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TERRITORIAL COHESION AND PERFORMANCE-BASED FINANCING

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TERRITORIAL COHESION AND PERFORMANCE-BASED FINANCING

Faced with complex new major issues such as post-COVID recovery, the energy crisis and climate change, EU funding based on performance rather than on occurred costs is currently being tested in the context of the National Recovery and Resilience Plans (NRRP). Increasingly there are voices that advocate performance funding also for EU Cohesion Policy.

The EU might consider these more flexible and less bureaucratic forms and methods of financial support to implement its structural policies in the next term post-2027. This raises the question as to whether Cohesion Policy objectives, and specifically territorial cohesion, can be translated into performance-based financing schemes.

With this paper, we want to explore this idea and initiate a debate about possible solutions.

Quantified target indicators in international policies

In recent times many examples of policy implementation at international level are based on quantified, measurable target indicators. Such indicators are, on the surface, very clear and appear simple for all to understand, but are often the outcome of complex mathematical models and the advice of international scientific expert groups. Quantified indicators can relate to:

- **Financial input**, e.g. agreements or (self) commitments of governments regarding target expenditure levels, such as the 2% of GDP goal for defence expenditure in the NATO context; or the commitment of some states to raise the official development assistance (ODA) to 0.7% of donors' national income.
- **Outcome dimensions**, e.g. the commitment of the EU to reduce greenhouse gas emissions by at least 55% until the year 2030 compared to the level of 1990 (follow-up of the Paris climate agreement); or to halve, between 1990 and 2015, the proportion of people living on less than \$1.25 a day (United Nations Millennium Development Goals (MDGs) agreed in 2000).
- **Impacts to be achieved**, such as the goal to limit global warming to a maximum of 2°C or preferably 1.5°C of global temperature increase compared to pre-industrial levels (the Paris Agreement adopted by 196 Parties at COP 21 in Paris, on 12 December 2015); or the EU member states agreeing to reduce their gas demand this coming winter by 15% compared to their average consumption in the past five years.

Such quantified targets have been agreed to in international contexts and oblige national governments to achieve the concrete goals specified, but leave the choice of which concrete measures to apply to them, i.e. without prescribing in detail how to achieve those goals.

Quantified target indicators in the EU

The present situation

As these examples show, not only in wider and global international agreements, but also in the multilevel governance system of the European Union, such indicator-based policies have been introduced.

The mode to implement policies through defining operationalised objectives at the EU level but leaving room for the implementing bodies (member states and regions) to decide with which innovative and adapted strategies the goals may best be achieved in their specific contexts, is often referred to as “**parametric governance**”. This approach makes use of clearly defined objectives, goals and targets, but gives the decentralised implementing agencies room to develop strategies that are adapted to their specific situation, rather than trying to define detailed, specific top-down solutions.

A sort of parametric governance approach was introduced into EU politics at the Lisbon Summit of March 2000, which agreed on a strategy to make the EU the most competitive knowledge-based economy in the world with better jobs and greater social cohesion, the so-called Lisbon agenda.

The implementation of this Lisbon agenda was based on a (then) new strategic tool of multilevel governance, the “**Open Method of Coordination**” (OMC). The OMC relied on general objectives to be achieved and selected qualitative and quantitative indicators to monitor progress. Based on this, measures were adopted at the national and regional level in view of the agreed objectives and of the indicators chosen. Parts of this process are the facilitation of implementation through mutual learning and exchange of experience as well as the periodic reporting, evaluation and reviewing of progress made. Because the system relies on evidence and “naming and shaming” rather than on strict regulations and sanctions, the method is often referred to as “soft law”, which is particularly flexible to be applied for complex realities.

In the framework of the current post-pandemic Recovery Plan for Europe, the Recovery and Resilience Facility (RRF), a new scheme of “**Financing not linked to costs**” (FNLC) has been introduced by the European Commission. In a way, this is a further development of the **Simplified Cost Options (SCO)** laid down in the Common Provisions Regulation (CPR) providing methods to calculate *standard costs*, rather than *actually-incurred costs*. With FNLC, the focus shifts away from costs – be they actual or standard costs – to *achieved results*, or to use another word, ‘*performance*’.

In order to link payments to results, the FNLC scheme obviously demands a clear and undisputable definition of the results to be achieved and on (quantitative) indicators to enable the evaluation of the achievement of agreed milestones and targets. In this respect, we currently see the parametric governance approach

being further developed and transferred from the sphere of soft law to the hard financial realities of Structural Funds regulations.

Assuming FNLC within the Structural Funds after 2027 and its implications for territorial cohesion

The FNLC logic is being pushed forward and will probably also be discussed in the context of Cohesion Policy. So this paper starts from the assumption that it is not an unrealistic scenario that the logic of FNLC could be used more broadly by Cohesion Policy after 2027. At the same time, the responsible Commissioner for the regional policy part of Cohesion Policy and her DG have been very outspoken in their wish to strengthen the territorial approach and dimension in future Cohesion Policy as well as other major policies such as nature and climate change.

So what would this mean for a complex field like territorial cohesion, and in particular, for Territorial Cohesion under the new FNLC scheme of Cohesion Policy and Recovery and Resilience Facility regulations?

First and foremost, the simple fact is that such new quantified target indicator methods as FNLC are specifically meant to make complex policy issues accessible and understandable; it is possible to boil down very complex issues to relatively simple quantitative goals. Maybe this is even necessary when trying to achieve tangible results and at the same time leaving room for manoeuvre and innovative approaches at the implementing level. Furthermore, it is evident that complex policy issues gain attention and influence when they succeed in quantifying their goals and/or problems, especially if those can be related to immediate consequences if the quantitative goals should be missed.

Moreover, there are potential benefits of quantification if territorial cohesion would be able to successfully subsume its policies under the logic of FNLC:

- Administrative simplification (less reporting on expenditure etc.).
- Clear focus on results (outcomes) and impacts rather than on expenditure.
- New impulses for European territorial cohesion policies by developing policy orientations into operational quantitative indicators.
- More explicit territorial cohesion targets that would give direction to stakeholders at all levels and in all sectors. This would support more synergies between administrative levels and sectors, and a more efficient implementation and use of funds. This would also benefit territorial cooperation programmes.
- Shift to an even more place-based based approach and more importance to the programmes' SWOT analysis and strategy.
- Easier to communicate to a wider public.

Which leaves us with the key question as to whether the goals of territorial cohesion can be operationalised and quantified at EU, national and regional-local levels

in such a way that they gain clarity and visibility and that, eventually, they even would fit into such new financing mechanisms?

Existing foundations for operationalising Territorial Cohesion

Reference documents

Operationalising and quantifying targets for territorial cohesion should and could refer to existing political and scientific work. Apart from the Lisbon Treaty, the main starting point of considerations should be the three Territorial Agendas for the European Union (TAs) and the results of some ESPON projects.

The Territorial Agendas have been politically validated by the member states and by the European Commission. However, they do not explicitly present quantitative targets and performance indicators linked to territorial cohesion goals.

The first TA (2007) gives a first interpretation of the new goal of territorial cohesion which had just been introduced in the new EU Treaty of Lisbon (2007).

The second TA (2011) attempts to introduce territorial cohesion to operationalise the territorial aspects of the Europe 2020 Strategy.

The third, latest TA (2020), referred to as TA 2030, suggests new territorial approaches to achieve a just, green and balanced Europe and a future for all places.

The territorial research programme ESPON, being financed and operating on behalf of the European Commission and member states, has devoted several projects to topics like establishing an EU cohesion indicator and has reflected on the multi-scalar dimension of cohesion (3 or 5 level approach).

It is the European Commission, member states, and ESPON, who, in their different roles and connecting to previous activities, could together bring the debate on quantifying objectives of territorial cohesion to a level that is ripe for strategic decision.

Operational definitions

Following the general political and scientific state of arguments, territorial cohesion can be expounded in three dimensions. One dimension concerns the *substance*, i.e. what is territorial balance, what should be achieved and occur, where, within different territories; after all, without clearer expressed targets on this, it might be impossible to generate useful quantified indicators. The other two dimensions concern *policy processes*, i.e. the integration of sector policies and territorial governance through cooperation.¹

¹ As part of preparing the Territorial Agenda of the European Union (2007) a group of renowned European professors of constitutional law under the lead of Ulrich Battis (Humboldt University Berlin) elaborated a Legal opinion about a European Policy of Territorial Cohesion. cf. Battis, Ulrich,

The three dimensions are:

1. **Territorial balance:** supporting territorial balance and reducing territorial disparities by developing regional endogenous development potentials.
2. **Integration of sector policies:** horizontal and vertical integration of sector policies which demands from sector policies to explicitly demonstrate their territorial conditions, dimensions and consequences, and is ensured by overall concepts.
3. **Territorial governance through cooperation:** new territorial governance through cooperation and networking of all European spatial stakeholders and cross-border, interregional and transnational cooperation.

In the words of the recent TA 2030, European spatial policy aims at: *"promoting balanced and harmonious territorial development between and within countries, regions, cities and municipalities, as well as ensuring a future for all places and people in Europe, building on the diversity of places and subsidiarity."*²

The TA 2030 differentiates its policy aims for the development of the EU territory as follows, which might serve as a starting point to develop quantifiable objectives and indicators:

A future for all places (which could potentially become a societal mission for Cohesion Policy post 2027) and

- **A Just Europe** (a potential sub-mission in Cohesion Policy post 2027), aiming at: Balanced Europe, Functional Regions, Integration beyond Borders.
- **Green Europe** (a potential sub-mission), aiming at: Sustainable Connections, Circular Economy, Healthy Environment.

However, these policy aims would need to be sharpened up and be more detailed to serve a meaningful quantified indicator development.

Challenges for the quantification of Territorial Cohesion

In general, the first dimension of substance, the affirmation of positive developments towards more "territorial balance" seems amenable to quantitative measurements (and ESPON has already delivered a number of operational approaches to measure territorial balance, or rather territorial imbalances).

Jens Kersten. European Policy of Territorial Cohesion. European legal framework and national implementation. Legal opinion on behalf of the Federal Office for Building and Regional Planning. Bonn, 2008.

² Territorial Agenda 2030, Part I, text number (6), page 2

However, when linking this aim to particular, singular projects, some severe methodological problems arise:

1. Territorial balance is a relational concept (just as the metaphor of a “balance” indicates). Single projects – or programmes – however have their impact only at one side of the balance tray, and success or failure cannot clearly be attributed to one project alone.
2. Furthermore, because of the complexity of territorial development there is a risk that external factors, rather than Cohesion Policy, affect whether the set performance targets are achieved; in particular in the case of unexpected and/or extreme events (covid, energy crisis ...) projects might fail without attributable project deficits.

Conclusion: Although territorial (im)balance can principally be measured, the attribution to the success of a singular project can be very tricky, and it has to be avoided that projects risk not being paid on unjustifiable grounds.

The second and third dimensions, the two procedural aspects of governance, are of a more soft and general nature, and difficult to quantify. In this interpretation of territorial cohesion, it is a continuous process that is open-ended and has no definite result. The only quantifiable target indicator seems to be the level of functional cooperation between administrative units and/or between sector policies. As a yes-no precondition for financing, FNLC could be coupled to the precondition of involving different sector policies and/or different territorial authorities.

Clarification needed on the path towards quantification

If the financing of cohesion programmes and projects would be subsumed under an FNLC logic, it has to be made sure that terms and goals are clearly defined, performance results unambiguously verifiable and success or, in particular, failure conclusively attributable to the project’s responsibility.

Obviously, this has different meanings for the three dimensions of territorial cohesion (i.e. territorial balance, integration of sector policies and territorial governance through cooperation).

In particular the following questions would need clarification:

- How do we frame the cohesion goals (as output, outcome, result...)?
- At which level can goals be defined? Concrete measures at one concrete project level (e.g. building a bridge) can have impacts on higher territorial levels! Overall goals at higher territorial levels could also impact concrete projects! We need to reflect the multi-scalar dimension of cohesion (3 or 5 level approach as it was called in the early day of ESPON).
- How to make sure that projects are paid, even though they did not reach their goals due to external factors?

- How to define specific precise cohesion targets for each programme, following a place-based approach? Do territorial cooperation programmes need specific orientations, as transnational and transborder cooperation might be seen as an end in itself?
- How to ensure that targets for (territorial) cohesion fit into different situations of regions and member states all throughout the programme area, leaving space for innovative solutions for member states and programme bodies?
- Should one envisage a trial phase for post-2027 territorial cohesion and Cohesion Policy programming, because of the many difficulties to establish feasible operationalisation and measurement as a solid basis for financing and contracting?

All in all, to provide a meaningful input to the Cohesion Policy post-2027 debate, there is a need to clarify further and provide more detail on the intentions behind the aims of the TA 2030 before being able to define operational quantified target/result/performance indicators for the EU territory.

Member states, the European Commission, and ESPON should cooperate on this challenging and necessary endeavour, aspire to address territories as the object for policy making and bring together, in their different roles and connecting to previous activities, the debate on quantifying objectives of territorial cohesion to a level that is ripe for strategic decision-making.

To sum up in conclusion, qualifying the objectives of Territorial Cohesion is the key for defining quantifiable outcomes and impacts which can be used for performance-based financing. This needs to be place-based and involve players from various level of governance and sector policies to ensure the best possible policy mix. Looking at the points raised in this paper, there is an important and intellectually stimulating debate to be held, to explore how territorial cohesion and performance-based financing might come together.