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Committee of the Regions

## 2015 European Semester

Territorial analysis of the 2015 Country Reports  
and accompanying Communication



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## **2015 European Semester: Territorial analysis of the 2015 Country Reports and accompanying Communication<sup>1</sup>**

Unit E.2 – Subsidiarity Network / Europe 2020 Monitoring Platform / Covenant of Mayors /  
EGTC: The Europe 2020 Monitoring Platform

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<sup>1</sup> COM (2015) 85 Final and related Staff Working Documents

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## PREFACE



Giving growth and employment policies a territorial dimension is an absolute necessity.

This is the key message which emerged from reading the European Commission's country reports. As part of the European Semester, these reports evaluate the implementation of specific recommendations issued to each Member State by the EU in 2014 and prepare the way for the next set of recommendations in May.

Eighteen countries received recommendations in 2014 addressed to their local and regional authorities. Less progress has been made in implementing these recommendations than on implementing the recommendations as a whole. This is not surprising when we consider that we ask local and regional authorities to improve their administrative capacity and the quality of public spending, to modernise their structure and to tackle corruption – all whilst adhering to the Stability Pact.

In preparation for the 2015 recommendations, which are expected at the end of May, each of the country reports has highlighted problems of a territorial nature. These problems are linked both to inequalities in income and employment opportunities and to weaknesses in administrative capacity.

It is concerning to see confirmation that less developed countries, and those where regional inequalities are more pronounced, are also those which most often experience territorial problems and where the implementation of the recommendations issued to local and regional authorities is less advanced.

It is therefore entirely appropriate that the country reports have been published earlier than usual. This will enable the Committee of the Regions to emphasise the need to add a territorial dimension to the European Semester cycle and to involve local and regional authorities – under the multi-level governance approach – in drafting and implementing National Reform Programmes.

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## 1. INTRODUCTION AND METHODOLOGY

### 1.1 *The Commission's Communication accompanying Country assessments*

The Annual Growth Survey (AGS), which started the European Semester for 2015, put growth and jobs on top of the EU agenda, setting the priorities of

1. a coordinated boost to investments,
2. a renewed commitment to structural reforms,
3. the pursuit of fiscal responsibility.

Moreover, the 2015 AGS announced a streamlining of the European Semester, to strengthen ownership and accountability and improve delivery at all levels.

As part of this new approach, the Commission has decided to publish a single assessment document ("Country Report") for each Member State, including (a) an assessment of the present socio-economic context and fiscal situation, (b) progress on last year's Country-Specific Recommendations (CSRs) and (c) the outcome of the In-Depth Review foreseen under the Macroeconomic Imbalance Procedure, set by the so-called 6-pack regulations. To give all stakeholders more time to get involved in the process before the National Reform Programmes and the new Country-Specific Recommendations are issued, the Country Reports were published on 27 February 2015, three months earlier than in previous years.

The Communication<sup>2</sup> accompanying the Country Reports stresses that, in spite of some progress, supported by external factors (low energy prices, falling dollar/Euro exchange rates, and pro-active monetary policy of the ECB) the recovery after the crisis remains fragile, demand remains low and forecast growth is not enough to substantially reduce unemployment and the risks of excessively low inflation levels.

The Communication also stresses that last year's recommendation are high in the political agenda of countries facing acute challenges. The 2014 CSRs address all three above mentioned policy priorities of the 2014 AGS.

With respect to structural reforms, among others, the Communication argues that "despite limited progress, there is a general need for further modernization of public administration and for increasing its efficiency and transparency, stepping up the fight against corruption, tax evasion and undeclared work".

There is evidence of progress in implementing recommendations, although, as the Communication puts it, "the nature of the progress needs to be qualified .... The CSRs are not all equally

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<sup>2</sup> COM (2015) 85 Final and related Staff Working Documents

straightforward to implement, with some objectively more difficult to achieve than others... This is why the Commission's analysis cannot be reduced to a "box-ticking" exercise and must remain qualitative in essence".

Overall, the Communication stresses that substantial effort to correct macro-economic imbalances and undertake structural reforms is underway and should be carried on without hesitation.

The Communication underlines that "the new economic governance arrangements of the EU, if properly implemented at all levels, are instrumental in identifying priority areas for action at national level which reflect the close interdependence between Member States. There are also clear signs of improvements in those Member States that have undertaken reform".

The analyses included in the Country Reports, which have been drafted in a dialogue with the Member States at technical level, are published earlier than usual, in order to support the preparation of the National Reform Programmes and Stability or Convergence Programmes.

Based on these documents, the Commission is expected to present the new Country Specific Recommendations in May 2015.

## 1.2 *The CoR and the territorial analysis of the Country Reports*

As the Communication puts it, "the strengthening and streamlining of the European Semester should go hand-in-hand with increased ownership and a better understanding of the process at all levels".

The European Committee of the Regions (CoR) welcomes the fact that, from now on, the Country Reports, including progress in implementing the last CSRs, will come three months before the publication of the new CSRs in May (instead of accompanying them). This gives all relevant stakeholders – including local and regional authorities – more time to analyse the document and feed the outcome of their analyses into the EU political cycle.

The CoR is committed to take this further opportunity to bring the standpoint of local and regional authorities into the European Semester. To support this action, this note<sup>3</sup> analyses the 27 Country Reports<sup>4</sup>, and the accompanying Commission Communication, to check:

- a) the progress of territory-related 2014 CSRs, including those explicitly addressed to local and regional authorities as well as those referring to territorial issues,
- b) whether issues related to territorial differentiations have been addressed in the Country Reports, and, if yes, what issues.

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<sup>3</sup> The Annexes mentioned in the note can be found at <http://portal.cor.europa.eu/europe2020/news/Pages/EUROPEAN-SEMESTER--A-territorial-analysis-of-the-Country-Reports-for-2015.aspx>

<sup>4</sup> No Country Report has been published for Greece for the moment, due to ongoing negotiations on the assistance programme.

## 2. STATE OF IMPLEMENTATION OF TERRITORY-RELATED CSRs FOR 2014

### 2.1 Introduction

In 2014, thirty-three Country-Specific Recommendations (CSRs) were explicitly addressed to local and regional authorities (LRAs)<sup>5</sup> in 18 Member States. For the sake of the present analysis, these CSRs - from now on, "**territory-related**" CSRs - were regrouped in the four main policy areas of *public finances, employment/social policies, public administration reform* and *structural reforms*, also to allow comparisons with a similar exercise undertaken by the CoR in 2014 (for a detailed list, see **Annex 1**). Their state of implementation is examined in this section, together with 8 other CSRs which, although not directly addressed to local and regional authorities, also raised issues relevant to territories (for a detailed list, see **Annex 2**). The Commission's Country Reports for 2015 rank the state of implementation of all CSRs by means of the following qualitative indicators: *no progress, limited progress, some progress, substantial progress* and *full implementation* (however, the two latter indicators apply to none of the territory-related CSRs analysed in this report). The present analysis builds on the Commission's assessment.

### 2.2 Analysis of territory-related CSRs by level of progress and topic

A breakdown of the territory-related CSRs for 2014 by country, topic and state of implementation shows that almost a half of them (16 out of 33, or 48,5%) recorded *limited progress*, and 5 of them (15,1%) *no progress* at all (for more details, see **Annex 3**). As shown in **Table 1**, territory-related CSRs scored worse (*no/limited progress*: 63.6%) than all CSRs (*no/limited progress*: 47%):

**Table 1 – Overall implementation scores of territory-related CSRs and all CSRs (2014 CSRs)**

Assessment	33 territory-related CSRs	All CSRs <sup>6</sup>
no progress	15,1%	12%
limited progress	48,5%	35%
some progress	36, 4%	41%
full/substantial progress	==	12%
total	100%	100%

A possible reason for this asymmetry of results is the intrinsically challenging nature of the topics addressed by the territory-related CSRs (for more details, see **Annex 4**):

- 5 out of the 10 territory-related CSRs on **public finances** recorded *some progress*, the largest number in all policy areas analysed. All five aimed at pursuing growth-friendly fiscal consolidation through spending reviews. This made this policy area the most 'successful' one -

<sup>5</sup> The definition "territory-related CSRs" refer to those parts of the actual CSRs which were addressed to LRAs. In two cases, CSRs considered here, although not explicitly addressed to LRAs, had potentially a direct impact on them. A CSR to the Netherlands, although not directly addressed to LRA, have relevant potential implications for them due to the recommended measures (major shift of responsibilities toward the municipalities). The same applies to Bulgaria, where two CSRs, though not directly addressed to LRA, relate to administrative capacity and thus have a direct impact on the local and regional levels.

<sup>6</sup> COM (2015) 85 Final

still, less satisfactory than the average of all CSRs. The five cases of *limited progress*, or *no progress*, showed that difficulties related mainly to alignment of expenditure to revenues (in some cases, by broadening the tax base), as well as, again, to pursuing fiscal consolidation after several consecutive years of economic crisis and stagnation;

- 3 out of the 9 territory-related CSRs on **employment and social policies** achieved *some progress*, the remaining recording *limited progress* (3) or *no progress* (1). Successful as well as unsuccessful recommendations in this policy area were mostly about implementing active labour market policies to address youth unemployment, early school leaving, skill mismatches, insufficient entrepreneurship (especially in areas with high unemployment) and, in some cases, shortage of childcare facilities. Frequently mentioned challenges included better coordination between public services, also across levels of government, and better allocation of responsibilities among them;
- 3 out of the 9 territory-related CSRs on **administrative reform of local and regional government** have seen *some progress*. Administrative reform is a difficult and lengthy process, in political as well as technical terms, whose challenges include: improving administrative capacity; revising and clarifying the distribution of competences within and between levels of government; improving cooperation between levels of government; addressing corruption and lack of transparency; improving delivery of services to citizens and enterprises;
- only 1 out of the 5 territory-related CSRs on **structural reforms** has recorded some progress. Challenges in this policy area, which can be regarded as the 'worst' performer, include: opening the regional markets for energy, transportation and professional services to competition; clarifying responsibilities and simplifying/harmonizing building procedures as well as authorizations for large scale retail premises.

### 2.3 *Territory-related CSRs in the context of economic and regional disparities*

This section focuses on possible links between territory-related CSRs received by each country and the performance of the latter in terms of both growth and jobs (based on per capita GDP and employment rates) and internal regional disparities (based on the gap between its best and worst performing regions in terms of employment rates<sup>7</sup>). To grasp the overall picture (for more details, see **Annex 5**), one has to bear in mind that:

- within the context of the European Semester, recommendations are given in areas where policy intervention is needed. The mere existence of such areas, though, does not imply that a

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<sup>7</sup> The size of regional gaps within each country is represented here by the ratio between the highest and the lowest regional employment rates. To make comparisons easier, the median value of this indicator (the one obtained for Poland) has then been put =100. Being based on NUTS II figures, this procedure applies only to the 19 EU Member Countries having NUTS II level statistical areas.



CSR will be issued: indeed, there will be no CSR if the underlying problem has been dealt with in a manner that looks already satisfactory;

- whether or not a CSR is addressed to LRAs also depends on the country's constitutional division of powers.

With these caveats in mind, **comparisons** between countries **looking at their GDP per capita, employment rate and regional disparities and at their territory-related CSRs**, show that:

1. in the field of **public administration reform**, the **5 worst performers** in term of GDP per head received 4 territory-related CSRs overall while the 5 best performers got none; the same is true when looking at employment rates (none of the 5 best performers got territory-related CSRs, while four of the five worst performers got five territory-related CSRs overall);
2. overall, the **5 countries with the largest regional disparities** got 13 territory-related CSRs **more than twice** the 5 countries with the narrowest disparities (6 territory-related CSRs);
3. last, but not least, the **worst performers** are also those with the **highest number of 'no progress' or 'limited progress' scores**. Poor performances in terms of growth and jobs are positively correlated to *no/limited progress* scores.

Overall, the more a country under-performs in terms of growth and jobs, and/or has regional disparities, the more it receives territory-related CSRs – and, as will be shown in section 3 below, the higher is the number of territorial issues mentioned in its Country Report.

#### 2.4 *Other CSRs of territorial relevance, not addressed to LRAs*

Six Member States received eight CSRs concerning regional disparities – although not specifically addressed to LRAs - in 2014 (for more details, see **Annex 2** and **Annex 6**). These recommendations addressed mainly issues in the fields of:

- employment and social policies (childcare facilities in Austria; skills mismatches and early school leaving in Belgium; the health sector in Croatia; entrepreneurship in Estonia),
- public administration reform (fighting against corruption in Italy; establishing a credible and depoliticised management system for state-owned enterprises and an independent Competition Council in Latvia),
- structural reforms (balancing revenues and responsibilities of local government, and providing quality social services at local level, in Estonia; homogenising and simplifying approaches to regulation of professional services across German Länders).

Overall, only 2 out of 8 CSRs, in Austria and Croatia, showed "some progress" in implementation.

### 3. A TERRITORIAL ANALYSIS OF THE COUNTRY REPORTS FOR 2015

All 27 Country Reports for 2015 include territorial issues (**Annex 7**). This key finding is a straightforward acknowledgment that territory matters: as the impact of public policies across regions varies because of different territorial conditions, policy strategies for growth, jobs and the modernization of the public administration need to include a territorial dimension.

The territorial issues most frequently mentioned are "labour market" (20 Country Reports out of 27) and, once again, "public administration" (19 Country Reports); also important is "structural, fiscal and taxation issues" (13 Country Reports) (**Annex 8** shows which countries were mentioned with respect to each issue; excerpts from the Country Reports, per country and type of issue, are in **Annex 9**).

The number of territorial issues addressed in the Country Reports varies between 1 (Cyprus, Lithuania and Malta) and 7 (Finland), but most Country Reports (20 out of 27) mention between 2 and 4 territorial issues. The average number of territorial issues per Country Report is

- 3.1 in the 27 Country Reports overall;
- 3.4 in the Country Reports for the last five countries in terms of the size of internal regional disparities;
- 4.2 in the Country Reports for the last five countries in terms of GDP per head;
- 4.4 in the Country Reports for the last five countries in terms of employment rate.

The finding that Country Reports on less developed countries raise a higher number of territorial issues is in line with the one concerning the 2014 CSRs presented above (section 2.3). Territorial CSRs and territorial issues in the Country Reports - concerning growth, jobs or administrative capacity - are more likely when growth and jobs creation is unsatisfactory at country-level, and/or when regional disparities are significant.

**Table 2** breaks down the largest group of topics found in the 2015 Country Reports, the one including public administration, administrative capacity and the management of EU funds, by categories. It turns out that the biggest issues were those concerning "administrative burden and administrative capacity" and "corruption and transparency".

Categories	Countries	Number of countries
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<b>Corruption and transparency</b>	Bulgaria, Croatia, Finland, Hungary, Italy, Portugal, Romania, Slovenia, Spain	<b>9</b>
<b>Management of EU funds</b>	Bulgaria, Croatia, Estonia, Finland, Romania, Slovenia	<b>6</b>
<b>Management of public finance and fiscal consolidation targets</b>	Belgium, Croatia, Germany, Italy, Spain	<b>5</b>
<b>Public procurement and e-governance</b>	Bulgaria, Croatia, Hungary, Italy, Romania, Spain	<b>6</b>
<b>Administrative burden and administrative capacity</b>	Bulgaria, Croatia, Cyprus, Finland, Italy, Ireland, Latvia, Luxembourg, Malta, Poland, Romania, Slovenia, Spain	<b>13</b>
<b>Territorial reform</b>	Bulgaria, Croatia, France, Spain	<b>4</b>
<b>Relationships between level of government</b>	Belgium, Croatia, Czech Republic, Italy, Poland	<b>5</b>
<b>Others</b>	Germany, Portugal	<b>2</b>

**Table 2 – Issues related to public administration and administrative capacity in the Country Reports for 2015**

#### 4. CONCLUSIONS

From the analysis of the **27 country reports**<sup>8</sup> a number of conclusions can be drawn on the implementation and the characteristics of **country-specific recommendations (CSR)** at regional level.

**The regional dimension of CSR:** In 2014, a total of **thirty-three CSRs** had been explicitly **addressed to local and regional authorities in 18 Member States**. These **"territory-related" CSRs** aimed mainly at improving the quality of public spending in a context of fiscal discipline, addressing social and employment challenges, improving administrative capacity and cooperation between levels of government and carrying out structural reforms that have regional aspects.

**CSR at regional level more challenging to implement:** Overall, the implementation of these specific **territory-related CSRs was worse** (63.6% of the territory-related CSR were judged

<sup>8</sup> No Country Report has been published for Greece, pending negotiations on the country's assistance programme.

having '*no progress*' or '*limited progress*') **than all of CSRs together** ('*no progress*' or '*limited progress*': 47%). This comparative worse performance is due to technical and political challenges in the respective policy areas. Half of the territory-related CSRs dealing with public finance recorded *some progress*, showing how urgent the imperative of growth-friendly fiscal consolidation remains; only one-third of those concerning social and employment issues got the same score, the same proportion as for public administration issues; structural reforms of regional relevance scored worst of all (only one CSR out of five showed *some progress*).

**Growing attention to territorial concerns and challenges:** In 2015, all 27 Country Reports **raise territorial issues**. On one hand, the impact of public policies across regions varies because of different territorial conditions. On the other hand, effective and transparent public administrations at sub-national level are necessary to deliver on most policy goals. EU and country-level strategies for growth, jobs and the modernization of the public administration **need to include a territorial dimension**. The territorial issues most frequently mentioned are "public administration, administrative capacity and management of EU funds" (21 Country Reports out of 27) and "labour market" (20 Country Reports); also important is "structural, fiscal and taxation issues" (13 Country Reports).

**Administrative capacity matters:** Within the biggest territory-related policy field mentioned in the 2015 Country Reports, that of "public administration, administrative capacity and management of EU funds", the biggest issues were those concerning "**administrative burden and administrative capacity**" and "**corruption and transparency**".

**Countries hit hardest by the crisis face the biggest reform challenges at regional level:** **Worst-performing countries** in terms of GDP per capita, employment rate or internal regional disparities are also those with the **highest number of '*no progress*' or '*limited progress*' scores** in the implementation of the territory-related CSRs for 2014, and the **highest number of territorial issues** addressed in the Country Reports for 2015.

**Annex 1 – State of implementation of territory-relevant CSRs for 2014 and presence of territorial issues in the 2015 Country Reports**

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
Austria	2014	CSR1: Further <b>streamline fiscal relations between layers of government</b> , for example by simplifying the organisational setting and aligning spending and <b>funding responsibilities</b> .				Austria's territorial issues concern the area of <b><u>Administrative capacity, distribution of competencies and management of public finances</u></b> – namely in the field of <b>taxation, fiscal policy and increasing efficiency of administrations</b> .
	2015	Austria has made <b>no progress</b> on streamlining fiscal relations between layers of government.				
Belgium	2014	<b>CSR 1:</b> Ensure a balanced contribution by <b>all levels of government</b> to the fulfilment of fiscal rules including the structural budget balance rule, through a binding instrument with an explicit breakdown of targets within a medium-term planning perspective	<b>CSR 5:</b> and by pursuing coordinated education and training policies addressing the pervasive skills mismatches and <b>regional disparities in early school leaving</b> .  <b>CSR 4:</b> Across the country, strengthen <b>partnerships of public authorities, public employment services</b> and education institutions to provide early and tailor-made support to the young.		<b>CSR 6:</b> Make sure that the contribution of transport is aligned with the objective of reducing road congestion. Agree on a <b>clear distribution of efforts and burdens between the federal and regional entities</b> .	Belgium's territorial issues concern the area of <b><u>Distribution of competencies</u></b> – namely in the field of <b>energy, investment, R&amp;D, transport, long-term care, and environmental policy</b> , education as well as the area of <b><u>Management of public finances</u></b> – namely in the field of <b>fiscal policy</b> , but also the area of <b><u>Regional disparities</u></b> – namely in the field of <b>labour policy</b> .
	2015	Belgium has made <b>limited progress</b> in addressing CSR 1 – to ensure a balanced contribution by all levels of government to the fulfilment of fiscal rules.	Belgium has made <b>some progress</b> in addressing <b>CSR 5</b> – towards addressing skills mismatches and early school leaving		Belgium has made <b>limited progress</b> in addressing <b>CSR 6</b> – The three regions and the federal government have made <b>no further progress</b> in discussions on how to distribute the effort needed in	

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
			Belgium has made <b>limited progress</b> in addressing <b>CSR 4</b> –towards strengthening partnerships between public authorities, public employment services and educational institutions.		2013-20 through an effort-sharing agreement.	
Bulgaria	2015	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	<p>No CSR's in 2014 relating to local and regional authorities</p> <p>Although there were 2 CSR's addressing administrative capacity:</p> <p><b>CSR 5:</b> Continue to improve the business environment, in particular for small and medium-sized enterprises, by cutting red tape, promoting e-government, streamlining insolvency procedures and implementing the legislation on late payments. Improve the public procurement system by enhancing <b>administrative capacity</b>, strengthening the ex-ante checks performed by the Public Procurement Agency and taking concrete steps for the implementation of eprocurement.</p> <p><b>CSR 6:</b> Scale up the reform of the energy sector in order to increase competition, market efficiency and transparency, and energy efficiency, in particular by removing market barriers, reducing the weight of the regulated segment, stepping up efforts for the creation of a transparent wholesale market for electricity and gas, phasing out quotas, and strengthening the independence and <b>administrative capacity</b> of the energy regulator.</p> <p>For both of them, <b>limited progress</b> has been recorded</p>	No CSR's in 2014 relating to local and regional authorities	<p>Bulgaria's territorial issues concern the area of <b><u>Distribution of competencies</u></b> – namely in the field of labour and social policies, the area of <b><u>Administrative capacity</u></b> – namely in the field of social policy, public administration, public procurement, productivity, healthcare and network industries, and <b><u>Management of public finances</u></b> – namely in the water supply sector.</p>

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
Croatia	2014		<b>CSR 3: Strengthen the effectiveness and reach of active labour market policies</b> by reinforcing the administrative capacities of the public employment services, including at regional level, and by increasing the coverage of the young, long-term unemployed and older workers	<b>CSR 6: Reinforce prevention of corruption</b> in public administration and state-owned and state-controlled enterprises, including by increasing the verification powers of the Conflict of Interest Commission. <b>Strengthen transparency and efficiency of public procurement</b> at both central and local levels, and the capacity to monitor implementation and to detect irregularities.		Croatia's territorial issues concern the area of <b><u>Administrative capacity, distribution of competencies and management of public finances</u></b> e.g. in the field of <b>management of ESIF funds</b> and <b>public procurement</b> , as well as <b>Regional disparities</b> in the field of <b>labour and social policies</b> .
	2015		<b>Some progress</b> in strengthening the effectiveness and reach of active labour market policies.	<b>Limited progress</b> in reinforcing prevention of corruption. The new anti-corruption strategy has been adopted but it lacks a sufficient level of detail as to measures that will be implemented.		
Czech Republic	2014	<b>CSR 1:</b> Adopt and implement measures to strengthen the fiscal framework, and in particular <b>establish an independent fiscal institution to monitor fiscal policies, introduce fiscal rules for local and regional governments and improve co-ordination between all layers of government.</b>				Czech Republic's territorial issues concern the area of <b><u>Distribution of competencies and management of public finances</u></b> e.g. in the field of labour and fiscal policies, as well as <b>Regional disparities</b> e.g. in education and skills mismatches.
	2015	The Czech Republic has made <b>some progress</b> in addressing <b>CSR 1</b> – in the preparation for adoption and implementation of measures aimed at strengthening the fiscal framework. A comprehensive reform of the fiscal framework is expected to be adopted in 2015.				
Estonia	2014	<b>CSR 5:</b> Better balance <b>local government revenue against devolved responsibilities.</b>		<b>CSR 5:</b> Improve the efficiency of <b>local governments and ensure the provision of quality public services at local level</b> , especially social services complementing activation measures	<b>CSR 2:</b> Deploy coordinated measures for fostering economic development and entrepreneurship in <b>regions faced with high unemployment</b>	Estonia's territorial issues concern the area of <b><u>Administrative capacity</u></b> in the field of public services,

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
	2015	No progress on balancing local government revenue against devolved responsibilities. Draft changes to the Equalisation Fund were announced in 2013, but have not been restated since then.		Limited progress on the availability of quality services, in particular social services, at local level. The government adopted the updated OECD Action Plan. Funding from the European Social Fund is being used to deliver social welfare services and implement a counselling project.	Limited progress on fostering development and entrepreneurship in regions. The development of industrial parks in regions faced with high unemployment is ongoing. Investment supported by ESI funds was made in two urban areas in the Ida-Viru region.	taxation, social services, as well as <b><u>Distribution of competencies</u></b> in the field of labour policy, but also <b><u>Management of public finances</u></b> in the field of (local) fiscal policy.
Finland	2014			CSR 2: Ensure effective implementation of the on-going <b>administrative reforms concerning municipal structure</b> and social and healthcare services, in order to increase the cost-effectiveness in the provision of public services		Finland's territorial issues concern the area of <b><u>Administrative capacity</u></b> in the context of the administrative reform (municipal structures and healthcare and social services), as well as the <b><u>Distribution of competencies</u></b> in the field of fiscal policy, education and land-use planning, also the <b><u>Management of public finances</u></b> in the field of R&D and the area of <b><u>Regional disparities</u></b> in house prices and unemployment rates.
	2015			Finland has made <b>some progress</b> in addressing <b>CSR 2</b> regarding the implementation of the administrative reforms. Regarding reform of municipal structures, the process is proceeding with some delays. Municipalities are carrying out their merger reviews. However, the government has decided to create a metropolitan authority in Helsinki region.		
France	2014			CSR 1: Set a clear timetable for the on-going <b>decentralisation process</b> and take first steps by December 2014, with a view to eliminating administrative duplication, facilitating mergers between local governments and clarifying the responsibilities of each layer of local government. Introduce a		France's territorial issues concern the area of <b><u>Management of public finances</u></b> in the context of decentralisation / reform of



Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
				ceiling on revenue while reducing grants from the central government as planned.		local administration.
	2015			<b>Some progress</b> has been made on the reform of local administration. Metropolitan areas have been introduced and the number of regions will be reduced. A further draft law streamlining the responsibilities of the various layers of local government is being discussed in parliament. An expenditure norm for local authorities has been introduced, but it is only indicative.		
Germany	2014	<b>CSR 1:</b> Improve the efficiency of the tax system, in particular by broadening the tax base, notably on consumption, <b>by reassessing the municipal real estate tax base, by improving the tax administration and by reviewing the local trade tax</b> , also with a view to foster private investment.	<b>CSR 2: Address regional shortages in the availability of fulltime childcare facilities and all-day schools</b> while improving their overall educational quality.			
	2015	Germany has made <b>limited progress</b> in addressing CSR 1  Some progress has been made towards enhancing the fiscal space of municipalities. However, the planned measures fall short of the requirements to tackle the investment backlog in municipal infrastructure.  Although a reform of the municipal real-estate tax (Grundsteuer) is part of the coalition agreement and announced in the 2014 NRP, no concrete action has been taken so far.  No progress in improving the efficiency of the tax system. Limited progress in	Germany has made <b>limited progress</b> in addressing CSR 2 (although: Germany has made substantial progress in increasing the overall availability of childcare facilities, but regional bottlenecks and quality concerns remain.)  Substantial progress in increasing the availability of childcare facilities. The quantity of childcare facilities has grown rapidly, but regional bottlenecks and quality concerns remain. Additional funds for investment in childcare are planned. The federal government, federal state governments and municipalities have recently agreed on an overall			

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
		improving the design of fiscal relations between the federal government, the federal states and the municipalities.  The local trade tax (Gewerbesteuer) has not been reviewed.	approach to address quality issues.  However, still insufficient availability of full-time childcare facilities and all-day schools.			
Hungary	2014		<b>CSR 4:</b> Strengthen well-targeted active labour market policy measures inter alia by accelerating the introduction of the client profiling system of the Public Employment Service. Put in place the planned <b>youth mentoring network</b> and coordinate it with education institutions and <b>local stakeholders</b> to increase outreach.			Hungary's territorial issues concern the area of <b><u>Regional disparities</u></b> in connection with decentralisation and education, as well as the <b><u>Administrative capacity</u></b> in e-procurement and public employment service, but also the area of <b><u>Management of public finances</u></b> in taxation and social benefits.  <b><u>Consultation</u></b> of interested parties and stakeholders is inadequate.
	2015		Hungary has made <b>limited progress</b> in addressing <b>CSR 4 – some progress</b> for setting up of the mentor network in the framework of first Youth Guarantee active labour-market programme. (no mention of local stakeholders, though)			
Italy	2014	<b>CSR 1:</b> implement a growth-friendly fiscal adjustment based on the announced significant savings coming from a durable <b>improvement of the efficiency and quality of public expenditure at all levels of government.</b>		<b>CSR 3:</b> As part of a wider effort to improve the efficiency of public administration, clarify competences at all levels of Government. Ensure better management of EU funds by taking decisive action to <b>improve administrative capacity, transparency, evaluation and quality control at regional level, especially in southern regions.</b>	<b>CSR 7:</b> Foster market opening and remove remaining barriers to, and restrictions on competition in the professional and <b>local public services</b> , insurance, fuel distribution, retail and postal services sectors.  In local public services, rigorously implement the legislation providing for the rectification of contracts that do not comply with the requirements on in-house awards by 31 December	Italy's territorial issues concern the area of <b><u>Regional disparities</u></b> in terms of <b>poverty and social exclusion</b> as well as the <b><u>Distribution of competencies</u></b> between central and sub-national governments and in terms of budgetary responsibilities,

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
					2014.	
	2015	Italy has made <b>limited progress</b> in addressing CSR 1 (this overall assessment excludes an assessment of compliance with the Stability and Growth Pact): □ Limited progress was made to improve the efficiency and quality of public spending. Ministers were directly involved in selecting areas within their own budgets eligible for targeted savings without recourse to linear expenditure cuts as in the past. However, the need to preserve growth-enhancing expenditure items and improve the economic efficiency of the public administration would still require top-down coordination and monitoring. The identification of additional savings at regional level (EUR 4 billion in 2015) has been delayed.		Italy has made <b>limited progress</b> in addressing CSR 3: □ Limited progress was made to improve the efficiency of public administration, although some effort is under way. The Senate completed its first reading of the draft constitutional bill clarifying the competences of different levels of government. A draft enabling law envisaging a comprehensive reform of the public administration is currently being considered by the Senate. The agency for territorial cohesion is about to become operational.	Italy has made <b>limited progress</b> in addressing CSR 7: □ Some progress was made simplify the regulatory environment for business and citizens. The government has adopted the 'Simplification Agenda for 2015-17' to foster cooperation between central and regional governments in establishing a more coherent simplification framework and measures have been taken to simplify authorisation procedures in environmental and construction matters. □ No progress was made to reform local public services.  The draft enabling law for the reform of the public administration includes measures to reform local public services.	but also the area of <b><u>Administrative capacity</u></b> in connection with public procurement and the reform of local state-owned enterprises.
Ireland	2015	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	Ireland's territorial issues concern the area of <b><u>Administrative capacity</u></b> in the field of labour policy and the area of <b><u>Regional disparities</u></b> in terms of social protection and property prices.
Latvia	2014			<b>CSR 5: Step up public administration reforms</b> (includes <b>local</b> administration reform, <b>see Ref. "Whereas" N° 14</b> : Latvia has proposed ambitious public administration reforms; however their implementation is slow and not applied to <b>local governments</b> )		Latvia's territorial issues concern the area of <b><u>Regional disparities</u></b> in the field of education but also the area of <b><u>Management of public</u></b>

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
	2015			Limited progress in implementing public administration reforms		<b>finances</b> in terms of taxation and economic cooperation with municipalities.
Malta	2015	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	Malta's issues concern the area of <b>Administrative capacity</b> in terms of inefficiencies in <b>public administration</b> hampering the proper functioning of the internal market.
The Netherlands	2014	<p><b>CSR 1:</b> (COMMENT: No direct link to LRA in the CSR 1 but significant implications due to the measures taken.)</p> <p>Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.5% of GDP. (...) Protect expenditure in areas directly relevant for growth, such as education, innovation and research.</p>	<p><b>CSR 4:</b> Take further measures to enhance labour market participation particularly among people at the margins of the labour market and to reduce tax disincentives on labour. Implement reforms of employment protection legislation and the unemployment benefit system, and further address labour market rigidities. In consultation with the social partners and in accordance with national practice, allow for more differentiated wage increases by making full use of the existing institutional framework.</p>			<p>The Netherlands' territorial issues concern the area of <b>Administrative capacity, distribution of competencies and management of public finances</b> as regards fiscal framework and taxation, employment policies and social protection. Cooperation between the national government, local government and stakeholders is ongoing in the field of energy.</p>
	2015	NL has made <b>some progress</b> in addressing CSR 1 of the Council recommendation (this overall assessment of CSR 1 excludes an assessment of compliance with the Stability	NL has made <b>some progress</b> in implementing CSR 4. Reforms implemented as of 1 January 2015. <b>The reforms constitute a major shift</b>			

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
		and Growth Pact).	<u>of responsibilities to the municipalities.</u> The smooth transition will be supported by the government.			
Portugal	2014	CSR 1: Prioritise expenditure-based fiscal consolidation and <b>increase further the efficiency and quality of public expenditure.</b> Maintain tight control of expenditure in central, <b>regional and local administration.</b>		CSR 8: Continue to rationalise and modernise central, <b>regional and local public administration.</b>		Portugal's territorial issues concern the area of <b><u>Management of public finances</u></b> in terms of fiscal policy and public procurement. Stakeholders are involved in the implementation of the Youth Guarantee.
	2015	Portugal has made <b>some progress</b> in addressing <b>CSR 1</b> – in improving the fiscal framework. The Budgetary Framework Law reform is expected in Q1-2015. A revision of the Commitment Control Law was approved in January, further <b>strengthening budget control.</b>		Portugal has made <b>some progress</b> in addressing <b>CSR 8</b> – in rationalising and modernising central, <b>regional and local public administration.</b>		
Romania	2014			CSR 7: Step up efforts to strengthen the capacity in particular by improving public administration, efficiency, human resource management, the decision making tools and coordination within and <b>between different levels of government;</b> and by improving transparency, integrity and accountability.		Romania's territorial issues concern <b><u>Administrative capacity</u></b> which is low, fragmented, and with unclear delegation of responsibilities, negatively impacting the structural reforms and absorption of EU funds as well as public procurement. The area of <b><u>Management of public finances</u></b> sees inefficiencies relating to public investment and state-owned enterprises, while <b><u>Regional disparities</u></b> affect
	2015			Romania has made <b>limited progress</b> in addressing CSR 7 of the Council recommendation: Some progress has been made in strengthening the capacity of public administration by adopting the Strategy for the Public Administration (Oct 2014) and complementing action plans, but implementation is slow. Limited progress has been made in improving the decision-making tools. Limited progress has been made in the speeding		

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
				up the absorption of EU funds. Limited progress has been made in tackling persisting shortcomings in public procurement.		broadband coverage, education and training possibilities.
Slovakia	2015	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	<p>Slovakia's territorial issues concern <b>Regional disparities</b> in the area of infrastructure, economic development, and transport infrastructure, as well as also labour mobility, employment, poverty and social exclusion.</p> <p><b>Inefficiencies relate to consultation in fiscal policy.</b> The fiscal targets are set by the central government without consulting local authorities.</p> <p><b>Administrative capacity</b> and partnerships at local level will need strengthening to deliver the Youth Guarantee.</p>
Slovenia	2014	<b>CSR 1:</b> Launch a comprehensive <b>review of expenditure covering state and local government levels</b> , direct and indirect budget users and <b>municipality-owned providers of utilities</b> and services in the area of health care by the end of 2014 with a view to realising budgetary savings in 2015 and beyond				<p>Slovenia's issues relate largely to the central level.</p> <p>Inefficiencies concern the complexity of legislation making it difficult to comply with local regulation for</p>

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
	2015	Slovenia has made <b>some progress</b> in addressing the CSR 1 <b>Some progress</b> has been made regarding the expenditure review in the healthcare sector. The authorities have indicated that the review will be undertaken in cooperation with the European Observatory for Health policies and the World Health Organisation.				businesses.
Spain	2014	<b>CSR 1:</b> Carry out by February 2015 a systematic review of expenditure <b>at all levels of government</b> to underpin the efficiency and quality of public spending going forward.	<b>CSR 3:</b> Reinforce the coordination between Labour market and education and training policies. Accelerate the <b>modernisation of public employment services</b> . (includes need for better coordination between employment and social services at regional and local levels, <b>see Ref. "Whereas" N° 15</b> )	<b>CSR 8.</b> Implement at <b>all government levels</b> the recommendations of the committee for <b>the reform of the public administration</b> . Strengthen control mechanisms and increase the transparency of administrative decisions, in particular at <b>regional and local level</b> . Complete and monitor closely the on-going measures to <b>fight against the shadow economy and undeclared work</b> .	<b>CSR 6: Address unjustified restrictions</b> to the establishment of large scale retail premises, notably through a revision of existing <b>regional planning regulations</b> .	Spain's territorial issues concern the area of <b><u>Regional disparities</u></b> in the area of labour policy (skills mismatches), education, taxation, regulatory fragmentation and high-speed broadband, as well as the area of <b><u>Administrative capacity</u></b> in terms of employment services, training for administrations, but also the area of <b><u>Distribution of competencies</u></b> in the field of labour policy, budgetary practices, taxation, research and innovation programmes. The area of <b><u>Management of public finances</u></b> undergoes a reform aimed to achieve efficiency gains and fiscal savings and improving financial conditions for sub-
	2015	Spain has made <b>some progress</b> in addressing <b>CSR 1</b> – in the systematic review of expenditure at all levels of government.	Spain has made <b>limited progress</b> in addressing <b>CSR 3</b> – in accelerating the modernisation of public employment services.	Spain has made <b>some progress</b> in addressing <b>CSR 8</b> – <b>some progress</b> is achieved in implementing at all government levels the recommendations of the committee for the reform of public administration. <b>No progress</b> , however, was recorded in strengthening control mechanisms in particular at <b>regional and local levels</b> .	Spain has made <b>some progress</b> in addressing <b>CSR 6</b> – <b>substantial progress</b> is recorded in addressing unjustified restrictions to the establishment of large-scale retail premises. Smooth implementation at <b>subcentral government level</b> of this reform is however needed for the amendments to deliver the expected results.	

Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
						central governments.
Sweden	2014				<p><b>CSR 3:</b> Decrease the length and complexity of the planning and appeal processes, by reducing and merging administrative requirements, harmonising building requirements and standards across <b>municipalities</b> and increasing transparency for land allotment procedures. Encourage <b>municipalities</b> to make their own land available for new housing developments.</p>	<p>Sweden's territorial issues concern the area of <b><u>Regional (and even municipal) disparities</u></b> relating to education - implementation of school reforms and resource allocation – and to fragmentation of the construction market – municipalities, having the planning monopoly, often impose different local standards and requirements.</p>
	2015				<p><b>Limited progress</b> in rendering the zoning and planning processes more efficient. Since July 2014, homeowners may build a supplementary dwelling house on their plot of land without the need for a building licence.</p> <p><b>Limited progress</b> regarding municipalities' incentives. A public inquiry has been set up to investigate regulations governing land use and planning and also propose measures that increase municipal planning for housing and the supply of land.</p>	



Country		STATE OF IMPLEMENTATION OF 2014 CSRs				Territorial issues addressed in the 2015 Country Report
		Public Finances	Employment /Social Policies	Public Administration Reform	Structural reforms	
United Kingdom	2015	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	No CSR's in 2014 relating to local and regional authorities	<p>The United Kingdom's territorial issues concern <b><u>Regional disparities</u></b> in terms of taxation (both business and property), as well as the <b><u>Management of public finances</u></b> – managing council tax revenues, but also concern the issue of low basic skills with education reforms.</p> <p>In addition, LRA's are encouraged to prepare local plans (planning strategy in the field of housing) and to define open spaces assessing the 'desirability' of development and to define brownfield sites for housing.</p>

Source: elaboration on the 2015 Country Reports of the European Commission ([http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm))



**Annex 2: CSRs for 2014 with territorial issues, but not addressed to LRAs (detailed table)**

Country		State of implementation of territorial differentiation in 2014 (Public Finances ; Employment /Social Policies ; Public Administration Reform ; Structural reforms <sup>1</sup> )
Austria	2014	<p><b><u>Employment /Social Policies :</u></b></p> <p>CSR 3: Need for a coherent strategy however, in cooperation <b>with the federal states, addressing regional differences</b> in the demand for childcare and the compatibility of family and full-time work.</p>
	2015	<p><b><u>Employment /Social Policies :</u></b></p> <p>Austria has made limited progress in addressing CSR 3.</p> <p>Some progress on increasing provision of childcare facilities and long-term care services.</p>
Belgium:	2014	<p><b><u>Employment /Social Policies :</u></b></p> <p>CSR 5: to ensure that wage evolutions reflect productivity developments at sectorial and/or company levels as well as economic circumstances and to provide for effective automatic corrections when needed; (...) by pursuing coordinated education and training policies <b>addressing the pervasive skills mismatches and regional disparities in early school leaving.</b></p>
	2015	<p><b><u>Employment /Social Policies :</u></b></p> <p>CSR5: Belgium has made some progress in addressing CSR 5:</p>

<sup>1</sup> According to the Communication's annex 1 – Overview of EU country – Structural reforms include: network industries, competition in service sector, public administration and smart regulation, R&D innovation, resource efficiency



		<p>Some progress towards addressing skills mismatches and early school leaving:</p> <ul style="list-style-type: none"> <li>- Allowance for young unemployed below 21 will become conditional on obtaining a high-school or equivalent alternate learning degree.</li> <li>- French community: entry into force (Sep-2014) of (1) decrees to prevent early school leaving and improve the coordination of education and youth policies; (2) a reform of lower secondary education encompassing action plans at school and possibly at pupil level to tackle low achievement and support pupils with difficulties.</li> <li>- WA: government agreement envisages conclusion of a 'Pact for employment and training' with the social partners. Entry into force planned for: Jan-2016.</li> <li>- FL: rollout and update of 2013 'Action plan against early school leaving', combining preventive, interventionist and compensation measures. School-level data on ESL to be made available and use of flexible learning pathways in secondary education to be actively promoted. Qualifying vocational education trajectories are to be further developed through cooperation programmes between the regional PES, the regional agency for entrepreneurial training and specific industry sectors and companies.</li> <li>- FL: Additional measures announced to fight early school leaving and skills mismatches: (1) strengthening of work-based learning and its integration into all relevant branches of study, (2) continued actions on STEM, (3) promotion of entrepreneurship and (4) introduction of a new 'dual' system of learning and working.</li> <li>- FL: Youth Guarantee Implementation Plan will be updated to better integrate education and employment measures.</li> <li>- BXL: Plans to strengthen partnerships between PES and education/training providers and actors in the framework of the regional 'Alliance for jobs and training'.</li> </ul>
Croatia:	2014	<p><b><u>Employment /Social Policies :</u></b></p> <p>CSR 2: The health sector achieves reasonably good health outcomes and, <b>with some regional variation</b>, services are accessible, but the system contributes significantly to pressure on the public finances.</p>
	2015	<p>Croatia has made limited progress in addressing CSR 2 of the Council recommendation:</p> <p>Some progress in making the healthcare sector more cost-effective.</p>
Estonia:	2014	<p><b><u>Employment /Social Policies :</u></b></p> <p>CSR2: Efforts <b>to promote entrepreneurship and job creation in regions outside Tallinn and Tartu</b> need to be stepped up to prevent economic development differentials from widening and to reduce unemployment, especially among the low-skilled.</p>



		<p><b><u>Structural reforms :</u></b></p> <p>CSR5: <b>Widening regional differences combined with negative demographic trends</b>, inefficiencies and lack of cooperation among local governments hamper Estonia's development potential.</p>
	2015	<p><b><u>Employment /Social Policies :</u></b></p> <p>Estonia has made some progress on addressing CSR 2 of the Council recommendation:</p> <p>Limited progress on fostering development and entrepreneurship in regions. The regional strategies for north-eastern and south-eastern Estonia were expected to be ready for adoption by the government in January 2015. The process of updating the county development plans and putting in place the corresponding action plans is underway also in the other Estonian regions. The development of industrial parks in regions faced with high unemployment (north-eastern Estonia) is ongoing. Investment supported by ESI funds was made in two urban areas in the Ida-Viru region. A measure called 'Sustainable urban development in Ida- Viru area' will be enforced in 2015, and will include support for a wide range of activities. County development centres for companies are being further developed, and have started to offer more comprehensive support to companies in rural areas.</p> <p><b><u>Structural reforms :</u></b></p> <p>Estonia has made limited progress on addressing CSR 5 of the Council recommendation:</p> <p>No progress on balancing local government revenue against devolved responsibilities.</p> <p>Limited progress on the availability of quality services, in particular social services, at local level. Draft adjustments to the Codified Social Code establishing minimum requirements for municipalities and defining standards for certain social services provided at local level were submitted to the government in February. The government adopted the updated OECD Action Plan that, though favourable for the overall functioning of public administration, is not having an impact on the challenges raised by the country specific recommendation.</p>
Germany:	2014	<p><b><u>Employment /Social Policies :</u></b></p> <p>CSR 4: <b>The diversity of regulatory arrangements</b> for professional services <b>across Länder</b> suggests that <b>there is scope for identifying the least burdensome regulatory approaches and extending them throughout the country</b>.</p>
	2015	<p><b><u>Employment /Social Policies :</u></b></p> <p>Germany has made limited progress in addressing CSR 4:</p> <p>No progress in pursuing consolidation efforts in the Landesbanken sector.</p>



Italy:	2014	<u><b>Public Administration Reform :</b></u>  CSR 3: Ensure better management of EU funds by taking decisive action to improve administrative capacity, transparency, evaluation and quality control at regional level, <b>especially in southern regions.</b>
	2015	<u><b>Public Administration Reform :</b></u>  Italy has made limited progress in addressing CSR 3:  Limited progress was made in the fight against corruption. In particular, the process to revise the Italian statute of limitations is still in the initial phase. However, the powers of anti-corruption authority ANAC were enhanced and the new offence of self-laundering was introduced into the Italian criminal code..
Latvia:	2014	<u><b>Public Administration Reform :</b></u>  CSR 5: Latvia has proposed ambitious public administration reforms; however their implementation is slow and <b>not applied to local governments</b>
	2015	<u><b>Public Administration Reform :</b></u>  Latvia has made some progress in addressing the CSR 5 of the Council recommendation:  Limited progress in implementing public administration reforms, establishing a credible and de-politicised state owned enterprise management system and strengthening institutional and financial independence of the Competition Council.

Source: elaboration on the 2015 Country Reports of the European Commission ( [http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm) )



<b>Annex 4 - Territory-relevant CSRs for 2014 (per state of implementation and topic)</b>						
Topic ► State of implementation ▼	Public finances	Employment and social Policies	Public administration reform	Structural reforms	TOTAL per state of implementation	<i>id, in %</i>
No progress	2	1	1	1	5	15,2
Limited progress	4	3	6	3	16	48,5
Some progress	5	3	3	1	12	36,4
TOTAL per topic	11	7	10	5	33	100,0
<i>id, in %</i>	33,3	21,2	30,3	15,2	100,0	

Source: elaboration on the 2015 Country Reports of the European Commission ([http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm))

## Annex 5 - Territory-relevant CSRs for 2014 and main economic indicators

Country	Employment rate (2013)	GDP per head (2013) (EU 28 =100)	Regional disparities in employment in % (Poland = 100)	Public Finances	Employment and Social Policies	Public Administratio n Reform	Structural reforms	CSRs addressed to LRAs (per country)
Sweden	79,8	127	89,81				1	1
Netherlands	76,5	131	91,89	1	1			2
Czech Republic	72,5	82	95,06	1				1
Austria	75,5	128	95,33	1				1
Portugal	65,4	79	96,35	1		1		2
Germany	77,1	122	96,59	1	1			2
Bulgaria	63,5	45	98,96			2		2
Hungary	63,2	66	99,99		1			1
Finland	73,3	113	103,12			1		1
Romania	63,9	55	103,51			1		1
Belgium	67,2	119	109,81	1	2		1	4
Spain	58,6	94	116,71	1	1	1	1	4
France	69,6	107	122,73			1		1
Italy	59,8	99	152,01	1		1	1	3
Slovenia	67,2	82	n.a.	1				1
Estonia	73,3	73	n.a.	2			1	3
Latvia	69,7	64	n.a.			1		1
Croatia	n.a.	61	n.a.		1	1		2
CSRs addressed to LRAs (per topic and state of implementation)				11	7	10	5	33
				33,3%	21,2%	30,3%	15,2%	100,0%

Source: elaboration on the 2015 Country Reports of the European Commission ([http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)) and Eurostat data"





<b>Annex 6 - 2014 CSRs with territorial issues, but not addressed to LRAs: state of implementation</b>				
<i>Country</i>	<i>CSR</i>	<i>No Progress</i>	<i>Limited progress</i>	<i>Some progress</i>
Austria	CSR3			x
Belgium	CSR5			x
Croatia	CSR 2			x
Estonia	CSR 5	x	x	
	CSR 2		x	
Germany	CSR 4	x		
Italy	CSR 3		x	
Latvia	CSR 5		x	

Source: elaboration on the 2015 Country Reports of the European Commission ([http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm))

### Annex 7 - Territorial issues in the 2015 Country Reports (per country and issue)

Country	GDP per head (2013) (EU=100)	Employment rate (2013)	Regional disparities in employment rates (2013) (Poland=100)	Competitiveness, investments, growth and jobs strategies	ESIF 2014-2020 and subnational finance	Labour market, education, social policies, demography, long term care and housing	administrative capacity, multilevel governance, distribution of competencies and management of public finances	Regional disparities	Structural issues, fiscal framework and taxation	Transportation, energy, environment and R&D	Issues per country (Total)
Luxembourg	257	71,10%	-			X	X				2
Netherlands	131	76,50%	91,89			X			X	X	3
Ireland	130	65,50%	-			X	X				2
Austria	128	75,50%	95,33				X		X		2
Sweden	127	79,80%	89,81			X	X		X		3
Denmark	124	75,60%	86,22	X		X					2
Germany	122	77,10%	96,59			X	X			X	3
Belgium	119	67,20%	109,81			X	X			X	3
Finland	113	73,30%	103,12	X	X	X	X	X	X	X	7
United Kingdom	109	79,80%	101,35			X			X		2
France	107	69,60%	122,73				X		X		2
Italy	99	59,80%	152,01	X		X	X	X			4
Spain	94	58,60%	116,71	X		X	X		X	X	5
Cyprus	89	67,20%	-			X					1
Malta	86	64,80%	-				X				1
Czech Republic	82	72,50%	95,06			X	X	X			3
Slovenia	82	67,20%	-	X	X		X				3
Portugal	79	65,40%	96,35				X		X		2
Slovakia	75	65%	104,06			X		X	X		3
Estonia	73	73,30%	-	X	X	X			X		4
Lithuania	73	69,90%	-			X					1
Poland	67	64,90%	100			X	X		X	X	4
Hungary	66	63,20%	99,99			X	X	X	X		4
Latvia	64	69,70%	-		X	X			X		3
Croatia	61	57,20%	-	X	X		X	X			4
Romania	55	63,90%	103,51	X	X		X	X		X	5
Bulgaria	45	63,50%	98,96	X		X	X	X		X	5
Mentions per topic (total n°)				9	6	20	19	8	13	8	83
Mentions per topic (% of total issues)				10,80%	7,20%	24,10%	23%	9,60%	15,70%	9,60%	100%

Source: elaboration on the 2015 Country Reports of the European Commission ([http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)) and Eurostat data"

**Annex 8 – Territorial issues in the 2015 Country Reports: countries having mentions, per issue**

Categories	Countries	Number of countries
<b>Competitiveness, investment, growth and jobs</b>	Bulgaria, Croatia, Denmark, Estonia, Finland, Italy, Romania, Slovenia, Spain	<b>9</b>
<b>ESIF 2014-2020 and subnational finance</b>	Croatia, Estonia, Finland, Latvia, Romania, Slovenia	<b>6</b>
<b>Labour market, education, social policies, demography, long term care and housing</b>	Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Slovakia, Spain, Sweden, United Kingdom	<b>20</b>
<b>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</b>	Austria, Belgium, Bulgaria, Croatia, Czech Republic, Finland, France, Germany, Hungary, Italy, Ireland, Luxembourg, Malta, Poland, Portugal, Romania, Slovenia, Spain, Sweden	<b>19</b>
<b>Regional disparities</b>	Bulgaria, Croatia, Czech Republic, Finland, Hungary, Italy, Romania, Slovakia	<b>8</b>
<b>Structural issues, fiscal framework and taxation</b>	Austria, Estonia, Finland, France, Hungary, Latvia, Netherlands, Poland, Portugal, Slovakia, Spain, Sweden, United Kingdom	<b>13</b>
<b>Transportation, energy, environment and R&amp;D</b>	Belgium, Bulgaria, Finland, Germany, Netherlands, Poland, Romania, Spain	<b>8</b>

Source: elaboration on the 2015 Country Reports of the European Commission ([http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm))

**Annexe 9: Territorial issues addressed in the 2015 Country Report (detailed table)**

Country	Territorial issues addressed in the 2015 Country Report
Austria	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p>The Austrian taxation system and the fiscal framework present weaknesses arising from a high tax wedge, low tax autonomy for subnational governments and a complex system of fiscal relations between the different layers of government.</p> <p><b>The current organisational relations between different levels of government remain complex and cause efficiency losses in crucial sectors of public administration.</b> Austria remains one of the countries with the lowest share of subnational own taxes(7) in percentage of GDP, in particular regarding the tax-raising powers of subnational governments. Despite this low level of tax autonomy, subnational levels of government have several spending and administrative responsibilities, which in many cases are shared between levels of government and are financed mainly by intergovernmental transfers and shared taxes. The high level of complexity and the misalignment between revenue and spending responsibilities are not conducive to comprehensive policy reforms. It leads to efficiency losses in crucial public administration functions, including healthcare, education systems and spending on social transfers. Furthermore, as a result of complex interactions between national and subnational policy strategies key policy areas (e.g. innovation and research policy) suffer from coordination costs and efficiency losses. This may prevent the exploitation of cross-regional synergies.</p> <p><b>No comprehensive measures have been adopted to address the long-standing issue of streamlining relations between levels of government.</b> An administration and deregulation commission (<i>Aufgabenreform- und Deregulierungskommission</i>) was established in June 2014, in order to suggest different options for decreasing administrative burden and to increase efficiency of administrations thereby achieving savings also at subnational level. Other actions taken in 2014 relate to the reduction of the number of hierarchical layers in educational administration. However, these measures appear to have limited scope to enhance the organisation and division of powers between layers of government.</p> <p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p><b>The reform of the Austrian Stability Pact, which entered into force in 2012, has strengthened Austria's fiscal framework.</b> The reform introduced a set of fiscal rules and has also translated the Council Directive 2011/85/EU on budgetary frameworks in the Member States and the Fiscal Compact into national legislation. The new Austrian Stability Pact has also strengthened fiscal rules at subnational level.</p> <p><b>However, the current institutional set-up is likely to continue to complicate the achievement of these targets, especially when fiscal consolidation needs will be less pressing.</b> Targets at subnational level have indeed been missed very frequently between 2000 and 2009 also due to the mismatch between the tax raising power and spending responsibilities at subnational level. The full achievement of fiscal targets in 2012-2013 was in part due to higher positive revenue developments at the central level translated in higher shared tax revenue also for subnational governments, while fiscal consolidation efforts led to effective expenditure control at subnational level. However, fiscal targets have proved procyclical in the past given that the enforcement of subnational fiscal targets is lower in time of favourable cyclical</p>



	conditions. Thus, fiscal targets are unlikely to be met if the institutional set-up will not be reformed to ensure a more efficient cost-financing structure.
Belgium	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>MLG</b> At the end of 2013, a Cooperation Agreement on fiscal coordination was concluded between the federal government and the regional and community governments to implement the Fiscal Compact.</p> <p><b>Congestion</b> The intention to tackle congestion announced in the federal and regional government agreements still needs to be turned into tangible measures.</p> <p><b>Total public debt</b> The recent state reform and revision of the financing of regions and communities partly addresses this challenge, among other things by curbing the financial transfers from the federal to sub-federal level, and hence creating fiscal space for the federal level at the expense of regions and communities. On the other hand, the reform puts an additional consolidation burden on the regions and communities, while these levels are responsible for the most growth enhancing expenditure, such as investment in infrastructure and education.</p> <p><b><u>Transportation, energy, environment and R&amp;D</u></b></p> <p><b>Energy</b> The fact that federal attempts to lower energy prices in recent years have been partly undone by higher regional charges highlights the potential problems a lack of solidarity might create.</p> <p><b>R&amp;D</b> Although the funding of business R&amp;D is split between the federal government and the regions, there is no organised coordination to ensure that support is optimally balanced between the different instruments and that trans-regional synergies are fully exploited.</p> <p><b>Transport</b> Both for road and rail infrastructure, coordination between the federal and the regional authorities will be crucial to ensure effective planning and project selection, as well as swift implementation.</p> <p><b>GHG emissions</b> More affirmative action is hindered by the absence of a political agreement between the federal and regional entities on the distribution of the effort needed and revenues from the auctioning of emission allowances under the EU ETS.</p> <p><b>Renewables</b> There seems to be no intention to improve synergies between the different green certificate systems in the regions and exploit the potential efficiency gains.</p> <p>To provide for a better <b>investment</b> climate, the federal government plans to come to an 'energy pact', underpinned by a common energy vision with the regions.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p>



	<p><b>Long-term care</b> The increased devolution of responsibilities to the regions and communities still needs to yield cost-effectiveness benefits.</p> <p><b>Labour</b> The Belgian <b>labour market</b> is characterised by major differences between regions. The unemployment rates for young people vary considerably between the different regions, ranging from almost 45% for men in the Brussels-Capital Region to only 13% in the province of West Flanders.</p> <p><b>Early-school leaving</b> The Brussels government intends to conclude a cooperation agreement with the French and Flemish communities to strengthen partnerships and develop early intervention plans as well as remedial measures.</p>
Bulgaria	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>Public Administration and Judicial System</b> Institutional shortcomings and shortcomings in administrative capacity remain, affecting key sectors of the economy and causing delays to structural reforms and low absorption of EU funds. There is a need to improve the competencies and independence of the administrative bodies charged with preventing and detecting corruption in public sector administration.</p> <p><b>Public sector administration and e-government</b> No progress has been made on strengthening the role of administration and improving efficiency at local level. Poor administrative capacity to implement a smart specialisation strategy limits the impact of government funding on business investment.</p> <p><b>Public procurement</b> is affected by a frequently changing legal framework and insufficient administrative capacity. The limited and non-exhaustive ex ante controls are explained by the authorities as the result of the insufficient administrative capacity of the Public Procurement Agency. The national strategy on public procurement envisages several measures, e.g. increasing administrative capacity and professionalism in public procurement.</p> <p><b>Network Industries</b> Urgent reforms are needed to address the independence and administrative capacity of the national regulator.</p> <p><b><u>Regional disparities</u></b></p> <p><b>Regional disparities - Minimum wage increases</b> Employers in the north-west region of the country consider the minimum wage growth as a factor for decreasing employment.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p><b>Labour</b> Cooperation between employment offices, social assistance directorates and <b>municipalities</b> is focused on administrative functions and rule enforcement, rather than on improving labour market inclusion.</p> <p><b>Skills mismatches in the labour market</b> The authorities are developing an action plan and a database with statistics on adult learning, a coordination system of lifelong learning stakeholders at national, regional and municipal level.</p>



	<p><b>Social assistance</b> Efficient provision of adequate social benefits also requires the development of sufficient administrative capacity to manage them, including planning and coordinating the institutions involved, and systems to monitor effectiveness and efficiency.</p> <p><b>Roma</b> The implementation of the Roma integration strategy would require more systematic measures in mainstream housing, healthcare, education, employment, and anti-discrimination policies at <b>national and local levels</b>.</p> <p><b>Healthcare</b> Administrative capacity in the healthcare sector needs to be strengthened to enable appropriate strategies to be designed, programmes to be implemented and high-quality projects to be delivered.</p> <p><b><u>Competitiveness, investment, growth and jobs</u></b></p> <p><b>Growth</b> Productivity growth is hindered by a number of intertwined weaknesses, ranging from complex regulation and weak administrative capacity.</p> <p><b><u>Transportation, energy, environment and R&amp;D</u></b></p> <p><b>Water</b> In order to achieve the desired changes in the water supply and sanitation sector, the water sector requires adequate financing and improvements in sector governance (e.g. the <b>regionalisation</b> of water services).</p>
Croatia	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p>A complex functional distribution of governance structures, including a suboptimal articulation of the responsibilities of local tiers of government result in weak control of public finances, low efficiency of public spending and weak corruption prevention mechanisms.</p> <p><b>Inadequate administrative capacities hinder the full absorption of the EU funds.</b> In particular the capacities of public administration are weak and the transparency and efficiency of public procurement at both central and local levels are low.</p> <p><b>The distribution of competencies between administrative levels of national and local government is complex and characterised by a high degree of fragmentation.</b> Amendments to the State Administration System Act were drafted in September 2014 to address these inefficiencies, but their adoption by parliament has been delayed. The amendments involved merging 20 regional administration management structures into five.</p> <p><b>The suboptimal decentralisation policy undermines management of public finances and efficient public expenditure.</b> The complex and non-transparent attribution of policy functions across different levels of government contributes to excess spending since local governments do not bear the full costs of their decisions. Administrative weaknesses in the local authorities directly affect a number of areas, such as tax collection, the provision of social benefits, the management of European Structural and Investment Funds (ESIF), public procurement and the provision of public services. The fragmentation of sub-national governance units, with 428 municipalities, 127 cities, 20 counties and the City of Zagreb (special status), impairs their administrative capacity and thus weighs on their economic efficiency. Reallocation and</p>



coordination of regional and local competencies that could lead to better efficiency of fiscal policies remains a priority.

**The 2015-20 Strategy for the Development of Public Administration is to be adopted by June 2015.** The Strategy defines reform objectives as regards the allocation of responsibilities of government units at different levels, the provision of public services and the management of human resources in the public administration. The measures proposed in the Strategy remain very broad.

**Local authorities contribute to the accumulation of debt in public companies.**

### **Competitiveness, investment, growth and jobs**

**Croatia's business environment suffers from major institutional shortcomings.** Inconsistencies in the decision-making of regional and local units across the territory, and the lack of a clear timeframe for issuing binding opinions in tax issues are a source of concern for businesses.

### **Regional disparities**

**The overall labour market and social situation is aggravated by significant regional disparities.** These result in lower income and education levels, poorer housing conditions and lower living standards in disadvantaged and remote areas. These result in lower income and education levels, poorer housing conditions and lower living standards in disadvantaged and remote areas

### **ESIF 2014-2020 and subnational finance**

The new ESIF allocation 2014-2020 is EUR 10.68 bn, i.e. over 3 % of GDP on annual basis or about ten times as much as that for 2007-13. This represents a huge opportunity, provided that the authorities can prioritise investments with high economic (and social) return. If the funding is to be managed effectively and absorbed in the coming years, Croatia will need to make major efforts to ensure adequate capacities for strategic programming, procurement, implementation, fund management and control, monitoring and evaluation, and mobilise stakeholders to prepare and implement results-oriented and quality projects.

Limited administrative and technical capacities in management bodies, at local and beneficiary level, combined with difficulties linked to the switchover from the IPA to the ESIF, have contributed to delays in the absorption of the 2007-13 allocation.

The legal framework for implementation of the 2014-20 programmes is now in place. However, the new programmes include a number of new sectors (ICT, energy, climate change, health and social inclusion, education) which will require specific technical capacities in the management bodies and targeted support for project beneficiaries.

Experience has shown that the analytical and monitoring capacities of the Croatian ESIF coordinating bodies and managing authorities are limited, and need to be bolstered, particularly as regards the new sectors to be covered.





	<p>The inclusion of new sectors in 2014-20 and the eligibility of new beneficiary profiles (in particular in the private sector) call for specific measures at the level of the coordinating and managing authorities and at project level. Initiatives in the past two years include establishing specific units within management bodies to support, and tailored on-demand training and coaching for, project beneficiaries. The further development of these initiatives would have to be in line with the increased ESIF allocation</p> <p>An action plan for strengthening capacities and public procurement procedures in the management and implementation of ESIF funding was adopted in December 2014. Due to be implemented from November 2015,</p>
Cyprus	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p>The authorities are advancing in the reform of the system of activation policies, but the capacity of the public employment services to address its new tasks remains insufficient, both in terms of the number of staff and of organisation and procedures. A budget of EUR 5.7 million has been allocated to boost the administrative capacity of public employment services through the 2014- 2020 Operational Programme of the European Social Fund, out of which about EUR 2 million are expected to be immediately committed. However, an action plan reflecting how the increase in staff is matched by other measures could be a tool ensuring a more effective and efficient service delivery.</p>
Czech Republic	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>Budget</b> The main weakness of the medium-term budgetary framework is the <b>insufficient involvement of sub-national levels of government</b> in setting the budgetary targets and the medium-term strategy.</p> <p><b><u>Regional disparities</u></b></p> <p><b>Regional disparities</b> on indicators such as early school leaving and skills mismatches are high.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p><b>Education</b> The Czech schooling system still features <b>disparities</b> in schooling outcomes <b>between regions</b> and social groups.</p> <p><b>Labour</b> Ineffective management system prevents the efficient translation of objectives into activities, and a lack of operational autonomy of <b>public employment services</b> hampers market-oriented interventions and consistent service delivery <b>across regions</b>. Competences and objectives between various <b>institutional layers</b> are not clearly defined.</p>
Denmark	<p><b><u>Competitiveness, investment, growth and jobs</u></b></p> <p>House prices have increased over the last two years but there are significant regional differences. There is an important increases in house prices in the largest cities of</p>



	<p>Denmark.</p> <p>In November 2014, the Danish Government launched a strategy to strengthen competition in the construction sector. Guidelines on effective competition will also be issued to municipalities.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p>To improve educational outcomes, a reform of the municipal primary and lower secondary school (Folkeskole) was introduced in the 2014-15 school year.</p>
Estonia	<p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p>In 2014, Estonia received a country-specific recommendation on balancing local government revenue against devolved responsibilities, where no progress has been identified. Draft changes to the Equalisation Fund in order to reduce disincentives for municipalities to attract enterprises or support job creation were announced in 2013, but have not been restated since then.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p>Due to the fragmented structure of the municipalities, public services provided by local governments are not equally accessible and not of sufficient quality.</p> <p>Insufficient social services have a direct negative impact on activation measures. This challenge is particularly important in the context of the work capacity reform which relies on the availability of social services at local level. Clear lack of clarity as to the division of tasks between the central and local levels.</p> <p>The revised Implementation Plan for the OECD Public Governance Review, adopted in December 2014, is expected to develop cooperation and coordination mechanisms and bolster the state's institutional organisation, as well as to improve organisations' management capacity.</p> <p>In its operational programme to implement the European structural and investment (ESI) funds, Estonia has committed to developing minimum standards for social services at local level and to establishing service areas that allow economies of scale.</p> <p>While it is not a statutory obligation of the National Unemployment Insurance Fund to support local services, it does so under cooperation agreements with municipalities to improve the employability of long-term unemployed and people with disabilities. These initiatives, although not large in scale, help to compensate for the lack of local services at municipal level.</p> <p>Overall, Estonia has made limited progress on improving the efficiency of local governments and ensuring the provision of quality public services at local level, especially social services complementing activation measures. Progress on minimum quality requirements for local social services in the modified Social Welfare Act remained insufficient.</p>



	<p><b><u>Competitiveness, investment, growth and jobs</u></b></p> <p>The Strategy and Action Plan for Estonia's north-eastern (Ida-Viru) region is under renewal. Similar plans for the South-Eastern region have been initiated in parallel. The regional plans will be co-financed by the European Regional Development Fund, and will promote regional employment, entrepreneurship and develop regional.</p> <p>Services provided to companies at county level have recently improved. However, at local government level, the support to entrepreneurship is limited and varying across the regions. The current financing system of local governments does not include incentives to attract entrepreneurs to rural regions. Moreover, according to the current law, the municipalities are not obliged to provide any services nor support to companies.</p> <p><b><u>ESIF 2014-2020 and subnational finance</u></b></p> <p>EUR 29 million from the 2014-20 European Structural Investment Funds (ESIF) will be invested in two urban areas in Ida-Viru (Kohtla-Järve and Narva).</p>
Finland	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>Administrative capacity</b> Finland received a country-specific recommendation to ensure effective implementation of ongoing administrative reforms concerning municipal structures and social and healthcare services.</p> <p><b>Retail sector</b> The remaining challenges include in particular the extent to which competition is taken into account in the planning system, how municipalities make decisions in awarding plots as well as the restrictions on large-scale outlets in the land use and building act. <b>A multi-layered and hierarchical planning process is required before new stores can be opened.</b> Regional plans form the core of the system, defining planning objectives to be reflected in the local plans. The establishment of large-scale outlets outside the central areas needs to be foreseen in regional plans.</p> <p><b><u>Regional disparities</u></b></p> <p><b>Regional disparities</b> In the capital region, nominal house prices have roughly doubled over the same period. This reflects the inland migration towards metropolitan Helsinki and other urban regions.</p> <p>There are considerable regional differences in unemployment rates.</p> <p><b><u>Transportation, energy, environment and R&amp;D</u></b></p> <p><b>R&amp;D</b> Finland is developing smart-specialisation strategies based on regional strengths, and the Ministry of Employment and the Economy has aligned European Regional Development Fund investments to R&amp;D with those strategies.</p>



	<p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p><b>See CSR 2</b> The government decided to establish the Metropolitan Authority to resolve land use, housing and transport problems in the greater Helsinki area. The Metropolitan Authority's duties will include the preparation of a metropolitan plan and ensuring its implementation (with plan programmes and other appropriate measures) and the regional public law duties.</p> <p><b>Education</b> The tighter budgetary restrictions might make it necessary to reorganise the upper- secondary school network or the provision of pre-school education (or both) by local authorities.</p> <p><b>Social and healthcare reform</b> The government has introduced draft legislation which foresaw revising the existing local government structure, social welfare and healthcare service structures and financing and re-evaluating the statutory duties of local authorities.</p> <p><b><u>Competitiveness, investment, growth and jobs</u></b></p> <p><b>Business environment</b> Regional authorities are encouraged to cooperate in their supervisory and permit policies.</p> <p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p><b>Fiscal framework</b> The fiscal framework was strengthened by a provision allowing central government also to plan and monitor the expenditure of local authorities and social security funds sub-sectors.</p> <p><b><u>ESIF 2014-2020 and subnational finance</u></b></p> <p><b>Subnational finance</b> Some of the obligations of municipalities have been reduced, and the government has put forward plans to steer municipal finances through the general government fiscal plan.</p>
France	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p>The reform of the local administration seeks to increase efficiency in a context of lower grants from central government. In this program there are 3 main points: reducing the number of local government organisations notably by merging regions and by increasing the minimum number of inhabitants for an inter-communal body, clarifies the responsibility of the various layers of the local administration and the creation of integrated inter-communal structures (the métropole or metropolitan area) with a broad range of responsibilities.</p> <p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p><b>Some progress</b> has been recorded in curbing the rise in local government spending. A decrease of EUR 3.7 billion in the grant from central government planned in 2015,</p>



	<p>following an effective reduction of EUR 1.5 billion in 2014. Local administrations are, however, expected to partly offset the grant reduction by increasing tax revenue, mainly through the scope for increasing taxes on second homes.</p>
Germany	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p>Germany has made no progress in pursuing <b>consolidation efforts in the Landesbanken</b> (regionally owned banks) sector, including by improving the governance framework.</p> <p>No progress in improving the efficiency of the <b>tax system</b>. Limited progress in improving the design of fiscal relations between the federal government, the federal states and the municipalities. Although a reform of the municipal real-estate tax (Grundsteuer) is part of the coalition agreement and announced in the 2014 NRP, no concrete action has been taken so far. The local trade tax (Gewerbesteuer) has not been reviewed.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p>Germany has made substantial progress in increasing the overall availability of <b>childcare</b> facilities, but regional bottlenecks and quality concerns remain.</p> <p><b><u>Transportation, energy, environment and R&amp;D</u></b></p> <p>Significant disparities exist in <b>innovation performance and expenditure</b> at regional level, especially as regards private investment in research and development.</p> <p>Limited progress in <b>electricity network development</b>. The planning of projects to eliminate internal bottlenecks for electricity transmission has begun, but these are still at the development or permitting stage and face regional public opposition.</p> <p><b>Infrastructure development</b> is being pursued, but faces significant delays especially at local/regional level. Despite an increased effort at federal level to encourage local and regional governments to accept necessary network expansions, public opposition and hesitation by regional governments delay the implementation significantly. Investment has also been insufficient to maintain the quality of Germany's transport infrastructure, with real investment decreasing notably for federal state, county and municipal roads and local public transport.</p>
Hungary	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>MLG</b> The unstable regulatory framework, the lack of transparency in decision-making procedures and inadequate <b>consultation of interested parties</b> are, together, weighing heavily on the business environment. Where proposals are initiated by the government, <b>consultations</b> with the relevant parties are often rushed.</p> <p>Systematic <b>consultation with stakeholders</b> on new policy initiatives has at best been occasional.</p> <p><b>E-procurement</b> The success of this process will greatly depend on ensuring adequate human resources, sufficient <b>administrative capacity</b> as well as ensuring that the</p>



	<p>system clearly fosters transparency.</p> <p><b><u>Regional disparities</u></b></p> <p>The decentralisation risks further increasing <b>regional inequalities</b>.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p><b>Early school leaving</b> is particularly high in vocational education and training (30%), in less developed regions and among Roma (82%). The government strategy does not go far enough in addressing the challenges faced in vocational education and training and in less developed regions.</p> <p><b>Youth Guarantee</b> Some progress has been achieved in setting up the mentor network in the first Youth Guarantee programme, but it is not sure whether sufficient human capacity at the Public Employment Service will be ensured.</p> <p>The system of in-cash welfare benefits is currently undergoing reform: the various types of social benefits will be merged and <b>local governments</b> will be able to exercise more discretion in awarding benefits. One single 'expense compensating' benefit will replace all the other forms of social benefits currently provided by local government.</p> <p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p>A new rule granting broad taxation rights to <b>local governments</b> as of 2015 potentially leads to surge in the variety of local taxes, leading to increased compliance costs in the taxation of natural persons.</p>
Italy	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>A major effort is underway to improve Italy's institutional capacity to adopt and implement legislation.</b> Italy's broad structural reforms programme over recent years contained measures that were only partially implemented or even abandoned, thus depriving the economy of the full benefits of reforms. As of mid-January 2015 it is estimated that, among the 1102 decrees needed to implement the reforms adopted by the last three governments over 2012-2015 (52), 47 % have been passed, 34 % are pending, and 19 % have an implementation deadline that has already expired. Insufficient coordination and overlapping responsibilities between different layers of government are a major factor hampering the effective implementation of the measures adopted. Changes in the institutional framework to remove bottlenecks holding back the adoption and implementation of reforms are currently being discussed. In particular, a constitutional reform expected by end-2015 reviews the structure of law-making process and the allocation of responsibilities between central and sub-national governments. On the first point, the Senate would retain legislative powers on only a narrow range of issues, a change that is likely to speed up the legislative process. On the second point, some devolved functions (e.g. energy and infrastructure) would be centralised again, the division of responsibility between the centre and the regions clarified, the provincial level of government phased out, and most concurrent competences (e.g. for retail regulation) abolished, which could contribute to more uniform regulation and more effective implementation.</p>



**Regular evaluation of the impact of spending is not yet an integral part of the budgetary process across all government levels.** At local level, the 2015 Stability Law envisaged additional savings from regions (EUR 4 billion), combined with the application of the balanced budget rule in 2015, i.e. one year earlier than initially planned. If properly implemented, this may address some of the problems experienced under the previous Internal Stability Pact, such as the strong influence of historical spending on central transfers to sub-national governments. However, since sound coordination of budgetary responsibilities across government levels is not yet in place, the outcome of the legislated cuts in terms of capital and current expenditure as well as local taxation remains uncertain. Moreover, the needed agreement between the state and the regions to decide on the distribution of expenditure cuts has been delayed, which entails some risks to the achievement of the 2015 budgetary targets. Among the initiatives to improve efficiency in public spending and achieve the planned savings at all government levels, wider use of centralised public procurement envisaged by the Public Spending Rationalisation Programme was partly implemented as of January 2015.

**Italy's more than 8 000 local state-owned enterprises weigh on the efficiency of the economy and public finances.** The report of the Commissioner for the spending review records 7 726 local State-owned enterprises, which are active in all sectors of the economy. (64) Around 35 % of the 3 152 companies surveyed by the Court of Auditors in 2012 reported losses in at least one year from 2010 to 2012. According to the spending review Commissioner, around 438 local state-owned enterprises (598 including those in liquidation) had recorded yearly losses over 2010-12, which questions their viability. The share of aggregate losses borne by the public administration is estimated at EUR 1.2 billion per year, of which around 25 % are borne by local state-owned enterprises that do not provide local public services or other services of general interest. There are important signs of inefficiencies: (i) at least 3000 local state-owned enterprises have fewer than six employees and in about half of local state-owned enterprises the number of directors is higher than the number of employees; (ii) 44 % of municipal state-owned enterprises are co-owned by municipalities with fewer than 30 000 inhabitants, indicating there are important potential economies of scale to be made through consolidation; (iii) in a large number of local state-owned enterprises, the public shareholder's stake is very low — below 5 % for some 1 400 local state-owned enterprises, below 10 % for about 1 900 and below 20 % for 2 500 — which appears too low if participation served the general interest.

**Italy's public procurement system faces a significant number of important problems:** complexity, fragmentation and instability of the legal and institutional framework; administrative burden; excessive length of procedures; high litigation rate; fragmentation of e-procurement solutions; contracting authorities' lack of administrative capacity; significant barriers to competition in key economic sectors; and inefficiency of the system of supervision and control. The government has announced a reform of the code of public contracts aimed at transposing the new directives on EU public procurement and concessions and at simplifying the currently fragmented legal framework. A national strategy for public procurement is also being developed. It is to identify measures to overcome the country's systemic public procurement problems. It could also include e-procurement, which is currently done at national, regional and local level, increasing complexity and the risk of duplication or redundancy.

**The regulatory framework for state-owned enterprises is unclear.** Although state-owned enterprises are in principle subject to private law, special provisions or features of public law add to the legal framework. This complicated framework is the result of developments over the years, which have seen the introduction of several legal tools reflecting the contemporary trends and addressing the needs of the moment. This gives rise to inconsistencies and uncertainties which result in cumbersome court proceedings in order to be resolved.

**The need for a comprehensive reform is acknowledged by the government but action is weak as derives from the extension granted for rectifying non-compliant in-house contracts.** The enabling law for the reform of public administration would delegate to the government the power to enact legislative decrees for a comprehensive



	<p>reform of local state-owned enterprises and local public services. This would include making the involvement of local authorities in state-owned enterprises more transparent; promoting the consolidation of local state-owned enterprises across municipalities; defining optimal territorial areas in the context of providing local public services; strengthening competition and protecting consumers' interests in local public services; introducing mechanisms to reward local administrations that use open tendering; and streamlining the overall regulatory framework on state-owned enterprises to prevent overlaps and contradictions. Pending such reform, the 2015 Stability Law includes measures to improve transparency and foresees a rationalisation process based on rationalisation plans to be submitted by local and regional authorities by end-March 2015. However, the rectification of contracts not complying with the EU and national requirements on in-house awards has been de facto postponed to 31 December 2015 despite the end-2014 deadline set in Italy's 2014 country-specific recommendation. Nor has there been yet any official assessment on the number and economic features of such contracts.</p> <p><b><u>Competitiveness, investment, growth and jobs</u></b></p> <p><b>The vast majority of state-owned enterprises are sheltered from competition.</b> The Court of Auditors reports data by contract award procedure for 2012, summarised in Table 4.2.1 below. Open tendering is used for a very small proportion of contract awards, while the vast majority of contracts is done either through 'in-house' awards (with no open tender) or similar procedures. According to the Competition Authority, some of the in-house contracts refer to services that could be provided by different operators through open competition, as they entail potentially profitable and therefore attractive business (e.g. car and bike- sharing schemes, tourist transportation). Furthermore, several in-house awards do not comply with the conditions of the EU and national framework.</p> <p><b>The competition framework and infrastructure are still major weaknesses in the transport sector.</b> Inefficiency is particularly critical in local and regional transport services, which account for around 28 % of companies in local public services described above.</p> <p><b><u>Regional disparities</u></b></p> <p><b>Social and regional disparities are growing wider.</b> Poverty and social exclusion have greatly increased while the social protection system is fragmented and fails to address these challenges properly. The southern regions have suffered a sharper fall in employment due to their long-standing structural weaknesses.</p> <p>Structural disparities between the south and the other regional areas in terms of poverty and social exclusion indicators remained significant.</p> <p>(see the whole chapter: 3.5. SPECIAL TOPIC: REGIONAL DISPARITIES)</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p><b>Italy faces serious social challenges with poverty and social exclusion continuing to grow, affecting children in particular.</b></p>
Ireland	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>Activation policies are underachieving due to limited capacities in the employment service.</b> There are currently around 500 jobseekers per caseworker in the Public</p>





	<p>Employment Service, a ratio well above what is considered best practice. Allocation of additional resources and efforts to tackle long-term unemployment, through the rollout of the <i>JobPath</i> initiative, will see the caseload fall closer to 200 cases per member of staff. This will also help to reduce the high rates of households with low work intensity, given 52.7 % of the total unemployed come from such households.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p><b>Social protection has helped to alleviate the rise in poverty that followed the crisis.</b> Ireland is one of the countries where net social expenditure increased the most (as a share of the aggregate level of economic activity) following the 2007 crisis. In 2011, it amounted to nearly 22 % of GDP, according to the latest available data. As a result, the country did not experience the rise in inequality some other Member States did. Nevertheless, deprivation rates have continued to rise in the year to 2013, driven by sharp rises in rural areas. This suggests that improving labour market conditions in Dublin and other urban areas have yet to spread to the rest of the country.</p> <p><b>The recovery in property prices is particularly strong in Dublin.</b> Residential property prices in Dublin rose 22.3 % in the year to December 2014, with sharp price rises in Dublin slowly spreading to the rest of the country.</p>
Latvia	<p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p>The labour market situation is continuing to improve. On outreach to youth not in employment, education or training, guidelines for mentoring and training are being drawn up and cooperation networks with municipalities are being established.</p> <p>School outcomes are rather positive on average but they mask large gender and regional differences.</p> <p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p>The authorities are committed to a prudent level of government borrowing. The 2015 budget targets a nominal deficit of 1% of GDP. The main thrust of the revenue effort is concentrated on improving tax compliance through better information exchange between government bodies and addressing some rigidity in excise taxation.</p> <p>The increase in the national minimum wage supports low-income earners and could increase incentives to work, but may put at risk the viability of some low-wage jobs, especially in region with lower productivity.</p> <p>Since 2013, local governments have been able to set annual property tax rates from 0.2% to 3% of the value depending on the property type and use. Decentralised property taxation at local government level poses difficulties for efficient tax administration: e.g., some local governments engage in tax competition attracting new residents and gaining from their income tax payments. The transparency of tax administration is low and the reports from the State Control have revealed shortcomings in accounting for all properties.</p> <p><b><u>ESIF 2014-2020 and subnational finance</u></b></p>



	European Social Fund financing will be allocated for raising competencies of court and judicial institutions' staff in the 2014-2020 period.
Lithuania	<p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p>Some measures were taken to reduce poverty, but they do seem to be insufficient to tackle the rising share of the population at-risk-of-poverty. More responsibility and autonomy has been given to municipalities in the provision of cash social assistance. The reform resulted in a significant fall in social benefits expenditure and in the number of recipients (by 25% in the first quarter 2014 compared to the year before). The main drivers of this fall need to be clarified. It could be due to a better targeting of beneficiaries, or to the improved economic situation of those most in need. This fall could however also be due to a more restricted access to social assistance, given that, from 2015, municipalities can reinvest the savings into other municipal programmes (mainly into programmes in the social field).</p>
Luxembourg	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p>In March 2014, the government reached an agreement on the reform of the public sector. Administrative simplification has remained high on the political agenda. A concrete result of the dialogue between public actors and social and economic partners is the forthcoming 'Omnibus 1' law, which envisages important simplifications mainly concerning urban planning procedures, to be followed in 2015 by 'omnibus' simplifications in other areas (particularly in environmental procedures).</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p>Luxembourg has made some progress as regards activation policies for young people. It has taken a number of relevant measures to tackle youth unemployment, notably by starting implementation of the Youth Guarantee, which is on track, but so far these have been only partially implemented. A coherent strategy is not in place. Stronger cooperation between administration levels (state, municipalities), involvement of social partners, and a more efficient use of employment services is due.</p>
Malta	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finance s</u></b></p> <p><b>Public administration</b> Inefficient government bureaucracy is a significant impediment to doing business in Malta.</p> <p><b>Administrative inefficiencies</b> hamper the proper functioning of the internal market in Malta.</p> <p><b>CSR 5: Public procurement</b> The announced additional <b>administrative capacity</b> (this refers to the central level only) increase should consolidate the gains and reduce the duration of the procedure a bit further, thereby bringing Malta closer to the EU average</p>
Netherlands	<p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p>The EC notices that in regard to <b>fiscal framework</b>: "the new Dutch legislation (<i>also</i>) covers provisions and coordination mechanisms for local government finances to improve their monitoring by the central government. <b>The decentralisation of a large number of tasks from central to local governments from January 2015, which</b></p>



	<p><u>includes substantial expenditure cuts</u>, will put to the test the new provisions on monitoring public finances across different levels of government."</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p>More resources allocated to regions to tackle problems or implement schemes.</p> <p>The participation act that came into force on 1 January 2015 aims at improving the <u>labour market participation of people with disabilities</u> by merging and reforming several benefits schemes. (...) The government has made an <u>additional investment of EUR 35 million to help the 35 Dutch labour market regions</u> in setting up their structures for regional cooperation ('werkbedrijven').</p> <p>The primary set of policy measures to <u>tackle youth unemployment</u> and inactivity is articulated in the Youth Guarantee Implementation Plan. <u>Additional resources are invested in youth-specific measures such as the regional Work Experience Grant</u> ('startersbeurs') and a temporary premium discount for employers if they employ young workers with a view to addressing the rising youth unemployment rate.</p> <p><b>Ensuring effective social protection.</b> The concentration of <u>multiple tasks at municipal level</u> should be more cost-efficient and enables tailor-made solutions to beneficiaries' needs. However, there are <u>risks related to a very tight implementation schedule</u> in combination with <u>a reduction of overall funding</u>.</p> <p><b>Education.</b> In 2014, several initiatives were taken to <u>better match vocational education and</u> training to the needs of the <u>regional labour markets</u>.</p> <p><b>E2 analysis HEADLINE:</b> Structural reforms</p> <p><b><u>Transportation, energy, environment and R&amp;D</u></b></p> <p>On 6 September 2013, <u>the national government, local government and stakeholders signed a legally non-binding Energy Agreement for Sustainable Growth</u>, which <b>commits the parties to work towards meeting EU and national targets on energy efficiency and renewable energy deployment</b>. Increased investment in renewable energies seems to be needed to reach the 2020 target.</p>
Poland	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p>Insufficient coordination across levels of government and inadequate capacity of regional and local governments to implement and monitor policies is an obstacle for good governance and effectiveness of public administration.</p> <p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p>Limited administrative capacity in the healthcare sector is a challenge in terms of EU funds absorption for addressing existing issues in the health care system. Overall,</p>



	<p>limited progress has been made in improving the cost-effectiveness and efficiency of spending on healthcare.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p>Low regional and occupational mobility within Poland continue to be a structural labour market challenge. In a number of Polish regions, obstacles to internal mobility (both geographical and inter-industry) lead to regional labour market shortcomings and mismatches, as well as significant labour resource misallocation.</p> <p>Vocational education and training (VET) is still not well-aligned to labour market needs. Providing high quality career guidance remains a challenge, as well as strengthening cooperation between the regional and local authorities to ensure efficient investment in the VET system.</p> <p><b><u>Transportation, energy, environment and R&amp;D</u></b></p> <p>Poland is among the EU countries with the lowest coverage in terms of both basic and high speed internet and it also features low take-up rates for broadband. Operational Programme Digital Poland (OPDP) refers specifically to the elimination of territorial differences in terms of access to broadband and is set to support broadband deployment from 2014 to 2020 with EUR 1.2 bn in funding from the European Regional Development Fund and Poland's own contribution.</p> <p><b>CSR 3:</b> Poland has made <b>limited progress</b> in addressing CSR 3</p> <p><b>Some progress</b> in increasing female labour market participation. A statutory obligation on municipalities to participate in providing childcare services and pre-school education was introduced.</p>
Portugal	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>Public procurement</b> Remaining gaps concern the transparency of concessions and delays in publishing data on contracts awarded by local and regional authorities. A dedicated and skilled taskforce (UTAP) at the Ministry of Finance is working to improve fiscal transparency and reporting on PPPs, but the <b>regional and local levels</b> are outside its remit and there is no consistent framework for establishing equivalent structures.</p> <p><b>Partnership</b> Portugal is making substantial efforts to put the <b>Youth Guarantee</b> into practice and involve all relevant governmental and nongovernmental partners in implementing it.</p> <p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p><b>Fiscal reforms</b> This applies for strengthening the fiscal framework and implementing new measures to fight tax fraud and evasion and reforms of the public administration, including at the local and regional level.</p>



Romania	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>Administrative capacity in Romania is low, fragmented, and with unclear delegation of responsibilities.</b></p> <p><b>The root causes of the structural weaknesses have been identified but implementation of the solutions is delayed.</b> To tackle the challenges in public administration and policy prioritisation and coordination, a strategy for strengthening public administration was adopted in October 2014, together with an action plan for its implementation in 2014-2020. The strategy addresses the ex ante conditionality for the new programming period of EU structural and investment funds. Implementation is, however, starting with substantial delay.</p> <p><b>A weak administrative capacity is causing delays in structural reforms and low absorption of EU funds.</b> Structural reforms are often delayed by the lack of implementation capacity and unstable structures. Administrative capacity is also affecting EU funds absorption.</p> <p><b>Inefficiencies in public administration and corruption represent an extra burden on business.</b></p> <p><b>Legal uncertainty related to public procurement causes inefficiencies for both public and private actors.</b> The difficulties of the public procurement system in Romania are linked to a combination of several factors. These include the lack of stability and the fragmentation of the legal framework, deficient checks and balances in the institutional system, the quality of competition in public procurement, and the administrative capacity of public purchasers, including the capacity and the degree of expertise of staff dealing with public procurement procedures at both national and local level.</p> <p><b>Conflicts of interests constitute a particular concern in public procurement.</b> In 2014, the National Integrity Agency solved a total of 514 cases, out of which 101 concerned administrative conflicts of interests and 60 concerned criminal conflicts of interests. Many of these cases involve politicians and public officials at local level.</p> <p><b><u>Competitiveness, investment, growth and jobs</u></b></p> <p><b>The expenditure side still includes significant inefficiencies which weigh on Romania's growth potential.</b> Domestically financed investment projects sometimes lack thorough preparation, economic justification and steady financing. EU funds' absorption is lagging behind, at only 52.2 % of the available structural and cohesion funds as of end-2014. Increasing public investment capacity remains a challenge. This is notably due to insufficient shift away from domestically financed projects towards projects co-financed with EU funds. Public investment efficiency also suffers from weaknesses in public investment management.</p> <p><b>Romania's business environment is poor and hardly improving.</b></p> <p><b>Entrepreneurship suffers from an unstable regulatory framework.</b></p> <p><b>Land planning is a source of uncertainty and costs for investors.</b> The absence of an effective system of cadastre represents an obstacle to the development of infrastructure, property management and consolidation of agricultural land.</p>
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**Loss-making state-owned enterprises represent a burden to the general government budget.**

**End-2013, state-owned enterprises accounted for 50 % of all tax arrears of companies.**

**Corporate governance is a key factor determining performance of state-owned enterprises.** The management of state-owned enterprises is dispersed across different government entities, with some companies managed by line ministries or central government entities and some managed by local government (local administrative units organised at different local levels: municipalities, cities, counties).

**Access to finance for enterprises remains difficult and expensive, especially for SMEs.** Access to finance was identified as the main obstacle for doing business in Romania by the World Economic Forum (Global Competitiveness Report 2014-2015). In 2013, Romania's performance on the SME access to finance index was the third lowest in the EU, showing a declining trend compared to 2007 (3).

### **Regional disparities**

**Broadband coverage is high and with high-speed in the main cities, but it is limited outside urban areas**

**The uneven availability and limited access of early childhood education and care services presents a challenge and contributes to the high early school leaving rate.** Higher availability and access to early childhood services at the local level, in particular in rural areas, would influence pre-school participation. Training participation rates are also lower in rural areas than in urban areas and for men, compared to women.

### **ESIF 2014-2020 and subnational finance**

**The deficient application of public procurement rules triggers substantial financial corrections and contributes to a low absorption of EU funds.**

**Despite significant progress in 2014, Romania continues to display a low rate of structural funds absorption in the EU.** Romania ranks last among the group of peer countries in Cohesion Policy funds' absorption. This is despite the accelerated absorption in the last two years (excluding the European Agricultural Fund for Rural Development, EAFRD) has continued to progress, from 33.7 % at the end of 2013 to 52.2 % at the end of 2014 of the total structural, cohesion and agricultural funds allocated for the 2007-2013 programming period. The highest absorption rate, 72 %, is observed in the Operational Programme for administrative capacity development. The programmes related to basic infrastructure, such as transport, environment and human resources development managed to absorb 57 %, 42 % and 47 % respectively by the end of 2014.

**Difficulties in implementing the structural funds programmes hamper achieving the objectives of the operational programmes.** Besides poor strategic steering, difficulties as regards the implementation of the programmes include: persistent weaknesses in the management systems, failure to proactively anticipate and tackle implementation shortcomings, low coordination between responsible departments, low institutional capacity to implement sectoral strategies, cumbersome national procedures for managing public investment projects, weak financial situation in the construction sector, and persistent shortcomings in the public procurement system. Risk of decommitment of structural and cohesion funds remain for 2015 and at closure in 2017. Due to the insufficient and delayed preparation of the project pipeline,



	<p>implementation difficulties might arise also in the 2014-20 programming period.</p> <p><b><u>Transportation, energy, environment and R&amp;D</u></b></p> <p><b>The underdeveloped basic transport infrastructure continues to be a bottleneck to growth in Romania</b></p> <p><b>The development of Romania's infrastructure is affected by low absorption of EU structural funds.</b> Despite the financing opportunities offered by the EU structural funds, the low absorption rate (see below) and poor strategic management limit Romania's ability to improve its infrastructure in a sustainable manner. As a result, the elaboration and approval of a transport master plan was made an ex-ante conditionality under the new EU-funds programming period.</p> <p><b>The preparation of the General Transport Master Plan is still ongoing</b></p>
Slovakia	<p><b><u>Regional disparities</u></b></p> <p>The poor investment performance is also reflected in the relatively low quality of infrastructure, which puts a drag on growth in Slovakia's Central and Eastern regions. Regional disparities in economic development are caused also by lacking infrastructure in Slovakia's eastern regions. The relatively low quality of transport infrastructure, especially in Slovakia's Central and Eastern regions, makes under-investment ever more apparent. Transport infrastructure is unequally distributed within the country.</p> <p><b>Regional labour mobility</b> Despite high regional differences in unemployment levels, regional labour mobility in Slovakia is relatively low.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p>Low labour mobility reinforces the geographical segmentation of the labour market as reflected by the high regional differences in employment.</p> <p><b>Poverty and social exclusion</b> There are significant regional discrepancies in the poverty rate.</p> <p><b>Education</b> Vocational education and labour market-relevant training is weak, hampering regional development.</p> <p><b>Youth guarantee</b> Delivering the Youth Guarantee will depend on ensuring adequate funding, strengthening administrative capacity, and building partnerships at local level.</p> <p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p><b>Fiscal policy</b> The fiscal targets for the general government are set by the central government without consulting local authorities or other concerned parties.</p>



Slovenia	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p>The government strategy for development of public administration 2015 – 2020 will aim at modernizing the public administration and improving its quality. The central element of the strategy is to enhance the implementation capacity of Slovenia's public administration.</p> <p>Enhancing the administrative capacity of institutions in order to reap the full benefits from the cohesion remains a challenge. A national analysis of the organisation of operations of municipalities shows that the lack of staff and financial capabilities, especially of smaller municipalities, is impeding efficient organisation of work.</p> <p>Credibility of institutions is essential. Allegations of corruption, political interference and doubts regarding the integrity of high-level officials within the public administration at state and local level and in state-owned companies came to public attention in 2013-2014.</p> <p><b><u>Competitiveness, investment, growth and jobs</u></b></p> <p>The high number of laws and numerous changes in the legislation make it difficult to run a business and comply with local regulation. The reduction of administrative burden is one of the key issues for many stakeholders, including investors, who point to frequent changes of regulations as a negative feature of doing business in Slovenia. Insufficient administrative capacity increases waiting times and discourages potential investors.</p> <p><b><u>ESIF 2014-2020 and subnational finance</u></b></p> <p>Finalising the Smart Specialisation Strategy will be an important milestone. This strategy will be instrumental for investments under the European Investment and Structural Funds in the period 2014-2020.</p>
Spain	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>Reforms</b> Policy challenges that Spain faces include consistent <b>implementation</b> of reforms at <b>regional level</b>.</p> <p><b>Administrative inefficiencies</b> risk halting the full roll-out of the public-private cooperation.</p> <p>The overall reduction of staff between 2011 and 2014 may undermine the ability of regional employment services. The effectiveness of the linkages with activation measures strictly depends on the actual <b>administrative capacity</b> of national and regional employment services to design and offer integrated pathways to the beneficiaries.</p> <p><b>Public administration reform</b> The reform aims to achieve efficiency gains and fiscal savings by e.g. reducing duplicated administrative structures within the central government and between central and regional governments.</p> <p>A considerable number of public administration reform measures target the sub-central government level. Ownership of the reform at this level of government is</p>





therefore critical to its success.

Efforts to progress in the digitalisation of justice and to develop better links between the electronic case management systems of regions to avoid problems of interoperability have also been pursued.

The central government adopted measures to improve financing conditions for sub-central governments.

Spain's central government implemented a scheme to repay regions and local entities' commercial arrears (i.e., the suppliers' payment scheme). An additional scheme (the regional liquidity fund) was set up to help regions' meet their public deficit financing needs.

There is a case for tightening the conditions governing the use of extra-budgetary accounts at sub central government level, in the interest of transparency and to avoid cumulating public sector commercial arrears.

**Budget** There is considerable room to improve budgetary practices and transparency at regional level. Some regional governments still do not prepare their respective multiannual budget frameworks with specification of revenues and expenditures for the years covered. Moreover, virtually all regions keep failing to include in their draft budgets and general accounts information on the entirety of entities coming within the scope of the stability law. Furthermore, the 2015 draft budgets of regional governments did not contain enough relevant information to allow verification of compliance with the expenditure rule and public debt targets. Secondly, a greater degree of convergence of budgetary and public accounting practices at region's level would facilitate the comparison and the consolidation of budget data for all public administrations. Lastly, there is a case for tightening the conditions governing the use of extra-budgetary accounts at sub central government level.

#### **Labour market, education, social policies, demography, long term care and housing**

**Labour** The process of **reallocation of labour** towards tradable sectors is still marked by **cross-regional differences**, particularly occupational, skills and geographical mismatches. There is also a high degree of cross-regional differences in the incidence of job mismatches.

The reform of the professional training system, which promotes market unity in training services, is on-going. It envisages a single training model for all the competent (national and regional) administrations.

**Early school-leaving** Spain maintains one of the highest rates of early school-leaving, although it has continued to decrease – with substantial regional differentiation.

**Education** Spain is devising a National Skills Strategy, led by the Ministry of Education. The exercise, together with the OECD and the European Commission, brings together seven different ministries and hosts a multi sectorial dialogue between the government, the regions and the social and economic stakeholders on how to improve the quality and labour market relevance of education outcomes to support economic growth.

The findings and proposals of the working groups have to be discussed and agreed at the corresponding sectoral conferences, and then, be legislated by the central and



	<p>regional governments.</p> <p><b><u>Competitiveness, investment, growth and jobs</u></b></p> <p>Spain has started to implement a new <b>coordination system</b> between regional employment services and consolidated the allocation of resources to the regions based on performance indicators. Moreover, a common services catalogue (still to be effectively implemented by the regional employment services) and a best practices exchange programme among the national and regional public employment services are set.</p> <p><b>Business environment</b> 20 sectoral conferences - i.e., bodies with central and regional government representatives working to adapt regulatory frameworks to principles of the law on market unity (addressing regulatory fragmentation in Spain's internal market, originating from disparities in central and sub-central government legislation governing access to and exercise of economic activities) - had been convened.</p> <p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p><b>Taxation</b> No specific measures have been adopted to address the wide differences in taxation that still remain throughout the regions such as in wealth-related taxes.</p> <p><b><u>Transportation, energy, environment and R&amp;D</u></b></p> <p><b>Innovation</b> Evidence points to relatively weak cooperation between the public and business R&amp;D sector, to duplications and gaps between national and regional research and innovation programmes. The review also pointed to weak coordination between national and regional research and innovation strategies.</p> <p><b>Digital economy</b> Coverage of high-speed fixed basic broadband is above the EU average in Spain as a whole, but quite unequal between regions.</p>
Sweden	<p><b><u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u></b></p> <p><b>Challenges:</b> Municipalities' strengthened responsibility for young people who are neither in employment, education or training, paves the way for additional improvements in outreach. A better developed partnership between the public employment service and various services and actors at the local level will be a key success factor.</p> <p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p>Municipalities have a central role in supporting new constructions: they have the planning monopoly, plan and finance public infrastructure projects and own high proportion of land eligible for construction. Nevertheless, municipalities do not have sufficient (financial) incentives to support construction activities.</p> <p>Municipalities, having the planning monopoly, often impose different local standards and requirements which fragment the market. Such fragmentation reduces</p>



	<p>efficiency, increases building costs and raises uncertainty for construction companies.</p> <p>Public infrastructure projects can positively impact housing supply in the medium term. Investment in road, railways or metro line facilitates commuting to main urban areas. Nevertheless, municipalities enjoy relative independence in their public transport strategy including the funding.</p> <p>Over the last few years, migration into Sweden has increased substantially (And the estimation from the Swedish Migration Board said that the number of asylum seekers is likely to stay at high levels in 2015). The Swedish government is currently reviewing the legislation, among other things with the objective to make all municipalities contribute to the reception of asylum seekers (until now, the concentration of asylum seekers in a limited number of municipalities has been high, also linked to the fact that reception has been voluntary).</p> <p>As regards the Youth Guarantee for persons not in employment, education or training, the strengthening of municipalities' responsibility to monitor young persons under 20 who are not in education is an important change in handling youth at risk of exclusion.</p> <p>Past education reforms promoting decentralisation and school choice were not sufficiently accompanied by centralised quality assurance mechanisms. Since the mid-1990s municipalities have been at the forefront of implementing nationally set goals and requirements. However, in particular smaller municipalities lacked local capacity to manage their new responsibilities and decentralisation took place without enough support from the central authorities.</p> <p>The implementation of school reforms and resource allocation continue to differ widely among municipalities. A limited number of municipalities have been using the legal possibility to allocate resources to schools with low performing and/or socially underprivileged students.</p> <p>The strong migration means an increased pressure on social services provided by the municipalities. Some municipalities face particular challenges in terms of caring for unaccompanied minors.</p> <p><b><u>Structural issues, fiscal framework and taxation</u></b></p> <p>The Swedish fiscal framework, which is characterised by a cautious approach, has been stable over time. Sweden's fiscal framework has put public finances on a strong footing at both the central and local level. The framework comprises three key components. First, a surplus target (encompassing the finances of both central and local governments); second, a three-year nominal expenditure ceiling for central government and the pension system controls budget overruns and forces government departments to prioritise. Third, the balanced budget rule for local authorities forbids municipalities and counties to approve ex ante deficit budgets and requires them to compensate for any ex post deficits within three years.</p>
United Kingdom	<p><b><u>Labour market, education, social policies, demography, long term care and housing</u></b></p> <p><b>Housing</b> Demographic and other factors that affect demand for housing are now placed at the heart of planning strategy at the local level. Local authorities are encouraged to prepare a Strategic Housing Market Assessment taking account of household and population projections, migration and demographic change. The assessment then becomes a component of the local plan which all local authorities are encouraged to prepare. Local plans are used to guide planning decisions within</p>



the local authority area.

To date, around 80% of local authorities have adopted a local plan. In addition, it is worth noting that local authorities are not compelled to produce a local plan.

Open spaces (green belt surrounding urban areas) are determined and managed at the local level by local authorities. Local authorities are required to define, and enhance, open spaces within the green belt. Green belts need to be consistent with local authorities' plans for sustainable development and local authorities are required to 'assess the desirability' of ensuring that development takes place around urban areas within the green belt or beyond the boundaries of the green belt. In its assessment of an application for development, a local authority needs to ensure that 'very substantial weight' is given to 'any harm to the green belt'.

Local authorities are encouraged to identify brownfields sites that are appropriate for housing.

**Education** All devolved administrations are addressing the issue of low basic skills with education reforms.

#### **Structural issues, fiscal framework and taxation**

**Taxation** Business rates are charged on most nondomestic properties such as shops, offices and factories. There are separate but similar systems in England, Scotland, Wales and Northern Ireland as this is a devolved competence.

**Recurrent property taxes** are levied at the local level by local authorities although the proportion of revenue raised by such taxes differs for each local authority.

**Council tax revenues** received by local authorities are set in relation to the needs of the local authority and other funding sources. These sources can be grants from central government and revenue from business rates.



### **Global synthesis:**

This section look at the 27 member states (except Greece) based on the CoR analysis of the 2014 CSRs and examines the recommendations made by the European Commission.

For the purposes of a comparative analysis the territorial issues were subdivided into seven main policy areas:

- 1) Competitiveness, investments, growth and jobs strategies
- 2) ESIF 2014-2020 and subnational finance
- 3) Labour market, education, social policies, demography, long term care and housing
- 4) Modernization of public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances
- 5) Regional disparities
- 6) Structural issues, fiscal framework and taxation
- 7) Transportation, energy, environment and R&D

These categories can be compared to the GDP per head and the employment rate of 2013 for each EU member states.

Below this, you will find a table which indicates which of the EU countries face difficulties in these categories.

The following table is just a quick reminder of the main issues discussed above. It's doesn't take into consideration the importance or the number of troubles that the country could face.

Concerning the territorial issues of the CSR 2015, we can see that more than a half (70%) of the EU countries face troubles in the category "Public administration, administrative capacity, multilevel governance, distribution of competencies and management of the public finance"(19 on 26 countries have a note in this class).

And that almost three quarters (74%) of the member states face troubles in the "Labour market, education, social policies, demography, long term care and housing"(20 on 27 countries have a note in this class).

Regarding the "ESIF 2014-2020 and subnational finance" category, there is only 6 countries having a notes. About the "Regional disparities" and "Transportation, energy, environment and R&D" categories, only 8 countries received a notice.

To conclude, concerning the 2015 territorial issues, the EU member states received in average observations in 3 of the categories present above.



Country	GDP per head (2013)	Employment rate (2013)	Regional disparities in employment rates (2013)	1	2	3	4	5	6	7	TOTAL
Austria	128	75,5 %	95,33				X		X		2
Belgium	119	67,2%	109,81			X	X			X	3
Bulgaria	45	63,5%	98,96	X		X	X	X		X	5
Croatia	61	57,2%	-	X	X		X	X			4
Cyprus	89	67,2%	-				X				1
Czech Republic	82	72,5%	95,06			X	X	X			3
Denmark	124	75,6%	86,22	X		X					2
Estonia	73	73,3%	-	X	X	X			X		4
Finland	113	73,3%	103,12	X	X	X	X	X	X	X	7
France	107	69,6%	122,73				X		X		2
Germany	122	77,1%	96,59			X	X			X	3
Hungary	66	63,2%	99,99			X	X	X	X		4
Italy	99	59,8%	152,01	X		X	X	X			4
Ireland	130	65,5%	-			X	X				2
Latvia	64	69,7%	-		X	X			X		3
Lithuania	73	69,9%	-			X					1
Luxembourg	257	71,1%	-			X	X				2
Malta	86	64,8%	-				X				1
Netherlands	131	76,5%	91,89			X			X	X	3





## Committee of the Regions

Poland	67	64,9%	<b>100</b>			X	X		X	X	<b>4</b>
Portugal	79	65,4%	96,35				X		X		<b>2</b>
Romania	55	63,9%	103,51	X	X		X	X		X	<b>5</b>
Slovakia	75	65%	104,06			X		X	X		<b>3</b>
Slovenia	82	67,2%	-	X	X		X				<b>3</b>
Spain	94	58,6%	116,71	X		X	X		X	X	<b>5</b>
Sweden	127	79,8%	89,81			X	X		X		<b>3</b>
United Kingdom	109	79,8%	101,35			X			X		<b>2</b>
<b>TOTAL</b>	<b>EU index = 100</b>	<b>-</b>	<b>Index is Poland = 100</b>	<b>9</b>	<b>6</b>	<b>19</b>	<b>20</b>	<b>8</b>	<b>13</b>	<b>8</b>	<b>83</b>
<b>%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,8%</b>	<b>7,2%</b>	<b>23%</b>	<b>24,1%</b>	<b>9,6%</b>	<b>15,7%</b>	<b>9,6%</b>	<b>100%</b>



Categories	Countries	Number of countries
<b>Competitiveness, investment, growth and jobs</b>	Bulgaria, Croatia, Denmark, Estonia, Finland, Italy, Romania, Slovenia, Spain	<b>9</b>
<b>ESIF 2014-2020 and subnational finance</b>	Croatia, Estonia, Finland, Latvia, Romania, Slovenia	<b>6</b>
<b>Labour market, education, social policies, demography, long term care and housing</b>	Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Slovakia, Spain, Sweden, United Kingdom	<b>19</b>
<b>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</b>	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Finland, France, Germany, Hungary, Italy, Ireland, Luxembourg, Malta, Poland, Portugal, Romania, Slovenia, Spain, Sweden	<b>20</b>
<b>Regional disparities</b>	Bulgaria, Croatia, Czech Republic, Finland, Hungary, Italy, Romania, Slovakia	<b>8</b>
<b>Structural issues, fiscal framework and taxation</b>	Austria, Estonia, Finland, France, Hungary, Latvia, Netherlands, Poland, Portugal, Slovakia, Spain, Sweden, United Kingdom	<b>13</b>
<b>Transportation, energy, environment and R&amp;D</b>	Belgium, Bulgaria, Finland, Germany, Netherlands, Poland, Romania, Spain	<b>8</b>

Source: elaboration on the 2015 Country Reports of the European Commission ([http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm))

# Annex 10 – Territorial issues concerning administrative capacity and multilevel governance in the Country Reports for 2015

Categories	Countries	Number of countries
<b>Corruption and transparency</b>	Bulgaria, Croatia, Finland, Hungary, Italy, Portugal, Romania, Slovenia, Spain	<b>9</b>
<b>Management of EU funds</b>	Bulgaria, Croatia, Estonia, Finland, Romania, Slovenia	<b>6</b>
<b>Management of public finance and fiscal consolidation targets</b>	Belgium, Croatia, Germany, Italy, Spain	<b>5</b>
<b>Public procurement and e-governance</b>	Bulgaria, Croatia, Hungary, Italy, Romania, Spain	<b>6</b>
<b>Administrative burden and administrative capacity</b>	Bulgaria, Croatia, Cyprus, Finland, Italy, Ireland, Latvia, Luxembourg, Malta, Poland, Romania, Slovenia, Spain	<b>13</b>
<b>Territorial reform</b>	Bulgaria, Croatia, France, Spain	<b>4</b>
<b>Relationships between level of government</b>	Belgium, Croatia, Czech Republic, Italy, Poland	<b>5</b>
<b>Others</b>	Germany, Portugal	<b>2</b>

Source: elaboration on the 2015 Country Reports of the European Commission ([http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm))