

EUROPEAN UNION



Committee of the Regions

# 2016 European Semester

## **Territorial Analysis of the Country Reports and accompanying Communication**

REPORT OF THE STEERING COMMITTEE OF THE EUROPE 2020 MONITORING PLATFORM



Regions and Cities supporting  
**Europe2020**  
Europe's growth strategy





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### Table of Contents

<b>PREFACE</b> .....	2
<b>1. INTRODUCTION</b> .....	3
<b>2. A TERRITORIAL ANALYSIS OF THE COUNTRY REPORTS FOR 2016</b> .....	3
2.1 <i>State of implementation of the territory-related 2015 CSRs</i> .....	3
2.2 <i>Territory-related issues in the 2016 Country Reports</i> .....	6
<b>3. TERRITORY-RELATED PRIORITY ISSUES IN THE 2016 COUNTRY REPORTS</b> .....	8
3.1 <i>Territory-related obstacles to investment</i> .....	8
3.2 <i>Administrative capacity at regional and local level</i> .....	13
<b>4. CONCLUSIONS</b> .....	17
<b>ANNEXES</b> .....	18

## PREFACE



The territorial dimension of the European Semester, although officially "undeclared" by the European Commission, emerges clearly in the 2016 Country Reports. Of the 102 Country-specific recommendations issued in 2015, more than half (55) are *territory-related*, because they address problems whose intensity differs between regions and that involve directly or indirectly the role of the local and regional authorities. This shows that territories and their governments are inescapable actors of the European Semester.

Overall, the implementation of the *territory-related* recommendations is slightly more advanced than that of *all* recommendations taken together, likely due to the fact that two thirds of the former were reiterated in 2015 after being issued in 2014

Besides reporting on the implementation of last year's recommendations, the Country Reports draw a picture of the economic and social challenges Member States are facing, setting the stage for the forthcoming 2016 Country-specific recommendations (expected in May).

Of the 178 *territory-related issues* raised in the Reports, spread across all countries and policy areas, almost 60%, address *obstacles to investment*, mainly consisting in burdensome horizontal and sectoral regulations, insufficient quality of public administration, specific barriers in the labour market as well as in the market of funding for SMEs.

The findings presented here strongly support the need that local and regional authorities take part in the dialogue between Member States and the European Commission to identify and address obstacles to investment within the context of a multi-level approach to designing and implementing the National Reform Programmes.

To this aim, the European Committee of the Regions has launched two proposals in the current Semester: the adoption of a code of conduct on the involvement of local and regional authorities in the European Semester - of which the CoR will present a detailed proposal - and the adoption of a single strategic document coordinating all strands of EU interventions to support the improvement of administrative capacity at all levels of government.

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## 1. INTRODUCTION

In the context of the European Semester, the Country Reports assess Member States' progress in structural reforms and the reduction of macroeconomic imbalances. They are published by the European Commission in February, to allow time for relevant stakeholders to discuss their countries' main economic and social challenges ahead of the publication of the National Reform Programmes and the Stability or Convergence Programmes, in April, and of the Country-specific Recommendations in May.

Every year, the CoR analyses the Country Reports – as well as the other main documents of the European Semester, i.e. the National Reform Programmes and the Country-specific Recommendations - from a territorial standpoint, looking at mentions of territorial differentiations and disparities, as well as at the acknowledgment of the role played by the local and regional authorities to support investment and pursue structural reforms<sup>1</sup>. These analyses feed into the CoR's political contribution to the European Semester, which includes - in parallel with the European Parliament - a document on the AGS in February (ahead of the Spring European Council endorsing the AGS) and one on the implementation of the current Semester, in October (ahead of the next AGS).

This year, specific attention has been devoted to track, from a territorial standpoint, how the tightly inter-related challenges of removing obstacles to investment and improving administrative capacity are dealt with in the Country Reports. This focus follows from the Resolution of the European Committee of the Regions on the 2016 AGS (adopted on 10 February 2016), in which the CoR, considering the European Commission's intention to engage in a dialogue with the Member States on the identification of such obstacles, stressed the need to analyse them in cooperation between all government levels, and to involve the CoR in this process.

## 2. A TERRITORIAL ANALYSIS OF THE COUNTRY REPORTS FOR 2016

### 2.1 *State of implementation of the territory-related 2015 CSRs*

In 2015, a total of 102 Country-specific Recommendations (CSRs) were addressed to the 26 Member States which received Country Reports<sup>2</sup>. In 2014, the same countries had received 157 CSRs; the reduced number of CSRs in 2015 reflects the approach of the Juncker Commission, in duty since November 2014, to reduce the number of CSRs in order to (a) focus efforts on each country's urgent and specific challenges and (b) increase ownership of the CSRs at country level.

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<sup>1</sup> While the analysis of the Country Reports and the Country-specific Recommendations is carried out by the CoR services, the analysis of the National Reform Programmes is done by an external contractor. The 2015 issues of the territorial analysis of CRs and CSRs can be found at <http://portal.cor.europa.eu/europe2020/Pages/welcome.aspx>, while the analyses of the National Reform Programmes can be found at <http://cor.europa.eu/en/documentation/studies/Pages/studies.aspx>

<sup>2</sup> Greece did not receive CSRs because it was under macro-economic adjustment programme. The 2016 Country Report for Cyprus was published too late to be included in this analysis.

This section analyses the state of play of the *territory-related recommendations* included in the 2015 CSRs (**Table 1**<sup>3</sup>), defined as *those CSRs that, entirely or in part, point at regionally-differentiated challenges, and whose implementation rely (directly or indirectly) on sub-national levels of government*<sup>4</sup>.

**Table 1 – Territory-related CSRs and all CSRs: overall implementation scores (2015 compared to 2014)**

Assessment	55 territory-related CSRs (in % of their total)		All (102) CSRs (in % of their total)	
	2014	2015	2014	2015
<b>No/limited progress</b>	<b>63.6</b>	<b>49,1</b>	<b>47,0</b>	<b>48,1</b>
<b>Some progress</b>	<b>36.4</b>	<b>49,1</b>	<b>41,0</b>	<b>41,2</b>
<b>Full/substantial progress</b>	<b>=</b>	<b>1,8</b>	<b>12,0</b>	<b>3,9</b>
<b>Data not yet available</b>	<b>=</b>	<b>=</b>	<b>=</b>	<b>6,9</b>
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0%</b>	<b>100,0</b>

Source: CoR/ECON elaboration on the EC 2016 Country Reports (26.02.2016) and EP "At a glance" notes on the implementation of the 2014 and 2015 CSRs (12.08.2015 and 04.03.2016 respectively)

In 2015, 55 *territory-related* CSRs had been addressed to 24 Member States (in 2014, 18 Member States got 41 such CSRs) (**Annex 1**); 23 of them addressed directly the role of the local and regional authorities (in 2014, 33 CSRs addressed directly the local and regional authorities) (**Annex 2**).

As observed already in the context of the 2015 European Semester, the number of *territory-related* CSRs per member country is positively correlated to territorial disparities between and within countries: the last ten countries in terms of GDP per capita have almost twice as many *territory-related* CSRs as the first ten.

As shown by the analysis published in June 2015<sup>5</sup>, around 70% of the *territory-related* CSRs for 2015 are about either "labour market, education and social policies" (40%) or "public administration, multilevel governance, distribution of competences and management of public finances" (31%). With the third biggest area by number of recommendations, "structural issues, fiscal framework and taxation" (22%), these policy areas include 51 out of 55 *territory-related* CSRs (**Table 2**).

<sup>3</sup> The seven CSRs for which "data are not yet available" are not *territory-related*, since they all concern the overall budgetary situation of the Member States concerned.

<sup>4</sup> This definition implies that one CSR may contain more than one territory-related recommendation. This has to be born in mind when comparing territory-related CSRs' and all CSRs by means of summary statistics. In this report, for the sake of simplicity, any territory-related recommendation is a "territory-related CSR".

<sup>5</sup> "2015 European Semester: Territorial analysis of the 2015 Country-specific Recommendations". Report of the Steering Committee of the Europe 2020 Monitoring Platform (<http://portal.cor.europa.eu/europe2020/pub/Pages/welcome.aspx>). The quantitative tables presented this year differ slightly from this year's because of a revised way of grouping the recommendations by issue; an improved breakdown of the content of the CSRs led to identifying 55 *territorially-relevant* recommendations instead of 53 as last year.

Table 2 – Territory-related CSRs for 2015: breakdown by policy area and state of implementation

State of implementation	Competitiveness, investment, growth and jobs	Labour market, education, social policies, demography, long term care and housing	Public administration, multilevel governance, distribution of competencies, management of public finances	Structural issues, fiscal framework and taxation	Transportation, energy, environment and R&D	Total	Total (in %)
No progress		1	1	1		3	5,5
Limited progress		6	10	6	2	24	43,6
Some progress	2	14	6	5		27	49,1
Substantial progress		1				1	1,8
Total per policy area	2	22	17	12	2	55	100,0
Total (in %)	3,6	40,0	30,9	21,8	3,6	100,0	

Table 2a – Territory-related CSRs for 2015 already issued in 2014 (by policy area and state of implementation)

State of implementation	Competitiveness, investment, growth and jobs	Labour market, education, social policies, demography, long term care and housing	Public administration, multilevel governance, distribution of competencies, management of public finances	Structural issues, fiscal framework and taxation	Transportation, energy, environment and R&D	Total	Total (in %)
No progress		1		1		2	5,6
Limited progress		5	7	4	1	17	47,2
Some progress	1	11	2	2		16	44,4
Substantial progress		1				1	2,8
Total per policy area	1	18	9	7	1	36	100,0
Total (in %)	2,8	50,0	25,0	19,4	2,8	100,0	

Table 2b – Territory-related CSRs for 2015, not already issued in 2014 (by policy area and state of implementation)

State of implementation	Competitiveness, investment, growth and jobs	Labour market, education, social policies, demography, long term care and housing	Public administration, multilevel governance, distribution of competencies, management of public finances	Structural issues, fiscal framework and taxation	Transportation, energy, environment and R&D	Total	Total (in %)
No progress			1			1	5,3
Limited progress		1	3	2	1	7	36,8
Some progress	1	3	4	3		11	57,9
Total per policy area	1	4	8	5	1	19	100,0
Total (in %)	5,3	21,1	42,1	26,3	5,3	100,0	

Source: CoR/ECON elaboration on the EC 2016 Country Reports (26.02.2016)

The state of play of *territory-related* CSRs for 2015, based on the assessment included in the 2016 Country Reports published on 26 February 2016<sup>6</sup>, shows that:

- half (49%) of the *territory-related* 2015 CSRs has made "some progress", many more than was the case for the 2014 CSRs one year ago (36.4%) and many more than the "some progress" subset of *all* 2015 CSRs today (41.2%)
- the other half (49%) of the *territory-related* 2015 CSRs shows "no" or "limited" progress today, down from 63.6% for the *territory-related* 2014 CSRs one year ago – while, of *all* CSRs, almost half made "no" or "limited" progress both today (48% of *all* 2015 CSRs) and one year ago (47% of *all* 2014 CSRs).

The progress of *territory-related* 2015 CSRs, better than that of *all* 2015 CSRs, reverses the picture observed one year ago with respect to the 2014 CSRs, when the *territory-related* recommendations performed worse than *all* recommendations altogether.

This improvement is likely to be linked to the fact that two thirds of the *territory-related* CSRs issued in 2015 (36 out of 55) had already been issued one year earlier as part of the 2014 CSRs (**Table 2a**), so that their implementation was underway when the 2015 CSRs were issued. Moreover, progress in implementation was quicker for the "new" *territory-related* CSRs (i.e., those issued in 2015 but not in 2014: **Table 2b**) than for those already issued in 2014. These circumstances explain why the progress made by the *territory-related* CSRs is better than that of *all* CSRs recorded in the latest Country Reports.

## 2.2 *Territory-related issues in the 2016 Country Reports*

The 2016 Country Reports include 178 *territory-related issues*, defined as *issues that point at a regionally-differentiated challenge and at the (direct or indirect) role of the sub-national levels of government*. These *territory-related issues* are spread over all the 26 Member States for which a Country Report was published<sup>7</sup> (**Table 3**). Unlike the 2015 CSRs – which largely focused on "labour market, education and social policies" and "public administration, multilevel governance, distribution of competences and management of public finances" - the 2016 *territory-related issues* are distributed much more evenly between all policy areas.

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<sup>6</sup> The Country Reports use the following marks:

- **No progress:** The Member State (MS) has neither announced nor adopted measures to address the CSR. This category also applies if the MS has commissioned a study group to evaluate possible measures.

- **Limited progress:** The MS has announced some measures to address the CSR, but these appear insufficient and/or their adoption/implementation is at risk.

- **Some progress:** The MS has announced or adopted measures to address the CSR. These are promising, but not all of them have been implemented and it is not certain that all will be.

- **Substantial progress:** The MS has adopted measures, most of which have been implemented. They go a long way towards addressing the CSR.

- **Fully implemented:** The MS has adopted and implemented measures that address the CSR appropriately.

<sup>7</sup> Greece and Cyprus were not address a country report because they were under financial assistance.



Table 3 – Territory-related issues in the 2016 Country Reports (by country and policy area)																												
	AT	BE	BG	HR	CZ	DK	EE	FI	FR	DE	HU	IE	IT	LV	LT	LU	MT	NL	PL	PT	RO	SK	SI	ES	SE	UK	TOT	TOTAL (in %)
1. COMPETITIVENESS, INVESTMENT, GROWTH AND JOBS.	1	2	5	1		1	5	3	3	5	2		3	2			1			1		2	2	1			40	22,5
- of which: ESIF 2014-2020 and subnational finance		1	4	1		1	1	1		1	1		2														13	7,3
2. LABOUR MARKET, EDUCATION, SOCIAL POLICIES, DEMOGRAPHY, LONG-TERM CARE AND HOUSING	1	2	6	2	1	1		3	3	1	4	2	4	3	2	1		2	3		3	2		8	4	3	61	34,3
3. PUBLIC ADMINISTRATION, MULTILEVEL GOVERNANCE, DISTRIBUTION OF COMPETENCIES, MANAGEMENT OF PUBLIC FINANCES	2		3	2	2		1	3	1	2	3		4	2	1				3	1	1	2		2			35	19,7
4. STRUCTURAL ISSUES, FISCAL FRAMEWORK AND TAXATION	1	1			1	2		1	1	1			2	1				1				2		3	1	1	19	10,7
5. TRANSPORTATION, ENERGY, ENVIRONMENT AND R&D		2				2	1	1	2	3			5	2									1	3	1		23	12,9
TOTAL	5	7	14	5	4	6	7	11	10	12	9	2	18	10	3	1	1	3	6	2	4	8	3	17	6	4	178	100,0
TOTAL (in %)	2,8	3,9	7,9	2,8	2,2	3,4	3,9	6,2	5,6	6,7	5,1	1,1	10,1	5,6	1,7	0,6	0,6	1,7	3,4	1,1	2,2	4,5	1,7	9,6	3,4	2,2	100,0	
Source: CoR/ECON elaboration on the EC 2016 Country Reports																												

This finding confirms that a "territorial dimension" is spread across the whole spectrum of challenges to which the European Semester aims at providing a coordinated policy response. As every year, the 2016 Country Reports set the analytical background for the 2016 CSRs, to be published on 18 May.

### 3. TERRITORY-RELATED PRIORITY ISSUES IN THE 2016 COUNTRY REPORTS

#### 3.1 *Territory-related obstacles to investment*

In the wake of the economic and financial crisis, the EU faces an "investment gap", defined as a persisting and cumulative lack of long-term investments which is bringing down expectations on long-term growth and job creation.

While *macroeconomic* reasons have played a role in depressing both private long-term investments (because of insufficient expected returns) and public ones (because fiscal consolidation led public administrations to prioritise social and other short-term expenses), this section focuses on *micro-economic* obstacles to investment (arising when inadequate public governance, a challenging business environment and poor quality of the public administration at the different levels discourage public and private investments).

Addressing this kind of obstacles to investment by means of structural reforms and increased quality of public administration is one of the current priorities of the European Semester and one of the pillars of the Investment Plan for Europe<sup>8</sup>.

Besides reviewing EU-level obstacles, mainly concerning the single market, the banking union and the capital markets union, the 2016 AGS has launched a review of obstacles to investment at country level. Each Member State has been requested to engage in a dialogue with the European Commission, based on an initial tentative list.

In its Resolution on the 2016 Annual Growth Survey, the CoR, "considering the European Commission's intention to engage in a dialogue with the Member States on the identification of such obstacles, stresses the need to specifically analyse them *at all government levels* and to involve the CoR in this process"<sup>9</sup>.

As a contribution to this process, this section examines the Country Reports to identify actual *territory-related obstacles to investment*, defined as those obstacles that (a) have a territorially

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<sup>8</sup> [http://ec.europa.eu/priorities/jobs-growth-and-investment/investment-plan\\_en](http://ec.europa.eu/priorities/jobs-growth-and-investment/investment-plan_en)

<sup>9</sup> <http://toad.cor.europa.eu/AgendaDocuments.aspx?pmi=RmFYXXWy9u8IZ7pSi4%2fGZUmyxsAZDhjNdLxAYnYqvwQ%3d&ViewDoc=true>

differentiated impact *within* countries, and that (b) local and regional authorities could help to remove. A tentative, preliminary list of *territory-related obstacles* is presented in **Box 1**.

## **BOX 1 – TERRITORY-RELATED OBSTACLES TO INVESTMENT**

The following list draws on the Commission Staff Working Document SWD (2015) 400 final, accompanying the 2016 Annual Growth Survey (November 2015), on the European Committee of the Region's *6th Monitoring Report on the Europe 2020 and the European Semester* (October 2015) and on the *Results of the OECD/CoR Consultation on sub-national governments. Infrastructure planning and investment across levels of government: current challenges and possible solutions*. (December 2015). Needless to say, not all the obstacles listed here apply to all countries and regions in the same way.

### **1) GOVERNANCE/PUBLIC ADMINISTRATION/PUBLIC PROCUREMENT**

#### **Public administration, administrative burden and governance issues**

- Low quality and perceived inefficiency of public administration, significant discrepancies in administrative capacity of public authorities at local level (including lack of coordination across sectors), resulting in differences in time needed for administrative procedures that are crucial for businesses
- Lack of proper planning, irregularities in administering EU funds
- In some countries/regions, the perceived level of corruption holds back investments
- Lack of coordination between different levels of government
- Weakness in monitoring and evaluation of investment strategies, in particular in infrastructure
- Burdensome regulations and taxation issues at sub-national level

#### **Public procurement/PPPs**

- In some countries/regions, a weak management of PPPs
- Legal uncertainty resulting from frequent revisions of public procurement law
- Certain mismatch between the functions and financial resources of local governments
- Complexity or inefficiency in the public procurement framework

### **2) EDUCATION/LABOUR MARKET/RESEARCH, DEVELOPMENT AND INNOVATION**

- Disconnection between educational institutions and labour market needs, resulting in skills mismatches. Overall deficient lifelong learning programmes cannot properly remedy that. Labour shortages.
- Duplications and gaps between national and regional R&I programmes
- Lack of quality support for R&D area
- In some regions/countries, lack of consistent educational programmes in the R&D area
- Difficult access to credit for SMEs

### **3) SECTOR SPECIFIC REGULATION**

#### **Retail**

- Restrictive retail establishment regulations

#### **Construction**

- Inconsistencies concerning local spatial planning, local spatial plans change frequently and are often inconsistent with regional spatial planning documents
- Length and costs of permits

#### **Digital Economy / Telecommunications**

- High regulatory burdens in some countries

#### **Energy**

- In some countries, lack of regional cooperation

- The complexity of administrative procedures and a lack of coordination between decision-making levels can constitute a barrier to investments
- Changing support conditions of the regulatory framework for renewable energy might result in a lack of instability and predictability

#### Transport

- In some countries, connections between regions are often insufficient
- In some regions/countries, poor coordination and insufficient monitoring of investment, deficiencies in planning and management of big infrastructure projects

Quite frequently, *territory-related recommendations and issues* mentioned in the 2016 Country Reports refer to *obstacles to investment*, as shown by the examples presented in **Box 2** below. The main findings of this analysis, broken down according to the three main groups of obstacles presented in Box 1, read as follows:

- 32 out of the 55 *territory-related* CSRs issued in 2015 deal with obstacles to investment and were addressed to 21 member countries (**Table 4**). Interestingly, 17 out of these 32 recommendations are directly addressed to the local and regional authorities;

	AT	BE	BG	HR	CZ	DK	FI	FR	DE	HU	IE	IT	LV	LT	PL	PT	RO	SK	ES	SE	UK	TOT	TOTAL (in %)
<b>1. Governance, public administration, public procurement</b>	1			1	2			1	1	2		4				2	1	1	1			17	53,1
<b>2. Education, R&amp;D, innovation, labour/skill shortages, credit for SMEs</b>													1	1		1		1			1	5	15,6
<b>3. Sector-specific regulations</b>		2				1	1					3			1			1		1		10	31,3
<b>TOTAL</b>	1	2	0	1	2	1	1	1	1	2	0	7	1	1	1	3	1	3	1	1	1	32	100,0
<b>TOTAL (in %)</b>	3,1	6,3	0,0	3,1	6,3	3,1	3,1	3,1	3,1	6,3	0,0	21,9	3,1	3,1	3,1	9,4	3,1	9,4	3,1	3,1	3,1	100,0	

Source: CoR/ECON elaboration on the EC 2016 Country Reports (26.02.2016)

- roughly speaking, half of the *territory-related* CSRs dealing with obstacles to investment mentioned in the Country Reports are about "governance, public administration and public procurement", 30% of them arise from "sector-specific regulations" and the rest are about "education, labour market, R&D and innovation";
- 17 of the 32 *territory-related* CSRs in this group showed "some progress" (53.1%), 11 showed "limited progress" (40.6%) and 2 "no progress" (6.3%). The sum of those showing

"limited or no progress" (46.9%) is lower than the corresponding value for all 55 *territory-related* CSRs;

- 23 Country Reports state of 28 *territory-related issues* concerning obstacles to investment (**Table 5**).

Table 5 – Territory-related issues on obstacles to investments in the 2016 Country Reports (by country and policy area)																										
	AT	BE	BG	HR	CZ	DK	EE	FI	FR	DE	HU	IT	LV	LT	MT	PL	PT	RO	SK	SI	ES	SE	UK	TOT	TOTAL (in %)	
1. Governance, public administration, public procurement	1	2	4	2	2		3	2	4	5	5	6	2		1	1	2	1	4	1	1		1	50	53,2	
2. Education, R&D, innovation, labour/skill shortages, credit for SMEs		1	2			2	2	1		1		1				1					4		1	16	17,0	
3. Sector-specific regulations		2				2		1	1	2		5	4	1		1			1	2	5	1		28	29,8	
TOTAL	1	5	6	2	2	4	5	4	5	8	5	12	6	1	1	3	2	1	5	3	10	1	2	94	100,0	
TOTAL (in %)	1,1	5,3	6,4	2,1	2,1	4,3	5,3	4,3	5,3	8,5	5,3	12,8	6,4	1,1	1,1	3,2	2,1	1,1	5,3	3,2	10,6	1,1	2,1	100,0		
Source: CoR/ECON elaboration on the EC 2016 Country Reports (26.02.2016)																										

Source: CoR/ECON elaboration on the EC 2016 Country Reports (26.02.2016)

These findings show the contribution of the local and regional authorities in the implementation of the CSRs addressing obstacles to investment under the current priorities of the European Semester; it also shows that, in several cases, such obstacles to investment are linked to a lack of administrative capacity.

## BOX 2 – EXAMPLES OF TERRITORY-RELATED OBSTACLES TO INVESTMENT

The following examples were taken from the European Commission's 2016 Country Reports (26 February 2016).

**Austria (matching revenue-raising and spending responsibilities):** subnational governments have substantial spending responsibilities in major sectors, such as social assistance, healthcare (hospitals), parts of primary and secondary education, kindergartens, and the functioning of local and regional infrastructure. However, fiscal decentralisation appears low when it comes to revenues. Most sub-national revenue is provided by the federal government in the form of tax-sharing and intergovernmental transfers and the amount of revenue stemming from sub-national governments' own taxes is comparatively low. Setting revenue-raising powers and spending responsibilities at different levels of government is not cost-effective, because it does not incentivise local governments to pursue fiscal responsibility.

**Belgium (rethinking employment policies in a context of devolution):** The three regions and the German-speaking Community are simplifying, streamlining and reforming the employment policy instruments. Various additional employment policy levers have been transferred to the regional and community levels as of July 2014, including monitoring of job search requirements, apprenticeship support schemes as well as employment incentives for specific target groups. As aggregate

labour market figures for Belgium hide stark regional differences, the devolution of power has triggered reflections on how to optimize the fit between the existing target group policies and the regional labour market realities.

**Finland (regulation of large-scale retail outlets):** the country has a high level of regulation and operational restrictions applying to retail establishments. In particular, there is strict regulation of large-scale outlets. These regulations constitute an entry barrier and are therefore also detrimental to investment. The government has taken action to liberalise shop opening hours but has not yet addressed restrictions arising from the planning regulation.

**Italy (bottlenecks, administrative weaknesses restrictions to competition at local level):** Italy's public administration is characterised by significant bottlenecks and administrative weaknesses at local government level and, to a more limited extent, at national level. This also results in a low rate of absorption of EU structural funds. A comprehensive enabling law to reform Italy's public administration has been adopted and most of the implementing decrees will have to be adopted by August 2016. Insufficient coordination and overlapping responsibilities between levels of government increase uncertainty and make decision-making lengthy. A constitutional law to tackle this aspect is currently discussed in parliament. ... Last but not least, most state-owned enterprises in local public services are sheltered from competition and this may result in underinvestment in important sectors of the economy.

**Poland (uncertainty and inconsistency spatial planning at local level):** One of the key factors hampering investments, in particular in construction, is the spatial planning at a local level. Local spatial plans frequently change and are often inconsistent with regional spatial planning documents.

**Spain (barriers from business regulations across regions):** Substantial differences in business regulations across regions generate transaction costs for entrepreneurs. They can also segment markets, lower competition and companies' ability to benefit from economies of scale. The 2015 Doing Business indicators (benchmarking the ease of doing business across Spain's 17 autonomous regions) reveal considerable variations in business regulations and their implementation in Spain. Greater regulation at regional level in the retail sector may be associated with higher inflation, lower employment in the sector and greater commercial density. The 2013 law on market unity addresses regulatory fragmentation and good regulation in Spain. It aims at removing measures that may obstruct the free movement of goods and services and the establishment of economic operators throughout Spain. It also aims to simplify existing legislation for economic activities (including at regional level) and minimise administrative burdens by means of better regulation criteria. The implementation of the law on market unity by regional governments is critical to its success. However, this is being done slowly at this level.

**UK (need to strengthen regional skills policies):** Skills policy is largely the responsibility of the devolved administrations in the UK. In Scotland, the government has emphasised the need to increase the number of apprenticeships. It aims to raise the number of apprenticeships from 25 000 in 2013-2014 to 30 000 in 2020 under its Modern Apprenticeship programme overseen by Skills Development Scotland. Under the programme, skills investment plans and regional skills assessments will be used to ensure that apprenticeships are closely linked to areas of economic growth and job opportunities.

### 3.2 *Administrative capacity at regional and local level*

Improving the quality of public administration at all levels of government is a decisive horizontal challenge for the EU to deliver on both the current priorities of the European Semester and the long-term goals of the Europe 2020 strategy. This challenge is an urgent and pervasive one across Member States and policy areas, although especially crucial in the less developed Member States and those with sharp territorial differentiations.

Of the 55 *territory-related* CSRs issued by the European Commission in 2015<sup>10</sup>, 28 concerned administrative capacity issues and were addressed to 17 Member States (**Table 6**).

	AT	BE	HR	CZ	DK	EE	FI	FR	DE	HU	IT	PL	PT	RO	SK	ES	SE	TOTAL	TOTAL (in %)
<b>1. COMPETITIVENESS, INVESTMENT, GROWTH AND JOBS.</b>											1							1	3,6
<b>2. LABOUR MARKET, EDUCATION, SOCIAL POLICIES, DEMOGRAPHY, LONG-TERM CARE AND HOUSING</b>						1							1			3		5	17,9
<b>3. PUBLIC ADMINISTRATION, MULTILEVEL GOVERNANCE, DISTRIBUTION OF COMPETENCIES, MANAGEMENT OF PUBLIC FINANCES,</b>			1	1			1	1	1	1	2		1	2	3	1		15	53,6
<b>4. STRUCTURAL ISSUES, FISCAL FRAMEWORK AND TAXATION</b>	1	1			1					1	1						1	6	21,4
<b>5. TRANSPORTATION, ENERGY, ENVIRONMENT AND R&amp;D</b>												1						1	3,6
<b>TOTAL</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>1</b>	<b>28</b>	<b>100,0</b>

Source: CoR/ECON elaboration on the EC 2016 Country Reports (26.02.2016)

<sup>10</sup> See section 2.

Table 6 shows that:

- 15 of these recommendations belong to the policy area "public administration, multilevel governance ", in which the improvement of administrative capacity is the direct goal, while the remaining 13 raise capacity-related issues in other policy areas – mostly that of "labour market, education and social policies" and "structural issues, fiscal framework and taxation";
- the 17 Member States which received *territory-related* recommendations on improving administrative capacity differed from one another in terms of size, per capita GDP, geographic location and internal disparities, which suggests that the problem is indeed a horizontal one. However, as shown last year<sup>11</sup>, EU countries with lower GDP per capita and strong regional differentiations received more such recommendations than others;
- The state of implementation of these 28 *territory-related* recommendations on administrative capacity is less advanced than that of all 55 *territory-related* CSRs (**Annex 3**): 60% of them showed "no/limited progress" (49% for the whole group of 55) and 39% "some progress" (49% for the whole group of 55). Recommendations scoring "no/limited progress" are more frequent in the policy areas of "public administration" and "structural issues".

Almost half of the 178 *territory-related issues* raised in the 2016 Country Reports (83 out of 178), concerned administrative capacity and were addressed to 23 Member States (**Table 7**).

Within this group, the policy areas of "public administration" accounts for 40% of the total, "labour market/social issues" for 30% and "competitiveness and investments" for 20%.

Some examples of such obstacles are shown in **Box 3** below.

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<sup>11</sup> 2015 European Semester: Territorial analysis of the 2015 Country-specific Recommendations". Report of the Steering Committee of the Europe 2020 Monitoring Platform (<http://portal.cor.europa.eu/europe2020/pub/Pages/welcome.aspx>).



Table 7 – Territory-related issues on administrative capacity in the 2016 Country Reports (by country and policy area)																										
	AT	BE	BG	HR	CZ	EE	FI	FR	DE	HU	IT	LV	LT	MT	NL	PL	PT	RO	SK	SI	ES	SE	UK	TOT	TOTAL (in %)	
1. COMPETITIVENESS, INVESTMENT, GROWTH AND JOBS.	1		2	1					2	2	3			1			1		1	2	1			17	20,5	
- of which: ESIF 2014-2020 and subnational finance			1	1						1	2													5	6,0	
2. LABOUR MARKET, EDUCATION, SOCIAL POLICIES, DEMOGRAPHY, LONG-TERM CARE AND HOUSING		1	2				1				1	2	2		1	1		2	1		5	3	3	25	30,1	
3. PUBLIC ADMINISTRATION, MULTILEVEL GOVERNANCE, DISTRIBUTION OF COMPETENCIES, MANAGEMENT OF PUBLIC FINANCES	2		2	2	2	1	2	1	2	3	4	2	1			3	1	1	2		2			33	39,8	
4. STRUCTURAL ISSUES, FISCAL FRAMEWORK AND TAXATION	1																		1				1	3	3,6	
5. TRANSPORTATION, ENERGY, ENVIRONMENT AND R&D		2						1	2															5	6,0	
TOTAL	4	3	6	3	2	1	3	2	6	5	8	4	3	1	1	4	2	3	5	2	8	3	4	83	100,0	
TOTAL (in %)	4,8	3,6	7,2	3,6	2,4	1,2	3,6	2,4	7,2	6,0	9,6	4,8	3,6	1,2	1,2	4,8	2,4	3,6	6,0	2,4	9,6	3,6	4,8	100,0		
Source: CoR/ECON elaboration on the EC 2016 Country Reports (26.02.2016)																										

Source: CoR/ECON elaboration on the EC 2016 Country Reports (26.02.2016)

### BOX 3 – EXAMPLES OF TERRITORY-RELATED ISSUES CONCERNING ADMINISTRATIVE CAPACITY

The following examples were taken from the European Commission's 2016 Country Reports (26 February 2016).

**Bulgaria (regulatory and administrative burden)**<sup>12</sup>: Bureaucracy, corruption and policy instability are considered to be among the strongest obstacles to doing business. Procedures are complex, lengthy and relatively costly, in particular for enforcing contracts, trading across borders and connecting to the electricity grid. The frequently changing regulatory framework creates uncertainty as to the business environment.

**Croatia (fragmentation, complexity and inefficiency of the public administration)**: The Public Administration Development Strategy 2015 – 2020 and the 2015 National Reform Programme discuss at length the main weaknesses of the public administration system and put forward broad reform plans. Both documents acknowledge that efficiency in the provision of public services and performance of public functions is low, due to the highly fragmented system, and

<sup>12</sup> We assume that this problem applies also to the local and regional authorities, even if not explicitly mentioned.

particularly at local government levels, but also due to excessive rigidity in organisational structures. The Strategy highlights that over the past decades, the number of local sub-central units has increased several times, which resulted in a decreased capacity of those units to perform public functions.

**Czech Republic (aggregated procurement seldom used):** Czech public buyers are not benefiting from economies of scale and suffer from an unnecessary administrative burden. Steps have been taken to address this issue, such as the adoption of common principles for centralised procurement and the introduction of a centralised system by the Ministry of Finance, but such centralised systems still need to be fully rolled out to the public sector. Furthermore, the plans cover only aggregation by central government, not by municipalities or sectoral bodies such as hospitals and schools.

**France (spending by local authorities is inefficient):** Research on the efficiency of spending by local authorities using the efficiency frontiers found spending by the intermediate government level (*départements*) to be inefficient on average by -12 %, meaning that on average departments were below the benchmark of input-output combinations set by the efficiency frontier. The government has taken steps to optimise local authorities' activities with the territorial reform initiated in 2014 and pursued in three stages whereby the number of local authorities is streamlined to some extent and the overlap of certain functions is also limited. [...]. Moreover, measures to rationalise the administrative functions and the fusion of the groupings of communes and the merger regions (from 22 to 13 in 2016), have been taken.

**Germany (investment backlog in public infrastructure in financially weak municipalities):** an independent high level expert commission on increasing investment in Germany confirmed the diagnosis of an investment backlog in public infrastructure, cumulated notably in financially weak municipalities: complex responsibilities, administrative bottlenecks and complicated planning procedures are important barriers to investment. Complex planning responsibilities across the different levels of government result from the constitutional allocation of competences. In particular, municipalities are in charge of municipal transport infrastructure and the federal government has limited legal possibilities to contribute. Important bottlenecks also result from a limited administrative capacity of municipalities, such as due to staff shortage and insufficient specialist knowledge. An important reason for time overruns is complicated and lengthy legal and administrative procedures.

**Portugal (transparency challenges in public-private partnerships):** Transparency remains a challenge for public-private partnerships (PPPs), particularly at local and regional level, and as regards concession contracts. UTAP, the taskforce on public-private partnerships at the Ministry of Finance, only covers a set of PPPs managed by central government. PPPs in the water sector, for instance, and at regional and local level, are thus excluded and remain unsupervised despite significant fiscal risks. Authorities are aware of these loopholes and concur with the need to find a solution, but no concrete timeline has yet been put forward. In the area of conflict of interests, incompatibilities and revolving doors, legislation is largely in place, but there are still significant shortcomings as regards preventing corruption through effective monitoring, implementation and penalties. Outstanding challenges include prosecuting high-level and complex corruption and economic and financial crimes effectively, improving final conviction rates, and making penalties more of a deterrent.

**Slovakia (regulatory barriers and perceived corruption obstacles to foreign investments)<sup>13</sup>:** Investment bottlenecks in Slovakia arise mainly from regulatory barriers in the business environment and the low efficiency of public administration.

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<sup>13</sup> We assume that this problem applies also to the local and regional authorities, even if not explicitly mentioned.

The level of digitisation of the public administration and the use of e-government services is low. Lengthy court proceedings for litigious civil and commercial cases, including insolvency procedures, harm the business climate. Weakness persists in the public procurement system and limits the competition. The level of perceived corruption remains high and the impact of anti-corruption strategies is limited by institutional shortcomings. These factors discourage smaller foreign companies from investing in Slovakia and affect investment decisions of local SMEs.

#### 4. CONCLUSIONS

The analysis of the 2016 Country Reports carried out in this paper leads to the following conclusions.

##### **The (still undeclared) territorial dimension of the European Semester**

Although the 2016 Annual Growth Survey does not adopt explicitly a territorial perspective, the Country Reports (CRs) issued on 26 February 2016 make substantial reference to the territorial dimension of the economic and social situation. In fact, the CRs include a relevant and growing proportion of both *territory-related issues* (i.e., *issues that point at a regionally-differentiated challenge and at the (direct or indirect) role of the sub-national levels of government*) and *territory-related recommendations* (i.e., *those recommendations that point, entirely or in part, at a territorially-differentiated challenge, and whose implementation relies (directly or indirectly) on sub-national levels of government*).

##### **Less CSRs overall, but a higher proportion of territorial ones**

In 2015, while the overall number of CSRs was reduced by roughly one third with respect to 2014 (down to 102 from 157) in order to focus on the most relevant and urgent challenges, territory-related CSRs more than doubled as a percentage of all CSRs (up to 54% from 26% in 2014). Nearly all Member States got at least one *territory-related* recommendation (24 MS in 2015, up from 18 in 2014), although lagging Member countries, and to those with higher regional differentiation within them, got proportionally more. 23% of the *territory-related* CSRs were addressed *directly* to sub-national governments (21% in 2014).

##### **Lengthy work improves delivery on territory-related recommendations in 2015**

Based on the CRs, the 2015 *territory-related* CSRs made better progress than *all 2015 CSRs* – and also better progress than the 2014 *territory-related* CSRs one year ago. In fact:

- a) half of the 2015 *territory-related* CSRs (49%) made "some progress", in comparison to 41% of *all 102 CSRs*; one year ago, only 36% of the 2014 CSRs had made "some progress";
- b) the other half (49%) made "limited/no progress", in line with *all 102 CSRs* but down from 64% in 2014.

The main likely reason why *territory-related* CSRs show better progress than *all CSRs* is that two thirds of them had already been issued in 2014, so that implementation was already underway when the 2015 CSRs were published.

### **Widespread territory-related issues raise challenges within the Semester**

Setting the stage for the next CSRs (expected in May 2016), the Country Reports mention 178 *territory-related issues*. Each Country Report includes at least one of these issues, spread across all policy areas - although with special focus on labour market, social issues and the state of the public administration.

### **Territory-related obstacles hinder investment**

The 2016 CRs refer to widespread *territory-related obstacles to investment* - defined as those obstacles (a) that have a territorially differentiated impact *within* countries, and (b) that local and regional authorities could help to remove. In fact:

- a) 32 (58%) of the 55 *territory-related* CSRs, addressed to 21 Member States, deal with obstacles to investment; 17 of such recommendations were directly addressed to local and regional authorities;
- b) 53% of the 32 recommendations on obstacles to investment showed "some progress", more than *all territory-related* CSRs and more than *all CSRs*;
- c) in their analysis of the current situation, the Country Reports mention 28 issues related to obstacles to investment, involving 23 Member States.

### **Insufficient administrative capacity: a constraint to structural reforms and growth**

*Improving administrative capacity at the local and regional level* is a key challenge for re-launching long-term investments and ensuring growth and jobs, and progress is slow. Indeed, the Country Reports show that:

- a) 28 of the 55 *territory-related* CSRs address the need to improve administrative capacity; they stretch across different policy areas and are addressed to 17 Member States, quite different from one another in terms of GDP per capita - even if they are more likely to be addressed to the less developed EU countries;
- b) progress for these 28 *territory-related* CSRs on administrative capacity is more difficult than for *all* territory-related recommendations: 60% of them show "no/limited progress", only 39% show "some progress";
- c) around 50% of the *territory-related issues* raised by the Country Reports in preparation of the 2016 CSRs (83 out of 178) are about administrative capacity. 23 Member States are affected, mainly in the policy areas of "public administration" (50% of the 83), "labour market/social issues" (30%) and "competitiveness and investments" (20%).

## **ANNEXES**

Annex 1 - Territory-relevant CSRs for 2015 (by state of implementation and country)								
Country	CSR	1 Competitiveness, investment, growth and job	2 Labour market, education, social policies, demography, long term care, housing	3 Public admin, multilevel gov., distrib. of competencies, management of public finances	4 Structural issues, fiscal framework and taxation	5 Transportation, energy, environment and R&D	CSRs including territory-related recommendations	Territory-related recommendations
Austria	CSR1				L		1	1
Belgium	CSR1				L		3	3
	CSR2				S			
	CSR3		S					
Bulgaria	CSR3		L				2	2
	CSR4		S					
Croatia	CSR1				L		2	2
	CSR4			L				
Czech Republic	CSR2a			S			1	2
	CSR2b			S				
Denmark	CSR2				L		1	1
Estonia	CSR2		S				1	1
Finland	CSR2			L			2	2
	CSR4				S			
France	CSR2			S			1	1
Germany	CSR1a		L				1	2
	CSR1b			L				
Hungary	CSR3a				L		2	3
	CSR3b			NP				
	CSR5		L					
Ireland	CSR3		S				2	2
	CSR4				S			
Italy	CSR2a					L	3	7
	CSR2b	S						
	CSR3a			S				
	CSR3b			L				
	CSR6a	S						
	CSR6b				L			
	CSR6c				NP			
Latvia	CSR2		S				1	1
Lithuania	CSR2a		S				2	3
	CSR2b		L					
	CSR3		S					
The Netherlands	CSR2		SUB				1	1
Poland	CSR2		NP				2	2
	CSR4					L		
Portugal	CSR2		S				3	3
	CSR3		S					
	CSR5			L				
Romania	CSR3a			L			1	2
	CSR3b			L				
Slovakia	CSR2			L			2	3
	CSR4a			S				
	CSR4b			L				
Slovenia	CSR1			L			1	1
Spain	CSR1a			S			2	5
	CSR1b		L					
	CSR3a		S					
	CSR3b		S					
	CSR3c		L					
Sweden	CSR1				S		1	1
UK	CSR2				S		2	4
	CSR3a		S					
	CSR3b		S					
	CSR3C		S					
TOTAL (territory-relevant recommendations)		2	22	17	12	2	40	55

Annex 2 - Territory-related CSRs for 2015 directly addresses to local and regional authorities (by state of implementation and country)								
SUB= substantial progress; S= some progress; L=limited progress; NP= no progress; NDA= no data available								
Country	CSR	1 Competitiveness, investment, growth and job	2 Labour market, education, social policies, demography, long term care and housing	3 Public administration, multilevel gov., distribution of competencies, management of public finances	4 Structural issues, fiscal framework and taxation	5 Transportation, energy, environment and R&D	CSRs including territory-related recommendations	Territory-related recommendations
Austria	CSR1				L		1	1
Belgium	CSR1				L		3	3
	CSR2				S			
	CSR3		S					
Croatia	CSR1				L		2	2
	CSR4			L				
Czech Republic	CSR2			S			2	2
Estonia	CSR2		S				1	1
Finland	CSR2			L			2	2
France	CSR2			S			1	1
Germany	CSR1a		L				1	2
	CSR1b			L				
Ireland	CSR3		S				2	2
	CSR4				S			
Italy	CSR2a					L	3	7
	CSR2b	S						
	CSR3a			S				
	CSR3b			L				
	CSR6a	S						
	CSR6c				NP			
Portugal	CSR3		S					
	CSR5			L				
Romania	CSR3a			L			1	2
Slovenia	CSR1			L			1	1
Spain	CSR1a			S			2	5
	CSR1b		L					
	CSR3b		S					
	CSR3c		L					
Sweden	CSR1				S		1	1
UK	CSR3a		S					
	CSR3b		S					
	CSR3C		S					
TOTAL (n° of territory-related recommendations)		2	11	11	7	1	23	32

Annex 3 - Territory-related CSRs addressing administrative capacity issues (by state of implementation and country)								
Country	CSR	1 Competitiveness, investment, growth and job	2 Labour market, education, social policies, demography, long term care, housing	3 Public admin, multilevel gov., distrib. of competencies, management of public finances	4 Structural issues, fiscal framework and taxation	5 Transportation, energy, environment and R&D	CSRs including, territory-related recommendations	Territory-related recommendations
Austria	CSR1				L		1	1
Belgium	CSR2				S		1	1
Croatia	CSR4			L			1	1
Czech Republic	CSR2a			S			1	1
Denmark	CSR2				L		1	1
Estonia	CSR2		S				1	1
Finland	CSR2			L			1	1
France	CSR2			S			1	1
Germany	CSR1b			L			1	1
Hungary	CSR3a				L		1	2
	CSR3b			NP				
Italy	CSR2b	S					3	4
	CSR3a			S				
	CSR3b			L				
	CSR6c				NP			
Poland	CSR4					L	1	1
Portugal	CSR3		S				2	2
	CSR5			L				
Romania	CSR3a			L			1	2
	CSR3b			L				
Slovakia	CSR2			L			2	3
	CSR4a			S				
	CSR4b			L				
Spain	CSR1a			S			2	4
	CSR1b		L					
	CSR3b		S					
	CSR3c		L					
Sweden	CSR1				S		1	1
TOTAL (territory-relevant recommendations)		1	5	15	6	1	22	28
TOTAL (in % of all territory-relevant recommendations)		3,6	17,9	53,6	21,4	3,6	100,0	

SUB= substantial progress;S= some progress; L=limited progress; NP= no progress; NDA= no data available

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