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## „Governance and implementation of the European Structural Funds with a view to their reorientation after 2027“

Research project on behalf of the Federal Ministry of Economics and Climate Protection (BMWK)  
Final report

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## List of abbreviations

3DP	3D-Print
AI	Artificial Intelligence
BMAS	Federal Ministry of Labour and Social Affairs
BMF	Federal Ministry of Finance
BMUV	Federal Ministry for the Environment and Consumer Protection
BMWK	Federal Ministry for Economic Affairs and Climate Action
CAMO	Centre for automated mobility
CAP	Common Agricultural Policy
CLLD	Community-Led Local Development
CPR	Common Provision Regulation
CoR	European Committee of the Regions
DATI	German Agency for Transfer and Innovation
DEP	Digital Europe Programme
EAFRD	European Agricultural Fund for Rural Development
EDES	EU early detection and exclusion system
EP	European Parliament
ERDF	European Regional Development Fund
ESF	European Social Funds
ESM	efficient and sustainable manufacturing
ETC	European Territorial Cooperation
EU	European Union
FNLTC	Financing not linked to costs
GBER	General Block Exemption Regulation
GFS	Gesamtdeutsches Fördersystem (aims to strengthen the prosperity of economically weak regions and the equivalence of living conditions within Germany)

GRRP	German Recovery and Resilience Plan
GRW	Community Task for “Regional Economic Development”, German policy instrument
I3	Instrument for Interregional Innovation Investments
Interreg	European Territorial Cooperation
IPCC	Intergovernmental Panel on Climate Change
IRA	Inflation Reduction Act
IT	Information Technology
ITI	Integrated Territorial Investment
JTF	Just Transition Fund
COM	European Commission
LDR	less developed region
MDR	more developed regions
NANO	New Nano-Activated Products
NEIA	New European Innovation Agenda
NUTS	Nomenclature des Unités territoriales statistiques; developed to reference states’ regions for statistical purpose
OECD	Organisation for Economic Co-operation and Development
OP	Operational programme
PFAS	per-and polyfluoroalkyl substances
PRI	Partnerships for Regional Innovation
PIK	Potsdam Institute for Climate Impact Research
PO	Policy Objective
R&I	Research and Development
R&I	Research and Innovation
RIS3	Research and Innovation Strategies for Smart Specialisation
RRF	Recovery and Resilience Facility

SCO	Simplified cost options
SPRIND	Federal Agency for disruptive innovation
SynBLAG	“federal and state government dialogue” for synergy-related topics
SME	small and mid-sized enterprise
TJTP	Territorial Just Transition Plans
TR	Transition region
TRL	Technology Readiness Level
TO	Thematic Objective
VI	Vanguard-Initiative
WHO	World Health Organisation

## Executive summary



The **aim of this research project** was to examine in detail key aspects of the implementation, management and governance of the Structural Funds using the example German regions and to develop proposals for the governance of the future Cohesion Fund. This was implemented using a methodologically balanced approach of data and document analysis and with the involvement of experts (federal government, ERDF programme authorities of the federal states and other stakeholders from science, business and civil society). Aspects considered include the assessment of the changes from the 2021–2027 funding period, projects that demonstrate best practices for implementing political objectives, the role of regional innovation strategies for strategic management of investments, the reduction of access barriers to funding, and the possible transfer of governance elements from other regional policy instruments.

Need for action has also been identified in terms of simplification, a more targeted orientation of programmes and funding guidelines as well as efficient project processing. Specifically, practical experiences were recorded in six online exchange rounds with representatives of the ERDF managing authorities of the German federal states. In addition, a nationwide online consultation was carried out to involve other stakeholders. An expert workshop was held in June 2024 to discuss and validate initial results and recommendations. These measures were supplemented by a detailed analysis of relevant programme documents, statements and reports from various political levels and stakeholders.

This research project focuses on developing **options for the future design of cohesion policy governance**, including its structures, instruments, and procedures.

As a result, approaches for the design of a future structural policy were developed, which are presented in Chapter 2. They are presented in Chapter 3 together with well-founded, concrete options for action and recommendations for the further development of the governance of the Structural Funds in the new legislative package for the 2028–2034 funding period. Among other things, it discusses how funding can be better adapted to regional transformation needs and heterogeneous starting situations and how access and implementation can be improved while maintaining high standards of transparency and risk management. Chapter 4 concludes with an overall outlook.

Cohesion Policy is the European Union's most important instrument for promoting regional development in the member states. Cohesion policy focuses on areas such as competitiveness, innovation, climate and environmental protection and infrastructure. Its aim is to strengthen economic, social and territorial cohesion. In the 2021–2027 funding period, Germany will receive €23.3 billion, of which €10.8 billion will come from the European Regional Development Fund (ERDF), which invests primarily in innovation and environmental protection. All European regions are faced with the task of meeting the challenges of the twin transition towards a more sustainable and at the same time more digital economy. In light of these changes, the European Commission set up a high-level group of experts in January 2023. In February 2024, this High-Level Group presented recommendations on the future direction of cohesion policy. It clearly

states that the governance of future cohesion policy is a central function for the High-Level Group and is seen as the key to effective and efficient implementation of the instruments to achieve the policy objectives.

**Governance is understood here as the process of decision-making and implementation of decisions by public institutions or bodies.** In the context of the Structural Funds and cohesion policy, this involves multilevel governance, which encompasses all levels of the decision making process: the supranational level- the EU - and the national, regional and local governments. An important element of the EU's governance model is the partnership principle. It describes the involvement of regional actors from administration, business, associations and civil society. The beneficiaries (funding recipients) and other stakeholders make important contributions to the design and implementation of policies and their framework conditions (e.g. associations).

### **Selected elements of the governance of European Cohesion Policy**

German regions are facing considerable challenges from the **digital and green transformation (twin transition)**, although their preparation and impact vary. While industrial regions are particularly affected by the green transition and rural areas by the digital transition, studies show that some districts with high specialization are particularly exposed to "transformation stress". The green and digital transformation could further divide growth patterns in Europe, which is why adapted policy approaches are needed to take specific account of regional strengths and weaknesses. Due to their importance for the twin transition and the funding priorities in Germany, the focus of the research project is on policy objectives (PO) 1 (A smarter Europe) and policy objective 2 (A greener, CO<sub>2</sub>-free Europe).

**PO 1 embraces research and innovation (R&I) as crucial factors for the future of Europe** and calls on regions to effectively exploit their innovation potential to promote growth and social cohesion, supported by public investment and ERDF funding. The discussion about the definition of innovation and the correct evaluation of success shows that a broad concept of innovation and a tolerance for failure are necessary in order to evaluate R&I projects in the long term. The regional innovation strategies for intelligentspecialization (RIS3) are intended to strengthen the innovation base of the respective regions and develop future fields. These strategies, which have been established since 2014, will be continued in the 2021-2027 funding period, with a focus on the further development and consolidation of existing strategies in order to improve the effectiveness of funding measures and create synergies between EU instruments such as Horizon Europe and the ERDF.

**In PO 2 it is established that the European Green Deal serves as the strategic framework for cohesion policy.** The aim behind this is to promote a modern, resource-efficient and competitive economy while tackling climate and environmental challenges. In the 2021-2027 funding period, around 40% of ERDF funding will flow into projects that support the Green Deal, with the largest share being invested in the energy sector to reduce emissions. However, the increasing environmental and climate crises require broader systemic changes to achieve environmental as well as economic and social goals, which makes it necessary to focus cohesion policy on sustainable transformations and synergies between these goals. The fields of action that are particularly suitable here are those that pursue further objectives of cohesion policy, such as

strengthening competitiveness, reducing disparities or strengthening autonomy, at the same time as safeguarding the natural foundations of economic development and human health and focusing on sustainability transformations. These areas of action include climate neutrality, climate adaptation/climate resilience, protection and promotion of biodiversity, circular economy and nature-based solutions.

The EU's Cohesion Policy has evolved into a comprehensive instrument designed to reduce regional disparities and promote sustainable development, addressing increasingly complex objectives and requirements. The "Regional Innovation Strategies for Smart Specialization" (RIS3), are intended to support both strategic and transparent implementation. The integration of RIS3 strategies into larger policy objectives such as the Green Deal and digital transformation shows that these strategies can both reinforce existing strengths and guide transformation processes, with effective management and coordination being crucial to the success of cohesion policy.

In its 9th Cohesion Report, the European Commission also highlights increasing **regional disparities** and structural change problems, which are leading to growing dissatisfaction and political unrest. Active cohesion policy can help to counteract this trend by strengthening the regional level. Through these measures, the EU becomes visible as an actor on the ground. Achieving these outcomes requires a commitment to the partnership principle, a targeted spatial approach that takes into account the unique characteristics and needs of each region, and enhanced coordination between European cohesion policy and other EU instruments and programmes. In this way, regions can be strengthened in order to overcome the challenges of transformation.

The importance of spatial policy (place-based approach) as a supplement to national strategies has increased in the past within the framework of cohesion policy. It enables political interventions to be better tailored to local circumstances and needs, which leads to economic growth and jobs. The 9th Cohesion Report and the High-Level Group recommend further developing cohesion policy towards a spatial and transformative strategy that takes into account regional strengths and challenges. Decisive for the success of such policies are well-developed administrative resources, financial means and a systemic approach that links individual projects and addresses the regional or sub-regional level within the member states. Spatial approaches offer an effective lever for tackling regional challenges through a strategy-based, systemic approach to project funding that links the intervention logics and results of individual projects. From the perspective of the beneficiaries and stakeholders who are directly involved in the implementation of the funding, spatial approaches are important to achieve more effective projects and a more effective reduction of regional disparities. This also highlights the desire for a systemic approach to project funding. Meaning the greater involvement of civil society to increase acceptance or stronger links between projects. On the one hand, this involves the classic transfer of knowledge and technology and, on the other, the long term impact which is connected to the projects ability to be continued in other funding schemes after the funding has ended.

Three main instruments are available for the **implementation of Structural Fund support within the framework of spatial approaches**: integrated territorial investments (ITI), community-led local development (CLLD) and other territorial instruments. The latter have mainly been used in Germany to date. The implementation of these instruments is challenging for the regions due to time-consuming strategy processes and limited resources. The instruments should nevertheless be maintained, as they provide an effective lever for addressing regional challenges through a strategy-based, systemic approach to project funding, linking the intervention logics and outcomes of individual projects. However, in order to strengthen their results and effects, the task-oriented intervention logic of the Just Transition Fund (JTF) should be made the binding basis for the strategic planning and implementation of all forms of territorial instruments in the future. What is important here, however, is not a rigid approach of presenting predefined templates, but a solution-oriented approach that sets out content requirements, but does not predefine form and structure. If regions are able to feed into the European strategy process their results of own, already finalised strategy processes and these follow a task-oriented intervention logic, no additional requirements should be imposed that would result in unnecessary administrative effort.

In this context, **the interaction between cohesion policy and other funding instruments at European, federal and state level** is crucial in order to counter regional disparities and exploit synergies. Greater integration of cohesion policy with other EU programmes such as Horizon Europe, as well as better coordination between the federal and state governments, can improve the effectiveness and visibility of funding measures. The creation of synergies, in particular through the interaction of cohesion policy with programmes under direct financial management of the EU and the use of platforms for multi-level governance, is crucial for the successful implementation and further development of regional structural policy.

**Cross-regional cooperation within Germany** is also seen as an essential component of cohesion policy, as it promotes the transfer of knowledge and technology and addresses common challenges such as digitalization and climate protection. These collaborations can increase innovative capacity, improve infrastructure and strengthen a sense of European togetherness, with examples such as the RIS3 strategy of Berlin and Brandenburg or the Hamburg metropolitan region serving as successful models. Increased interregional cooperation could also strengthen the impact of the ERDF according to the stakeholder consultation, but it should not be linked to additional obligations; rather, clusters could play a central role in promoting this cooperation. European territorial cooperation (ETC), particularly through initiatives such as Interreg, is also crucial for cohesion policy, as it promotes **cross-border cooperation** and strengthens European networks. The Partnership for Regional Innovation (PRI) complements this by improving the coordination of innovation policy and bridging the innovation divide in the EU, while stronger ETC and the combination of funding from different sources such as ERDF and Horizon Europe will continue to be pursued.

Additionally there are discussions at several policy levels on **how cohesion policy measures can be more closely linked to structural reforms** in order to integrate a performance-based model along the lines of the Recovery and Resilience Facility (RRF). Structural reforms change the institutional and regulatory framework to increase the growth potential of economies and remove barriers to efficient production. They therefore affect both companies and municipalities and can improve their effectiveness in absorbing and utilizing funds. The High-Level Group recommends

further developing cohesion policy by combining investment and reform, while the European Commission considers the synergies and effectiveness of this approach from the RRF to be significant for cohesion policy. With regard to the federally organized system of government in Germany, it is crucial to determine the appropriate level – whether legislative or executive – at which the identified areas of structural reform should be addressed. To effectively develop and implement these reforms, a governance framework must be established that incorporates all relevant stakeholders. This governance framework should facilitate a process that systematically gathers the reform needs of local and regional stakeholders, translates them into suitable (legislative) structural reform projects at both state and federal level and reaches a final agreement with the European Commission.

The **procedures for implementing Cohesion Policy** cover various aspects. One of them is **performance-based reimbursement**, which aims to create incentives to increase the efficiency of implementation. In practice, this often means that the reimbursement is linked to certain performance indicators or results instead of reimbursing actual reported costs. Another aspect are **simplified cost options (SCO)**, i.e. unit costs, lump sums and flat-rate financing, which the EU has increasingly used since the last reform of the EU Financial Regulation in 2018. The use of the simplified cost options was already possible for payments to beneficiaries in the 2014-2020 funding period. The mandatory use of the simplified cost option was extended in the 2021-2027 funding period. Finally, **digitalization** opens up new opportunities to optimize administrative processes, increase transparency and proximity to citizens and improve interaction between different stakeholders. Digital procedures in the ERDF can simplify application and approval procedures, ensure the traceability of funding and enable better data analysis and monitoring. The expansion of digital structures, their connectivity and the increase of digital capacities in ERDF funding also stand for efficiency gains and at the same time are part of Europe's digital transformation.

There are also various ideas for new or supplementary **instruments for implementing cohesion policy**. These include **scaled funding** with individual funding opportunities that can be adapted to funding lines or projects, which allow the absorption of risks through flexible and adaptable funding. This approach takes into account the different phases of a project or the design of an innovative idea as well as the varying needs and challenges that can arise during implementation. Accordingly, it is suitable for high-risk, experimental projects that could have a major impact if successful, but for which an adequate funding environment must first be created due to their experimental nature. The **tax-based research funding** for companies introduced in Germany in 2020 focuses on research and development projects and is another instrument that could be used to complement a transformative structural policy. Finally, **innovative public procurement** should be mentioned here, which refers to the process in which public institutions use new and creative solutions to acquire products or services that are not yet available on the market as standard. The aim is to achieve innovative solutions through innovative procurement.

### **Recommendation for the governance of structural policy**

Building on the empirical basis and the results of the participatory process, 17 options for action were derived.

Strategies and Goals	<p><b>Optimisation of existing strategies</b></p> <p>Action Option 1: Further develop the foundations for a more strategic cohesion policy</p> <p>Action Option 2: Exploiting synergies with other cohesion policy programs</p>	<p><b>Recommendations for the future design of Cohesion Policy target architecture</b></p> <p>Action Option 3: The Future Design of Cohesion Policy Target Architecture</p>
	<p><b>Action Options for the strategic-institutional development in the field of innovation</b></p> <p>Action Option 4: Strengthen the role of RIS3 as a central strategic foundation of regional innovation policy</p> <p>Action Option 5: Network RIS-3 strategies with other (national) strategies to increasingly leverage synergies in funding opportunities</p>	<p><b>Recommendations for Strategic-Institutional Development in the Field of Sustainability</b></p> <p>Action Option 6: Align the target architecture in the climate and environmental sector more effectively with the Green Deal</p> <p>Action Option 7: Nature-based solutions in the context of supporting climate protection, climate adaptation, biodiversity conservation, and disaster risk reduction</p>
Implementation	<p><b>Linking Cohesion Policy with Structural Reforms</b></p> <p>Action Option 8: Optimization of institutional frameworks to enhance the effectiveness of RIS3</p> <p>Action Option 9: Link Cohesion Policy with structural reforms</p>	<p><b>Strengthening the Regions</b></p> <p>Action Option 10: Strengthen the spatial approach</p> <p>Action Option 11: Improve the foundations for successful cross-regional cooperation</p> <p>Action Option 12: Strengthen the participation of municipal and civil society actors in Cohesion Policy</p>
	<p><b>Instruments and Procedures for Implementing Cohesion Policy</b></p> <p>Action Option 13: Performance-based reimbursement (Performance-based approach)</p> <p>Action Option 14: Expansion of the application of flat rates</p> <p>Action Option 15: Utilize the potential for simplification through digitalization more effectively</p> <p>Action Option 16: Enable experimental and risky projects, introduce scaling</p> <p>Action Option 17: Increase the visibility of the ERDF in the regional public</p>	

### **Action Option 1: Further develop the foundations for a strategic Cohesion Policy**

Concrete steps for boosting the strategic capability and target orientation of cohesion policy include strengthening regional foresight processes, using theory-based impact models in programme design, and reintroducing binding ex-ante evaluations.

### **Action Option 2: Exploiting synergies with other Cohesion Policy programmes**

It is recommended to align the target corridors and associated funding measures with European Agricultural Fund for Rural Development (EAFRD), especially in light of the ERDF's increased territorial focus. In order to facilitate complementary measures, a suitable timing of the calls for proposals would also be possible. Additionally, for structurally weaker regions, it would be useful to analyse the broader German funding system to identify additional opportunities.

### **Action Option 3: The future design of the cohesion policy target architecture**

Building on a holistic target architecture, cohesion policy can simultaneously achieve multiple positive effects in appropriately designed funding strategies and measures. The following approaches should be pursued within the framework of future governance: the concentration of funding in the form of an appropriate allocation of funds in relation to the objective to be achieved and the subject matter to be addressed, the focusing of the content of the state programmes, the strengthening of the RIS3 as a governance element in the target architecture and the prioritisation of pilot projects with a model character.

### **Action Option 4: Strengthen the role of RIS3 as a central strategic foundation for regional innovation policy**

The further development of the RIS3 strategies is recommended as a fundamental prerequisite, whereby the specifications should be kept simple. In addition, an explicit focus on transformation should be part of the RIS3 strategies in future and a reference to transformation should be made in every field of specialization. The concrete implementation of the transformation reference should be left to the regions in order to ensure a regional fit. Finally, the mismatch between strategy development and implementation must be reduced.

**Action Option 5: Connect RIS3 strategies with other (national) strategies in order to make greater use of synergies from funding opportunities**

Foresight-enhanced RIS3 strategies (cf. Action Option 1 and 4) provide a strategic basis for conducting a coherence analysis to identify synergies early on between the strategic objectives of the respective RIS3 and national strategies. This creates the opportunity to optimize the respective (planned) funding measures in their complementary interaction (in terms of content and timing). One possibility would be to appropriately expand the mandate and the group of participants of the working group "Federal and State Government Dialogue" for synergy-related topics (SynBLAG) for this purpose.

**Action Option 6: Align the target architecture in the climate and environment sector more effectively with the Green Deal**

The target architecture for climate and environmental issues in cohesion policy should be based on the Green Deal, whereby the eight specific objectives of policy objective 2 from the ERDF regulation are already highly consistent with this. It is recommended that this range of topics be used as a flexible framework to design regionally appropriate programmes that are innovative, synergetic and stimulating. The combination of different environmental objectives should be facilitated, and the continuity of eligible themes should be ensured, particularly for long-term infrastructure projects, with the definition of objectives being crucial for effective governance.

**Action Option 7: Increase the importance of nature-based solutions in the context of supporting climate change mitigation, climate adaptation, biodiversity conservation and disaster prevention**

Nature-based solutions such as renaturation and peatland rewetting should be increasingly promoted and integrated into existing "gray" measures in order to support climate adaptation, biodiversity and disaster protection more effectively. These solutions should be anchored as priority design options in funding objectives and regulations, and financial incentives should be created for synergetic projects.

**Action Option 8: Optimization of institutional framework conditions to increase the effectiveness of RIS3**

From the perspective of the research project, it makes sense to link RIS3 to the improvement of the framework conditions in regional innovation ecosystems through a performance-based approach. This establishes the link with structural reforms, which lay the foundations for innovation success. To achieve this, the management of innovation strategies can be linked to

milestones that are met through reforms in critical areas of the innovation environment. The goal is to reduce innovation-impeding factors in connection with the RIS3.

#### **Action Option 9: Link Cohesion Policy with structural reforms**

Linking Cohesion Policy with structural reforms is recommandable, as suitable reforms can improve the results of the funded projects. However, this requires a bottom-up approach in which regional reform needs are identified. A governance process should record these needs and translate them into structural reform projects, which are then coordinated with the European Commission.

#### **Action Option 10: Strengthen the spatial approach**

Territorial instruments should be used more effectively to enable targeted support for regions with specific transformation needs and to promote cooperation among regional stakeholders. The strategic planning approach of the Just Transition Fund should serve as the basis for all territorial instruments, with regions receiving independent budgets and binding target requirements for projects. While their use in programmes with small budgets is not practical due to limited overall funds, and in cities or small states due to spatial constraints, other states/regions should make greater use of territorial instruments. To encourage the use of these instruments, regions/programmes should be required to allocate at least 5% of their programme funds for territorial measures, with project management carried out by local actors.

#### **Action Option 11: Improve the basis for successful cross-regional cooperation**

At European level, initiatives such as I3 (Instrument for Interregional Innovation Investment) should be pursued further in order to foster the development of European value chains. Regions in Germany and Europe should be supported by a continued range of advisory services to take advantage of the opportunities offered by these initiatives to pursue the objectives of their RIS3 strategies.

#### **Action Option 12: Strengthen the participation of municipal and civil society actors in Cohesion Policy**

The European Commission, Member States and programme authorities should provide greater support to municipal and civil society actors in Cohesion Policy, especially those with limited resources such as small municipalities. This could be achieved through capacity development, funded advisory and networking activities and the professionalization of participation in monitoring committees and programme planning.

#### **Action Option 13: Performance-based reimbursement (performance-based approach)**

For the further use of performance-based reimbursement, clear milestones and reporting and verification obligations must be defined before the start of the funding period in order to reduce the administrative burden. The European Court of Auditors should be involved in the definition and existing indicators should be used to minimize the effort. The approach should be

increasingly used in the 2028-2034 funding period, with mandatory application recommended for certain funding formats, such as regional development budgets.

**Action Option 14: Expand the use of simplified cost options**

The managing authorities should be supported as effectively as possible in developing suitable simplified cost options for their projects. These should be broadly used whenever effective simplification of processes is expected. They must be in line with European law and the requirements of the federal state budget regulations.

**Action Option 15: Make greater use of the simplification potential of digitalization**

The introduction of a standardized IT system for all EU Member States is recommended to solve existing interface problems with European Commission's systems and to support the effective administration of structural funds. Digital solutions, such as a central application check and the option to submit supporting documents digitally, should be pursued at both EU and national level in order to increase efficiency. It is also proposed that successful digitalization models from other EU member states be examined and adapted for the EU's own implementation.

**Action Option 16: Enable experimental and high risk projects, introduce scaling**

Funding lines and assessment criteria should be designed to allow for experimental and innovative projects while also promoting research transfer to industry. Synergies between different funding instruments should be used to minimize bureaucratic hurdles and enable modular funding that is adapted to the progress of the project, with funds being released gradually. A comprehensive risk assessment at the start of the project serves to deploy resources efficiently and provide targeted support for projects with potential challenges in order to minimize the risk of failure.

**Action Option 17: Increase the visibility of the ERDF among the regional public**

It is advised to strengthen public outreach for funding measures, particularly for territorial instruments, by reallocating underspent funds at the project level. The reallocated funds should be used for supplementary communication and participation measures in order to promote local best practice examples and communicate them widely via social media. This would improve the management options of the funding bodies while simultaneously ensuring the proper disbursement of funds in accordance with the reporting requirements.

## 1. Introduction



### 1.1. Background to the contract

European cohesion policy is the central instrument of the European Union (EU) for improving long term regional development through strategic investments. The areas of intervention include competitiveness, innovation, digitalization, human capital, climate and environmental protection, infrastructure and resource efficiency. The aim is to strengthen economic, social and territorial cohesion within the EU and reduce imbalances between regions.

All European regions face the challenges of addressing the demands of a twin transition. The goal is to develop a digital, low-carbon and sustainable economy. At the same time, this transformation must be socially just and take demographic trends into account.

Germany will receive a total of EUR 23.3 billion from the European Structural Funds in the 2021-2027 funding period, of which EUR 10.8 billion will come from the European Regional Development Fund (ERDF). Cohesion policy uses the ERDF to link EU policy objectives with investment projects in the regions. These policy objectives (PO) are defined under a common strategic umbrella and implemented in regional programmes with locally adapted measures. Around 56% of ERDF funding in Germany are allocated to innovative and intelligent economic change, 35% into climate and environmental protection and 8% into sustainable urban development.

The research project "Governance and implementation of the Structural Funds with a view to their reorientation after 2027" aimed to reflect on key questions of governance, control and funding procedures of the European Structural Funds. Pursuing that goal a participatory approach was used. Based on this, policy recommendations were developed for the relevant advancements in the legislative package for the 2028-2034 funding period.

Governance is defined here as the process of decision-making and implementation of decisions by public institutions or bodies. In the context of the structural funds and cohesion policy, this is a multi-level governance that encompasses all levels of the decision making process: the supranational (EU) level, the national (federal), regional (German federal states) and local level (municipalities). An important element of the governance model of the EU Structural Funds is the involvement of regional stakeholders from administration, business, associations and civil society within the framework of the partnership principle. The beneficiaries (funding recipients) and other stakeholders make important contributions to the design and implementation of policies and their framework conditions (e.g. associations).

With its focus on governance, this research project complements the evaluation and impact analysis of Structural Fund support 2014-2020, which is being carried out simultaneously as part of another service contract.

## 1.2. Structure of the report

The report first presents the current status of the discussion on the governance of cohesion policy in the light of our own findings. Starting points for governance arise with regard to the strategies and structures of cohesion policy (2. Selected elements of the governance of European cohesion policy), the procedures for implementing cohesion policy, particularly with regard to the potential for simplification in order to tap into additional target groups (2.5 Procedures for implementing cohesion policy) and new instruments to promote transformation processes (2.6 Reflection on additional instruments for implementing cohesion policy). This results into action options for the 2028-2034 funding period in order to implement cohesion policy in the sense of a transformative structural policy.

## 1.3. Methodology

The research project uses a participatory approach in conjunction with literature and document (desktop) analyses, which is based on five central analysis modules:



*Figure 1 Analysis components of the research project*

Source: Own representation

The participatory approach was based on different discussion formats on selected focal points. Workshops and exchanges were held with representatives of the managing authorities of the federal states in order to gather the views of practitioners on individual issues. An extensive online consultation was carried out to include the perspectives of other stakeholders. An expert workshop to discuss initial results and recommendations took place in June 2024, whose purpose was to validate findings gained so far. These activities were supplemented by a comprehensive document and literature analysis, which involved a review of all relevant programme documents from the various political levels as well as statements and reports from various committees and stakeholders.

The analytical components were used to derive and validate action-orientated approaches for the future governance of the Structural Funds. The methodology of the individual modules is described below.

### **Literature and document analysis**

The analysis of the relevant literature and documents (desk research) was carried out in two steps: First, a **literature review** was conducted to shed light on the European debate regarding the future of cohesion policy; subsequently a **document analysis** was performed with the aim of taking a closer look at existing patterns and anomalies in the governance of the Structural Funds. A systematic search was conducted to identify relevant literature and documents. Initially, a comprehensive keyword search via Google/Google Scholar was pursued followed by a continuous monitoring of all common dissemination channels to capture the central contributions to the ongoing expert debate. To highlight the official positions of various stakeholders, relevant and up-to-date information on EU Cohesion Policy was gathered, including key strategic papers and evaluations from European and German actors. Publicly accessible sources were used for this purpose. Furthermore, scientific databases were consulted to keep an eye on the scientific debate and to conduct targeted research on relevant publications.

For the subsequent sub-analyses the sources were narrowed down. In addition to a temporal limitation to ensure a focus on the most recent contributions, the following source types were considered in particular:

- Publications of the EU institutions (Parliament, Council, Commission) and other European institutions (Committee of the Regions, European Court of Auditors), central European associations and organizations, position papers and relevant reference sources from Germany (e.g. Conference of Minister Presidents, States<sup>1</sup>, Bundesrat).
- Overarching documents relating to the EU budget or cohesion policy funds and other policy areas with a (potential) impact on the regularity of expenditure.
- Academic literature directly relevant to the debate on the future of Cohesion Policy.

The following table shows an excerpts of some of the key sources from the ongoing debate that were consulted for the evaluation. A complete list of all sources referenced can be found in the bibliography.

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<sup>1</sup> The selection of states was based on the availability of their positions at the time of the investigation.

*Table 1: Key Sources of the European Reform Debate*

Document	Author	Year
<b>EU positions</b>		
Die Zukunft der Kohäsionspolitik	Rat der Europäischen Union	2023
The future of Cohesion Policy post-2027	European Committee of the Regions	2023
The Recovery and Resilience Facility and cohesion policy: towards cohesion policy 2.0	European Economic and Social Committee	2023
Declaration. "The debate on the Future of Cohesion Policy starts now!"	Cohesion Alliance	2022
Brussels Declaration of European Mayors	European Mayors	2024
Eighth report on economic, social and territorial cohesion	European Parliament	2023
Ninth Report on Economic, Social and Territorial Cohesion	European Parliament	2024
<b>Selected German Positions</b>		
Stellungnahme der Länder zur Halbzeitrevision des Mehrjährigen Finanzrahmens 2021- 2027 und zur Zukunft der Kohäsionspolitik nach 2027	Ministerpräsidentenkonferenz	2023
Eine starke und moderne Kohäsionspolitik ab 2028	Niedersachsen	2023
Kernpositionen Sachsen-Anhalts zur künftigen Ausgestaltung der Kohäsionspolitik nach 2027	Sachsen-Anhalt	2023
EU-Regional- und Strukturpolitik für die Förderperiode 2028+. Eckpunkte Bayern	Bayern	2023
Gestaltung der Europäischen Kohäsionspolitik nach 2027 unter besonderer Berücksichtigung der EFRE-Förderung	Baden-Württemberg	2024
<b>Selected Policy Debate Contributions</b>		
Forging a sustainable future together: Cohesion for a competitive and inclusive Europe. Report of the High-Level Group on the Future of Cohesion Policy	High-Level Group on the Future of Cohesion Policy	2024
Navigating Stormy Waters: Crises and Cohesion Policy beyond 2027	John Bachtler & Carlos Mendez (EPRC)	2023
The future of EU cohesion policy. The emerging debate	European Parliamentary Research Service	2023
Addressing Cohesion Policy's identity crisis in a changing European Union	Alison Hunter (EPC)	2023

Documents on irregularities		
Conflict of interest in EU cohesion and agricultural spending Framework in place but gaps in transparency and detection measures.	European Court of Auditors	2023
34th Annual Report on the Protection of the European Union's financial interests and the Fight against fraud.	European Commission	2023
Identifying Patterns of Fraud with EU Funds under Shared Management - Similarities and Differences between Member States.	European Parliament	2022
Regularity of spending in EU Cohesion policy: Commission discloses annually a minimum estimated level of error that is not final.	European Court of Auditors	2021
Fighting fraud in EU spending: action needed	European Court of Auditors	2019

Source: Own representation. (An overview of all sources consulted can be found in the bibliography).

## Case Studies

To complement the literature analysis and prepare for the discussion sessions with representatives from the managing authorities of the Länder, case studies were developed. The focus of the analyses was on funding approaches/measures in various subject areas in order to develop best practice approaches with regard to the governance elements considered in the report or to illustrate new potential approaches. The selection was based on the following considerations:

- Orientation towards the dimensions of a transformative structural policy;
- Case studies can include more than one project and represent a larger context of projects in project (eco)systems or a specific, e.g. regional or thematic funding approach;
- Analysed measures should have model and pilot character;
- Case studies should be clear and easy to communicate.

Many case studies were developed for the exchange meetings with the representatives of the states and discussed there. Further examples were developed during the analysis of the individual governance elements.

## Exchange with the managing authorities of the federal states

In a structured dialog, discussion meetings were held with representatives of the ERDF managing authorities of the states on challenges and the need for action in the governance and implementation of the Structural Funds. The exchange, following a focus group approach, aimed to capture the individual perspectives of representatives of the ERDF managing authorities of the 16 federal states who are directly entrusted with the implementation of the fund. In addition, the proposals to be developed as part of the research project for the design of the Structural Funds in the 2028-2034 funding period were discussed and ideas were compared with practice.

Discussions were held on the following six topics:

- How do the changes of the 2021-2027 funding period affect the implementation of the structural funds and the management of the funded investments? (12.10.2023)
- Innovation funding for a transformative structural policy after 2027 (07.12.2023)
- Climate and environmental funding for a transformative structural policy under Policy objective 2 after 2027: Why is the ERDF important? How can the current challenges and need for action be successfully addressed? (25.01.2024)
- Effectiveness of regional investment strategies in addressing regional transformation needs in funding programmes (13.03.2024)
- Transferability of elements from the Recovery and Resilience Facility and the Just Transition fund (23.04.2024)
- Addressing target groups and reducing access barriers (29.05.2024)

For all meetings, white papers were prepared and made available to participants in advance. The white papers included selected background information, additional research literature, case studies and theses on key thematic elements in order to create a common basis for discussion among all participants. Participation in the events was voluntary and open to all interested staff members of the managing authorities. The key elements of the discussion meetings were summarized in outcome papers and subsequently shared with the participants. This report uses the authors' key impressions/conclusions from the discussions in combination with the analysed literature and case studies. It does not claim to provide a comprehensive evaluation of the discussions, nor does it represent any official position by the federal or state institutions involved. Also, the options for action derived in Chapter 3 were not part of the exchange with the managing authorities of the federal states.

### **Stakeholder consultation**

In addition to the direct exchange during the aforementioned discussion meetings, an open consultation was conducted using an online questionnaire. This enabled a large circle of interested stakeholders as well as citizens to participate in the consultation process. The survey offered participants the opportunity to express their assessments of the strengths, weaknesses, and areas for improvement in the design and implementation of the structural funds. The questions of the online consultation were based on the results of the previously conducted comparative analysis of the reform options. The results were evaluated and analyzed in a separate results paper, which was shared with the survey participants as well as the managing authorities <sup>2</sup> In addition, the responses were incorporated into the further evaluation process and the development and prioritisation of the recommendations.

The consultation was conducted online. It was freely accessible and was advertised via the BMWK website, several state websites and various social media channels. The survey period ran from

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<sup>2</sup> The report on the results of the stakeholder consultation is accessible here:  
[https://www.bmwk.de/Redaktion/DE/Publikationen/Europa/20241016-ergebnispapier-stakeholder-konsultation.pdf?\\_\\_blob=publicationFile&v=8](https://www.bmwk.de/Redaktion/DE/Publikationen/Europa/20241016-ergebnispapier-stakeholder-konsultation.pdf?__blob=publicationFile&v=8).

February 2 to March 15, 2024. 744 complete responses were received in total. The survey is not representative.

The questionnaire comprised 20 open and closed questions covering seven thematic blocks (General information about your organization and/or yourself; ERDF priorities in the 2028-2034 funding period; Simplification and effectiveness of the ERDF; Involvement of citizens, civil society and stakeholders; Visibility and European added value; Territorial scope; Interaction and synergies with other programmes).

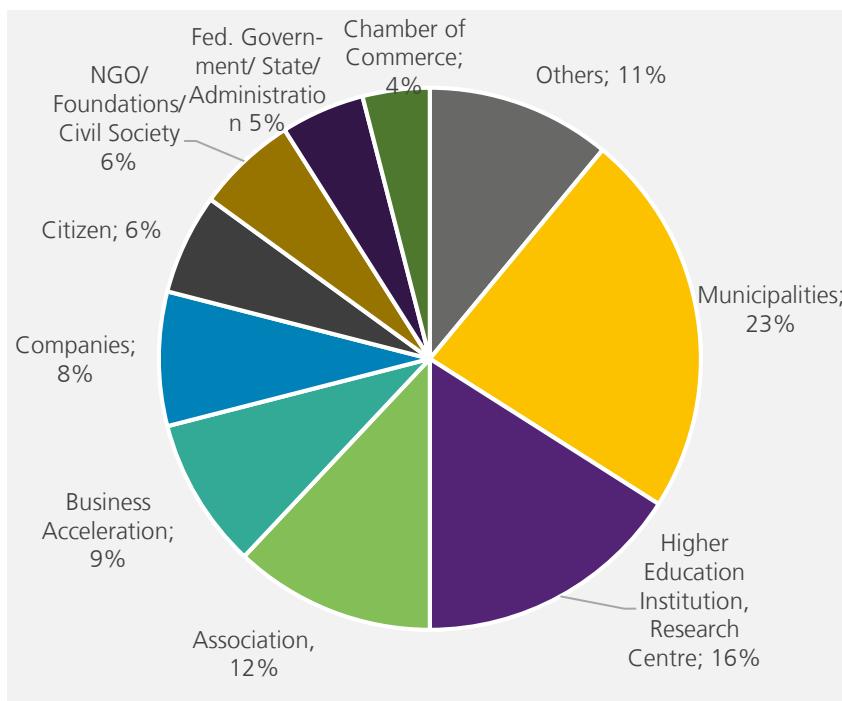


Figure 2: Participation in the consultation by type of organization, by German states (N=744)

Source: Own representation

Participants from all federal states took part in the questionnaire, with the most responses coming from North Rhine-Westphalia (107 in total) and the fewest from Saarland (7 responses). Municipalities (23%), universities/research institutions (16%) and associations (12%) accounted for just over 50% of the responses (see Figure 2). Among companies (8%), micro-enterprises (1-9 employees) and small companies (10-49 employees) predominate with 32% each. Among universities/research institutions, publicly funded research institutions predominate with 35%, followed by universities with 27% and universities of applied sciences with 22%. 17% of participants are members of an ERDF monitoring committee, 52% have already submitted an ERDF application at least once.

### Expert workshop

A workshop was held in Berlin on June 20, 2024 to present the interim status of the results from the literature analysis, meetings with the federal states and the stakeholder consultation with a wide range of experts from practice, administration and science. The workshop focused on the following aspects:

- Presentation of the results of the research project (literature analysis, German state discussions, stakeholder consultation) and discussion of the developed approaches for validation with the participants
- Discussion of recommendations for the design of the ERDF in the coming funding period with the participants, particularly with regard to the following questions:
  - How can the funding period after 2027 be structured? Which funding priorities should be set (e.g. focus on transformative structural policy)?
  - What has proven successful and should be retained in the future funding period?
  - What new instruments and procedures can be introduced?
  - What role can cross-regional and territorial approaches play?
  - Should new forms of payment terms, milestones and target values be used?
  - Where are there approaches to simplifying administration?
  - What should be avoided in the coming funding period?

The workshop was opened by keynote speeches from State Secretary Sven Giegold (BMWK), Professor John Bachtler (University of Strathclyde and member of the European Commission's High Level Group on the future direction of cohesion policy) and Professor Uwe Schneidewind (Lord Mayor of the City of Wuppertal). The participants in the workshop discussed options for the further development of the following topics in various formats:

- Cohesion policy after 2027 - How can we better support the transformation?
  - Transformative structural policy and strategic management of investments
  - Prioritisation
  - Multi-Level governance
- Better focus on results through administrative simplification
  - Digitalisation
  - Procedures and performance reviews, including dealing with performance-based cost reimbursement
  - Simplified cost options
- New funding approaches and procedures: tax incentives
- Cross-regional cooperation within Germany and across borders

More than 30 people took part in the workshop. In addition to experts from practice (e. g. business acceleration, associations, regional management, cluster management), administration and science, representatives from the BMF, BMAS, BMUV and the Federal Chancellery as well as DG Regio and four ERDF managing authorities were present as well. The results were compiled in a separate outcome paper and shared with the workshop participants. The insights from the presented empirical elements were used to derive options for the further design of governance.

#### **1.4. The role of governance in Cohesion policy in the age of transformation**

The debate at European level regarding the reorientation of cohesion policy from 2028 is being intensively discussed and covers a wide range of areas where, from the perspective of stakeholders, reforms or a greater need for action are necessary.

In January 2023, the European Commission set up a high-level group of experts who presented recommendations on the future direction of cohesion policy in February 2024. In the introductory remarks to the group's first meeting in January 2023, EU Commissioner Elisa Ferreira explained that the debate was not just about discussing: "Is Cohesion policy a redistributive policy or a growth policy? Or both?". It was also about finding ways to use future cohesion policy to bring together "continuously evolving EU priorities as well as related growing territorial needs" and, for example, to create better synergies with other programmes. For the High Level Group, the governance of future cohesion policy thus plays a decisive role as the key to effective and efficient implementation of the instruments for achieving the Union's policy objectives.

In summary, the discussions so far indicate need to give regions greater flexibility to develop more differentiated and individual development strategies. Closely linked to this is the availability of efficient institutions (not only, but especially at local level) that interact in an improved multi-level governance. Both complementary sets of measures create the conditions for a better spatial distribution in the design of the twin transition.

Beyond the High Level Group, scientific papers and papers from various stakeholder groups also discuss reform options and scenarios for cohesion policy after 2027. The focus here is mainly on governance issues and, in particular, the basic fund architecture (separate legal framework vs. "common provisions model accompanied by fund-specific regulations"), the management of interventions (shared management of funds vs. direct management), the simplification and flexibilization of funding conditions, the strategic control of funding, e.g. through conditionality of payments (payment by results vs. payment based on actual costs), transparency and risk management and the question of decision-making powers in programme planning and implementation at the various levels of the multi-level system.

Directly linked to this is the need for appropriate administrative capacities in order to achieve the desired objectives of cohesion policy.<sup>3</sup> The latter debate in particular is characterized by comparisons with experiences in the implementation of other EU interventions such as the Recovery and Resilience Facility and the possible introduction of a European Sovereignty Fund.

In the funding period 2021-2027, 80 legal simplification measures have already been introduced in various governance areas. What effects these measures have had cannot be assessed at this time due to pending analyses. However, clearly this list needs to be further developed in order to efficiently and effectively implement the requirements for Cohesion Policy that are already emerging today. An example of these changes is the presumably greater importance of the directionality of funding (more targeted orientation), which is - not only - related to the increasingly significant concept of mission. The mission concept in research and innovation policy refers to targeted, socially relevant research and innovation initiatives aimed at addressing complex challenges in a given time frame. These missions are often large-scale and interdisciplinary, involving various actors from science, industry, politics, and society. The term "mission" was particularly shaped by the EU Framework Programme for Research and Innovation "Horizon

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<sup>3</sup> ZEW (2024): The Future of EU Cohesion, p. 188.

Europe".<sup>4</sup> This has implications for the planning of future investment strategies and operational programmes (OP). It means that in the future, priorities must be set even more strongly in dialogue with regional stakeholders. Germany will be particularly affected by this requirement, especially if there is a reduction in the allocation of funds. The following outlines additional important developments, illustrated by examples, that will have an impact.

One area that will be given greater importance by the European Commission is synergies between its funding programmes, particularly between Horizon Europe and the ESIF. The aim here is to create the conditions for the increased integration of regional players in Horizon Europe projects, to strengthen the transfer of research results locally and thus to create innovation centers for economic development in the region. The existing set of instruments for creating synergies has so far been little used, although experience is increasingly being gained with their implementation. In order to make better use of synergies in the future, their governance is the central key.

With the Recovery and Resilience Facility (RRF) and the Just Transition Fund (JTF), new governance elements such as performance-based reimbursement were introduced, which can also be considered for the further design of cohesion policy.

The above description illustrates the multifaceted nature of the debate on the future of cohesion policy. It is linked to the different positions and interests of the actors involved, which were brought together by the participatory approach of the research project and translated into recommendations for action. In summary, governance in the age of transformation has new tasks and its role will have to be reconsidered in light of the sometimes rapidly changing framework conditions and multiple actors.

## 1.5. Transformative Structural Policy as an Approach to Cohesion Policy

Transformative structural policy is a concept that aims to bring about far-reaching and long-term changes in the economic and social structure of a region or country. Transformative structural policy differs from "classic structural policy" (promoting business-related infrastructure) and "innovation-oriented structural policy" (strengthening technology fields and cluster structures) in that it is geared towards restructuring a globally competitive economy from a linear to a circular economy and towards climate neutrality.<sup>5</sup>

All facets of transformation are addressed: Digitalization and green transformation, but also demographic changes and the development of rural areas. The concept of a "just transition" in the sense of taking into account possible negative social and economic consequences of the transformation must also be taken into account and the acceptance of the democratic system

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<sup>4</sup> [Missionen – ein neuer Ansatz im EU-Rahmenprogramm - BMBF Horizont Europa \(horizont-europa.de\)](https://horizont-europa.de).

<sup>5</sup> For a discussion of the concept, see e.g. Umweltbundesamt (2024): Weiterentwicklung der regionalen Strukturpolitik in Deutschland zu einer ökologisch nachhaltigen, vorausschauenden und transformativen Strukturpolitik. Konzeptionelle Überlegungen; Rat für Nachhaltige Entwicklung (2023), [https://www.nachhaltigkeitsrat.de/wp-content/uploads/2023/05/2023\\_05\\_15\\_RNE\\_Stellungnahme\\_Zirkulaeres\\_Wirtschaften\\_nachhaltige\\_Transformation.pdf](https://www.nachhaltigkeitsrat.de/wp-content/uploads/2023/05/2023_05_15_RNE_Stellungnahme_Zirkulaeres_Wirtschaften_nachhaltige_Transformation.pdf).

must be strengthened. The team of this research project has developed the following understanding of a “transformative structural policy” for the further analyses, which is the decisive basis for the following analyses and the options for action developed:

I. Fundamental orientation of “transformative structural policy”

- It is based on “classic structural policy” (promotion of business-related infrastructure) and “innovation-oriented structural policy” (strengthening of technology fields and cluster structures).
- It focuses on the challenges of the twin transition for the economy and society: on the one hand, this includes the green transformation with topics such as the decarbonization of the economy and energy system, the circular economy, biodiversity and climate adaptation. The key objectives here are the transformation from a linear to a circular economy and climate neutrality. The digital transformation, not least due to the expected developments in artificial intelligence, and the demographic transformation are also to be addressed.
- It must be based on the growth and development potential of a region. A distinction must be made between urban and rural areas.
- It must be designed fairly and socially and be geared towards people's needs. The idea of a “just transition” in the sense of taking into account the possible negative social and economic outcomes of the transformation must also be taken into account. In this way, it helps to maintain the broad acceptance of the democratic system.
- It must have an anticipatory effect so that changes in value chains that could have a negative impact on economic development in the regions can be identified at an early stage. This requires foresight capacities<sup>6</sup>.

II. Project (eco-)systems and actors of “transformative structural policy”

- Research and development, investments in the economy and infrastructure must be promoted in a coordinated manner in order to achieve the transformation goals effectively and efficiently.
- Not only projects, but also ecosystems of projects should be targetedly promoted. Ideally, these are based on a joint strategy of regional or local stakeholders. In addition, they are not sectoral, but cross-sectoral and cross-industry. These aspects must be taken into account when developing and selecting projects for funding.

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<sup>6</sup> Foresight capacity refers to the ability of responsible institutions to systematically anticipate future developments and challenges and incorporate them into strategic planning. This capacity enables stakeholders involved in the management and implementation of Cohesion Policy to proactively identify trends, scenarios, and risks, integrating them into their processes and actions. For further information, see the European Committee of the Regions (2024): Embracing uncertainty. Harnessing strategic foresight for regional and local progress (<https://op.europa.eu/en/publication-detail/-/publication/d28f53cd-26d6-11ef-a195-01aa75ed71a1/language-en>), available at EU Publications, as well as resources on ESPAS and the Knowledge4Policy Foresight platform (<https://www.espas.eu/> and [https://knowledge4policy.ec.europa.eu/foresight\\_en](https://knowledge4policy.ec.europa.eu/foresight_en)).

- Appropriate stakeholders at regional and local level must be involved. This helps to break down existing silos or traditional development paths, which often hamper transformation, and the creation of new networks of stakeholders from business, science, administration and civil society. A distinction must be made between three levels:
  - Programme planning,
  - Development of funding projects and
  - Funding project implementation.

### III. Characteristics of “transformative structural policy”

- It must be able to react flexibly to changing conditions in the sense of a fast-learning system.
- It supports the adaptability and resilience of regions in learning systems.
- It must achieve a broader implementation of instruments. Synergies between direct and shared EU funding programmes as well as with the federal and state level must be realized.

## 2. Selected elements of the governance of European Cohesion Policy



The research project investigated governance features at the regional strategy and objective levels, as well as other aspects of the spatial approach, cross-regional collaboration, and the implementation of Cohesion Policy using efficient procedures and novel instruments.

### 2.1 Cohesion Policy strategies

The EU's Cohesion Policy plays a crucial role in promoting economic and social cohesion between Member States by supporting investments and measures aimed at reducing regional disparities and ensuring sustainable development. With the deepening of the EU internal market, intensifying global competitive pressures and major socio-economic transformation challenges (green, digital, demographic transformation), the need to underpin the implementation of Cohesion Policy with comprehensive regional strategy processes has steadily increased in the last two decades. The growing number of political priorities that Cohesion Policy is intended to address has also increased the demands on strategy development and implementation and thus on the strategic competence of the actors involved in implementation. Strategies should basically ensure that the available funds are used in the most targeted way possible. They should make the considerations behind the prioritisation of one goal over another or the promotion of one project over another comprehensible. A good strategy development process therefore contributes to both the effective and transparent implementation of cohesion policy.

While cohesion policy originally provided mainly compensatory payments for regions that benefited less from the EU single market and supported regions undergoing industrial transformation in terms of structural change and combating unemployment. Over time, more and more objectives were added which increased the strategic requirements for comprehensive programme planning. Motivated by the Lisbon Strategy, competitiveness came to the fore in the 2000s. Accordingly, from 2007 onwards, not only economically weaker regions, but all regions were entitled to receive cohesion funds in order to increase competitiveness in accordance with the then new Objective 2 "Regional competitiveness and employment". Previously, cohesion funds were in principle reserved for regions whose GDP per capita was less than 75% of the EU-wide average. On the one hand, this modification ensured that the wave of accession in 2004 would not suddenly exclude underdeveloped regions in former member states from cohesion policy funding. Secondly, Cohesion Policy thus became an EU-wide policy framework for regional competitiveness in line with the new priorities resulting from the Lisbon Strategy.

For the 2014-2020 funding period, the increase of the number of thematic objectives from three to eleven, marked a greater thematic differentiation. These were consolidated into five political priorities for the 2021-2027 funding period. The European Commission's overarching objectives of green and digital transformation, as well as socioeconomic resilience, lend even more political weight to the targeted nature of Cohesion Policy.

The differentiation of objectives and the increased focus on regional competitiveness affected the governance as well. Since the 2014-2020 funding period, innovation strategies known as "Regional Innovation Strategies for Smart Specialization" (RIS3) must be developed by the member states and regions as an "ex-ante conditionality" of the European Structural and Investment Funds - depending on the level at which the cohesion policy programmes with an innovation focus are located. In Germany, this conditionality has provided a strong impetus for the modernization of innovation policies in the federal states and strengthened their strategic anchoring, even though certain redundancies with the existing innovation strategies of the federal states occurred, particularly at the beginning. At European level, the European Commission emphasizes that "strategies for smart specialization are the EU's most important method for strengthening national and regional innovation systems".<sup>7</sup>

Since the 2021-2027 funding period, the "ex-ante conditionalities" from the previous funding period are referred to as one of the "horizontal enabling conditions". Their number has been reduced, but they will be applied continuously throughout the funding period. This is intended to reinforce the concept that cohesion funds can only be claimed if the basic conditions for proper usage are met. The focus is no longer on the identification of (new) areas of specialization, but rather on the further development of existing priorities and instruments and, above all, the consolidation of "entrepreneurial discovery processes" and governance structures for the implementation of RIS3 throughout the funding period.<sup>8</sup>

### **The regional innovation strategies of intelligent specialization**

The regional innovation strategies of intelligent specialization offer the most elaborate set of strategic instruments within and beyond cohesion policy to date. The goal of RIS3 is a long-term and distinctive positioning in the competition among regions. The original idea was that it pays off more for regions to focus on their inherent strengths than on technological trends. It needs to be assessed whether RIS3 can merely reinforce existing priorities or also initiate transformation processes.

There is a fundamental difference in the orientation of these strategies. On the one hand, RIS3 were initially designed as open, bottom-up strategies. Their core concept thus somewhat contradicts objective-driven strategies, such as transformation strategies, which focus on cross-regional transformation challenges like sustainability or digitalisation.<sup>9</sup> This raises the question to what extent transformation objectives can be systematically integrated into RIS3 without undermining their open-ended approach.

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<sup>7</sup> European Commission (2022): A New European Innovation Agenda. COM(2022) 332 final.

<sup>8</sup> Prognos (2020). Study on smart specialisation in Germany, 2021-2027. Final report commissioned by DG REGIO ([https://ec.europa.eu/regional\\_policy/sources/studies/smart\\_spec\\_germany\\_de.pdf](https://ec.europa.eu/regional_policy/sources/studies/smart_spec_germany_de.pdf)), last access: 08.08.2024).

<sup>9</sup> Cf. Cappellano, Francesco; Francesco Molica; Teemu Makkonen (2023): Missions and Cohesion Policy: Living separate or dancing together? JRC Working Papers on Territorial Modelling and Analysis No 02/2023. (<https://publications.jrc.ec.europa.eu/repository/handle/JRC133366>), last access, 20.11.2024)

The founder of the RIS3 concept, Dominique Foray, argues in a policy brief written jointly with Prognos AG that intelligent specialization and transformation strategies do not have to be mutually exclusive.<sup>10</sup> Rather, the combination of top-down planning elements and bottom-up participation elements was part of the RIS3 concept from the outset. What is crucial is the process management between setting directional guidance ("directionality") and stakeholder participation processes in developing transformation roadmaps using the entrepreneurial discovery process. Therefore successful RIS3 prioritisation links one or more sectors with a common transformation goal. The empirical results show that this linkage is already taking place in practice – almost 70% of the priority areas in the Europe-wide RIS3 are linked to green and digital transformation.<sup>11</sup>

RIS3 can therefore be expanded even more explicitly to include transformation topics in order to link these with the measures relating to the ERDF's policy objectives. It all depends on the process. Regional foresight workshops for the anticipation and specification of transformation topics and the resulting development of measures or mission dialogs are suitable for this purpose. Separate regional transformation strategies are not required for this. Moreover, overcoming the current transformation challenges increasingly requires the application of existing technological solutions. From the perspective of this research project, the innovation strategies should therefore be supplemented at federal state level by concrete, cross-departmental investment plans (beyond the ERDF) and the RIS3 should be formulated in the context of industrial policy objectives.

The process of developing and implementing the RIS3 should, in practice, receive more emphasis than it has been so far involving relevant stakeholders in the states - including regional, municipal stakeholders - in a more participatory process, as required as a precondition by the EU. This could be supported by various participation formats with regional stakeholders such as "innovation forums".

This requires, particularly in larger regions, suitable governance structures such as innovation agencies that can orchestrate the innovation ecosystem across sectors.

### **Cohesion Policy programmes as platforms for strategic integration**

The Cohesion Policy programmes serve as platforms for strategy development and coordination going far beyond the RIS3 which have to be seen as innovation policy instruments. RIS3 encompass and combine in a comprehensive manner the existing strategies from the various thematic areas. The dialogue with the managing authorities of the federal states has shown that Cohesion Policy also promotes interministerial coordination and interdisciplinary approaches in this way. An exemplary look at the OPs of the federal states in Policy objectives 1 and 2 shows the

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<sup>10</sup> Prognos & Foray, D. (2023). The potential of smart specialisation for driving structural transformation and transition at the regional level. Prognos Policy Brief (<https://www.prognos.com/de/projekt/potential-intelligenter-spezialisierungsstrategien>, last access: 12.08.2024).

<sup>11</sup> Prognos & CSIL (2022). Analysis of key parameters of Smart Specialisation Strategies (S3). Final Report. commissioned by GD REGIO. (<https://op.europa.eu/en/publication-detail/-/publication/3026007b-8be2-11ed-999b-01aa75ed71a1/language-en/format-PDF/source-search>, last access: 12.08.2024).

diversity of the strategy landscape, which is taken into account, coordinated and brought together there.

The respective state innovation strategy, for example, is usually designed as an integrative strategy that takes into account other state, federal and EU strategies related to innovation. These include industrial policy strategies, digitalization strategies, strategies to promote start-ups, SME strategies, sustainability strategies and environmental strategies. In addition, there are innovation-specific strategies for knowledge and technology transfer, clusters and high-tech promotion. The regional innovation strategies - supported by the RIS3 process - take up the various elements and form a common framework.

Strategies from different levels are combining the areas of climate protection, energy and resilience. At EU level, the Green Deal as the EU's growth strategy, but also the bioeconomy strategy, play a exemplary role for the state OPs. There are also relevant national strategies such as the National Energy and Climate Protection Plan, the Climate Change Adaptation Strategy and the National Strategy for the Protection of Critical Infrastructure. Finally, these are supplemented by a series of state-specific strategies on climate protection, sustainability, bioeconomy, the environmental economy and flood protection. In addition, the OPs are linked to Interreg programmes and macro-regional strategies, which ensure cross-border strategic cooperation between European regions. References to the states' foreign trade and internationalization strategies are also made in the OP.

In view of the complexity of this coordination task, cooperation between the federal government and the federal states is particularly critical.<sup>12</sup> In the discussions with the managing authorities, this was generally assessed as positive, although it was noted that the need for coordination is likely to increase in the future. Stakeholders believe that the implementation of major strategic projects with a particularly high level of investment can only succeed through close cooperation. The Coordination Committee of the Joint Task "Improvement of Regional Economic Structures" was seen as a model for greater coordination and orchestration of the programmes. In the dialogue with the federal states, it was also emphasized that better coordination is required not only between the federal government and the federal states, but also between the federal states themselves. By coordinating funding measures across state borders, coherent economic areas can be promoted in a targeted manner or cross-border climate protection issues can be tackled effectively. However, additional coordination tasks also require corresponding administrative capacities.

### **Expanding regional strategic capability**

The RIS3 have proven to be a strategic signpost for the states and their regions, but their importance must be further strengthened and any "dilution" through new, similar but differently named concepts must be avoided. This is indicated by the introduction of concepts such as Partnerships for Regional Innovation or Regional Innovation Valleys. Instead, a sensible strategic

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<sup>12</sup> Gebert, Maik et al. (2024): Die Ausrichtung von Innovationspolitik auf Landesebene. Analyse und Einordnung der RIS3 der Länder. Stifterverband. (<https://media.stifterverband.org/innovationspolitik-auf-landesebene>, last access: 13.08.2024).

merger is required here in order to leverage synergy potential. In addition, the RIS3 can be used for strategy development in other cohesion policy fields beyond innovation policy (policy objective 1) or expanded to include these - particularly in the context of promoting small and medium-sized enterprises (SMEs) or developing innovative solutions for managing the green and/or digital transformation. The ability to develop and implement strategies depends not least on the capacities of the administration and other stakeholders involved. The stronger focus of cohesion policy can only succeed if there is also the necessary staff at all levels to implement it. Studies revealed that public investments can only be effective if they are implemented by a competent administration.<sup>13</sup> Accordingly, both the High-Level Report on Cohesion Policy<sup>14</sup> and the Letta Report<sup>15</sup> attach great importance to improving the quality of governance and institutions as well as administrative capacities.

The recently published Draghi Report<sup>16</sup> emphasizes the need to enable all European regions to successfully benefit from the growth potential of the EU single market. To achieve this, all regions should be empowered to identify their strategic position in the growth sectors of the future. Cohesion Policy is already tackling this task in a targeted manner through RIS3. However, a stronger focus should be placed on interregional cooperation and co-investment in order to achieve the necessary financial mass and to link the strategic strengths distributed across the internal market and borders. Strategic capability must always also mean the ability to cooperate. This will not only make individual regions more competitive, but the EU as a whole. In this respect, the thematic priorities of RIS3 already reflect the bundled priorities and areas of strength of the EU in an overarching perspective. Ultimately, the ability to cooperate strategically can also serve to overcome cross-border challenges and provide the framework for cross-level policy coordination. The strengthening of strategic capacities in the regions through cohesion policy forms the foundation for this.

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<sup>13</sup> Rodríguez-Pose, Andrés; Garcilazo, Jose Enrique (2015): Quality of Government and the Returns of Investment: Examining the Impact of Cohesion Expenditure in European Regions, *Regional Studies* 49:8. Available at: <https://www.tandfonline.com/doi/full/10.1080/00343404.2015.1007933> (last access: 13.08.2024).

<sup>14</sup> High-Level Group on the Future of Cohesion Policy (2024): Forging a sustainable future together: Cohesion for a competitive and inclusive Europe. Report of the High-Level Group on the Future of Cohesion Policy. Available at: <https://op.europa.eu/en/publication-detail/-/publication/c6e97287-cee3-11ee-b9d9-01aa75ed71a1/language-en> (last access: 13.08.2024).

<sup>15</sup> Letta, Enrico (2024): Much more than a market. Speed, Security, Solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens. Available at: <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf> (last access: 13.08.2024).

<sup>16</sup> Draghi, Mario (2024): The future of European competitiveness. Available at: [https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead\\_en](https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en) (last access: 21.10.2024).

## 2.2 Objectives for the EU's twin transition

The European Commission directs the ERDF funds to certain topics to which it attaches particular importance by setting guidelines for a so-called “thematic concentration”. This instrument was already used in the 2014-2020 funding period. However, there have been changes to the quotas for the individual themes for the current funding period.

In accordance with Art. 4 Para. 6 of the ERDF Regulation, a separate quota for PO 1 and PO 2 is defined for 2021-2027 for each of the three regional categories of more developed regions (MDR), transition regions (TR) and less developed regions (LDR). The focus here is on “Smarter Europe” under PO 1 (formerly Thematic Objective 1-4) and a minimum quota for a “greener, low-carbon Europe” under PO 2 (formerly Thematic Objective 4). As in the 2014-2020 funding period, the quotas tie up a higher proportion of ERDF funds as the development strength of the regions increases. Overall, however, the proportion of ERDF funds subject to quotas was increased for all regional categories in 2021-2027: For MDR from 80% to 85%, for TR from 60% to 70% and for LDR from 50% to 55%. As a result, the financial scope for funding outside the areas of innovation, competitiveness and climate and environmental protection 2021-2027 has decreased.

Another change in the comparison of the funding periods is the increase and standardization of the quota for PO 2 regardless of the region category. While in 2014-2020 the quota for thematic objective (TO) 4 varied between 12% for LDR, 15% for TR and 20% for MDR, a uniform quota of at least 30% of ERDF funds for PO 2 was specified for 2021-2027 regardless of the region category. With regard to the increase in the quota, however, it should be noted that 2021-2027 PO 2 is thematically broader and also covers the area of environmental protection, while 2014-2020 TO 4 only included the area of climate protection.

*Table 2: Quotas for thematic concentration by Thematic Objective (TO)/Political (PO) and Regional Categories*

	2014-2020	2021-2027
More developed regions (MDR)	TO 1-4: 80%	PO 1+2: 85%
	TO 4: 20%	PO 2: 30%
Transition regions (TR)	TO 1-4: 60%	PO 1: 40%
	TO 4: 15%	PO 2: 30%
Less developed regions (LDR)	TO 1-4: 50%	PO 1: 25%
	TO 4: 12%	PO 2: 30%

Source: Own representation based on Article 4(1) of the ERDF Regulation 2014-2020<sup>17</sup> and Article 4(6) of the ERDF Regulation 2021-2027.

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<sup>17</sup> REGULATION (EU) No 1301/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006.

There is also a quota for urban development at Member State level: While in 2014-2020 at least 5% of a member state's ERDF funds were allocated to sustainable urban development, the target for 2021-2027 was increased to 8% in accordance with Art. 11 Para. 2 of the ERDF Regulation.

The POs "A more connected Europe - mobility and regional ICT connectivity (PO 3)", "A more social Europe - implementation of the European Pillar of Social Rights (PO 4)" and "A Europe closer to citizens - sustainable and integrated development of urban, rural and coastal areas through local initiatives (PO 5)" were not examined in depth; the focus is on PO 1 and PO 2 because of their importance for the twin transition and the funding priorities in Germany.

### **Focus areas with regard to transformation**

The German regions are facing a number of challenges in the course of the digital and green transformation, the so-called twin transition. The regions' preparation for the changes that lie ahead differs significantly and they are affected by them to varying degrees. However, the challenge is the same for all regions: the different fields of transformation and, in particular, the simultaneity of the necessary change entail extensive adaptation requirements. While some transformation paths, such as climate neutrality, are quite clearly defined, transformation topics often interact with each other and are influenced by innovation cycles. For example, advancing digitalization (which is a transformation topic in itself) accelerates the other transformation paths. In addition to decarbonization and digitalization, demographics, economic diversification and innovation are other key areas of action.

The various challenges and approaches to addressing them in the regions most affected are currently discussed in several studies with varying focal points and methodologies. For example, according to a study by the "Future of Industry" alliance, German industrial regions will be more affected by ecological (and automotive) change, while more rural regions will be more affected by digital change.<sup>18</sup> The study by Südekum and Rademacher for the Bertelsmann Stiftung (2024)<sup>19</sup> also shows the different ways in which rural districts are affected. It underlines that some regions represent striking cases with a high concentration of so-called "problem industries" with particularly high exposure to "transformation stress" in the future due to their specialization patterns. These regions are also often outside the typical regional policy funding framework (especially the GRW). The following figure shows the "transformation stress" of German rural districts.

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<sup>18</sup> Bündnis "Zukunft der Industrie" (2022): Transformationsstrategien für besonders betroffene Regionen: Identifizierung und Bewertung. Studie für das N3tzwerk Zukunft der Industrie. Available at: [https://issuu.com/bdi-berlin/docs/20221221\\_studie\\_endbericht\\_transformationsnetzwerk](https://issuu.com/bdi-berlin/docs/20221221_studie_endbericht_transformationsnetzwerk).

<sup>19</sup> Südekum/Rademacher (2024): Regionale Disparitäten in der Transformation. Empirische Evidenz für Deutschland und Implikationen für die Regionalpolitik. Studie der Bertelsmann Stiftung. Available at: [https://www.bertelsmann-stiftung.de/fileadmin/files/PicturePark/2024-03/W\\_Studie\\_Regionale\\_Disparitaeten.pdf](https://www.bertelsmann-stiftung.de/fileadmin/files/PicturePark/2024-03/W_Studie_Regionale_Disparitaeten.pdf).

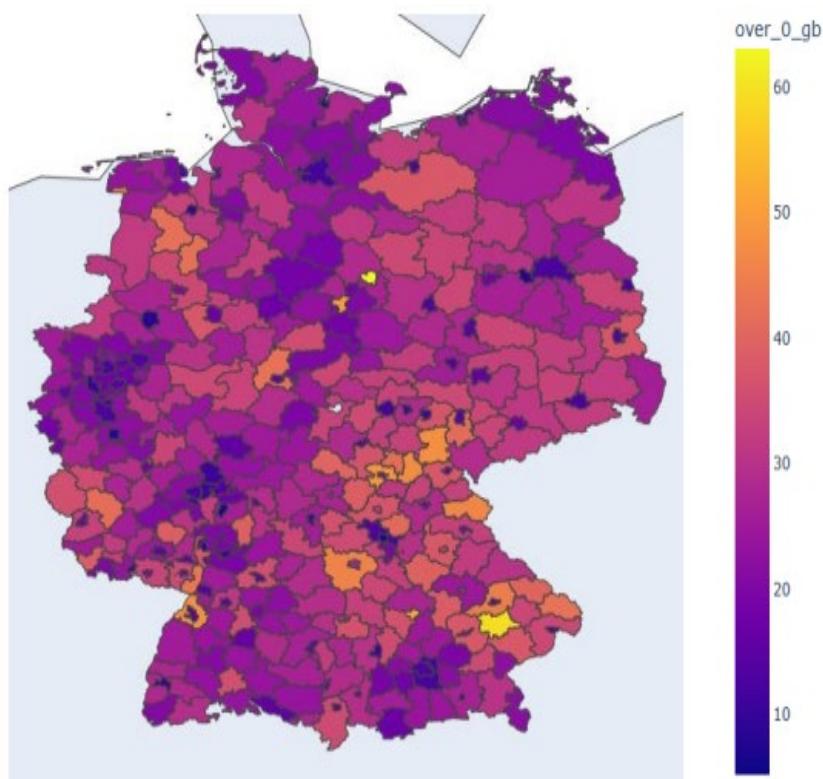


Figure 3: Transformation Stress in German Districts

Source: Südekum/Rademacher (2024), p. 32. Share of employment in sectors with positive CO<sub>2</sub> growth per full-time employee: The higher the value, the greater the transformation stress in the regions, as a larger proportion of regional employment is concentrated in sectors facing high transformation pressure. Example: automotive regions Wolfsburg and Dingolfing-Landau.

In another study by the Bertelsmann Stiftung on the future of European cohesion (2022)<sup>20</sup> indicates that the green and digital transformation is likely to further amplify the divergent growth patterns in Europe. Metropolitan regions and high-tech regions are identified as potential beneficiaries of the twin transition, while agricultural regions and carbon-intensive regions characterized by the manufacturing industry are predicted to have lower growth opportunities. Due to these different conditions, a deepening trend of diverging economic development is assumed. Adapted policy approaches are therefore necessary that specifically take into account the strengths and weaknesses of the regions.

### A smarter Europe - innovative and intelligent economic change

Research and innovation (R&I) are critical to the future of Germany and Europe, whether in terms of the twin transition, social resilience, or strategic sovereignty. In the context of global competition, regions are constantly confronted with the challenge of optimally exploiting their innovation potential in order to create sustainable growth, employment and social cohesion.

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<sup>20</sup> Bertelsmann Stiftung (ed.) (2022): The Future of EU Cohesion. Effects of the Twin Transition on Disparities across European Regions. Available at: <https://www.bertelsmann-stiftung.de/de/publikationen/publikation/did/the-future-of-eu-cohesion> (last access: 15.11.2024).

Public investment in R&I makes a decisive contribution to this. ERDF funding should enable the provision of appropriate resources and funding instruments in all regions of Europe.

**Two fundamental questions of definition** were raised in the dialogue with the federal states. First, there was the question what qualifies as innovation. There was broad agreement among the representatives of the federal states that an open, broad definition of innovation should apply, which also includes aspects of innovation absorption, social and business model innovation as well as technology transfer. This would also allow supporting smaller innovation projects in SMEs, which ultimately represent an important target group for the ERDF. Second, the correct definition of success is important. A certain tolerance for failure is needed, as R&I projects are risky by definition. An innovation project that does not fully achieve its intended goal can still be successfully implemented from a funding perspective. Furthermore, the effects of innovation funding are often not felt in the short term, but can only be measured in the long term. This would be crucial for the monitoring and evaluation framework.

The strategic framework for RIS3 is provided by the New European Innovation Agenda, which, among other things, emphasizes the importance of RIS3 for achieving the objectives.<sup>21</sup> The focus here is no longer on identifying (new) areas of specialization, but rather on the further development of existing priorities and instruments and, above all, the consolidation of "entrepreneurial discovery processes" and governance structures for the implementation of RIS3 throughout the funding period.<sup>22</sup> The contributions from the representatives of the Managing Authorities during the discussion sessions suggest that the RIS3 have established themselves as an important strategic framework for regional innovation promotion and could also effectively address transformation topics. Regarding the content selection criteria, a central challenge remains to effectively operationalise the RIS3 priorities for the calls for proposals. One problem is that calls for proposals are often advertised unspecifically for all priority fields. In the 2014-2020 funding period, this applied to the majority of calls (57%).<sup>23</sup> The accuracy of calls for proposals also depends on RIS3 priorities being formulated precisely from the outset. These are often very broad and all-encompassing, which runs counter to the goal of selective intervention.<sup>24</sup> During the discussion meetings, the state representatives mentioned that a too restrictive definition could limit the pool of possible beneficiaries too much. Nonetheless, a too imprecise delimitation can result in a flood of project applications, creating a significant administrative burden. One of the ideas explored was to maintain the subject area relatively broad while prioritising specific subjects through greater funding quotas, or to allow potential beneficiaries to help shape the selection of

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<sup>21</sup> European Commission (2022). Communication: A New European innovation Agenda. COM(2022) 332 final, p. 12. (<https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=CELEX:52022DC0332>, last access 08.08.2024).

<sup>22</sup> Prognos (2020). Studie zur intelligenten Spezialisierung in Deutschland. Finaler Bericht. Im Auftrag der GD REGIO. ([https://ec.europa.eu/regional\\_policy/sources/studies/smart\\_spec\\_germany\\_de.pdf](https://ec.europa.eu/regional_policy/sources/studies/smart_spec_germany_de.pdf) last access: 08.08.2024).

<sup>23</sup> Prognos & CSIL (2021). Study on prioritisation in Smart Specialisation Strategies in the EU. p. 152.

<sup>24</sup> Ganelle, C.; Guzzo, F. ; Mieszkowski, K. (2020). Smart Specialisation. What gets lost in translation from concept to practice? *Regional Studies* 54:10, p. 1377-1388. (<https://www.tandfonline.com/doi/full/10.1080/00343404.2019.1607970>, last access 08.08.2024).

themes in participation processes. A monitoring system at the tender level helps to identify undesirable developments at an early stage and fosters early adjustments.<sup>25</sup>

In order to achieve efficient and seamless funding of the R&I landscape, **synergies** are to be created between the EU instruments Horizon Europe and ERDF in accordance with the applicable Common provision regulation (CPR).<sup>26</sup> However, it is still up to the managing authorities to decide to what extent they use the synergy opportunities described in the European Commission's synergy guide.<sup>27</sup> A special report by the European Court of Auditors found that the synergy measures in Horizon 2020 were only partially implemented.<sup>28</sup> In the meetings of the working group on synergy dialogue initiated by the Federal Ministry of Education and Research (BMBF), the representatives of the federal states pointed out that the European Commission's concepts were too abstract and could only be implemented to a limited extent in funding practice (e.g., the Seal of Excellence). Coordination between the federal and state level was assessed as fundamentally good in the exchange meetings with the Managing Authorities; however, it was argued that strategic large-scale projects in particular (e.g. the establishment of large industrial companies in strategically important sectors) could lead to a greater need for coordination in order to secure Germany as a location for innovation in the future. The European Commission also supports the coordination of programme planning with **EU missions** in order to bundle forces and create targeted synergies.<sup>29</sup> While the mission-oriented approach itself was generally seen as a good concept by the participating state representatives, the EU missions under Horizon Europe were criticised as being too narrowly defined. As a result, they may not be suitable for every region and should remain voluntary. Too close a linkage with regional innovation strategies could make them inflexible and limit their alignment with specific regional conditions. Therefore, a general mission orientation can provide a helpful framework, as long as sufficient flexibility is maintained.

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<sup>25</sup> Gianelle, C.; Guzzo, F. ; Mieszkowski, K. (2017). Smart Specialisation at work. Analysis of the calls launched under ERDF Operational Programmes.

<sup>26</sup> Common Provision Regulation, Art. 11, para. 1.b.III.

<sup>27</sup> Communication of the Commission: Synergien zwischen dem Programm Horizont Europa und den EFRE-Programmen (2022/C 421/03).

<sup>28</sup> European Court of Auditors: Special report 23/2022: Synergies between Horizon 2020 and European Structural and Investment Funds - Not yet used to full potential, p. 5. The ECA's conclusions are based, among other things, on a survey of the Managing Authorities responsible for 27 Operational Programmes (response rate 64%) and 78 National Contact Points (response rate 67%) from all Member States (see p. 13-14). It is not known whether Managing Authorities from Germany participated in the survey.

<sup>29</sup> Missions are EU-wide research and development instruments that tackle ambitious goals to overcome current societal challenges through interdisciplinary innovations and involve the population from the outset. There are five missions in total: Climate Change Adaptation, Fighting Cancer, Healthy Oceans and Waters, Climate Neutral and Smart Cities and the "Land Deal for Europe". see also:

[https://ec.europa.eu/commission/presscorner/detail/de/ip\\_21\\_4747](https://ec.europa.eu/commission/presscorner/detail/de/ip_21_4747) (last access: 08.08.2024).

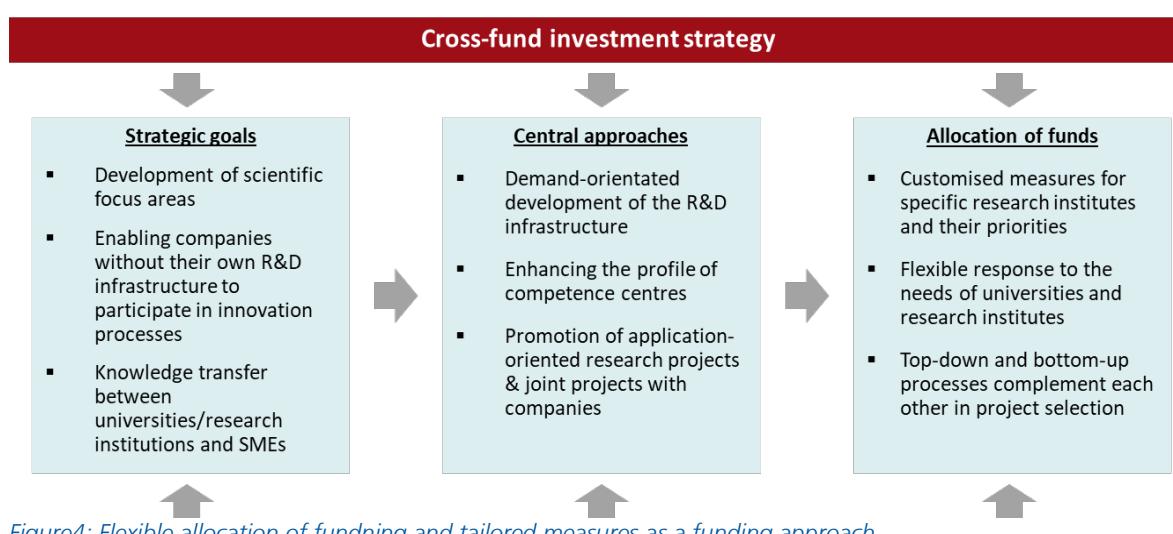
### **Case Study 1: R&I infrastructure funding in Saxony-Anhalt - ERDF funding as a trailblazer**

As a starting point in the 2014-2020 funding period for the ERDF Operational Programme, Saxony-Anhalt identified the regions' relative underdevelopment in the field of research and development (R&I), coupled with a chronic lack of private investment. The most critical prerequisite for creating a more competitive R&I landscape was thus to increase the private sector's involvement in R&I activities. To achieve this, the programme aimed to leverage the relative strength of the public R&I sector—which it sought to maintain—as a means of bringing the private sector on board by creating local synergies.

At the heart of these efforts was a focus on R&I infrastructure and its shared use by both public and private entities. Specifically, under Specific Objective 1, support was provided for public R&I infrastructure and application-oriented R&I activities, while Specific Objective 2 complemented this by promoting the development of entrepreneurial innovation infrastructure and joint R&I projects.

Publicly funded research institutes played a key role in this strategy, such as the Helmholtz Association, which maintains a branch of the German Center for Neurodegenerative Diseases (DZNE) at the Otto von Guericke University Magdeburg. Here, funding was provided for the construction of a new laboratory building with a cyclotron, enabling the retention of important researchers and projects at the site and supporting the application-oriented transfer to medical technology in collaboration with Siemens.

Other R&I infrastructure projects included the renovation and expansion of a chemistry lab at the University of Halle (especially for collaborative research), a Fraunhofer pilot plant centre for polymer synthesis and processing in Schkopau, and a high-performance 7-Tesla MRI at the University of Magdeburg as part of the Center for Advanced Medical Engineering (CAME). These projects strengthen the public R&I infrastructure and thereby enhance the conditions for private R&I activities and public-private partnerships.



*Figure4: Flexible allocation of funding and tailored measures as a funding approach*

Source: Own representation.

The impact of ERDF funding is clearly evident in the targeted intervention at neuralgic points in the research and innovation infrastructure. These funds have had a positive impact on the entire innovation ecosystem by bringing together and strengthening critical players in the fields of specialization.

Success factors for this positive development included the short distances within the country, which enabled agile coordination of support measures. In addition, the combination of top-down and bottom-up processes in the planning and selection of projects ensured tailor-made measures. Finally, the flexible combination of funding from various sources - EU, federal and state - made a decisive contribution to success.

*Case Study 2: R&I infrastructure funding in Saxony-Anhalt - ERDF funding as a trailblazer*

*Case Study 3: R&I infrastructure funding in Saxony-Anhalt - ERDF funding as a trailblazer*

### **A greener, low- CO<sub>2</sub> Europe**

To date, the European Green Deal has been the overarching strategic framework of reference for the green transformation of cohesion policy. According to the Commission President, this will not change in the future. In her statement as candidate for President of the European Commission in 2024, Ursula von der Leyen emphasized: "We must and will adhere to all our objectives, including those set out in the Green Deal."<sup>30</sup> The following section will therefore start with a description of the core elements of the Green Deal and the contributions of cohesion policy to its implementation in Germany. It is then highlighted that, in the light of the escalating climate and environmental crisis, Cohesion Policy should continue to be an important tool in combating these challenges in the future. These crises undermine the foundations of a successful cohesion policy by jeopardizing the resource base of economy and prosperity, reducing productivity, and worsening living conditions. Moreover, a cohesion policy that does not place the green transformation at the center of its strategic orientation could itself contribute to exacerbating climate and environmental crises.

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<sup>30</sup> Ursula von der Leyen (2024): Europe's Choice: Political Guidelines for the next European commission 2024-2029. ([https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648\\_en?filename=Political%20Guidelines%202024-2029\\_EN.pdf](https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648_en?filename=Political%20Guidelines%202024-2029_EN.pdf), last access: 15.11.2024).

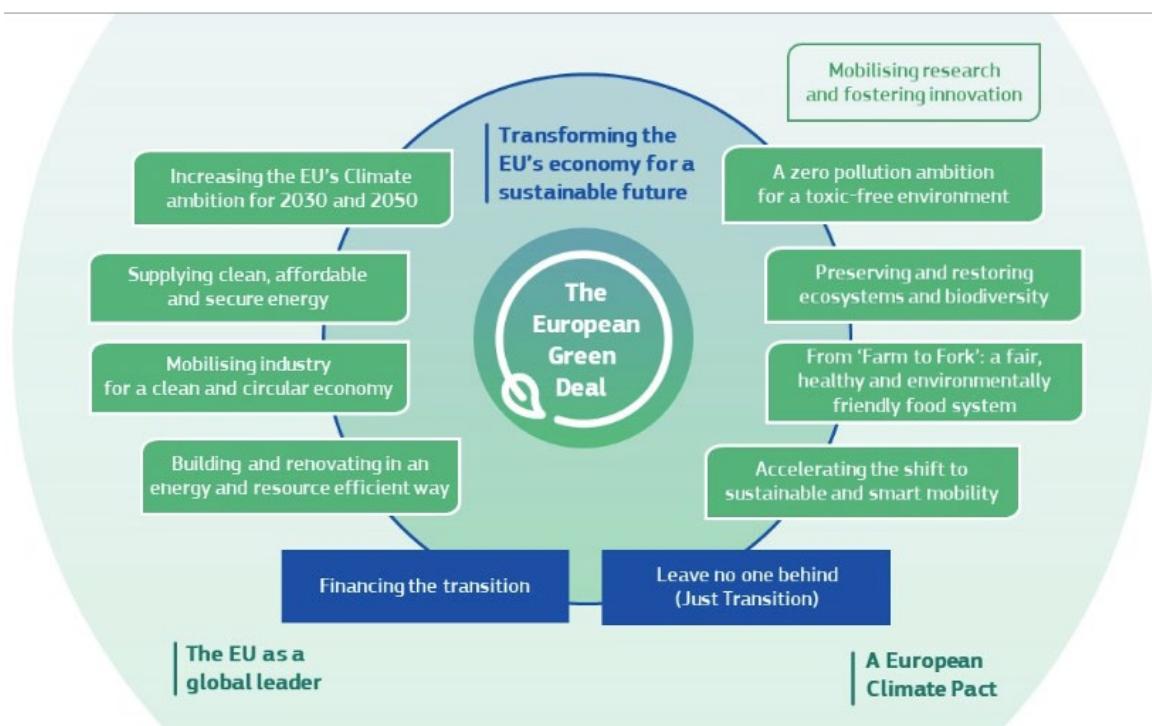


Figure5: The European Green Deal

Source: COM (2019) 640 final

However, the Green Deal is not only understood as the EU's strategy for tackling the major climate and environmental challenges and implementing the global 2030 Agenda for Sustainable Development, but also as an overarching orientation framework in which the development of a fair and prosperous society with a modern, resource-efficient and competitive economy should be possible. The thematic breadth of the Green Deal is illustrated in figure 5. It combines relevant environmental and climate policy topics such as climate protection, energy transition, biodiversity and sustainable mobility, addresses the social dimension via the "leave no-one behind" principle and highlights the topics of "research and innovation" and "financing" as central components.

The evaluation of the financial allocations for the ERDF and JTF in Germany shows the extent to which the programmes are or were geared towards the Green Deal. ERDF funding for Germany (excluding JTF) amounts to around EUR 10.8 billion in the 2021-2027 funding period. The contribution to the Green Deal amounts to around EUR 4.3 billion, which corresponds to 40.3% of ERDF funding. The vast majority of financial resources will be allocated to the energy sector with the aim of reducing emissions. It rose from 46% in the 2014-2020 period to 52% in the 2021-2027 period. The share of funds for climate adaptation in the 2021-2027 period is slightly decreased from 22% to 20 % in comparison with the previous period, even though there is an increase in funds in absolute terms. Mobility funding accounts for 9% in the current period, which represents a decrease of 7 percentage points. Expenditure on environmental protection and nature conservation fell by almost 4 percentage points to just under 11%, although this only represents a slight decrease in absolute terms. The area of sustainable management/circular

economy rose from 2% to 8%, which is also reflected in the five-fold increase in the absolute value.

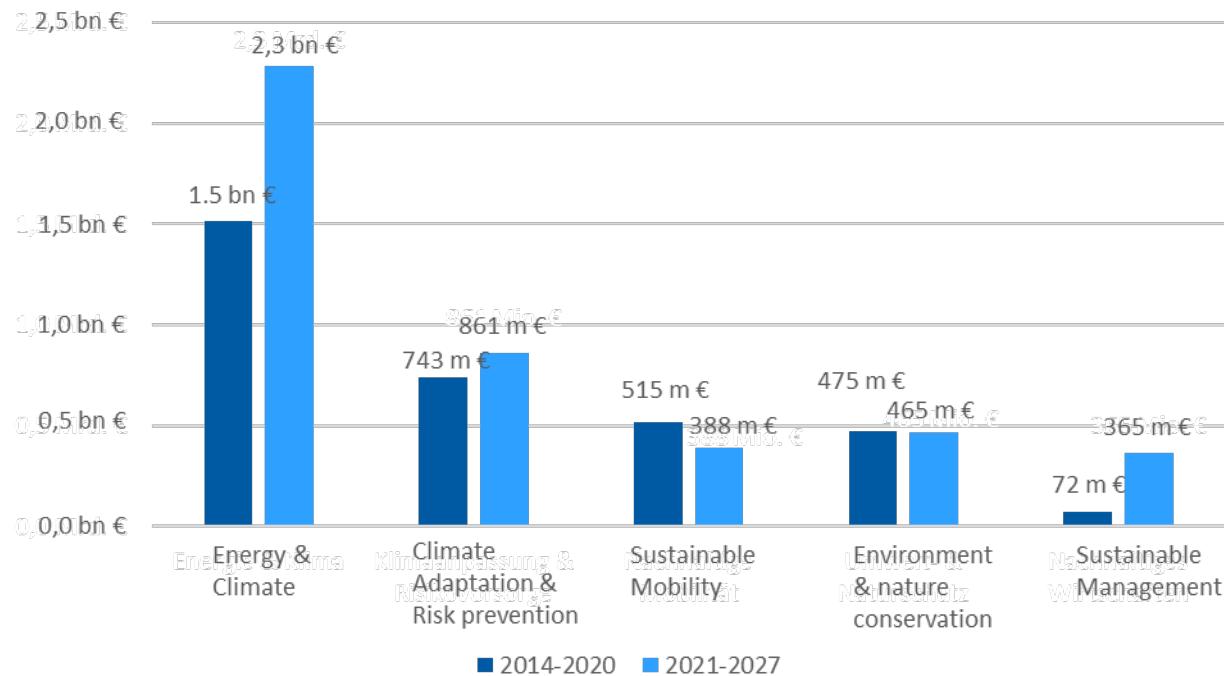


Figure6: ERDF budget allocation to Green Deal topics

Source: Own calculations

In order to determine the significance of the Green Deal for future Cohesion Policy, it is worth taking a current look at the climate and environmental challenges and the resulting consequences for human well-being/living conditions as well as for the conditions for successful economic activity.

Scientists are increasingly pointing to the worsening environmental and climate crises as one of the greatest challenges of the 21st century.<sup>31</sup> Johan Rockström<sup>32</sup>, one of the directors of the Potsdam Institute for Climate Impact Research (PIK), emphasized that the existential threat to humanity posed by the climate crisis requires profound and rapid change in economic and energy systems<sup>33</sup>. The Intergovernmental Panel on Climate Change (IPCC), the leading international body

<sup>31</sup> [WBGU-Gutachten 2023](#)

<sup>32</sup> Potsdam-Institut für Klimafolgenforschung (2024): „Ein herausragendes Beispiel für engagierte Führung im Bereich der globalen Gesundheit“: Johan Rockström erhält Virchow-Preis 2024. ([URL](#))

see also: IPCC, 2018: Summary for Policymakers. In: Global Warming of 1.5 °C. An IPCC Special Report on the impacts of global warming of 1.5 °C above preindustrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty. V. Masson-Delmotte, P. Zhai, H. O., et Al. (ed.). Geneva, Schweiz: World Meteorological Organization, p. 32.

<sup>33</sup> Rockström et al. (2017): A roadmap for rapid decarbonization. In: Science, 355(6331), 1269-1271. DOI: 10.1126/science.aah3443.

for the assessment of climate change, argues similarly.<sup>34</sup> These crises have a profoundly negative impact on all areas of human life and the economy. Central are

1. the climate crisis: Even if the 1.5 degree target for limiting the rise in temperature has receded into the distant future, the increasingly frequent and tangible negative effects of climate change will be exacerbated by any further rise in temperature.
2. the biodiversity crisis: the loss of species and habitats is continuing unabated. Around 1 million of a total of 8 million species could disappear from the earth in the next few decades.<sup>35</sup>
3. the level of resource consumption (primary raw materials), inadequate recycling and emissions of substances that cause harm to people and the environment ([Rat für Nachhaltige Entwicklung 2023](#)).

These crises manifest, for example, in extreme weather events such as flooding and heat stress and increasing air pollution. They have a direct impact on people's living conditions and public health. Studies show that exposure to air pollution significantly increases the risk of respiratory diseases, cardiovascular diseases and premature deaths. In 2021, at least 253,000 people died in the EU due to particulate matter (PM2.5) concentrations above the WHO guideline value of 5 µg/m<sup>3</sup>.<sup>36</sup>

The trend of increasing heat extremes due to climate change is leading to increased stress, reduced productivity and increased mortality. Heat stress is considered to be one of the most serious effects of climate change. Frequent heat waves and rising temperatures can increase the risk of heat-related illnesses and deaths, especially in urban areas. Vulnerable population groups, such as the elderly, children and people with chronic diseases, are particularly affected.<sup>37</sup> According to the Robert Koch Institute, in Germany around 19,300 deaths between 2018 and 2020 are a result of heat stress.<sup>38</sup> Negative effects on human health are also caused by hazardous emissions such as substances from the PFAS group (Per- and Polyfluoroalkyl Substances, also known as perpetuating chemicals). These accumulate in various organisms, including humans. They are extremely persistent and are suspected of causing cancer, hormonal disorders and thyroid disease, for example.

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<sup>34</sup> IPCC, 2018: Summary for Policymakers. In: Global Warming of 1.5° C. Geneva, Schweiz: World Meteorological Organization, p. 32 ., IPCC (2022): Impacts, Adaption, and Vulnerability. Contribution of Working Group II to the sixth Assessment Report of the Intergovernmental Panel on Climate Change. Cambridge University Press.

<sup>35</sup> [Globale Biodiversitätskrise | Pro Natura](#)

<sup>36</sup> See <https://www.eea.europa.eu/de/highlights/luftverschmutzung-in-ganz-europa-immer>

<sup>37</sup> Luber, G. & McGeehin, M. (2008). Climate Change and extreme heat events. In: American Journal of preventive Medicine, 35(5), p. 429-435. DOI: 10.1016/j.amepre.2008.08.021.

<sup>38</sup> Claudia Winklmayr, Franziska Matthies-Wiesler, et al. (2023): Hitze in Deutschland: Gesundheitliche Risiken und Maßnahmen zur Prävention. In: Journal of Health Monitoring, 2023 8(S4). DOI: 10.25646/11645.

Last but not least, the economic consequences of the environmental and climate crises are very drastic. A recent study by the Potsdam Institute for Climate Impact Research (PIK) predicts that climate change will cause global economic losses of 38 trillion dollars per year.<sup>39</sup> These losses are caused by various economically relevant effects of climate change, such as consequences for agricultural yields, labor productivity or infrastructure. Even if greenhouse gas emissions were drastically reduced from today, the global economy would have to expect a loss of income of 19% by 2050 due to climate change. These losses are six times higher than the mitigation costs of limiting global warming to two degrees.<sup>40</sup>

There is also a consensus in the scientific community that human activities are the dominant cause of all three problem areas, which is also reflected in the literature in the discourse on the Anthropocene era.<sup>41</sup> The term Anthropocene emphasizes the idea that human activity is the dominant force influencing the Earth's environment, climate and geology. The causes of the environmental and climate crises are therefore our economic and lifestyle practices, our consumption of resources and resulting emissions, which are no longer compatible with natural and planetary boundaries. Solution-oriented changes therefore require profound, systemic transformations in social, economic, technological or ecological systems. Such transformations go beyond incremental or gradual changes and involve significant, fundamental upheavals, disruptive innovations and a change in development paths. The discussion on transformative environmental policy<sup>42</sup> therefore emphasizes the need to provide targeted support for transformations that can counteract the environmental and climate crises mentioned above. These are referred to as sustainability transformations.

Furthermore, the aforementioned environmental and climate crises and the need to combat them are considered to be very time-critical due to the phenomenon of tipping points. Insufficient action or action that is postponed into the future increases the risks and exacerbates the problems or their effects.

These developments also have an impact on the future direction and governance of cohesion policy. Environmental and climate crises threaten not only the foundations of economic, social and territorial cohesion, but of economic activity and life in general. The preservation of natural resources, the provision of natural resources, the protection of people from health risks, the prevention and avoidance of damage, the development of sustainable and resilient villages, cities and regions to ensure safe and healthy living conditions, as well as the support of research and innovation related to sustainability transformations, are in the intrinsic interest of cohesion policy. Not least because they are of fundamental relevance as economic location factors and for maintaining prosperity and international competitiveness. A Cohesion Policy that seeks to

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<sup>39</sup> Maximilian Kotz, Anders Levermann, Leonie Wenz (2024): The economic commitment of climate change.in: Nature. DOI: 10.1038/s41586-024-07219-0. Based on empirical data from over 1,600 regions over the past 40 years, researchers at PIK have calculated the future impacts of changing climatic conditions on economic growth.

<sup>40</sup> Maximilian Kotz, Anders Levermann, Leonie Wenz (2024): The economic commitment of climate change.in: Nature. DOI: 10.1038/s41586-024-07219-0.

<sup>41</sup> Waters et al., 2016: The Anthropocene as a Geologic Time Unit.

<sup>42</sup> Umweltbundesamt 2018, Transformative Umweltpolitik.

effectively integrate the climate and environmental dimensions of the economy and create equal living conditions must firstly give sustainability transformations a central role and secondly ensure that no counterproductive effects are generated across the board. It therefore makes sense to devote even more attention than before to preserving the natural foundations of life and the necessary transformations, while at the same time pursuing new, synergistic and value-creating paths.

For Cohesion Policy, those **fields of action** are particularly ideal that seek further objectives of Cohesion policy, such as enhancing competitiveness, reducing disparities, or expanding autonomy, while also focusing on sustainability transformations. These include the following:

- Aim for climate neutrality through innovations and climate protection measures in the main sectors such as the energy sector, energy-intensive industries, mobility sector, building sector.
- Decarbonization of the economy and energy system.
- Phasing out the use of fossil fuels.
- Reduction of greenhouse gases through natural sinks (e.g. peatlands) and technical climate protection measures such as Carbon Capture and Storage (CCS) and Carbon Capture, Usage and Storage (CCUS).
- Climate adaptation/climate resilience: There is a growing need for companies and municipalities to protect their buildings, infrastructure and facilities, as well as the people who work in them, from the effects of climate change. The climate adaptation economy is also a fast-growing sector that offers products, technologies and services such as heat protection and flood prevention.<sup>43</sup>
- Protection and promotion of biodiversity: Biodiversity is essential for the provision of a large number of ecosystem services that are of central importance for human well-being and various economic sectors (e.g. regulatory functions such as climate stabilization and water purification, nature tourism, plant-based raw materials for the production of pharmaceuticals, etc.<sup>44</sup>).
- Circular economy: reducing primary raw material requirements and increasing the use of secondary raw materials; avoiding the introduction of hazardous, harmful or harmful substances into the value chain in accordance with the "zero pollution" model<sup>45</sup>.
- Increased use of nature-based solutions (e.g. renaturation, settlement design based on the sponge-community principle) as a priority over 'gray' solutions.

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<sup>43</sup> Netzwerk Klimaanpassung & Unternehmen.NRW (2024): Die Klimaanpassungswirtschaft auf globaler Ebene. ([https://klimaanpassung-unternehmen.nrw/wp-content/uploads/2024/03/NKU\\_AWBroschere\\_12-RZ-onlinelinks.pdf](https://klimaanpassung-unternehmen.nrw/wp-content/uploads/2024/03/NKU_AWBroschere_12-RZ-onlinelinks.pdf)), last access: 21.11.2024).

<sup>44</sup> Projekt "Naturkapital Deutschland - TEEB DE" last access: 21.11.2024).

<sup>45</sup> This aims to ensure that neither people nor the environment are harmed. Health and environmental risks from emissions and landfills of persistent waste and chemicals in the air, soil and water should be prevented through a controlled circular economy and emission regulations.

**The European Commission takes a similar view in its communication on the 9th Cohesion Report.** It states: "A comprehensive approach is needed to foster jobs and opportunities across regions, deal with the asymmetric costs of climate change and implement the climate and green transition, including accelerating the mitigation of greenhouse gases and air pollutants emissions, the necessary investments in climate resilience, improving the management of natural resources and nature restoration, creating healthy ecosystems and nature-based solutions, supporting climate change adaptation and disaster risk management, investing in water efficiency and wastewater treatment (where necessary), in the circular economy, in energy efficiency of dwellings and shifting to climate-friendly transport modes."<sup>46</sup>

A fundamental **orientation for a more effective cohesion policy** could be provided by the guiding principle that future investments should **ideally pursue several objectives at the same time or create several types of benefit**. For example, the reduction of CO<sub>2</sub> emissions, the creation of innovative solutions and/or the creation of added value and jobs, digitalization and the promotion of disadvantaged regions in particular can be achieved simultaneously in appropriately designed funding approaches. This requires systemic thinking that takes a closer look than before at the links between objectives and benefits and takes them into account when determining the policy objectives, strategies and funding measures of cohesion policy. On this basis, it will then be possible to **specifically address synergies between the ecological, economic and social objectives** of cohesion policy. For example, investments in sustainable mobility can not only contribute to reducing emissions, but also improve accessibility, facilitate barrier-free use and thus also strengthen social cohesion. The promotion of research and innovation is one of the policy objectives of cohesion policy, where the focus on sustainability transformations can contribute significantly to the creation of such synergies.

The **digitalization** of processes is often a necessary and inherent part of sustainability transformations, e.g. for the control of small and large-scale energy networks and systems, the development and control of needs-based mobility services or the detection and monitoring of natural hazards, as the example of the development of sensors for forest fire detection shows.

#### **Case Study 4: Sensors for forest fire detection**

Forest fires are an increasing danger for humans and animals and contribute significantly to the acceleration of climate change. Existing forest fire detection systems (usually cameras or satellites) can usually only detect fires too late. This is why the company Dryad (<https://de.dryad.net/>) has developed an innovative system for early detection. Consisting of gas sensors and solar-powered radio infrastructure, Silvanet can detect forest fires at an early stage and thus drastically reduce the response time in the event of a disaster. This enables rapid and cost-effective extinguishing to prevent the spread of a forest fire and the sometimes considerable consequential damage. This effectively and sustainably protects the environment and opens up new business potential in Brandenburg.

The project was funded with EUR 1.7 million from the early-stage and growth fund of the state of Brandenburg. This fund is 85% financed by ERDF resources.

<sup>46</sup> European Commission : Communication on the 9<sup>th</sup> Cohesion report, p. 16

Further information: [Sensoren gegen Waldbrände](#)

A recent study by the Bertelsmann Stiftung shows that the expansion of renewable energies not only makes sense in terms of climate policy, but can also be effective in terms of regional policy.<sup>47</sup> According to the study, the potential for increasing value creation and income through expansion is greater in rural and structurally weak regions than in more developed regions. At the same time, it highlights opportunities for increased cooperation between urban and rural regions for the benefit of both sides. According to the forecasts, the energy transition in these regions will increase value creation by up to 6.2% and employment by up to 4.9% by 2050. Conceivable future funding approaches should also take into account the fact that by involving regional and local stakeholders, they should also have a share in the profits, which can strengthen the acceptance of renewable energies. Possible land use conflicts between agriculture and energy production can be resolved through vertical agro-photovoltaics. Further ERDF-funded examples of the achievement of multiple positive effects are shown by a project of the urban development Hamm with the renaturation of a floodplain (<https://www.hamm.de/erlebensraum-lippeaue>) and a project for the renaturation and protection of moors from Lower Saxony ([Moorschutz Niedersachsen](#)).

## 2.3 Contributions to strengthening the regions

The 9th Cohesion Report notes increasing disparities between individual regions within the Member States. Many regions are struggling considerably with the challenges of structural change. This is accompanied by a publicly perceptible dissatisfaction among the population, which also has an impact on attitudes towards political structures and systems. To counteract this trend, active Cohesion policy can help to strengthen the regional level: a recent study by the Kiel Institute for the World Economy shows that highly visible, regional investments from the structural funds can help to reduce the share of votes for right-wing populist parties in European elections and strengthen trust in democratic institutions.<sup>48</sup> These measures make the EU visible as an actor on the ground.

In order to realize these positive effects, it is necessary to implement the partnership principle, a spatial focus in order to respond to regional characteristics and needs, and the interaction of European Cohesion policy with other instruments and programmes. In this way, regions can be strengthened to overcome the challenges of transformation. In the following chapters, approaches for strengthening the regions are presented, broken down into spatial approaches, instruments for regional promotion and the promotion of cross-regional cooperation.

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<sup>47</sup> Bertelsmann Stiftung (2023): Energising-EU-Cohesion. (<https://www.bertelsmann-stiftung.de/de/publikationen/publikation/did/energising-eu-cohesion>, last access 18.11.2024)

<sup>48</sup> Robert Gold and Jakob Lehr (2024): Paying Off Populism: EU-Regionalpolitik verringert Unterstützung populistischer Parteien, Kiel Policy Brief Nr. 172, April 2024.

### 2.3.1 Place-based approaches

The European Commission demands in its communication to the 9th Cohesion Report that „any future change of Cohesion Policy [...] needs [...] to take into account the experience from Cohesion Policy programming and its regional and place-based approach”.<sup>49</sup> In the past, the importance of place-based policy (place-based approach) as a bottom-up regional strategy developed with strong partner involvement has grown within the framework of Cohesion policy. In the view of the European Commission, the place-based approach is “essential for tailoring policy interventions to local characteristics, preferences and circumstances”.<sup>50</sup> The High-Level Group on the Future of Cohesion Policy comes to the same conclusion in its report and recommends that the „Cohesion Policy should become more of a place-based and transformative policy, with future oriented investments sensitive to the unique strengths, challenges and needs of regions”.<sup>51</sup>

Economic studies have shown that territorial investment under Cohesion Policy leads to economic growth by stimulating local investment that creates jobs.<sup>52</sup> Sufficiently developed administrative resources for the development, selection and implementation of investment projects are crucial to their success.<sup>53</sup>

For the German discussion, it is important not to restrict the term “region” to the geographical area of a federal state or administrative district, but to understand it as a municipal and therefore local or sub-regional level. While the planning of the operational programmes and the funding guideline as well as the administrative implementation takes place at the level of the federal state (in some states, the latter also takes place at the level of the administrative districts), the local level is the level at which the beneficiaries initiate projects that specifically address their needs.

The empirical results of the research project emphasize the key factors that are central to the success of spatial policies. In addition to the existence of spatial strategies and the necessary local financial and administrative resources, these factors include in particular a systemic approach to project funding that links the intervention logics and results of individual projects in order to increase their impact. This is crucial for a successful transformative structural policy. It is equally crucial that these spatial policies are not geared towards the level of regions in the sense of states, but rather towards economic sub-regions within these regions. Case Study 3 illustrates such an

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<sup>49</sup> European Commission: Communication on the 9<sup>th</sup> Cohesion report, COM(2024) 149 final. p. 24.

<sup>50</sup> European Commission: Long term impact of Cohesion Policy

(<https://cohesiondata.ec.europa.eu/stories/s/Long-term-impact-of-Cohesion-Policy-CR9/j4fe-du4t/>, last access: 18.11.2024)

<sup>51</sup> Rodríguez-Pose, Andrés et al. (2024): Forging a sustainable future together: Cohesion for a competitive and inclusive Europe. Report of the High-Level Group on the Future of Cohesion Policy, p. 32.

<sup>52</sup> See Lang, Valentin, 2024: The distributional effects of place-based policies in the EU, in: Heinemann, Friedrich et al. (Hg.): The future of EU cohesion, ZEW – Leibniz Centre for European Economic Research GmbH Mannheim, Report for the German Federal Ministry of Finance, p. 133.

<sup>53</sup> See Bachtrögler-Unger, Julia (2024): The role of administrative capacity for an effective implementation of EU Cohesion Policy, in: Heinemann, Friedrich et al. (Hg.): The future of EU cohesion, ZEW – Leibniz Centre for European Economic Research GmbH Mannheim, Report for the German Federal Ministry of Finance, p. 188-217.

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approach using the example of the transformation of the automotive supply industry in the Bergisch tri-city.

### ***Case Study 5: Transformation of the automotive supply industry in the Bergisch tri-city area***

The Bergisch tri-city is a region in North Rhine-Westphalia that includes the cities of Remscheid, Solingen and Wuppertal. The region is an important location for the German automotive supply industry in Germany. Its companies are closely linked to mechanical and plant engineering, which is the region's second most important economic sector. The transformation of the automotive industry towards electromobility and highly automated or autonomous driving has exposed companies in the region to strong pressure to change. The Bergische Struktur- und Wirtschaftsförderungsgesellschaft, the joint regional economic development agency of the three cities, worked closely with the University of Wuppertal in various studies to identify a wide range of development opportunities for industry in the technology fields of artificial intelligence (AI) and autonomous driving.

In order to develop this strategically, ERDF funding was used in the years 2018 to 2020 to establish the automotiveland.nrw cluster initiative as a platform for the development of transformation projects and to set up a support service for stakeholders from the region by establishing the Centre for Automated Mobility (CAMO) at the University of Wuppertal (also funded by the ERDF-NRW programme 2014-2020). The latter also serves to raise the profile of the University of Wuppertal, which has already made a name for itself in the past through numerous research projects in the fields of AI, autonomous driving, electromobility and intelligent power systems. The projects and activities were supported in their impact by another major lighthouse project funded purely by the state of North Rhine-Westphalia ("Digitale Modellregionen.NRW" program). This has brought together the university's research expertise with the expertise of important companies and provided important impetus for the transformation of the regional automotive supply industry (project "Bergisch.Smart\_Mobility" (2019-2022)).

These projects have created a high level of dynamism in the region, which has been echoed in the development of further projects. Examples include the CH2ANCE and TRAWEBA projects, which have been funded by the BMWK since 2022 and were significantly developed by the regional cluster initiative. A very dynamic innovation ecosystem for the transformation of the automotive supply industry has thus emerged in the region in recent years, which is now also linked to other branches of industry and fields of technology through joint projects (e.g. in the area of the circular economy with the supra-regional Circular Valley network).

ERDF funding has provided the important initial impetus for the development of this innovation ecosystem consisting of systemically linked projects that have received funding from various funding programmes of the state of North Rhine-Westphalia and the federal government. The Bergische Struktur- und Wirtschaftsförderungsgesellschaft and the University of Wuppertal, particularly the Faculty of Electrical Engineering, Information Technology, and Media Technology, have been and continue to be key drivers of its growth. These players have created synergies in close dialogue with other important stakeholders through the clever use of various funding instruments. Intensive communication with the responsible specialist departments in the then Ministry of Economic Affairs, Innovation, Digitalization and Energy and the Ministry of Transport as well as the responsible approval authorities of the state of North Rhine-Westphalia was also crucial. This not only helped to ensure that the entire funding process ran efficiently, but also to align the projects precisely with the policy objectives associated with ERDF funding.

This development was not based on a codified regional development or transformation strategy of the stakeholders, but is the result of the cooperation of so-called policy entrepreneurs, i.e. individuals who were united by a common interest in the development of the region. These individuals were employed

by the regional economic development agency, the University of Wuppertal, the Wuppertal municipal utilities and the city councils of Wuppertal, Remscheid and Solingen. Their work and thus the impact of the projects on the development of the region could have been strengthened by a codified development strategy, as this could have resulted in stronger support from local politicians.

Spatial approaches offer an effective lever for overcoming regional challenges through a strategy-based, systemic approach to project funding that links the intervention logics and results of individual projects. The Structural Funds already provide the appropriate funding opportunities and scope for this. In assessment of this, no need is seen to expand the existing instruments for promoting spatial approaches with new instruments.

The intervention logic of the JTF is very well suited to accentuate the spatial transformation approach in the future funding period due to its task-oriented approach to tackling major challenges - linked to a territorial framework. From the perspective of the beneficiaries and stakeholders directly involved in the implementation of the funding, spatial approaches are an important approach for achieving more effective projects and a more effective reduction of regional disparities (cf. Figure 7).

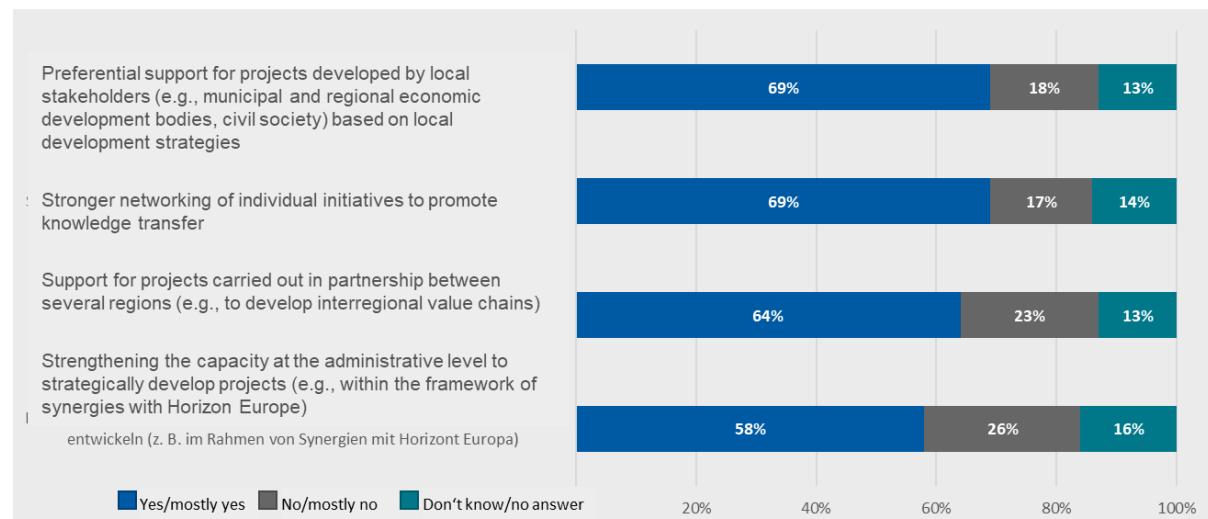


Figure 7 Results of the stakeholder consultation on measures for more impactful projects and more effective reduction of regional disparities (N=744)

Source: Own representation

In the stakeholder consultation, more than two thirds were in favor of preferential funding for projects that were developed on the basis of local development strategies. The fact that this would not only activate endogenous strengths, but also involve civil society in terms of increasing acceptance, was cited several times as a supporting argument.

Closely related to this is the desire for stronger networking of individual projects to promote knowledge transfer. This was expressed by two thirds of stakeholders demonstrating a desire for a systematic approach to project funding. The feedback from stakeholders can be differentiated according to two aspects. On the one hand, it was emphasized that the classic transfer of knowledge and technology between projects must be strengthened in order to achieve broader effects on the regional innovation system beyond the completion of the funded project. On the other hand, it is also important to develop and offer options for follow-up after the end of funding. It has been observed time and again that meaningful developments cannot be continued. Concrete starting points were seen in better dovetailing ERDF funding programmes with other national programmes (synergies between funding programmes). A cross-regional approach is also required. This is also reflected in the agreement of almost two thirds of stakeholders to the question of whether projects should be funded that are carried out in partnership by several regions. In this context, the desire was expressed to establish a common funding opportunity (e.g. a programme of the federal states) for transregional projects.

However, the majority of respondents believe that a prerequisite for a more strategic spatial approach, as expressed in the results of the stakeholder consultation, is a strengthening of administrative capacity not only at the level of managing authorities, but especially at the level of municipalities and local authorities.

### **2.3.2 Existing instruments to promote place-based approaches**

Various instruments are already available for implementing Structural Fund support within the framework of territorial approaches. Their advantages and disadvantages are discussed below. For the implementation of territorial approaches, the legislative framework of the 2021-2027 funding period in the CPR provides for three forms or territorial instruments: integrated territorial investment (ITI), community-led local development (CLLD) and other territorial instruments to support initiatives designed by the Member State. If a Member State or region decides to implement one of these forms, it must be based on a territorial strategy that describes the geographical area of intervention, the development needs, the potential of the area, the development approach and the involvement of partners in the development and implementation of the strategy.<sup>54</sup> In Germany, these territorial instruments have so far only been implemented to a limited extent in the ERDF. In the 2021-2027 funding period, around 83% of ERDF funds will be allocated without a territorial focus. When territorial instruments are used, the focus is on the implementation of “other territorial instruments”. ITI and CLLD only play a very minor role.

The discussion meetings with the administrative authorities on previous experiences with territorial instruments revealed a mixed picture. The low use of territorial instruments is due to the fact that their use is perceived as challenging. On a positive note, the representatives of the federal states emphasized that the existing territorial instruments have succeeded in addressing regional needs and networking stakeholders, also thanks to the creation of region-specific strategies that take

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<sup>54</sup> Regulation (EU) 2021/1060, Art. 28-34

local circumstances into account. Territorial instruments could also increase the visibility and acceptance of EU funding. From the perspective of some Managing Authorities, one success factor is the definition of a fixed budget, which creates a sense of commitment. The stakeholders highlighted the time-consuming strategy process as a key weakness in the implementation of territorial investment strategies. As a result, municipal projects have very long lead times and compliance with the N+3 or N+2 regulation becomes a problem.

Further challenges in implementation arise from the financing with funds from various PO and the necessary support for project managers, for which only limited resources are available.

In addition to the aforementioned forms of territorial instruments, the JTF has introduced a new approach to Cohesion Policy, which explicitly consists of supporting regions in overcoming their individual transformation challenges. The focus on the specific needs and objectives of a region, combined with “region-led programming”, is at the heart of the JTF's intervention logic. Its intervention logic - understood as the logic of how funding measures affect certain specific objectives - links the strong spatial orientation of the programme with a specific development objective for the territorial area in which funding is provided. This link gives the territorial approach a new quality in the sense of a concrete “task-oriented approach [...] to tackling major societal challenges”, as the Committee of the Regions rightly sees it.<sup>55</sup>

The intervention logic is defined in the Territorial Just Transition Plans (TJTPs) of the JTF, which are drawn up by the Member States or regions (in Germany, the states) together with the competent local and regional authorities of the affected areas.<sup>56</sup>

The experiences thus far with the implementation of the JTF in Germany on the part of the federal states recounted in the discussion meetings demonstrated that the effort involved and the coordination procedure with the European Commission in particular are viewed critically. For example, the preparation of territorial plans is classified as time-consuming. Furthermore, the restrictions on funding areas and the top-down approach to defining requirements were criticized. The representatives of the federal states were also critical of the fact that the territorial framework used in the JTF did not adequately reflect the economic areas of a region. In addition, the majority of federal states believe that including districts and independent cities (NUTS3 level) in ERDF programme planning based on the JTF model is unnecessary and will hinder implementation. The inclusion of a new administrative level and regional partners would increase the time required for programming and make the process more complex. This would make implementation within the specified timelines more difficult.

During the exchange meetings, it was noted that the intervention logic in particular offers advantages for a more strategic orientation and more effective achievement of objectives.

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<sup>55</sup> European Committee of the Regions (2023): The future of cohesion policy post-2027, Opinion number: CDR-2250-2023.<sup>56</sup> cf. European Commission (2021): Arbeitsunterlage der Kommissionsdienststellen zu den territorialen Plänen für einen gerechten Übergang, SWD(2021) 275 final, p. 7.

<sup>56</sup> cf. European Commission (2021): Arbeitsunterlage der Kommissionsdienststellen zu den territorialen Plänen für einen gerechten Übergang, SWD(2021) 275 final, p. 7.

### **Case Study 6: "Southern Lower Saxony Programme" under the ERDF Operational Programme Lower Saxony 2014-2020**

#### *Specific Strategy and Instruments for Supporting Territorial Transformation*



#### **SÜDNIEDERSACHSEN PROGRAMM**

The region of Southern Lower Saxony, consisting of the districts of Goslar, Göttingen, Holzminden, Northeim, Osterode am Harz, and the city of Göttingen, was historically characterised as structurally weak. This was mainly due to demographic changes,

manifesting in population decline and ageing, as well as its geographical distance from dynamic growth centres. To address these challenges, the Southern Lower Saxony Programme was initiated for the 2014-2020 funding period. This programme aimed to strengthen the region's competitiveness by leveraging its endogenous potentials, thus improving its connectivity to other parts of the state.

Key actors identified for regional development included innovative and high-growth enterprises as well as universities and research institutions. By promoting regional collaboration among businesses, universities, research institutions, and other stakeholders, the programme sought to enhance cooperation potential. Six operational priorities were defined:

1. Creation and utilisation of virtual mobility
2. Advancement of regional mobility
3. Intensification of knowledge exchange and technology transfer
4. Development of workforce potential
5. Enhancement of cultural and landscape attractiveness as well as tourism economic strength
6. Securing essential public services and quality of life in the region.

Financially, the programme aimed to mobilise at least €100 million in the region without a formal allocation of funds under the Operational Programme. Thus, funding was not specifically reserved for Southern Lower Saxony, and projects had to compete through the standard scoring process against applications from other regions of Lower Saxony. To support project development and networking among regional stakeholders, the Southern Lower Saxony Project Office (SNB) was established in Göttingen, funded by the state of Lower Saxony, the participating districts, and the city of Göttingen. This office collaborated with existing networks and established connections with decision-makers and funding authorities at the state level.

#### *2) Strengths and Weaknesses Regarding Contribution to Regional Transformation*

The implementation of the Southern Lower Saxony Programme and the establishment of the Southern Lower Saxony Project Office (SNB) in Göttingen were seen as significant strengths of the regionalised approach. These measures led to increased awareness among the participating stakeholders at the sub-regional level, with Southern Lower Saxony increasingly perceiving itself as a cohesive region where collaborative efforts among districts and cities were essential for realising their potential. This approach fostered an activating and networking function among regional actors, directly supporting project development. The Southern Lower Saxony Office, along with the programme's steering committee, strengthened the regional governance structure and promoted the operational implementation of objectives.

However, a key weakness of the programme was the absence of a firmly defined budget, which meant that project applications from the region had to compete in a general scoring procedure against submissions from other parts of Lower Saxony. This arrangement limited the programme's direct control in terms of targeted resource allocation for Southern Lower Saxony and potentially dampened its mobilising effect on regional stakeholders. The overall lack of binding financial planning may have also impacted the efficiency and focus of the support measures.

The reservations expressed by the representatives of the federal states must be countered by the fact that the JTF programming process took place under great time pressure. This can be significantly reduced by an early start to the 2028-2034 funding period. On the other hand, the JTF intervention logic and the TJTP's detailed specifications have a structural effect on the local level that should not be overlooked. This is because they promote agreement between the regional partners on a common development goal and jointly coordinated measures. This directly addresses an important core challenge of the strategic capability of regions, as local political processes make it difficult to develop a joint strategy and thus to allocate resources optimally. Strategies at state level cannot have such a structuring effect, as they address aggregated development challenges at a higher spatial level.

The second core challenge for the strategic capability of a region, which was also discussed in the dialog with the federal states, is its administrative capacity. Accordingly, in the event of insufficient human and technical resources for strategy and project development as well as project implementation, the relevant regional partners must be supported through suitable funding measures.

### **2.3.3 Coherence with other regional development instruments**

When looking at transformative structural policy, the interplay between different programmes at European, federal and state level must also be considered. Coordination and harmonized interaction with other European and national policies can help to prevent a further drifting apart of the more and less developed regions. At national level, the goal of achieving equivalent living conditions plays an important role in shaping transformative structural policy. At federal level in particular, the Gesamtdeutsches Fördersystem (GFS) established in 2020, focuses its support on structurally weak regions. In contrast to the ERDF, the programmes combined under the GFS only address structurally weak regions.

By focusing on structurally weak regions and concentrating on topics relevant to the twin transition, increased coordination between the ERDF and GFS can be an important element in further developing and positioning Germany and Europe as a location for innovation. This applies in particular to major strategic projects such as the establishment of companies and research institutions for the further development of key technologies such as the chip industry or battery production with high investment volumes or the further development of innovation ecosystems, which can only be implemented through coordinated measures. Decreasing funds for traditional funding measures also make coordinated approaches necessary. This calls for better orchestration of federal and state programmes in order to close funding gaps and create synergies. In

discussions with practitioners in the managing authorities and in the results of the stakeholder consultation, the desire was expressed for a better overview of all relevant federal and state funding opportunities, e.g. via a new information platform.

The EU's 9th Cohesion Report also emphasizes the importance of mutually reinforcing national policies and Cohesion Policy in order to use funds efficiently and achieve the greatest possible impact.<sup>57</sup> In addition to the ERDF and the GFS, further synergies can also be achieved through increased coordination with other programmes: These include the European Agricultural Fund for Rural Development (EAFRD) for the promotion of rural areas and, with a view to skilled workers and demographic changes, the European Social Fund (ESF). Synergies could also be created with other European programmes such as Digital Europe (DEP) for digitalization and CONNECT for the transport sector. Greater coordination and orchestration of the programmes could take place via existing federal and state bodies for Cohesion Policy, ideally in close coordination with the Coordination Committee of the Community Task for "Regional Economic Development" (GRW). The GRW is a policy instrument in Germany designed to promote regional economic growth and balance out regional disparities. The program primarily focuses on providing financial support for businesses and regions that face structural economic challenges or are underdeveloped, particularly in rural or economically weaker areas. Coordinating EFRD and GRW better would allow for tighter integration of European and national initiatives.

However, better coordination is required not only between the federal and state governments, but also between the states themselves. This relates to two dimensions: firstly, the coordination of support measures across state borders so that coherent economic areas can be supported in a targeted manner. Another way to achieve a coordinated and efficient approach to transformation is to use synergies across programme boundaries, between Cohesion Policy and centrally managed European programmes, in particular the Framework Programme for Research and Innovation "Horizon Europe". The EU's primary policy objective is supporting innovative, smart and sustainable economic transformation and promote excellence in R&I, while reducing and bridging the persistent innovation gap.

The ERDF contributes to this through its focus on Policy objective 1 by promoting the development and expansion of R&I capacities and the introduction of advanced technologies. In order to support the achievement of this objective, synergies are to be created between the two EU instruments Horizon Europe and ERDF. Article 11.1.b.iii of the CPR calls on the Member States to create "synergies between the funds covered by the Partnership Agreement [...] and other Union instruments [...] and, where appropriate, projects financed under Horizon Europe".

The European Commission has described various types of synergies in a „synergy guide“<sup>58</sup>. These include the Seal of Excellence, the transfer of funds from the ERDF to Horizon Europe, the accumulation of funding, European Partnerships, combined funding (Teaming, Regional

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<sup>57</sup> European Commission (2024) Ninth report on economic, social and territorial cohesion, p. 244ff.

<sup>58</sup> European Commission (2022): Synergies between Horizon Europe and ERDF programmes (2022/C 421/03), 04.11.2022

Innovation Valleys) as well as upstream and downstream synergies. It is up to the managing authorities to decide whether or not to use synergy mechanisms.<sup>59</sup> In its special report of November 2022, the European Court of Auditors found that “[the managing authorities] have not implemented all the synergy-enhancing measures foreseen in the strategy documents. In particular, measures to create downstream synergies, which involve the further exploitation of the results of Horizon 2020 projects, were only implemented to a very limited extent”.<sup>60</sup>

The use of synergies with other EU programmes and instruments, including Horizon Europe, is anchored in the OPs of the federal states. In practice, efforts are being made to create synergies. To identify the related challenges and to exchange best practices the Federal Ministry for Education and Research initiated a working group on synergy dialogue bringing together state representatives from managing authorities and research ministries. However, the the delegates repeatedly point out that the concept of synergies pursued by the European Commission is rather abstract and in some cases difficult to implement in funding practice (e.g. the Seal of Excellence). The creation of synergies between the ERDF and Horizon Europe as well as other (also national) funding instruments is often driven by the project stakeholders, provided that they pursue long-term and strategically well-structured planning, which is a prerequisite for successful implementation.

The European missions in Horizon Europe can be starting points for the use of synergies: Missions are EU-wide R&I instruments that address objectives to tackle current societal challenges through interdisciplinary innovation and involve the population from the outset. There are currently five missions: Climate Change Adaptation, Fighting Cancer, Healthy Oceans and Waters, Climate Neutral and Smart Cities and the “Soil Deal for Europe”.<sup>61</sup> Against this background, the European Commission calls for the “programming of EU funding by Member States [...] to be more closely aligned with EU missions. This is an integral part of creating synergies, e.g. through the more systematic use of Cohesion Policy for EU missions. Diversifying funding and funding sources to support a range of activities from research to deployment is therefore another key challenge. To this end, very close contacts should be established between the services of the European Commission and the managing and implementing authorities of the Member States.”<sup>62</sup> This demonstrates the desire for a stronger mission orientation in ERDF funding, raising questions about the thematic focus and target groups of future funding instruments.

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<sup>59</sup> See *ibid.* p. 9.

<sup>60</sup> European Court of Auditors: Synergien zwischen Horizont 2020 und den europäischen Struktur- und Investitionsfonds werden noch nicht voll ausgeschöpft, Sonderbericht Nr. 23, p. 5. The ECA's conclusions are based, among other things, on a survey of the managing authorities of 27 operational programmes (response rate 64%) and 78 national contact points (response rate 67%) from all Member States (see p. 13-14). It is not known whether administrative authorities from Germany took part in the survey.

<sup>61</sup> Further Information: [https://ec.europa.eu/commission/presscorner/detail/de\\_ip\\_21\\_4747](https://ec.europa.eu/commission/presscorner/detail/de_ip_21_4747).

<sup>62</sup> European Commission (2023): Communication - EU Missions two years on: assessment of progress and way forward, COM(2023) 457 final, 19.07.2023, p. 12.

Synergies currently exist, for example, via the Regional Innovation Valleys, Cohesion Policy and Horizon Europe to promote European value chains (see Case Study 4). The various regional funding instruments can be coordinated via the existing platforms. Furthermore, German participation in the existing instruments should be strengthened.

### 2.3.4 Cross-regional cooperation

#### **Cross-regional cooperation within Germany**

Cross-regional cooperation can play an important role in the implementation of Cohesion Policy, both within Germany and beyond. Cross-regional cooperation can promote mutual learning, exchange experience and knowledge, launch joint projects and exploit synergies and complementary benefits. Cooperation between innovation players across regional borders promotes the transfer of knowledge and technology and thus the innovative capacity of the regions involved. With regard to digitalization, environmental and climate protection, common challenges can be addressed, for example, through the cross-regional promotion of climate-friendly technologies. Cross-regional projects can also help to improve infrastructure, for example by supporting the expansion of transport networks, energy supply systems and digital infrastructures. Cross-regional cooperation can also promote a sense of European togetherness. Through cooperation, innovative and less innovative regions can learn from each other.

Cross-regional cooperation addresses the innovation policy challenge that the geographical reference area of the RIS3 at state level does not necessarily correspond to real, interregionally integrated economic areas. The joint RIS3 of Berlin and Brandenburg "inno BB" and the joint innovation strategy of the Hamburg metropolitan region with the participation of the states of Hamburg, Schleswig-Holstein, Lower Saxony and Mecklenburg-Western Pomerania can serve as examples for dealing with this challenge within Germany. In addition, other countries enable cross-regional cooperation in suitable calls.

In the stakeholder consultation, around 64% of participants stated that increased interregional cooperation could be an important approach to increasing the impact of the ERDF. One of the reasons given for this was that cooperation could increase the transfer of knowledge and technology between projects in different regions, as well as knowledge transfer opportunities for previously uninvolved stakeholders. In this way, synergy potentials with other funding approaches could be exploited, thus creating further opportunities for follow-up activities to exploit the project results. In the various discussion meetings with the federal states and beyond, it became clear that the strengthening of cross-regional implementation should not be accompanied by new obligations.

Within Germany, clusters in particular can play a major role in cross-regional cooperation, as they are more oriented towards functional economic areas and less towards administrative boundaries. According to the participants of the expert workshop, there must be added value for the promotion of "mature" or advanced clusters, most of which are already privately financed. A structured exchange between clusters from the "go-cluster" programme (BMWK) and the future clusters (BMBF) would be one possibility. Approaches for improved support and the use of the potential of clusters for cross-regional cooperation could result from an ERDF funding line for

interregional cooperation. The ERDF should remain an independent instrument. Other participants spoke out in favor of taking the multi-level system into account and strengthening the spatial approach (see. Chapterl 2.3.1).

### **Cross-border cooperation**

European Territorial Cooperation (ETC) plays a major role in cross-border cooperation. In the current debate, both in Germany and at EU level, there are calls for ETC to be strengthened and further developed, as it is an important component of Cohesion Policy. Fragmented region by region, Cohesion Policy can only initiate decisive developments to a limited extent, which often require a larger framework. However, by providing incentives for interregional cooperation, it can bring together complementary players and regions, strengthen the formation of European networks and thus multiply its impact. The most important instrument here is Interreg to ensure cross-border joint learning, exchange of experience and the creation of new interregional partnerships.<sup>63</sup>

The Regional Innovation Valleys are an example of how cross-regional cooperation can be promoted by linking different funding sources (see Case Study 4).

#### ***Case Study 7: Regional Innovation Valleys (RIVs) as an example of cross-regional cooperation***

The use of synergies between different EU funding programmes can also be a response to declining public funding. Ideally, the impact of various individual measures is effectively increased in this way. The Regional Innovation Valleys are an example of how a measure can be funded across several programmes. This initiative is funded by Horizon Europe and the Interregional Innovation Investment Instrument (I3) of the ERDF. This instrument supports cross-regional partnerships in order to promote European value chains and activate innovation potential in the regions. The focus here is on cooperation in joint fields of intelligent specialization.

The Regional Innovation Valleys (RIVs) are regions within Europe that focus on innovation and technological development and work closely with other research and innovation spatial centres. The RIVs are designed to accelerate and strengthen innovation in European innovation ecosystems across the EU and to close the innovation gap in the EU. They will connect different actors - including companies, research institutions, higher education institutions, and local administrations - to foster knowledge exchange and initiate joint projects to develop new technologies and solutions. This cooperation is intended to accelerate the innovation cycle and support the areas of digitalization, green technologies and sustainable economic development in particular. This new approach can play an important role for interregional investments and the integration of value chains.<sup>64</sup>

<sup>63</sup> Hunter, Alison (2023): Addressing Cohesion Policy's identity crisis in a changing European Union. European Policy Centre.

<sup>64</sup> High-Level Group on the Future of Cohesion Policy (2024): Forging a sustainable future together: Cohesion for a competitive and inclusive Europe. Report of the High-Level Group on the Future of Cohesion Policy.

With the RIVs, the cross-regional cooperation in innovation fields such as energy, the circular economy, digitalization and health that I3 aims to achieve will be continued. These approaches are designed to complement Interreg. Duplication and overlaps should be avoided by focusing on innovation and transformation.

Regions acquire the RIV label through selection in an expression of interest procedure or through successful participation in calls for proposals. In 2023, there were coordinated calls in Horizon Europe (60 million euros) and via the I3 instrument in the ERDF (62 million euros). Further calls are planned for 2025. The RIVs are partly based on the Partnerships for Regional Innovation and implement the objectives of the respective RIS3.

Another initiative that plays a role in cross-regional cooperation is the Partnership for Regional Innovation (PRI). PRI aims to test tools to improve the coordination and alignment of regional, national and EU innovation policies and to bridge the innovation divide in the EU. PRI is a new approach to spatial innovation policy. Since 2022, the Vanguard initiative (see Case Study 5) has been involved in further implementation via the PRI pilot action together with 38 other initiatives and measures.

#### ***Case Study 8: VINNOVATE and the Vanguard initiative as an example of intergovernmental cooperation***

The Vanguard Initiative (VI) is an alliance of innovative regions in Europe that focuses on promoting industrial innovation and building European value chains based on complementary regional strategies for smart specialization. Connecting innovation ecosystems and sharing knowledge and facilities in the member regions should facilitate interregional cooperation and stimulate investment in innovation.

With VINNOVATE, the Vanguard Initiative has launched a new interregional funding mechanism to facilitate the financing of innovation projects. The aim of VINNOVATE is to develop industry-led and strategic interregional projects. To this end, financial support (grants) will be provided to stakeholders (SMEs, research/facility centers, universities, etc.) in the regions participating in VINNOVATE.

The member regions pursue an intergovernmental approach with VINNOVATE, similar to the Eureka model. In this model, project funding is not provided from a central budget, but is regulated individually in each participating country. Project participations can be financed via national funding programmes, own funds or other options. With VINNOVATE, existing funding programmes in the VI regions are linked under a common interregional umbrella in order to support projects of common interest. In this way, existing structures can be used for cross-regional cooperation without the need for new programmes or measures.

The VINNOVATE member regions/states are: East Netherlands (provinces of Gelderland and Overijssel), North Netherlands (province of Noord Brabant), South Netherlands (province of Noord Brabant), North-East Romania, Flanders, Galicia, Lower Saxony, Emilia-Romagna, Lower Austria and Wales. Under the 2024 call, activities in the Technology Readiness Level (TRL) TRL6, TRL7 and/or TRL8 will be funded, i.e. VINNOVATE supports post-prototyping activities. The total project costs amount to at least 100,000 euros per project. Consortia must consist of partners from at least two member regions and at least two different member states.

The projects must be (thematically) linked to at least one of the eight pilots of the Vanguard Initiative:

- Bioeconomy
- Efficient and sustainable manufacturing (ESM)
- High-performance production through 3D printing (3DP)
- Advanced manufacturing for energy-related applications in harsh environments (ADMA)
- New nano-activated products (NANO)
- Artificial intelligence (AI)
- Smart Health/Personalized Medicine
- Hydrogen

The states see ETC as a key building block for regional and cross-border cooperation in the future as well.<sup>65</sup> The importance of interregional, cross-border and transnational cooperation and Interreg's role in this was also emphasized in the discussion rounds with the managing authorities of the federal states. The originally voluntary naming of approaches for interregional, cross-border or transnational cooperation has become mandatory in the course of programming. Brandenburg, for example, has included elements of cross-border cooperation in calls for ERDF funding and recognizes these as eligible for funding.<sup>66</sup> This creation of a further secondary condition for programming could contradict the objective of simplification. In exchanges with the representatives of the managing authorities, it was emphasized that approaches for interregional, cross-border or transnational cooperation should be supported, but rather bottom-up according to regional requirements and needs and not top-down. The focus should be on the ideas and needs of those responsible for the projects. In the dialogue with the states, the combination of ERDF funds with funds from Horizon Europe was also mentioned as an approach for promoting cross-regional cooperation. The different implementation of EU programmes and programmes with shared responsibility for funds was frequently cited as an obstacle.

## **2.4 Cohesion Policy and structural reforms modelled on the Recovery and Resilience Facility**

The Recovery and Resilience Facility (RRF) is the centrepiece of NextGenerationEU. The aim is to support Europe's economic recovery from the Covid-19 pandemic. At the same time, it aims to contribute to making the economy and society more resilient in line with the EU's priorities and to drive forward the green and digital transformation. In contrast to cohesion policy, which is a long-term investment policy to promote the economic, social and territorial development of member states and their regions, the Recovery and Resilience Facility is a temporary crisis response

<sup>65</sup> Resolution of the Ministerial Conference of the Federal States „Stellungnahme der Länder zur Halbzeitrevision des Mehrjährigen Finanzrahmens 2021-2027 und zur Zukunft der Kohäsionspolitik“.

<sup>66</sup> e.g. in the directive Wissens- und Technologietransfer 2022 (richtlinie\_1992832.pdf (ilb.de)).

instrument created to mitigate the effects of the COVID-19 pandemic. On the one hand, it was intended to strengthen the economies of the member states and, at the same time, better prepare them for future comparable shocks in the sense of "building back better". This is achieved by directly linking the funds provided under the RRF with the implementation of national reforms to overcome the challenges identified in the country-specific recommendations of the European Semester on economic and social policy coordination.

The areas of intervention of Cohesion Policy and the RRF are very similar. However, there are fundamental differences with regard to the implementation model. The RRF is based on uniform, centralised programme planning. This is linked to member state-specific structural reforms with a direct link to the European Semester. The member states were required to set out their intended reforms and investments in national recovery and resilience plans and to define clear milestones and targets for their implementation by 2026. The disbursement of RRF funds is linked to performance, i.e. they are only paid out once milestones and targets defined in advance have been reached. The involvement of the regions in the design of the programmes and reforms is not mandatory.

Building on the experience gained within the framework of the RRF, a significant strengthening of the results-based approach in the sense of performance-based reimbursement of costs (performance-based approach) is being discussed at European level in addition to linking cohesion policy with reforms. Such an approach, which links payments to the achievement of certain milestones and target values instead of subsequent cost-based billing, is seen as a way of achieving results more quickly and increasing the efficiency of funding.<sup>67</sup> For example, the High-Level Group on the future of Cohesion Policy is in favor of further developing the conditionality approach by linking it to a "systemic programme for national and regional reforms". Cohesion Policy should "by veering towards a territorially sensitive performance-based model, [...] complement investments with reforms to achieve development goals".<sup>68</sup> In doing so, the High-Level Group refers to the experience gained with the linking of reforms and a performance-based approach within the framework of the RRF. Based on its mid-term evaluation, the European Commission comes to the conclusion that linking RRF funds with reforms and the "performance-based approach" is of particular importance: "[The] performance-based approach of the RRF is considered instrumental in enhancing its effectiveness: the disbursement upon the completion of concrete outputs (i.e. milestones and targets) evidenced by Member States is key to ensure 'performance'".

The European Commission also believes that linking reforms and investments allows synergies to be created.<sup>69</sup> Consequently, intensive discussions are currently underway within the European Commission and beyond on how such an approach can be transferred to Cohesion Policy.

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<sup>67</sup> see European Commission, 2024: 9<sup>th</sup> Report on Economic, Social and Territorial Cohesion; High-Level Group on the Future of Cohesion Policy, 2024: Forging a Sustainable Future together: Cohesion for a Competitive and Inclusive Europe, S. 38.

<sup>68</sup> see Rodríguez-Pose, Andrés et al. (2024): Forging a sustainable future together: Cohesion for a competitive and inclusive Europe. Report of the High-Level Group on the Future of Cohesion Policy, p. 38.

<sup>69</sup> European Commission (2024): Commission Staff Working Document: Mid-term evaluation of the Recovery and Resilience Facility, SWD(2024) 70 final, p. 77.

However, a 1:1 transfer of the RRF model to Cohesion Policy is not possible for several reasons:

1. The RRF follows a different logic to Cohesion Policy, as its funds are provided for investment financing only in combination with the implementation of structural reforms. Reforms and investments are agreed in advance within a joint plan between the Member States and the Commission.<sup>70</sup> However, during both the preparation and implementation of the reform plans, the regional level was insufficiently involved. As a result, the effectiveness was significantly impaired, as the administrative capacities required for implementation were sometimes lacking at the regional and local levels.<sup>71</sup> In contrast, cohesion policy and its various funds finance measures that address individual regional investment needs, irrespective of structural reforms. Planning is based on the regional level, ensuring that the necessary capacities are in place. However, structural reforms can enhance the results and impact of the funded projects, as they create conducive conditions. To ensure that these appropriate conditions are established, a mechanism is required in the programme planning that integrates the needs for structural reforms from the regions in a bottom-up approach.
2. Such a territorialised design approach for the bottom-up definition of structural reform needs will very likely lead to regions articulating reform needs for which they may not always have the necessary legislative competences to address. In a federated country like the Federal Republic of Germany, there are generally three levels at which structural reforms can be implemented (federal, state, and local). This means that a lower level, whose funding is performance-oriented and linked to the implementation of reforms, should not be penalised by withholding funds if the legislative responsibility for implementing the reform lies at a higher level and there are delays or non-implementation at that level. the RRF framework defines milestones and targets as "measures of progress towards achieving a reform or investment, with milestones being qualitative outcomes and targets being quantitative outcomes" (Art. 2 para 4 RRF Regulation).
3. In the RRF framework, milestones and target values are defined as "indicators of progress towards the achievement of a reform or investment, with the intermediate targets [milestones] being qualitative and the target values representing quantitative results" (Art. 2, para. 4 RRF Regulation). Such an approach has not been implemented within the framework of the Structural Funds so far and would need to be developed anew.

#### **2.4.1 Linking Cohesion Policy with structural reforms: ?**

Structural reforms are measures that change the institutional and regulatory framework of an economy in which companies and people operate. Structural reforms are intended to enable economies to achieve their growth potential in a balanced way. They affect the supply side of an

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<sup>70</sup> „To achieve that general objective, the specific objective of the Facility shall be to provide Member States with financial support with a view to achieving the milestones and targets of reforms and investments as set out in their recovery and resilience plans.“ Art. 4 (2), REGULATION (EU) 2021/241 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 12 February 2021 establishing the Recovery and Resilience Facility.

<sup>71</sup> European Commission (2024): Study supporting the mid-term evaluation of the Recovery and Resilience Facility, cf. p. 124.

economy by removing barriers to the efficient and fair production of goods and services, thereby helping to increase productivity and employment.<sup>72</sup>

For some years now, the German economy has been faced with a number of challenges resulting from a changed global economic situation, but also from the special features of Germany as a business location.<sup>73</sup> This makes it necessary to design and implement structural reforms. The debate about the areas in which structural reforms should be implemented has been going on intensively in Germany for a number of years. Figure 8 shows an overview of the policy areas for structural reforms, some of which are very controversial in the debate. A detailed presentation of the discussion is not possible here, so please refer to the sources provided for further information.<sup>74</sup>

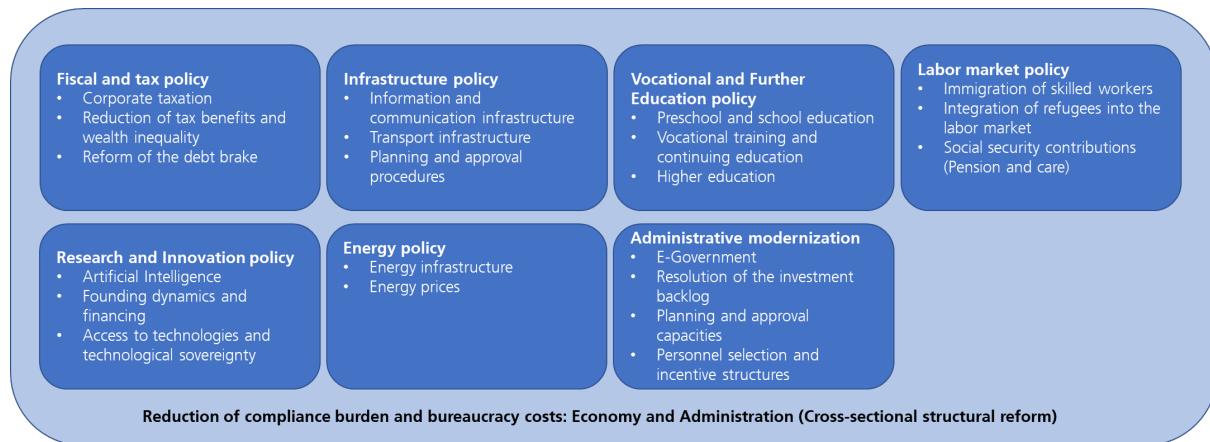


Figure 8: Policy fields for structural reforms in Germany

Source: Own representation

The concretization of the policy areas that could be linked to structural reforms at regional level in the future results from the question of which structural reforms are conducive to a transformative structural policy. Linked to this is the question of which beneficiaries need which structural reforms or framework conditions in order to increase the absorption of funds and achieve better results and impacts.

<sup>72</sup> Cf. European Central Bank (2017): Was sind Strukturreformen?, [www.ecb.europa.eu](http://www.ecb.europa.eu).

<sup>73</sup> Cf. Institut für Weltwirtschaft (2020): Analyse der industrierelevanten wirtschaftlichen Rahmenbedingungen in Deutschland im internationalen Vergleich, Endbericht Bundesministerium für Wirtschaft und Energie, p. 352.

<sup>74</sup> Cf. Institut der deutschen Wirtschaft (2024): Schuldenbremse 2.0. Konzepte für tragfähige Fiskalregeln; Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Lage (2024): Frühjahrsgutachten 2024; Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Lage (2023): Wachstumsschwäche überwinden – in die Zukunft investieren, Jahrestgutachten 2023; Normenkontrollrat (2023): Weniger, einfacher, digitaler. Bürokratie abbauen. Deutschland zukunftsfähig machen, Jahresbericht 2023; OECD (2023): OECD-Wirtschaftsberichte: Deutschland 2023; OECD (2022): Deutschland 2022 – Agile Ansätze für erfolgreiche Transformation, OECD-Bericht zur Innovationspolitik; Institut der deutschen Wirtschaft (2021): Ein Wachstumspfad für mehr Produktivität, Innovation und Beschäftigung in Deutschland; Institut für Weltwirtschaft (2020): Analyse der industrierelevanten wirtschaftlichen Rahmenbedingungen in Deutschland im internationalen Vergleich, Endbericht Bundesministerium für Wirtschaft und Energie.

## Responsibilities for structural reforms and their governance

First and foremost, the legislative level at which the designated structural reform areas are to be located and executive responsibility must be determined. In the Federal Republic of Germany, the federal states generally have the right to legislate unless the federal government has legislative powers (Art. 70 of the Basic Law). The federal government has exclusive legislative powers in selected areas (Art. 73 of the Basic Law) and concurrent legislative powers in selected areas (Art. 74 of the Basic Law), in which the federal states have the right to legislate as long as the federal government does not make use of its legislative powers. In accordance with this regulation of competence, it must be decided in each individual case for each structural reform which level has legislative competence. The municipalities have the right to regulate all matters of the local community within the framework of the law on their own responsibility (Art. 28 of the Basic Law). This means that although they do not have the legislative power to enact laws, they can issue bylaws on the basis of laws within the scope of their local self-government (e.g. regulations on urban land-use planning).

## Governance structure for the development and implementation of structural reforms

In order to develop and implement structural reforms, a governance structure must be developed that integrates all stakeholders involved. In order to design this governance structure, a process is required that systematically identifies the reform needs of local and regional stakeholders, translates them into suitable (legislative) structural reform projects and reaches a final agreement with the European Commission. Figure 9 shows what such a process could look like in principle.

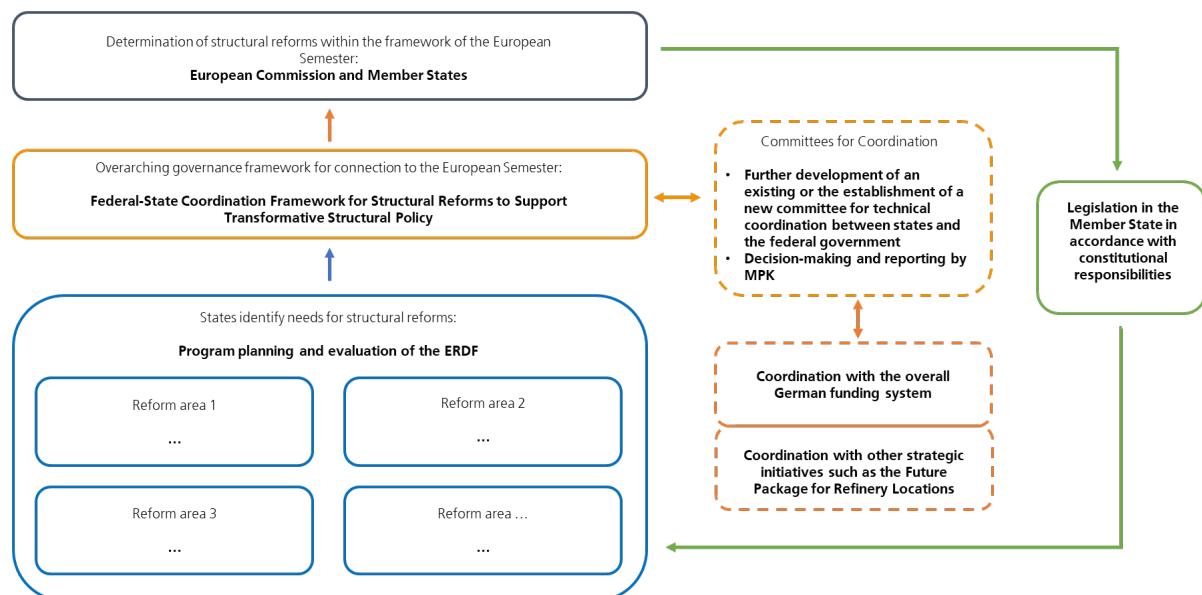


Figure 9: Organization of the diagnostic procedure

Source: Own representation

## 2.4.2 Milestones and target values as the basis for performance-based reimbursement

If the RRF model is transferred to Cohesion Policy, however, it must first be discussed to what extent milestones and target values can be used as the basis for performance-based reimbursement in the implementation of the ERDF. Furthermore, the realization of performance-based reimbursement is inextricably linked to the concept of "financing not linked to costs" (FNLTC), which would have to be implemented on a broader basis by the federal states. FNLTC can be granted in accordance with Article 125(1)(a) of the EU Financial Regulation (2018/1046) if they are based on specific factors, such as "the achievement of results, measured against previously set milestones or performance indicators".

### Milestones and targets

The RRF framework defines milestones and targets as measures of progress for the implementation of a reform or investment, with milestones representing qualitative outcomes and targets quantitative outcomes. In the Commission staff working document on recovery and resilience plans, this is further qualified and underpinned with examples.

Milestones refer to the achievement of process steps, while the target values refer to outputs that are the direct result of the investment or reform (cf. Table 3 with the definitions of the European Commission).

*Table 3: Definition Milestones and targets in RRF<sup>75</sup>*

<b>Milestones</b>	A milestone does not reflect amounts but rather an objectively verifiable qualitative achievement (adopted legislation, full operationalisation of IT systems, etc.), and details desirable content and characteristics.	refers to the achievement of process steps/milestones
<b>Targets</b>	A target is a quantitative achievement on an agreed indicator (number of kilometres of rail built, number of square meters of renovated building, number of beneficiaries of a particular investment scheme, etc.). The choice of targets should reflect the implementation of reforms and investments, and therefore be operational.	refers to output as an immediate result of the promotion

Examples of milestones and targets are shown in Table 4 below, based on the German Recovery and Resilience Plan (GRRP).

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<sup>75</sup> European Commission (2021): Commission Staff Working Document: Guidance to Member States Recovery and Resilience Plans, SWD(2021) 12 final, p. 33.

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Table 4: Example of milestones and target values from the German Recovery and Resilience Plan (GRRP): Promotion of electromobility

Sequential Number	Related Measure (Reform or Invest)	Milestone / Target	Name	Qualitative Indicators (for milestones)	Quantitative Indicators (for targets)			Timeline for completion (indicate the quarter and the year)		Data Source / Methodology	Responsibility for reporting and implementation	Description and clear definition of each milestone and target	Assumptions/ risks	Verification mechanism
					Unit of measure	Baseline	Goal	Quarter	Year					
1.2.3a	Innovation bonus for promoting the sale of electrically powered vehicles	Target	Support for the purchase of 240,000 electric vehicles		Number of subsidized vehicles	0	240,000	Q1	2021	Federal Office for Economic Affairs and Export Control (BAFA)	BAFA	The funding is based on the amended funding guideline for the 'Innovation Bonus,' which came into effect on July 8, 2020	None	BAFA Reporting
1.2.3b	Innovation bonus for promoting the sale of electrically powered vehicles	Target	Support for the purchase of 560,000 electric vehicles in total (another 320,000 in comparison to the interim goal)		Number of subsidized vehicles	0	560,000	Q1	2022	BAFA	BAFA	The funding is based on the amended funding guideline for the 'Innovation Bonus,' which came into effect on July 8, 2020	None	BAFA Reporting
1.2.3a	Reform: Extension of the initial registration period for granting the ten-year tax exemption for pure electric vehicles (motor vehicle tax).	Milestone	Law passed	The Seventh Act to Amend the Motor Vehicle Tax Act has been promulgated and has come into force. The tax exemption is already being granted				Q4	2020		Federal Ministry of Finance	Implementing the measure required an amendment to the Motor Vehicle Tax Act. The legislative process has been completed		The Seventh Act to Amend the Motor Vehicle Tax Act was published in the Federal Law Gazette (Bundesgesetzblatt) I, p. 2184, on October 22, 2020

Source: Own Representation following: Bundesministerium der Finanzen (2021): Deutscher Aufbau- und Resilienzplan, p. 219

The transfer of the RRF approach "Milestones = Process Steps/Intermediate Goals" and "Target Values = Output" cannot be directly applied to the indicator system of the ERDF. There, "specific services of the intervention" are measured using output indicators, and "the impacts of the funded interventions and, in particular, the directly affected, the target groups to be supported, or the users of the infrastructure" are measured using outcome indicators.<sup>76</sup> Milestones like those in the RRF are not coherent with the system of EFRE indicators. A measurement of the impact (in the sense of "impact on the wider economy/society beyond those directly affected") does not take place – as is also the case within the framework of the RRF approach. The RRF approach "target values" corresponds to the output indicators of the ERDF, so a simple and unproblematic transfer could take place here. The transfer of the "milestones" approach can be implemented in two ways (Table 5).

*Table 5: Transferability of milestones and target values to the ERDF*

RRF	ERDF	Remarks
Target values	Output	Transferable
Milestones	No direct equivalent in the sense of „objectively verifiable qualitative achievement“ (Process steps)	<ul style="list-style-type: none"> <li>• New measurement level should be introduced for process steps: additional effort in programming, monitoring, and evaluation</li> <li>• Effort is limited when one focuses on process steps such as the publication of a funding guideline, or availability of infrastructures. The completion of the process steps can be measured in percentage.</li> </ul>
	Linking to results in the ERDF is fundamentally conceivable, but it would mean a departure from the process focus of the RRF	Additional effort on the part of the program authorities through close monitoring of the funded projects to ensure the achievement of objectivesDifficult with regard to experimental and innovative projects that cannot achieve results

If the "milestones" approach were directly applied to the ERDF, a new measurement level would be required to capture process steps or verifiable qualitative achievements in terms of adopted regulations or the availability of systems or infrastructure (funding output). This would mean additional effort in programming to establish these milestones and also in programme support

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<sup>76</sup> Art. 2 no. 13 and 14 Regulation (EU) 2021/1060

within the framework of monitoring and evaluation, particularly in assessing the availability of systems or infrastructures.

The transfer of the milestone approach to the ERDF could, in principle, also be linked to the outcome level (e.g., number of research projects implemented as a result of the commissioning of R&I facilities) of the ERDF. However, this raises various questions. For instance, it would involve a higher administrative burden for the managing authorities. This would consist of a more intensive monitoring of the funded projects to ensure that the results are achieved as a prerequisite for payment. While this is fundamentally possible through the review of progress reports and expenditure statements, which are already carried out by the funding authorities, in cases where there are deviations in the course of the project that endanger the achievement of objectives and, consequently, results, intervention from the funding authorities in the form of content-related advice would be required. This content-related consulting aimed at achieving the goals is, on the one hand, time-intensive, which would require additional resources and effort on the administrative side, and on the other hand, it would also require additional expertise to ensure that the funded projects are well-supported in achieving their goals. Given the already very strained personnel situation in many programme authorities, the possible introduction of milestones linked to results should therefore be viewed with caution, unless additional funds are provided to create these resources within the framework of Cohesion Policy. The commissioning of consulting firms or agencies to fulfill these tasks would not fundamentally change anything, as additional resources would need to be provided to finance this external support, in addition to the administrative effort associated with procurement. It should also be considered that results do not always arise solely from a funded project, but rather in conjunction with other projects and framework conditions. Thus, there are also limits to the influence on the outcome for substantive support.

When linking the milestone approach with the outcome indicators, a special approach is also required, especially for experimental or innovative projects. In experimental or innovative projects, it is uncertain whether they will deliver the expected results. It is precisely the nature of these projects that, throughout the course of the project, it may become clear that the objectives cannot be accomplished and that there are no remedial actions that might still ensure the goals are met through an adjustment. In the event of a linkage, programmes would be penalized for not meeting milestones and would not receive payment.

This would mean that programme authorities are very unlikely to take the risk of experimental or innovative projects. Thus, the outcomes for experimental or innovative projects should not be set as milestones.

Aiming for a minimal-effort approach can be supported by drawing on existing indicators, as already defined for the Operational Programmes in the countries. Output indicators can be used to define target values. Although outcome indicators can generally be used to define milestones, this involves considerable effort in programme management, as outlined above. Therefore, milestones should be defined as process steps. When weighing the two options for milestones—first, setting process steps as milestones, and second, linking milestones to results—the first option is the more sensible one, as it is associated with significantly less effort in programme

management. However, as in the example of the commissioning of R&D infrastructures, process progress on the part of the beneficiaries should be the focus.

### **Financing not linked to costs as the basis for performance-based reimbursement**

Performance-based reimbursement is closely linked to the concept of so-called financing not linked to costs (FNLTC). Non-cost-financed contributions (FNLTC) can be granted in accordance with Article 125(1)(a) of Regulation (EU) 2018/1046 (EU Financial Regulation) if they are based on certain factors, such as "the achievement of results measured against previously set milestones or performance indicators." In connection with the milestones and target values, the application of the FNLTC model in the case of the RRF is mandatory (Recital 18 of Regulation (EU) 2021/241). If the approach of milestones and target values of the RRF were applied to the structural funds, it would also involve the use of the FNLTC model.

In the structural funds, FNLTC can be used in the funding period 2021-2027 at the suggestion of the member states (Recital 34 of Regulation (EU) 2021/1060). According to Articles 51 and 95 of Regulation (EU) 2021/1060, Union contributions to the programmes can be granted in the form of FNLTC if they are based on the fulfillment of conditions and the achievement of results. If FNLTC are thus possible at the level of payments from the European Commission to the member states, they can also be used for payments from the member state to beneficiaries in accordance with Art. 53 para. 1 lit. f (EU) 2021/1060.

The reimbursement in both cases is dependent on achieving previously defined outcomes or the complete implementation of measures or procedures. The aim of the European Commission is to simplify implementation, as the focus shifts from costs, reimbursement, and audits to tracking the performance and results of projects, a group of projects, or actions.

However, even when using FNLTC, the principle of economic efficiency in budget management applies. It must be ensured that the funds used are in an appropriate ratio to the investments made (Recital 34 of Regulation (EU) 2021/1060). As in the case of simplified cost options to justify the flat rates, corresponding expert opinions must be prepared for this. This involves a higher administrative burden on the part of the managing authority. If the FNLTC model is applied on this basis and the European Commission has given its prior approval to the amounts, then "the underlying [...] costs should not be subject to reviews or audits [...]." In the context of reviews or audits, it should instead be examined whether the conditions or results leading to the reimbursement of the Union contribution are met" (Recital 34 of Regulation (EU) 2021/1060).

The European Commission wishes for a stronger use of the FNLTC model. The Commission explains, referring to the simplifications introduced in the 2021-2027 funding period, that these „extended possibilities to use alternative payment options beyond invoice-based costs, i.e. financing not linked to costs, or simplified costs options. This has paved the way for simpler implementation, with quicker payment possibilities. However, Member States have not yet made full use of these options.”<sup>77</sup> The discussions with the states within the framework of this research project have revealed that the programming was carried out under significant time pressure, so that due to the effort required to develop performance-based models (considerable resource investment and coordination needs), these possibilities have not yet been utilized, although a later introduction is being considered. Initial preliminary talks between states and the European Commission regarding the introduction of an FNTLC approach have been held, but they have not always been successful.

Therefore, the states have so far only used this model to a limited extent in the funding period 2021-2027. The state of Mecklenburg-Western Pomerania intends to introduce this model within the framework of peatland protection funding in accordance with Art. 51 in conjunction with 95 VO (EU) 2021/1060. A corresponding amendment to the Operational Programmes is currently being prepared. In the dialogue with the administrative authorities, the following advantages and disadvantages were discussed: Finding an agreement on the definition of the unit cost with the European Commission was indeed time-consuming. In addition, the unit costs have also been supplemented with performance indicators, which, however, do not constitute a condition for disbursement. The responsible environmental authority expects significant simplifications in programme implementation as a result. In the relationship between member states and beneficiaries, the FNLTC model according to Art. 53 para. 1 letter e of Regulation (EU) 2021/1060 has not yet been used by the states.

The following case study illustrates how process steps were defined as milestones in Austria, the achievement of which is a condition for the disbursement of funds on the basis of Art. 51 i. 95 Regulation (EU) 2021/1060 (relationship between Commission-Member State).

#### **Case Study 9: Usage of FNLC in Austria**

Good experiences with this FNLC approach were made in the Republic of Austria during the funding period 2021-2027 with the measure "Expansion of Research and Technology Infrastructure." Here, process milestones were defined with the European Commission as funding conditions (Tabelle 6), the achievement of which was a prerequisite for the granting of the Union contribution according to Art. 51 of the Framework Regulation. In the selection of process steps, a distinction was made between (1) administrative procedure-related process

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<sup>77</sup> European Commission (2024): Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the 9th Cohesion Report, p. 23.

steps (tendering, selection of projects, and conclusion of funding agreements) and (2) quantifiable measurable results of the funding as output. (Inbetriebnahme von FuE-Infrastrukturen). The implementation occurs only in the relationship between the Republic of Austria and the European Commission. In the relationship between the funding provider and the beneficiaries, Austria has stipulated that the grant recipients will be reimbursed for the actual costs incurred.

*Table 6: Process milestones "Expansion of Research and Technology Infrastructure"*

Intermediate condition (Process milestones)	Date	Amount in euros
<ul style="list-style-type: none"> <li>• The call for proposals for R&amp;I infrastructures has been published.</li> <li>• Selection of the projects is complete</li> </ul>	6/2024	1.000.000
Completion of 50% of the funding contracts	12/2024	7.500.000
Completion of 100% of the funding contracts	12/2025	7.500.000
15% of the R&I infrastructures have been put into operation.	12/2026	2.500.000
45% of the R&I infrastructures have been put into operation	12/2027	4.500.000
70% of the R&I infrastructures have been put into operation	06/2028	3.500.000
85% of the R&I infrastructures have been put into operation	12/2028	3.500.000
95% of the R&I infrastructures have been put into operation	6/2029	1.500.000
100% of the R&I infrastructures have been put into operation	12/2029	619.572

With the measure "Business Investments in Renewable Energies and Energy Efficiency," Austria has similar experiences from the funding periods 2014-2020 and 2021-2027. Process milestones were also agreed upon with the European Commission as a prerequisite for receiving the Union contribution. In the relationship between the funding provider and the beneficiaries, it was also established here that the grant recipients will be reimbursed for the actual costs incurred. In both cases, the Austrian programme officials did point out the high coordination effort with the European Commission in setting the milestones; As a result, however, significant simplifications in the relationship between the European Commission and the member states have been achieved.

In the exchange meetings with the managing authorities, various advantages and disadvantages of a transfer of the RRF approach to the ERDF were discussed. Thus, the introduction of milestones as a condition for payments was seen as a realistic and timely implementable way to reduce the

effort deemed necessary for billing. Additionally, it could be an incentive to use resources effectively. It was considered challenging that the projects have to be carried out in advance before any payment flow can be initiated. This was seen as particularly problematic for municipalities and possibly also for other non-commercial project recipients (e.g., associations). Furthermore, the application for experimental projects should be reconsidered, as milestones and target values need to be formulated separately for each.

The question was also raised whether funds could be reclaimed in the event of a project being abandoned. It was suggested here to refrain from repayment in the case of (open-ended) research projects in order to remain attractive for research and to also enable a certain culture of accepting mistakes. During exchange meetings, the wish was expressed that a strategic adjustment of the research path should still be possible within the project (not too rigid milestones). Introducing intermediate milestones. Furthermore, milestones should be defined in such a way that they do not depend on external factors, as the context/funding landscape, for example, can change. In projects with a complex setup, it is also generally difficult to define corresponding milestones. There should still be the option for traditional billing here. Additionally, it was noted that the transition would require a timely adoption of the Roof Regulation to have enough time to adjust all systems.

The design of performance-based reimbursement and coordination with the European Commission generate administrative efforts. These are particularly required in the run-up to the funding announcement to transparently present the necessary proof obligations and to ensure broad acceptance of the procedure and the review steps, especially with regard to the result proofs. In this regard, the European Commission should clearly communicate its expectations to the managing authorities and make good examples available.

## **2.5 Procedure for implementing Cohesion Policy**

The ERDF aims to reduce disparities within the EU by helping SMEs in particular to increase their competitiveness within the economy. To promote the involvement of municipalities and businesses, especially in structurally weak regions, the Structural Funds/ERDF offer numerous funding lines. However, the procedures for implementation have developed over a long period, are formalistic, and are often associated with high bureaucratic demands. This is demonstrated by the consultation conducted as part of the research project. Respondents from all stakeholder groups expressed a desire to reduce the efforts required, for example, in the review process, and to increasingly apply digital procedures.

For the implementation procedures, this section aims to highlight where there is potential for simplification to reduce bureaucratic effort and where future options are seen in new procedures.

### 2.5.1 Simplified Cost Options (SCO)

Since the last reform of the EU budget regulation in 2018, the EU has increasingly relied on simplified cost options (SCO). In the funding period 2021-2027, new opportunities were included in the EU programmes under direct and shared management: The rules for the reimbursement of Union contributions are regulated in Articles 53-56 of the Framework Regulation for support to beneficiaries. Art. 94-96 describes the simplified cost options for the reimbursement of Union contributions to the Member States.

The use of SCO – i.e., unit costs, lump sums, and flat-rate financing – were already possible for payments to beneficiaries during the 2014-2020 funding period. Existing SCOs from the funding period 2014-2020 were continued and new ones were added: The Common Framework Regulation 2021-2027 provides a series of standard options in Articles 54-56 for indirect costs, direct personnel costs, and other eligible costs as direct personnel costs.

The integration of SCO, which are used in other EU instruments or by member states, can also be applied to similar project types in ERDF programmes. The European Commission's modifications aim to decrease administrative and audit burdens, as well as associated expenses, while also mitigating the likelihood of errors. This utilizes experiences from other programmes, such as Horizon Europe. (see Case Study 8).

#### ***Case Study 10: Lump-sum funding in Horizon Europe***

Performance-based funding models and simplified cost options have been the subject of discussion since the last major reform of the EU budgetary regulation. The expansion of corresponding reimbursement models is being driven, among other things, by the European Court of Auditors. In the centrally managed EU Framework Programme for Research and Innovation (Horizon 2020 or Horizon Europe), a lump-sum model was introduced in 2018 through a pilot project. This represents an alternative to reimbursements based on actual costs. Currently, approximately 20% of the calls in Horizon Europe are being implemented as lump-sum projects. The flat-rate funding is applied to all research and innovation measures, regardless of the type of funding measure, the topic, and the amount of project funding.

The application process, the review, and the project management differ only in a few aspects from projects based on actual costs. Differences are:

- The consortia define, as in any research project, work packages that are underpinned by milestones and deliverables.
- The amount of costs associated with project implementation must be planned in the application in a plausible and convincing manner based on the costs of the individual facilities. The costs are detailed by partner and work package according to predefined overarching eligible cost categories.
- The cost reimbursement is carried out at the end of each reporting period based on fully completed work packages – that is, when all planned activities of a work package have been executed. The success of the project is not decisive for the decision on the payout.
- Changes to agreed deliverables and milestones require amendments to the grant agreement and must be closely coordinated with the EU Commission or the Executive Agency.

- Receipts for the amount of the costs are not necessary.

Crucial for the project's approval are its excellence, effectiveness, and a convincing approach to project management (incl. plausible budget planning). Independent experts review the applications to ensure that all criteria are met. They are also reviewing the budget planning. Only the reviewers can cut individual cost items or excessive expenses, in general. To make it easier for the reviewers to assess personnel costs, the European Commission developed the "Personal Cost Dashboard." It shows average values of actual reported personnel costs since the start of Horizon Europe, differentiated by type of institution and member state.

Applying for a lump sum project requires more effort and coordination between the partners in the application process due to the preparation of the very detailed budget plan. Liability issues arising from the non-provision of services by individual partners must also be handled with great care.

A study by the European Commission in 2024, however, shows that lump sum funding does not involve greater risks for the beneficiaries<sup>78</sup>. These efforts are offset on the part of the grant recipients by significant administrative simplifications. Detailed documentation of costs or hours worked is no longer required.

Companies reacted predominantly positively to the introduction of this reimbursement model. Public institutions, such as universities, benefit less from the simplifications in part due to state budget regulations for documenting costs.

The possibility of reimbursing Union contributions through unit costs, lump sums, and flat-rate financing was broadened for the funding period 2021-2027. It is applied for with the Operational Programmes – either directly when submitting them or through an amendment process. The proposal for the amounts and rates follows a pattern of the European Commission regarding Annex 1 of the ERDF programmes. With the new procedure, the method used is approved early by the European Commission, and no separate procedure is necessary anymore. This is intended to strengthen legal certainty for all parties involved. The extent of audit procedures is reduced, as they are no longer conducted at the level of individual projects – regardless of the chosen reimbursement method for the beneficiaries. With the approval of Annex 1, the use of the described SCO becomes binding. For changes to calculation methods, an amendment of the OP will be necessary.

The introduction of SCO for different types of costs has led to administrative relief in the ERDF. The increased use of SCO as a vehicle for simplified implementation is also supported by the Committee of the Regions.<sup>79</sup> To strengthen the effectiveness and efficiency of Cohesion Policy, it might be advisable for the European Commission to provide more tailored guidelines on CLLD and also on ERDF.<sup>80</sup>

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<sup>78</sup> European Commission (2024): Assessment of Lump Sum funding in Horizon 2020 and Horizon Europe.

<sup>79</sup> Committee of the Regions (2023): The future of Cohesion Policy post-2027.

<sup>80</sup> Böhme, Kai, Paola Marinović, Sabine Zillmer, Kinga Hat, and Bernd Schuh (2023): The delivery system of Cohesion Policy now and in future. Bericht für den Ausschuss der Regionen.

The European Court of Auditors also noted in a 2024 report on irregularities in Cohesion Policy that simplified cost options were the most frequently used simplification measure during the period 2014-2020. Processes that used simplified cost options are overall less prone to errors.<sup>81</sup>

### ***Case Study 11: Facility-specific personnel daily rates***

In centrally managed EU programmes errors in the financial reporting are largely due to mistakes in calculating personnel costs. Unit costs are considered an effective measure to reduce the error rate. Since May 2024, there is a new option for billing personnel costs for Horizon Europe and Euratom. Institutions can now agree on an organization-specific daily rate with the European Commission before applying for a project. The total personnel costs of all employees in an institution are divided by the number of full-time equivalents for this purpose. The European Commission is reviewing this calculation. Afterwards, the daily rate will be anchored in the grant agreement of new projects and consistently applied to all projects approved thereafter. Adjustments are possible every two years upon request of the applicants. These only will be applied to new projects.

Currently, there is little experience with this instrument. It is expected that the reporting of personnel costs will be significantly simplified. However, the daily rates for personnel are very inflexible. Changes to the daily rate are not permitted during the project duration. Tariff increases cannot be offset by this. Even for institutions with a diverse workforce, this method is probably not attractive. The amount of the flat rates is no longer audited. The planning security for the facilities is thereby increased.

The participants of the expert workshop assessed this form of cost reimbursement as a fundamentally good, flexible tool. One of the main advantages cited was that its application results in lower administrative effort. This is particularly beneficial for less experienced applicants and grant recipients. Regarding the personnel cost lump sums, grant recipients particularly highlighted the positive aspect that the need for time tracking is eliminated, depending on the design of the cost framework, which significantly simplifies project administration.

Despite this overall positive assessment, SCO are not unconditionally positively evaluated. For funding providers, setting fixed rates involves significant effort that is not compensated. The derivation and calculation are described as very complicated by managing authorities and intermediary entities. The basis for the calculation is downstream statistical data. This carries the risk that personnel costs, for example due to wage increases, cannot be covered. In the design, appropriate solutions must be found that prevent wage dumping and payment below the tariff as well as take tariff increases into account.

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<sup>81</sup> European Court of Auditors (2024): An overview of the assurance framework and the key factors contributing to errors in 2014-2020 cohesion spending; Analysis 03, p. 80.

**Case Study 12: Best-Practice: Reporting of personnel costs based on standard unit costs**

Several examples of the application of SCOs can be found in the Interreg Programme VI-A Bavaria-Austria. Applicants can choose between different models for cost reimbursement and can combine actual costs, standard unit costs, or flat rates. Personnel costs can only be reported as a flat rate or as standard unit costs. The standard unit costs for personnel are divided into four performance groups. They increase by about 10% with each submission round. For a project manager, between 50-62 euros per hour are granted on this basis, depending on when the application was submitted.

The hourly rates apply for the entire duration of the project. In the reporting process, performance units are reported, their number must be documented, for example, using time sheets (max. 1.720 hours per year).

This model comes with significant administrative simplifications. It has to be clearly stated that these flat rates are not always suitable for the full financing of tariff-bound personnel. This is a model that can only be applied to projects that are funded according to the principle of co-financing.

In dialogue with practitioners, flat rates were described as inflexible. For example, adjustments during the project duration are associated with a significant administrative burden for re-approvals. This lack of flexibility would also be problematic if projects do not go as planned. Flat rates reduce the scope for reallocations and can thus complicate project implementation. For institutions with very high overhead costs, such as due to expensive research infrastructures and above-average personnel costs, flat rates for overhead are financially unattractive. At the same time, there is a risk that in other institutions, non-project-related costs are being covered through the flat rates. From the perspective of the expert team, the question arises to what extent over- and under-compensation need to be factored in at the system level.

### **2.5.2 Digitalization of the procedures for implementing Cohesion Policy**

Digitalization fundamentally opens up new opportunities to optimize administrative processes, increase transparency and citizen proximity, and improve interaction between different stakeholders. The positive effects of digitalization will only unfold if needs are specifically addressed. The aim of implementing digital procedures in the ERDF is initially to simplify the application and approval processes within the framework of grant management, ensure the traceability of funding, and enable better data analysis. The expansion of digital structures and their connectivity, even in the context of ERDF funding, thus represents efficiency gains; it is at the same time a part of Europe's digital transformation.

In preparation for this funding period, the expansion of digitalization, including a digitally supported administrative procedure, was already stipulated in the Common Programme Regulation and in the Regulation for the European Regional Development Fund.<sup>82</sup> It postulates the increased use of digital opportunities as a chance to advance the goals of Cohesion Policy and the creation of an inclusive (digital) society. In line with this objective, extensive funding is being provided for the expansion of ICT in the current funding period. Thus, the programme authorities of the member states are now required to set up and use digital systems for the management and administration of funds, communication, and monitoring in the management of the cohesion funds after a voluntary phase.<sup>83</sup>

However, the member states are free to decide how the operational implementation of the (digitalized) procedures is carried out, in line with the multi-level governance of Cohesion Policy. To meet the obligation of digitalization in Germany, the states have each set up their own ICT systems for their operational programmes or enabled extensive digital submissions that are available with this period.

These ICT systems include modules for the digital application process, for fund disbursement, as well as for the management of the ERDF programmes, the corresponding processing modules for review and approval by the intermediary bodies, as well as for budget oversight, monitoring, and reporting. The establishment of these modules was to be accompanied by training and information offerings, both for administrative staff and for the applicants.

In the introduction and implementation of these systems, the states are at different stages: Some states had already designed digital systems during the previous funding period and had introduced them – at least in individual modules. Other states, on the other hand, initially presented the basic structures for the planned digital systems and are gradually implementing them in the current funding period. Other states have fully postponed the introduction of digital systems to the current period and are initially offering expanded possibilities for the digital transmission of documents in this funding period.

The German states are in the middle ranks of EU member states with regard to the introduction of digital systems, which show significantly different speeds in this respect. With regard to the implementation across Europe, the European Commission expressed little satisfaction in March

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<sup>82</sup> REGULATION (EU) 2021/1058 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 June 2021 on the European Regional Development Fund and on the Cohesion Fund, paragraph 13: „In order to grasp the opportunities from the digital age, the ERDF should contribute to the development of an inclusive digital society where citizens, research organisations, businesses and public administrations take full advantage of the opportunities that digitalisation offers. Effective e-government at national, regional and local level involves developing tools as well as rethinking organisation and processes, in order to deliver public services more effectively, easily, quickly and at a lower cost. In particular, digital and telecommunication technologies should be used to enhance traditional networks and services for the benefit of local communities through developing projects such as smart cities and villages.“

<sup>83</sup> REGULATION (EU) 2021/1060 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 June 2021; Article 69, Responsibilities of Member States.

2024 and once again emphasized the importance of a modernized funding administration in the ninth cohesion report<sup>84</sup>.

With the digital systems, a fundamental cornerstone for potential simplifications has essentially been laid. Nevertheless, the introduction of a digital system is not a guarantee of simplifications. Following the guidelines from Brussels – both for the ERDF and the ESF – the overall funding process remains complex even in a digitalized environment. Based on the final EU regulation and the specific requirements for monitoring and reporting, high demands are also placed on a digitalized environment. Accordingly, the introduction in all states proves to be a complex undertaking, the implementation of which will extend beyond the duration of the operational program.

If, with regard to the next funding period, the framework conditions change, for example due to adjustments in the Common Provision Regulation, these can develop into a delay factor, if changes to existing or in-development digitalized modules become necessary.

In addition to the time pressure for the introduction of digitized systems, there is an additional requirement due to the complexity of the funding conditions to provide definitions, explanations, and assistance that are relevant to the different target groups when using the digital forms. Against this background, the need to ensure the highest possible level of continuity of the VO and its instruments across the funding periods is emphasized.

In this context, reference should also be made to the specialised discussions in the broader environment. For example, Saublens (2023) calls for increased digitalisation, but also highlights its limitations.<sup>85</sup> According to Saublens, digitalisation merely creates opportunities for incremental improvements, which can ideally be accompanied by simplified processes, greater efficiency, or more technical support. Additionally, Saublens emphasises the need for accompanying the digitalisation processes in order to unlock (simplification) potential.

A subfield of digitalization focuses on the topics of reporting and monitoring. Complex requirements also need to be met here, for example, due to a multitude of reporting items, indicators, or intertwined information. The same applies to information and examinations that must be uniformly provided in all member states, e.g., the examination of SME status. This could also be centralized at the European level by the European Commission.

Against this background, it is difficult to understand why each of the 27 EU member states is developing its own systems. This is all the more true as the number of digital systems significantly exceeds the number of member states, since in several member states, a separate digital system is created for each respective OP at the German Länder or regional level.

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<sup>84</sup> European Commission, 27. March 2024 (COM 2024 149 final ) In its communication on the ninth cohesion report: "A stronger and modernised policy is crucial to strengthen the European growth model, build an inclusive Union, and achieve the goal of economic, social, and territorial cohesion enshrined in the Treaty."

<sup>85</sup> Saublens (2023): Why not try a big bang in the design of the EU regional Policy?

Table 7: Number of ERDF OP in selected member states

Member State	Number of OP
Italy	21
Spain	17
Germany	16
Poland	16
France	13
Netherlands	12
Austria	9
Sweden	8
Denmark	5
Belgium	3

In view of the complex, potentially changing requirements for the ERDF-ICT systems in the multi-level governance system for each funding period, representatives of the states pointed out in the exchange meetings that a uniform digital system could not be implemented by the states on their own. In addition to the capacity aspect of the states, it should be noted that despite the delayed start, the successful implementation of the programme initially takes the highest priority in all states. Regarding digitalization, the focus would be on applying the respective individual ICT systems of the states, considering the available capacities from a short-term efficiency assessment. In contrast, a comprehensive solution in the form of a cross-border IT system, due to the different interfaces and partly different structures in the individual states, requires a significantly longer lead time, as well as the outcome of corresponding consultations among the states. Alternative and, where applicable, unified digital systems should therefore, according to feedback from the representatives of the federal states, be developed at a higher level (e.g. at the federal level), but above all, in the future, in collaboration with the European Commission and at this level.

In context of digitalization opportunities, the representatives of the states pointed out another area of action: Especially with regard to transformation tasks, the **General Block Exemption Regulation (GBER)** and the associated proof obligations are considered a hindrance to the efficient design and implementation of funding measures, particularly in the case of mixed calculations for funding or the corresponding proof obligations. These cannot be resolved solely through digitalization. A significant contribution to improvement and efficiency could, however, be achieved at the European level by agreeing that digital submission of evidence is sufficient for reporting purposes. This would have an important signaling effect even at the state level, where, depending on the state budget regulations, a paper-based submission of documents is still sometimes required.

This gives rise to the desire, both from the federal states and based on feedback from the consultation, for an agreement to accept **digital document submission** in general, in addition to digital reports, in the context of European programmes. For this, experiences from other EU member states could be consulted as examples.

In this context, the introduction of a mandatory electronic signature for authentication in Germany has proven to be time-consuming. Should medium-term delays become apparent due to difficulties with electronic signatures, the use of alternative electronic authentication (E-ID), as in Austria, could bring about an efficiency gain. The e-ID would be particularly beneficial for target groups that apply for multiple funding measures, possibly even in different states.

Despite positive developments on several levels, there are still some fundamental challenges to be addressed in Germany and the EU:

- Technical infrastructure: In some regions, there is a lack of the necessary technical infrastructure to implement digital procedures on a broad scale.
- Data protection and security issues: Ensuring data protection and the security of sensitive information presents a significant challenge. In particular, with regard to compliance with the General Data Protection Regulation (GDPR), a careful balance needs to be struck between a strict interpretation and allowing for the flexibility in taking action.
- Acceptance and Training: The acceptance of digital procedures by users is not always given. Comprehensive training and awareness are necessary to dispel reservations.

In the foreground of the current ERDF funding period, the required digitalization in the form of individual IT systems is a priority for the states, given the high time pressure, existing capacities, and the differing structures at the state level. The coordination of a superior IT solution is associated with a significant lead time, which could only become available if the specific requirements for the implementation of the ERDF for the new funding period are definitively available early on. Concrete starting points for other digitalization steps, which represent important turning points for increasing efficiency, become apparent.

These refer to central digital modules to be created by the European Commission, particularly for reporting or monitoring, as well as for an interface to check the SME status. Further opportunities for digitalization are seen in the acceptance of digital proofs concerning the documentation requirements of the GBER as well as receipts within the framework of fund management.

### **2.5.3 Procedures for dealing with financial irregularities**

The protection of the Union's financial interests and the implementation of the necessary preventive and protective measures are fundamental principles of the European Union's Financial Regulation. With regard to the disbursement of funds, it is important to distinguish between irregularities and irregularities with fraudulent intent. An irregularity is an action that, while complying with EU regulations, potentially harms the financial interests of the EU and is the result of a factual error that has occurred to the beneficiary when applying for funds or to the authority when deciding on the payment. In contrast, an irregularity with fraudulent intent is characterized

by being a deliberate deception committed with the intention of enriching oneself or harming a third party.<sup>86</sup>

Taking a closer look at the uncovered irregularities in the funding period 2014-2020, it becomes obvious that a large portion was classified as non-fraudulent (see Illustration 10).

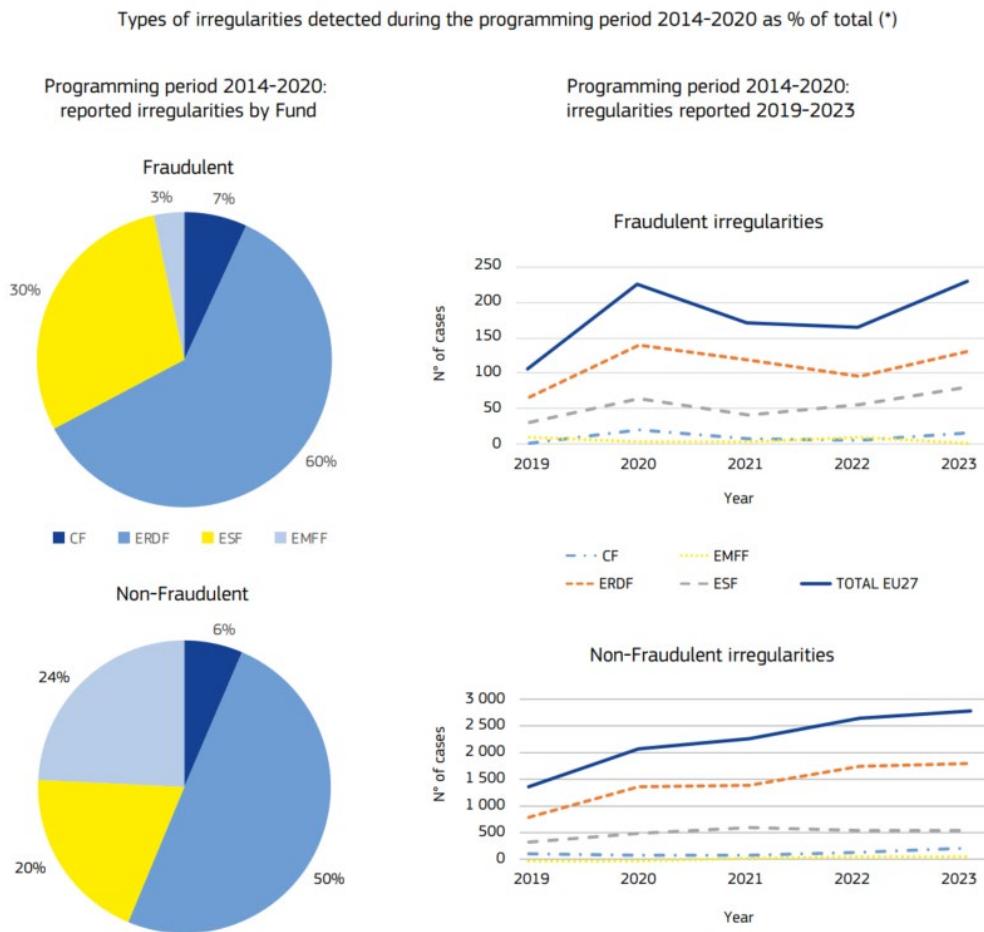


Figure 10: Reported irregularities and associated financial resources

Source: European Commission, 2024: 35th Annual Report on the Protection of the European Union's financial interests and the Fight against fraud 2023, p. 24.

Within this group, violations of public procurement regulations were the most frequently occurring irregularities. Fraudulent irregularities in the funding period 2014-2020 were mostly

<sup>86</sup> European Anti-Fraud Office (OLAF), 2024: What constitutes fraud?? ([https://anti-fraud.ec.europa.eu/olaf-and-you/report-fraud\\_de](https://anti-fraud.ec.europa.eu/olaf-and-you/report-fraud_de)); cf. Art. 1 Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests as well as Art. 3 par. 2 Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law.

recorded in the area of document forgery, followed by breaches of contract terms, fraud to meet funding criteria, and intentional violations of public procurement regulations.<sup>87</sup>

In the ERDF, the cases of fraud are higher than in other funds under shared management. According to a report by the European Parliament, the reason for this is partly the large infrastructure projects, which in particular show irregularities in the awarding of contracts. The large financial volumes of these projects would also attract the interest of organized crime, leading to the diversion of funds through fraud.<sup>88</sup>

In some member states, the level of detected fraud is higher than in others compared to the budget concerned, which does not necessarily mean that more fraud occurs there, but could equally indicate that in some member states, the mechanisms for detecting fraud are more efficient than in others. Indeed, the member states have generally improved those mechanisms by improving control and monitoring mechanism, but there are still significant differences in implementation, including the dissemination of "good practices." Since fraud strategies are continuously evolving due to criminal actors, fraud prevention must also evolve to the same extent. Moreover, not all member states use anti-fraud strategies and tools provided by the European Commission (e.g., the risk assessment tool ARACHNE or the Early Detection and Exclusion System (EDES). However, the effectiveness of these tools also depends on the data provided by the national authorities. Their use could support the cross-border detection of fraud.<sup>89</sup>

Specifically for cohesion and agricultural expenditures, the European Court of Auditors notes that the European Commission and the member states have increased their efforts to uncover conflicts of interest, but gaps still remain. This particularly applies to transparency, for example, missing information about beneficial owners. Furthermore, at the level of the member states, information on key components of conflicts of interest (such as political affiliation or personal interest) is difficult to obtain and is often subject to data protection regulations. Although there are verification mechanisms in the procurement sector (at both the member state and EU levels), insufficient attention is being paid to certain, potentially critical areas. This applies, for example, to processes where there is only one provider. Ultimately, it is noted that there are weaknesses in the reporting of conflicts of interest, so that neither the member states nor the European

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<sup>87</sup> See European Commission, 2024: 35<sup>th</sup> Annual Report on the Protection of the European Union's financial interests and the Fight against fraud 2023, p. 25 For a detailed overview regarding the different cases of fraud cf. Commission Staff Working Document, 2024: Statistical evaluation of irregularities reported for 2023: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure Accompanying the document, Report to the Council and the European Parliament: 35<sup>th</sup> Annual Report on the protection of the European Union's financial interests and the fight against fraud 2023, p. 47.

<sup>88</sup> See European Parliament, 2022: Identifying Patterns of Fraud with EU Funds under Shared Management - Similarities and Differences between Member States, p. 28.

<sup>89</sup> See European Parliament, 2022: Identifying Patterns of Fraud with EU Funds under Shared Management - Similarities and Differences between Member States.

Commission have a complete overview of the extent of conflicts of interest in shared management.<sup>90</sup>

The overarching assessment of the European Commission regarding the regularity of cohesion expenditures largely depends on the information provided by the member states. Although the European Commission conducts additional verifications and assessments of the provided information, the reliability of the results should be critically considered, among other things, due to weaknesses in the work of the national audit authorities. Furthermore, the European Court of Auditors ruled that the additional verifications carried out by the European Commission, especially the conformity checks, would reveal numerous errors undetected by the member states, indicating that the reported overall error rate represents a minimum rate (since, among other things, the European Commission's audits only cover a selection of programmes).<sup>91</sup>

### **Situation in Germany**

Compared to other Member States, Germany reports a relatively low number of irregularities in relation to the level of expenditure from the perspective of fraud and corruption prevention. For example, 338 cases of irregularities were reported for the ERDF for the entire 2014-2020 funding period, with a total volume of EUR 35 million (EU 27 plus UK total: 7,965 cases with a total volume of EUR 1.29 billion). Furthermore, 17 cases with a volume of EUR 3 million were reported for the 2014-2020 period, which were classified as irregularities under the definition of intentional fraud (EU 27 plus UK total: 659 cases with a total volume of EUR 1.23 billion).<sup>92</sup>

In the context of the research report, the handling of irregularities was not examined through in-depth individual discussions or meetings with the managing authorities, but only based on the analysis of publicly available studies and documents. Based on this, it can be concluded that the responsible administrative, certification, and audit authorities diligently follow the regulations and consistently investigate suspected cases. For instance, comprehensive guidelines for detecting forged documents and identifying conflicts of interest exist in the Länder, often based on preliminary work by the European Commission.<sup>93</sup>

In principle, however, it should be noted that even with very well-functioning administrative and control systems and high levels of enforcement pressure, there is no complete assurance against unintentional or even fraudulent irregularities. Therefore, the research report suggests that the

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<sup>90</sup> See. European Court of Auditors, 2023: Conflict of interest in EU cohesion and agricultural spending. Framework in place but gaps in transparency and detection measures, Special Report.

<sup>91</sup> See European Court of Auditors, 2021: Regularity of spending in EU Cohesion Policy. Commission discloses annually a minimum estimated level of error that is not final, Special Report.

<sup>92</sup> Cf. European Commission, 2024: Statistical evaluation of irregularities reported for 2023: own resources, agriculture, cohesion and fisheries policies, pre-accession and direct expenditure, Commission Staff Working document accompanying the document Report from the Commission to the Council and the European Parliament: 35<sup>th</sup> Annual Report on the protection of the European Union's financial interests and the fight against fraud 2023, p. 47-54.

<sup>93</sup> See e.g. Senatsverwaltung für Wirtschaft, Energie und Betriebe Land Berlin: Handbuch für ZGS, [www.berlin.de/sen/wirtschaft/gruenden-und-foerdernde/europaeische-strukturfonds/efre-foerderperiode-2021-2027/handbuch-fuer-zgs/](http://www.berlin.de/sen/wirtschaft/gruenden-und-foerdernde/europaeische-strukturfonds/efre-foerderperiode-2021-2027/handbuch-fuer-zgs/)

ERDF programme authorities should use the risk assessment tool ARACHNE provided by the European Commission in the future. ARACHNE is an integrated IT tool for data mining and risk scoring that supports managing authorities in their administrative controls and management audits. Based on publicly available information, it supplements the information provided by the applicants and beneficiaries during the application process and the proof of use. In this way, based on a range of risk indicators, the projects, beneficiaries, contracts, contractors, and subcontractors that may be at risk of fraud, conflicts of interest, or other irregularities can be identified. ARACHNE does not assess the individual behavior of recipients and does not automatically exclude recipients or potential recipients from EU funds. The system cannot detect irregularities, but it does support administrative controls through risk assessments. The system, however, has not been used in Germany so far due to data protection concerns.<sup>94</sup>

## **2.6 Reflections on further potential instruments for Cohesion Policy**

Beyond the instruments of Cohesion Policy mentioned in the previous chapters, one of the goals of the research report was also to analyse further funding policy instruments that revealed potential for an efficient design of Cohesion Policy with regard to the needs of its various target groups. The task of these analyses was to present the respective instruments and, based on this, to evaluate the advantages and disadvantages to be expected from their introduction into the ERDF. The approaches discussed below are characterized by varying degrees of complexity, which would need to be taken into account in the event of their potential establishment in the ERDF.

The funding presented below for particularly experimental and high-risk projects thus forms a conceivable instrument to examine innovative solutions, especially on transformation topics, while simultaneously providing incentives for research and innovative companies. This is associated with a risk management system that also includes termination criteria and makes provisions for corresponding underspending within the framework of the ERDF fund flow control. Innovative public procurement as a tool combines the streamlining of public tender processes with the aim of providing space for innovative approaches.

The third example of tax incentives sets a counterpoint to project funding based on support measures by examining the eligibility for funding of transformation or innovation projects financed by companies from their own resources and linking them to a subsequent tax benefit. This instrument specifically targets small and medium-sized enterprises (SMEs), which have not always been effectively reached as a target group of the ERDF so far, but are of central importance as actors of transformation.

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<sup>94</sup> See European Parliament, 2022: Briefing – Instruments and Tools at EU Level and Developed at Member State Level to Prevent and Tackle Fraud – ARACHNE, p. 3

### 2.6.1 High-risk, experimental project funding and scaling

The structural funds aim to enable concrete, practical implementations with measures of very different nature, contributing to the overall goal of Cohesion Policy. To receive funding for this, measures in the form of projects must be clearly defined in accordance with existing funding requirements, including work plans, objectives, milestones, and resource planning. From the perspective of the funding provider, a solid funding decision can be made based on such assumptions. From the perspective of a grant recipient and also the overall goal of the funds. On the other hand, projects that are risk-oriented and thus possibly not planable within the given framework are also made more difficult. They could have a significant impact if funding is granted, but might fall out of the funding grid.

Examples of high-risk projects are:

- "Infrastructure projects for the construction of bridges and roads that are at risk due to unexpected geological conditions, weather events, or financial constraints, or public transport systems where technical challenges and delays in approval threaten further implementation. ";
- Technology projects such as software development, which are preceded by an idea of the end product, but can fail due to an unclear development path, unclear requirements, or technical difficulties;
- Research and development projects involving intended technological innovations that are risky due to unforeseeable technical challenges or market uncertainties;
- Environmental projects such as rewilding projects to restore ecosystems that are threatened by unforeseen environmental conditions or legal challenges.

The examples not only illustrate where the risks lie but also the significance these projects could unfold. At the same time, it is clear that beyond a rigid work and time schedule, additional criteria such as planning and risk management strategies are necessary as the basis for a funding decision. Feedback from the stakeholder consultation also points to this gap in the funding spectrum.

A dilemma between (high-risk) research and results lies consistently in the unpredictability of success and the time factor until market development, with the funding rate being an important element: higher funding rates can be applied to research projects. However, research projects are required to publish the research and development results due to the pre-competitive nature of the research. The rule is that the more fundamental a research project is, the higher the funding rate that can be set by the funding body. Conversely, market-oriented projects receive a lower funding rate and may require a higher contribution of public funds. A funding rate that might be attractive to recipients of grants decreases as the project becomes more application-oriented. The closer a project is to application and the market, the less it is in the interest of a recipient to publish results.

Therefore, it must be weighed to what extent the development of business models or a fast market entry should be ensured, or whether a longer-term, riskier research project with potentially more innovative results should be pursued. Risky in this context refers to the time delay required for a research project to move from idea through development to patenting, business model, or market entry. In light of rapid innovation dynamics, the time factor is crucial for maintaining and expanding competitiveness, so ways of aligning or harmonising funding should be reconsidered.

The advantage of research funding for project participants is clear: they benefit during the funding phase from a higher funding rate, which stands in contrast to the lower funding rate for market-oriented developments. In the interest of the Structural Funds, however, both research and the establishment of connectivity and the assurance of timely implementation are at stake. This would require reconsideration of how they can be supported without funding-related disadvantages. This applies particularly to high-risk and experimental projects, where the overall interest lies in bringing highly innovative ideas to concrete implementation and thus creating an important instrument for creativity and market success in Cohesion Policy.

Scaled funding represents an approach that allows for risks to be mitigated through flexible and adaptable financing. In scaled funding, funds are disbursed or made available at different agreed-upon times. This approach takes into account the different phases of a project as well as the varying needs and challenges that may arise during implementation. Thus, a preliminary research project would first be funded, followed by a market-oriented study under different conditions but in the same thematic area. In other funding lines, it is conceivable that an initial step could be supported with a feasibility study or seed funding for a small project, followed by a more extensive project for the roll-out or transfer.

A scaling is conceivable within a funding line (e.g., in the form of a tiered funding line) or even within a project (e.g., through phase approvals). The scaled funding thus combines flexibility in financing and minimizes risks, while simultaneously offering the possibility to upscale financing and thereby enable extensive measures.

It thus offers the opportunity to support a promising idea – even if it is risky – from the initial concept to implementation with funding. (e.g. von einer Studie bis zum Markteintritt)<sup>95</sup>. The advantages of scaling are seen in an expectedly higher success rate, which arises from the adaptability of financing and proactive risk assessment; as well as the efficient distribution of resources and continuous support for priority projects; Opportunities also arise through the linking of additional financing decisions with clear performance indicators and the possibility of sustainably implementing long-term measures.

- Principles of Scaled Funding: Scaled project funding involves a modular financing structure that allows for the adjustment of funding amounts based on project progress and needs.

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<sup>95</sup> Cf. survey as part of the project: For the area of "innovation and technology", reference was made to the gaps in using the ERDF to support "technology transfer, especially to SMEs, development of innovative ideas to market maturity" (qualitative feedback on question 6), which would be achievable through scaled funding. At the same time, the recommendation on scaling proposed here also takes up elements from the feedback from the federal states, in which a stronger focus on milestones or more milestone-based funding was called for in order to be able to fund risky projects.

Instead of providing a one-time, flat-rate funding, funds can be released gradually, depending on the achievement of specific milestones or performance indicators.

- Risk assessment and management: These are carried out through an initial risk assessment and a more intensive, continuous monitoring of project implementation, which reduces the risk of failure through tailored support. However, termination criteria must also be defined if insufficient project progress or inherent innovation hurdles cannot be overcome.
- Adaptation to changes: Projects are often influenced in their implementation by external factors that are not foreseeable, such as economic fluctuations or the time required for participatory processes. The scaled project funding allows for adjusting the financing of such changes by not defining all project funds with an approval. Regular interim steps allow for adjustments in financing if necessary. This transparency simultaneously builds trust and contributes to actively involving all stakeholders early in the implementation process.

A scaled project funding approach represents a method to tackle the challenges of project financing in an ever-changing world. In the ERDF/JTF, the instrument has not yet been applied. However, a flexible and adaptable financing structure could support an approach from the idea through development to widespread rollout. By using funding precisely and according to need, not only is efficiency increased, but the sustainability and impact of the projects are also secured in the long term.

Although the instrument requires more intensive funding support from the grant provider in order to ensure scaling through a coordinated evaluation and assessment, risks can be effectively mitigated, and the chances of success for projects can be significantly improved. Therefore, the application of scaled funding opportunities is seen as an important means for the rapid implementation of results into practice and, consequently, for the ERDF.

## 2.6.2 Innovative Public Procurement

Innovative public procurement refers to the process by which public institutions acquire products or services with new and creative solutions that are not yet standardly available on the market. The goal is to achieve innovative solutions through innovative procurement while leveraging the large volume of public contracts. This could allow the goals of the ERDF programmes to be pursued through an instrument with significant leverage: In 2021, public contracting authorities in Germany awarded contracts with a procurement volume of 104 billion euros, according to procurement statistics.<sup>96</sup> In percentage terms, to the federal government, the states, and the municipalities allocate roundabout a quarter, while other public clients such as research institutions, universities, hospitals, or the police account for just under a fifth.<sup>97</sup> The Organisation for Economic Co-operation and Development (OECD) even estimates that, on average, 15-19% of the gross domestic product across the EU is spent on procurement. That would be more than

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<sup>96</sup> Cf. Federal Ministry for Economic Affairs and Climate Protection (BMWK), 2023: Vergabestatistik. Bericht für das zweite Halbjahr 2021, p. 10.

<sup>97</sup> Figures for the 2nd half of 2021, cf. ibd.

500 billion euros in Germany. Procurement processes are therefore a significant economic factor with a huge potential to steer innovation. Moreover innovative public procurement can help the public sector to become more innovative itself and improve its offerings for citizens by purchasing modern products and new technical solutions. At the same time, it can inspire and support companies to develop more innovations. The reference products procured can contribute to the development of new markets and support the competitiveness of companies. For Enrico Letta, an expert appointed by the European Council on matters of enhancing EU competitiveness, innovative procurement is an important lever to amplify the impact of investments: "innovation procurement, especially in green and digital technologies, could be one of the most important levers to support startups, scale-ups, and SMEs in developing new products and services."<sup>98</sup> Innovative public procurement can also be utilized within the ERDF to pursue the goals of the RIS3 through another instrument. Procurement procedures, however, are considered complicated and prone to errors. Violations of national and EU procurement regulations have been the third most common error in the disbursement of cohesion funds in the past funding period.<sup>99</sup> This is one of the reasons why this instrument is currently used infrequently.

A dedicated funding guideline within the ERDF, which combines financial incentives for project implementation and administrative relief for procurers, could be an approach for the increased use of innovative public procurement. Organizational change and modernization processes could be most efficiently supported with such a funding guideline.

To explore the potential for using innovative public procurement within the ERDF, discussions were held with representatives of various managing authorities to determine whether there is a need for such a funding guideline and how it could be addressed. The challenges of implementation were discussed, as well. Through a funding guideline, incentives could be set to encourage the increased use of innovative public procurement. The legal framework of Cohesion Policy could be adjusted in such a way that financial incentives are created for procurement entities. One option would be to reintroduce an experimental clause that existed until 2006. This could be developed for complex projects that cannot be clearly assigned to any political goal. Additionally, mechanisms could be incorporated into the framework regulation that reward the selection of measures serving multiple programme objectives simultaneously. The high effort associated with the complex procedures could also be compensated financially. In summary, the exchange with the practitioners revealed the following picture regarding potential barriers for implementation:

- **Unclear need:** The opportunities associated with the use of innovative public procurement were emphasized in discussions with representatives of the managing authorities. In programme planning, it is crucial for the managing authorities to be able to estimate the specific needs and expected demand for funding offers as concretely as possible at an early stage. So far, no demand from the municipalities for support in innovative procurement processes has been reported. Since the various possibilities for carrying out innovative

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<sup>98</sup> Enrico Letta (2024): Much more than a market – Speed, Security, Solidarity”, p. 12.

<sup>99</sup> European Court of Auditors (2024): An overview of the assurance framework and the key factors contributing to errors in 2014-2020 cohesion spending, p. 41.

procurements and the associated opportunities are hardly known, the demand for such a funding guideline can not be fully estimated. Furthermore, the ERDF programme logic requires that each measure budgeting according to each programme year. However, since innovative procurement processes, which also include activities in research, development and innovation, are not always predictable, there is a risk that the funding line will not be tailored to actual needs.

- **Difficulties in programming:** Any measure that is to be implemented through the ERDF must be assigned to one or more programme objectives as well as specific objectives. To measure the impact of the measures, projects must become objectively comparable and be supported by appropriate indicators. Research and development projects, for example, can contribute to climate efficiency while simultaneously increasing the competitiveness of the commissioned companies. Additionally, they can contribute to building knowledge and capacity in the administrations and support general modernization processes. From the perspective of programme development, this breadth, however, poses a problem.

In summary, from an expert's perspective, it should be noted that there are too many obstacles for using innovative public procurement in the ERDF, which are only partially offset by the benefits and which need to be addressed first.

### 2.6.3 Tax Incentives

The Inflation Reduction Act (IRA) in the United States uses tax credits to accomplish transformational activities. Similarly, tax incentives for research funding, which have been in place in Germany since 2020, allow enterprises to claim their R&I project expenses (e.g., personnel and material costs, as well as research contracts) for tax purposes. The funding measure shows an annual growth of almost 35% in the number of applications, mainly from SMEs. Against this background, it was asked if a tax incentive within the scope of the ERDF could be used as a tool to especially assist SMEs in implementing the Twin Transition.

The basis of tax research funding in Germany is the Research Grant Act (FZulG)<sup>100</sup>, which applies to all taxable companies regardless of size, profit situation, and business purpose. There are no restrictions in the technology and innovation field or the industry. Submitting an application is continuously possible. The authentication of the application is done digitally via the company's ELSTER certificate and allows the inclusion of tax and other advisors. In an initial, also digital stage, the applications are checked to see if they meet the criteria for research and development. In the positive case, the applying company and the respective tax authority receive a digital "certificate" that documents the planned duration and the planned project budget over the project duration.

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<sup>100</sup> The legal basis for tax incentives for research in Germany is the Research Allowance Act (FZulG) passed in 2019, which was extended by the Growth Opportunities Act of 27 March 2024. Accordingly, the assessment basis for researching companies in Germany amounts to €10 million p.a., with the research allowance generally amounting to 25 per cent of the assessment basis and 35 per cent for SMEs. The assessment basis is calculated as the sum of the eligible R&I personnel costs, any costs incurred for contract research and - under certain conditions - assets.

The specific calculation of the "tax rebate" to be granted per year is carried out in a second stage as part of the annual tax return through the respective responsible tax office. Positive features of this instrument include the low bureaucracy costs for the applying company (with a compliance cost of EUR 214 per application) and the short processing time for applications in the first stage (max. three months).

In principle, such tax-based research funding, following the example of the US IRA, is also conceivable as an instrument for projects of transformative structural policy within the framework of the ERDF (e.g., for measures in digitalization, decarbonization of the economy and energy systems, circular economy, biodiversity, and climate adaptation).

Following the priorities of the ERDF program, the respective aid regulations of the GBER would be decisive for the different funding topics of the transformation. The latter could be used as criteria for the admissibility of the respective project or application. This would also involve a distinction between transformation funding and the tax research allowance, which would remain focused on basic research, industrial research, and experimental development projects. In line with the tax research allowance, personnel expenses, own contributions, expenses for project-related contracts, and depreciable movable assets of fixed assets could also be recognized as eligible for funding for transformation projects. Furthermore, it could be examined to what extent operating costs could additionally be included in the assessment basis. Drawing on the example of climate protection agreements, differences in operating costs between climate-friendly and conventional production methods for industrial goods could then, for instance, serve as a basis for assessment.

The implementation of such a concept within the framework of the ERDF requires various fundamental clarifications:

- It would be essential, first of all, to amend the legal basis for the funding period 2028-2034 in Article 52 of EU (Regulation) 2021/1060 for the introduction of this new funding instrument. This should be designed in such a way that the existing national legislation on tax incentives for research in the EU member states,<sup>101</sup> which follow different procedures, can each be utilized.
- In principle, the structures and procedures for tax incentives at the national level would be considered sufficient by the European Commission and the European Court of Auditors. This should also include the respective national tax verification procedures. On this basis, the European Commission could then recognize the reduced tax revenues of the respective member state and co-finance the structural funds from these resources. The starting point for this would be a review of the procedures that already exist at the national level in EU member states for the tax research allowance.

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<sup>101</sup> Deutscher Bundestag. Wissenschaftliche Dienste. Ausgewählte Fragen zu einer steuerlichen Förderung von Forschung und Entwicklung (FuE) Internationaler Vergleich, Abgrenzungsfragen, Administration. WD 4 - 3000 - 059/15, Berlin, 2015. Here: p. 4. [wd-4-059-15-pdf-data.pdf \(bundestag.de\)](https://www.bundestag.de/basis/059/059-15/pdf-data.pdf); last access on 13.08.2024. Among the EU member states, only Estonia was named as an exception. However, the tax reform of 2023/24 created opportunities for tax incentives for transformation tasks, among other things. Cf. Joost Haddinga, Tax Foundation, Washington, D.C., 1.5.2023. [Estonia Tax System Would Remain Competitive after Tax Reform \(taxfoundation.org\)](https://taxfoundation.org/tax-reform-estonia/), last access on 13.08.2024.

- To ensure sufficient control over the use of funds within the framework of European structural policy, tax-based research funding should be integrated with the application and approval procedures as well as the monitoring and reporting obligations of the ERDF.

To meet the latest requirement, the programming of the funding measure up to the project selection would continue to be carried out by the respective states (managing authorities or intermediate bodies). In the case of a positive review and funding commitment with the recognition of the calculated budget by the states, a tax-based "transformation funding" could now be implemented to regulate further financial support through the annual tax return of the companies based on the GBER.

In the discussion with representatives of the states, the following advantages and disadvantages of such a "entangled" tax incentive procedure for the different stakeholders became apparent:

1. The perspective of the managing authorities and intermediary bodies:
  - For the managing authority or the intermediary body, an additional interface to the respective state financial authority would be created to transmit the required key data to the selected grant recipients or the associated calculated budgets. In return, the "fund management" in the course of the project would be eliminated for the intermediary organizations. A review of the specific funds used for the approved project and the corresponding evidence by the tax authorities would also take place as part of the company's annual tax return. This would result in a correspondingly reduced effort for the intermediate bodies in the verification of the use of funds.
  - The monitoring and reporting obligations to the European Commission would continue to be carried out through the intermediary bodies, with a focus on milestones in implementation and adherence to the technical and substantive transformation goals of the funding project being conceivable. The corresponding indicators would thus also serve as the basis for future (external) audit procedures.
2. The perspective of beneficiaries:
  - An application to the intermediary authorities of the appropriate ERDF financing measure reduces the effort for grant beneficiaries, notably during the project phase in terms of fund administration and verification of use. This would be replaced for companies by the subsequent annual offsetting of the actual project costs with income or corporate tax within the framework of the tax return and could be done entirely digitally. With regard to the monitoring and reporting obligations under the ERDF, it should be examined to what extent performance-based cost reimbursement based on milestones could also reduce additional reporting obligations for companies.

Overall, reflecting on the instrument of tax-based research funding raises a variety of questions regarding the administrative implementation requirements. It has already been mentioned that an additional interface to the financial authorities would be created for the managing authority, which would need to be integrated into the ERDF procedures with a high upfront effort. Additionally, an "approval" of the tax refund to the tax authorities would have to be granted annually in the course of the funding project, depending on the milestone review on the ERDF side.

For Germany, there is also a need for an agreement between the federal government, states, and municipalities regarding the respective reimbursement or offsetting of the proportional tax shortfalls with the ERDF funding.<sup>102</sup>

At the European level, the European Commission would likely be expected to establish its own monitoring and reporting obligations for this instrument in order to ensure the necessary transparency of fund usage in the member states. It is also necessary to clarify the establishment of accountability and the role of the tax authorities, particularly in audit procedures, in the tension between this and the principle of tax secrecy. Another aspect at the European authority level concerns the General Block Exemption Regulation of the European Commission.<sup>103</sup> This would be used in the various funding themes of the transformation to develop appropriate criteria for the review of applications as well as the monitoring and auditing of the funding programmes.

This administrative effort must be weighed against the extent to which the instrument of tax incentives provides relief for the target group of companies, particularly SMEs, within the framework of the ERDF funding measures. Recognizable benefits would arise for this target group, as explained above, in the management of funds and the verification of their use. Further efficiency gains could be achieved by using a tax credit instrument for (nationally funded) research and (ERDF-funded) transformation projects, provided these are implemented through a digital process for the funded companies. However, in the area of transformation support (see, for example, energy efficiency support), it has been shown that direct support is preferred over a deferred tax refund. Overall, it is possible to derive specific efficiency gains for the instrument of tax-based research funding for the target group of SMEs within the framework of the ERDF; however, these are relatively minor due to the necessary frameworks for integration into European structural policy compared to the national design of the instrument. Essential process steps (application, approval, monitoring, and reporting) would still be tied to ERDF procedural requirements, which are associated with comparatively higher costs, especially for SMEs. It should also be taken into account that, especially in dealing with transformation tasks, municipalities and municipal enterprises represent a central target group and could not be adequately supported through a tax-based, downstream funding approach.

Overall, it should be noted that the implementation of a tax incentive, due to multi-level governance at the national level and considering the different tax systems of the member states, would also result in somewhat complex regulatory requirements and additional administrative burdens at the European level. Questions regarding the assurance of fundamental transparency in the use of funds in EU member states through the respective national tax procedures can only be referred to at this point. Overall, it becomes clear that the effort resulting from the

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<sup>102</sup> Corporation tax is levied on the income of legal entities such as corporations, cooperatives and associations. The federal government and the federal states each receive half of the corresponding tax revenue. Partnerships (e.g. OHG, KG or GbR) are subject to income tax (Section 15 (1) sentence 1 no. 2 EStG). The federal and state governments each receive 42.5% of this income; 15% goes to the municipalities. In individual cases, trade tax may also be payable, which is one of the municipalities' main sources of income. It is precisely in these cases that a need for reimbursement arises for the municipalities.

<sup>103</sup> REGULATIONS COMMISSION REGULATION (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

introduction of such a new funding instrument within the framework of Cohesion Policy would outweigh the comparatively limited benefits presented.

### 3. Options for the Governance of Structural Policy



The substantive focus of this research project is on the action options presented below, which have been identified for the future design of the governance of Cohesion Policy. The developed options are based on the preliminary surveys, analyses, and expert exchanges. Suggestions for the future design of substantive objectives, such as the political goals, were developed with regard to the design of governance. The aim of the project is not to design the technical funding content of a future Cohesion Policy from a German perspective; therefore, the focus is primarily on the structures, instruments, and procedures.

The options presented here aim to maintain the fundamental and proven structures of Cohesion Policy and improve them where necessary. This provides a combination of continuity and optimization, thereby adhering to the principle of subsidiarity, which is reflected in multi-level governance and the partnership principle of Cohesion Policy.

The research project advocates for maintaining the existing territorial framework, keeping Cohesion Policy open for the further development of all regions, and understanding the "strengthening of strengths" and the "exploitation of opportunities" as central components of transformation. The goal is to address "transformation stress" in all regions and simultaneously support "transformation opportunities" with the help of Cohesion Policy. Between securing and enhancing competitiveness and shaping the transformation, there is no contradiction, but rather complementarity, even in structurally weaker regions. European Cohesion Policy defines the need for action for opportunity-oriented investments, on the one hand, for specific transformation needs in structurally weaker regions, and on the other hand, along strategic goals (Twin Transition, competitiveness). Here, it is important to shape future viability<sup>104</sup> and ensure the preservation and development of relevant economic competencies and infrastructures.<sup>105</sup> The governance element of the RIS3 shows how the strategic alignment can succeed.

In situations where long-term sustainability or infrastructure projects must be carried out over multiple funding periods, continuity also has a favorable impact. When optimizing, the target groups of Cohesion Policy should be taken into consideration. It is precisely here that specific competencies and capacities for application and project implementation within the framework of the ERDF are required, which are only insufficiently available, especially in structurally weaker regions with municipalities that have inadequate financial resources. Overloads due to regulatory changes should also be avoided in project management. Conversely, one must refer to the high transformation costs of a fundamental reform of the ERDF, as evidenced by the introduction of

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<sup>104</sup> Cf. for example Bertelsmann Stiftung: „Technological capabilities and the twin transition in Europe Opportunities for regional collaboration and economic cohesion“. Berlin, 2023. [Technological capabilities and the twin transition in Europe \(bertelsmann-stiftung.de\)](https://www.bertelsmann-stiftung.de/en/research/technological-capabilities-and-the-twin-transition-in-europe); last access on 20.08.2024.

<sup>105</sup> The Federal Constitutional Court, in its statements on the equivalence of living conditions (Grundgesetz (Basic Law) Art. 20, paragraph 1), also sees a need for action [by the federal government] where living conditions diverge in a way that significantly impairs the social fabric or where this becomes apparent.

the RRF as a new central instrument for investment promotion.<sup>106</sup> In order to make the existing limited administrative capacities for application and implementation more efficient in terms of applying for and processing more projects with the same staffing levels, the regulations for the application, approval, and processing of projects must be simplified consistently at all levels (EU, federal, and state) and for all phases. Less regulation would mean more projects. This would also reduce and resolve the backlog of unspent and unallocated funds in Cohesion Policy.

From the perspective of the research project, the following elements should be part of future governance in terms of continuity and optimization to ensure the effectiveness of European Cohesion Policy:

- an optimized and simplified multilevel governance,
- an increased thematic focus of the topics supported in the individual programmes,
- a strong directionality and thus alignment of funding with the strategic fields of the respective region,
- the maintenance of the general eligibility for funding for all regions,
- increased participation and involvement of stakeholders to develop effective solutions as well as
- the maintenance of high standards in the rule of law and transparency.

A clear emphasis is also placed on transformation and innovation as priority factors in future Cohesion Policy, as well as the development of effective regional investment plans for governance and goal attainment, ensuring impact and providing solutions for stagnating regions.

The options of action were developed in the spirit of this combination of continuity and optimization. In doing so, they are assigned to thematic clusters corresponding to the governance of Cohesion Policy, its structures, as well as its instruments and procedures. Further courses of action involve optimizing existing strategies and strengthening the regions.

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<sup>106</sup> The effectiveness and relevance of the results-oriented financing associated with the ARF and the associated requisites of structural (legal) changes still need to be examined.

Strategies and Goals	<p><b>Optimisation of existing strategies</b></p> <p>Action Option 1: Further develop the foundations for a more strategic cohesion policy</p> <p>Action Option 2: Exploiting synergies with other cohesion policy programs</p>	<p><b>Recommendations for the future design of Cohesion Policy target architecture</b></p> <p>Action Option 3: The Future Design of Cohesion Policy Target Architecture</p>
	<p><b>Action Options for the strategic-institutional development in the field of innovation</b></p> <p>Action Option 4: Strengthen the role of RIS3 as a central strategic foundation of regional innovation policy</p> <p>Action Option 5: Network RIS-3 strategies with other (national) strategies to increasingly leverage synergies in funding opportunities</p>	<p><b>Recommendations for Strategic-Institutional Development in the Field of Sustainability</b></p> <p>Action Option 6: Align the target architecture in the climate and environmental sector more effectively with the Green Deal</p> <p>Action Option 7: Nature-based solutions in the context of supporting climate protection, climate adaptation, biodiversity conservation, and disaster risk reduction</p>
Implementation	<p><b>Linking Cohesion Policy with Structural Reforms</b></p> <p>Action Option 8: Optimization of institutional frameworks to enhance the effectiveness of RIS3</p> <p>Action Option 9: Link Cohesion Policy with structural reforms</p>	<p><b>Strengthening the Regions</b></p> <p>Action Option 10: Strengthen the spatial approach</p> <p>Action Option 11: Improve the foundations for successful cross-regional cooperation</p> <p>Action Option 12: Strengthen the participation of municipal and civil society actors in Cohesion Policy</p>
	<p><b>Instruments and Procedures for Implementing Cohesion Policy</b></p> <p>Action Option 13: Performance-based reimbursement (Performance-based approach)</p> <p>Action Option 14: Expansion of the application of flat rates</p> <p>Action Option 15: Utilize the potential for simplification through digitalization more effectively.</p> <p>Action Option 16: Enable experimental and risky projects, introduce scaling</p> <p>Action Option 17: Increase the visibility of the ERDF in the regional public</p>	

*Figure12: Overview of Action Options*

Source: Own representation.

### 3.1 Optimization of existing strategies

#### Action option 1: Further develop the foundations for a more strategic Cohesion Policy

##### Derivation

In the context of strategic capability, during times of great upheaval and geo-economic uncertainties, the abilities for forward-looking strategy development – both for thematic focal points and instrumental support approaches – play an increasingly important role. This requires a forward-looking (regional) strategy and program development, as well as a more thorough ex-ante evaluation of the intended intervention logic. Only in this way can the strategic capability and quality of the programmes be structurally optimized and aligned with the exogenous framework conditions from an expert perspective.

##### Recommendation

In strengthening regional foresight processes, the ex-ante use of theory-based impact models in program design, and the reintroduction of binding ex-ante evaluations, concrete approaches are seen to further enhance the strategic capability and goal orientation of Cohesion Policy. The following aspects are derived from this in order to implement the option:

- **Establishment of regional foresight processes for strategic program preparation:** Foresight generally involves the structured identification and analysis of scenarios, trends, as

well as challenges and opportunities, in order to make more informed decisions, create dynamic policy coherence, and shape the future through present actions. When applied to regions and cohesion strategy, foresight, also known as strategic foresight, permits seeing from the present into the future and then returning to measures that should be taken in the present. To further enhance the suitability of future cohesion programmes in terms of anticipatory structural policy, an addition of elements of regional foresight to the already mandated socio-economic analysis and SWOT analysis in the regulation is recommended. The Foresight perspective has been given too little importance in the previous SWOT analyses. This way, these analyses can provide the basis for developing the central overarching justification for funding priorities and thus for creating the program strategy.

- **Use of theory-based impact models in programming:** So far, theory-based impact models are mostly reconstructed in ex-post evaluations and applied to assess the impact of Cohesion Policy programmes. However, the potential applications and benefits of this form of thinking and structuring are not yet exhausted. Moreover, it is advisable to design theory-based impact models for measure development during the programming of the ERDF programmes, in order to make ex-ante judgments about the assumed impact mechanisms (causal assumptions), important assumptions about the necessary prerequisites for the effectiveness of the measures, as well as the potential influence of exogenous factors on the measures and their effectiveness. With the help of these "theories of change," it would then be possible to implement better ex-post evaluations of the effectiveness of the interventions.
- **Reintroduction of ex-ante evaluations running parallel to programming:**<sup>107</sup> In addition to the two action options, the review team advocates for the reintroduction of ex-ante evaluations, which should be implemented in parallel with programming by independent experts. This should be about three critical questions: (1) Program logic & objectives: Are the programmes and decisions regarding program design based on a logical intervention approach and do they adequately consider transformation through innovation and contributions to (regional) competitiveness in a sufficiently forward-looking manner?, (2) Compatibility of resource allocation: Are the available financial and personnel resources sufficient/appropriate to achieve the program objectives?, (3) Implementation Plan & Monitoring: Is there an implementation plan with detailed steps, clear task assignments, and deadlines for measuring progress and conducting an interim evaluation? (Performance-based approach) The recommendations and audit mandates of the ex-ante evaluators should be binding and accessible to the professional public (e.g., the accompanying committees such as the advisory board).

With a view to establishing regional foresight processes for strategic program preparation, the ERDF regulation could be supplemented regarding the implementation of a socioeconomic

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<sup>107</sup> Cf. Saublens, Christian, Mathieu Doussineau und Yilmaz Ozmen (2024): Rethinking regional policies into an 'applied science' using data-driven approaches and evidence-based decision making. A contribution to the debate on how to enhance the implementation of the future EU Cohesion Policy. Available at: <https://www.foroadr.es/todas-las-noticias/18111-eurada-rethinking-regional-policies-into-an-applied-science-using-data-driven-approaches-and-evidence-based-decision-making>.

analysis and SWOT. Here, it should be defined what regional foresight processes should include and what minimum requirements should be set for them. The same applies to the requirement to optimize program strategies and measures using theory-based impact models. Regarding the reintroduction of ex-ante evaluation as a mandatory and decisive process step, including the verification of the underlying theories of change of the programmes, reference can be made to Recital 53 and Article 55 of the CPR 2014-2020.

## **Action Option 2: Utilize synergies with other programmes for Cohesion Policy**

### Derivation

Strategic measures of transformation, such as securing the innovation location through the establishment of large industrial companies, point to an increasing need for coordination between European funding programmes. Beyond the interfaces between the ERDF, JTF, and RRF, the use of synergies across program boundaries must therefore be increasingly considered. This applies to cohesion policy and the centrally managed Horizon Europe, as well as to EAFRD as one of the funding instruments of the Common Agricultural Policy (CAP). A targeted bundling of efforts is, on the one hand, supported by the European Commission through the coordination of program planning based on the EU missions. These provide – reflecting the various regional conditions – a good orientation for the development of the RIS3 and for the strategic alignment of the respective ERDF programmes. The European Commission has identified various approaches to utilizing synergy potentials in a "Synergies Guide," such as an excellence seal, the transfer of funds from the ERDF to Horizon Europe, or the accumulation of funding. However, these concepts prove to be too abstract and only partially implementable in practice. It is therefore up to the managing authorities to decide on a case-by-case basis and in a practical manner to what extent such synergies can be strengthened in the future.

Especially with regard to a coherent promotion of regional needs, significant synergies for transformation support measures arise here, both in terms of regional economic transformation. This is particularly true for a coherent promotion of cities and rural areas as regional partners. Examples of this include the topics of mobility and tourism, as well as the promotion of crafts in rural areas. Comparable synergy potentials are evident in the areas of climate protection, renewable energies, and circular economy in connection with sustainably oriented agriculture and forestry. Beyond the coordination of target corridors, there are positive experiences in some states (Lower Saxony) with multi-funds that are fed by different cohesion policy funds. It is precisely through this that valuable supplementary harmonizations of the regulations and the temporal synchronization of funding calls arise.

### Recommendation

The coordination needs outlined above between Cohesion Policy and other programmes should not only originate from Cohesion Policy itself but also be actively supported by other EU policies, which are generally "place-blind". Potential territorial effects of these policies must be taken into account during their programming and implementation in line with the principle of "Do no harm to cohesion." To achieve the greatest possible synergies, appropriate coordination should be demanded from the European Commission. This also applies to the diversification of financial resources and funding sources.

One strong synergy repeatedly highlighted in the study involves the close alignment of Cohesion Policy funding priorities with those of the EAFRD (European Agricultural Fund for Rural Development). Reintegrating the EAFRD into the overarching regulation does not seem strictly necessary if it is possible to synchronise the timing of the EAFRD and the ERDF (European Regional Development Fund) again and to further advance the harmonisation of regulations in the legal framework from 2028 onwards.

Existing close contacts between the European Commission and the managing and implementing authorities of Member States should be utilised as needed for these purposes. It may also be useful for the European Commission to involve its respective EAFRD departments in exchanges with the ERDF's managing and implementing authorities on a case-by-case basis. Systematic coordination of objectives, particularly between the territorial instruments of the ERDF and the complementary funding measures of the EAFRD, could instead occur at the national level between managing authorities to ensure multidimensional use of resources. This could involve aligning funding measures or appropriately scheduling funding calls to facilitate complementary actions.

For structurally weak regions, a supplementary alignment with the possibilities of the Just Transition Fund (JTF) is recommended. Additionally, supporting bottom-up approaches from beneficiaries planning complementary applications under the ERDF and Horizon Europe could be envisaged. Similarly, the Regional Innovation Valleys initiative and funding for European value chains could offer potential synergies (cf. Case Study 5). Reflection on experiences with lump-sum funding under Horizon Europe since 2018 or new options for personnel cost accounting introduced in 2024 could also prove helpful.

Given varying prior experiences across countries, flexible options tailored to individual needs are recommended for implementing these measures. If synergy potentials are identified between the two managing authorities and integrated into their respective programming, it may be beneficial to involve the respective monitoring committees, potentially even holding joint meetings. Based on positive experiences, a more far-reaching step could involve, depending on the countries' needs, establishing coordinated funds between the ERDF and EAFRD and structurally strengthening cooperation between their managing authorities.

Regardless of specific funding structures, a recommendation also exists to organise regional coordination events for beneficiaries of both funding programmes. These events would promote information and experience exchange while identifying potential synergies on the ground. Good practices could be used to raise stakeholder awareness about the synergistic use of funding programmes and encourage combined applications. Suitable advisory services should be provided for this purpose. Ultimately, such coordination events could also support experience exchange at the management authority level regarding LEADER regions, which have been successfully implemented as CLLDs (Community-Led Local Development) under the EAFRD for many years.

Finally, for structurally weak regions, it would be beneficial to consider cross-references to funding options under the GFS within the framework of federal-state coordination.

### 3.2 Action Options for the future design of Cohesion Policy target architecture

#### Action Option 3: The future design of the cohesion policy target architecture

##### Derivation

A more intense debate has recently been sparked about the strategic direction of cohesion policy and the corresponding target architecture. While selected authors, referring to the so-called "Tinbergen Rule" from 1952, identify an inflation of objectives within cohesion policy and call for a drastic reduction of goals in terms of "one policy objective – one policy instrument,"<sup>108</sup> others confirm the necessity of a broader set of objectives and the simultaneous addressing of various aspects of social, economic, and territorial cohesion. This happens against the backdrop of changing target architectures over the funding periods, which have already numerically reduced from 11 thematic goals in the 2014-2020 funding period to five priority goals in the 2021-2027 funding period.

It is undisputed that regional development processes are complex and the challenges vary from region to region (both within Germany and even more so across EU member states), which justifies a flexible and more comprehensive target architecture from an expert perspective. A central strength of the structures of cohesion policy remains that the strategies and programmes of the states differ in this concentration and the focus on the themes in the programmes due to the divergent conditions. Such a process, including the focus and concentration of the resulting support measures, should be strengthened in the future.

It is critical that a significant concentration of objectives within the individual ERDF programmes is carried out, meeting regional needs in the sense of a "place-based policy" approach. At this level of governance, decisions are made about the effectiveness and appropriateness of the resources used, not at the level of the overall target architecture. This does not simultaneously mean that an unconsidered expansion of the target architecture is sensible and that the consolidation or stronger integration of the objectives should be addressed.

##### Recommendation

Following the fundamental understanding of a future cohesion policy, the expert team sees the task of RIS3 as developing targeted approaches for regional development, transformation, and innovation according to specific needs. The RIS3 thus follow a holistic target architecture, on the basis of which the objectives of cohesion policy can be translated into synergistic funding measures, thereby making a significant contribution to the overarching EU priorities. These are currently the Green Deal<sup>109</sup>, the digital agenda<sup>110</sup> and a socio-ecological transformation including

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<sup>108</sup> Peter V. Schaeffer: A Note on the Tinbergen Rule; [A Note on the Tinbergen Rule \(peterschaeffer.com\)](http://peterschaeffer.com) (last access on 12.09.2024).

<sup>109</sup> [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal_en).

<sup>110</sup> [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age_en).

demographic change<sup>111</sup> (priorities of the European Commission 2019-2024<sup>112</sup>). Such a holistic approach is also suitable for tracking the new emphases expected for the ERDF. Thus, the "Political Guidelines 2024-2029" of Commission President von der Leyen include various ERDF-relevant priorities such as the goals of a Clean Industrial Deal, the strengthening of innovation and productivity through the diffusion of digital technologies, the creation of sustainable competitiveness, and the reduction of labor shortages.<sup>113</sup> The task of RIS3 becomes even more important as the foundation of the programmes for the implementation of these overarching goals, to set impulses, leverage synergies, and/or promote model approaches that drive innovation and transformation. With regard to the different regional conditions, there is a higher demand for measures in developed regions, while the aforementioned requirements are less extensive in structurally weak regions.

Building on a **holistic target architecture**, cohesion policy can simultaneously achieve multiple positive effects through appropriately designed funding strategies and measures. For this purpose, the following approaches should be pursued within the **framework of future governance**:

- **Concentration of funding:** With regard to the effectiveness of cohesion policy, on the one hand, a concentration of funding is of utmost importance, particularly in the more developed regions. To optimize the effectiveness and relevance of the funding programmes, the resource allocations must be appropriate in relation to the target to be achieved and the subject to be addressed.
- **Content focus of the operational programmes:** Additionally, the governance system should ensure a thematic focus for the state programmes. The EU sets the thematic framework through the regulations, from which the states select the elements that best suit their objectives, starting conditions, and instruments, and then incorporate them into a coherent strategy. It is conceivable that the managing authority could set a minimum requirement for programming that must not be undercut. The minimum requirement could look as follows: Each theme selected in the programme must represent at least x% of the programme volume. This would mean that the states' programmes would address a diverse range of goals and themes, but remain focused and concentrated at the level of the individual programme. This approach could counter the criticism of target inflation in cohesion policy.
- **Strengthen RIS3 as a governance element in the target architecture:** The coordination approach of RIS3 is a suitable governance element to meaningfully link thematic and regional focus in terms of competitiveness. An extension of this approach to the different transformation priorities of cohesion policy is a sensible way to avoid singular measures through concentrated programmes with a multidimensional target architecture and to enable cross-references. Through this broad thematic orientation, the diverse needs in the very

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<sup>111</sup> [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/economy-works-people\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/economy-works-people_en).

<sup>112</sup> [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024_en).

<sup>113</sup> [https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648\\_en?filename=Political%20Guidelines%202024-2029\\_EN.pdf](https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648_en?filename=Political%20Guidelines%202024-2029_EN.pdf).

different European regions can be flexibly addressed in the programmes. Synergies between the individual POs can thus be utilized, for example, in the use of innovative approaches to energy efficiency, to address innovation, economy, ecology, and social concerns.

- **Prioritisation of pilot projects with model character:** Especially for the more developed regions of the EU, funding under the cohesion policy should be even more focused on projects with pilot or model character – across all target areas of the programmes. In conjunction with the approach of concentrating resources and focusing on content, embedded in the strategic framework of RIS3, the impetus-giving character of cohesion funds can thus be strengthened, which should also contribute to effectiveness. Particular importance should be given to projects that combine multiple goals and are aimed at achieving multiple positive effects. This means that projects with a model character and broad impact should be prioritised. This would, for example, exclude grant-based funding for the energy-efficient renovation of public buildings with market-established renovation solutions, but would open up the possibility of funding innovative pilots for an efficiency building.

As governance steering instruments, the following approaches could be considered: Article 5 "Political Objectives" of the Framework Regulation<sup>114</sup> and Article 3 of the ERDF Regulation<sup>115</sup> "Specific Objectives of the ERDF and the Cohesion Fund" could be continued in a slightly adapted form and aligned with the priority objectives of the European Commission.

A significant consolidation is not necessary from an expert's perspective. However, the role of RIS3 should already be anchored here and expanded in accordance with the requirements within the framework of the basic prerequisites. (Article 15 of the Roof Regulation plus Annex). Additionally, Article 4 "Thematic Concentration of ERDF Support" of the ERDF Regulation must take into account the above-mentioned concentration and thematic focus approaches. Similarly, the prioritisation of pilot projects with model character, especially in the more developed regions, should be established here or through a separate article by means of funding determination and quotas.

### **3.3 Action Options for the strategic-institutional development in the field of innovation**

#### **Action option 4: Strengthen the role of RIS3 as a central strategic foundation of regional innovation policy.**

##### Derivation

The RIS3 have established themselves since their mandatory introduction in 2014 and have been integrated into the strategic processes of the states and regions in Germany. While the requirements and their interpretation in the first funding period after introduction (2014-2020) were still quite rigid (e.g., maximum number of priorities, narrow understanding of the

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<sup>114</sup> <https://eur-lex.europa.eu/legal-content/DE/TXT/HTML/?uri=CELEX:02021R1060-20240301#tocId7>.

<sup>115</sup> <https://eur-lex.europa.eu/legal-content/DE/TXT/HTML/?uri=CELEX:02021R1058-20240301#tocId10>.

entrepreneurial discovery process, etc.), they have been simplified and focused on some basic guidelines for the current funding period 2021-2027. Such an approach allows the member states and regions to develop the RIS3 according to their own structures, processes, and needs. Instead of detailed management, the strategic guidelines take center stage, within which states and regions must operate. If the evaluation of the strategies by the European Commission is less oriented towards detailed catalogs of requirements and more towards whether they can help to enhance the innovation potential in the regions, it ultimately enables the establishment of the best possible strategies for the respective territories.

Innovation policy is currently characterized by a wave of new policy instruments at the EU and federal levels on one hand, and the increasing importance of a new policy paradigm centered around mission orientation, directionality, and transformation on the other. At the European level, the Partnerships for Regional Innovation (PRI) and the Regional Innovation Valleys (RIV) were recently launched, while in Germany, the Federal Agency for Disruptive Innovation (SPRIND) is joined by Transfer Bridges, Innovation Regions, and the German Agency for Transfer and Innovation (DATI). In addition, numerous thematic or sectoral strategies and initiatives, such as the Green Deal and the Horizon Europe missions at the European level or the missions at the federal level, are added.

How do cohesion policy and RIS3 relate to these new innovation policy ideas and instruments? For the regional level, the RIS3 play the central role in sorting the multitude of initiatives from different levels for the locally important fields of innovation. It serves as a comprehensive strategy platform that organizes the field of innovation policy funding instruments from the perspective of regional actors and consolidates them for regional innovation activities.

The mission orientation, in turn, and the idea of aligning innovation policy with transformation goals and thus giving it directionality – as opposed to "random" "technology openness" – is not only compatible with cohesion policy but is already inherent in it.<sup>116</sup> The question here is less whether mission orientation takes place, but rather where: Which and how many goals are pursued and where are they set? It is important that specific technology fields are not imposed as a specialization from above, but rather that regional actors can determine these for themselves according to the potentials revealed in their "entrepreneurial discovery process." These can then be aligned with the overarching missions and transformation goals of the EU or the federal government, but they do not have to fully comply with them. Bottom-up directionality ensures that priorities are set, aligning them not only with missions and transformation goals but also with the aim of regional competitiveness.<sup>117</sup>

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<sup>116</sup> Cappellano, Francesco; Molica, Francesco; Makkonen, Teemu (2023): Missions and Cohesion Policy: Living separate or dancing together? JRC Working Papers on Territorial Modelling and Analysis No 02/2023. Available at: <https://publications.jrc.ec.europa.eu/repository/handle/JRC133366>.

<sup>117</sup> Atkinson, Robert D. (2023): In the next Framework, the EU needs to get back to economic basics. Science/Business. Available at: <https://sciencebusiness.net/viewpoint/planning-fp10/viewpoint-next-framework-eu-needs-get-back-economic-basics>.

### Recommendation

The governance approach of RIS3 is fundamentally the right approach for cohesion policy. It offers the opportunity to meaningfully link mission orientation, transformation orientation, enhancement of competitiveness, and consideration of the different innovation potentials in German states and their regions. However, the RIS3 should be further developed as a fundamental prerequisite. The guidelines for the RIS3 should be kept simple. More important than detailed guidelines from the European Commission is the fundamental requirement that there is, in general, a regional innovation strategy that serves as a guide for the implementation of cohesion funds. The "basic requirements" from the funding period 2021-2027 are heading in the right direction, but remain somewhat vague in their formulation.

An explicit transformation orientation should henceforth be part of the RIS3 and the connection to transformation should be established in each specialization field – as far as it makes sense. The concrete implementation of the transformation reference should be left to the regions to ensure regional suitability. The mandating of additional strategies, such as specific transformation strategies, should be avoided to prevent unnecessary complexity.

It doesn't need more strategies, but more strategic capability. While the RIS3 process is well established in strategy development, its implementation into concrete policy plans is still often lacking.<sup>118</sup> This gap between strategy development and implementation needs to be reduced. The RIS3 development must therefore precede the program development. In this context, a systematic inventory of the policy toolbox within the ERDF, but also beyond, is to be created through mapping existing instruments and analyzing the gaps in an extension of the RIS3. This aligns the existing instrument landscape with the goals and intervention logic of RIS3 and identifies which instruments should be maintained, expanded, modified, discontinued, or newly created.<sup>119</sup>

To strengthen the role of RIS3 as a central strategic foundation of regional innovation policy, they should be effectively integrated into the communication and decision-making structure of the ministries. Under the guiding principle that a successful and future-oriented innovation policy is best achieved together, a "RIS3 Steering Group" should be established. This steering group should consist of the relevant specialist departments of a country. Furthermore, additional innovation-relevant actors (intermediaries, innovation support institutions, development banks, etc.) should be part of the steering group. Additionally, close involvement of cluster organizations is recommended, which can ensure the continuous engagement of the private sector. The cross-departmental, systemic collaboration in the states (coordination between departments,

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<sup>118</sup> Foray, Dominique (2023): Innovation policy and directionality – a case for policy engineering. JRC, European Commission. Available at: <https://s3platform.jrc.ec.europa.eu/en/w/innovation-policy-and-directionality-a-case-for-policy-engineering>.

<sup>119</sup> See chapter 2 in Matusiak, Monika; Radovanovic, Nikola; Nauwelaers, Claire; Kaczkowska, Katarzyna; Kramer, Jan-Philipp (2022): Smart Specialisation implementation framework for the EU Enlargement and Neighbourhood Region. JRC Science for Policy Report. Available at: <https://op.europa.eu/en/publication-detail/-/publication/cbc84276-b551-11ec-b6f4-01aa75ed71a1/language-en>.

recognizing building support measures distributed across departments, systematic logical support chain) should also be further strengthened by establishing interministerial working groups.

The coordination is taken over by a lead department that organizes the meetings of the steering group. The steering group should meet frequently enough, e.g., 4-6 times a year. The operational tasks of the steering group should include the coordination of the ERDF program topics, the alignment with innovation-relevant funding guidelines, or the substantive and conceptual further development of the RIS3.

In addition, innovation and expert forums on RIS3 should be prepared and conducted to explicitly achieve high stakeholder participation. Crucial for the significance of the RIS3 is its integration into the political decision-making structures. Therefore, the proposals and recommendations of the steering group should be regularly presented in an interdepartmental meeting of state secretaries and decided upon there.

To implement the requirements for RIS3 proposed here, the criteria already existing in the basic prerequisites (Annex IV to Article 15, paragraph 1, PO 1.1) must be adjusted. The transformation orientation and the analysis of the existing and necessary policy instruments would need to be integrated there.

### **Action option 5: Network RIS-3 strategies with other (national) strategies to increasingly leverage synergies in funding opportunities.**

#### Derivation

Since their mandatory introduction in 2014, the RIS-3 strategies have increasingly developed into central strategic documents of the states. This also applies to states that, in addition to the Operational ERDF Program, implement further, their own funding lines. At the same time, there are various national, as well as regional and municipal strategy documents. With regard to the RIS strategies and their respective programming, however, their lack of complementarity often becomes apparent, also reflecting the statements from the stakeholder consultation. Also mentioned is the great variety of different funding instruments, which makes it difficult for applicants (and especially for municipalities) to find the optimal funding format. Also within the framework of the expert workshop, discussions were held on how to achieve an integration of the RIS-3 strategies, particularly with the strategies of the various federal ministries, in order to identify and strengthen synergies between the respective funding options.

The focus is on the coherence between the funding measures of the federal government and the states, as well as the respective operational programmes of cohesion policy. There is consensus that such complementarity, as well as the use of coordinated support approaches and instruments, contribute to mutually strengthening the respective support objectives in their implementation. This applies vertically to an enhanced strategic alignment between the federal government and the states regarding funding objectives, the respective funding items, and the instruments used for them, as well as with a view to a coordinated sequential, chronological sequence of funding measures.

Additionally, especially with regard to the tasks of transformation, it is important to adopt a horizontal perspective, i.e., to align the funding measures between cohesion policy (with its territorial instruments) and the national instruments of regional policy. In this context, "regions"

should be understood as economic areas beyond administrative structures, and national and European value chains should also be considered to ensure the most effective, complementary use of the various instruments at different levels.

From this perspective, a collaboration between the ERDF and the Joint Task for the Improvement of Regional Economic Structures (GRW) or the programmes within the framework of the Federal German Funding System for Economically Weak Regions (GFS) can indeed represent a success model. A first point of connection for this is the linking of the strategy processes of cohesion policy (RIS3) with the diverse technical strategies of the specialized departments and the associated funding programmes at the national level<sup>120</sup>, which could aim at a mutual coordination of spatial structures, funding objectives, and their budgets and instruments in the ERDF programmes.

### Recommendation

This course of action builds on the above-mentioned options 1 and 4, which aim, among other things, to strengthen the RIS-3 strategy process and to create the RIS-3 strategies early through the consistent use of foresight instruments. This provides a substantive and temporal starting point for early identification of strategic synergies and complementarities between the (planned) ERDF and national funding programmes. This applies with regard to complementary focal points, the use of coordinated funding instruments, and a coordinated timeline for funding calls, especially for complex and long-term transformation projects. On this basis, the funds available under the respective ERDF programmes could be concentrated on model projects, which could then be sustainably supported through follow-up financing and disseminated as good practices.

For the implementation of this recommendation, a coherence analysis is initially proposed, which, according to the methodology of Policy Coherence Analysis, allows for a criteria-driven scanning of the relevant strategies and associated funding programmes in the first step. The initial goal is to systematically capture, both vertically and horizontally, for each overarching thematic field, whether and, if applicable, which responsibilities exist at the respective levels, as well as which funding programmes and budgets are each provided. Based on agreed criteria (e.g., minimum budget sizes), the identification of thematic areas with relevant synergy potentials in the funding programmes is carried out accordingly. In a second phase, a qualitative assessment of these selected strategic areas and their funding programmes follows.

The respective (interim) results could be presented within the framework of a Federal-State Dialogue and bidirectional recommendations coordinated. It is conceivable to expand the tasks and the participant group of the federal and state government Working Group for Synergies Dialogue (SynBLAG) to include the topic of cohesion policy, specifically the ERDF (represented by

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<sup>120</sup> See for example: [Gleichwertigkeitsbericht 2024, Berlin 2024](https://www.bmwf.de/SharedDocs/Publikationen/de/bmwf/1/730650_Zukunftsstrategie_Forschung_und_Innovation.pdf?blob=publicationFile&v=4) [https://www.bmwf.de/Redaktion/DE/Publikationen/Wirtschaft/gleichwertigkeitsbericht-der-bundesregierung-2024.pdf?blob=publicationFile&v=78](https://www.bmwf.de/SharedDocs/Publikationen/de/bmwf/1/730650_Zukunftsstrategie_Forschung_und_Innovation.pdf?blob=publicationFile&v=4) [bmwf.de](https://www.bmwf.de/SharedDocs/Publikationen/de/bmwf/1/730650_Zukunftsstrategie_Forschung_und_Innovation.pdf?blob=publicationFile&v=4). (last access: 11.10.2024); BMBF: Zukunftsstrategie Forschung und Innovation. See: [https://www.bmuv.de/bmu/de/home/file/fileId/1014/name/DAS\\_2024\\_Beteiligungsfassung](https://www.bmuv.de/bmu/de/home/file/fileId/1014/name/DAS_2024_Beteiligungsfassung).

the managing authorities). Here, the aforementioned coherence analysis with initial and interim results should be presented, and based on this, the identified complementarities should be optimized in the discourse. It is conceivable to explore points of connection between Horizon Europe and the ERDF programmes, especially in these committees. For both of the tasks mentioned here, it would be of interest to identify suitable examples of good practice in Europe. Ideally, follow-up financing at the federal or state level for EFRE-funded model projects can be clarified in this way, also to increase planning security for all parties involved. In this context, the SynBLAG or another suitable body could also serve as a forum for the exchange of experiences and the presentation of good practice models between the administrations of the various funds or funding programmes. Regarding the availability of corresponding complementary funding, including the respective deadlines, the relevant target groups could be informed early and good practices could be presented. Regarding the implementation of territorial instruments of the ERDF and existing funding programmes at the national level, it should be considered to what extent a suitable integration of forums of the Association of German Cities and Towns as well as the German District Association is appropriate for this topic area, especially with regard to funding programmes for urban development and infrastructure projects.

### **3.4 Recommendations for Strategic-Institutional Development in the Field of Sustainability**

European Cohesion Policy has also been a key financial instrument for supporting the European Union's climate and environmental policy and sustainable development in the sense of the 2030 Agenda for some time now. This is evident not least in the mandatory climate expenditure quota introduced in 2014, as well as the binding spending target for biodiversity established in 2021. The latter applies to the entire Multiannual Financial Framework (MFF), including cohesion policy. Without this targeted alignment, particularly under the current political objective 2, the Green Deal, which also pursues the 2030 Agenda as well as the EU's climate and environmental goals, could not be effectively implemented in all regions. At the same time, cohesion policy contributes to strengthening economic, social, and territorial cohesion – its central objective according to Art. 174 TFEU. Currently, the European regions are facing particular challenges in managing the historical transformation to a digital, low-carbon, and sustainable economy.

The following proposed courses of action for the further development of environmental and climate-related funding within the framework of cohesion policy focus, firstly, on the importance and thematic orientation of environmental and climate issues, and secondly, on the conditions and possibilities for successful implementation of ecological transformation in conjunction with other regional policy objectives.

## **Action Option 6: Align the target architecture in the climate and environmental sector more effectively with the Green Deal.**

### Derivation:

The particular relevance of the diverse climate and environmental policy challenges and the resulting significant needs for a green transformation demonstrate that the Green Deal represents an important framework for cohesion policy more than ever (see Chapter 2.2). High and increasingly rising demands (e.g., disaster prevention, adaptation to climate change, expansion of renewable energy sources; preservation of biodiversity) are already becoming apparent today in light of the intensification of environmental and climate policy issues.<sup>121</sup> These also affect social cohesion (e.g., high energy prices), prosperity, and economic performance (e.g., regions particularly affected by climate change); Damage to people, nature, assets; Impairments to the economy-related infrastructure).

### Recommendation:

The target architecture for climate and environmental issues that can be addressed by cohesion policy in the future should fundamentally align with the thematic orientation of the Green Deal. The eight specific objectives eligible for funding under the current ERDF regulation in the OP 2 already show a high degree of alignment with the Green Deal. In principle, the funding opportunities for these topics should therefore be maintained (energy efficiency/greenhouse gas reduction, renewable energies, energy systems, grids and storage, adaptation to climate change/disaster prevention, water, circular economy, protection and preservation of nature and environmental protection, biodiversity and green infrastructure, sustainable mobility). This spectrum of goals and themes is to be understood as a space of possibilities from which a precise selection can be made for the design of the programmes according to regional problems and potentials, and must be made in the sense of focusing. A "target inflation" in the individual programmes is therefore not to be expected with proper implementation. In addition, the measures in the climate and environmental sector should meet certain qualities given the limited resources in cohesion policy: they should have an innovative and/or stimulating and/or synergistic character.

In doing so, it should become easier than before to combine individual environmental goals and topics in order to leverage content-related synergies and simplify administrative processes. The continuity of eligible environmental goals and themes is also important in order to implement long-term (infrastructure) measures with lengthy planning and approval processes (even in steps over multiple funding periods).

The experiences described in the exchange with the managing authorities regarding the establishment of the ERDF programmes 2021-2027 in Germany show that effective and targeted governance also depends on the appropriate formulation of objectives and funding areas within

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<sup>121</sup> German Environment Agency, Federal Agency for Nature Conservation (2024): SCIENTIFIC OPINION PAPER For a green and just transition in Europe - Recommendations for EU environmental and climate policy for the years ahead.

the framework of the EU's regulatory provisions. For this reason, the following outlines some relevant points from the funding spectrum of climate and environmental goals that appear to be in need of improvement.

### **Energy**

For the reduction of greenhouse gases caused by energy consumption, the promotion of energy savings, energy efficiency, renewable energies, as well as storage and networks is central. Additionally, the decarbonization of particularly energy-intensive industries, as well as the building and transportation sectors, should be supported. This includes the promotion of relevant innovations as well as support aimed at specific regional impulses or synergy effects. At the same time, the support for technologies that are counterproductive (fossil fuels) or highly risky (nuclear power) should be excluded.

Future regulations should facilitate the combined funding of various energy topics such as energy efficiency, renewable energies, energy networks, and storage. Future regulations should facilitate the combined funding of various energy-related themes, such as energy efficiency, renewable energies, energy networks, and storage systems. Currently, the separation of these themes poses a barrier to the programming of corresponding funding measures.

### **Circular economy**

The application of the circular principle in design and production processes is crucial to enable recycling, reduce waste, and mitigate health risks. In the future, the promotion of the circular economy should focus less on downstream waste treatment processes and more on the prevention of hazardous and non-recyclable substances. In the EU Action Plan for the Circular Economy, key production value chains are identified, which could be the focus of support. This includes: electronics and ICT, batteries and vehicles, packaging, plastics, textiles, construction and buildings, food, as well as water and nutrients. The topic of land recycling, which has been neglected in cohesion policy so far, should also be included. Supporting such an approach to the circular economy also requires diverse product and process innovations and should therefore be a priority area within the framework of supporting research, development, and innovation (e.g., in the sense of a "mission").

### **Water**

The cohesion policy promotion of the supply of good quality water and the prevention of water-related risks and damages should encompass a wide range of topics that reflect the diverse issues of water supply, freshwater quality/wastewater treatment, as well as the increased problems due to the climate crisis and the entry of hazardous emissions. This allows the regions to select the measures suitable for their needs and effectively contribute to improving living conditions as well as the economic quality of the location. In the current ERDF Regulation, the water issue is categorized as Specific Objective 5 under Political Objective 2 as "Promotion of access to water and sustainable water management." In the future, specific reference should be made to the various problem situations and the funding opportunities that are to be made possible within the framework of cohesion policy.

## **Mobility**

Sustainable, multimodal mobility should be promoted in the future by combining the goals of reducing climate- and health-damaging emissions (such as CO<sub>2</sub>, fine dust, nitrogen oxides, sulfur oxides, and ammonia), improving access for people with limited mobility, and ensuring affordability for everyone in urban and rural areas. With a focus on the EU strategy for sustainable and smart mobility<sup>122</sup> the emphasis should therefore be on public transport, the expansion of the public transport network (with a focus on transitioning from fossil to non-fossil fuels and the development of the corresponding charging and refueling infrastructure), as well as cycling and pedestrian traffic. At the same time, ineffective or potentially counterproductive measures, such as road construction or traffic management systems for car traffic, could be excluded. So far, behavior-oriented measures, which can complement technical measures well (e.g., on-demand transport that responds flexibly to customer requests, mobility managers, community buses), also appear to be underrepresented.

The previous objective formulation of the "promotion of sustainable, multimodal urban mobility within the framework of the transition to a CO<sub>2</sub>-neutral economy" in the ERDF regulation should be expanded to include rural areas or city-country mobility. It would also be advantageous to establish general priorities as described above and to exclude any potentially environmentally and climate-damaging measures. It would also make sense to credit the climate quota at 100% (currently only 50%). Mobility management and mobility behavior should also be able to be supported more easily and independently from investment measures in the future as non-investment promotion.

### **Action option 7: Nature-based solutions in the context of supporting climate protection, climate adaptation, biodiversity conservation, and disaster risk reduction**

#### Derivation

Due to increasing weather extremes as a result of climate change, there is a growing need for both preventive measures and coping strategies, as well as strengthening resilience. Nature-based solutions, such as the design of settlements according to the sponge city principle (retention of rainwater, greening of buildings, etc.), can mitigate heat stress and flood risks, simultaneously improve the quality of stay and recreation, create habitats for plants and animals, and also function as natural CO<sub>2</sub> sinks. Such synergy effects make them particularly effective instruments, superior to one-dimensional approaches.

#### Recommendation:

The importance of nature-based solutions (such as the renaturation of water bodies, brownfields, post-mining landscapes, recreational and leisure areas, peatland rewetting, and settlement design according to the sponge city principle) should be increased to more effectively support climate adaptation, disaster prevention, biodiversity conservation, disaster protection, the creation of CO<sub>2</sub> sinks, and the enhancement of recreational and leisure value. This should be achieved both

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<sup>122</sup> <https://eur-lex.europa.eu/legal-content/DE/TXT/HTML/?uri=CELEX:52020DC0789&from=EN>.

through funding objectives and measures that primarily target this (as previously under political objective 2), but also in terms of integration into funding objectives and measures as a cross-cutting objective, where nature-based solutions are integrated into "grey" measures (e.g., buildings, infrastructure).

Within the framework of future Common provision Regulation as well as the ERDF regulation, nature-based solutions should be anchored as priority design variants over "grey" solutions wherever possible and effective. Such combined funding should also be incentivised through financial rewards. For instance, this could include covering additional costs for synergistically impactful projects or providing 100% funding for environmental projects from the structural funds, with these projects contributing towards the environmental expenditure quota. The regulations and, where applicable, delegated acts should reflect the synergistic orientation of funding for nature-based solutions. This should be evident in the formulation of objectives, eligible activities, indicators, funding conditions, and intervention codes.

### **3.5 Linking Cohesion Policy with structural reforms**

#### **Action option 8: Optimization of institutional frameworks to enhance the effectiveness of RIS3**

##### Derivation

It has been shown that the innovation performance of the German states and European regions remains very different overall even after a decade of RIS3. The obstacles are numerous, as shown by the latest DIHK Innovation Report 2023, among many other studies.<sup>123</sup> Accordingly, particularly staff shortages and bureaucracy, but also the complexity of protection rights, lack of data access in the public sector, barriers to venture capital access, and lack of transparency in university collaborations, restrict the innovation activities of companies. The governance systems and the institutional framework are crucial for the effectiveness of Cohesion Policy in promoting innovation.<sup>124</sup> Many of these innovation barriers cannot be solved by the RIS3 itself, but they do represent important conditions for its chances of success.

##### Recommendations

From the perspective of the research project, it makes sense to link the RIS3 with the improvement of these framework conditions in a performance-based approach, which will benefit the regional

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<sup>123</sup> DIHK (2023): Innovationsbremsen lösen. DIHK-Innovationsbericht 2023. Available at: <https://www.dihk.de/resource/blob/106742/1ad5859c4e8d03d48642e3d5ec350cb4/dihk-innovationsreport-2023-data.pdf>.

<sup>124</sup> Mendez, Carlos; Bachtler, John (2022): The quality of government and administrative performance: explaining Cohesion Policy compliance, absorption and achievements across EU regions. *Regional Studies* 58:4. Available at: <https://www.tandfonline.com/doi/full/10.1080/00343404.2022.2083593> (last access: 20.08.2024). Rodríguez-Pose, Andrés; Di Cataldo, Marco (2015): Quality of government and innovative performance in the regions of Europe. *Journal of Economic Geography* 15:4. Available at: <https://academic.oup.com/joeg/article-abstract/15/4/673/2412411> (last access: 20.08.2024).

innovation ecosystems. A performance-based approach in RIS3 establishes the connection with structural reforms that lay the general foundations for innovation success. The empirical evidence is very clear here: without the creation of suitable framework conditions, the support and development approaches cannot be sufficiently effective. Therefore, the management of RIS3 should be linked to a clear agreement between the federal government and the states to eliminate innovation-restraining factors, which should be addressed through reforms in critical areas of the innovation environment. This could, for example, include the following factors that hinder innovation:

- Optimization of the potential for institutional cooperation between science and industry, based on the University Enterprise Zones (UK)<sup>125</sup>
- Improved management of intellectual property for university spin-offs <sup>126</sup>
- Administrative facilitation of the recruitment of skilled workers from abroad
- Facilitation of cooperative data use between the private and public sectors
- Establishment of an innovative public procurement system <sup>127</sup>

Most of these reforms cannot be implemented at the state level alone. Such a system must therefore be accompanied by a federal-state cooperation agreement and milestone planning, which enables the joint implementation of the reforms. The identification of the relevant reform areas is also not trivial and should be integrated into the RIS3 process with the involvement of all relevant stakeholders. Abstracting from the German example and applying it to the entire EU, cross-level cooperation agreements are always necessary where reforms cannot be implemented by a single level or by the level responsible for the implementation of Cohesion Policy.

The implementation of performance-based RIS3 can be inspired by the RRF milestone system, but it must also significantly deviate from it in key areas. Reform proposals are developed in the RIS3 process together with the stakeholders and must be included in the aforementioned Federal-State Cooperation Agreement (if applicable, analogous to the Partnership Agreement) before they can be agreed upon with the European Commission as milestones. There, it must be distinguished which reform projects are relevant for which federal states and it must be determined what happens in case of non-compliance. Sanctioning the states for non-compliance with federal reform measures should be excluded. Overall, this recommendation can be developed in conjunction with the overarching recommendations for linking Cohesion Policy with structural reforms (see the following course of action). The requirements for RIS3 proposed here must be established in the basic prerequisites or their regulatory successors (Annex IV to Article 15, paragraph 1, PO 1.1) based on the already existing criteria. The analysis of (regulatory or reform-

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<sup>125</sup> <https://www.ukri.org/what-we-do/browse-our-areas-of-investment-and-support/university-enterprise-zones/>

<sup>126</sup> [https://www.stifterverband.org/sites/default/files/2023-11/ip-transfer\\_policy\\_paper\\_2023\\_sprind.pdf](https://www.stifterverband.org/sites/default/files/2023-11/ip-transfer_policy_paper_2023_sprind.pdf).

<sup>127</sup> Kompetenzzentrum Innovative Beschaffung (2023): Innovative öffentliche Beschaffung. Leitfaden (3. Auflage). Available at: [https://www.koinno-bmwk.de/fileadmin/user\\_upload/KOINNO\\_Leitfaden\\_2023\\_Final.pdf](https://www.koinno-bmwk.de/fileadmin/user_upload/KOINNO_Leitfaden_2023_Final.pdf).

oriented) innovation barriers and the regulation of cross-level cooperation agreements would need to be integrated there.

### **Action option 9: Link Cohesion Policy with structural reforms**

#### Derivation

The possibilities of a stronger linkage between Cohesion Policy measures and structural reforms, following the example of the Recovery and Resilience Facility, are being discussed at several political levels (see Chapter 2.4). In principle, linking Cohesion Policy with structural reforms is sensible, as appropriate reforms can strengthen the results and impacts of the funded projects and thus Cohesion Policy as a whole. However, this linkage must follow a different logic than that of the Recovery and Resilience Facility. If Cohesion Policy provides funds or incentives for financing the implementation of structural reforms, then the question for Cohesion Policy is which structural reforms are necessary to ensure that the projects it supports achieve better results and impacts. This requires a mechanism in program planning that defines the needs for structural reforms from the regions in a bottom-up approach, which are then legislatively implemented at the respective levels – federal or state.

#### Recommendation

To develop and implement structural reforms, a governance structure must be established that includes the involved stakeholders. This governance process must systematically capture the reform needs of local and regional stakeholders and translate them into appropriate (legislative) structural reform projects.

The identification of the needs for structural reforms must be carried out at the regional level. For this purpose, the instruments of program planning and evaluation are to be used. Thus, for the funding period 2028 to 2034, the need for reform could be determined and elaborated within the framework of an ex-ante evaluation. Given the long period associated with the development and implementation of a structural reform, it is advisable to take initial measures in this regard already during the 2021-2027 funding period. The states could enable this by adjusting or expanding the evaluation projects running in the funding period 2021-2027. The results of the evaluations should be developed through the involvement of the steering committee within the programming process and a cross-departmental consultation to formulate a national position that makes specific reform proposals at the relevant legislative level.

In the next step, the states, together with the federal government, should agree on a common position towards the European Commission within a federal-state coordination framework for structural reforms to support a transformative structural policy. For this purpose, existing committees within the framework of structural policy can be used, or a new committee can be created specifically for the purpose of voting. To ensure bindingness, there should be a joint resolution by the Conference of the Prime Ministers and the Federal Government. This joint position is then represented by the federal government to the European Commission. After the reforms are determined, the implementation of the structural reforms is carried out through legislation at the constitutionally responsible levels.

With regard to the linkage of structural reforms with the performance-based approach, it should be noted that such a territorialized design approach to the bottom-up definition of structural

reform needs in the legislative system of the Federal Republic of Germany is very likely to result in the articulation of reform needs by the state or region, for which they do not always possess the necessary legislative competencies to address. For the implementation of structural reforms in a federally organized country like the Federal Republic, fundamentally three levels of implementation are relevant (federal, state, municipalities). This means that a subordinate level, whose funding is performance-oriented and tied to the implementation of reforms, should not be punished by withholding funds if the legislative authority for implementing the reform lies at a higher level and there is a delay or non-implementation of the reform at that level. A combination of structural reforms with a performance-based approach is therefore not advisable.

### 3.6 Strengthening the Regions

For a successful implementation of Cohesion Policy, regions must play a strong role as key actors. This means understanding Cohesion Policy as a spatial investment policy and continuing to pursue the spatial approach. Central objectives such as the twin transformation or the strengthening of competitiveness require strong involvement of regional actors and their region-specific knowledge. By strengthening the regions, central principles of Cohesion Policy such as multi-level governance and the partnership principle are also being implemented. Interventions require consideration of local conditions to achieve the greatest possible effects.<sup>128</sup> This results in options for action to strengthen the spatial approach, to enhance the use of participatory elements, and to deepen interregional cooperation within Germany and beyond. Strengthening the regions also requires further development of administrative capacities to fully utilize the potential of Cohesion Policy.<sup>129</sup>

#### Action option 10: Strengthen the spatial approach

##### Derivation

Place-based approaches in the sense of "place-based policy" offer an effective lever for addressing regional challenges when they follow a strategic systemic approach to project funding, linking the intervention logics and outcomes of individual projects. The intervention logic of the JTF, with its task-oriented approach bound to a territorial framework for addressing major challenges, is very well suited to accentuate the transformation approach in the future funding period. (for more information see Chapter 2.3.1).

The empirical results of the research project emphasize three essential factors that are central to the success of spatial policies. These factors include, in addition to the presence of regional strategies and the necessary financial and administrative resources on site, particularly a systemic approach to project funding that links the intervention logics and outcomes of individual projects in order to increase their impact. It is important that these spatial policies are not oriented towards

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<sup>128</sup> Fratesi (2024): Constraining and enabling factors of a successful regional policy in Europe, p. 18.

<sup>129</sup> ZEW (2024): The Future of EU-Cohesion, p. 129.

the level of regions in the sense of states, but towards economically relevant sub-regions within them and also across national borders.

### Recommendation

Territorial instruments should be used more strategically in the future. The use of spatially oriented instruments offers states the opportunity to specifically promote individual regions with special needs within the framework of transformative structural change. The examined case studies like the Sothern Lower Saxony Programme show that the processes for spatial strategy development have a positive effect on the cooperation of regional stakeholders. The regional structures for implementation make an important contribution to the mobilization of stakeholders and the development of cross-cutting projects.

To strengthen the results and impacts of spatially oriented instruments, the task-oriented intervention logic of the JTF should, however, be made a binding basis for the strategic planning and implementation of any form of territorial instruments in the future. It should be ensured that appropriate background documents and strategies (similar to the elements of a territorial plan in the JTF, Art. 11 para. 2 Regulation (EU) 2021/1056) are available to justify and establish a territorial support approach. However, what is important here is not a rigid approach with predefined templates, but a solution-oriented approach that sets content guidelines without defining form and structure. If regions can contribute preliminary work through their own strategy processes and these follow a task-oriented intervention logic, no additional requirements should be imposed that would entail unnecessary administrative efforts.

The use of territorial instruments must be determined for each country or European region depending on the program size and the geographical scope of the program. While the use in small-budget programmes is not sensible due to limited overall funds and in city-states or small states in terms of area, the remaining states/regions should make greater use of territorial instruments, especially when they encompass differently structured sub-areas with varying transformation challenges.

The definition and implementation of the strategies should take place in appropriate territorial divisions that account for the historically grown structures of the areas and should be carried out at the NUTS3 level with the involvement of local stakeholders, whereby the areas covered by the strategy must represent geographically coherent economic regions. The strategy must follow the elements of task-oriented intervention logic as expressed in the JTF. Such a logic links the programme's strong spatial orientation with a specific development objective for the targeted territorial area, whose achievement is supported by tailored funding measures. The regions should receive regional budgets to implement the strategy. Likewise, binding targets at the results level of the projects should be set for the regions. Achieving this is a prerequisite for the disbursement of funds, with the model of cost-unlinked financing being applied. The implementation of integrated territorial instruments based on a regional budget should be done on a voluntary basis. In this context, project development, selection, support, and implementation should be in the hands of the local actors. The regional actors must designate an organization (e.g., a regional or municipal economic development agency) that will be responsible for managing this process.

To achieve a stronger use of territorial instruments in the future, instead of giving regions the voluntary choice, they could be required to allocate at least five percent of the program funds for

the use of territorial instruments. This would follow the example of the successful LEADER funding within the framework of rural development plans.

The grants to the beneficiaries should be provided through financing not linked to costs. Such a requirement will ensure, in addition to reducing administrative effort, the efficient use of resources and the achievement of the project funding results.

### **Action option 11: Improve the foundations for successful cross-regional cooperation**

#### Derivation

In cross-regional cooperation in Germany, the projects bring together experiences from different regional contexts. At the same time, they face significant challenges precisely because of the federal structure in Germany, due to different state-specific requirements and processes. Clusters and networks that operate across states, such as in metropolitan regions, are important actors and carriers of experience to further strengthen cross-regional cooperation. Success factors as well as obstacles, which have so far mostly been known only to the individuals directly involved in the project context, provide a fundamental knowledge base for successfully collaborating across regions and states.

Clusters are already networked with their counterparts in other regions, providing a starting point for further cross-regional collaboration along thematically common focal points of smart specialization. However, there are still high hurdles for a long-term successful cooperation in cross-border cluster structures, such as different strategic priorities of the states, differences in funding programmes, and high demands on the coordination of the involved actors and managing authorities.

So far, German participation in existing instruments for cross-regional cooperation has been relatively weak. To overcome this reluctance and increase the attractiveness of the instruments, further incentives are required. The support for cross-regional cooperation through the "Instrument for Interregional Innovation Investments" (I3) is designed in such a way that additional funds for investments can be mobilized through synergies with other programmes, such as Interreg Europe, Horizon Europe, or the Single Market Programme.

#### Recommendation

To leverage these synergies for cross-regional cooperation, however, increased resources are needed for intermediaries and funding agencies that can provide advice on various programmes (and possibly also for managing authorities) to better coordinate programmes in three respects: content-wise and thematically with regard to common fields of smart specialization, in terms of timing ("staggered funding windows"), and also with regard to the standardization of requirements (z. B. Zielgruppen und inhaltliche Kriterien). The synchronization of the sequence of events should ideally take place at the beginning of the programming, not only after the planning of the individual programmes is completed.

At the European level, initiatives like I3 should be pursued further to support the development of European value chains. Regions in Germany should be supported by an extended advisory service to leverage the opportunities of these initiatives in pursuing the goals of their RIS3.

Fundamental to this is, for the first time, an evaluation of the experiences from the collaboration, with which the understanding of success factors and obstacles is initially to be captured, based on which action options are developed and further activities are initiated. This can be achieved in particular through a transparent presentation of good examples to increase German participation. The following steps are recommended for implementation:

**Collaboration within Germany:**

- Use of the existing Cohesion Policy committees of the federal and state governments to politically support cooperation in Germany; also coordination with the committees for the implementation of the GRW
- Examination of whether more cross-border RIS3 could be used, following the example of the joint strategy of Berlin and Brandenburg, to strategically establish cross-regional cooperation.

**Cross-border cooperation:**

- Use of SynBLAG for the discussion between the federal and state governments, among other things, with a view to participation in the Regional Innovation Valleys, to influence the thematic orientation and the planning of the instruments.
- Since the described instruments are closely related to the EU Framework Programme for Research and Innovation, utilizing the existing NCP system for Horizon Europe is recommended: Information dissemination, stakeholder engagement, joint events on further funding opportunities through Interreg, ERDF, Horizon Europe, or Eureka/Eurostars.
- Examination of whether the participation of further regional actors in instruments such as I3 or VINNOVATE can be funded:
  - Either through targeted support for co-financing contributions from the programmes via a specific guideline for cross-border cooperation on these instruments
  - Or through their own approaches in the programmes, e.g., "bonus" rules for the funding rate when projects are implemented in cross-border constellations.

**Action option 12: Strengthen the participation of municipal and civil society actors in Cohesion Policy**

Derivation

With nearly 6 billion euros, almost 30% of the total ERDF funding volume for 2014-2020 in Germany was directed towards areas that serve climate protection, adaptation to climate change, and other environmental goals such as the preservation of biodiversity or the circular economy. While municipal actors spend 57.5% of all their financial resources on sustainability-related projects, the corresponding share of other actors (mainly companies) is only 21%, which is much lower.<sup>130</sup> Nevertheless, there are still numerous obstacles for smaller municipalities and civil society actors to participate more effectively in policy-making (needs analysis, programming, program support) and to more easily take advantage of funding opportunities. In the 9th Cohesion Report,

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<sup>130</sup> [Evaluation der Nutzung nachhaltigkeitsbezogener Fördermöglichkeiten.](#)

the European Commission also advocates for greater participation, in order to counteract growing political dissatisfaction and distrust towards the authorities. Also within the framework of the stakeholder consultation, a large portion of the participants advocated for strong involvement of citizens and civil society.

#### Recommendation

The involvement of municipal and civil society actors in Cohesion Policy should be strengthened in the future by the European Commission, the member states, and the program authorities. In particular, these relatively resource-poor actors should be supported within the framework of a capacity development approach to more effectively shape a transformative Cohesion Policy and more easily access funding. The existing opportunities for building professional capacities within the framework of the Cohesion Fund should be increasingly utilized for this purpose in the future.<sup>131</sup> Specifically, support for consulting and networking activities as well as specialized centers (for workshops, training, coordination, professional exchange, peer learning) is being considered. This can also be financed through the technical assistance of the funds. Likewise, the professionalization of the participation opportunities for civil society organizations in advisory committees as well as in program planning and accompaniment should be financially supported. The possibilities for appropriate support are already provided for in the current legal framework. Good experiences have been made with pilot-like projects, according to the European Commission.<sup>132</sup>

### **3.7 Instruments and Procedures for Implementing Cohesion Policy**

The efficient administrative implementation combined with the technical understanding of Cohesion Policy are the key factors to increase its effectiveness, efficiency, and coherence. In this context, efficient project execution also equally contributes to the long-term involvement of the target groups in the program and thereby increases the likelihood of achieving the program's objectives. In the past, the application, approval, and administrative execution of ERDF projects by beneficiaries and intermediary bodies were generally perceived as relatively cumbersome and labor-intensive. There are several points of approach here: This concerns addressing the target groups as well as the use of enhanced digitalization and the introduction of new tools and approaches that complement the existing toolkit. To simplify the procedures, in addition to utilizing the potential of digitalization, it is advisable to increasingly apply simplified cost options and to examine whether performance-based cost accounting based on milestones can complement the existing practice. Additionally, this chapter presents approaches that have not been used or have been scarcely used in the ERDF so far. The use of innovative public procurement is already possible today, on the other hand. It is being discussed what incentives could be set by

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<sup>131</sup> like article 8 of Regulation (EU) 2021/1060 on Partnership Approach and article 17, paragraph 1, Regulation (EU) 240/2014 on Strengthening the institutional capacity of relevant partners

<sup>132</sup> [https://ec.europa.eu/regional\\_policy/whats-new/tenders-and-grants/calls-for-expressions-of-interest\\_en](https://ec.europa.eu/regional_policy/whats-new/tenders-and-grants/calls-for-expressions-of-interest_en); [https://ec.europa.eu/regional\\_policy/whats-new/panorama/2021/12/12-08-2021-meet-the-projects-helping-citizens-to-shape-cohesion-policy\\_en](https://ec.europa.eu/regional_policy/whats-new/panorama/2021/12/12-08-2021-meet-the-projects-helping-citizens-to-shape-cohesion-policy_en).

the ERDF to support widespread use. The goal is to develop ideas that can optimally utilize opportunities and reduce risks as much as possible.

### 3.7.1 Performance Monitoring and Billing

#### **Action option 13: Performance-based reimbursement (Performance-based approach)**

##### Derivation

Building on the experiences gathered within the framework of the RRF, a significant strengthening of the performance-based approach in future Cohesion Policy at the level of the European Commission is being discussed. The European Commission views such an approach, which relates payments to the attainment of particular milestones and target values, as a method to accelerate results and improve financing efficiency. This approach is already anchored in the current legislative framework as so-called "cost-unlinked financing" both in the relationship between the European Commission and the Member State (Art. 51 (Regulation) EU 2021/1060) and in the relationship between the Member State and the beneficiary (Art. 53 (Regulation) EU 2021/1060) as a discretionary provision. Before making further determinations, the experiences with performance-based reimbursement in the current funding period and the experiences from the RRF should be evaluated to identify any need for adjustments.

However, the states have so far only used these opportunities very sporadically. It is seen as crucial that the implementation of the approach actually leads to administrative simplification and that no additional administrative burdens arise, such as those resulting from subsequent demands for proof by the European Court of Auditors.

##### Recommendation

For the increased use of performance-based reimbursement within the framework of the ERDF, further conditions must be created. An important point concerns the issue of defining target values and milestones. For this, it is necessary to establish a binding and final catalog of reporting and documentation obligations for the achieved target values and milestones before the start of the next funding period. This must be recognized as final by the European Commission. The early involvement of the European Court of Auditors in the determination is as obvious as it is advisable, in order to address any needs from the Court. The binding determination is based on the premise that it has been proven that the reporting and documentation requirements involve significantly less compliance effort on the part of the member states.

To achieve a minimally resource-intensive approach, it is beneficial to rely on existing indicators, as they have already been defined for the Operational Programmes in the states. The output indicators can be used to define target values. For the definition of milestones, outcome indicators can generally be used, but this involves significant efforts for program management. Milestones should therefore be defined as process steps, as outlined in the report.

When weighing the two versions of milestones, first, defining process steps as milestones and second, tying milestones to outcomes, the first alternative is the more rational one because it is

linked with substantially less effort in program management. However, as in the example of the commissioning of R&I infrastructures, the focus should be on quantifiable measurable outputs of the funding. The mere consideration of administrative procedure-related process steps (e.g., publication of a guideline) is not meaningful, as it does not provide any insights into the output and results of the funding.

With regard to the relationship between the European Commission and member states, performance-based reimbursement should be increasingly utilized in the funding period 2028-2034, provided that the expected simplification potential can be realized to the anticipated extent.

With regard to the relationship between member states and beneficiaries, it is recommended to continue to make the use of the approach fundamentally voluntary, but to subsequently make it mandatory within certain funding formats, such as in the context of regional budgets (see also the action option to strengthen the spatial approach).

### **Action option 14: Expansion of the application of flat rates**

#### Derivation

Simplified cost options (SCO) like lump sum are a relatively new tool in the management of structural fund resources. Examples of practical application include overhead, personnel, and residual cost flat rates. Among the advantages is that the application overall involves less administrative effort. Especially less experienced applicants or grant recipients benefit from this. Regarding the personnel cost flat rates, the grant recipients particularly highlight positively that the need for time tracking is eliminated, which significantly simplifies project administration.

In particular, municipalities face capacity bottlenecks in applying for and implementing projects under the ERDF. An extended use of SCO for these public grant recipients therefore represents an important measure to attract this target group to further ERDF programmes while simultaneously relieving them of documentation requirements. Simplified cost options significantly simplify the application and processing of projects. In order for flat rates to be attractive for grant recipients, certain prerequisites must be met. On the one hand, they must be sufficient; Furthermore, it must be clear that lump-sum amounts are no longer being checked. Simplified cost options generally significantly reduce the administrative burden for the grant recipients. The use of flat rates should nevertheless remain largely voluntary, as simplified cost accounting comes at the expense of flexibility.

Nevertheless, SCO are generally well-accepted by beneficiaries. For managing authorities, however, coordinating the amount of SCOs with the European Commission under Article 94 of the Common Provisions Regulation can involve significant effort. SCOs undergo an ex-ante assessment by the European Commission, a process that must be thoroughly prepared. The compatibility of the SCO amounts with the EU's budgetary principles must be fully ensured, particularly adherence to the prohibition on profit-making.

The amounts of lump sums or flat rates generally cannot be adjusted retrospectively. However, since they cannot be challenged after approval, they are an effective way to reduce accounting errors. Therefore, their use should be expanded.

Nevertheless, lump sums are generally well accepted by the recipients of the grants. For the managing authorities, coordinating the amount of the flat rates with the European Commission represents a significant effort. The flat rates undergo an ex-ante review by the European Commission. This process must be thoroughly prepared. The compatibility of the amount of the flat rates with the EU's budgetary principles must be fully met in this regard. In particular, the prohibition on profit-making must be taken into account. The amount of flat rates generally cannot be corrected anymore. Since they can no longer be disputed afterwards, they are suitable for effectively reducing the number of billing errors. Their use should therefore be expanded.

#### Recommendation

Managing authorities should be supported as effectively as possible in developing suitable simplified cost options (SCOs) for their projects. However, the use of SCOs should remain largely voluntary, as simplified cost accounting comes with a loss of flexibility. SCOs should be applied wherever administrative simplifications are expected. They must be in line with European law and comply with the requirements of state budgetary regulations. Implementation could proceed with the following components:

- Simplified cost options can only realize their potential if it is clear that they are not subject to later review. The requirements for future audits should be formulated as clearly and unambiguously as possible by the EU in the framework regulation and provide the greatest possible legal certainty.
- To further disseminate the already existing experiences and to be able to better respond to shortcomings, experiences should be collected and shared, for example, through existing formats of cooperation and exchange between the federal and state governments. This also includes learning from the experiences of neighboring states.
- This exchange could result in providing the managing authorities with as concrete "models for the determination of SCO" as possible, which can then be adjusted to meet any specific legal needs. Models refer to templates based on current statistical data that take into account various projects/scenarios and groups of beneficiaries. These could be informed by the SCO experiences of the states. But the experiences of other EU states could also be taken into account. The goal would be to streamline and significantly accelerate the SCO approval process with the European Commission using such model templates.
- Nationwide uniform personnel cost flat rates for a limited number of service groups would have significant simplification potential. Here, the experiences of the states can be built upon. In order for SCO to be interesting for the recipients, these mechanisms must include those that reflect natural cost increases such as inflation or tariff increases to a certain extent. SCO should therefore not only be based on subsequent statistical data, but also, for example, enable an inflation adjustment.

### 3.7.2 Digitalization of Procedures

#### Action option 15: Utilize the potential for simplification through digitalization more effectively.

##### Derivation

Digitalization creates opportunities for simplifications and synergies. These opportunities should also be increasingly utilized within the framework of Cohesion Policy. The European Commission therefore required the member states in the current funding period to use digitalized instruments for the administration and implementation of the funds as well as for reporting or monitoring. As a result, the requirement led to a multitude of ICT systems in the member states, which on the one hand had to meet complex requirements, and on the other hand were individually tailored to the structural conditions for implementation in each respective country. Simplification and synergy potentials have therefore been achieved in initial steps, but optimizations for future Cohesion Policy should be pursued.

##### Recommendation

The high number of digital systems is cost- and labor-intensive, without any significant added value being apparent. A delegation of responsibility for the implementation of digitalization at the state level does not appear to be either appropriate or economical in the overall view. In accordance with economic efficiency and appropriateness, it seems more appropriate here to create a central offering through the European Commission, for example, which simultaneously utilizes synergies for reporting purposes. Above all, in reporting and monitoring with its indicators, the same questions need to be addressed regardless of specific structures in multi-level governance, and therefore, it is a central approach for all participants, making work easier and more straightforward. An appeal to the multi-level governance approach at this point is likely to give the impression of accepting a contradiction to economic efficiency and appropriateness due to the political postulate. Therefore, it is recommended to urge the European Commission to develop central modular IT solutions, as has already been successfully implemented within the framework of other funding programmes.

This is particularly true as new regulations in the ordinances or implementing provisions – even during the funding period – can lead to significant changes in the IT systems. Changes or new regulations should therefore be made with care and preferably only before a funding period, in order to be able to incorporate them early into the (re)programming.

At the same time, it is recommended to identify which aspects of digital-based support could be supported by central IT tools. In the first approximation, monitoring and reporting have already been identified (s.a.). The corresponding software would need to be equipped with suitable interfaces here, provided that, for example, the design of additional digital modules (expression of interest, application submission, fund management) remains the responsibility of the managing authorities. A division of responsibilities for the different modules needs to be clarified, as well as the possible interfaces to other relevant European databases along this path. (s.b.). In detail, the following points are recommended to be addressed:

- For future structural funds, it is recommended that the European Commission create uniform **IT modules**, which will be made available to the member states. Such modules also offer the additional advantage of solving existing interface issues with the IT systems of the EU. There are already examples of this, as shown by the approach in INTERREG, for which a unified IT solution from the European Commission is already being used. The significant lead time of a digital development is acknowledged, but it could already be started during an ongoing funding period.
- Similarly, it is recommended to offer an interface for **checking the SME status** uniformly for all program participants. This would enable an automated reconciliation, making the review both transparent and efficient for all parties involved.
- A barrier to increasing efficiency, which cannot be resolved solely through digitalization, exists at the European level due to the GBER and its regulations. A significant contribution could be achieved by agreeing that a **digital submission** is sufficient for the **reporting requirements under the GBER**. In addition, there is a need for clarification at the state level regarding the respective state budget regulations, which still partially require the submission of physical documents.
- As a necessary contribution within the framework of digital transformation, it is further seen as important to reach an agreement to consistently allow **digital document submission** in addition to digital reports in the context of European programmes, as is the case in other EU member states. At the national level, this is being implemented, and additionally, the introduction of a mandatory electronic signature is expected to simplify the **authentication** of applicants. Should medium-term delays become apparent here, the use of electronic authentication, "E-ID," as in Austria, could bring efficiency gains, especially for target groups that apply for multiple funding measures, possibly even in different states.
- Especially in the event that significant changes to Cohesion Policy become apparent for the new funding period, an early initiative could be undertaken beyond the aforementioned areas, such as creating a joint **database for application review and approval** at the EU level, which provides suitable interfaces for the member states or the regions. Such European IT tools would also justify the implementation of legislative procedures that are partly necessary for the creation or use of corresponding interfaces at the national level.
- It is proposed to gather best practices on the topic of digitalization in the EU member states (including Estonia, Austria) and to develop models for their implementation in the states based on this. The aim would be their transfer or a possible adapted implementation in the states.

### 3.7.3 Experimental and high-risk projects and scaling

#### Action option 16: Enable experimental and risky projects, introduce scaling

##### Derivation

Through the programmes of Cohesion Policy, measures of very different nature are promoted, which ultimately all aim at a concrete, practical development or implementation. The prerequisite

for funding is a clearly defined project, which is based on a project proposal and ultimately a positive funding commitment. The project proposal must be structured according to the funding requirements along defined criteria, such as project objectives, work plans, capacity planning, and a funding plan that should be as precise as possible. From the perspective of the funding provider, a funding decision can be solidly based on this, but conversely, these requirements also complicate projects from the perspective of an idea holder and applicant, which are risk-oriented and therefore possibly not planable within the given framework. However, it is precisely these projects that can carry a high potential for creativity and, if successful, have a significant impact—if they are given a chance for funding under the existing funding conditions.

Considering the balance between a well-founded project concept and the potential of high-risk projects, it is recommended to create **funding spaces for such projects**. (Examples see Chapter 2). This particularly applies to projects that are risky and experimental (also, for example, due to high financial needs) or that require support over a longer period from the idea stage to implementation or market entry and currently fall through the funding grid. Creating space for these projects with scaled funding is seen as a key factor to ensure efficient use of resources even with limited funding and still bring highly innovative ideas to concrete implementation. The Cohesion Policy would thereby be enriched with an important instrument for creativity and market success.

#### Recommendation

- Design funding lines and evaluation criteria that create dedicated space for the promotion of experimental and innovative (and thus also risky) projects and/or promote the transfer of knowledge between science and industry. In particular, it should be noted at this point that the framework regulation for the ERDF/JTF has already provided extensive flexibility options that need to be utilized more clearly.
- Develop tailored evaluation and funding criteria that meet the nature of, for example, an experimental project, while simultaneously providing the funding agency with a sufficient tool to demonstrate the use of the funding. An extended criteria catalog, on which a funding decision is based, could include, among other things, planning and risk management strategies, the definition of milestones, or subprocess steps as a foundation.
- In particular for experimental projects in Political Objectives 1, 2, and 5, the possibility of scaling the funding should be explicitly introduced across all funding lines (see Chapter 2.6.1). This would involve a modular financing structure that allows funds to be adjusted based on project progress and needs (e.g., through different funding streams, as mentioned above). Instead of providing a one-time, lump-sum grant, funds would be released gradually, depending on the achievement of specific milestones or performance indicators. High-risk projects with significant financial requirements (e.g., infrastructure measures, investments) would be preceded by small-scale funding, for example, for a concept phase or studies. In the event of success, scaling would open up an extended funding option, allowing for the application of larger projects and potentially also supporting market entry. With different funding rates, the character of the project is taken into account. (cf. foundationally oriented, application-oriented, market-oriented). Since these projects usually have a multi-year time horizon, scaling can be well represented through long-term and medium-term financial

planning. Limited resources would be provided for concepts, market explorations, and studies, and within the same thematic area, there would then be the possibility of more extensive funding for the next steps.

### 3.7.4 Increasing the visibility of the ERDF

#### Action option 17: Increase the visibility of the ERDF in the regional public

##### Derivation

A recent study by the Kiel Institute for the World Economy shows that investments in regions can reduce the vote share of populist parties in European elections—provided the investments are publicly known. The visible investments thereby strengthen trust in democratic institutions.<sup>133</sup> In this regard, the necessity to enhance the role and visibility of the EU as an acting entity is accordingly a central concern of the European institutions. The Council of the European Union and the European Economic and Social Committee call in their position papers for a strengthening of funding measures that address regional characteristics and needs, ideally within the framework of participatory processes involving the public.<sup>134</sup>

In order to positively position the often lesser-known cohesion policy publicly "on the ground," there is a clear need for significantly strengthened public relations efforts. The objective would be to highlight initiatives and successes, also to strengthen local identification with the funding measures of Cohesion Policy and at the same time to transfer success stories to other regions, as the Committee of the Regions advocates.<sup>135</sup>

Cohesion Policy assigns tasks related to public relations at both the program and project levels. Beneficiaries are required to comply with publicity requirements and have to meet the predefined standards and rules within the framework of the funded projects.

Additionally, according to Article 48(2) of Regulation (EU) 2021/1060, the managing authority must designate a communication coordinator for public relations related to the respective programme. The measures outlined in Articles 48 and 49 of the CPR mainly focus on providing basic information to the public regarding the programme's objectives, activities and available funding opportunities as well as a reporting on outcomes through examples of good practice. According to Article 49(3) of the CPR, the communication coordinator is also responsible for a

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<sup>133</sup> Robert Gold und Jakob Lehr (2024): Paying Off Populism: EU-Regionalpolitik verringert Unterstützung populistischer Parteien, Kiel Policy Brief Nr. 172, April 2024.

<sup>134</sup> Council of the EU (2023): The Future of Cohesion Policy. Available at :

<https://data.consilium.europa.eu/doc/document/ST-16230-2023-INIT/de/pdf>; European Economic and Social Committee (2023): The Recovery and Resilience Facility and cohesion policy: towards cohesion policy 2.0. Available at: <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/recovery-and-resilience-facility-and-cohesion-policy-towards-cohesion-policy-20>.

<sup>135</sup> Committee of the regions (2023): The Future of Cohesion Policy post-2027. Available at : <https://cor.europa.eu/de/our-work/Pages/OpinionTimeline.aspx?opId=CDR-2250-2023>.

central presentation of the funded projects, based on specific key data. However, there are no requirements for tailored, localised public relations at the level of the managing authority.

Moreover, according to Article 50 of the CPR, beneficiaries themselves are also required to undertake public relations activities, such as showcasing their projects through accessible social media platforms. This obligation includes the need to refer to the funding from the European Regional Development Fund (ERDF). Specific regulations apply to ERDF co-financed construction projects. However, it is important to note that the implementation of these requirements often only meets the minimum standards. It must also be considered that at the project level, particularly in municipalities and in less-developed regions, there are often limited capacities or professional expertise to meet the requirements of expanded cross-cutting tasks for public relations due to scarce human resources.

#### Recommendation

The core idea of this action option is to strengthen public relations with the aim of raising awareness among local and regional actors and stakeholders about the tasks of public relations, to enhance the impact of successful projects locally and (cross-)regionally and thus to increase the visibility and acceptance of EFRE. The starting point for this is in a first step an amendment to Article 49 of the CPR Regulation, which additionally calls on the managing authorities to accompany and support regional public relations at the project level.

Funds for public relations are currently available to the managing authorities, amounting to up to 2% from the Technical Assistance budget of the managing authority. For the implementation of related tasks, the managing authorities or the respective communications officer(s) may commission PR agencies. However, given the wide range of tasks, including digitalisation, that need to be financed from Technical Assistance funds, it remains uncertain whether additional funds for enhanced public relations can be drawn from this budget line. It is conceivable, therefore, to use any underspend that may arise during the phasing out period of the respective funding programmes, when only single projects are still ongoing towards completion. If underspend occurs in individual projects, as in current practice, priority should continue to be given to covering any additional needs in other projects. Nevertheless, if underspend still becomes apparent within the framework of the specific funding programme, it is proposed that such funds, up to a maximum of 2% of the total budget allocated to the specific funding programme can be made available to the managing authority for supplementary public relations measures. The respective public relations measures should be relevant to the specific funding programme and coordinated in content between the intermediary body and the managing authority (communications officer). To make such a reallocation of funds feasible in practice, in a second step Article 50 of the Framework Regulation should be amended to allow for this to occur after the completion of the funding programme (in the closure phase), without the need for reprogramming nor for separate approval by the European Commission. The funds to be transferred for this purpose would thus be quickly available for extended public relations work in the respective ERDF programme. In the event that a PR agency is commissioned by the managing authority for public relations work, a corresponding optional component of the according contract could also enable the measures to be implemented promptly at this late stage. At this point, recognisable (interim) project successes should be available widely to be used for such measures.

At the start of each funding programme public relations measures could therefore focus on training projects for stakeholders and involved public institutions. In a later implementation phase, when additional budgets may become available, further complementary measures are conceivable. Just some examples are given here. These include networking events to inform interested actors in the (expanded) region about the project outcomes, as well as the experiences gained with the funding programme. Added value could thus be generated for neighbouring municipalities (with similar tasks) or for business partners of funded companies (even at a cross-regional level, or along the respective value chain). Beyond such events, it is recommended to promote a cross-media presentation of the respective funding projects and their outcomes, with strong involvement of social media. Specific measures tailored to each project and its target groups can also be envisaged. For instance, in projects involving local actors, it should be clarified with the project leaders whether public events showcasing the project results would attract interest. This might be the case for projects related to urban climate change adaptation, environmental protection, or energy efficiency measures in public buildings. Particular attention should be given to addressing younger audiences, especially when suitable topics, such as the promotion of public transport mobility, are involved. Relevant social media platforms aimed at younger age groups should also be included in the planning of these measures. To reach older generations, complementary in-person events may be worth considering, particularly when follow-up measures become foreseeable. The successes should be showcased by illustrating the achieved changes (before/after) as examples. Testimonials or the involvement of well-known local or regional figures could help enhance the credibility of such narratives.

Overall, the examples outlined here are intended to highlight the importance of developing specific measures tailored to each funding project. At the same time, there is a much wider range of options available to generate local impact and promote the positive visibility of ERDF co-financed project outcomes – far beyond the implementation of the public relations measures as so far required by the Common Provision Regulation.

## 4. Outlook



Cohesion Policy is the central investment instrument of the European Union to promote the competitiveness of the member states and their regions and transformation processes. In response to the growing global competitive pressure, the EU introduced the "Strategic Technologies for Europe" (STEP) platform at the beginning of 2024<sup>136</sup> – also utilizing the procedures and instruments of Cohesion Policy to support future-relevant industries in Europe in selected technology fields and to promote investments in critical technologies. In close context with these challenges, Cohesion Policy promotes territorial development in the regions and thus addresses the triple transformation of digitalization, ecological transformation, and profound demographic change.

A path of combining continuity and optimization, as presented in the proposed courses of action, was also advocated by Commission President von der Leyen in her speech before the European Parliament on July 18, 2024: „This is how we can strengthen our society. This means ensuring that every region, in every part of Europe, is supported. No one is left behind. I am committed to a strong Cohesion Policy, designed together with regions and local authorities.“<sup>137</sup> It indirectly refers to another politically central argument that supports the maintenance of multi-level governance in Cohesion Policy: It is essential to increasingly involve people from the bottom up and on the ground, to make the availability and effectiveness of European instruments visible, and to strengthen European democracies.

The success of Cohesion Policy after 2027 will also be measured by how flexibly it addresses current challenges in a world of rapid changes. Administrative simplification, further involvement of local actors, and capacity building among all participants are important elements to achieve the substantive goals. In light of the new challenges for the EU, such as in foreign and security policy as well as in international trade policy, the question of the budgets available for Cohesion Policy in the future cannot be ignored. For optimized governance of Cohesion Policy, focus and concentration, as well as the utilization of synergies, are therefore of central importance to ensure a consistently strategic and as effective as possible use of resources.

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<sup>136</sup> Regulation (EU) 2024/795 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing the Strategic Technologies for Europe Platform (STEP), and amending Directive 2003/87/EC and Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241, Brussels, 29. Februar 2024, see: [https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=OJ:L\\_202400795](https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=OJ:L_202400795), last access: 20.08.2024.

<sup>137</sup> Ursula von der Leyen. „Statement at the European Parliament Plenary by President Ursula von der Leyen, candidate for a second mandate 2024-2029. Brussels, 18.7.2024. cf. [Statement at the European Parliament Plenary by President Ursula von der Leyen, candidate for a second mandate 2024-2029 - European Commission \(europarl.europa.eu\)](https://www.europarl.europa.eu/EP2024/Statement/2024-07-18/Statement-at-the-European-Parliament-Plenary-by-President-Ursula-von-der-Leyen-candidate-for-a-second-mandate-2024-2029-European-Commission-(europarl.europa.eu)) (last access : 20.08.2024).

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