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Strengthening cohesion in the EU: How can structural reforms contribute?

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Executive summary

The European Union (EU) is facing **a wide range of challenges**, such as mitigating climate change, defining a common strategy to address migration flows and strengthening the security of its citizens. At the same time, the EU must deal with new risks induced by a changing global environment. Rising protectionism across the globe, Brexit and the looming prospects of a global trade war could threaten EU economic prospects. In this context, strengthening the resilience of the Economic and Monetary Union (EMU) – whose architecture remains incomplete – is essential. In addition, another wave of industrial transformations (based on 'megatrends' such as decarbonisation, digitalisation, and the acceleration of innovation) could exacerbate disparities across EU territories. As a result, the geographical concentration of discontent, combined with the rise of nationalism across the continent, could also threaten EU integration prospects.

Today, there is a **growing consensus that European economies must reform** to respond to these new, fundamental challenges. In May 2017, the European Commission proposed to realign its funding priorities for the period 2021-2027 with a view to more effectively supporting member states in their efforts to align national reforms with EU priorities. Building on the Structural Reform Support Programme (SRSP), introduced in 2017, the Commission has suggested creating a new funding tool, the Reform Support Programme (RSP). The RSP would support the design and implementation of structural reforms (SR) in member states. Its proposed budget is EUR 25 billion, which represents a hundred-fold increase compared to the SRSP.

The debate about the ultimate goal of structural reforms remains open. While some argue for a focus on reducing macroeconomic imbalances, others consider that they should concentrate on reducing regional disparities or enhancing social inclusiveness.

Most stakeholders also agree on the **need to improve the effective use of EU instruments aimed at increasing the implementation of SR in member states**. But the debate about the ultimate goal of structural reforms remains open. While some argue for a focus on reducing macroeconomic imbalances that may adversely impact EU growth prospects, others consider that they should concentrate on reducing regional disparities or enhancing social inclusiveness. A critical element of the post-2020 MFF debate is to assess the extent to which the new EU structural reform agenda will be able to modernise the European economy while supporting EU citizens in territories adversely impacted by the acceleration of globalisation and the advent of a new phase of technological change.

As a result, the chief focus of this paper is **how the EU structural reform agenda can support the economic transition of member states in a way that helps them respond to new international economic pressures while strengthening cohesion in the EU**.

The authors look at the future links between structural reforms and EU cohesion policy in the context of the 2021-2027 Multiannual Financial Framework. Their paper draws on desk research, semi-structured interviews and findings of a previous study published by the European Policy Centre in November 2017. It examines whether and how the Reform Support Programme could most effectively complement Cohesion Policy (CP) in its objectives of strengthening economic, social and territorial cohesion in the EU.

In **section 1**, the authors introduce the EU structural reform agenda and describe the existing links between structural reforms and cohesion policy in the 2014-2020 programming period. The authors demonstrate that structural reforms have traditionally followed two objectives: enhancing the growth potential of the EU economy or improving the resilience of the Economic and Monetary Union. The track record of the Europe 2020 Strategy and the European Semester in achieving these objectives remains, however, mixed. As the EU's principal investment tool, cohesion policy has been increasingly viewed as an incentive mechanism to improve the EU's ability to enforce reforms. This evolution has resulted in the introduction of pre-conditions linking the use of the European Structural and Investment Funds to broader EU economic governance and structural reform objectives.

This agenda has proven controversial. Some argued that the objectives pursued by the 'conditionality agenda' were outside of the CP's remit, and could, at times, even conflict with its cohesion goals. The authors, thus, point to the need to better understand what impedes the implementation of reforms in member states and to acknowledge that perceptions about conflicts between structural reforms and cohesion policy objectives can negatively affect the desired policy alignment and sound implementation of EU objectives, policies and funding.

In **section 2**, the authors look at the structural reform support provided by the European Commission in the context of the Structural Reform Support Programme and the Commission's proposal to introduce a new Reform Support Programme in the 2021-2027 Multiannual Financial Framework (MFF). The RSP proposal builds on the assessment that three main issues drive poor results in the implementation of the structural reforms identified in the context of the European Semester by member states: (i) lack of administrative capacity; (ii) the short-term political costs of reforms; (iii) lack of political ownership.

The authors challenge the problem identification proposed by the Commission and highlight the **need to build a stronger evidence base on the barriers to the implementation of structural reforms**. For example, there is a need to uncover the causes of the ownership gap. The appraisal should make a clear distinction between lack of willingness and lack of capacity to engage with the proposed reform agenda. It should also address the lack of awareness among national and regional policymakers of the interconnectedness of EU economies.

The authors also suggest that **concerns expressed by various EU stakeholders after the introduction of the SRSP should inform the design of the RSP**. Boosting ownership of the structural reform agenda requires going beyond funding. In particular, efforts should be made to clearly define the ultimate aim of structural reforms and the level of involvement of national and regional authorities in their design, implementation, and monitoring.

To boost ownership of the structural reform agenda requires going beyond funding.

In **section 3**, the authors consider the possible synergies between the new EU structural reform agenda and the cohesion policy objectives of "strengthening economic, social and territorial cohesion" and where the introduction of the Reform Support Programme may bring new challenges for CP. This section highlights opportunities for CP to benefit from the EU structural reform agenda. Legally, the RSP's legal base would allow for a rebalancing of its priorities in favour of a greater focus on capacity-building and enabling reforms. Economically, well-designed initiatives could support CP objectives of fostering growth, investment and greater convergence among EU economies. Politically, issues such as the integration of migrants or the rise of populism could also bring the need for stronger cohesion to the top of EU leaders' agenda.

The Commission's RSP proposal follows, however, a logic which risks providing limited additionality – and could even run counter – to CP's aim of reducing regional disparities across the EU. The EU's renewed efforts to support structural reform delivery in EU member states primarily aim to lower the risks of adverse spill-over effects across EU economies. In light of the negative legacy of linking cohesion policy to SR, the RSP's ambiguous objectives and its more favourable funding conditions than CP, the RSP could also incentivise EU governments to reduce the share of Union funds used to achieve CP's current priorities. These include improving the development prospects of citizens and territories adversely impacted by globalisation and technological change; and responding to the specific situation of regions lagging behind.

The Commission should put structural reforms at the heart of a new growth strategy and take on the role of 'strategic enabler'.

In **section 4**, the authors finally assess some of the 2021-2027 MFF discussions and how these could affect cohesion policy and its links with the EU structural reform agenda. The authors first suggest that the negotiations on the 2021-2027 MFF will require cohesion policy to (i) demonstrate more clearly the added value of the Policy in delivering on new EU priorities; (ii) achieve more with reduced funding; (iii) contribute to defending core EU objectives and values.

In light of this, **the authors propose that the Commission rethinks the rationale of the distribution of EU support for structural reforms in EU member states and set out a positive and forward-looking agenda for change**. For this, the Commission should put structural reforms at the heart of a new growth strategy and take on the role of 'strategic enabler'. Precisely because of its political relevance, this agenda will require greater engagement from all EU stakeholders to define what should be the purpose of the change, the means to achieve it and the responsibility of each level of governance in this process.

List of recommendations

After identifying some key objectives, the authors propose a set of strategic recommendations on how SR support could more effectively contribute to the achievement of EU cohesion goals. These include:

RECOMMENDATION 1

PROVIDE A STRONGER NARRATIVE FOR EU SUPPORT FOR STRUCTURAL REFORMS

1. **Link structural reforms to a comprehensive EU growth strategy.** Putting the European Semester into perspective could boost its compliance. The European Semester cannot be an end in itself. It needs to become a means towards the fulfilment of a broader vision or plan with a clear set of objectives. To broaden the ownership of the SR agenda, the EU should align all its policies and programmes with a comprehensive EU growth strategy, consistent with national and regional growth strategies.

2. **Build a consensus based on evidence and positive incentives.** Building on a list of questions raised throughout the paper, the authors consider that EU support for structural reforms – and more generally the EU structural reform agenda – would benefit from additional evidence on the following issues: the drivers of and barriers to SR; the timing and sequencing of SR; the impact and fairness of SR support.

3. **Clarify what should be the ultimate aim of structural reforms for each instrument of the Reform Support Programme.** A strong narrative is required for each strand of the RSP to explain why reforms matter, what can be the EU added value in supporting their implementation, and what could be the contribution of the RSP.

Amendments to the RSP proposal should include:

- Clarifying the ultimate aim of structural reforms in the 'specific objectives' assigned to each of the programmes (art. 5).
- Adding a requirement to report on the challenges encountered in the achievement of the reform commitments in the European Semester process (art. 14).

Structural reform assessments should consider how efforts to modernise a national economy in line with new global trends may, at the same time, adversely impact some specific territories.

RECOMMENDATION 2

SHOW HOW CP CAN COMPLEMENT EU SUPPORT FOR STRUCTURAL REFORMS

1. **Acknowledge E(M)U resilience needs.** The SRSP and the RSP proposals provide examples of how *ex-ante* and positive incentives could spur SR aimed at boosting growth and improving the macroeconomic environment. As the authors already proposed in a 2017 EPC publication, the Commission should consider the merits of shifting the MEC from an *ex-post* to an *ex-ante* conditionality as part of a package of enabling conditions for cohesion policy.

2. **Incentivise greater domestic efforts in generating a stronger 'tailor-made' approach to structural reforms across EU policies.** Providing a more systematic assessment of the possible interaction and complementarities between EU, national and regional policies could help enhance the effectiveness of CP, but also of the EU's broader economic governance framework, including the European Semester.

3. **Highlight the differences in capabilities to deliver on SR.** Given the diverse levels of SR delivery capacity across the EU and the absence of a more proportionate approach, the SR agenda could lead to moving EU funds away from the regions that need it most. To mitigate that gap, the EU should consider using existing and new Commission tools in its assessment of the resilience of EU regions to external shocks or the barriers to the spread of innovation.

Amendments to the RSP proposal should include:

- Reconsidering population size as the sole indicator in setting the maximum financial contribution available for each member state for the reform delivery tool (art. 9 and Annex).
- Developing clear assessment criteria to specify under which conditions resources allocated to member states under shared management may be transferred to the RSP (art. 7(2)).

RECOMMENDATION 3

ENSURE THAT STRUCTURAL REFORM SUPPORT CONSIDERS EU COHESION NEEDS

1. **Clarify the role of structural reforms vis-à-vis CP objectives**. To target goals consistent with the CP legal base used in the RSP, the Commission should incorporate the promotion of social inclusion and the reduction of regional disparities in its objectives.

2. **Increase the support aimed at building institutional and administrative capacity**. Structural reform support should seek to achieve transformational change across EU regions. As part of this, the RSP should support more experimentation and new approaches to achieve these objectives, encouraging greater risk-taking.

3. **Support member states' efforts in addressing the needs of the 'losers' of structural reforms**. Structural reform assessments should consider how efforts to modernise a national economy in line with new global trends may, at the same time, adversely impact some specific territories and what accompanying measures may be taken to mitigate adverse consequences.

Amendments to the RSP proposal should include:

- Adding the objectives of "reducing regional disparities" and "promoting social inclusion" in the "General objectives" of the programme (art. 4(a)), the scope of the programme (art. 6), the assessment of the proposal for reform commitments in the context of the reform delivery tool (art. 7(a, iii)) or of request for technical support (art. 19(2)).
- Rebalancing the indicative funding allocation in favour of the technical support tool (art.7(2)).
- Adding a commitment for the Commission (see art. 5, 19, 34 and 36) and member states (art. 7(3)) to monitor the impact of SR on social, economic and territorial disparities.

RECOMMENDATION 4

BUILD A MULTI-LEVEL GOVERNANCE STRUCTURE FOR STRUCTURAL REFORM SUPPORT

1. **Create a multi-level governance framework for growth-enhancing reforms**. This should take the form of consultations with all stakeholders to identify both the type of growth-enhancing reforms to be prioritised in each member state and the contribution of each level of governance to their delivery.

2. **Ensure member states involve local and regional authorities in their SR strategies**. Given the increasing role of regions in the design and implementation of SR across the EU, member states should be encouraged to cooperate more closely with local and regional authorities when they apply for RSP support.

Amendments to the RSP proposal should include:

- Adding a requirement for the European Commission, in its assessment of proposals for reform commitments in the context of the reform delivery tool (art. 7(a, iii)), to take due consideration of member states' internal arrangements regarding the engagement of regional and local authorities in the design and implementation of reforms, especially in cases where the proposed reforms are expected to be felt across different levels of governance.

List of abbreviations

CEE	Central Eastern Europe
CP	Cohesion Policy
CSR	Country Specific Recommendation
CPR	Common Provisions Regulation
EC	European Commission
EP	European Parliament
ExAC	Ex ante Conditionality
EU	European Union
EMU	Economic and Monetary Union
ESIF	European Structural and Investment Funds
MEC	Macroeconomic Conditionality
MIP	Macroeconomic Imbalance Procedure
MFF	Multiannual Financial Framework
RSP	Reform Support Programme
SGP	Stability and Growth Pact
SR	Structural Reform
SRS	Structural Reform Support
SRSS	Structural Reform Support Service
SRSP	Structural Reform Support Programme
SR	Structural Reforms
TFGR	Task Force for Greece

Introduction

The European Union (EU) is currently facing many challenges that have the potential to undermine its development prospects. These include issues such as migration, security and defence, and environmental sustainability, as well as the rise of nationalism across the continent. At the same time, while the EU economy has improved significantly in recent years, Europe is facing new risks in an uncertain global economic environment. First, Brexit, the rise of protectionism and the potential for trade wars globally and the remaining shortcomings in the architecture of the Economic and Monetary Union (EMU) could considerably affect economic growth prospects of the EU. Second, the ongoing transformation of Europe's industry is expected to create new challenges (e.g. rising inequalities, changes in the employment structure and uncertainty about required skills) that could negatively affect the EU's most vulnerable population and territories.

With Europe facing new risks in an uncertain global economic environment, there is a growing consensus that deep economic reforms are required to ensure the EU's long-term prosperity.

Against this backdrop, the Commission has proposed a realignment of budget priorities at the European level. This move aims to reflect new priorities while preparing for the implications of Brexit on the EU budget in a context of continued pressure for fiscal consolidation. In several member states, there are growing demands from nationalist parties to reduce funding dedicated to EU action. Mindful of the contagious effect that macroeconomic and fiscal imbalances in some member states could have on their economies, net contributors to the EU budget have also stressed the need for the EU to strengthen its efforts in tackling these through structural reforms, i.e. changes that modify, in a lasting way, the structure of the economy.

Acknowledging that these considerations, challenges, and new priorities would influence both the size and direction of the future EU budget, the European Commission published on 2 May its proposal for the Multiannual Financial Framework (MFF) for the period 2021-2027.[1]

This proposal translated into a reduction of the share of Cohesion Policy (CP) and other 'traditional policies' (such as the Common Agricultural Policy) in the EU's funding strategy to the benefit of so-called 'new priorities'. Thus, assuming a rate of inflation of 2% per year, the Commission's proposal would lead to a reduction of 7% (in real terms) of CP Funds.[2] Should net EU contributors resist any further increase in their overall contribution, CP spending cuts could be more substantial.

The Commission also announced its intention to increase the budget dedicated to the EMU's resilience in the MFF. This proposal is in line with the commitment made in the "EMU package" of 6 December 2017 to take further steps in deepening the EMU.[3] As part of this, the Commission suggested introducing the Reform Support Programme (RSP), a new reform delivery tool for the period after 2020. With a planned budget of EUR 25 billion, the RSP aims to support the implementation of reforms identified within the European Semester, a framework introduced in the wake of the financial and economic crisis to increase the resilience of member states' economies and improve coordination of member states' economic policies at EU level.

Building on the experience of the Structural Reform Support Programme (SRSP) introduced in the period 2017-2020, the RSP aims to provide member states with technical assistance as they request support in designing and implementing structural reforms (SR). The RSP should be seen as a separate tool to the 'Union Funds' – the suggested new denomination of the European Structural and Investment (ESI) Funds under the proposed new Common Provisions Regulation.[4] The logic that underpins the programme is the same as the one that inspired the pre-conditions, introduced for the 2014-2020 CP, on the disbursement of ESI funds (referred to as "conditionalities").

In the same vein as for the **ESIF-related 'conditionalities'**, the Commission's RSP proposal relies on the logic that achieving economic stability and growth can play a decisive role in addressing EU cohesion objectives while improving the resilience of the EMU, yet this time outside of the scope of Cohesion Policy. The proposal for the post-2020 period thus noted that the RSP aims to "enhance cohesion, competitiveness, productivity, growth and employment" through structural reforms.[5]

Achieving economic stability and growth can play a decisive role in addressing EU cohesion objectives.

Accordingly, some view the latest programme as a new attempt to support CP objectives by other means. As a previous EPC study has shown, however, this agenda has also proven to be controversial.[6]

Many stakeholders consider that CP encompasses a strong solidarity dimension and that associating it with structural reforms would dilute its original mandate. This argument can be relevant from an economic development standpoint. Some argue, for example, that "re-distribution through instruments like ESIF is not a gift but an indispensable pillar of a single market between diverse countries of uneven levels of development in the EU."[7]

Recently, attempts to strengthen the link between SRs and CP have also generated **heated debates** about what should be the ultimate aim of structural reforms supported by ESI funds. Some argue that EU funding should incentivise member states to introduce reforms in areas that can support the stability of the EMU, such as pension systems, taxation or the banking sector. Others claim that they should instead foster the implementation of reforms in policy areas that would help to achieve CP goals, such as energy efficiency, digital connectivity or social inclusion.

Attempts to strengthen the link between SRs and CP have generated heated debates about what should be the ultimate aim of structural reforms supported by ESI funds.

Assessing whether and how structural reforms could most effectively help achieve both objectives in a complementary manner is crucial. The state of permanent uncertainty regarding global business and regulatory developments could lead to new turbulence for the European economy. **Strengthening the stability of the EMU is therefore paramount**. At the same time, growing territorial disparities, the geographical concentration of discontent – partly induced by perceived or actual socio-economic decline – and the rise of nationalist forces across the EU also represent a threat to European integration.[8] **CP objectives of strengthening economic, social and territorial cohesion may, in this context, prove more pertinent than ever before**.

The principal question for this paper is: how can the EU's structural reform agenda support the transition of EU member states economies to the new global economic environment in a way which supports EU cohesion goals?

In this paper, we look at the future links between structural reforms and EU Cohesion Policy in the context of the 2021-2027 Multiannual Financial Framework. We draw upon available literature (including data gathered in the context of previous EPC studies) on the link between structural reforms and Cohesion Policy and a series of semi-structured interviews.

We first introduce the EU's structural reform agenda and describe the existing links between structural reforms and Cohesion Policy in the 2014-2020 programming period (section 1).

We also look at the SR support provided by the European Commission in the context of the SRSP and the Commission's proposal to introduce a new Reform Support Programme in the 2021-2027 Multiannual Financial Framework (MFF) (section 2).

Building upon this, we consider the possible synergies between the EU's new structural reform agenda and the Cohesion Policy objectives of "strengthening economic, social and territorial cohesion" and where the introduction of the RSP may bring new challenges for CP (section 3).

We finally assess some of the key trends likely to affect the future links between structural reforms and Cohesion Policy in the 2021-2027 MFF and consider how these could impact on Cohesion Policy going forward. After identifying some key objectives, we finally propose a set of strategic recommendations on how SR support could more effectively contribute to the achievement of CP objectives (section 4).

Building on our concluding remarks, we suggest concrete amendments to the RSP aimed at ensuring more effective deployment of the Union Funds in the next programming period.

1. A retrospective: Structural reforms and cohesion policy

This section presents the EU's structural reform agenda and describes the existing links between structural reforms and Cohesion Policy in the 2014-2020 programming period.

1.1 STRUCTURAL REFORMS IN THE EUROPEAN UNION

'Structural reforms' have been part of the economic policy discussions of European governments since the oil price shocks in the 1970s. They were then considered a necessity to remedy 'Eurosclerosis', a term used to describe the lack of dynamism of EU economies relative to other advanced economies, notably the United States.[9] Since then, the term has been widely used in the context of macroeconomic adjustment programmes deployed by international organisations (such as the International Monetary Fund or the World Bank) in countries requesting external support, e.g. in the event of a crisis.

Today, there is no commonly accepted definition of what 'structural reforms' constitute among international institutions. The definition of the nature of 'structural reforms' may indeed differ by country and region, but also depending on the *zeitgeist*, i.e. the historical context in which the term is being discussed. Since structural reforms are primarily a responsibility of EU member states, the extent to which these are considered a political priority may also differ widely across the Union.

The European Commission defines structural reforms as a process:

> *Structural reforms are changes that modify – in a lasting way – the structure of the economy and the institutional and regulatory framework in which businesses and people operate.*[10]

Ambiguity remains, however, regarding the ultimate aim of this process. Against that backdrop, this section provides an overview of the EU's economic governance objectives with the intention to identify the main intended goals of the EU's structural reform agenda.

1.1.1 EUROPE 2020 STRATEGY

First, growth-enhancing reforms are an essential element of the EU's current economic priorities. In 2010, the Union adopted the Europe 2020 strategy, a growth strategy with the overarching goal to make the EU a 'smart, sustainable and inclusive economy'.[11] The Europe 2020 Strategy itself only sporadically refers to the contribution of structural reforms to this agenda.[12] However, it is not uncommon for EU policy documents published since 2010 to highlight the contribution of SR to fulfilling the objective of spurring economic growth.[13]

For example, the Commission's 'virtuous triangle' identifies "pursuing structural reforms" as a key economic priority for EU member states, alongside boosting investment and ensuring fiscal responsibility.[14] The three angles of the triangle are considered complementary. For example, pursuing business environment reforms should help boost investment, which, due to higher revenue generated through taxes, should ease the process of fiscal consolidation.

The Commission's 'virtuous triangle' identifies "pursuing structural reforms" as a key economic priority for EU member states, alongside boosting investment and ensuring fiscal responsibility.

The attempt to link EU funds and reform objectives to a series of qualitative targets has, overall, been positively welcomed. Studies have shown, however, that the role of structural reforms in this process of economic coordination could have been made more explicit from the start.[15]

Progress towards the "smart, sustainable and inclusive growth" targets of Europe 2020 have, however, proven to be mixed, in part due to the global economic and financial crisis. For example, Eurostat 2016's Europe 2020 statistics indicate that while climate change and energy targets made substantial progress, EU member states had failed to meet employment, social inclusion and poverty targets.[16] Therefore, the extent to which Europe 2020 has been instrumental in delivering SR is doubtful.

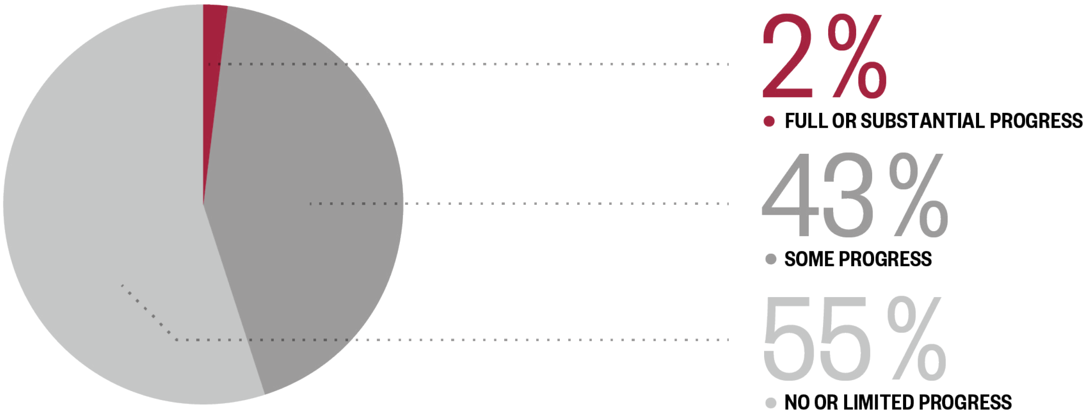
1.1.2 THE EUROPEAN SEMESTER

Second, structural reforms are increasingly understood as necessary steps to increase the resilience of the Eurozone, as was concluded at a recent Economic and Financial Council of the Union.[17]

In the wake of the financial and economic crisis, the EU's focus on achieving the objectives set out by the Europe 2020 Growth Strategy was indeed gradually supplemented by the imperative to strengthen the rules governing macroeconomic surveillance in the EMU. The crisis highlighted the need for vigilance concerning 'financial contagion', where existing macroeconomic and fiscal imbalances in some of the smallest EU member states can spread to other economies of the EU, and in particular within the Eurozone.

Fig. 1

IMPLEMENTATION OF COUNTRY-SPECIFIC RECOMMENDATIONS
BY EU MEMBER STATES IN 2016



Source: European Parliament (2017)[24], own reproduction

Evidence points to a low level of compliance of EU member states with the the reforms suggested in the context of the European Semester.

In 2010, to improve economic coordination and strengthen the monitoring of fiscal and macroeconomic imbalances, the EU introduced the "European Semester" process and identified structural reforms in member states as a primary tool.[18] As part of this new framework, each member state must present annually to the European Commission its National Reform Programme (NRP).[19] The Commission then presents to each country a set of country-specific recommendations (CSRs).

The **European Semester** represents an essential step in the coordination of economic policies in the EU. Scholars have pointed to the new economic governance framework as an "opportunity for (...) mutual learning among member states about how to pursue (...) solutions to uncertain problems in diverse national contexts" such as structural challenges.[20]

Evidence points, however, to a low level of compliance of EU member states with the EU's country specific recommendations, i.e. the reforms suggested in the context of the European Semester. Although the European Commission noted that "member states had achieved at least some progress with regard to more than two-thirds of the recommendations" made since 2011,[21] implementation of reforms in recent years has weakened in comparison to the period 2011-2015, especially among member states facing excessive imbalances.[22] Thus, while evidence from 2016 indicates that less than the half of EU member states achieved at least "some progress" in the implementation of CSRs (see Figure 1), recent studies also find that only very few countries made "substantial progress" in 2017 and 2018.[23]

This section has shown that structural reforms have traditionally followed two separate objectives: enhancing the growth potential of the EU's economy or improving the resilience of the Economic and Monetary Union. The track record of the Europe 2020 Strategy and the European Semester in achieving these objectives remains, however, mixed.

A key issue, in the context of this paper, is to understand what impedes the implementation of reforms in member states. Accordingly, depending on root causes (such as a capacity deficit or a lack of willingness to reform) different tools could be considered.

To date, **no clear evidence has transpired regarding the mixed performance of member states in delivering on Europe 2020 objectives**. It is, therefore, difficult to ascertain the required policy responses. This uncertainty did not prevent the EU and its member states from introducing new instruments in the 2014-2020 Cohesion Policy to pursue these objectives including through the use of ESI funds. Thus, **'ESIF-conditionalities'** were introduced to better link the EU budget and EU financial support with the implementation of recommendations set out in the framework of the Europe 2020 strategy and the European Semester.

These links have created a stronger association between the European Semester, Structural Reforms and Cohesion Policy.

1.2 STRUCTURAL REFORMS IN COHESION POLICY

The strengthening of the link between the 2014-2020 Cohesion Policy and the EU's structural reform agenda went further than the new pre-conditions (or *ex-ante* conditionalities – ExAC) and included a macroeconomic conditionality (MEC). The 'conditionalities' agenda aimed to ensure:

- A stronger focus on delivery of CP objectives – the *ex-ante* conditionalities.
- Better alignment with the EU's structural reform agenda, defined in the EU's economic governance framework described in the previous section – the macroeconomic conditionality.

1.2.1 EX-ANTE CONDITIONALITIES

Some view the *ex-ante* conditionalities on ESI funds as a way for the Commission to enforce the requirements for effective and efficient use of ESI funds.

Today, **there has not been enough hindsight to report conclusively on the role of ExAC in strengthening the contribution of ESI funds to the EU's economic objectives**. In 2017, an EPC study provided early findings: ExAC seemed to have played a constructive role in supporting member states and regions to build robust regulatory and capacity foundations and deliver key CP objectives.[25] This positive assessment was, however, partly offset by concerns about the discrepancies across regions as a result of their disparities in capabilities and needs. The EPC report indicated that such an agenda could perpetuate or worsen the asymmetric impacts that globalisation can have across EU regions.[26]

1.2.2 MACROECONOMIC CONDITIONALITY

The Common Provision Regulations (CPR) regulating the use of ESI funds also introduced macroeconomic conditionality, i.e. the possibility to suspend funding in the context of the Excessive Deficit Procedure and the Macroeconomic Imbalance Procedure. The MEC mechanism entitles the Commission to re-programme or suspend the allocation and disbursement of ESI funds when macroeconomic imbalances need to be corrected.

According to the European Commission, the primary **rationale for the MEC** is that by incentivising member states to maintain a sound economic environment, the new conditionalities should help spur a favourable climate for private and public investment – including the ESI funds.

Some have, however, questioned this rationale. Discussions in May 2017 showed that many considered the **threat to suspend ESI funds** in order to incentivise member states to address broader macroeconomic imbalances as an objective that was outside the remit of the Policy. One could also argue that the more cautious approach to investment induced by the pressure for fiscal consolidation can reduce prospects for building favourable conditions to achieving a healthy investment environment. Finally, the suspension of EU funds threatened to punish EU regions for policy outcomes (e.g. macroeconomic instability) which they could hardly influence. Therefore, the logic behind the MEC – as a precautionary measure – was not widely shared.

The overall performance of CP has been increasingly assessed against how member states delivered on the European Semester – an objective considered by some as outside of its remit.

The authors of the EPC paper noted that it was difficult to provide any conclusive evidence about the role of the MEC in reducing imbalances and boosting growth and investment. Accordingly, the authors called on the Commission to gather further evidence on whether the MEC has been effective in fostering growth, in boosting adherence to the EMU's stability objectives and also in supporting the achievement of EU's cohesion objectives.[27]

This section has demonstrated that linking the use of ESI funds to meet the objectives of the Europe 2020 strategy and the European Semester seems has, so far, achieved inconclusive results in terms of strengthening the EU's ability to enforce reforms through 'soft' economic coordination tools.

The changes led to greater integration of Cohesion Policy with the EU's broader economic governance framework. As a result, the **overall performance of CP has been increasingly assessed against how member states delivered on the European Semester** – an objective considered by some as outside of its remit.[28]

There are diverging views about the extent to which the two agendas are successfully aligned:

- On the one hand, some (including the European Commission and several EU member states) argue that linking Cohesion Policy to structural reforms helps ensure the full effectiveness of the impact of ESI funds and encourages better implementation of EU priorities. Accordingly, **CP and SR are complementary tools to achieve the EU goal of fostering growth and employment**, with the European Semester representing their common pillar.
- On the other hand, other stakeholders (including the Committee of the Regions, the European Parliament and CP managing and implementation communities) have voiced **concerns about the profusion of CP objectives targeted by the EU's structural reform**

agenda and drawn light to the potential for conflicts between them.[29]

The question of competition or complementarity between the objectives pursued by the EU's structural reform and cohesion agendas has been a dividing line of the CP reform debate in the current programming period.

The question of competition or complementarity between the objectives pursued by the EU's structural reform and cohesion agendas has been a dividing line.

Our analysis therefore points to a need to better understand what impedes the implementation of reforms in EU member states and to acknowledge that perceptions about possible conflicts between the EU's SR and CP agendas could impede the coherence and the sound implementation of EU objectives, policies and funding.

This context is vital in considering the reception of the Structural Reform Support Programme and the new Reform Support Programme as **historical issues of trust, credibility and effectiveness could cloud perceptions**. With the proposal for the Reform Support Programme now being positioned outside of the CP remit, an important question is whether this will offer a more neutral environment to consider this debate.

2. New structural reform support programmes in the EU budget: What are the implications for Cohesion Policy?

This section presents two instruments recently proposed by the European Commission to support the implement of structural reforms in member states; the Structural Reform Support Programme (SRSP) and the Reform Support Programme (RSP).

2.1 THE STRUCTURAL REFORM SUPPORT PROGRAMME

This section considers the rationale for the introduction of the SRSP, draws light to the limited evidence available about its effectiveness, and analyses its expected impact on CP by looking at the perceptions of stakeholders involved in the design and implementation of the Policy.

2.1.1 RATIONALE

In November 2015, the Commission proposed a regulation establishing the Structural Reform Support Programme 2017-2020. **The SRSP builds on the rationale that institutional and administrative reforms are instrumental in improving the resilience of the EMU**.

To achieve this, the SRSP initially received a small budget allocation of EUR 142.8 million. This funding was intended to facilitate and provide advice to member states on SR if and when they requested EU support.[30]

The Structural Reform Support Service (SRSS)[31] of the Commission is responsible for the management of the funds. Since disbursements were withdrawn from existing technical assistance allocations made under Cohesion Policy, it has fuelled the controversy about the tying of CP to the SR agenda.

2.1.2 EVIDENCE

The SRSP entered into force on 20 May 2017.[32] As for the ESIF-conditionality agenda, the limited track record makes it challenging to identify the specific contribution of the SRSP in fostering SR in the EU and in strengthening the resilience of the EMU.[33]

The Commission pointed to several sources to justify the introduction and the continuation of the Structural Reform Support Programme:

- **First, the success of other EU SR programmes**: The Commission highlighted evidence of the positive contribution of other programmes providing technical support for structural reforms, such as the Task Force for Greece (TFGR). For example, an evaluation carried out in July 2014 concluded that technical assistance had positively contributed to the implementation of the reforms in the areas of tax administration and central administration during the period 2011-2013.[34] Nevertheless, while the Greek example offers a useful insight into the management and effectiveness of support, the conditions under which it operated (linked to the Greek economy and nature of assistance required) cannot be assumed to be readily transferred to other member states.
- **Second, the popularity of the programme**: The Commission sees the high take-up of the programme by member states as a sign of the positive appreciation of the SRSP by member states. Until today, the programme has supported over 440 reform projects in 24 member states.[35] The demand has been four times (in 2017) and five times (in 2018) higher than the available annual budget. It remains, however, unclear whether the funding used to address reforms was either well-targeted or achieved the stated reform objectives.

Against that backdrop, the Commission suggested amending Regulation (EU) 2017/825 on the SRSP on 6 December 2017. The Commission notably proposes to increase the financial envelope dedicated to the SRSP to EUR 222.8 million.

2.1.3 IMPLICATIONS FOR COHESION POLICY

Building on the findings of a consultation, the Commission suggests that stakeholders involved in the CP's design and implementation broadly subscribe to the EU's reform agenda.[36]

Debates about the SRSP focus on the sources of its funding, the ultimate aim of structural reforms, and the involvement of national and regional authorities.

The introduction of the SRSP for the period 2017-2020 has, however, raised some concerns among this community that **funds assigned to the Policy may be used to achieve other EU objectives**. Thus, the Committee on Regional Development (REGI) of the European Parliament (EP) suggested several amendments to the SRSP proposal. First, members of the European Parliament asked to consider other sources of funding to avoid making the deduction from ESI funds a precedent for the future. Second, they have requested to link the SRSP to the efficient use of ESI funds. Third, they stressed the need to keep the EP fully informed at different stages of the procedure in a spirit of transparency. In May 2017, the Council of the European Union approved the EP position. It also requested strengthening the position of member states in requesting, implementing and monitoring of the support.[37]

The final design of the SRSP and its recent extension reflects an attempt to address some of these concerns. Thus, in 2019-2020, the additional EUR 80 million for the SRSP could be drawn from the Flexibility Instrument under the current MFF – and no longer subtracted from ESI funds.[38] Nonetheless, the general objective of the SRSP was also extended to cover activities supporting reforms in preparation for joining the euro area. This extension could appear to contradict the EP's request to focus on the efficient use of ESI funds.

According to the interviews conducted in the context of this paper, debates about the SRSP focus on the sources of its funding, the ultimate aim of structural reforms, and the level of involvement of national and regional authorities in the design, implementation, and monitoring of structural reforms.

These issues highlight that **building a wider ownership of the structural reform agenda requires going beyond funding issues**. Accordingly, the design of the new Reform Support Programme proposed by the Commission in the context of the 2021-2027 MFF should take into account other concerns expressed by various EU stakeholders after the introduction of the SRSP. The next section considers these issues while highlighting the need for further evidence regarding the reasons explaining the poor implementation of SR and what tools can most effectively help improve their delivery.

2.2 THE NEW REFORM SUPPORT PROGRAMME

This section reviews the proposed transformation of the SRSP into a fully-fledged instrument for SR support in the next programming period. It examines the workings of the RSP and its mechanism for the allocation of funds. It also considers how the Commission envisages the complementarity between this new tool and Cohesion Policy, before turning to the challenges that may arise in that regard.

2.2.1 RATIONALE

In the context of the negotiations of the Multiannual Financial Framework for the period 2021-2027, the Commission published a proposal for a regulation on the Reform Support Programme (RSP) on 31 May 2018.

According to the Explanatory Memorandum of the proposal, the RSP is intended to "contribute to the overall objective of enhancing cohesion, competitiveness, productivity, growth and employment."[39] To achieve this objective, **the RSP aims to provide financial and technical support to address the "weak and uneven implementation of the structural reforms in the member states."**[40]

Three main issues drive the low implementation of reforms by member states: the lack of administrative capacity; the short-term political costs of reforms; the lack of political ownership. There is, however, a need to recognise that the underlying causes are often more complex and numerous.

The proposal to create the RSP builds on the assessment that three main issues drive the low implementation by member states of the structural reforms identified in the context of the European Semester:[41]

- **Lack of administrative capacity**: Well-functioning institutions and capable administrations can play a crucial role in facilitating the implementation of structural reforms. In turn, as recent studies have shown, weaknesses in the functioning of public administration can create obstacles for the functioning of the single market, for investment at regional and local levels or innovation.[42]
- **Short-term political cost of reforms**: From the perspective of policymakers, there is often a mismatch between the negative short-term economic, social and political impact and the long-term benefits that structural reforms can bring. To illustrate these, the Commission uses the example of fiscal-consolidating pension reforms or the adverse effects on employment in the mining sector induced by the transition to a low-carbon economy.[43]
- **Lack of political ownership**: Linked to the above, a low level of political commitment to conduct structural reforms at the national level can also block their implementation. This lack of political ownership often results from shifting political priorities and/or the 'pain' of reform which can be felt by citizens in (at least) the short-term.

The primary rationale of the RSP is that both the financial and administrative support to member states may create new incentives for policymakers to go beyond the short-term costs incurred by adopting and implementing reforms aimed at addressing long-term challenges.

There is, however, a need to recognise that the underlying causes of the lack of implementation of reforms are often more complex and numerus than the list the Commission provides. Thus, the 'lack of ownership' of reforms can have a variety of causes, including a lack of *willingness* to reform (due to, for example, a poor identification with the proposed reform agenda) or to a lack of *capacity* to engage with it. Another factor explaining this may be the low level of *awareness* among national or regional policymakers of the high inter-connectedness of EU economies. Thus, as a recent report has highlighted, "it is hard to think that national policymakers can fully factor in externalities on other countries of their own policies".[44] Most national policymakers may not have the necessary tools to assess such cross-border spill-over effects.

2.2.2 DESIGN

The programme will have a total budget of EUR 25 billion and consist of three separate instruments:

- **The Reform Delivery Tool** (EUR 22 billion) will provide financial support to all member states for reforms identified in the context of the European Semester.[45] The calls for proposals aim to address the "weak and uneven implementation of structural reforms in member states" and support the implementation of national reform programmes. Compared to previous financial mechanisms, the Reform Delivery Tool represents a significant increase in funding.
- **The Technical Support Instrument** (EUR 0.84 billion) appears as an extension of the current SRSP for the period going beyond 2020. Building upon the Union-wide database of expertise established since the inception of the SRSP, it will provide technical support to strengthen administrative capacities required in the design and the implementation of reforms.
- **The Convergence Facility** (EUR 2.16 billion) will provide both financial and technical support to member states wishing to join the euro area. The tool will notably aim at fostering real convergence between non-euro-area and euro-area economies. Under this facility, eligible member states will need to have taken "demonstrable steps to adopt the single currency within a given time-frame."

The diagram below highlights how funding was distributed across the different instruments.

Distributing funding according to member states' population is a missed opportunity to take better account of the different capabilities and needs of recipients.

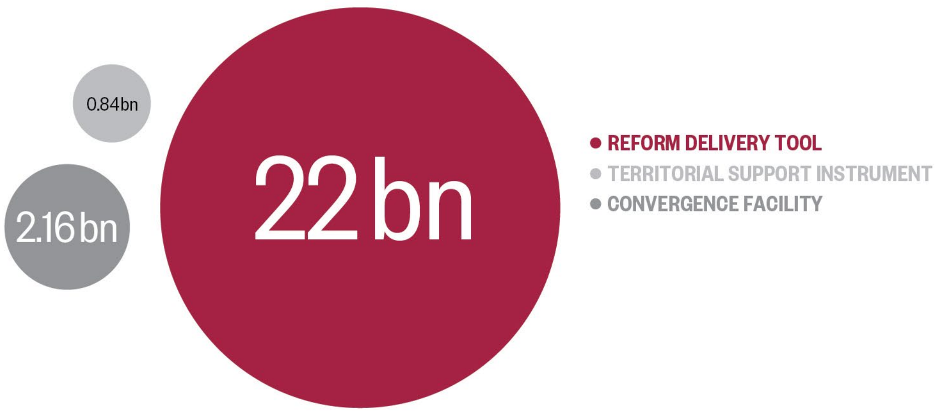
Member states would receive funding for the reform delivery tool and the financial support component of the convergence facility according to their share of total EU population.[47] Through this approach, the Commission intends to ensure that the RSP provide similar incentives to implement SR in all EU member states. At the same time, by failing to apply a more differentiated approach in the use of the funds – linked, for example to the capabilities and needs of the recipients –, one could also see this distribution as **a missed opportunity to address existing territorial disparities** e.g. in applying for access to EU funds such as the RSP.

Importantly, funding for the new programme will be separated from the future Cohesion Policy funds. As for the SRSP, requests for support will be voluntary and there will be **no co-financing requirement from the member states**. The Commission also suggests that member states

Fig. 2

DISTRIBUTION OF FUNDS BETWEEN THE THREE ARMS OF THE RSP

Total of EUR 25 billion



Source: European Commission (2018)[46]; own graph may, on a voluntary basis, request the transfer of up to 5% of resources under other Union Funds, such as the funds dedicated to the implementation of Cohesion Policy.

2.2.3 LINK WITH COHESION POLICY

In the RSP regulation proposal, the Commission stresses that the proposal is "consistent with and provides for complementarity and synergies with the other Union policies."[48] On the one hand, the Commission acknowledges that "the objectives of the ESIF are very different from those of the proposed Reform Support Programme",[49] and it underlines the investment mandate assigned to the ESI funds. On the other hand, it highlights that the European Semester should give consistency to all existing instruments.

The Commission provides several arguments for why the RSP (and more specifically the reform delivery tool) may provide added value to existing SR instruments in CP by focusing on their limitations. These refer to:

- **The nature of the reforms**: RSP documents notably stress that ESIF is not intended for promoting the design and implementation of the kind of structural reforms aimed at tackling challenges "in all policy areas identified in the European Semester".[50]
- **The scope of the reforms**: The ESIF target investment components of some structural challenges, such as the implementation costs and related investment measures. However, its relevance is considered limited for reforms that are mostly regulatory.
- **The timing of reforms**: The annual character of the European Semester process is not readily applicable to the ESIF given their scope and their multi-annual investment cycle.
- **The incentives provided**: The assessment notably points to shortcomings in the implementation of the ex-ante conditionalities. These include the limited scope for reforms and an insufficient consistency with the objectives of the European Semester. Besides, the MEC, "as an instrument of last resort" is deemed "not well suited to promote reforms in good times".[51]

Based on this assessment, the Commission concludes that the complementarity between the new instrument and CP will help improve the alignment of each EU fund with its own objectives. **The Commission argues that by providing new incentives to implement SR, the RSP will release the pressure on CP to use tools (such as the suspension of payment envisaged through the conditionalities instruments) which may "undermine [its] investment agenda."**[52]

There is no indication, however, that conditionalities currently putting pressure on CP (such as the MEC) will disappear in the next programming period. In this context, the RSP could benefit from more flexible conditions than those attached to the delivery of Cohesion Policy. This could incentivise member states to target rather simple and easier to achieve SR and so avoid or postpone the tackling of more complex ones. In light of these trends, the next sections examine the relationship between the RSP and CP.

The Commission's new Reform Support Programme aimed to address some of the challenges identified in public consultations:

- **First, national feed-backs received on the 'EMU package'** of 6 December 2017 indicate that a majority of member states consider that the tool should provide a precise definition of structural reforms. Member states regard complementarity with the ESI funds as crucial, with the reservation that there should be no clear link between the *ex-ante* conditionalities and the future reform delivery tool. Member states stressed that the new Reform Delivery tool should not have a crowding out effect on ESI funding allocations.[53]
- **Second, through a public consultation on Cohesion instruments** carried out between January and March 2018,[54] responses related to the implementation of structural reforms identified several challenges: the lack of resources constituted one of the primary obstacles to the implementation of reforms in various areas. Furthermore, several respondents expressed a preference for structural reforms to be closely tied to national reform programmes and the CSRs.

The RSP could benefit from more flexible conditions than those attached to the delivery of CP. This could incentivise member states to target rather simple and easier to achieve SR and so avoid or postpone the tackling of more complex ones.

This section has shown that the new RSP proposal does provide a concrete response to some of these requests.

First, through a much enhanced and comprehensive remit, the proposed programme is set to benefit from a substantially higher budget, moving from EUR 222.8 million (in the amended SRSP) to EUR 25 billion, a more than hundredfold increase. This uplift provides a robust signal of commitment to delivering on this agenda.

Second, the new programme offers clear links with the European Semester and national reform programmes, as required by the conditions to apply for the reform delivery tool.

The introduction of new structural reform tools remains, however, a challenge regarding the ability of Cohesion Policy to reach, in parallel, its objectives relating to the strengthening of the economic, social and territorial cohesion of the European Union.

The next sections further examine the challenges related to the tying of structural reforms and Cohesion Policy (section 3) and explore the extent to which the next programming period could address them (section 4).

3. Future links between structural reforms and Cohesion Policy: the challenges ahead

Building upon the findings of the previous sections and the interviews conducted in the framework of this paper, we assess in this section the challenges that could arise for Cohesion Policy as a result of the development of new structural reform instruments.

We have identified three main challenges: (i) the negative legacy of linking Cohesion Policy to structural reforms; (ii) conflicting views on the ultimate aim of SR support; (iii) a mismatch between CP priorities and the RSP's focus.

3.1 A NEGATIVE LEGACY

As previous sections have shown, attempts to link structural reforms to ESI funds have raised some challenges.

First, CP stakeholders have criticised the **lack of engagement** from the Commission in designing SR support tools. According to one of our interviewees, the lack of engagement of the Commission with CP stakeholders before the submission of SR proposals contributed to an impression of ESI funds being 'taken away' from CP to serve other EU objectives. This feeling builds on the lack of consultation on the aims of the 'conditionality' agenda before its implementation in the 2014-2020 programming period.[55] The perception also refers to the '*surprise*' introduction of the SRSP in November 2015 since the Commission's 2015 Working Plan had made no mention of it.

Many CP stakeholders perceive structural reforms as a Trojan horse for fiscal consolidation, i.e. as a means to reduce public expenditures.

Second, and partially as a result of this, many CP stakeholders consider that **CP funds have been used to serve other EU objectives.** In the conditionality agenda, an important distinction has been made between those objectives deemed endogenous to the Cohesion Policy's mandate (such as reducing disparities between regions) and exogenous ones (including the reduction of macroeconomic imbalances in the EMU).[56] As the EPC study highlighted, many CP stakeholders perceive structural reforms as a Trojan horse for fiscal consolidation, i.e. as a means to reduce public expenditures. Two developments reinforced this perception.

First, through the **MEC mechanism**, where the threat of suspending the disbursement of ESI funds would serve to constrain member states to reduce their macroeconomic imbalances.

Second, through the introduction of the SRSP, where CP's **'performance reserve'** was used to fund a programme managed outside of CP while pursuing similar macroeconomic stabilisation objectives.

Today, there is broad recognition that these developments may represent a challenge. Thus, in the RSP's *ex-ante* impact assessment, the Commission acknowledges the risks that the suspension of payments envisaged in the context of the 'conditionality agenda' may undermine the CP's investment mandate.[57]

However, as we will see in section 4, the Commission's proposal for the next programming period does not suggest any move away from the 'sanctioning arm' of the **conditionality agenda**. The mismatch between this negative assessment and the lack of reform may, as a result, further antagonise different EU stakeholder communities, and continue to stoke concerns that the EU's continued commitment to CP aims and ethos remain at risk.

3.2 A LACK OF CLARITY ON THE ULTIMATE AIM OF STRUCTURAL REFORMS

As for the SRSP, a critical point of inter-institutional debates on the introduction of the RSP is expected to focus on what should be the ultimate aim of these reforms. According to the explanatory memorandum of the Regulation, the RSP's rationale relies on the contribution of structural reforms support to several EU objectives[58]:

- First, **sustaining growth in the EU**. The growth-enhancing potential of structural reforms appears as one of the main priorities of the RSP. Reforms are, arguably, efforts to "tackle obstacles to the operation of the drivers of growth" thereby contributing to "enhance cohesion, raise productivity, create jobs encourage and ensure sustainable growth".
- Second, **improving the stability** of the European Monetary Union. Accordingly, structural reforms can also serve to "accelerate the process of upward social and economic convergence" and "strengthen the resilience" of EMU economies. In this context, improving the implementation of structural reforms in euro-area countries – and in member states bound to join the Eurozone – is deemed paramount to creating the conditions for the smooth and stable functioning of the EMU.

- Third, **building the capacity of national and local public administrations.** "Improving the efficiency and quality of public administration", one of the aims of structural growth-enhancing reforms, can also help to address "the slow implementation of reforms". Some ambiguity remains as to whether capacity-building is considered as the ultimate aim of structural reforms or as a means to achieving other objectives, including for example the implementation of EU law.

As mentioned earlier, the complementarity between these objectives may strengthen the rationale of the EU's support for structural reforms. Thus, growth-enhancing structural reforms may also serve reducing EMU imbalances while building administrative capacity may increase the growth potential and economic performance/resilience of an economy.

However, as the impact assessment of the RSP notes, "as is well known from the field of economics, promoting two objectives with a single instrument is unlikely to be effective, because inconsistencies between the objectives may and typically do arise."[59] As the previous section has shown, many CP stakeholders consider that these inconsistencies come at the expense of CP objectives and **fear that structural reforms could serve as a driver for fiscal consolidation**. Such perceptions could undermine the delivery of the EU's more comprehensive structural reform agenda and put at risk the implementation of much-needed reforms, e.g. in areas such as labour and product markets.

The lack of clarity on the ultimate aim of SR and its presupposed focus on fiscal consolidation raise fundamental questions concerning the extent to which the EU's 'structural reform agenda' can serve CP's objectives of strengthening "economic, social and territorial cohesion" in the EU.

3.3 A MISMATCH BETWEEN CP OBJECTIVES AND THE FOCUS OF THE RSP

As the previous sections have shown, structural reforms can encompass a wide range of objectives. A fundamental question is whether the SRs supported by the RSP will fit with CP's objective to strengthen "economic, social, and territorial cohesion."

Recent elections have shown that territories adversely affected by economic globalisation are potential breeding grounds for the rise of populist parties.

Today, a significant focus of CP relates to improving the development prospects of citizens and territories negatively impacted by globalisation, technological change or competition arising from single market integration. Recent elections have shown that territories adversely affected by economic globalisation are potential breeding grounds for the rise of populist parties.[60]

Failing to address the causes of this geographically concentrated discontent – partly induced by a feeling of socio-economic decline – could threaten European integration prospects.[61] Mindful of the CP mandate to counter-balance the inequalities created by the single market or economic integration,[62] there is a compelling rationale for EU structural reforms to also focus on supporting the 'losers' of ongoing transformations, while at the same time driving further the benefits of broader change.[63]

A key challenge highlighted by the 7th Cohesion Report is a growing gap between lead regions and lagging regions in productivity growth.

Accordingly, **CP has put a strong focus on regions lagging behind.** A key challenge highlighted by the 7th Cohesion Report[64] is a growing gap between lead regions and lagging regions in productivity growth. The report points to the specific situation of the territories stuck in a 'middle-income trap', squeezed between a relatively high-cost base and a lack of innovation capacity. It also suggests that the innovation performance and competitiveness of some EU regions (mainly large, metropolitan centres and capital cities) may have negatively affected that of other EU regions.[65] Thus, CP stakeholders often request a greater focus on SR that would help address the specific challenges facing regions in ongoing industrial transformations.

At first glance, the RSP provides an opportunity for CP to benefit from the programme. The legal basis used by the Commission to introduce the RSP is indeed directly linked to Cohesion Policy. The RSP proposal is indeed based on two articles in the Treaty on the Functioning of the European Union (TFEU):

- **Title XVIII, Article 175 (§3)**: Title XVIII of the TFEU is the legal basis of Cohesion Policy. While art. 174 sets out the condition for EU action in strengthening "economic, social and territorial cohesion in the EU" and "reducing disparities between the development of the various regions", art. 175 details how member states shall achieve this objective, through the use of EU funds (§2) or "if specific action prove necessary outside of the funds" (§3).
- **Title XXIV, Article 197 (§2)**: Title XXIV of the TFEU deals with administrative cooperation in the

EU. Article 197 stresses the importance of effective implementation of EU law for its functioning (§1) and defines the conditions under which the Union may "support the efforts of member states" (§2) in this area.

However, the intended objectives described in the documents accompanying **the Commission's RSP proposal do not reflect a comprehensive and robust complementarity with Cohesion Policy objectives**. While the Commission makes several references to the issue of economic convergence, its proposal makes no reference in the legal text or the explanatory memorandum to the objective of reducing regional disparities. Such omission in the RSP's rationale constitutes a surprising shortcoming, not least because regional disparities have obvious implications on the social, economic and territorial prospects of the EU project.

Instead, several elements indeed show a stronger focus on the objective of fostering EMU stability. Thus, the introduction of the impact assessment accompanying the RSP proposal almost exclusively concentrates on issues related to the role of structural reforms in strengthening EMU stability. The proposal also makes several references to the vision set out in the Five Presidents' Report of June 2015,[66] the reflection papers on the deepening of the Economic and Monetary Union and the future of EU finances in spring 2017,[67] as well as the Commission's roadmap for deepening the EMU of December 2017.[68] Finally, the Commission has proposed to allocate EUR 22 billion to the RSP's 'reform delivery tool' against less than EUR 1 billion to its 'technical support instrument' – despite the strong track record of its predecessor, the SPSR. This proposal could reinforce the suspicion that the Commission aims **to further prioritise macroeconomic stability over capacity-building**, the logic of the European Semester over Cohesion Policy priorities (e.g. building administrative capacity in regions most in need).

The RSP proposal could reinforce the suspicion that the Commission aims to further prioritise macroeconomic stability over capacity-building, the logic of the European Semester over Cohesion Policy priorities.

To conclude, some may wish to challenge the decision to use CP provisions as a legal basis for introducing the RSP, without adequately integrating CP goals in the objectives of the RSP. Indeed, there seems to be a lack of coherence across the objectives of both policy instruments, which could raise questions about the credibility of the argument for greater alignment between SRs and CP.

The logic, narrative and positioning of the RSP would, therefore, benefit from a broader review to create significantly stronger coherence with the EU's post-2020 CP agenda.

The confusion about what should be the purpose of structural reforms in the EU context echoes the divergence of opinions on this matter, among EU stakeholders about several issues linked to this agenda. This section allows us to draw two important conclusions:

- First, in the context of a **lack of evidence** and **conflicting views** on how to address these issues, there is a risk that the EU's structural reform agenda fails to be addressed consistently across EU policies. A priority should, therefore, be for EU policymakers to build up further evidence on these issues.
- Second, in the absence of clear answers to these questions, the objectives pursued by the EU's structural reform agenda could risk being mainly **driven by political considerations**, independent of the likely effectiveness of these proposals.

The next section considers the current political mood in the context of the negotiations on the post-2020 MFF and proposes a prospective roadmap aimed at reconciling the objectives pursued by both the EU's structural reform agenda and Cohesion Policy.

4. A prospective roadmap

This section first analyses some of the key trends which are likely to dominate the negotiations on the Multiannual Financial Framework for the 2021-2027 programming period and assesses what their impact could be on the future links between structural reforms and Cohesion Policy. We then try to determine how to better align RSP and CP objectives. Finally, we present some recommendations on how to implement in practice.

4.1 CONTEXT

This section considers the current political mood in the context of the negotiations on the post-2020 MFF and highlights three trends likely to shape these discussions.

4.1.1 DEMONSTRATING EU ADDED VALUE

The Commission's proposal for the 2021-2027 MFF takes place in an environment where **all investment programmes are under pressure** and are competing for a place in the EU's post-2020 future. They not only have to demonstrate that they are a 'good' use of EU funding but that they are of 'greater European value' than other areas of spending.

Negotiations have revealed renewed pressure on the EU to deliver on more "functional" priorities that also tilt towards the interest of net payers.

At the same time, negotiations have revealed renewed pressure on the EU to deliver on more "functional" priorities that also tilt towards the interest of net payers. Accordingly, the Commission has underlined the need for an **EU budget that is 'focused on results'**. In part, this narrative responds to concerns raised about the effectiveness of Cohesion Policy funds – worth approximately one-third of budget resources.

The Commission proposal translated into a **reduction of the share of Cohesion Policy (CP) and other 'traditional policies'** (such as the Common Agricultural Policy) in the EU's funding strategy.

4.1.2 DOING MORE WITH LESS

The introduction of new priorities has direct consequences for CP. Unlike in the current programming period, where CP had a separate heading, the new proposal suggests grouping three subheadings under one 'Cohesion and Values' heading: (i) Regional Development & Cohesion; (ii) Economic & Monetary Union; (iii) Investing in People, Social Cohesion & Values.[69]

The inclusion of the EMU subheading in the 'Cohesion and Values' heading is in line with a continuous quest by some EU member states to use ESI funds to boost the resilience of the Economic and Monetary Union (EMU) and encourage structural reforms. As this paper has shown, some view the introduction of the Reform Support Programme as an attempt to further cement the role of the European Semester and boost the implementation of the country-specific recommendations by EU member states. The RSP also echoes perceptions of a desire to strengthen existing links between CP and the EU's economic coordination objectives, including through the use of ESIF-related conditionalities.

4.1.3 DEFENDING THE EU'S CORE OBJECTIVES AND VALUES

The Commission furthermore proposed to strengthen the linkages between the disbursement of EU funds and the level of respect for European objectives and values. In that regard, the new **'Cohesion and Values'** heading also reflects concerns expressed by some EU member states about the lack of EU solidarity in, for example, addressing the migration crisis. At the same time, the EU institutions have become increasingly apprehensive about some member states failing to meet EU standards on the rule of law. The Commission has, therefore, proposed to move away from GDP per capita as the sole indicator for fund allocation by introducing a link to core EU values.[70]

These new provisions have been particularly criticised by Central and Eastern European (CEE) member states who regard this move as a shift in the sectoral and geographical coverage of EU funding. Some governments, such as Poland and Hungary, have challenged the Commission's plan on the basis that these provisions "could lead to the limitations of the member states' rights" to resist taking in migrants. In response, the Commission denied that these reforms were intended to target any member state explicitly.[71]

The conflict between the Commission and some CEE member states may, however, be related to a broader shift in the Commission's approach towards Eurozone accession. New proposals, including the 'convergence facility' arm of the RSP, point to a willingness to more effectively target and reward member states showing concrete commitment towards adopting the common currency. According to the RSP, the assessment of progress should build on nominal variables, such as the inflation rate, real exchange rate, or fiscal performance, amongst others. Importantly, the 'nominal convergence' approach of the RSP contrasts with the 'real convergence' approach, so far largely supported by CP. Here, CP funds serve a logic of capital transfers, aimed at improving the living standards of those who joined the EU more recently to be in line with their Western counterparts.

These developments point to some challenges for CP in the 2021-2027 programming period. In the context set out above, it is likely that CP will have to address additional priorities with reduced funding given that the objective of reducing regional disparities seems to lack ownership at the political level. Nevertheless, this section identifies opportunities for policy alignment between the rationale for the introduction of the EU's new structural reform support agenda and objectives pursued by CP. These include, for example, developing more resilient societies; promoting social inclusion (e.g. through the integration of migrants) or fostering economic convergence (although the approach to get there may differ).

If well designed, the RSP could provide a complementary tool to achieve CP objectives. For instance, the scope for action of the RSP and CP should be better demarcated to avoid having incentives to pursue cohesion-enhancing reforms diminished as a result of the introduction of the RSP. The next section explores how the EU's new structural reform agenda could complement cohesion policy goals.

4.2 OBJECTIVES

As this paper has shown, **the new MFF proposal puts a stronger focus on EU support for structural reforms**, with a proposed hundredfold budget increase as a result of the introduction of the Reform Support Programme.

This move has the potential to allow the EU to step up its game in ensuring the implementation of reforms identified in the context of the European Semester. A well-designed structural reform agenda could thus boost both the economic resilience of member states and the economic performance of the EU as a whole.

The EU's structural reform agenda needs to better define the ultimate objectives of reforms, provide stronger evidence on how EU support can help achieve them, and promote a broder engagement at every level of governance.

The paper has also shown that the current legal base of the RSP authorises, apparently, the use of structural reform support in line with CP priorities such as encouraging social inclusion or reducing regional disparities. Should this disposition be confirmed in practice, it would considerably benefit Cohesion Policy objectives and help to foster economic, social and territorial cohesion within the EU.

However, this paper has also shown that **the EU's 'structural reform agenda' requires greater clarity** on several fronts to secure a broader ownership base. It would involve (i) defining the ultimate aims of these reforms; (ii) providing stronger evidence on how structural reform support could help achieve intended objectives; (iii) promoting a broader engagement with the different communities involved at EU, national and regional level.

4.2.1 CLARIFY THE PURPOSE OF STRUCTURAL REFORMS

Often described as the milestone of the EU's SR agenda, the European Semester has undoubtedly proven to be a useful *process*. It does not, however, replace the need for a clear *strategy* setting out what should be the ultimate goal of structural reforms.

The structural reform (support) agenda would benefit from additional evidence on the drivers of and barriers to SR; the timing and sequencing of SR; the impact and fairness of SR support.

To be fully effective, any future reform of this economic governance framework must also be part of a broader, consistent strategy, which would build increasing ownership among the stakeholders involved in its implementation. Against that backdrop, the EU's structural reform agenda needs to be further clarified and integrated into a more compelling narrative that re-states the political rationale for SR and how they fit with its ultimate purpose.

As the Europe 2020 strategy will soon elapse, and as member states engage in discussions on EU's funding priorities for the post-2020 period, **a first step should be to link structural reforms to a new, comprehensive**, EU growth strategy.

4.2.2 PROVIDE STRONGER EVIDENCE ON HOW SR CAN HELP ACHIEVE EU OBJECTIVES

There is a need to recognise that the direction for a suggested **structural reform agenda is not universally supported or well understood**. In order to overcome negative perceptions and avoid tensions, it is also essential to reach a consensus on the direction and the main features of this agenda.

That is why building a positive narrative for SR is essential. This starts with defining a better framework for the **gathering and evaluating of evidence for**

how structural reforms can translate into concrete beneficial outcomes for EU citizens, such as enhanced political participation, reduced red tape, or job opportunities in all EU regions.

Overall, the SR agenda would benefit from additional evidence on the following issues:

- **The barriers to SR**: What are the main drivers of the lack of implementation of reforms? Is this (as the Commission has noted) related to political 'short-termism' or a lack of capacity, or both? What role do other behavioural (e.g. underestimation of the needs to reform) and political economy factors (e.g. unwillingness to engage with the objectives of the EU's reform agenda) play in this process?

- **The drivers of SR**: What is the most effective way to overcome the challenges to the implementation of reforms? Will the envisaged 'cash for reform' approach prove effective in changing the cost-benefit analysis in implementing SR? How likely will member states put forward 'low-hanging fruits' or 'ready-made' reforms (that offer limited EU added value) rather than embrace the more comprehensive (and more difficult) SRs?

- **The sequencing of SR**: What is the appropriate sequencing? Should macroeconomic stability become a pre-condition for "enhancing cohesion, competitiveness, productivity, growth and employment" or become the result of the latter? How can member states, regions and the EU agree on the sequencing or priorities of SRs?

- **The monitoring of SR**: How should SRs be monitored and evaluated? How will the Commission account for the constant evolution of the identified obstacles to SR (lack of administrative capacity; the short-term political cost of reforms; lack of political ownership)?

- **The fairness of SR support**: If structural reforms are supported with matched funding from EU member states, is this unfair to certain economically weaker countries? Will those countries/regions who need the most help receive it? Are good performers rewarded for deeds they would have achieved regardless?

4.2.3 PROMOTE BROADER ENGAGEMENT ON THE DEFINITION OF STRUCTURAL REFORM OBJECTIVES

Given the mounting pressure on the EU budget, there are sound reasons for Cohesion Policy embracing the EU's structural reform agenda.

A stronger engagement of CP stakeholders in the design of the new Reform Support Programme could prove beneficial both for the achievement of CP objectives and for the effectiveness of the EU framework. First, as evidence from the ExAC agenda has shown, Cohesion Policy could become more efficient and effective thanks to better integration with structural reforms. In that regard, the latter would need to be designed in a way that fits with the CP objectives of strengthening economic, social and territorial cohesion. Second, the stronger involvement of CP stakeholders could also improve ownership and help better align EU objectives, policy tools, and funding, which would also result in a more effective use of the Union Funds.[72]

There is a need to clarify the responsibility of each level of governance for specific structural reforms to improve ownership of and coherence across EU policies.

This paper has shown that efforts will have to be made on both sides to ensure a comprehensive alignment of structural reforms with Cohesion Policy needs. Such efforts call for a stronger involvement of Cohesion Policy stakeholders:

- First, in the debate about whether the responsibility for specific structural reforms lies at the regional or national level. To improve ownership of and coherence across EU policies, active participation throughout the process is critical.

- Second, in the design, implementation, and monitoring of SR support.

- Third, in the definition of the intended objectives of SRs and the selection of the instruments that can be most effective in achieving them.

The following section suggests some recommendations about how these objectives could be achieved, including through possible amendments to the RSP proposal.

4.3 RECOMMENDATIONS

The below list builds on previous recommendations made in the context of the EPC study on conditionalities.[73] While the proposed Reform Support Programme integrates several of these proposals, this section highlights additional actions that would allow the EU's structural reform agenda to more effectively support Cohesion Policy objectives. To achieve this aim, this paper also suggests some amendments to the RSP proposal (see list of recommendations on page 5).

In summary, the authors recommend to:

- **Provide a stronger narrative for EU structural reform support.**

- **Showcase how Cohesion Policy can complement the EU's SR agenda.**

- **Ensure that the SR support agenda considers EU cohesion needs.**

- **Build a multi-level governance structure for the EU's structural reform agenda.**

4.3.1 RECOMMENDATION 1: PROVIDE A STRONGER NARRATIVE FOR EU STRUCTURAL REFORM SUPPORT

Clarify what should be the ultimate aim of structural reforms for each instrument of the Reform Support Programme. As this paper has demonstrated, clarifying the ultimate aim of the EU's structural reform agenda is essential. It requires a strong narrative that explains how the RSP will support the implementation of this agenda. It calls for a better alignment of the RSP objectives with the legal basis that justifies EU action in this area.

Developing a new EU growth strategy in an inclusive and participatory way would help clarify the purpose of structural reforms and the priority areas where EU funds should be invested.

Build a consensus based on evidence and positive incentives. In a context of mistrust vis-à-vis both the Commission and EU member state governments, the new reform agenda needs to rely on sound and reliable evidence and calls, for example, for a thorough evaluation of the positive and negative incentives in implementing structural reforms; their likely externalities, and their impact on the delivery of CP objectives.

Link structural reforms to a new, comprehensive, EU growth strategy. There is an urgent need to develop a new EU growth strategy in an inclusive and participatory way that fully engages all EU stakeholders. Providing indicators linked to the development model the EU is aiming at would help clarify the purpose of structural reforms and the priority areas where EU funds should be invested. It requires going beyond the implementation of the recommendations agreed upon in the context of the European Semester. In order to ensure broader ownership of this agenda, all EU policies and programmes should be aligned with the new EU growth strategy and build linkages with national and regional growth strategies.

4.3.2 RECOMMENDATION 2: SHOWCASE HOW CP CAN COMPLEMENT THE EU'S SR SUPPORT

Acknowledge E(M)U resilience needs. The financial and economic crisis dramatically impacted on EU economic, social, and territorial convergence prospects. In line with the new heading suggested by the Commission, Cohesion Policy could play a larger role in identifying and addressing existing imbalances within the EMU. Both the SRSP and the recently proposed RSP provide examples of how *ex-ante* and positive incentives could spur SR aimed at boosting growth and improving the macroeconomic environment. Following this, the Commission should consider the merits of shifting the MEC from an *ex-post* to an *ex-ante* conditionality as part of a more comprehensive package of *ex-ante* support measures in Cohesion Policy.[74]

Incentivise greater domestic efforts in generating a stronger 'tailor-made' approach to SR across EU policies. Different territories have different historical, geographical and environmental legacies but also different policies and frameworks in place, which can affect the impact of EU policies and programmes. Providing a more systematic assessment of the possible interaction and complementarities between EU, national and regional policies could help enhance the effectiveness of CP, but also of the EU's broader economic governance framework, including the European Semester and the CSRs.[75]

Highlight the differences in capabilities to deliver on SR. With different levels of SR delivery capacity across the EU and in the absence of a more proportionate approach, the SR agenda could potentially lead to moving EU funds away from the regions that need it the most.[76] Arguably, the disproportionate distribution of funding across the three arms of the RSP could reinforce this trend. It is essential that the future EU economic governance framework takes better account of the specific needs of the different regions and territories of the EU. By promoting "a more tailord approach to regional development", the Cohesion Policy proposal for the 2021-2027 programming period indicates the direction of travel.[77] Moving forward, the EU could rely on existing and new Commission tools to assess the resilience of EU regions to economic shocks[78] and to identifying barriers to spreading innovation across EU programmes.[79]

Beyond Cohesion Policy, the whole EU economic goverrnance framework should take better account of the specific needs and capabilities of the different regions and territories of the EU.

4.3.3 RECOMMENDATION 3: ENSURE THAT SR SUPPORT CONSIDERS EU COHESION NEEDS

Clarify the role of structural reforms vis-à-vis CP objectives. In line with the legal basis it refers to, the RSP should target goals that are consistent with the objectives of "economic, social and territorial cohesion" pursued by CP in art. 174-175 TFEU. A concrete way to achieve this would be to more clearly incorporate the objectives of promoting social inclusion and reducing regional disparities in the objectives of the RSP.

Increase the support aimed at building institutional and administrative capacity. Evidence indicates that, so far, the effectiveness of the EU budget in supporting the modernisation of public administration is rather low.[80] Stepping up the EU's game in this area remains essential. For this, the RSP should focus more strongly on how EU support for structural reforms can help achieve transformational changes across EU regions by fostering their capacity to increase their economic and social resilience through their own means. As part of this, the RSP should support more experimentation and new approaches to achieve these objectives, encouraging greater risk-taking.

Support member states' efforts in addressing the needs of the 'losers' of structural reforms. As the Commission's impact assessment highlights, *"the redistributive effect of a number of reforms and their impact on certain economic or social actors can increase the difficulty of implementing reforms and lead to the need for transition or compensatory measures. These measures have a cost, which can be a barrier to reforms."*[81] The RSP suggests changing the cost/benefit ratio of such reforms by providing additional (financial) benefits to national authorities in pursuing this agenda. Another way of changing this ratio is to reduce the cost of the transition to those impacted by the reform. Accordingly, more attention should be paid to the possible social, economic and territorial externalities of SR and what the strategies are to address those *ex-ante*, i.e. before the implementation of reforms. Building on recent findings on the costs of the 'agglomeration logic' (see section 3.3 above), SR assessments should consider how efforts to modernise a national economy in line with new global trends may, at the same time, adversely impact some specific territories and what accompanying measures may be taken to mitigate negative consequences.

4.3.4 RECOMMENDATION 4: BUILD A MULTI-LEVEL GOVERNANCE STRUCTURE FOR SR SUPPORT

Provide a multi-level governance framework for growth-enhancing reforms. In order to respond to the perceived lack of ownership, national and subnational players need to be closely involved in the development and implementation of capacity building reforms that the EU can support. This should take the form of a new assessment framework aimed at identifying both the type of reforms to be prioritised in each member state and the contribution of each level of governance to their delivery. This framework could be extended to include a more targeted analysis of the contribution of each region, for example, in highly decentralised member states (e.g. Germany, Italy or Spain).

A new assessment framework should be created with the aim to identify both the reforms to be prioritised in each member state and the contribution of each level of governance to their delivery.

Require member states to involve local and regional authorities in their SR strategies. Given the increasing role of regions in the development and implementation of structural reforms across the EU, member states should be encouraged to cooperate more closely with local and regional authorities when they apply for RSP support. In order to comply with the EU's proportionality and subsidiarity principles, member states should provide clear evidence of this in their requests for EU support. Involving local and regional authorities would boost the domestic ownership and accountability of the measures, programmes, strategies, and actions associated with SR, as well as generating improved alignment across these.

Conclusion

This paper assessed the extent to which the EU's structural reform agenda could support EU member states in the transition to a new global economic environment in a way that complements Cohesion Policy objectives. It looked at the future links between structural reforms and EU Cohesion Policy in the context of the 2021-2027 Multiannual Financial Framework.

This paper has highlighted **opportunities for CP to benefit from the EU's structural reform support agenda**. Legally, the RSP's legal base would allow for a rebalancing of its priorities in favour of a greater focus on capacity-building and enabling reforms. Economically, well-designed initiatives could support CP objectives of fostering growth, investment and greater convergence among EU economies. Politically, issues such as the integration of migrants or the rise of populism could also bring the need for stronger cohesion to the top of EU leaders' agenda.

Our analysis has revealed that the Commission's proposal to introduce a Reform Support Programme for the post-2020 EU funding period follows a logic which risks providing limited additionality to CP's aim of reducing regional disparities across the EU. The EU's renewed efforts to support structural reform delivery in EU member states primarily aim to lower the risks of adverse spill-over effects across EU economies (i.e. addressing financial contagion). Given the RSP's ambiguous objectives and its more favourable funding conditions than CP, the RSP could also incentivise EU governments to reduce the share of Union funds used to achieve CP's objectives of economic, social and territorial cohesion.

The ongoing negotiations on the 2021-2027 Multiannual Financial Framework offer a timely opportunity to highlight the added value of Cohesion Policy in promoting economic capability, territorial balance and social inclusiveness in the EU.

The paper pointed to some **challenges in ensuring that EU structural reforms will benefit the EU's cohesion agenda**, including conflicting views on the objectives of SR. To overcome these will require overcoming the negative legacy of the macroeconomic conditionality agenda. The ultimate aim of the EU's structural reform agenda will also need to be further clarified and geared towards reducing regional disparities and promoting social inclusion in the EU.

The authors therefore suggest that the Commission rethinks the rationale of the distribution of EU support for structural reforms in EU member states and set out a positive forward-looking agenda for change. In light of this, the authors propose that the Commission takes on the role of 'strategic enabler' in the implementation of the EU's growth agenda by putting structural, growth-enhancing reforms at the heart of a new growth strategy for the EU.

In a context of structural changes in the global economy, the Commission has rightly identified support for reforms as a major priority of its post-2020 funding strategy. Precisely because of its political relevance, this agenda will require greater engagement of all EU stakeholders to define what should be the purpose of the change, the means to achieve it and the responsibility of each level of governance in this process.

The ongoing **negotiations on the 2021-2027 Multiannual Financial Framework (MFF) offer a timely opportunity to highlight the added value of Cohesion Policy** in promoting economic capability, territorial balance and social inclusiveness in the EU.

In light of this, our package of supporting measures suggests how a stronger engagement from CP stakeholders could help deliver greater clarity, visibility and a more compelling narrative for the EU to champion the structural reform agenda.

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