The European Union’s experiences with policy conditionalities

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Peter BERKOWITZ
Head of Unit, Smart and Sustainable Growth, Directorate General for Regional and Urban Policy, European Commission

Ángel CATALINA RUBIANES
European Commission, Directorate-General for Regional and Urban Policy

Jerzy PIEŃKOWSKI
European Commission, Directorate-General for Regional and Urban Policy
Background information

This paper was prepared as a background document to the OECD-European Commission Seminar on “Conditionalities for More Effective Public Investment” held on 28 April 2017 at the OECD Headquarters in Paris, France. It sets a basis for reflection and discussion.

About the Project

This seminar is part of a five-part seminar series in the context of an EC-OECD project “Designing better economic development policies for regions and cities”. Other sessions in the series addressed the use of: contracts for flexibility/adaptability, performance indicators, financial instruments, and insights from behavioural science. The outcome of the seminars supports the work of the Regional Development Policy Committee and its mandate to promote the design and implementation of policies that are adapted to the relevant territorial scales or geographies, and that focus on the main factors that sustain the competitive advantages of regions and cities. The seminars also support the Directorate-General for Regional and Urban Policy (DG REGIO) of the European Commission in the preparation of the impact assessment for the post-2020 legislative proposals and to support broader discussion with stakeholders on the future direction of the delivery mechanisms of regional policy.

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Introduction

Since the economic and financial crisis, the European Union (EU) has significantly reinforced the governance of its economic and structural policies through greater use of conditionalities. In particular, it has substantially extended the scope of policy conditionalities applied in its Cohesion Policy since 2014. It now includes macroeconomic, general and thematic \textit{(ex ante)} conditionalities, as well as closer links with country-specific recommendations within the European semester governance cycle.

However, the EU already applied several conditionalities in its policies prior to 2014. Experience from their use influenced the design of the new Cohesion Policy conditionalities. First, the criteria for the optimal currency area and then the Maastricht criteria for participation in the European Monetary Union played a key role in the process of European economic integration. Second, conditionalities were applied on a large scale in the EU enlargement process leading to the accession of 12 new member states in 2004-07 and Croatia in 2013. Third, the EU applies conditionalities in its development assistance and relations with the third countries. The first section of this paper analyses these three sets of conditionalities.

Section 2 describes the limited conditionalities applied in EU Cohesion Policy before 2014 and their substantial extension in the 2014-20 period. This is followed by a summary of the experiences and lessons learnt from the implementation of conditionalities by national and regional authorities in the current period. The paper concludes with a short outline of some of the issues under discussion in the European context.

Conditionalities in EU policies: Economic integration, enlargement and development

\textit{Conditionalities in the process towards the European Economic and Monetary Union}

\textit{The theoretical underpinnings of optimal currency areas}

The first ideas and features of optimal currency areas (OCA) were presented by Robert Mundell in 1961. He suggested that an OCA should have a high mobility of factors (capital and labour) within the area. Other contributions followed, such as those from McKinnon (1963) and Kenen (1969), to complement the initial theory by Mundell. These are the contributions of the so-called “early OCA theory” (Mongelli, 2008), which was developed under the Bretton Woods system of fixed exchange rates and capital controls. This system collapsed and came to an end in the early 1970s. The debate was then enriched in the decades after by the so-called “new OCA theory”, which tackled and completed the weaknesses and shortcomings found in the initial theoretical set-up.

Over time, two criteria have been developed to describe what a currency union should look like in order to be considered an OCA: 1) a first set of conditions which reduces the exposure of members of the currency union to asymmetric shocks; and 2) a second set of conditions which facilitates the adjustment to asymmetric shocks in case they hit part or the whole area.

Considering the first set of criteria, the authors of the OCA theory point to price and wage flexibility (Friedman), intraregional trade, the degree of economic openness (McKinnon), and similarities in inflation rates (Fleming) between the members of the
OCA. Makris (2015) underlines the importance of real convergence in the OCA. In terms of the second set of criteria, they highlight the mobility of factors of production, in particular labour (Mundell) and fiscal integration, notably a supranational fiscal transfer system to redistribute funds to one or several areas of the currency union affected by an adverse asymmetric shock (Kenen).

The process of European integration towards a monetary union and a single currency area

The first initiatives to develop the idea of a single currency area in the European Union date back to the 1960s with the adoption of the Marjolin memorandum, which may be considered as having kicked off the discussion on a common currency union in Europe. The collapse of the Bretton Woods system in the early 1970s gave rise to the Werner Plan, which proposed the completion of an economic and monetary union in several stages by 1980. The plan was conceived in three stages starting from a gradual reduction of fluctuation in exchange rates towards the final adoption of a single currency. The project was rapidly abandoned. The idea of a monetary union was not put back on the European agenda until 1979 with the creation of the European Monetary System (EMS) by the Jenkins Commission. It aimed to reduce exchange rate fluctuations over the short term to a maximum of 2.25% for the completion of a full monetary union later on. The EMS faced several hurdles, the most difficult was in the early 1990s with the widening of the allowed fluctuations of exchange rates to 15% and the abandonment of the system by Italy and the United Kingdom because of the major tensions in the financial markets. The EMS was, however, successful in fully removing capital controls, reducing inflation differentials and gradually curbing government deficits and debts.

With the adoption of the European Single Act in 1987 the 12 member states of the European Economic Community decided to resume the project of an Economic and Monetary Union (EMU). The Delors Report (Committee for the Study of Economic and Monetary Union, 1989) set the steps towards the completion of the EMU, which were broken down into “three principal steps”. The first one was essentially about the complete liberalisation of capital movements; the second about setting the conditions to strengthen central bank co-operation and transfer the powers to a European Central Bank; the third was the introduction of a single currency. These steps underlie the insertion of a number of criteria for membership into the Treaty of Maastricht, adopted in 1993 (European Commission, 1989). The Maastricht criteria specify in two separate protocols five conditions by which a country is admitted to the monetary union:

1. An inflation rate no more than 1.5 percentage points above the average of the three countries with the lowest inflation rates.
2. Nominal long-term interest rates not exceeding by more than 2 percentage points those for the three countries with the lowest inflation rates.
3. No exchange rate realignment for at least two years.
4. A government budget deficit not in excess of 3% of each country’s gross domestic product (GDP).
5. A gross debt-to-GDP ratio that does not exceed 60%.

Bukowski (2006) considers that “these convergence criteria are a consequence of adopting theories of optimum currency areas and cost and benefit analysis of creating a single-currency area” and that “[their] fulfilment should be of durable character”. The three main criteria were fully taken over under the powers of the new European Central
Bank and have since then been under its full responsibility. Compliance with government
debt and deficit remained under the responsibility of member states, which kept full
powers in the implementation of fiscal and budgetary policies. In parallel to the
preparations of the final stage of the monetary union, in 1997, the EU developed the
Stability and Growth Pact. The European Commission defines the Stability and Growth Pact
as “a set of rules designed to ensure that countries in the European Union pursue sound
public finances and coordinate their fiscal policies”. In the first decade following the
creation of the monetary union in 1999 the stress was put on the surveillance of the deficit
and debt government levels. Non-compliance with the Stability and Growth Pact could
lead to the imposition of sanctions for euro area countries.

The crisis that broke out in 2008 and the ensuing deterioration of the economic
situation over the following years gave rise to an intense debate about the reasons for this
sharp and unexpected economic downturn. The crisis resulted in significant output losses
and had a significant asymmetric impact, with some member states of the euro area hit
harder than others. Fast increases in government debt and doubts about future economic
prospects sparked fear about the future integrity of the euro area and put the sustainability
of the its weakest member states’ public finances at risk. The diagnosis made by the
European Commission (2012a) was of a multiple nature, arguing mainly that: 1) “the
[Stability and Growth Pact] was insufficiently observed by the Member States and lacked
robust mechanisms to ensure sustainable public finances”; 2) “The coordination of
national economic policies beyond the budgetary area relied on soft instruments – peer
pressure and recommendations”; and 3) “Despite the increased market integration, the
responsibility for prudential supervision and crisis management remained predominantly
at the national level”. This is equivalent to saying that the crisis put at the forefront the
fact that the EMU was not meeting some of the important conditions of an OCA
mentioned above, such as price and wage flexibility and a high degree of fiscal and
financial integration. These flaws contributed to making the EU more vulnerable to the
asymmetric shock and unable to absorb it rapidly.

This diagnosis and the ensuing policy debate about the European economic governance
led to a significant reinforcement of its architecture. This is reflected in higher policy
conditionality for member states’ fiscal and macroeconomic policies, with some provisions
applying only to the member states of the euro area. These provisions are enshrined in the
so-called “six-pack” and “two-pack”.

The six-pack is a set of five regulations and one directive aimed at strengthening
surveillance mechanisms for the euro area member states. It reinforces the fiscal surveillance
by, inter alia, setting new sanctions in case of non-compliance and sets up a new procedure
for the surveillance of macroeconomic imbalances. This was a completely new toolkit aimed
at further focusing on competitiveness problems and tackling some of the macroeconomic
weaknesses which were at the root of the economic crisis beyond the government deficits
and the debts. Sanctions are also envisaged in case of non-compliance with the provisions of
this new procedure.

A so-called “European Semester” was established to co-ordinate from an early stage
member states’ budgetary and macroeconomic policies. Such co-ordination results in the
adoption of the country-specific recommendations by the Council of the European Union
in the early summer every year.

The “two-pack” entered into force in May 2013 and comprises two regulations
designed to further strengthen fiscal co-ordination and surveillance in the euro area. Finally,
the “fiscal compact”, which is intergovernmental and outside the acquis communautaire,
also entered into force in 2013. Signatories to the Treaty agreed to implement a balanced budget rule in their national legislation through permanent, binding provisions, preferably of a constitutional character.

**Conditionalities of EU funds linked to sound economic governance**

Article 174 of the Treaty on the Functioning of the European Union (TFEU) sets out that the Union “shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions”. GDP growth and employment and unemployment rates have traditionally been used to measure to what extent this objective has been reached.

The protracted economic downturn which started in 2008 stalled the gradual reduction of disparities between member states and regions observed since the foundation of the European Cohesion Policy in the early 1990s. The effect was primarily due to the dramatic impact of the asymmetric shock in the southern member states of the EU, all of them part of the euro area.

Prior to the crisis, analysing the extent of the reduction of disparities mostly focused on underlying endowments such as infrastructure, human capital or endogenous potential affecting economic growth and unemployment rates. Little attention was paid to broader macroeconomic or structural barriers to sustainable economic growth and reducing unemployment or how likely it was that they were maintained over time. The inter-temporal consequences of the macroeconomic framework were mostly ignored. In fact, it became clear that policies to reduce disparities within the European Union needed to take account of significant divergences in key macroeconomic variables across member states, such as trade balances, private and government debts or credit flows.

The main lesson was that the macroeconomic framework matters for the achievement of the objective of Article 174 of the TFEU. This is the rationale behind a number of provisions linking the European structural and investment funds ("ESIF") to sound economic governance (see next section). These funds cannot reduce disparities if they operate in isolation of the macroeconomic context. Indeed, this had been foreseen by the authors of the Delors Report (Committee for the Study of Economic and Monetary Union, 1989), who argued that the Council of Ministers, together with the parliament, should have the authority “to apply to existing Community structural policies and to Community loans [...] terms and conditions that would prompt member countries to intensify their adjustment efforts.” (p.36)

**Strengthening economic governance**

The theories developing the notion of an OCA and the project to set up a monetary union in the European Economic Community (and then in the European Union) began and evolved in parallel. The first proposals by Marjolin and Werner did not succeed, but paved the way and provided lessons for future attempts. The research around the notion of OCAs also build on the initial theories of Mundell, Mc Kinnon and Kenen, and gained new impetus with the collapse of the Bretton Woods system.

The various stages until the adoption of a single currency in 1999 by 11 member states were characterised by increasing co-ordination of economic policies and co-operation between the various national governments. It was enshrined in a number of conditions set in the Treaty of Maastricht to adopt the European single currency. The fluctuations of the currencies were reduced over time until irreversible exchange rates were fixed, the
inflation and interest rates were converging until the full takeover of monetary policy, and the objective of inflation in the euro area by the European Central Bank. Those conditions also applied to member states’ fiscal and budgetary policies, with thresholds set for the government deficit and debt.

In the first decade following the adoption of the single currency, macroeconomic surveillance to ensure the stability of the euro area was almost limited to the monitoring of governments’ deficits and debts. The economic downturn of 2008 revealed that the European Monetary Union was still missing important elements of an OCA, such as a minimum level of convergence between the different economies, price and wage flexibility to resist asymmetric shocks, a sufficient degree of labour mobility to adapt quickly to the adverse effects of the economic downturn, or the absence of sufficient fiscal capacity at the federal level to counter the impact in the areas of the euro area hit the hardest.

These lessons led to a significant reinforcement of the European economic governance architecture, with increased fiscal and macroeconomic surveillance powers for the EU. In parallel, the idea that the ESIF cannot be effective if they operate in isolation of the economic governance of the EU gained momentum. Links between the two were considerably strengthened through a system of possible suspensions of funds in the event of failure to comply with the economic governance procedures. The Commission was granted increased power to modify the programmes implemented by national and regional authorities if necessary for economic policy reasons.

**Conditionalities in the EU enlargement process**

The 2004 and 2007 enlargements of the European Union covering the Central and Eastern European Countries, Cyprus and Malta were the first processes in which the EU applied conditionalities on a significant scale. Schimmelfennig and Sedelmeier (2004) described the EU accession process and related conditionalities as a case of an “external incentives” model of governance, where governance rules were transferred from the EU to non-member states, in contrast to rules created autonomously in a given political system.

These conditionalities were first included in the “Europe Agreements” (association agreements), signed bilaterally by the EU with each Central and Eastern European country from 1991 onwards. The Europe Agreements were mainly trade agreements, gradually extending the scope of other freedoms of the single market, but which also included an objective of EU membership. The Europe Agreements included suspension clauses linked to five conditions: 1) rule of law; 2) human rights; 3) a multi-party system; 4) free and fair elections; 5) a market economy (Grabbe, 2006).

The conditionalities for membership to the EU – the “Copenhagen criteria” – were set by the European Council in Copenhagen in 1993. They included:

- stability of institutions guaranteeing democracy, the rule of law, human rights, protection of minorities
- a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union
- the ability to take on the obligations of membership, including adherence to the aims of the political, economic and monetary union.

The Copenhagen criteria were of a general, political nature, open to interpretation.
An analysis by Gateva (2015) shows that the conditionality model applied in the enlargement process was actually much more complex than it could have been expected from the relatively simple Copenhagen criteria. The conditions, but also the structure of incentives (both “rewards” and “threats”), gradually evolved in three phases of the enlargement process: pre-negotiation, negotiation and accession (Table 1).

Table 1. Conditionality model in the EU eastern enlargement

<table>
<thead>
<tr>
<th>Stage</th>
<th>Conditions</th>
<th>Rewards</th>
<th>Threats</th>
</tr>
</thead>
</table>
| Pre-negotiation 1993-98/2000 | – Copenhagen criteria  
– Conditions for opening accession negotiations  
– Country-specific conditions | – Membership perspective  
– Granting candidate country status  
– Opening accession negotiations  
– Financial rewards (Phare programme) | – Delays in the accession advancement process  
– Financial sanctions (suspension of assistance) |
| Negotiation 1998/2000-02 (2000-04 for Bulgaria and Romania) | – Copenhagen criteria  
– Conditions for opening and closing chapters  
– Priority areas (in the Accession Partnerships) | – Opening chapters  
– Closing chapters  
– Credible membership perspective (timetable)  
– Completion of accession negotiations  
– Financial rewards (Phare, ISPA, SAPARD) | – Delays in the accession advancement process  
– Financial sanctions (suspension of assistance) |
| Accession 2002-04 (2004-07 Bulgaria and Romania) | – Copenhagen criteria  
– Country-specific conditions | – Signing the accession treaty  
– Accession  
– Financial rewards (Phare, ISPA, SAPARD) | – Financial sanctions (suspension of assistance)  
– Safeguard clauses (internal market, justice and home affairs, etc.) |

Source: Adapted from Gateva, E. (2015), European Union Enlargement Conditionality.

The conditions applied in the pre-negotiation stage were fairly general. In addition to the Copenhagen criteria, the pre-accession strategy adopted by the European Council in 1994 and the subsequent white paper contained some measures expected to be adopted by the associated countries in preparation for accession, with a focus on meeting the obligations of the EU internal market: free movement of goods, services and, to certain extent, capital. The other parts of EU legislation were given less attention (Grabbe, 2006).

More detailed conditions for EU membership were included in the Commission’s communication “Agenda 2000” (European Commission, 1997). For instance, the conditions related to the “existence of a functioning market economy” were interpreted as including liberalised prices and trade, the absence of significant barriers to market entry, the presence of a legal system, macroeconomic stability, a sufficiently developed financial sector, etc. These conditions were to be applied in a uniform way by all applicant countries.

Since 1990, the EU has also provided financial assistance to the associated countries of Central and Eastern Europe, Cyprus and Malta until their accession in 2004. The EU Phare programme, with a relatively modest financial envelope, was initially aimed mainly at providing technical assistance related to economic reforms. In 1997, it became more “accession-oriented”, with funds allocated for specific needs of the accession process (Business and Strategies Europe, 2015). The conditionality included in Phare programme gave the Council, on a proposal of the Commission, the possibility to suspend pre-accession assistance in case of non-respect of the Europe Agreement or insufficient progress towards fulfilling the Copenhagen criteria. The financing memoranda also included some specific conditionalities, for instance regarding the adoption of legislative measures or ensuring sufficient administrative capacity in a given area (Pettai and Zielonka, 2003).
More conditionalities were added and were stricter during the negotiation phase. In 1998, the Council opened accession negotiations with a first group of six applicant countries; a second group of six countries joined them in 2000. The accession negotiations were divided into 31 negotiation chapters; the basic conditions for the closure of any chapter included full acceptance of the EU acquis (no derogations), satisfactory progress on transposition and administrative capacity building in the area covered by the chapters. In parallel, the EU established accession partnerships with the candidate countries, which defined the framework of the accession process. They set out priority areas in which countries were to make progress and the framework for financial assistance. Priority areas differed by country and included, for instance, improved macroeconomic stability, industrial restructuring or the privatisation of certain sectors. This established a strong link between the advancement of negotiations and progress in preparing for accession.

Ten candidate countries fulfilled all of the membership conditions and completed negotiations with the EU in December 2002. Those ten countries joined the EU in May 2004. Bulgaria and Romania completed the negotiations in 2004 and joined the EU in 2007. Countries finalised their preparations for accession between the completion of the accession negotiations and accession itself. This included the fulfilment of the country-specific conditions established by the European Commission. These outstanding issues related mainly to the internal market and the delivery of EU funds. These conditions differed by country, which was a different approach from the uniform set of conditions applied by the EU to all applicants in the earlier stages of the enlargement process.

Some particularly interesting features regarding the use of conditionalities in the enlargement process can be highlighted.

The first one is the enormous scope of accession conditionalities: their fulfilment actually required a total transformation of the economic, legal and institutional system of the candidate countries. Adoption of the acquis required the transposition of 80 000 pages of legislative texts; it was also a moving target because the body of legislation changed with time (Grabbe, 2006). The acquis requirements were interpreted by the EU in a strict sense: applicants were expected to adopt the acquis fully and without opt-outs. The scope of the conditionalities went beyond the adoption of the acquis communautaire to include fields with limited EU competences, such as judicial reform, pensions, corporate governance and administrative capacity.

Second, the use of conditionalities in the enlargement process was remarkably effective. Despite having to absorb the entire acquis in a short timeframe, at the date of their accession, new member states had achieved a similar, and sometimes better, level of transposition of EU law as the “old” member states. For instance, in 2005 the ten new member states scored better on transposing the Internal Markets Directives than the EU-15: the “transposition deficit” of the 10 new member states was 1.7% while that of the old member states (EU-15) was 2.1%. New member states also demonstrated their capacity to cope with market forces within the Union after accession by expanding their exports and achieving high growth rates in the years after accession, although some of them were severely hit by the financial crisis in 2009.

Third, the reward-threat balance in the enlargement process was dominated by accession advancement rewards (Gateva, 2015). The most powerful conditionality tool was access to different stages of the accession process. The expected benefits from EU membership – political, economic and financial – played a much greater role than EU financial assistance. Pre-accession assistance was much lower than the EU funds that would be
available to new member states after accession. The available financial sanctions (suspension of funds) have not been applied in practice.

On the one hand, the lessons learnt from the enlargement conditionalities are not fully applicable to the conditionalities in EU funds as the structure of incentives in this process was different. On the other hand, the experiences from the wide use of conditionalities in the enlargement process could have facilitated the acceptance of Cohesion Policy ex ante conditionalities in the 2014-20 period by the new member states.

Experiences from the use of conditionalities in development policy

The World Bank and the International Monetary Fund (IMF) have been applying conditionalities in development policy on a broad scale for many years. Since the 1990s, the EU has also increasingly been applying conditionalities in its development assistance and in its relations with third countries, in particular political conditionalities and the conditions attached to budget support programmes.

The IMF has always applied policy conditionality to most of its loans, while the World Bank has used them systematically since the 1980s. This was related to the switch from project lending towards programme lending and, in particular, towards structural adjustment programmes (a budget support-type mechanism). The initial conditions addressed short-term macroeconomic and fiscal imbalances, privatisation and trade liberalisation (OECD, 2009). The number and the scope of conditionalities increased substantially when the World Bank started moving from structural (i.e. general) adjustment programmes towards sectoral ones. Conditionalities “extended to all economic sectors and to the wide range of policy instruments” (Killick, 1997). In addition to macroeconomic and sector-specific conditionalities, they started to also include social and environmental conditions, and political conditions such as the rule of law, respect of human rights and progress towards democracy.

The extended use of policy conditionality has received a lot of criticism. Some of the evaluations concluded that conditionality was not an effective means of improving economic policies in recipient countries (Killick, 1997; Geske Dijkstra, 2002). Donors were not in position to sufficiently motivate unwilling governments to change policies or to undertake the necessary reforms; lack of political will and weak domestic institutions were the main barriers. Other difficulties included the lack of necessary human resources, both on the side of the donors and that of the recipients; the risk of “moral hazard” that providing aid may reduce the incentive for recipient countries to carry out reforms; and the contradiction about tight conditionalities and democratic decision making (Geske Dijkstra, 2002).

In response to this criticism, the World Bank reformed its conditionality system in 2005. The reform has introduced five good practice principles: 1) reinforced country ownership; 2) harmonised framework between donors; 3) customised support to each country’s circumstances; 4) “criticality” – selecting solely the conditions which are critical for achieving results; 5) transparency and predictability. According to the World Bank, these principles were applied with success: the average number of conditions declined from over 30 in the mid-1990s to 12 in 2005, and the respect of countries’ ownership and predictability of conditions have improved (World Bank, 2007).

While the conditionalities used by the World Bank and the IMF have been described in detail in many studies and reports, there are not many analyses of conditionalities applied by the EU or other international donors.
Conditionalities in EU development policy can be divided into three main groups:

1. Political conditionalities applied by the EU in external aid and in EU agreements with third countries
2. Conditionalities (called “eligibility criteria”) in EU budget support programmes
3. Specific conditionalities related to individual aid programmes.

The EU has applied political conditionalities in its agreements with third countries since 1995. These include: a possibility to suspend aid to countries which violate human rights and democratic principles and the rule of law. These conditionalities can be negative (reducing or suspending benefits) or positive (granting additional benefits); they can be applied ex ante or ex post. For instance, the Cotonou Agreement, which regulates EU relations with the African, Caribbean and Pacific, foresees a procedure of consultations and finally suspension of aid in case of violation of the “essential elements” – human rights, democratic principles and rule of law – as well as in “serious cases of corruption”.

Del Biondo (2011) shows that the negative political conditionalities have not been applied by the EU in a consistent way; security and economic interests could explain why some cases of non-respect of political conditionalities have not been sanctioned. An example of a positive political conditionality was the Governance Initiative, a mechanism offering the African, Caribbean and Pacific partners additional funding upon their commitment to democratic governance, applied in 2007-13. A similar tool was used in the same period in EU Neighbourhood Policy: the Governance Facility for the European Neighbourhood. However, the Commission’s report pointed at practical difficulties in applying the tools incentivising governance: their insufficient flexibility, limited ownership and hence their limited impact (European Commission, 2013).

Koch (2015) shows that EU political conditionality goes beyond aid, and is increasingly used in EU external policies – such as trade and investment policy, energy and climate, foreign and security policy. This reflects the increasing importance of these policies in EU relations with many developing countries and the diminishing role of aid. In trade policy, positive conditionalities prevail (more beneficial trade conditions to countries with a good record of compliance with human rights and rule of law), but sanctions are also applied (withdrawal of trade preferences in case of violation of human rights). In 2008, the EU started also to include sustainable development clauses, related to the respect of environmental standards and social norms, in its free trade agreements. These sustainable development clauses provide for soft dispute settlement mechanisms (consultations), but do not trigger sanctions.

Conditionalities play a key role in EU budget support programmes. The reference to conditions is included in the definition of budget support applied in the Commission’s documents: budget support is a “transfer of financial resources … to the national treasury of a partner country, following the respect by the latter of agreed conditions for payment” (European Commission, 2010b). EU budget support programmes are subject to four eligibility criteria covering national or sectoral public policy, a stable macroeconomic framework, credible public financial management and transparency of the budget (European Commission, 2012b). These criteria need to be met at the approval of the programme (ex ante), but progress is also monitored in the course of programme implementation. In addition to the eligibility criteria, EU budget support programmes also apply performance-based conditions when budget support is provided in variable tranches. Prior to each disbursement, progress is assessed against specific indicators in the performance assessment framework and funds may be disbursed in proportion to the percentage of the
indicators that have been met. Any undisbursed amount is in principle reallocated to other programmes within the same country.

A report evaluating EU budget support programmes in African, Caribbean and Pacific countries (Fiscus and ADE, 2014) observed that since the mid-2000s there has been a clear shift in the approach of EC and EU bilateral donors towards a more systematic use of conditionalities and more active “leveraging” of improvements in governance. Many budget support providers have shifted from using pre-conditions for budget support towards the active exertion of influence with the objective of obtaining steady improvements in governance in the donor countries.

The role of conditionalities in EU development is more controversial than it is in enlargement, with diverging views about their effectiveness. There are no doubts that many developing countries have recorded improvements in policy areas covered by the conditionalities, although it is difficult to assess to what extent the improvements actually resulted from these conditionalities and to what extent they resulted from other factors. Some evaluations concluded that stronger conditionalities did not generate improvements in governance and “served only to deepen feelings of distrust and to move further away from a constructive policy dialogue” (Fiscus and ADE, 2014). An evaluation for DANIDA (2014) concludes that conditions have not been very effective as an incentive tool for recipient governments. The Commission’s green paper states that “the balance of evidence suggests that policy conditionality has rarely been effective in securing reforms unless there is a strong domestic constituency in favour”. Therefore, the Commission “applies a dynamic approach to eligibility criteria for budget support, by requiring relevant, credible commitment to reform and evidence of progress rather than compliance with minimum standards” (European Commission, 2010b).

**Conditionalities in EU Cohesion Policy**

**Before 2014: Limited conditionalities and links with economic governance**

Cohesion Policy is the main multiannual investment policy of the European Union, with a contribution from the EU budget of approximately EUR 50 billion per year. Cohesion Policy is delivered through three funds: the European Regional Development Fund (ERDF), the Cohesion Fund and the European Social Fund (ESF).10

Before the economic crisis, there was little policy conditionality applied to Cohesion Policy. Macroeconomic conditionality, which means the possibility to suspend EU funds if member states run unbalanced economic policies, applied only to the Cohesion Fund, and had never been used in practice until 2012. There was no direct link between national Cohesion Policy strategies and member states’ reform programmes (Berkowitz et al., 2015).

The main lesson from the economic crisis was that the macroeconomic framework matters for the achievement of Cohesion Policy objectives (see the first section). This is the rationale behind a number of provisions linking Cohesion Policy funds to sound economic governance.

At the same time, a range of regulatory, strategic and administrative weaknesses were identified as hindering the effectiveness of public investments. For instance, there were still gaps with regard to transposition and implementation of EU legislation into national law, but Cohesion Policy could not help address these gaps as there were no linkages between EU transfers and transposition of EU legislation. Successive audits by the Court of Auditors and evaluations have highlighted systemic weaknesses in some member
states’ administrative capacity in relation to the application of public procurement and state aid and environmental assessment rules. These have an effect not only on the implementation of Cohesion Policy, but also on the efficient functioning of product markets.

This coincided with an increased focus in the academic literature on the institutional basis for successful economic development. Barca in his report “An agenda for a reformed Cohesion Policy” argued that exogenous intervention by means of conditional grants can be justified to address market or government failures where economic institutions are weak because they are contrary to the self-interest of the local elite or because they have not developed due to path dependency (Barca, 2009). There is growing evidence of the strong link between the quality of government and regional economic growth (Charron, Lapuente and Dijkstra, 2012). For these reasons, the European Commission argued in 2010 that “achievement of institutional reform is critical to underpin structural adjustment, foster growth and jobs and reduce social exclusion, notably by reducing regulatory and administrative burdens on businesses or by improving public services” (European Commission, 2010a). It is necessary to identify systemic weaknesses upfront and address them in a proactive manner so that the prerequisites for an optimal use of resources from the EU budget are in place.

**New conditionalities in Cohesion Policy funds since 2014**

In the current programming period (2014-20), many new linkages were therefore introduced between Cohesion Policy, the new European economic governance, and member countries’ economic policies and institutions. The new legal framework includes two main types of policy conditionalities:

1. *ex ante* conditionalities
2. macroeconomic conditionalities and links to country-specific recommendations.

**Ex ante conditionalities**

The purpose of the introduction of *ex ante* conditionalities was to identify and address a range of factors in relation to regulatory, strategic and administrative capacity which should be in place before the programming period started, in order to ensure that investments were effective. The baseline was the European Union *acquis* for regulations in policy areas relevant for the implementation of the ESIF and a commonly agreed (i.e. defined in the legal framework) standard for strategic and administrative capacity.

*Ex ante* conditionalities set sector-specific and horizontal conditions to be met at an early stage of implementation, and at the latest by the end of 2016. They include:

- Seven general *ex ante* conditionalities linked to horizontal aspects of programme implementation, applicable to all ESIF. They cover the areas of public procurement, state aid, anti-discrimination, gender equality, disability, environmental legislation and statistical systems.
- Twenty-nine thematic *ex ante* conditionalities setting out sector-specific conditions for investment under Cohesion Policy. They cover, for instance, sectoral bottlenecks in the areas of transport, digital economy, energy, SME support, labour market institutions, education, etc. See Annex A for a full list of the *ex ante* conditionalities.

*Ex ante* conditionalities provide an incentive for member states to implement structural changes and policy reforms, including those linked to the relevant country-specific recommendations. They also aim at better targeting public investment thanks to improved and more strategic policy frameworks, prioritisation of projects, and
complementarities with other sources of funding. Moreover, *ex ante* conditionalities are expected to contribute to improving the institutional and administrative capacity of public institutions and stimulate co-ordination within public administrations and *vis-à-vis* the relevant stakeholders (European Commission, 2017).

Member states self-assess which *ex ante* conditionalities have been fulfilled before the adoption of Cohesion Policy programmes. This self-assessment is then verified by the Commission before adoption of programmes. For unfulfilled or partially fulfilled conditionalities, the relevant authorities developed action plans with a timetable of actions aimed at their fulfilment by the end of 2016.

**Macroeconomic conditionalities**

The current legal framework envisages partial or total suspension of ESIF in case of failure by a member state to comply with one of the EU’s economic governance procedures, namely the Excessive Deficit Procedure and the Macroeconomic Imbalance Procedure. These are the surveillance procedures for the fiscal and macroeconomic policies, respectively.

These possible suspensions only happen in the case of repeated failure to take action by the national government, not uniquely because the existence of fiscal or macroeconomic imbalances. Under the Excessive Deficit Procedure, the Commission is obliged to propose a suspension of parts of ESIF funding when certain steps of this procedure are reached. Under the Excessive Imbalances Procedure, the triggers for suspension are failure to submit a satisfactory corrective action plan after two successive recommendations from the Council and failure to take corrective action as recommended by the Council after two successive decisions. The regulations also foresee the possibility of suspension for countries benefiting from financial assistance mechanisms.

The Commission can also request that a member state revise programmes to support the implementation of recommendations from the Commission in the context of the preventive and corrective arm of the Macroeconomic Imbalances Procedure where these are relevant in the context of the ESIF. It can also request reprogramming to maximise the growth and competitiveness part of the ESIF in member states benefiting from financial assistance under an EU mechanism.

**Links to country-specific recommendations**

The new legal framework also introduces a policy conditionality linked to the implementation of the country-specific recommendations addressed to EU member states by the Council in the context of the European Semester.

Within the broader set of country-specific recommendations, Cohesion Policy targets those recommendations that are appropriate to address through multiannual investments within the scope of the ESIF. In practice, this has meant that the relevant country-specific recommendations are those in the field of employment, public administration, business, research and development, energy, transport, education, health, etc.

These country-specific recommendations must be addressed in the national strategies for EU funds (Partnership Agreements) and in the operational programmes through which these funds are implemented. The regulations also foresee the possibility for the Commission to request the modification of an adopted partnership agreement and operational programme where this is necessary to support a new country-specific recommendation. It should be noted that since structural reforms address long-term problems, it is anticipated that such
changes will be rare. Frequent reprogramming could prove disruptive to multiannual investment strategies.

**Impact of EU Cohesion Policy conditionalities**

**Ex ante conditionalities**

While the short timeframe of implementation of *ex ante* conditionalities in EU Cohesion Policy does not allow their impact to be fully evaluated, a recent report from the European Commission (European Commission, 2017) and a study by Metis GmbH (2016) provide some assessment.

Around 75% of all the applicable general *ex ante* conditionalities and 58% of the thematic ones were considered to be fulfilled at the time the programmes were adopted (Metis, 2016). Among the thematic *ex ante* conditionalities, those related to environmental and transport infrastructure (water and railways in particular) as well as to smart specialisation, health strategy, active ageing and early school leaving proved to be the most difficult to fulfil. The best ratings in terms of fulfilment were achieved for the conditionalities related to self-employment, co-generation of heat and power, and renewables (Figure 1).

![Figure 1. Fulfilment of thematic ex ante conditionalities at the adoption of programmes, by sector](image)


As regards the fulfilment of the general conditionalities, EU member states reported the most difficulties in relation to arrangements for state aid implementation. Particular challenges emerged around statistical systems and public procurement.
The European Commission (2017) identifies several channels through which *ex ante* conditionalities help to improve the effectiveness of public investment and stimulate structural changes in EU member states. Some concrete examples are given in Box 1.

- **Improving the investment environment in the EU.** Many of the *ex ante* conditionalities address horizontal and sector-specific barriers that hinder investment in the EU. For instance, they require the existence of measures for the effective application of EU public procurement law and state aid rules, including arrangements to ensure administrative capacity for application of those rules and transparent procedures for the award of public procurement contracts.

- **Supporting structural changes.** *Ex ante* conditionalities contributed to structural reforms in many policy areas, such as the labour market, research and innovation, energy, education, health, and social inclusion. *Ex ante* conditionalities helped speed up the reforms, reinforced the overall commitment of governments to the reforms and raised awareness of the reforms at a political level. The availability of ESIF for both planning and implementation facilitated the involvement of competent experts in the reform process.

- **Accelerating the transposition and implementation of EU legislation.** Several member states were mobilised to complete the transposition of the EU *acquis*, for instance in the areas of energy efficiency, water and waste. Some member states improved the implementation of EU rules in a systemic manner, for example by modifying their legislation or by addressing the practical aspects of their application of the relevant EU rules on the ground.

- **Better targeting of support from EU funds and other public funding.** Many *ex ante* conditionalities require that support from the ESIF form part of policy or strategic frameworks which meet certain quality criteria. Some of them require prioritisation of investments based on a needs analysis, including national and regional public investments. For instance, transport-related *ex ante* conditionalities require a strategic framework to be in place – comprehensive national or regional transport plans, accompanied by a mature project pipeline. Those transport plans provide a common basis for investment decisions and ensure the co-ordinated use of the different funding sources.

- **Improving institutional capacity.** Insufficient capacity and efficiency of public administrations in some member states and regions have a negative impact on the implementation of the ESIF and the competitiveness of EU regions. *Ex ante* conditionalities require the development and implementation of a strategy to reinforce and reform public administrations, as well as the reinforcement of administrative capacity to implement EU rules on public procurement, state aid, environmental assessments, etc.
Box 1. Examples of the impact of ex ante conditionalities in EU member states

In Romania, the measures put in place to fulfil the ex ante conditionalities for public procurement led to revision of the public procurement system and to a consolidated legal framework (new and upgraded legislative texts and prevention of conflict of interests measures), a reinforced institutional set-up (the creation of the National Agency for Public Procurement) and arrangements that ensure transparent contract award procedures (including upgraded and co-ordinated methodologies, e-procurement and web-based, more user-friendly guidance).

In Slovenia, the Transport Development Strategy set out in the framework of the ex ante conditionalities for transport is the first comprehensive national transport strategy covering all modes of transport. It identifies the main bottlenecks and sets out investment priorities in the transport sector at the national, regional and EU level.

Country-specific recommendations for Latvia recommended making the research system more integrated, strengthening the links with the private sector and promoting internationally competitive research institutions. As required by the ex ante conditionalities for AC research and innovation, a smart specialisation strategy was elaborated, which contributed to structural change in the research and innovation sector through a reform of research institutions. It helped to focus the ESIF support on priority areas and to incentivise private investment in innovation.

In the Czech Republic, Italy, Poland, Portugal, Slovenia and Spain, the need to fulfil the ex ante conditionalities for energy efficiency gave a significant push to swift transposition of the Energy Efficiency and Buildings Directives. In Cyprus, Italy and Spain, the ex ante conditionalities regarding the waste sector have accelerated the adoption of the relevant regional waste management plans in line with the Waste Framework Directive.

Italy still lags behind many of the other member states in fast broadband. Ex ante conditionalities for next-generation network infrastructure/broadband pushed Italy to develop an ambitious national broadband strategy which improves co-ordination of all broadband investments of EU, national and regional importance. In addition, ex ante conditionalities for AC digital growth/ICT development gave an impetus to addressing persistent issues with interoperability of e-services across the Italian regions. The National Strategy for Digital Agenda has for the first time defined a national catalogue of e-services and ensured the development of the necessary guidance and provision of technical support to regions.

In Estonia, in the framework of the ex ante conditionalities on institutional capacity and efficient public administration, the OECD Public Governance Review action plan was revised and a quality management system was introduced with a view to enhancing the efficiency, effectiveness and flexibility of management. Development of administrative capacity of the staff and of organisations (management systems, processes and structures) was prioritised. The OECD action plan serves as a basis for the ongoing state reform.


While ex ante conditionalities have proved to be an important incentive for member states and regions to improve their investment frameworks and carry out reforms, there are some challenges in their implementation:

- Complexity of the ex ante conditionalities process. The fulfilment of the conditionalities often required additional workload and costs, particularly in those member states with a large number of investment priorities and thematic objectives in relation to the allocated EU funds.
• **Scope** of *ex ante* conditionalities. Some member states and regions think there are too many *ex ante* conditionalities and that the mechanism would have been more efficient if it had focused on a limited number of key conditionalities. There are also some inconsistencies related to the fact that the conditionalities do not apply to the other EU funds outside the ESIF.

• **Durability** of *ex ante* conditionalities. The current assessment process is a one-off exercise, the rules do not foresee monitoring of the *ex ante* conditionalities by the Commission once they are considered to be fulfilled.

• **Implementation of programmes prior to fulfilment** of *ex ante* conditionalities. Under the current rules, member states were expected to fulfil the conditionalities by the end of 2016. Programmes could have been launched and payment claims submitted to the Commission before the fulfilment of the *ex ante* conditionalities.

**Macroeconomic conditionalities**

Experience with the implementation of the new provisions is limited so far. There has only been one case for the moment: the Decision of the Council to suspend the Cohesion Fund\(^6\) in 2012 to Hungary because of its failure to take effective action to address its excessive deficit. This suspension was nevertheless lifted\(^7\) before having an actual impact because Hungary adopted the required effective action.

In the programming period 2014-20 the provisions setting out these conditionalities have not yet been implemented.

On the so-called “first strand”, which related to the Commission’s power to request a modification of the operational programmes to address relevant Council recommendations in the area of economic and employment policies, the late start in implementing the ESIF programmes has significantly curbed the possible launching of a reprogramming request by the Commission. It is also important to bear in mind that the new provisions require that the implementation of the relevant Council recommendation be supported by EU funding and does not refer to those that should be addressed through legislative or administrative reforms.

The “second strand” relates to the power of the Commission to propose a suspension in case of non-effective action by a member state to adopt the actions required by the Council in fiscal and macroeconomic policies. There was the legal basis for a possible implementation after the Council Decision of July 2016 on non-effective action by Portugal and Spain to address their excessive deficits. As required by the relevant article, the Commission immediately informed the Parliament, which invited the Commission to a structured dialogue, as also envisaged by the same paragraph. The structured dialogue only began on 3 October 2016 and was not concluded by the time the Commission decided that both excessive deficit procedures should be put in abeyance (mid-November).

**Conclusions**

Over the last 20 years, the European Union has developed a specific form of policy conditionalities for the ESIF funds that reflect its unique governance system. This specificity is linked to the evolving management of its currency area and the positive experience of the accession process, which has led to a familiarity with regulatory and policy benchmarking. It should be recalled that transfers under the ESIF represent around
0.5% of GDP, and are therefore a relatively small part of public expenditure. However, their importance in public investment, particularly in less developed member states, has allowed them to be a lever for policy change. Although, the EU’s Cohesion Policy and development policies followed a similar path in integrating the importance of institutions and governance for economic developments, their instruments continue to be very dissimilar. This reflects the more general distinction between policy conditionality in internal and external instruments.

The conditionalities related to the Maastricht criteria played a key role in the creation of the European Monetary Union. The use of accession conditionalities applied in the “eastern enlargement” of the European Union in 2004-07 was remarkably effective; they stimulated large-scale transformation of the economic, legal and institutional systems of the candidate countries. There are more diverging views about the effectiveness of conditionalities in EU development policies, although there is no doubt that some developing countries recorded improvements in policy areas covered by the EU conditionalities.

The scope of conditionalities in Cohesion Policy has substantially expanded in the current programming period. The legal framework includes two main types of conditionalities.

*Ex ante* conditionalities ensure a direct link between the investments co-financed by the ESIF and EU-level policies. They contribute to the transposition and implementation of the relevant Union legislation, help tackle barriers to investment and trigger policy reforms. These benefits are not limited to the Cohesion Policy funds, but have a positive impact on the delivery of structural changes and on improving the investment environment in the EU.

However, concrete experience of implementing conditionalities and the continuing evolution of the process of European integration means that there are a number of questions about the future role of conditionalities, which are not easy to answer and on which the opinions of stakeholders differ. For instance:

- How can the link between conditionalities and the key structural reforms be strengthened?
- Should the conditionalities be more flexible, taking into account national and regional contexts?
- Should conditionalities focus more on a limited number of key issues?
- More generally, should conditionalities also be applied to the other EU funds?

Regarding EU economic governance and EU funds, the discussion is now whether the architecture of the European economic governance should be strengthened to further align it with the conditions of an optimal currency area and whether the linkages with EU funds should be further developed, probably through a system of positive incentives.
Notes

1. We focus here on policy conditionalities as opposed to conditionalities linked to performance, accountability, fiduciary or regulatory concerns.
4. European structural and investment funds (ESIF) include three Cohesion Policy funds: the European Regional Development Fund (ERDF), the Cohesion Fund and the European Social Fund (ESF), as well as the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). They share a common set of rules and procedures, while some rules remain fund-specific.
5. This group included Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.
6. Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia.
7. Transposition of the directives was measured by “transposition deficit”: the percentage of Internal Market Directives not yet communicated by member states to the Commission as having been transposed, in relation to the total number of directives which should have been transposed by the deadline. Source: European Commission (2005).
8. EU-12 candidate countries received, on average, EUR 1.7 billion of pre-accession assistance (Phare, ISPA, SAPARD) per year in years 2000-03. For comparison, in the years 2007-13 they received on average EUR 25.5 billion per year of Cohesion Policy funds only.
9. The Cotonou Agreement, Articles 96 and 97.
10. Cohesion Policy funds together with the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund are referred to as European structural and investment funds (ESIF).
11. See Farole, Rodriguez-Pose and Storper (2009) for an extensive review of the literature.
12. There are also specific ex ante conditionalities established for the EAFRD and the EMFF funds.
13. The trigger for suspension is a decision by the Council either under: 1) Article 126(8) of the TFEU establishing no effective action in response to a Council recommendation to put an excessive deficit to an end under Article 126 (7) of the TFEU; or 2) Article 126(11) of the TFEU establishing that a euro area member has failed to comply with the notice given by the Council under Article 126(9) of the TFEU.
14. The Excessive Imbalances Procedure is a procedure under the corrective arm of the Macroeconomic Imbalance Procedure. It may be opened by the Council, following a recommendation of the Commission, against a member state which has severe or excessive imbalances that may jeopardise the proper functioning of the Economic and Monetary Union.
15. European Financial Stabilisation Mechanism, the Balance of Payments Mechanism, the European Financial Stability Facility, or the European Stability Mechanism.


17. 2012/323/EU: Council Implementing Decision of 22 June 2012 lifting the suspension of commitments from the Cohesion Fund for Hungary.

References


Pettai, V. and J. Zielonka (eds.) (2003), The Road to the European Union, Volume 2, Manchester University Press.


Annex A.
Ex ante conditionalities in EU Cohesion Policy

Table A.1. The scope of ex ante conditionalities in EU Cohesion Policy, 2014-20

<table>
<thead>
<tr>
<th>General ex ante conditionalities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Anti-discrimination</td>
<td>The existence of administrative capacity for the implementation and application of European Union anti-discrimination law and policy in the field of European structural and investment funds (ESIF).</td>
</tr>
<tr>
<td>Gender</td>
<td>The existence of administrative capacity for the implementation and application of Union gender equality law and policy in the field of ESIF.</td>
</tr>
<tr>
<td>Disability</td>
<td>The existence of administrative capacity for the implementation and application of the UN Convention on the Rights of Persons with Disabilities (UNCRPD) in the field of ESIF.</td>
</tr>
<tr>
<td>Public procurement</td>
<td>The existence of arrangements for the effective application of Union public procurement law in the field of ESIF.</td>
</tr>
<tr>
<td>State aid</td>
<td>The existence of arrangements for the effective application of Union state aid rules in the field of ESIF.</td>
</tr>
<tr>
<td>Environmental legislation relating to EIA and SEA</td>
<td>The existence of arrangements for the effective application of Union environmental legislation related to environmental impact assessment (EIA) and strategic environmental assessment (SEA).</td>
</tr>
<tr>
<td>Statistical systems and result indicators</td>
<td>The existence of a statistical basis necessary to undertake evaluations to assess the effectiveness and impact of the programmes. The existence of a system of result indicators necessary to select actions which most effectively contribute to desired results, to monitor progress towards results and to undertake impact evaluation.</td>
</tr>
</tbody>
</table>

| Thematic ex ante conditionalities                                                                                       |                                                                                                      |
| Research and innovation                                                                                                 | The existence of a national or regional smart specialisation strategy in line with the National Reform Programme, to leverage private research and innovation expenditure, which complies with the features of well-performing national or regional research and innovation systems. |
| Research and infrastructure                                                                                             | The existence of a multi-annual plan for budgeting and prioritisation of investments.                    |
| Digital growth                                                                                                          | A strategic policy framework for digital growth to stimulate affordable, good quality and interoperable ICT-enabled private and public services and increase uptake by citizens, including vulnerable groups, businesses and public administrations. |
| Next generation network (NGN)                                                                                           | The existence of national or regional NGN plans which take account of regional actions in order to reach the EU’s high-speed Internet access targets, focusing on areas where the market fails to provide an open infrastructure at an affordable cost and of a quality in line with the Union competition rules, and to provide accessible services to vulnerable groups. |
| Small Business Act                                                                                                      | Specific actions have been carried out to underpin the promotion of entrepreneurship taking into account the Small Business Act. |
| Energy efficiency                                                                                                       | Actions have been carried out to promote cost-effective improvements of energy end use efficiency and cost-effective investment in energy efficiency when constructing or renovating buildings. |
| Co-generation                                                                                                           | Actions have been carried out to promote high-efficiency co-generation of heat and power.             |
| Renewables                                                                                                              | Actions have been carried out to promote the production and distribution of renewable energy sources.   |
| Risk management                                                                                                         | The existence of national or regional risk assessments for disaster management taking into account climate change adaptation |
| Water sector                                                                                                             | The existence of: 1) a water pricing policy which provides adequate incentives for users to use water resources efficiently; and 2) an adequate contribution of the different water uses to the recovery of the costs of water services at a rate determined in the approved river basin management plan for investment supported by the programmes. |
| Waste sector                                                                                                            | Promoting economically and environmentally sustainable investments in the waste sector, particularly through the development of waste management plans consistent with Directive 2008/98/EC, and with the waste hierarchy. |
Table A.1. The scope of ex ante conditionalities in EU Cohesion Policy, 2014-20 (continued)

<table>
<thead>
<tr>
<th>Thematic ex ante conditionalities</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport master plan</td>
<td>The existence of a comprehensive plan(s) or framework(s) for transport investment in accordance with the member state’s institutional set-up (including public transport at the regional and local levels) which supports infrastructure development and improves connectivity to the TEN-T comprehensive and core networks.</td>
</tr>
<tr>
<td>Railway</td>
<td>The existence within the comprehensive transport plan(s) or framework(s) of a specific section on railway development in accordance with the member state's institutional set-up (including concerning public transport at the regional and local levels) which supports infrastructure development and improves connectivity to the TEN-T comprehensive and core networks.</td>
</tr>
<tr>
<td>Other modes of transport</td>
<td>The existence within the comprehensive transport plan(s) or framework(s) of a specific section on inland waterways and maritime transport, ports, multimodal links and airport infrastructure, which contribute to improving connectivity to the TEN-T networks and to promoting sustainable regional and local mobility.</td>
</tr>
<tr>
<td>Smart energy infrastructure</td>
<td>The existence of comprehensive plans for investments in smart energy infrastructure and of regulatory measures which contribute to improving energy efficiency and supply security.</td>
</tr>
<tr>
<td>Active labour market policies</td>
<td>Active labour market policies are designed and delivered in the light of the employment guidelines.</td>
</tr>
<tr>
<td>Self-employment</td>
<td>Self-employment, entrepreneurship and business creation: the existence of a strategic policy framework for inclusive start-up.</td>
</tr>
<tr>
<td>Labour market institutions</td>
<td>Labour market institutions are modernised and strengthened in the light of the employment guidelines. Reforms of labour market institutions will be preceded by a clear strategic policy framework and ex ante assessment including with regard to the gender dimension.</td>
</tr>
<tr>
<td>Active health ageing</td>
<td>Active ageing policies are designed in the light of the employment guidelines.</td>
</tr>
<tr>
<td>Adaptation of workers, enterprises</td>
<td>The existence of policies aimed at favouring anticipation and good management of change and restructuring.</td>
</tr>
<tr>
<td>Strategy for youth employment</td>
<td>The existence of a strategic policy framework for promoting youth employment including through the implementation of the Youth Guarantee.</td>
</tr>
<tr>
<td>Strategy for poverty reduction</td>
<td>The existence and implementation of a national strategic policy framework for poverty reduction aiming at the active inclusion of people excluded from the labour market in the light of the employment guidelines.</td>
</tr>
<tr>
<td>Roma inclusion strategy</td>
<td>A national Roma inclusion strategic policy framework is in place.</td>
</tr>
<tr>
<td>Health</td>
<td>The existence of a national or regional strategic policy framework for health within the limits of Article 168 of the Treaty on the Functioning of the European Union (TFEU) ensuring economic sustainability.</td>
</tr>
<tr>
<td>Early school leaving</td>
<td>The existence of a strategic policy framework to reduce early school leaving within the limits of Article 165 of the TFEU.</td>
</tr>
<tr>
<td>Higher education</td>
<td>The existence of a national or regional strategic policy framework for increasing tertiary education attainment, quality and efficiency within the limits of Article 165 of the TFEU.</td>
</tr>
<tr>
<td>Lifelong learning</td>
<td>The existence of a national and/or regional strategic policy framework for lifelong learning within the limits of Article 165 of the TFEU.</td>
</tr>
<tr>
<td>Vocational education and training</td>
<td>The existence of a national or regional strategic policy framework for increasing the quality and efficiency of vocational education and training systems within the limits of Article 165 of the TFEU.</td>
</tr>
<tr>
<td>Institutional capacity</td>
<td>The existence of a strategic policy framework for reinforcing the member state’s administrative efficiency, including public administration reform.</td>
</tr>
</tbody>
</table>