Making the most of ESI Funds

Panorama speaks to **Mari Kiviniemi**, Deputy Secretary-General of the OECD. The Organisation for Economic Co-operation and Development explains the importance of place-based initiatives and the efficient coordination and application of European funding instruments to improve investment and its impact at the local, national and regional level across the EU.

What are the general views of the OECD about the European Structural and Investment Funds?

The European Structural and Investment funds are an important place-based dimension in the EU's policy toolkit. In recent years, these funds have gradually become part of the overall package of structural policies, given their growing focus on key enablers for economic growth, including infrastructure, innovation and skills. The ESIF should continue to focus on these growth-enhancing objectives and resist rising pressures to divert such funds to other needs. However, these policies must be complemented by important considerations. The first is a need to differentiate them across regions, to ensure that they can prioritise the most pressing needs of each place. The second is to ensure additionality in EU regional policy to guarantee that they add to, rather than replace, national public spending and that funds are spent efficiently. The third, but equally important, is to ensure they are well coordinated across levels of government and align with investment decisions across national, regional and local spheres, which would help to improve investment efficiency.

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What should the role of these funds be within the EU budget and, more generally, in achieving economic policy goals?

Compared to OECD standards, the EU's system of budgeting for performance and results is amongst the most advanced in the standard index of performance budgeting frameworks. Based upon an OECD analysis, currently being finalised, EU budgetary practices include many effective and innovative aspects that may hold lessons for national governments reflecting on their own agendas of performance-focused budgetary reform. In particular, the EU's 'Budget focused on Results' is a worthwhile initiative aimed at further strengthening the linkages between money spent and

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visible impacts. The OECD sees scope for EU budget practices to benefit further by developing clear, concise articulations of economic and other policy goals and results, ex ante and ex post, helping both the Parliament and Council to engage more fully with the EU budget's policy substance.

In line with the OECD inclusive growth agenda, the EU budget funds actions to address both growth and cohesion objectives. Given the funds' strong orientation toward investments, they should aim to increase the productivity growth of European economies. At the same time, the funds are one of the few instruments of solidarity across EU countries, which is particularly important for euro-zone countries for which there are no intergovernmental budget transfers. However, there are important questions concerning the type of investments made, as European value added may be less clear cut, particularly when resources are used for short-term relief.

What major conditions are required to maximise their impact and for their efficient implementation?

It is important for ESIF investments to be growth-friendly to leverage their impact in terms of the composition and efficiency of public finances. If deployed to "crowd in" national public funds and private investment, they can foster greater investment and productivity. Sound governance frameworks better able to coordinate investment across levels of government and upgrade administrative capacity are key to maximising their impact at national and sub-national level. To help manage this mutual dependency on public investment, the OECD has developed 12 principles on Effective Public Investment Across Levels of Government which have been endorsed by the EU Committee of the Regions. The guidelines cover how to manage challenges linked to vertical coordination, horizontal coordination across jurisdictions to invest at the relevant scale, sub-national capacities and broad framework conditions for effective public investment.

The OECD recommendation highlights that governance instruments are needed to manage this coordination, which does not happen spontaneously. Such tools include, for example, dialogue platforms, co-financing arrangements, and financial incentives for coordination. Conditionalities can also foster better governance of public investment, under certain conditions. In the EU, *ex-ante* conditionalities, introduced in the 2014-20 financial period, ensure a direct link between the investments co-financed by the ESI Funds and EU-level policies, and help trigger policy reforms to promote the better implementation of funds.

How do you assess European Cohesion Policy and these funds compared to other territorial policies in non-EU countries?

It is extremely difficult to evaluate the impact of any policy on the performance of one particular country, region or local economy. In the case of ESIF, over the last decade, many countries where these funds have supported convergence have also experienced fiscal consolidation/tightening in the aftermath of the financial crisis, leading to a strong contraction in public investment in Europe. However, these funds have been one of the few stable sources supporting investment during this period, particularly for sub-national governments.

A unique feature of ESIF is the longer time frame of the formalised commitment, which is over seven years, as compared to shorter time frames for territorial policies in countries outside of Europe. Therefore, ESIF provides a long-term structural adjustment policy tool to help regional economies anticipate and adapt in order to offer residents everywhere an opportunity to find viable development options. Our studies on countries across the OECD reveal two key ingredients for the design of successful territorial policies. The first is the need to build effective linkages between cities and rural areas in terms of infrastructure policies, spatial planning, labour market integration and governance responses. The second is the importance of the tradable sector, i.e. those exposed to international competition, for the catching-up process of lagging regions. Our studies reveal that the regions catching up tend to be more specialised in these tradable activities. ■