seize opportunities on the labour market. Increased willingness of businesses to employ individuals in the target group. Stabilises and safeguards the long-term employment relationships of foreigners with residence rights. Raises awareness among the relevant stakeholders in the labour market and public life. <u>Status and schedule</u>: Phase II of the Federal Programme for Immigrants with Residence Rights and Refugees (*Bleiberecht II*): 1/11/2010-30/6/2014." (p.44, Action no.36)	no.37)
<u>NRP Poland</u>	**<u>Local public finance (deficit)</u>** "Work is in progress on a **new deficit rule for local governments**. Under the proposed rule, the deficits of local governments will be limited to a fixed percentage of their total revenues (with the initial level yet to be determined). As a consequence of ongoing work aimed at an overhaul of the Polish budgetary	**<u>Telecommunications and networks</u>** "In certain areas of the country (the so-called *terra incognita* for telecommunications network coverage) the **infrastructure investment in telecommunications** should be supported with public funds due to the low profitability of these investments, and the subsequent low interest of	**<u>Local monitoring mechanisms</u>** "**At the regional level, proper coordination of the implemented development policy remains of the key importance.** To this end, the potential of Regional Operational Programme Monitoring Committees, of Voivodeship Social Dialogue Commissions, and of newly established National Territorial	

	framework, a **draft law defining a permanent expenditure rule will be prepared**. The actions intended for institutional strengthening of public finances will, at the same time, contribute to the delivery of the Euro Plus Pact objectives. The permanent expenditure rule will aim at stabilising the structural deficit at the level of the medium-term budgetary objective(-1% of GDP)." (p.11)	private sector in their delivery. It is therefore **necessary to encourage the local authorities to actively participate in the actions for the development of infrastructure to enable providing broadband access to the Internet services, and in the case of commercial operators to increase investments in the new generation networks."** (p.19)	Forum should be better used, as those bodies may become a forum for dialogue on the key issues related to the NRP at a level lower than national one." (p.53)	
<u>NRP UK</u>	**<u>Evolution of centre/periphery relations</u>** "The 2010 Spending Review set firm and fixed departmental budgets for four years from 2011-12 to 2014-15, as well as announcing reforms to Annually Managed Expenditure (AME), including welfare and public service pensions. The Government protected spending on the NHS and overseas aid and also made choices to: prioritise fairness and social mobility; focus on spending that promotes long-term economic growth; and **reform public services, to shift power away from central government to the local level and improve value for money.**" (Art. 3.14, p.15)	**<u>Example of local partnership</u>** "A key vehicle for delivering local economic growth and jobs in England are **Local Enterprise Partnerships**. **These are locally-owned partnerships between local authorities and businesses aimed at determining local economic priorities and undertaking activities to drive growth and job creation.** Following an invitation in June 2010 to bring forward proposals for local enterprise partnerships, working on the basis of natural economic areas, a total of 32 local enterprise partnerships are now operational. Together, they cover 91 per cent of the country's population, and further announcements are expected in the next few months." (Art.3.65, p.26)	**<u>Reducing regulatory impact</u>** "The Government has made a commitment to achieve a net **reduction in regulatory and other burdens on the house-building industry by March 2015.** Where planning obligations reflect more buoyant property market conditions, the HCA will **urge and support Local Authorities to allow development to proceed wherever possible. The Government will work with local authorities and industry to introduce a new local viability test, so that the cumulative impact of regulation does not make development unviable.** The Government has already removed all centrally-imposed standards for homes built on surplus central government	In selected policy areas, corresponding to headline targets, the NRP details actions and programmes of devolved administrations. The lack of harmonisation in terms of methods and indicators' choice makes it more difficult to make comparisons (e.g. in the field of education).

			land, and will not require additional standards for public sector funded homes, resulting in savings of around £8,000 per unit." (Art. 3.79, p.28)	

Endnotes

[i] Economic governance package (1) : 'Strengthening the Stability and Growth Pact', MEMO/10/455
[ii] European Commission, Europe 2020 Strategy, COM(2010)2020
[iii] As a means of enforcing budgetary surveillance, Member States in the Eurozone will be required to make an interest-bearing deposit if there are significant deviations from prudent fiscal policy-making. The corrective arm will be enforced through a non-interest bearing deposit of 0.2% of GDP that a country would need to make if it was placed under the excessive deficit procedure. Should the respective Member State not comply with the recommendations to correct the deficit, this deposit would be transformed into a fine.
[iv] In addition to these measures, it is also worth mentioning in this framework the European Financial Stability Facility and its future successor, the European Stability Mechanism. While the former was created by the euro area Member States in 2010 as a temporary solution for providing financial assistance to states in economic difficulty, the latter will be set up in 2013 as a permanent crisis mechanism and will complement the new economic governance model of reinforced economic surveillance.
[v] European Council, Conclusion of the European Council 24/25 March 2011, EUCO 10/1/11
[vi] These below are the ten guidelines to be followed for the NRP:
Guideline 1: Ensuring the quality and the sustainability of public finances
Guideline 2: Addressing macroeconomic imbalances
Guideline 3: Reducing imbalances in the euro area
Guideline 4: Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy
Guideline 5: Improving resource efficiency and reducing greenhouse gases emissions
Guideline 6: Improving the business and consumer environment and modernising the industrial base
Guideline 7: Increasing labour market participation and reducing structural unemployment
Guideline 8: Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning
Guideline 9: Improving the performance of education and training systems at all levels and increasing participation in tertiary education
Guideline 10: Promoting social inclusion and combating poverty
[vii] E. Molino, F. Zuleeg, 'The EU budget – an Instrument for Shaping and Delivering Key EU policy Priorities: Should the Europe 2020 Strategy be the Main Strategic Policy Reference for the post-2013 MFF?', Note written within the Framework Contract with the Committee of the Regions, 2011
[viii] Please see the first sub-chapter for a more detailed description of the Economic Governance Package and the National Reform Programmes
[ix] Territorial pacts can also cover a single policy area, for example employment policy in Austria. However, the position of Territorial Pacts in this diagram is derived from the role proposed for TPs in this paper.
[x] Committee of the Regions, Opinion of the Committee of the Regions on the Fifth Cohesion Report, CdR 369/2010 fin
[xi] European Commission, The EU budget Review, COM(2010) 700 final
[xii] European Commission, Investing in Europe's future. Fifth Report on economic, social and territorial cohesion, Report from the Commission, November 2010, available at http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion5/index_en.cfm
[xiii] European Commission, *A budget for Europe 2020*, Communication from the Commission, COM(2011) 500 final, 29.6.2011
[xiv] European Commission, Investing in Europe's future. Fifth Report on economic, social and territorial cohesion, op. cit., p. XXIV
[xv] David Sweet, 'The future of cohesion policy', presentation held on 6 July 2011, available at http://www.gnpaect.eu/events/images/OpenDays/david_sweet_the_future_cohesion_policy.pdf.
[xvi] Committee of the Regions, *Territorial Pacts: Making the Most of Europe 2020 through Partnership*, http://portal.cor.europa.eu/europe2020/TerritorialPacts/Documents/1003%20territorial%20pacts%20EN%2017x24.pdf
[xvii] See the Italian National Strategic Reference Framework for the period 2007-2013, available at http://www.innovazionepa.gov.it/media/264712/qsn_2007-2013_giugno_07.pdf
[xviii] Specific, Measurable, Attainable, Relevant and Timely
[xix] DEXIA, Subnational public finances in the European Union, July 2011
[xx] Ibidem
[xxi] Ibidem

[xxii] OECD, *Making the most of public investment in a tight fiscal environment. Multi-level governance lessons from the crisis*, OECD Publishing, 2011

[xxiii] For further details, please consult the National Strategic Reference Framework document produced by the European Commission, available at http://ec.europa.eu/regional_policy/atlas2007/fiche/nsrf.pdf

[xxiv] The Control System for Cohesion Policy, http://ec.europa.eu/regional_policy/sources/docgener/presenta/audit2009/audit2009_en.pdf , p.6.

[xxv] http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/06/281&format=HTML&aged=1&language=EN&guiLanguage=en

[xxvi] While regions are often interested by several Operational Programmes, we have chosen here to focus only on the main one for the territory. The reason for this are mainly related to the scope of the project.

[xxvii] http://ec.europa.eu/regional_policy/country/prordn/details_new.cfm?gv_PAY=FR&gv_reg=556&gv_PGM=1124&LAN=7&gv_PER=2&gv_defL=7

[xxviii] Ibidem

[xxix] http://ec.europa.eu/regional_policy/country/prordn/details_new.cfm?gv_PAY=IT&gv_reg=686&gv_PGM=1161&LAN=7&gv_PER=2&gv_defL=7