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Building a stronger and more integrated Europe

Aida Caldera Sánchez

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BUILDING A STRONGER AND MORE INTEGRATED EUROPE

ECONOMICS DEPARTMENT WORKING PAPERS No. 1491

By Aida Caldera Sánchez

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ABSTRACT/RÉSUMÉ

Building a stronger and more integrated Europe

Europe's economy is finally growing robustly. These positive developments provide an opportunity to renew efforts to meet the long-term challenges facing the European Union (EU). The EU's record on reducing regional income disparities is mixed and this explains some of citizens' discontent with the European project. Reforming cohesion policy by focusing spending more on items with long-term growth benefits and clear spillovers across borders, including human capital and infrastructure investment could further support income convergence. Higher co-funding rates and less burdensome administration of the cohesion and structural funds could encourage greater spending effectiveness. Sustained improvements in living standards are held back by weak productivity and investment in many countries. Reviving the single market project, by removing remaining barriers in services, energy, digital and transport can help to spur long-term growth. Deepening the single market and faster adoption of digital technologies will create new jobs but put at risk others, perhaps in lagging regions. The EU can help lagging regions catch up by reforming cohesion policy and facilitating firm creation through the removal of barriers across the single market. It can also support better those who lose out from globalisation and are displaced by technological change by making access to the European Globalisation Adjustment Fund easier and broadening its scope not only to help workers displaced by globalisation or an economic crisis, but also due to other reasons such as automation.

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Construire une Europe plus forte et plus intégrée

L'économie européenne connaît enfin une croissance solide. Cette évolution positive offre à l'Union européenne l'occasion de renouveler ses efforts pour relever les défis auxquels elle est confrontée à long terme. Le bilan de l'UE en termes de réduction des disparités de revenus entre les régions est mitigé, ce qui explique en partie le mécontentement des citoyens vis à vis du projet européen. Réformer la politique de cohésion en concentrant davantage les dépenses sur les postes qui apportent des retombées sur la croissance à long terme et des externalités claires au-delà des frontières, y compris le capital humain et l'investissement dans les infrastructures, pourrait soutenir plus avant la convergence des revenus. Un relèvement des taux de cofinancement et un allègement de l'administration contraignante des fonds de cohésion et des fonds structurels pourraient favoriser une efficacité accrue des dépenses. La faiblesse de la productivité et de l'investissement dans de nombreux pays empêche toute amélioration soutenue des niveaux de vie. Donner un nouvel élan au projet du marché unique, en levant les obstacles qui demeurent dans les services, l'énergie, le numérique et le transport, peut contribuer à stimuler la croissance à long terme. Un approfondissement du marché unique et une adoption accélérée des technologies numériques créeront des emplois, mais en menaceront d'autres, peut-être dans les régions qui sont à la traîne. L'UE peut aider ces régions à rattraper leur retard en réformant la politique de cohésion et en facilitant les créations d'entreprises grâce à la suppression des obstacles existant au sein du marché unique. Elle peut aussi apporter un soutien plus fort aux perdants de la mondialisation et à ceux qui ont été privés de leur emploi par l'évolution de la technologie, en facilitant l'accès au Fonds européen d'ajustement à la mondialisation et en élargissant son champ d'application pour aider les travailleurs ayant perdu leur emploi du fait de la mondialisation ou d'une crise économique, mais aussi pour d'autres raisons, comme l'automatisation.

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Building a stronger and more integrated Europe

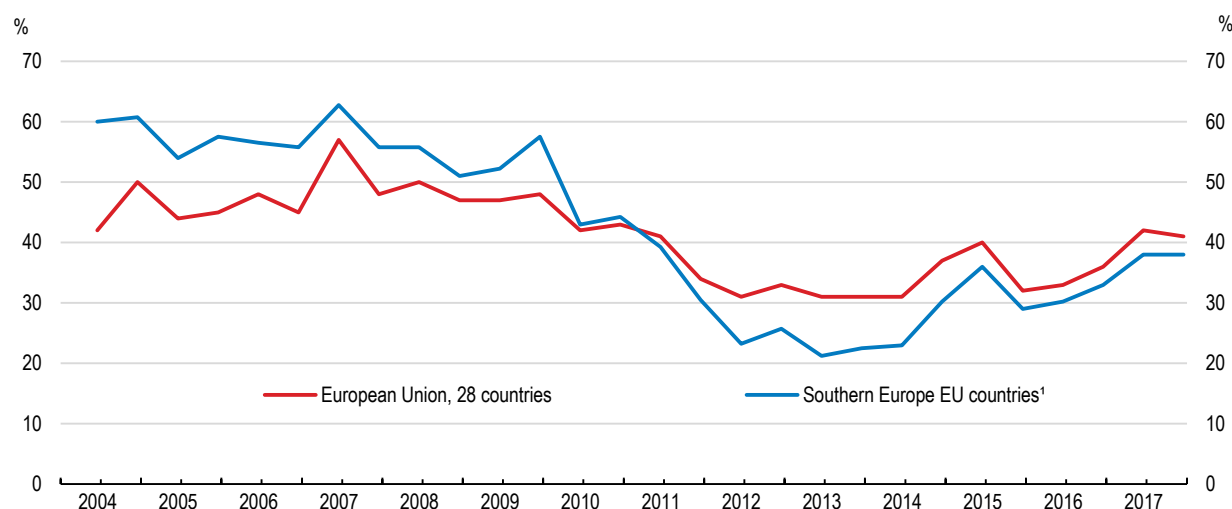
By Aida Caldera Sánchez¹

Challenges remain to make growth stronger and more inclusive

The European economy is showing a strong positive momentum over the last couple of years, with growth becoming entrenched across sectors and countries. Citizens' trust on the European Union is on the rise (Figure 1), after having significantly fallen during the sovereign and refugee crises. The continuous improvement of labour market conditions across Europe should help to further improve trust, as economic insecurity is an important source of people's concerns. However, the popularity of the EU remains low by past standards.

Figure 1. Trust in the EU is recovering, but remains below pre-crisis levels

Respondents claiming they tend to trust the European Union, as an institution, in per cent of total respondents



1. Unweighted average of Greece, Italy, Portugal and Spain.

Source: European Commission, Public Opinion in the European Union, Standard Eurobarometer Survey.

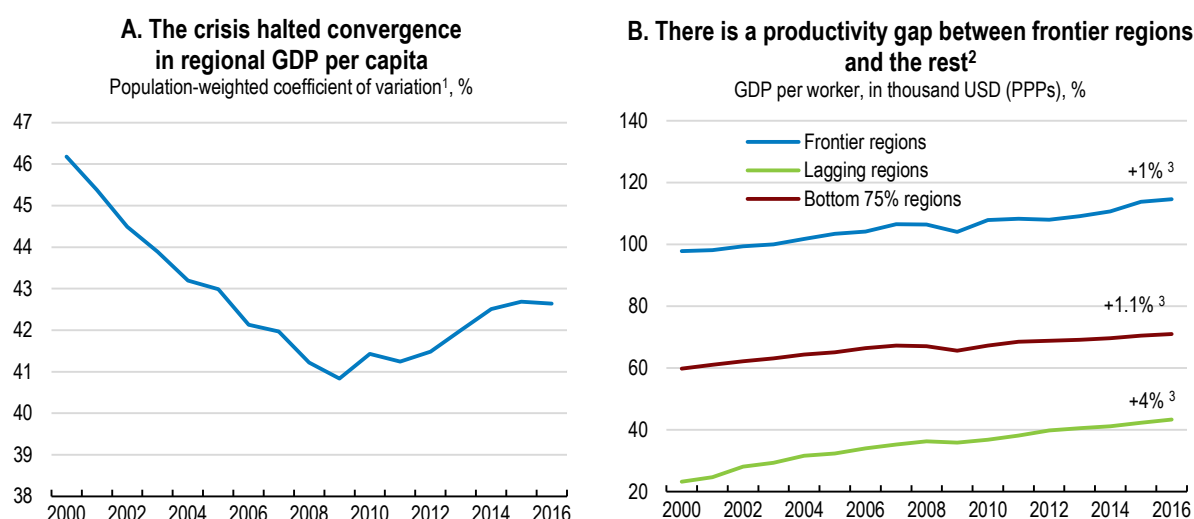
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Discontent with the European project is largest among those left behind by the crises, globalisation and the digital transformation and in poorer EU-15 regions. Workers with low levels of education are those who are less supportive of the European Union (Dustmann et al., 2017). While the combined effect of globalisation and digitalisation has led to some job creation, European labour markets have become increasingly polarised with a decline of middle-skill routine jobs. Real wages fell sharply in some countries hard hit by the crisis and stagnated or have barely grown in others in recent years. Unemployment has declined rapidly lately, yet significant differences across countries remain and many countries have yet to regain their pre-crisis levels. Many workers would like to work more or remain only marginally attached to the labour market.

Regional GDP per capita disparities have declined over time. But progress on regional convergence came to a halt with the crisis and has not resumed since (Figure 2, Panel A). Moreover, while narrowing over time, there is still a significant productivity gap between leading European regions and the rest (Figure 2, Panel B). Votes for populist anti-European parties have grown most in regions hard hit by import competition in the EU-15 (Colantone et al. 2016), suggesting that globalisation also plays a role.

Figure 2. Regional disparities are still relevant



1. The panel shows disparities in GDP per capita (in PPS) between NUTS-2 EU regions.

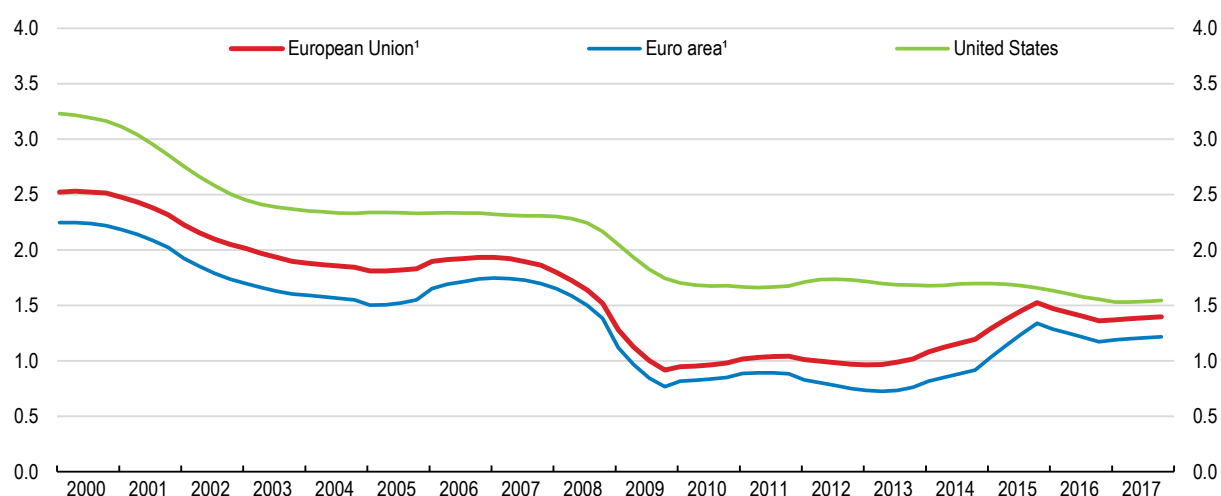
2. The panel shows productivity per worker (in USD PPPs) across main groups of regions in 21 EU countries; regions are defined as Level 2 territorial units (LT2 macro-regions), according to the OECD regional classification. Frontier regions correspond to the top 10% of EU regions in the distribution of average regional-level labour productivity, measured as GDP per worker in USD PPPs; lagging and bottom 75% regions correspond, respectively, to the bottom 10% and 75% of the same distribution.

3. Average annual growth rates over the entire reference period.

Source: European Commission (2018), DG for Regional and Urban Policy, calculations based on Eurostat data; OECD calculations based on data from the *OECD Regional Statistics* (database).

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Despite recent robust growth, sustained improvements in living standards for more people are held back by weak productivity and investment in many countries. Potential growth has fallen substantially in the EU since the global financial crisis (Figure 3).

Figure 3. The EU's potential output growth is low

1. European Union and euro area refer to OECD EU and euro area Member countries (22 and 16 countries, respectively).

Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database).

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Weak productivity growth already prior to the crisis and low investment rates during the crisis have come on top of a rapidly aging population reducing the long-term growth potential of many European economies. Weak business dynamism and the inability of low productive firms to catch up with the best performing firms is one of the factors behind poor aggregate productivity growth.

To further strengthen the confidence of all its citizens, the European Union needs to focus on policies that support a stronger and more inclusive growth. This paper discusses a broad range of policies the EU can harness to further reduce regional divides, to better support EU citizens in face of change, to spur productivity and economic growth by deepening the single market in services, energy, transport and digital markets and to make better use of digital technologies.

Better addressing regional divides

Improving the effectiveness of cohesion policy

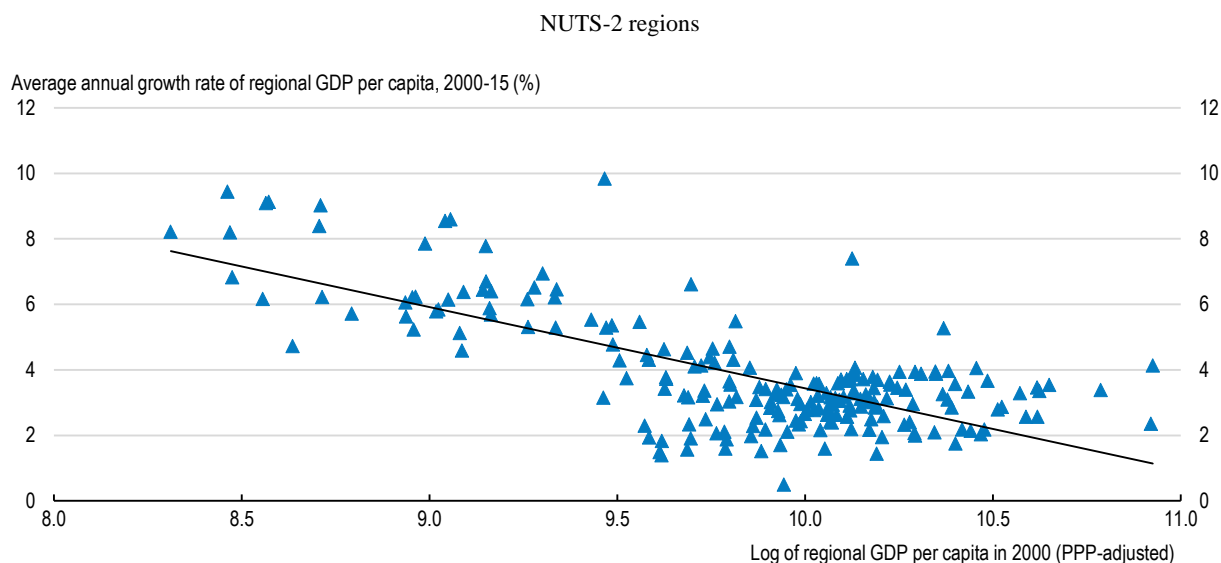
The prime goal of cohesion policy is the reduction of regional disparities and to create the basis for sustainable development in the most disadvantaged regions (Box 1). The record of EU cohesion policy is, however, mixed: in the majority of EU countries regional GDP per capita disparities have declined over time and there is convergence both at the country and regional level (Box 2). However, these averages mask significant regional divides (Figure 2; Figure 4).

Box 1. An overview of the European Structural and Investment Funds

The EU cohesion policy is channelled through five funds, which together are known as the European Structural and Investment (ESI) Funds.

- The **European Regional Development Fund (ERDF)** is by far the biggest fund and finances infrastructure projects and initiatives aimed at boosting competitiveness. The ERDF focuses on three priorities: 1) Strengthening research, technological development and innovation; 2) Enhancing access to, and use and quality of ICT; 3) Supporting the shift towards a low-carbon economy in all sectors. The ERDF also funds cross-border, interregional and transnational projects under the European territorial cooperation objective.
- The **European Social Fund (ESF)** finances education and training measures. It invests in improving the skills of disadvantaged people such as the long-term unemployed, people with disabilities, migrants, ethnic minorities, marginalised communities and people of all ages facing poverty and social exclusion through, for example, the development of community based support services and the prevention segregated living arrangements.
- The **Cohesion Fund** was established by the Maastricht Treaty and is intended to support the ERDF and the ESF by strengthening economic and social cohesion in the EU. The Cohesion Fund mainly finances trans-European transport networks and environmental projects and contrary to the ERDF and the ESF operates at the national rather than the regional level. Member states qualify for transfers from the Cohesion Fund if their Gross National Income per inhabitant falls below 90% of the EU average. Until the 2004 enlargement, only Greece, Portugal, Spain and Ireland were eligible for the Cohesion Fund. During the period 2007-2013 the Cohesion Fund covered the new member states as well as Greece, Portugal and, for a limited period of time, Spain. Compared to the ERDF and the ESF, the Cohesion Fund typically requires less co-financing from member states, about 15% compared to 25% in the case of the Structural Funds.
- The **European Agricultural Fund for Rural Development** supports European policy on rural development by financing rural development programmes across the member states and the regions of the EU. For the 2014-20 programming period, the Fund focuses on three main objectives: fostering the competitiveness of agriculture; ensuring the sustainable management of natural resources, and climate action; achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment.
- The **European Maritime and Fisheries Fund** aims at supporting the EU's maritime and fisheries policies by: helping fishermen in the transition to sustainable fishing; supporting coastal communities in diversifying their economies; financing projects that create new jobs and improve the quality of life along European coasts; making it easier for applicants to access financing.

Source: European Commission.

Figure 4. Low-income regions have grown faster than high-income ones

Source: OECD (2017), *OECD Regional Economy Statistics* (database).

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Box 2. Has there been real convergence in the EU?

In the economic growth literature, real convergence is measured by two complementary measures, beta convergence and sigma convergence.

Beta convergence: measures the process of catch up and the tendency for low-income countries or regions to grow faster than high-income ones. Catch up is typically displayed by a negative relationship between the growth rate of GDP per capita (in purchasing parity terms) and the initial level of GDP per capita. Figure 1.4 shows there is a clear pattern of catching up: low income regions have grown faster, on average, than high income ones over 2000-2014.

Sigma convergence: is captured by a lower dispersion of the income distribution. This is typically measured as the coefficient of variation of GDP per capita. If the cross-sectional dispersion falls over time, there is sigma convergence for economies in the sample. Figure 1.2 suggests that there has been convergence among regions in Europe in the past decade, although it somewhat stalled after the crisis.

The evidence on the impact of cohesion policy on convergence is also mixed. Most econometric studies find a positive, although small, impact of the structural funds on GDP growth (Pieńkowski and Berkowitz, 2015), while a small number of studies find no significant impact on regional growth, or even a negative impact. Studies employing macroeconomic models do find greater positive effects of cohesion spending on the level of GDP in recipient countries, both during programme implementation and in the long term (Bradley and Untiedt 2012, Varga and in t'Veld 2010). However, there are important differences between models as regards the size and time distribution of the impacts and results are influenced by the theoretical assumptions imposed on the models that imply an

ideal optimal spending of the funds (Pieńkowski and Berkowitz, 2015), which might not happen in practice.

Critics argue that the benefits of cohesion policy are not as big as they could for several reasons. Member states co-finance cohesion spending to ensure additional investment. Member states will contribute on average to 38% of all cohesion spending over 2014-2020 (EC, 2017a). The problem is that such additionality is hard to enforce and verify in practice and evidence suggests that there is substantial crowding out (CPB, 2012). Moreover, there is too much focus on spending the funds for fear of losing money, regardless of the quality of investment, especially towards the end of the programming period (European Court of Auditors, 2017ab). Finally, some argue that cohesion policy, and especially a substantial inflow of funds, induces corruption and rent-seeking (Blankhart and Ehmke, 2015). Higher co-funding rates could help reduce crowding out and the risk that EU funds are spent on low value projects.

Acknowledging some of these critiques and to improve the effectiveness of the structural funds, the Commission has introduced a much stronger focus on performance as of 2014. At the beginning of each programming period authorities need to set-up a performance framework, select indicators to monitor progress and establish clear, realistic and measurable milestones. Monitoring has also been strengthened: every year, countries have to report progress towards targets and submit detailed progress reports at the end of the funding cycle. The Commission has also set up a so-called “performance reserve” to reward projects and priorities that have achieved their milestones early on. If projects are seriously falling behind, the Commission can suspend all or part of interim payments. Finally, countries need to comply with ex-ante conditions that are meant to ensure that there is sufficient administrative and regulatory capacity to make the best of the funds.

It is too early to say whether this new results-oriented framework will lead to greater spending effectiveness. However, there are already some lessons to draw to improve the new framework. For instance, implementing the new performance tools has proven very difficult in practice. Member states and regions have found it hard to formulate well-defined specific goals and fix programme targets. The European Court of Auditors has also found that performance is assessed against an unnecessarily high number of indicators and in an inconsistent way across the different funds even when the objectives are similar (European Court of Auditors, 2017a). The number of indicators to measure performance should be reduced and harmonised amongst the different funds. The number of impact evaluation reports should also be reduced and made proportional to the size of the project not to overburden beneficiaries. Finally, managing authorities need support and appropriate feedback to implement the new tools.

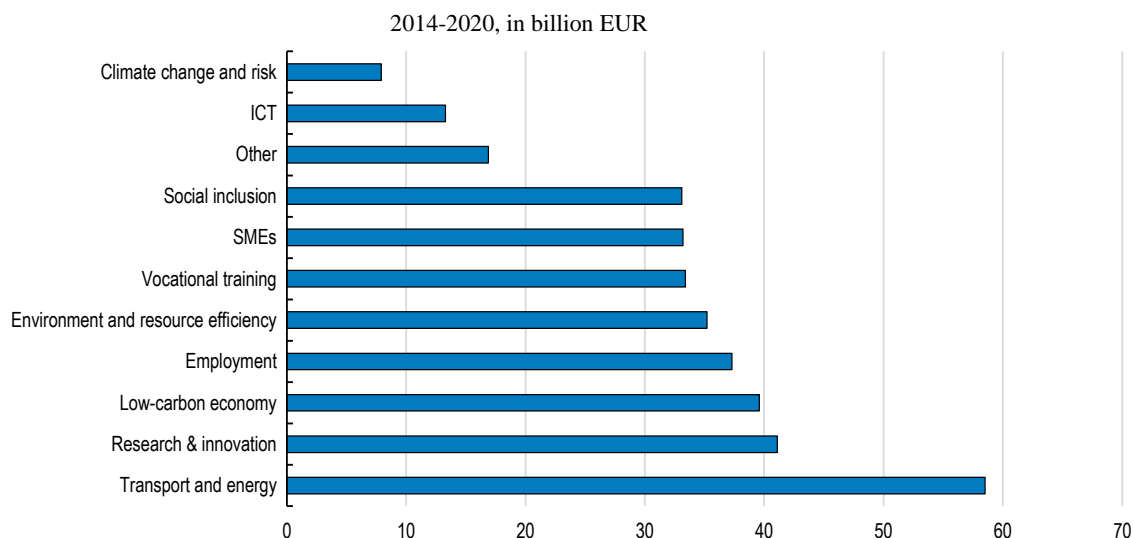
A more effective cohesion policy would contribute to reducing regional disparities, but cannot deliver this outcome on its own. The effective use of the funds must be accompanied by national policies to develop a favourable environment for investment and for human capital development.

Focusing cohesion spending on long-term growth items

There is a risk that too many objectives are over-burdening cohesion policy. Cohesion policy aims at fostering economic convergence, but also broader goals, such as facilitating integration, boosting competitiveness or assuring sustainable development. It covers all countries regardless of development needs and can finance a very wide and dispersed set of activities (Figure 5), without necessarily prioritising investments with the greatest growth and convergence dividends. This broad scope undermines the

effectiveness of cohesion policy, scatters resources, and renders the evaluation of the policy effectiveness very hard.

Figure 5. What does cohesion policy finance?



Source: European Commission.

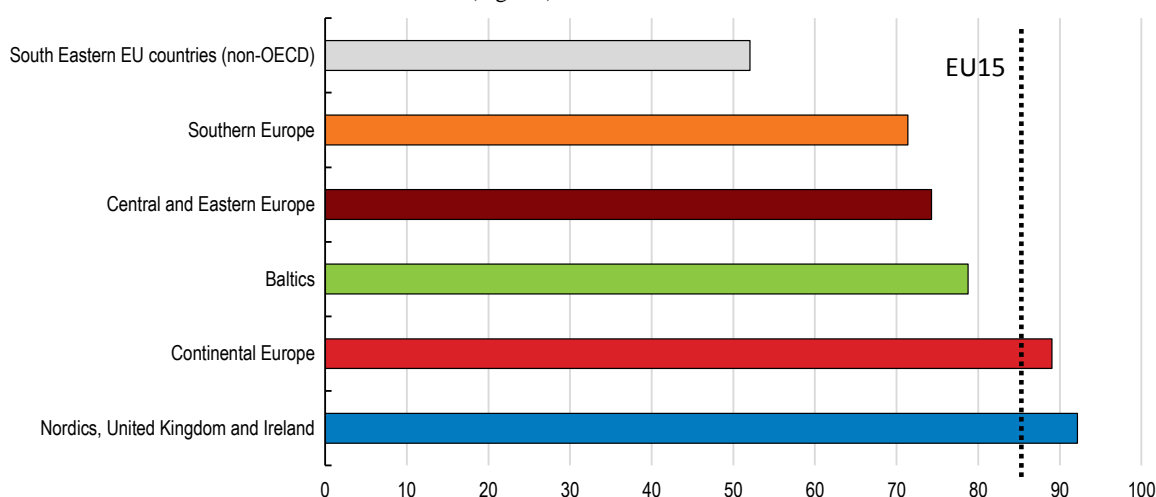
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To better support convergence, it would be best that cohesion policy spending focuses primarily on items with long-term growth benefits, including human capital (education, and training), innovation and infrastructure. Supporting investment in infrastructure projects (transport, ICT or energy) in areas that span national borders and national governments would not be able to fund on their own are also important to support growth in Europe.

Improving institutional quality is also important. Evidence suggests that efficient public administration and institutional capacity are key for structural funds to generate growth (Rodriguez-Pose A, 2013). The EU has supported institutional capacity building via a dedicated budget in the structural funds and via ex-ante conditions to access funds. Nonetheless, there are still significant disparities in the quality of institutions across Europe (Figure 6, Charron et al. 2016). Efforts to support institutional upgrading could be stepped up by increasing investment in capacity-building, such as training of public officials involved in the management of structural funds or building platforms for exchange of best practices. Stricter conditionality and a stronger link between cohesion funding and country performance on economic reforms, in particular those regarding public procurement or government effectiveness, could also be envisaged, as suggested by some member states. This could incentivise member states to put in place the programming, legal, and institutional frameworks for effectively using the structural funds. More broadly, tighter conditionality in the reception of the structural funds and/or the possibility to freeze funding could provide a tool to tackle threats to EU fundamental values, including the rule of law, in a more effective way than through the Article 7 that suspends voting rights, recently used in the case of Poland, which requires unanimity.

Figure 6. The quality of institutions needs to improve in some countries

Worldwide Governance Indicator¹, average percentile rank among all countries, from 0 (lowest) to 100 (highest)



1. Simple average of aggregate indicators of the following six broad dimensions of governance: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption. Nordics include Denmark, Finland and Sweden; Continental Europe refers to Austria, Belgium, France, Germany, Luxembourg and the Netherlands; Baltics are Estonia, Latvia and Lithuania; Southern Europe includes Greece, Italy, Portugal and Spain; Central and Eastern Europe's countries are Hungary, Poland, Slovenia and the Czech and Slovak Republics; South Eastern EU countries that are not OECD members include Bulgaria, Croatia and Romania.

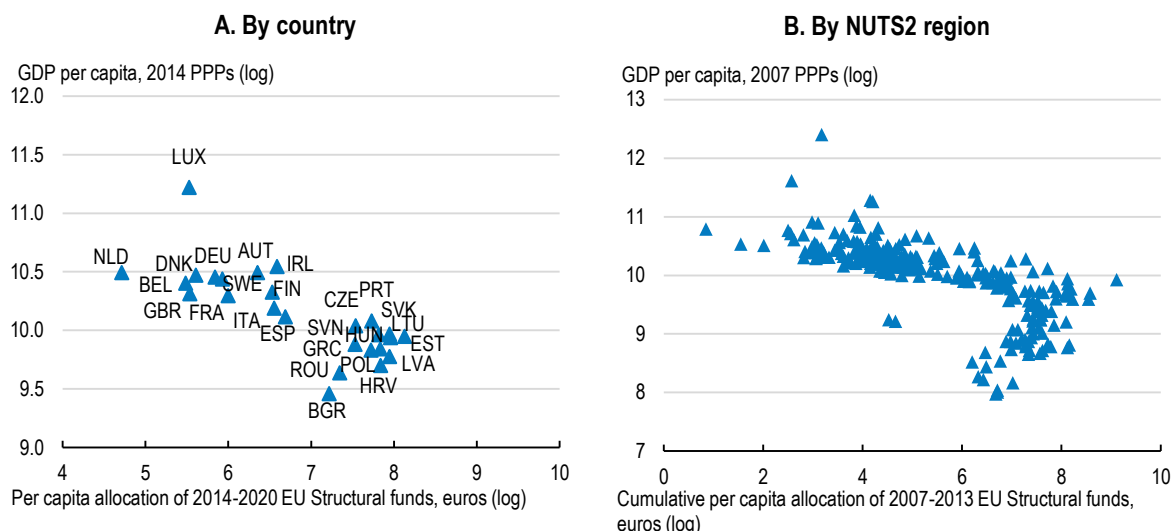
Source: World Bank (2017), *Worldwide Governance Indicators* (database), The World Bank Group, Washington, D.C.

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There is scope to make EU cohesion spending more redistributive

The bulk of cohesion support does go to poorer regions and poorer member states (Figure 7). But, relatively wealthier regions also receive significant cohesion support: 25% of all funds over 2014-20 (90 Billion Euros) will go to regions with a GDP per capita above 75% of the EU-27 average (so-called “transition” and “more developed” regions). In order to reach an agreement on the EU budget, there is a tendency to balance EU transfers across member states. This is reinforced by the fact that the unanimity rule that regulates the planning of cohesion policy funding gives every country a considerable amount of leverage. However, granting significant amounts of cohesion funding to relatively wealthier countries reduces the redistributive effectiveness of the policy and resources for lower income countries.

Although this would be politically challenging, cohesion funding should be much more highly focused on lagging regions with a GDP per capita of less than 75% of the EU average. The Commission has assessed that if the European Regional Development Fund and the European Social Fund were to end support to more developed and transition regions this would free approximately EUR 95 billion over the period, or a quarter of current allocations for those funds (EC, 2018). This money could be redirected towards less developed regions or cross-border infrastructure projects and projects to support long-term growth in Europe.

Figure 7. The bulk of cohesion support goes to poorer member states and regions

Source: European Commission (2018), Open Data Portal for the European Structural and Investment Funds: ESIF database; Eurostat (2018), “National Accounts Statistics”, *Eurostat Database*.

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Reducing administrative burdens: the need for fewer, clearer and shorter rules

An overwhelming amount of regulations, changes in regulations, and different interpretation of the rules by the national and European authorities make EU funds implementation difficult to manage and control, often lead to mistakes, and can also mask fraud. Receivers and managing authorities complain that handling the funds is very complicated (Mendez and Bachler 2015; Kah et al. 2015). The smallest beneficiaries, like SMEs and start-ups are particularly challenged by often overlapping and ever growing rules (High level expert group, 2017). In some cases, some argue that the cost of managing the funds might even be higher than the scale of funding (EC, 2016a).

European and national authorities have simplified cohesion policy several times. Most recently, new measures were introduced for the 2014-2020 period: member states need to draft just one document to apply for funding instead of one per fund, and can use simplified cost options using pre-defined accounting methods. The Commission considers the further simplification of its funding programmes a key priority and has created a high-level group to advice on the simplification of rules and of the architecture of funds for the next funding period after 2020. The group has recommended reducing the number of regulations and guidelines, increasing stability and legal certainty from one funding period to the next and ensuring that the Commission delivers new regulations on time, so the so common delays in starting spending are minimised (High level expert group, 2017). To promote stability and legal certainty, the group advised that the retroactive application of rules, guidelines, texts, doctrines or decisions, in particular regarding audits, should be avoided. These are worthy recommendations and should be taken on board.

A bolder move towards a simplified cohesion policy would be merging the different structural funds into one fund. The complexity of cohesion policy partly stems from the coexistence of several structural funds. The five European Structural and Investment funds often pursue similar objectives but have different rules and are managed by

different authorities, both within the Commission and in member states. While challenging, given that it would require EU treaty changes, a single fund could reduce duplication and, the scattering of resources, and would facilitate synergies and planning. Perhaps more feasible in the medium-term would be to move towards “a single-rule book” with a common set of rules and definitions covering the five funds. Different rules and many authorities discourage synergies between funds and difficult monitoring. The single rule book should be accompanied by greater coordination among the different directorate generals in the Commission. For instance, developing joint-work programmes or joint calls for the structural funds could help. It would also be important to harmonise regulations regarding the exchange of information and reporting requirements for different instruments.

Regulations should be clear, reasonably short, and as much as possible stable in time. Reporting obligations have significantly increased over the years, in an effort to better track spending, which is welcome, but have substantially added to the administrative burden (COR, 2016). The Commission has carried out horizontal reviews of reporting requirements in different policy areas which have led to streamlining initiatives. It should continue to review reporting requirements to identify what is really needed to measure progress and success in spending and eliminate unnecessary reporting. Information should be submitted only once and exchanging information only electronically should be mandatory. The Commission already encourages the electronic exchange of information, but many countries are lagging behind in the use of e-services. The EU should also promote and facilitate the exchange of best practices in the management of structural funds. There are useful lessons worth spreading. For instance, Slovakia has set a common platform across funds at national and regional level, which seems to have helped to manage more effectively the funds. Welsh, Estonian and Flemish regions have developed good practices which could be shared (High level expert group, 2017).

Auditing is one area where many rules and actors create problems. Beneficiaries complain that managing authorities and the different audit authorities – European Court of Auditors, European Commission, and national and/or regional audit authorities – interpret the same rules differently (COR, 2016). Differences in interpretation lead to uncertainty and financial risks. Greater coordination between the managing and audit authorities from the start of programming period to the closure would help. Fewer rules and a greater use of the single audit principle – which implies that a single operation should not be audited twice and that different audit authorities build on each other’s work – would also help.

Compliance with state aid rules seems to be another difficult area (COR, 2016; High level group, 2016). State aid elements are more difficult to determine in the case of financial instruments, which adds uncertainty and reduces the up-take of financial instruments (COR, 2016). The application of state aid rules is particularly complicated in the context of European Territorial Cooperation Programmes, as state aid rules can be interpreted differently by member states (COR, 2016). The Commission could provide clearer guidance on how state aid rules apply for structural funds projects and common obligations in terms of selection, management and reporting procedures. Within the European Commission, DG COMP is working closely with DG REGIO to identify areas where further streamlining and simplification of the rules could facilitate the use of EU funds. DG COMP and DG REGIO also extensively cooperate on training programmes to national authorities related to the use of state aid rules in connection with structural funds.

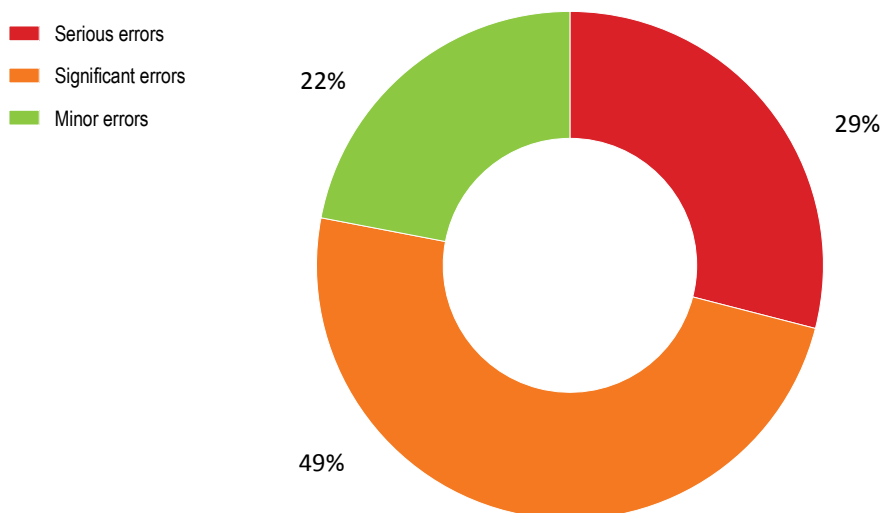
Improving the management of funds

Cohesion policy has been marred by the highest implementation errors in the EU budget, mostly as a result of mistakes in the application of public procurement rules and eligibility of expenditures. Among the projects over 2009-2013 it analysed, the European Court of Auditors detected problems in about 40% of the public procurement projects (ECA, 2015), and significant or serious errors in about 80% of all cases (Figure 8). In cases where there were serious errors this means that there was a lack or complete absence of fair competition and/or that contracts financed through the structural funds were not awarded to the best bidders. According to a report for the European Parliament, typical examples of poor practice in public procurement include deliberately removing companies from the bidding process so there is only one viable candidate or limiting the amount of time a company has to respond to a tender for a new contract (European Parliament, 2016).

Better management in the use of structural funds is possible. First, a high volume of legislation and/or guidelines, lack of administrative capacity both by contracting authorities and audit authorities and insufficient planning often leads to errors (ECA, 2015). Second, legal terms are unclear and the Commission often applies legal interpretations retroactively, with audits being a specially problematic area often coming too late in the process to identify problems (COR, 2016). Thirdly, different interpretations of procurement rules by different authorities (e.g. the Commission or national authorities like Public Procurement Offices, audit authorities) are also a problem (High level expert group, 2017).

Figure 8. Errors in the accounting of structural funds are common

Distribution of errors found in audits according to their seriousness, 2009-2013¹



1. Errors detected by the European Court of Auditors in its Statement of Assurance audits, with reference to transactions co-financed from the EU budget through the European Regional Development Fund, the Cohesion Fund and the European Social Fund.

Source: European Court of Auditors (2015), "Efforts to address problems with public procurement in EU cohesion expenditure should be intensified", Special Report N0. 10.

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Fraud in the use of structural funds also occurs (EC, 2012a). In 2016, the European Court of Auditors estimated that 60% of the fraud affecting the EU budget was in the area of cohesion and fisheries spending, amounting to an estimated €391 million (European Court of Auditors, 2017b). There is also a general perception that fraud happens: many Europeans (71%) think that fraud in the use of the EU budget is common, according to a 2015 Eurobarometer survey. While estimates of fraud are small (0.5% of spending on cohesion and 0.2% of the EU budget in 2016), it is hard to quantify how much fraud is truly going on. As spending is overseen by a complex, relatively un-coordinated web of checks and balances at national, regional and Commission level, abuses can happen. Member states are supposed to report suspected cases of fraud in the use of EU money to OLAF – the EU anti-fraud body – but they have little incentive to do so as they will be fined (European Court of Auditors, 2017ab).

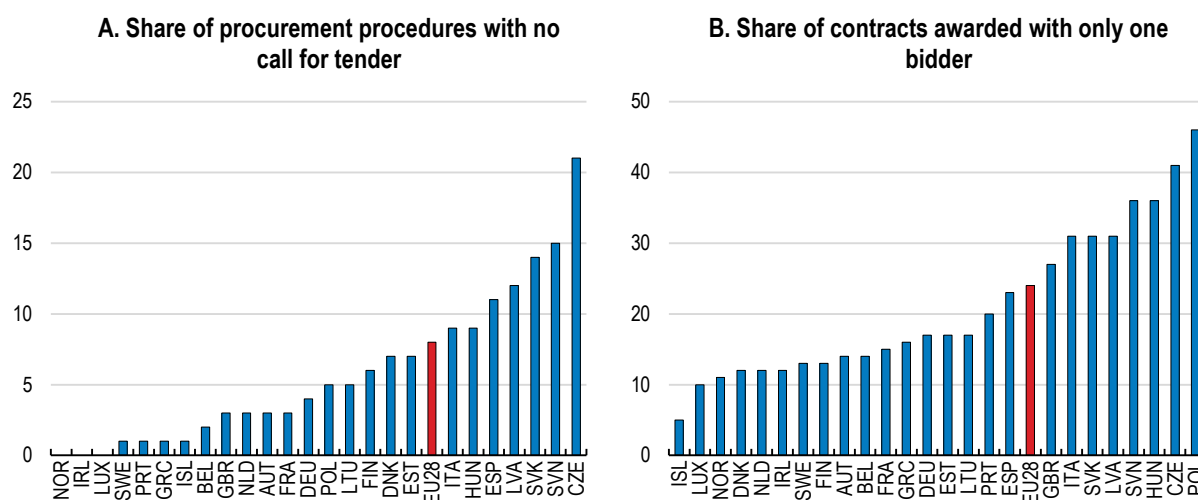
Moreover, OLAF does not have the resources to investigate all cases of suspected fraud nor the power to sanction; it can only issue reports and recommendations that the national authority and the national judicial system need to follow-up on. However, investigations of fraud by national authorities are often held back by lengthy judicial processes and meagre resources. Cases of fraud are often complex requiring specific knowledge and experience. There is also a low conviction rate of cases reported by OLAF: between 2009 and 2016 OLAF sent 541 judicial recommendations to member states and only 44% resulted in an indictment by the judicial authority (European Court of Auditors, 2017b).

Greater efforts to fight fraud could contribute to build trust in EU institutions. In a welcome move, in 2013 the Commission proposed the creation of the European Public Prosecutor Office to strengthen the fight against fraud in the use of the EU budget and the European Parliament backed its creation in October 2017. The office will have the power to investigate, prosecute and bring to trial criminal offences related to fraud against the financial interests of the European Union. There are 20 member states officially taking part in the new office from its start in 2020. The other member states (Hungary, Ireland, Malta, the Netherlands, Poland, Sweden and the UK) may join the 20 founding member states at any time. As a complement, simplification of the rules and greater use of e-government and e-procurement could help improve efficiency and reduce opportunities for abuse of power. Improved public availability of data on how the structural funds are spent would facilitate external oversight and ex-post analysis of the effectiveness of the funds which could help guide cohesion policy spending on more value for money principles.

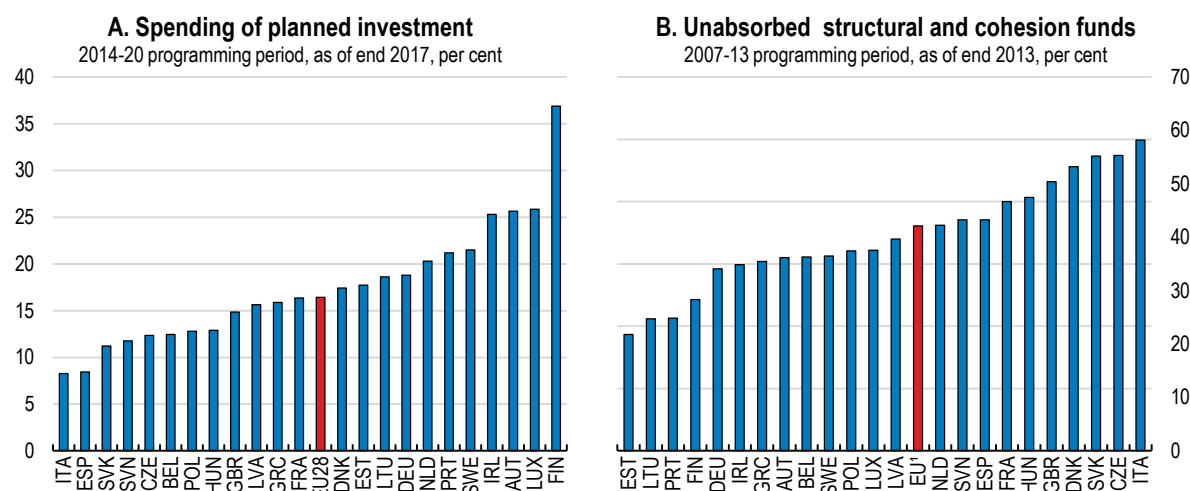
Public procurement is an area where more could be done (Figure 9). The Commission and member states have developed an Action Plan on Public Procurement to improve the performance of both administrations and beneficiaries. The Commission has also developed public procurement toolkits, which have helped, but there is still scope for improvement in many countries. Audits of public procurement should be carried out as soon as possible to anticipate errors and reduce corrections, following successful example of some member states (COR, 2016). Better training for public officials in charge of public procurement and for beneficiaries could help to achieve meaningful change.

Figure 9. Competition in public procurement is weak in many countries

Per cent, 2016

Source: European Commission, [Single Market Scoreboard](https://ec.europa.eu/economy_finance/single-market-scoreboard/).StatLink  <http://dx.doi.org/10.1787/888933748287>***Reducing slow starts and smoothing transitions between financing periods***

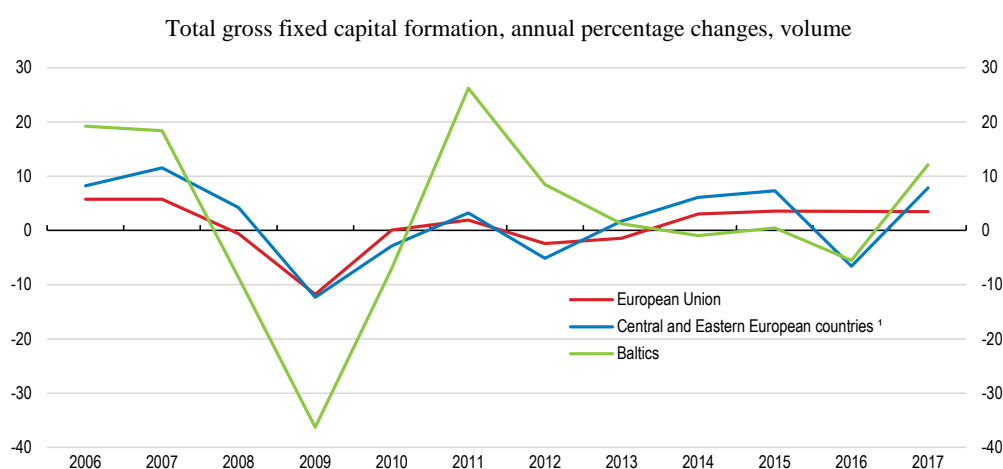
Slow starts of projects are a recurrent problem with the structural funds. By end 2017, only 16% of expenditure of that planned over 2014-2020 had been disbursed and 53% of funding committed to selected projects (Figure 10, Panel A). As a result it is common that at the start of the new financing period significant funds of the previous period are not yet spent: on average 36% of the funds were unused at the end of the last financing period (Figure 10, Panel B), which is substantial even if countries have an additional few years to spend the funds. To some extent a low take-up in the beginning of the programming period is normal as projects need time to be crafted, implemented and funds to be reimbursed. However, slow starts are problematic because they lead to back-loading of investment and can result in poor project quality and higher risk of irregularities as several OECD surveys have documented (OECD, 2016a; OECD, 2014a). Anecdotal evidence from Slovakia and Hungary suggests that at the end of the programming period, projects are chosen by the urgency to spend the funds, rather than the quality of projects (KPMG, 2017). The experience of Czech Republic, Latvia, Lithuania, Slovak Republic, Slovenia and Hungary in 2015-2016 shows that uneven distribution of significant public investment over time makes macroeconomic management challenging in countries where the structural funds account for a significant part of investment (OECD, 2017a; Figure 11).

Figure 10. Slow use of structural funds is common

1. Unweighted average across 23 EU countries.

Source: European Commission (2018), Open Data Portal for the European Structural and Investment Funds (<https://cohesiondata.ec.europa.eu/>); European Commission (2014), "Analysis of the Budgetary Implementation of the Structural and Cohesion Funds in 2013".

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Figure 11. Macroeconomic management is challenging in countries receiving a substantial share of cohesion funding

1. Simple average across the Czech and Slovak Republics, Hungary, Poland and Slovenia..

Source: Eurostat (2018), "GDP and Main Components", Eurostat Database.

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Factors that delay implementation and slow the use of funds are multiple. On the EU side, the focus and rules of EU funds tend to change from one period to the other and it takes long time to learn again how such a complex system works. On the national side, they include poor quality of programming documents, which result in postponed or unsuccessful calls for proposals, significant turnover of qualified staff, delayed fulfilment of ex-ante conditions to access funding or dependency on the political cycle (KPMG, 2017; European Court of Auditors, 2014).

Actions on the EU and national side are needed to reduce slow starts and smooth transitions between financing periods. On the EU side, speeding up the negotiation of the programming period, which is often very slow and leads to delays in implementation, would help. In this respect, the Commission should ensure that the legislative proposals for the post-2020 period are presented with sufficient time to complete the negotiations between the European Parliament and Council not to delay the implementation of the policy. There is also scope for the Commission to prepare guidance documents in a timelier manner and to simplify the carrying over of projects from one period to the next. Additional steps to simplify regulations would also help. On the national side, countries should streamline administrative procedures, strengthen the administrative capacities to manage the funds, harmonise EU and national criteria, and improve the timeliness of project approval, building on existing country experiences to improve the absorption of structural funds (Box 3).

Box 3. Reforms to improve the absorption of EU structural funds: selected country experiences

A number of countries have done reforms to improve the implementation of EU Funds. The experiences of these countries suggest that improving capacity, greater use of electronic applications, simplified processes, and greater coordination can help to speed implementation.

Bulgaria: Initial weakness resulted in a low absorption rate, which was mitigated by increasing advanced payments, applying electronic application and reporting procedures, simplifying and unifying tender processes; and strengthening the role of international financial institutions and banks in project preparation, evaluation and monitoring (Paliova and Lybek, 2014).

Czech Republic: Significant steps have been taken to improve co-ordination, capacities and framework conditions for the 2014-20 period (OECD, 2016a). “Standing conferences” have been established at the national and regional level (using the eight regional groupings channelling EU funding). These conferences include important territorial stakeholders and will prepare action plans that form the basis for calls for tender. There is also a stronger focus on integrated strategies within regions and community-led local development. The number of programmes has been reduced, procedures for managing the programmes have been simplified and a uniform methodology applied across all programmes.

Poland: A forum has been introduced for coordination of strategic planning for the EU-funded investments (IMF, 2016). Project management and transparency of execution have improved as part of efforts to better absorb the EU Funds. Technical assistance funds have been used to train regions and beneficiaries of project funds in performance monitoring. An informational system for monitoring and controlling structural and cohesion funds was put in place in 2007 to monitor the financial and physical progress of projects co-financed by EU Funds throughout their implementation, which was meant to facilitate the certification process for release of the EU Funds. Each such project was also assigned a monitoring committee that carried out systematic progress assessments over the life of the project.

Slovak Republic: Some steps have been taken to improve the administration of EU funds, such as the semi-annual publication on the implementation of EU funds

that allows the authorities to react promptly in case of identified problems regarding absorption of the funds (OECD, 2014a). Administrative procedures have also been simplified and allow the managing authority to request only partial project documentation upon the application submission, the rest of the documentation being required only after projects are selected (OECD, 2017b). Following 2014 and 2015 government resolutions, it was decided to significantly increase the number of employees working in entities responsible for the European Structural and Investment Funds. The Analytical Unit of Central Coordination Body was created in June 2015. The main aim of this body is to provide input for evidence-based policy-making, with a special emphasis on the study of the effectiveness of EU funds IMF (2017) an electronic system to exchange data between managing authorities and EU funds beneficiaries has been put in place to monitor and evaluate the whole process. The managing authorities started to collaborate with regional offices to offer technical assistance and free consultations to help applicants with the application process. The recently adopted National Public Procurement Package is supposed to facilitate the application and disbursement process.

Slovenia: The government has created an inter-ministerial coordination, which organises meetings with potential applicants and advises smaller companies has been created (Paliova and Lybek, 2014). Slovenia has also simplified procedures for payments and improved the timeliness of announcement of public tenders.

Lithuania: Since joining the EU in 2004, Lithuania has taken steps to improve planning and implementation of public investment projects, particularly those financed by the EU Funds (IMF, 2016). To deal with an expanding pool of potential project applications to use the EU funds, a competition-based project selection procedure was introduced which meant that public entities and public service providers had to apply for financing on an equal basis and to follow the well-defined criteria and procedures.

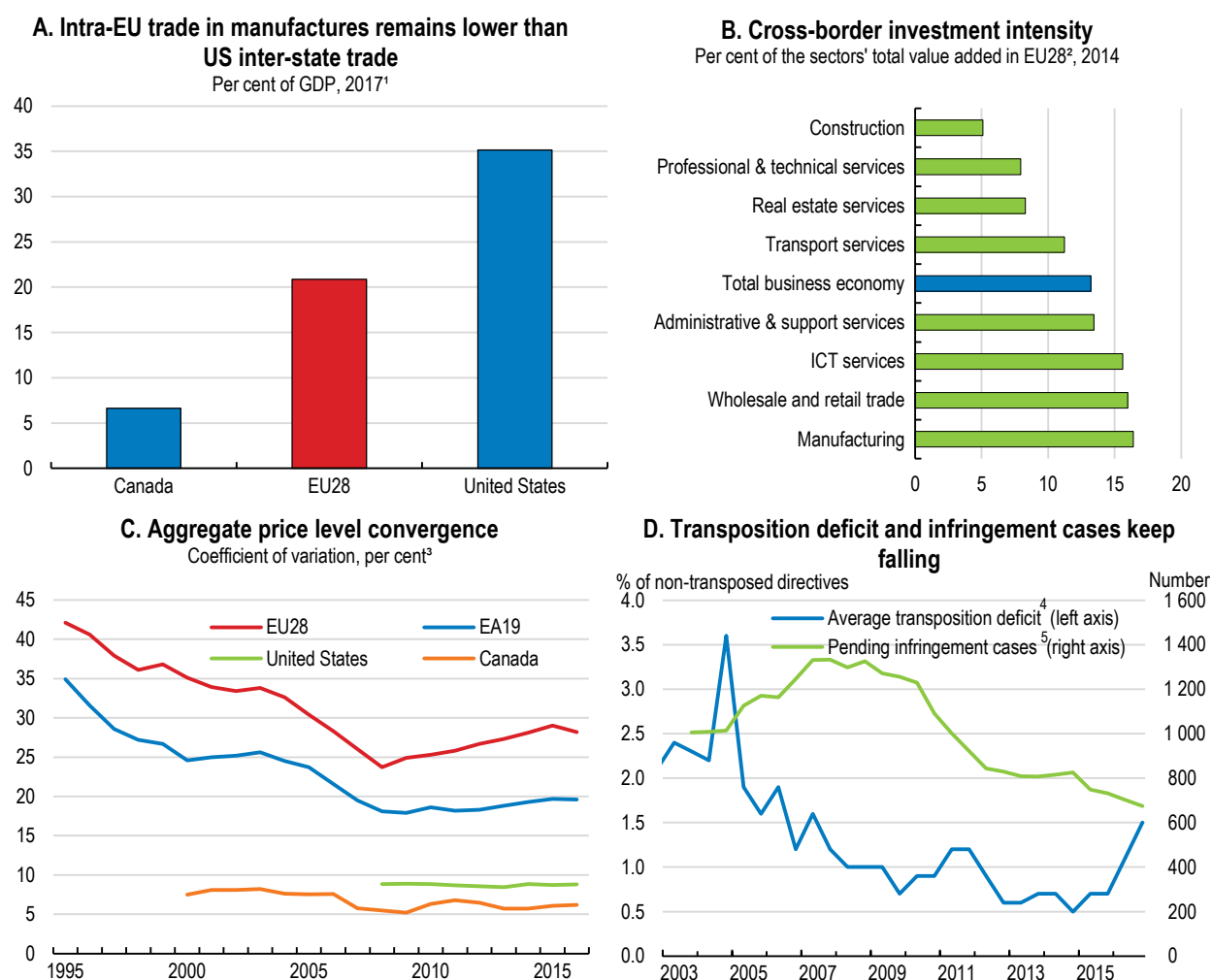
Greece: Through the Commission's Structural Reform Support Service (SRSS) technical support is provided for building administrative capacity for the design and implementation of reforms of importance for the absorption and use of EU funds. Simplification measures were carried out in the legislation and the implementation of EU structural funds. Such measures included the demarcation between political and administrative tasks, enhanced coordination of the funds as well as reinforcement of anti-fraud measures. Greece set up an inter-ministerial committee with the aim to lift bottlenecks in the implementation of projects and took legislative action to simplify the payment circuit of projects in order to increase absorption. A “ring-fence mechanism” was put in place to ensure that EU money reaches the real economy and is used solely for payments to beneficiaries of the Operational Programmes.

Deepening the single market is a key EU lever to boost long-term growth and catch up

A dynamic and large single market, that stimulates competition and efficiency, is the EU's main asset for spurring productivity, investment and economic growth. A deeper single market would also help the catch-up of lagging regions by expanding their markets and economic opportunities. The creation of the single market in 1986-1992 is one of Europe's biggest achievements. By broadening the customs union for free trade in goods to include the free movement of people, services, and capital the single market has delivered important benefits to EU citizens over the last 25 years (OECD, 2007). The European Commission has estimated that the single market programme added a 2.1% increase in EU GDP in its first 15 years (EC, 2012b).

Despite these acknowledged benefits, there is wide consensus that the single market is unfinished business. The single market remains fragmented along several dimensions, as showed by a battery of indicators typically used to gauge progress in deepening the single market (Figure 12):

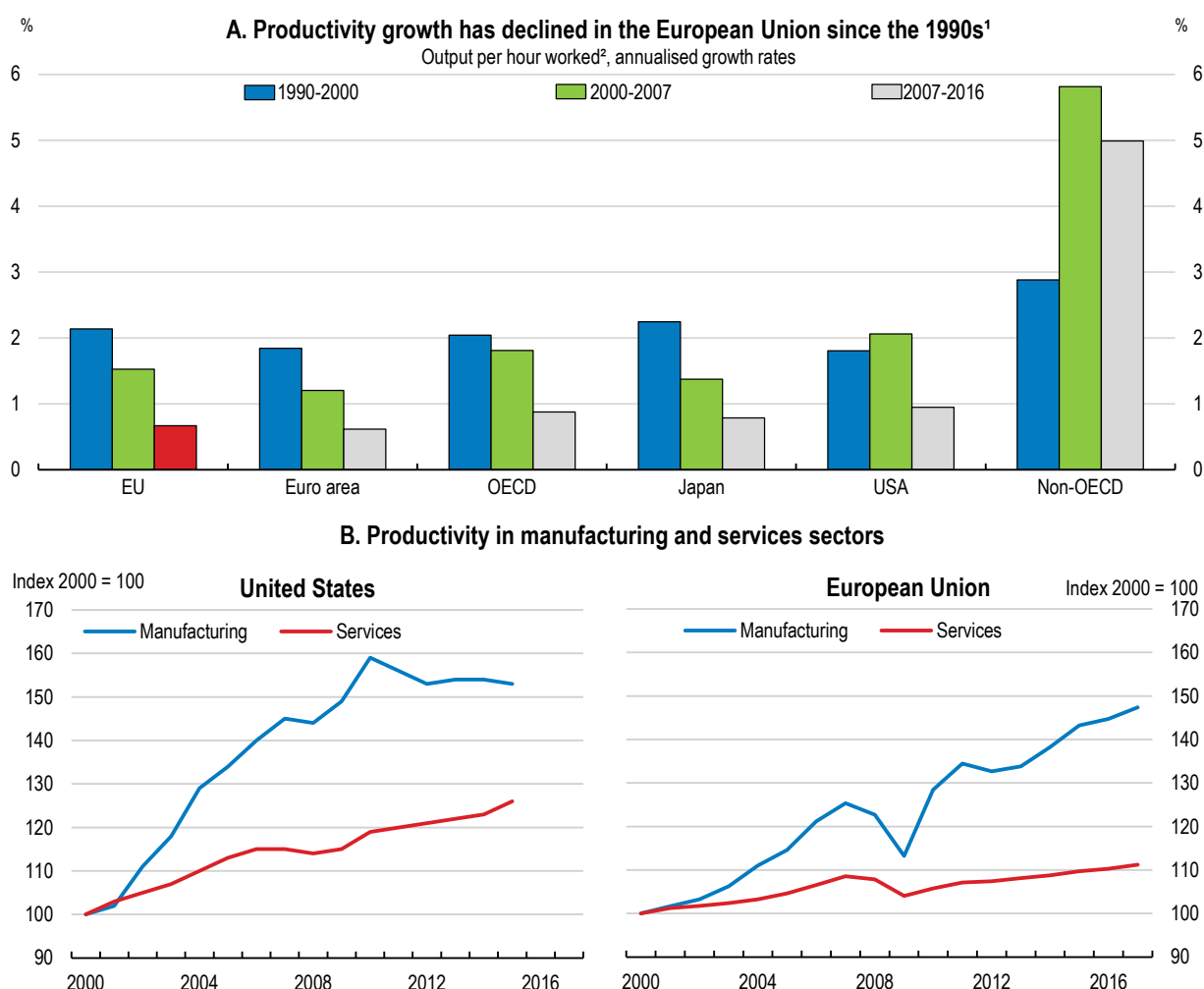
- **Free movement of goods:** The goods market is relatively well integrated. Nonetheless intra-EU trade in goods at close to 20% of GDP remains much below that in the US (Figure 12, Panel A).
- **Free movement of services:** Intra-EU trade in services has grown steadily since 1992, with intra-EU exports of services as a % of EU GDP doubling from 3% in 1992 to 7% in 2016. However, intra-EU trade in services remains less than one third of the value of intra-EU trade in goods.
- **Free movement of people:** Migration between EU countries stood at 3.9% of the EU working age population in 2016 (about 11.8 million people), up from 1.6% in 2004, though is still below inter-state mobility in the US or other federal systems.
- **Price convergence:** The single market contributed to boost price convergence between countries, however, price dispersion within countries remains higher than in the US (Figure 12, Panel C).
- **Productivity and growth:** The ultimate channel through which the single market was supposed to boost growth and welfare was through productivity via a variety of different direct and indirect channels, both in the medium and long-term (Marinello et al. 2015). However, the productivity gap with the US remains large (Figure 13, Panel A), and at the firm level is particularly large in services (Figure 13, Panel B), where the single market is least developed.

Figure 12. The Single Market is still fragmented

1. 2014 for Canada and 2012 for the United States, both based on census-data.
2. Cross-border investment intensity is measured as the proportion of total value added - by sector - generated by intra-EU28 foreign affiliates; coverage is limited to the business economy and excludes financial and insurance services.
3. The coefficient of variation indicates the extent of variability relative to the mean of a series. Here the series shown are the price level index of household final consumption expenditure for the European Union and euro area, the implicit regional price deflator for the United States and the intercity index of price differentials of consumer goods and services for Canada.
4. Transposition notifications made by 11 December 2016, for directives with a transposition deadline on or before 30 November 2016
5. Infringement proceedings open on 1st December 2016.

Source: Eurostat (2018), "Intra and Extra-EU trade by Member State and by product group", *Eurostat Database*; US Bureau of Transportation Statistics, Commodity Flow Survey 2012; Statistics Canada, Interprovincial Trade Flows (Panel A); Eurostat (2018), "Structural Business Statistics", *Eurostat Database* (Panel B); Eurostat (2018), "Price convergence indicator", *Eurostat Database*; BEA (2018), "Real Personal Income for States and Metropolitan Areas", US Bureau of Economic Analysis; and Statistics Canada (2018), "Table 326-0015", CANSIM Database (Panel C); European Commission (2017), Single Market Scoreboard, July, http://ec.europa.eu/internal_market/scoreboard/ (Panel D).

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Figure 13. The productivity gap is particularly large in services

1. The EU and the Euro area aggregates refer solely to Member States that are OECD countries. Non-OECD is Argentina, Brazil, China, Colombia, India, Indonesia, Latvia, Lithuania, Russia, South Africa and Saudi Arabia. EU, Euro area, OECD and non-OECD are aggregated using GDP PPP weights. Data for several countries begin between 1991 and 1995, not in 1990.

2. Productivity is measured as output per employee for Non-OECD countries.

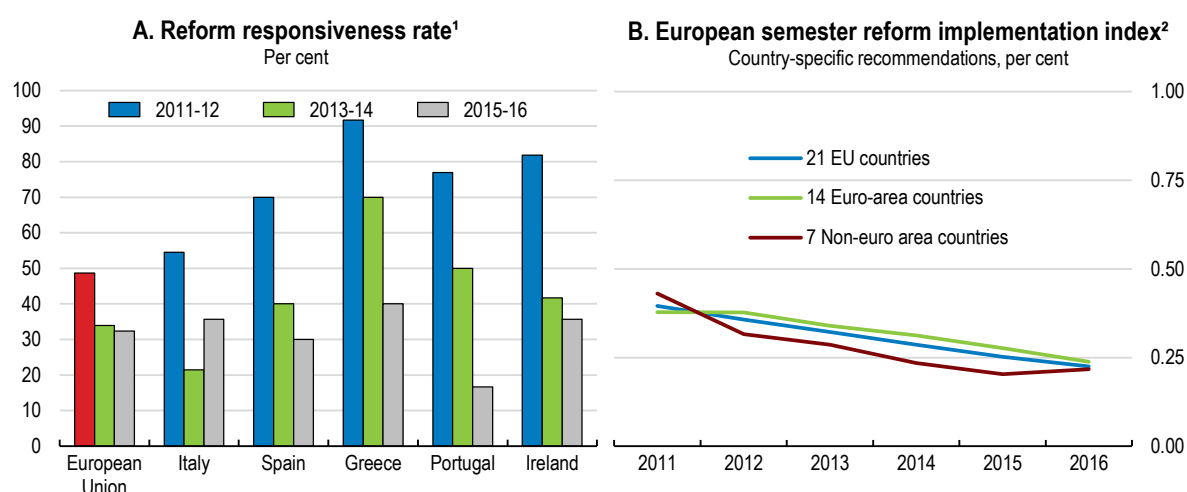
Source: OECD estimations using OECD National Accounts database; OECD Productivity database; International Labour Organisation database.

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The implementation of single market directives is another indicator to gauge the development of the single market. The EU average transposition deficit has decreased steadily over the years thanks to strong political commitment, improved coordination and targets set by the European Council (Figure 12, Panel D). Nonetheless, in 2016 most Member States experienced significant delays in transposing recent directives. These delays should be closely monitored and pre-infringement initiatives should be given sufficient resources, including staff to ensure their successful continuation, as argued in the 2016 EU Survey. There are also wide differences in the adoption and implementation of single market legislation.

The EU needs to give the single market a fresh impetus to boost productivity, promote investment and growth, especially in the areas where the scope for progress is largest, including services, energy, transport and digital. Actions at the EU level should be accompanied by renewed national efforts to foster growth-enhancing reforms, in line with country-specific recommendations in Economic Surveys and in Going for Growth. The reform impetus has steadily declined since 2011-12 (Figure 14, Panel A). A similar message emerges by looking at the implementation of the European Semester country-specific recommendations. Implementation has steadily deteriorated over time since the adoption of the European Semester in 2011 (Figure 14, Panel B). Reforms that stimulate innovation and enhance competition in product markets and reforms that improve the business environment and the quality of institutions could help also to foster economic resilience in the member states and the euro area as a whole (EC, 2017b).

Figure 14. Implementation of policy recommendations is weak



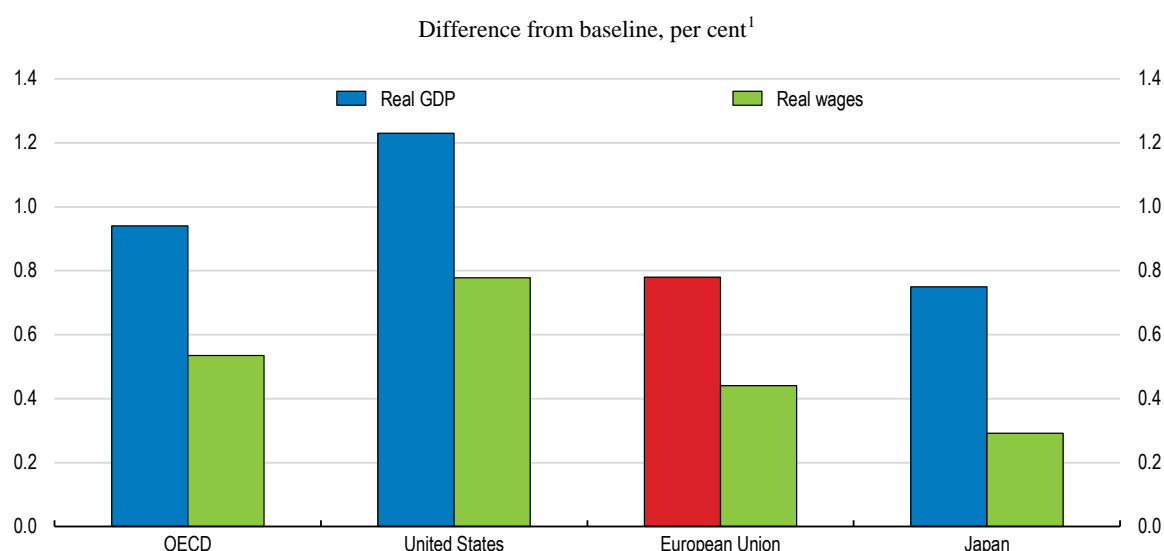
1. Number of actions taken as a percent of total policy recommendations.

2. The indicator is the ratio of the sum of scores to the total number divided by the number of recommendations; each country-specific recommendation is assigned a score ranging from 0 (no or limited progress) to 1 (full, substantial progress). The series displayed are unweighted averages across 21 EU countries for which data are available.

Source: OECD (2017), *Going for Growth 2017*, OECD Publishing, Paris; Bruegel and OECD based on European Parliament studies.

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Across Europe there is ample scope for product market reforms to boost competition, encourage innovation and business dynamism and enhance diffusion of new technologies (Table 1.A1-A3). If Europe pushes for productivity-enhancing reforms, OECD estimates suggest that reforms to raise productivity could increase GDP by as much as 0.7% up to 2023 in the EU (Figure 15).

Figure 15. Gains from reforms raising productivity by 1% over 5 years

1. The scenario considers the effects of raising labour-augmenting technical progress by 0.2 percentage point per annum in all of the advanced economies for five years, beginning at end-2017, with the 1% higher level of technical progress being maintained permanently thereafter.

Source: Box 1.1. in OECD (2017), *OECD Economic Outlook, Volume 2017 Issue 2*, OECD Publishing, Paris; OECD calculations.

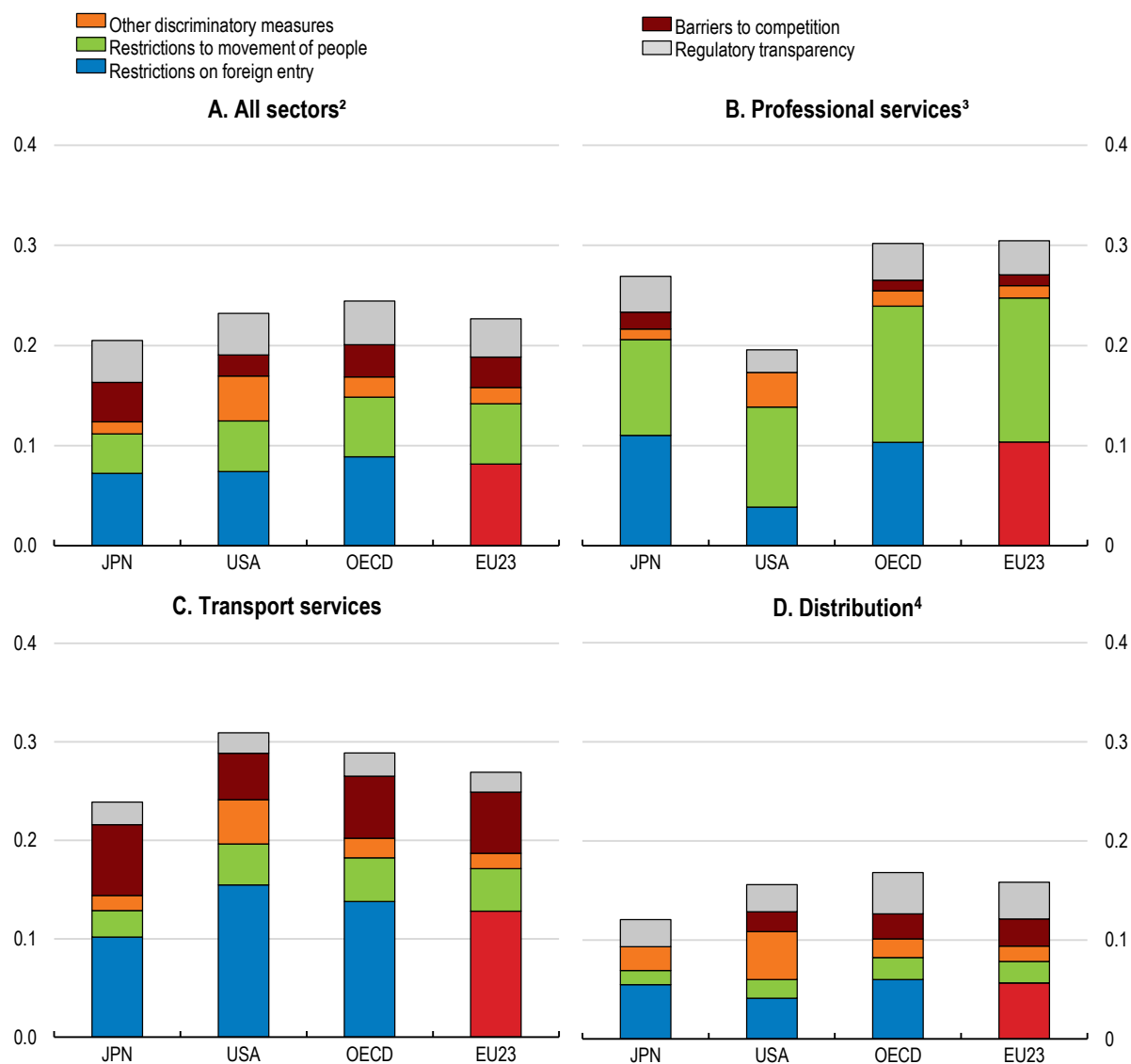
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Services experience significant administrative and regulatory barriers when going cross-border

Businesses still experience many administrative and regulatory barriers when providing services in another member states (Figure 16), with the burden of restrictions falling disproportionately on smaller firms (Figure 17). Sluggish services reform efforts are an important factor holding down productivity growth (Figure 18). While services represent 70% of the EU GDP and account for some 70% of total employment, cross border services only make up 5% of the EU GDP compared to about 20% for goods. For instance, only 10% of providers in business services and construction provide services across the border (European Commission, 2017b).

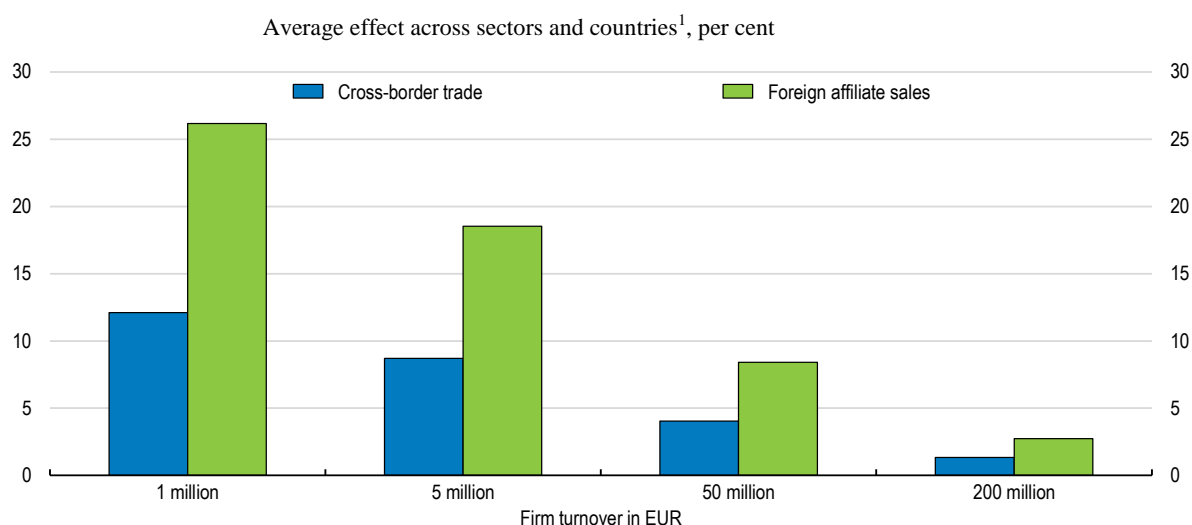
Figure 16. There is still room to ease regulations in EU services

Services Trade Restrictiveness Index¹ (STRI), from completely open (0) to completely closed (1), 2017



1. The STRI index measures the restrictive effect of regulations on trade.
 2. Simple average across the 22 services sectors for which data are currently available.
 3. Simple average of accounting, architecture, engineering and legal professional services.
 4. Includes both wholesale and retail trade.
- Source: OECD (2018), *OECD Services Trade Restrictiveness Index* (database).

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Figure 17. The burden of restrictions falls disproportionately on smaller firms

Note: The numbers indicate the ad valorem tariff equivalent of an STRI score of 0.2 on top of what is incurred by firms with turnovers of EUR 500 million and above.

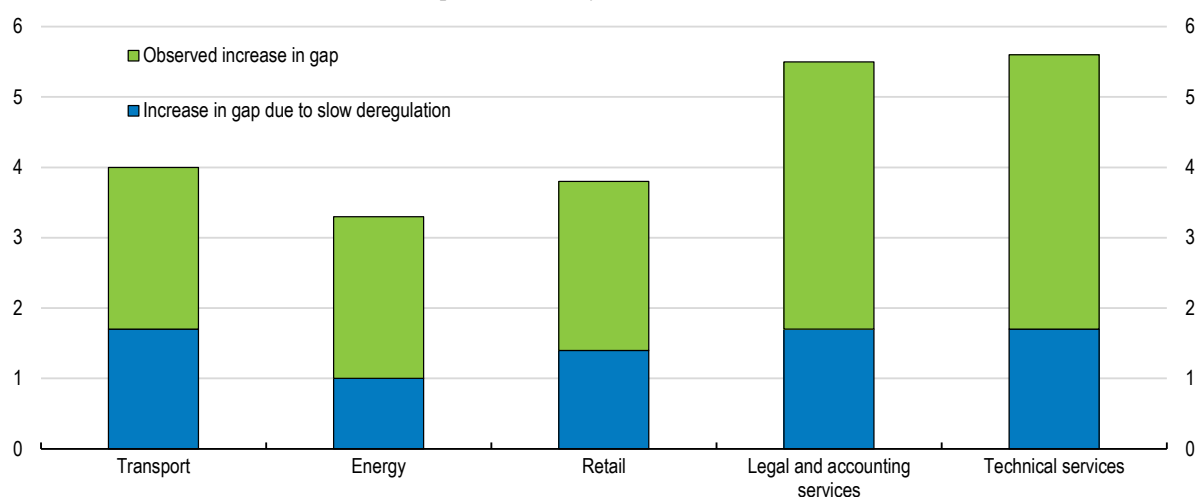
1. Based on microdata from Belgium, Finland, Germany, Italy, Japan, the United Kingdom and the United States.

Source: Rouzet, D., S. Benz and F. Spinelli (2017), "Trading firms and trading costs in services: Firm-level analysis", OECD Trade Policy Papers, No. 210, OECD Publishing, Paris.

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Figure 18. Sluggish services reform efforts are linked to productivity divergence

Percentage contribution to the annual change in the MFP gap of the slower pace of reform relative to the best practice industry¹



1. The figure shows the annual change in the revenue-based MFP (MFPR) gap between the frontier and laggard firms, and the part that is explained by slower deregulation than that observed in the fastest deregulating industry (telecom) based on coefficients estimated by the authors. Estimates are averaged over countries and years. Growth rates expressed in percentages are approximated by log-point differences.

Source: Andrews, D., Criscuolo C., and Gal P. N. (2016), "The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy", OECD Productivity Working Papers, 2016-05, OECD Publishing, Paris.

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Service providers in several sectors complain about administrative complexity and costs when going cross-border (European Court of Auditors, 2016). Barriers include not only lack of information about applicable rules but also complexity of procedures and formalities, a lack of electronic procedures, differences in rules and requirements among countries, unclear deadlines and multiple fees. Business services (e.g. accounting, tax advice, architecture, engineering, IT) and construction are particularly affected by stringent regulatory obstacles when going cross-border. These include excessive shareholder requirements, requirement for professionals to hold 100% of the voting rights or capital in a company or compulsory minimum tariffs for some professions (European Commission, 2017c). Finally, the 2003 Service Directive established a system to enhance administrative cooperation between Member States and exchange information; however, it is seldom used. As a result member states continue to impose specific domestic requirements on service providers established in other Member States.

Removing barriers further could create opportunities for new companies to expand to more markets and foster growth. Estimates suggest that the full implementation of the services directive could add 1.7% to EU GDP (European Commission, 2017c). There is great scope to remove barriers in particular in those service sectors where cross-border trade and cross-border investment remain low (Figure 12, Panel B).

To make it easier for companies and professionals to provide services in another member state, the Commission launched a new service package in January 2017. One of the key measures was a new e-services card. Other measures in the services package include the proposal on notifications in services, the proposal on the proportionality test before adoption of new regulation of professions, as well as the reform recommendations for regulation of professional services, which all provide incentives for Member States to assess and reform the barriers that exist in their services markets.

The e-card aimed at reducing information asymmetries and eliminating the need for multiple requests of information facilitating that more firms go abroad in the sectors of construction services and business services, which still show very low levels of cross-border trade. E-cards would also be used to facilitate the temporary provision of services across borders and the set-up of agencies, branches and offices where administrative complexity and legal uncertainty is still an important challenge (EC, 2017c), as recommended in the 2016 OECD Survey. However, the e-card proposals in their current form are unlikely to be approved in the EU legislative process. A solution should be found to reduce barriers in the business services sector by simplifying procedures for self-employed and companies to complete the administrative formalities to establish and provide cross-border services.

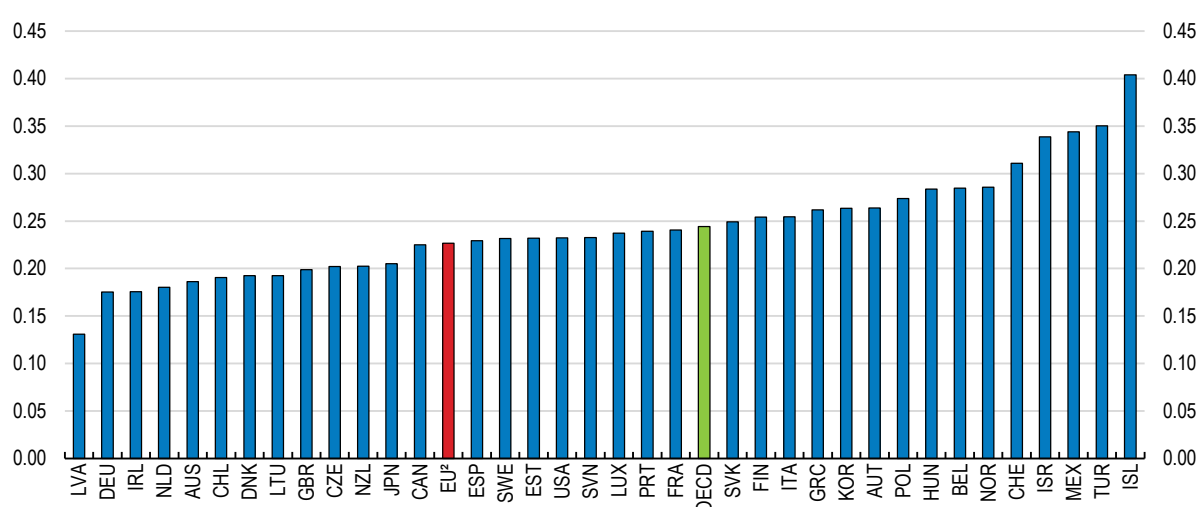
There is significant scope for improving the functioning of the European retail sector. Retailers face persisting barriers to market entry including burdensome and complex authorisation processes, restrictive requirements linked to the size and location of shops, as well as operational restrictions, including shop opening hours or rules on promotions and discounts. Evidence by the Commission shows that, as a result, prices are high and product innovation and labour productivity growth are low (EC, 2015a). The Commission has launched an initiative in May, which consists of best practices to guide member states' reform of the regulatory environment for retail. Such efforts are welcome. Close monitoring by the Commission of the level of regulatory restrictiveness in the retail sector and its economic impacts should be used to measure member states' reform efforts.

According to the OECD's Services Trade Restrictiveness Index (STRI), the EU service market is relatively open to third countries compared to other OECD countries

(Figure 19). The EU is the largest exporter and importer of services in the world; exports and imports of services were valued at €1,517 billion in 2015 (WTO, 2017). The openness of EU services markets is largely reflected in commitments bound in the World Trade Organisation and in Free Trade Agreements and covers all levels of government (EU, member states and sub-federal entities) and extends to procurement. Because of the openness of the EU's services market, a more integrated single market by generating additional growth and demand will not only benefit European businesses but also suppliers from other countries.

Figure 19. The degree of openness of the EU services market is relatively elevated

Services Trade Restrictiveness Index¹ (STRI), from completely open (0) to completely closed (1), 2017



1. The STRI index measures the restrictive effect of regulations on trade; unweighted average across the available 22 sectoral indicators.

2. European Union member countries that are also members of the OECD (22 countries), plus Lithuania.

Source: OECD (2018), *OECD Services Trade Restrictiveness Index* (database).

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Professional services face constraints to labour mobility and investment

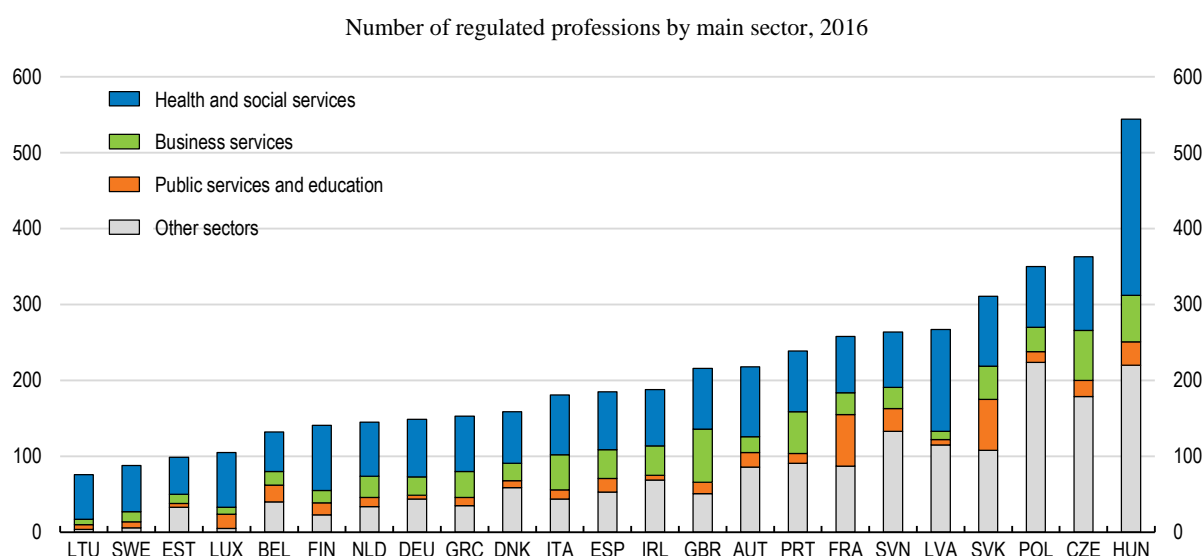
One way for people to benefit directly from the single market is to move to work in another EU country. However, very few people work in another member state. Languages are obstacles to mobility, but there are also policy-induced barriers to mobility including that national rules are sometimes unnecessarily burdensome and outdated making it difficult to work in another country. Barriers include conduct or practice restrictions, education and training requirements and compulsory membership of professional associations.

The 2013 Professional Qualifications Directive regulates the recognition of professional qualifications across the EU and seeks to promote the automatic recognition of professional experience, however, in practice the procedures do not work well. Qualification and training requirements to access regulated professions vary widely across countries and the recognition of qualifications is often made on a case-by-case basis, favouring uncertainty. To improve the situation, an electronic European

professional card became available in January 2016 to help professionals get their qualifications recognised more quickly and easily. The card specifies the obligations of member states in the process and sets deadlines for treating applications. If host country authorities do not reach a final decision within a deadline, then recognition is granted automatically. At present the card is available for only five professions and should be expanded to other professions, as recommended in the 2016 OECD Survey. Increased harmonisation of professions' curricula at the EU level beyond the seven professions currently covered could also help make recognition of qualifications more automatic.

Further reducing the high barriers to access regulated professions in many countries (Figure 20), could support mobility, as well as long-term productivity growth. The Commission has recently proposed that member states should undertake a comprehensive and transparent test based on some pre-defined criteria every time they want to adopt or amend their national professional services. The intention of the test would be to address disproportionate and unnecessary regulation, which is welcome. However, the criteria proposed by the Commission are quite broad and leaves a wide scope for interpretation. The Commission should also ensure that the new test does not put a break on member states reform efforts, which are already faltering and increases the already high administrative burden.

Figure 20. In many EU countries the number of regulated professions is high



Source: European Commission (2018), Regulated Professions Database.

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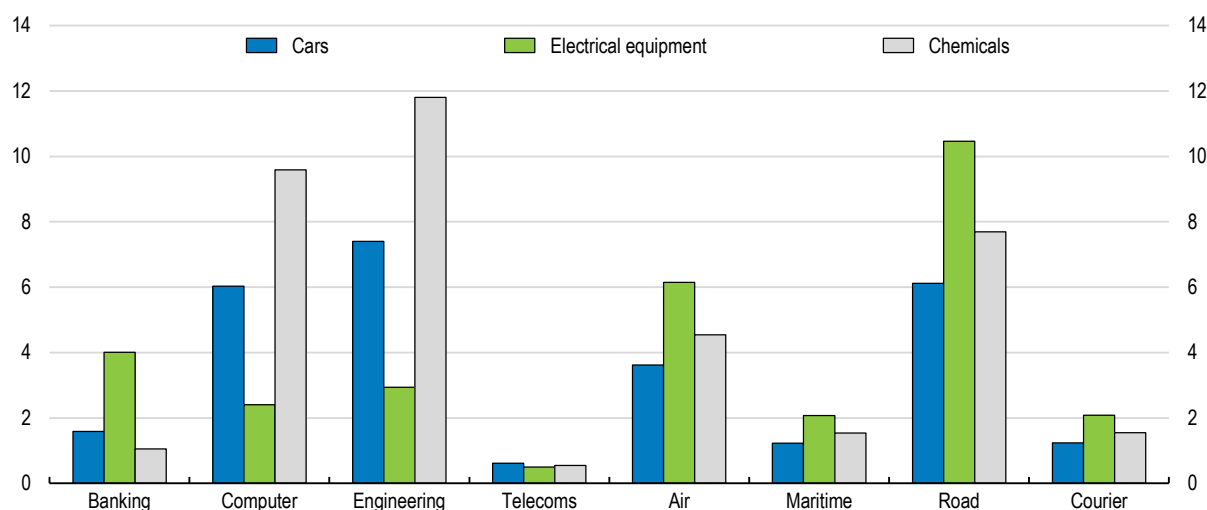
A competitive transport system to get the Single Market moving

A well-functioning and integrated transport system would facilitate the free movement of goods and people, including across borders. This would not only improve the productivity of transport sectors, but also benefit other sectors by reducing trade costs and ensuring that supply chains work effectively. For instance, OECD evidence suggests that countries with higher restrictions on road freight (relative to other transport modes) inhibit exports of key industries including cars, electrical equipment and chemicals (OECD, 2017c; Figure 21). As discussed in previous Surveys (OECD, 2016b), road transport remains highly segmented along national borders, which is potentially very costly given that three

quarters of all freight transport in Europe is by road, according to Eurostat. There are also important investment needs to remedy crucial links in the core TEN-T network, especially in the core road network in Central and Eastern European countries, in particular Estonia, Lithuania, Poland, Slovakia and Romania (Eurocities, 2017).

Figure 21. Countries with higher restrictions on road transport export less

Estimated percentage impact of halving the distance to best-practice STRI¹ on manufacturing exports by sector in the EU², 2014



1. Best-practice in the Services Trade Restrictiveness Index refers to the lowest score among the countries included in the sample.

2. Data coverage extends to 23 EU member countries.

Source: OECD calculations based on the CEPII BACI database, according to the methodology applied in Arbache, J., D. Rouzet and F. Spinelli (2016), "The role of services for economic performance in Brazil", OECD Trade Policy Papers, No. 193, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5j1pl4nx0ptc-en>

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In May and November 2017, the European Commission launched new mobility packages to strengthen the internal road transport market, improve and harmonise road charging systems and clarify the EU rules on the posting of transport workers. The package changes restrictions on cabotage – when a foreign truck makes a delivery on the territory of a member state right after an international trip from another member state or from a country outside the EU – by allowing unlimited cabotage operations within five days of the international delivery (currently a maximum of three operations is allowed during seven days after the international carriage). The new rules will be easier to enforce, as there is no need to count the trips, and should also help to reduce the number of empty runs, and pollution: in 2015, 23% of all heavy good vehicles in the EU ran empty (EC, 2017d). In addition, an initiative to streamline electronic toll systems would make it easier and cheaper for (truck) drivers to cross borders, and reduce the regulatory burden for companies by ensuring that road users can use a unique device to pay tolls when crossing EU borders. A 2009 law to develop a unique device compatible with all European toll systems has only worked in some countries, as European electronic toll service providers face barriers to entry and excessive national requirements to operate (EC, 2017e).

The European rail network is quite fragmented, as member states use different safety standards and technical systems, making it difficult to develop an EU-wide market. Cross-border train services, for example, have to get safety authorisation from several

different national authorities and deal with several different signalling systems. This makes it complicated and expensive for new rail operators and new technical equipment to enter the market, thus deterring competition (EC, 2011). This is set to change with the entry into force of the 4th railway package, adopted in 2016 after 5 years of difficult negotiations. The technical pillar of the 4th railway package, adopted in April 2016, completes efforts to lay down common technical standards to make it easier to run trains across frontiers. The new legislation aims at improving safety and interoperability between national railroad networks and at cutting red tape for operations beyond one single member state. Moreover, from 16 June 2019, the European Union Agency for Railways will gain a new task as system authority for the European railway traffic management system and will perform of junior authority responsible for issuing authorisations for the placement on the market of railway vehicles and issues single safety certificates. This should ensure a more transparent and uniform process for vehicle authorisations throughout the EU.

As regards market access, three rail-reform packages since 2001 have made significant progress (OECD, 2012; 2014b; 2016b), competition has been gradually introduced into freight and cross-border passenger services; some common technical standards have been laid down to make it easier to run trains across frontiers, and the beginning of a single market in cross-border passenger services has been introduced. This process was completed by the adoption in December 2016 of the market pillar of the 4th railway package. The market pillar aims at removing remaining barriers to the creation of a single European rail area by dismantling the remaining legal monopolies and introducing competition in domestic passenger markets by 1 January 2019. The new legislation also aims at preventing cross-subsidies between infrastructure management and railway operations. Increased competition should encourage innovation, leading to an improved functioning of the rail network. The boost in efficiency and reduced transport costs should encourage an increased use of rail transport and help the EU meet its reduction targets for CO₂ emissions.

Overcoming the fragmentation of EU energy markets

Despite progress made in recent years, the European energy market is still too fragmented; market concentration and weak competition remain an issue, infrastructure is outdated in some areas, investment is insufficient and final energy prices are high for citizens and businesses (IEA, 2014; OECD, 2016b). The original role of the European high-voltage cross-border transmission links was to help maintain security of supply at times when demand is unexpectedly high or generating capacity unexpectedly unavailable. With the single market this role was extended and imports provide not only a last-resort source of supply but also increase competition across the European market with the objective of reducing prices and increase choice of energy suppliers. At the same time, the single market in electricity increases the potential for renewables to be supplied beyond national boundaries contributing to the shift towards a low-carbon economy and to fight climate change.

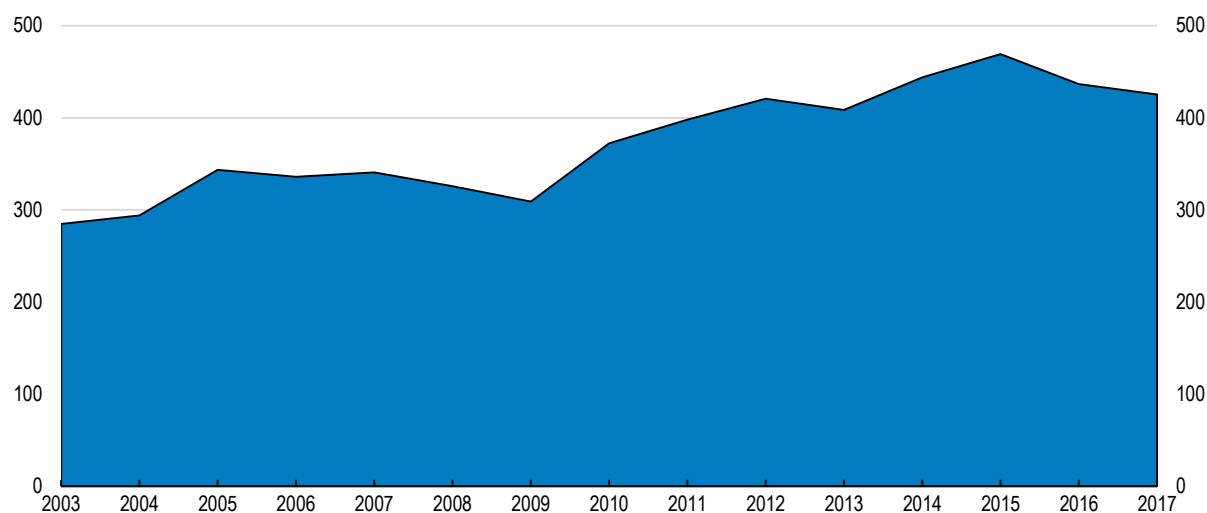
Large investment needs in cross-border interconnection

A better connected European energy grid is vital for Europe's energy security, to increase competition and to achieve the European Union's climate policy targets. Cross-border exchanges of electricity have increased markedly since the 1990s (Figure 22) and, in recent years, average prices have fallen and some of the largest divergences between countries – notably involving Italy – have diminished (Figure 23). But there remain

divergences in average prices across countries, and short-run divergences may even be larger than what average prices show.

Figure 22. Cross-border electricity exchanges have increased markedly in Europe

Cross-border electricity exchanges between countries¹, terawatt hours



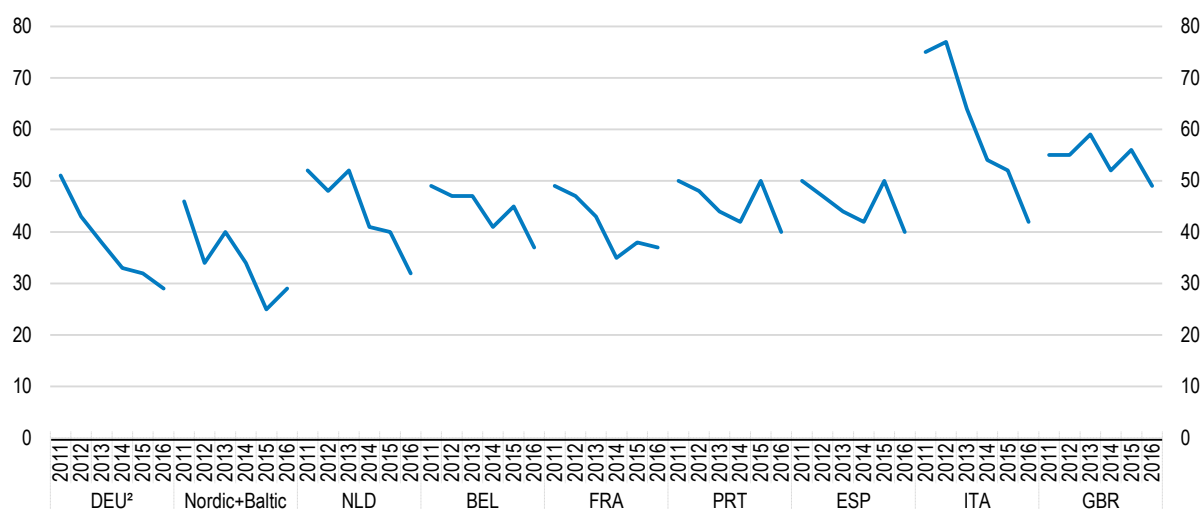
1. The European Network of Transmission System Operators, ENTSO-E, represents 43 electricity Transmission System Operators (TSOs) from 36 countries across Europe. The network was established in 2009 with the aim of setting up an EU internal energy market and ensuring its optimal and sustainable functioning in the light of the European energy and climate agenda.

Source: European Network of Transmission System Operators (ENTSO-E).

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Figure 23. Evolution of electricity wholesale prices in Europe

2011-2016, euros/MWh¹



1. Electricity wholesale prices in different European power exchanges, day-ahead market. The day-ahead market sets a price each day at noon for offers of supply and demand for delivery the following day.

2. Data refer to the delivery zone also including Austria and Luxembourg.

Source: ACER/CEER (2017), Annual Report on the Results of Monitoring the Internal Electricity and Gas Markets in 2016, ACER/CEER, Brussels.

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Lack of cross-border interconnection capacity is one of the reasons price differences are not removed by arbitrage. The energy regulators' association estimate that the economic losses due to these price divergences are substantial and can be estimated at several billion euros per year in the EU as a whole (ACER/CEER, 2017). Incumbent electricity producers benefit particularly from the reduced competition resulting from the lack of adequate connectivity. ENTSOE estimates from its modelled scenarios that the largest reductions in gaps between generation costs from increased capacity would be between the UK and both Ireland (with the UK benefitting from lower costs) and continental Europe; but significant price gaps also exist across boundaries in the east of Europe, between Italy and its neighbours, and across the Franco-Spanish border (ENTSOE, 2016a, 2016b). To speed up completion efforts, the EU has set interconnection targets for 2020 and 2030, but four member states are expected to remain below the 2020 interconnection target of at least 10% of the installed capacity in place (EC, 2017f). This target means that each country should have in place electricity cables that allow at least 10% of the electricity that is produced by their power plants to be exported to its neighbouring countries.

A well interconnected grid is also crucial to accommodate increasing levels of renewables in a cost-effective way and help meet the EU climate goals. At present, fossil fuels are sometimes being used in Europe to generate electricity even though renewables capacity (with near-zero marginal cost) is available in other countries, because the available cross-border capacity is fully allocated. Increased cross-border transmission capacity, together with investment in renewables production, investment in transmission and distribution infrastructure is needed to meet Europe's renewable targets.

To further integrate energy markets investment needs are substantial. The Commission estimates that some EUR 200 billion are needed up to 2020 to build the necessary infrastructure to adequately interconnect all EU member states, about half of it for electricity projects alone out of which 35 billion are needed for interconnections. The Connecting Europe Facility will provide about 3% of the investment needed up to 2020 to finance infrastructure projects of common interest, which include about 50 electricity interconnection projects across Europe. Special priority should be given to those projects that will address insufficient interconnection capacity between member states.

Security of supply concerns are reducing efficiency and cross-border electricity trade

Physical capacity is not the only constraint on cross-border trade in electricity. In day-to-day operation a prime concern is security of supply, generally defined as some "acceptable" level of supply interruptions. Renewable energy has increased unscheduled flows, creating new security of supply constraints for system operators. As cross-border capacity and the share of renewables expand in Europe these challenges will increase as unexpected demand or supply in one country may increasingly affect security of supply in other countries (IEA, 2014; ENTSOE, 2016b).

National grids have become more and more integrated with the EU wholesale markets; however, there are no EU wide rules to guide national regulators responsible for security of supply to take into account the neighbouring grids. According to the Association of European Energy Regulators (ACER), this leads to underutilisation of existing physical cross-border capacity. National Transmission System Operators (TSOs) keep higher reserve capacity margins on cross-border lines than they do on their domestic grid, either because they explicitly favour domestic suppliers or because they feel they have less

information about outside sources of volatility. The effective capacity of cross-border links may be reduced by as much as one third (ACER, 2016), though it is not easy to be precise about this. A review of regulations to try to minimise any inadvertent regulatory barriers to cross-border trade is needed. The Commission's proposed modification to the regulatory framework for the internal electricity market under the “Clean Energy Package for All Europeans” would move a long way in this direction, explicitly requiring national regulators to treat cross-border links in the same way as the domestic equivalent in market planning.

Incentives for investment in non-intermittent sources are needed

Not only does a higher renewable share increase variability, it can undermine the viability of non-intermittent thermal plants that are necessary as backup. To amortise the fixed costs of necessary non-intermittent sources, the price paid for electricity might have to be very high. Although very high prices would apply for only short periods of time and need not affect the overall average price of electricity, investors may doubt whether such high prices would be politically acceptable and hesitate to invest.

Europe has seen the introduction of a range of national capacity remuneration systems (CRM) over the past five years, as a way of guaranteeing capacity while avoiding high peak prices. They include both market-wide systems and other market-based measures, like grid stability or “strategic” reserves, where such capacity does not enter the day-to-day wholesale market. If not carefully specified, payments for such capacity might look like a subsidy to fossil fuel capacity - but its cost could be kept down by creating a capacity market, in which generators compete to offer capacity at a lower cost than competitors. Some countries are already experimenting with such a system, for example France, the UK and, within Canada, the province of Alberta. CRMs rarely consider the implications or impact of cross-border trade, so that national regulators (i.e. TSOs) and governments tend to focus on the need for capacity in their own countries rather than at the (lower, overall) level that would make sense in a fully integrated European system (ACER/CEER, 2016).

In the light of those issues, the International Energy Agency's review of the EU recommended a number of measures for the EU and its member countries to foster market integration and ensure investment in non-intermittent sources. These included a flexible market framework, harmonisation of rules emergencies, cooperation on security of supply, moving to a European-level assessment of system adequacy with a proper incorporation of interconnections and the potential contribution from demand management (IEA, 2014).

Demand management and smart grids

Demand-side flexibility can also reduce the need for spare capacity in the management of renewables. Some consumers of electricity are willing and able to adjust the time at which they use electricity to match its availability, if they get it at a lower cost. Low night-time tariffs are a long-established example. Interruptible contracts, where an industrial consumer obtains a lower price in return for being ready to cut consumption during unusually high peaks are a more recent adaptation.

Partly because technology increasingly allows rapid transmission of information on supply, demand and the technical state of the distribution network, and also because of the change in the nature of generating capacity away from a relatively small number of very large units towards a very large number of highly-dispersed low capacity units

requires a different approach, more sophisticated pricing and contract structures are becoming feasible. The term “smart grid” has been coined to cover networks with these properties.

The development of smart grids alongside expanding renewables capacity and increased interconnectedness across European countries will provide higher levels of demand-side flexibility. Provided the markets work effectively, increased demand flexibility and interconnectedness would significantly reduce aggregate reserve capacity needs and therefore overall costs. As IEA (2011) points out, many steps are necessary to develop large-scale smart grids, on the regulatory side but also in a range of issues from consumer information to cyber security. Digitalisation itself should facilitate power system interconnection and flexibility (IEA, 2017). Some steps are already part of the Commission's “Clean Energy For All Europeans” 2016 package. To make best use of developing technologies (which will require investment in physical infrastructure but also in software), “integrated resource planning” is needed, where the development of generating capacity, the distribution network and market design are all considered together. To make best use of the potential for trade between member countries, integrated planning across the network is needed.

Unbundling, which has been good for competition, makes designing a planning process more important; coordination between upstream and downstream actors (with a new one – storage – potentially to become important) that would previously have been within a vertically integrated entity. The proposed revised EU electricity directive takes some steps to accommodate this, for example by providing greater legal clarity on when transmission or system operators can operate storage under several conditions.

Encouraging regional solutions for cross-border energy trade

Whatever demand and supply management tools are used, they should be designed with EU cross-border trade in mind, so that such trade can make the most effective contribution to reducing energy costs and assuring security of supply. This may not require that neighbouring countries adopt identical systems. Indeed, in the short run a common integrated resource planning approach across the whole EU may be asking too much. Such planning may be more feasible within geographical regions that already have a degree of integration and effective cooperation. So planning for smart grids within, for example, some existing bidding regions, or a small group of them, as a step on the road to wider integration, and as a learning process, could be considered. One fairly natural regional grouping might be France-Germany-Benelux and Iberia. Already close links across the Nordic market with the vision towards a common retail market might also develop in this way, if governments step up their cross-border collaboration on these matters. The challenge is to maintain a high level of government collaboration and greater power systems integration driven by national regulators. These regulators may need more guidance, coherent across all countries, about their mandates and responsibilities. The “Clean Energy for Europe” package should provide solutions and practical guidance and revitalise collaboration, at a point in time when the share of variable renewables is rising at a fast growing pace.

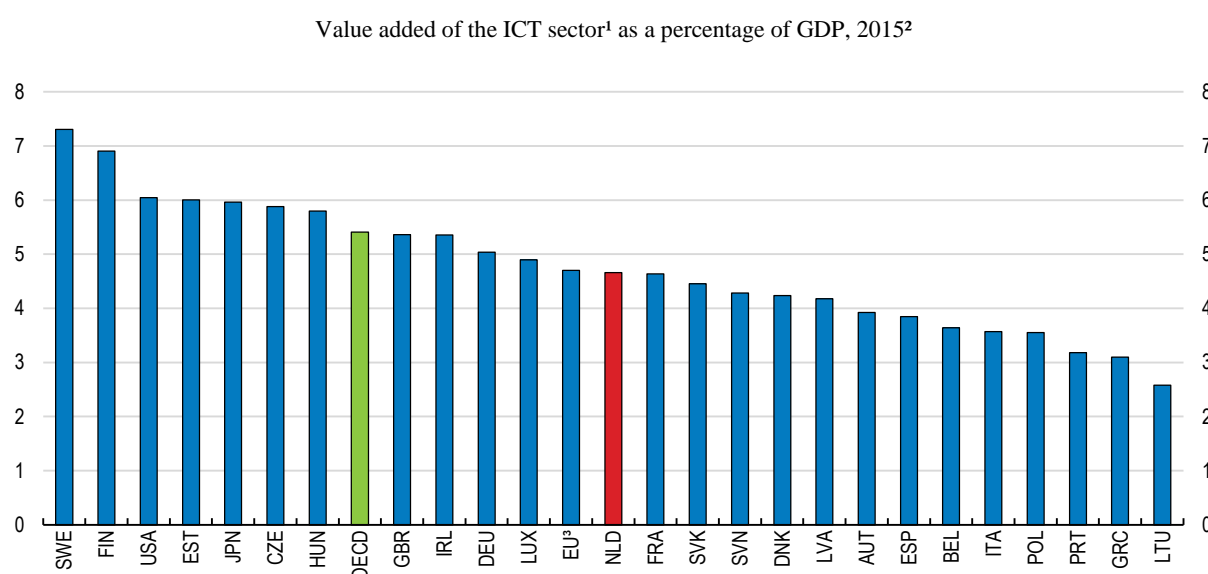
Reaping the full benefits of a digital single market

There has been significant progress in the implementation of the digital single market strategy since its adoption in 2015. One fourth of the 24 legislative initiatives proposed by the Commission have already been adopted by the European Parliament and Council,

including important measures such as the cross-border portability of online content services and the removal of roaming charges and of geo-blocking. Other important legislative measures such as the modernisation of copyright rules, taxation of e-commerce, cyber-security and addressing unfair contractual clauses and trading practices identified in platform-to-business (P2B) relations are still in the legislative process.

Despite these significant advances the EU is still lagging behind in the uptake and use of digital technologies. While some countries like Sweden and Finland are leading on the global stage, the ICT sector is significantly smaller in most European countries and some large economies are trailing behind the EU average (Figure 24). For instance, less than 30% of European businesses in important manufacturing sectors like automotive and mechanical engineering are exploiting digital technologies, despite being aware of their potential benefits (EC, 2017g). Progress will at some point be needed to develop a digital single market, notably in three key areas: i) improved connectivity – broadband coverage and investment in network infrastructure; ii) removing barriers to greater adoption of ICT by firms, especially SMEs and iii) facilitate the penetration of digital technologies in the public administration.

Figure 24. The EU ICT sector is smaller than in technological leaders



1. The ICT sector is defined as Sector J, Nace Revision 2 in Eurostat and as the sum of industries ISIC rev.4: 26 Computer, electronic and optical products; 582 Software publishing; 61 Telecommunications; and 62-63 IT and other information services for OECD data. Therefore, information for some countries is directly comparable.

2. Data for Bulgaria, Croatia, Lithuania, Malta, Romania are from Eurostat. Data for Bulgaria, Germany, Spain, Croatia, Latvia, Lithuania, Malta, Poland, Portugal, Romania and Japan are for 2014.

3. Simple average computed across Member States for which information is available (27 countries).

Source: OECD (2017), OECD Digital Economy Outlook 2017, OECD Publishing, Paris; Eurostat.

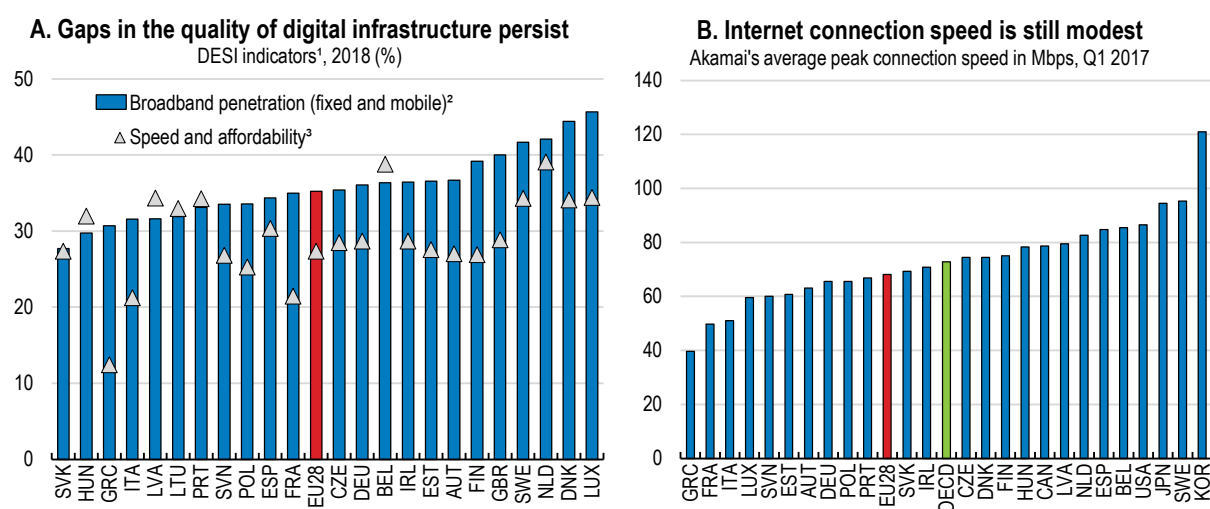
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Improving digital infrastructure

High quality network infrastructure is the backbone of the digital economy and a prerequisite for the digital revolution, the facilitation of modern public services and the take up of cutting edge innovations by firms (Renda, 2017). Yet, member states differ

substantially in the quality of their network infrastructure as measured by broadband penetration, speed and affordability (Figure 25). In a recent survey, close to half of all surveyed firms (43%) indicated that lack of access to digital infrastructure is a barrier to investment (EIB, 2017). Moreover, as digital technologies keep evolving, the quality and performance of the network will become even more important. For instance, high-speed wireless connections such as 5G rely on very-high-capacity networks.

Figure 25. Large gaps in deployment and quality of broadband infrastructure undermine the development of the Digital Single Market



1. The Digital Economy and Society Index (DESI) is a composite indicator computed as the weighted average of five main dimensions: connectivity, human capital, use of internet, integration of digital technology and digital public services; higher values correspond to better performances.

2. Cumulated score of the fixed and mobile broadband indicators of the DESI "Connectivity" dimension.

3. Cumulated score of the fast broadband, ultrafast broadband and broadband price index indicators of the DESI "Connectivity" dimension.

Source: European Commission (2018), Digital Economy and Society Index 2018, available at <https://ec.europa.eu/digital-single-market/digital-economy-and-society-index-desi>; Akamai (2017), "Akamai's state of the Internet report: Q1 2017 report", <https://www.akamai.com>.

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EU financing can contribute to alleviate the financing gap by easing access to credit and leveraging support for high risk projects. The Commission estimates that to improve connectivity and to fill gaps where there is poor or no internet network infrastructure in Europe about Euro 500 billion investment will be needed up to 2025 (EC, 2016b), including an estimated Euro 155 billion of private investment. The EU cohesion policies support investment in high speed broadband networks (EC, 2015a), which is welcome, as well as the European Fund for Strategic Investment. The Connecting Europe Broadband Fund, to be launched in mid-2018, will support smaller-scale and higher-risk broadband projects especially in rural areas across Europe.

In September 2016, the Commission proposed a revision of the regulatory framework for electronic communications markets and to establish the European Electronic Communications Code, which is currently going through the legislative process. One objective of the code is to provide greater incentives for infrastructure investments in very

high capacity broadband networks, especially in less viable areas. To that end the Commission proposal requires national regulators to refrain from imposing regulation on dominant operators regarding new network elements when they offer a possibility for other operators to invest together in new high capacity networks and provided that, pre-defined conditions for such co-investment are met. However, the body of European regulators for electronic communications (BEREC, 2017) has warned that such co-investments can lead to anti-competitive coordinated behaviours among providers and advised that to exempt co-investment projects from regulation a case-by-case in depth assessment of competitive dynamics would be advisable. The Council and the European Parliament have provided amendments to the Commission's proposal, reflecting their respective views on the rules under which regulatory incentives should be granted. The legislative process is still on-going.

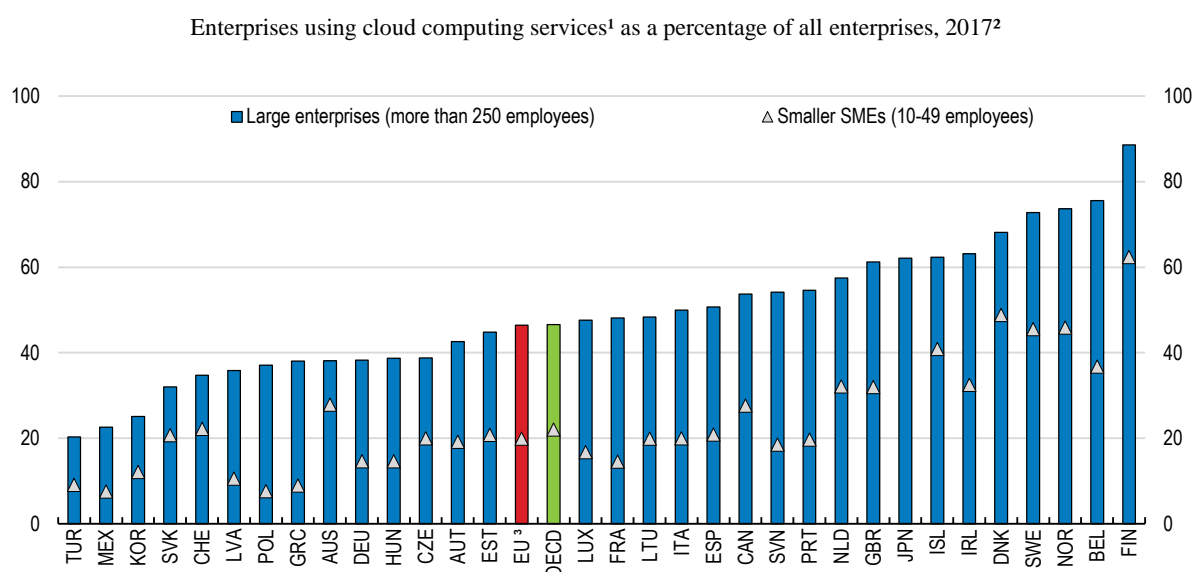
One way to create incentives to invest in high-quality network infrastructure could be to grant lower rental fees to new service providers that commit to undertake productive investment and to upgrade the network. By committing to improve the network equipment in the future, entrants currently lacking financial resources to finance new infrastructure would signal to the incumbent that they are engaged in long-term productivity-enhancing plans. Incumbents have an incentive to grant lower fees to young but innovative companies with a long-term vision. Attracting such firms could help incumbents to successfully roll out new technologies like 5G, which imply substantial disruption and the need for upgrading equipment.

A potential issue with the new regulatory framework is that access obligations are granted "only when and where necessary to address the shortcomings of the market".. In this regard, it is important that the Code retains and reinforces the mechanisms for ensuring consistent regulatory outcomes and predictability of the regulatory environment. Critical importance should be given to ensuring that a single market approach, for example, through commonly established criteria is applied across EU countries when imposing regulatory remedies. To achieve this, the Commission has proposed to enhance the current notification mechanism by empowering the Commission to request the national regulatory authority to withdraw its draft regulatory measures if the Body of European Regulators for Electronic Communications (BEREC) agrees with the Commission's assessment that the proposed measures create a single market barrier or are incompatible with EU law.

Facilitating the adoption of productivity-enhancing ICT tools by firms

For digitalisation to strengthen overall growth performance, the divide between frontier and lagging firms needs to be closed by firms investing in intangible capital and adapting their business models; workers acquiring new skills; and countries developing their digital infrastructure and adopting favourable framework policies (OECD, 2018b). Many firms in Europe are connected to broadband network and have their own website. However, advanced ICT applications such as enterprise resource planning software, cloud computing and big data are used only by some firms, typically the largest ones (EC, 2017f). As an example, only 25% of large enterprises and 10% of SMEs (Figure 26) used big data that allows firms to capture customers' demand more accurately and reduce failures in the innovation process.

Figure 26. Business uptake of digital technologies could be improved in many firms, especially among smaller ones



1. Cloud computing refers to ICT services used over the Internet as a set of computing resources to access software, computing power, storage capacity and so on. Data refer to manufacturing and non-financial market services enterprises with ten or more persons employed.

2. Or latest available year; 2016 for the EU and the OECD average.

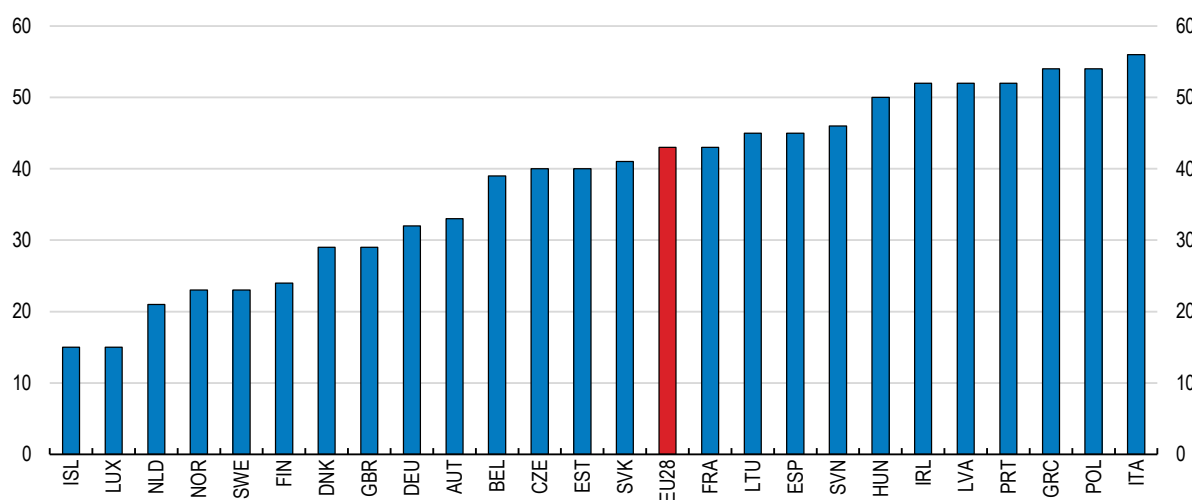
3. Unweighted average across European Union member countries that are also members of the OECD (22 countries) and Lithuania.

Source: OECD (2018), *ICT Access and Usage by Businesses* (database).

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According to a recent survey, the most significant barrier to more business investment in Europe is no longer a lack of finance or uncertainty about the future, but a shortage of workers (EIB, 2017). The problem is particularly acute in central European economies, such as Poland and the Czech Republic who are suffering substantial migration of skilled workers, as well as places with low unemployment like Germany, Austria and the UK.

Ensuring that everyone has the right skills for an increasingly digital and globalised world is essential to promote inclusive labour markets and to spur innovation, productivity and growth. Yet, many individuals lack digital skills in Europe (Figure 27). While 90% of jobs require at least minimum digital skills, only 45% of the EU population and 37% of the EU labour force have insufficient digital skills (EU, 2017). Insufficient skills might affect more severely smaller enterprises, which lacking organisational capital and the financial ability to hire the best talents could miss the opportunities offered by digital technologies. Moreover, without policy action the situation might only worsen: many jobs in the EU will be affected by the digital transformation, as discussed below.

Figure 27. Many individuals still lack digital skillsAs a percentage of 16-74 year-olds, 2017¹

1. 2016 for Italy and Portugal.

Source: Eurostat (2018), "Individuals' level of digital skills", *Eurostat Database*.StatLink  <http://dx.doi.org/10.1787/888933748629>

The EU supports member states in their efforts to improve digital education. The Commission monitors and forecasts supply and demand of IT professionals in Europe and supports the development of new curriculum guidelines for schools and universities through The Grand Coalition for Digital Jobs strategy. This is a worthy initiative that could be further supported by high-quality data on specific tasks and skills required in each occupation. The Commission could further support efforts to improve digital skills by establishing common definitions of skills needs and help develop data tools to monitor skill gaps. To that end, more emphasis could be placed on projects that provide multilingual classifications of skills and competences, and that monitor skill trends at the European level, such as ESCO and Skill Panorama.

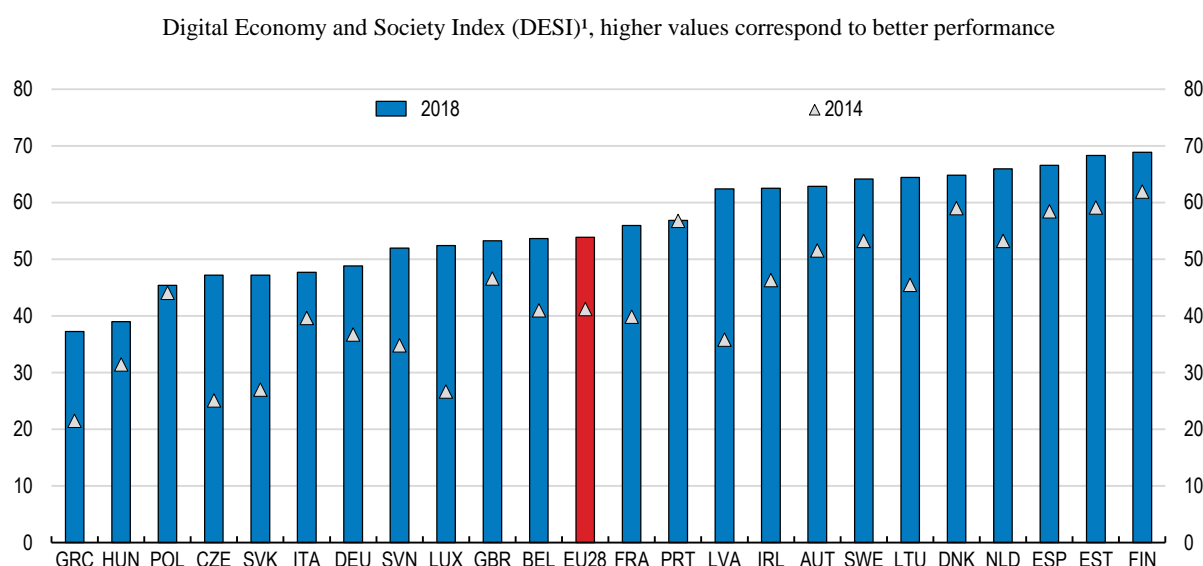
Lack of information is also a barrier to investment in digital technologies. In surveys, two-thirds of managers indicate that they have difficulties assessing the return of investing in digital innovations, have problems trusting the technology, or are not sure about the maturity of the latest technologies (EC, 2017f). Besides better training in digital technologies, which is already supported by the European Social Fund and the European Regional Development Fund, information sharing and the possibility to test and experiment with technologies before engaging in digital innovation could help. The EU could draw inspiration from successful experiences of transition towards digitalisation, such as Korea's "Creative Korea-Smart Nation" or Germany's initiative "Mittelstand-Digital", which aims at promoting the use of software for enhancing business processes by SMEs.

More efficient public administration through e-government

Greater use of digital technologies cannot only reduce the costs for governments, but also for citizens and businesses, boosting investment, productivity and facilitating business creation (IDABC, 2005; EC, 2004a). Estimates suggest that the digital single market

could cut the administrative burden in the public sector by 15-20% (EC, 2015b). Moreover, increasing transparency and favouring cross-border data sharing could boost trade and help attract foreign direct investment. European governments have advanced in making public services digital, however, several member states; have hardly made any improvement (Figure 28).

Figure 28. The penetration of digital technologies in the public administration is low in some countries



1. DESI E-Government sub-dimension computed as the weighted average of the following normalised indicators: E-government users, use of pre-filled forms, on-line service completion and open-data availability. Source: European Commission (2018), Digital Economy and Society Index 2018, available at <https://ec.europa.eu/digital-single-market/digital-economy-and-society-index-desi>.

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Potential barriers to the successful implementation of e-government include technical barriers, such as the legal validity of the data exchanged due to privacy and confidentiality issues, but also organisational inertia due to lack of digital skills among public employees (OECD, 2014b; 2017c). Extending the scope of existing programmes such as Skills Agenda for Europe and Digital Skills and Jobs Coalition, to specifically target public service officials could be a way of reducing resistance to change. The European Fund for Strategic Investments and the European Regional Development Fund could finance capacity building in the public administration, which is weak (See section on cohesion).

The EU has continued pursuing an ambitious trade agenda

The EU is an open economy, has a transparent trade and investment regime and plays a crucial role in the global economy and international trade (WTO, 2017). Over the past two years, the EU has continued its efforts to advance negotiations inter alia on agriculture, fisheries subsidies, environmental goods and trade in services. The EU has also continued its trade liberalisation process through progressive bilateral free trade agreements with a number of countries (Viet Nam, Singapore, Canada, Japan and Mexico) while continuing to provide non-reciprocal preferential access for developing

countries. The EU has contributed to the successful expansion of the Information Technology Agreement to remove customs duties on a wide range of goods, including semi-conductors, medical equipment, game consoles and GPS devices. It has constructively engaged in the Environmental Goods Agreement (EGA) and the plurilateral Trade in Services Agreement (TiSA) to open up markets and improve rules in areas such as licensing, financial services, telecoms, e-commerce, maritime transport, and professionals moving abroad temporarily to provide services.

Policies to help workers affected by deeper integration and globalisation adapt

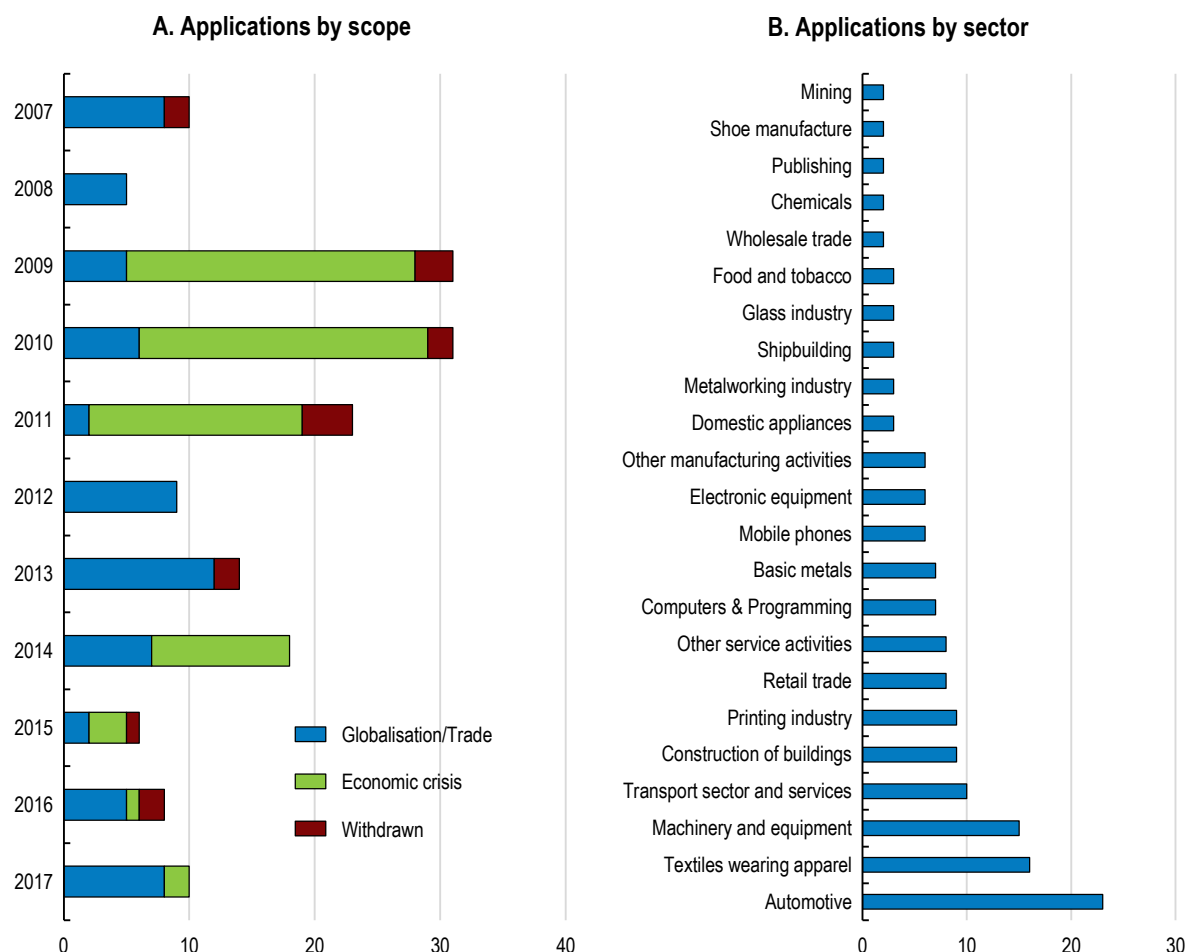
Deepening the single market, globalisation and faster adoption of digital technologies will create new jobs but put at risk others. It is essential to provide workers who are displaced by these changes with a safety net to ensure that they and their families do not fall into poverty, and to provide them with the necessary means to find a new job. The main responsibility for alleviating the pain of job losses rests with member states. Adequate unemployment insurance, effective training schemes and active placement policies are among the key ingredients that can help making restructuring less painful and the OECD has recommended several member states to step up their efforts in these areas (Table 1). OECD experience suggests that such general programmes are also the most effective approach to speed the re-employment of workers displaced by globalisation (OECD, 2017a).

Table 1. OECD recommendations on improving active labour market policies in EU countries

Policy area	Countries
Increase spending on activation	ESP EST GBR GRC LVA LTU SVN
Expand some specific programs (e.g. for the long-term unemployed)	ESP GRC HUN IRL
Improve efficiency of activation policies	ESP GBR ITA LUX NLD SVK SVN
Focus on key risks groups	EST FIN FRA NLD SVN
Better enforce mutual obligation	IRL FIN FRA
Improve coordination between different government levels	ESP ITA LVA

Source: Going for growth (2017)

Yet the EU has a role to play, not least to mitigate the discontent that further European and global integration might bring. The EU supports people affected by trade-related shocks through the European Globalisation Adjustment Fund (EGF). Since 2006, the fund co-finances one-off time-limited support for active labour market policies targeted at workers who have lost their jobs as a consequence of globalisation or a crisis (Figure 29). Member states provide the other part of the funding and are responsible for implementing the defined measures. Assistance targeted specifically at trade displaced workers has had a mixed success, in part because it is not easy to identify workers adversely affected by trade liberalisation and also because these programmes are often too slow (OECD, 2017a; Francois et al. 2011). Statistics on the effectiveness of the globalisation fund seem impressive, mid-term evaluations by the Commission show re-employment rates above 50% and in some cases of 70% within one year. But success relative to the amount spent or relative to other schemes is very hard to measure.

Figure 29. The European Globalisation Adjustment FundNumber of applications in the period from 2007 to 2017¹

1. As of January 2018.
Source: European Commission.

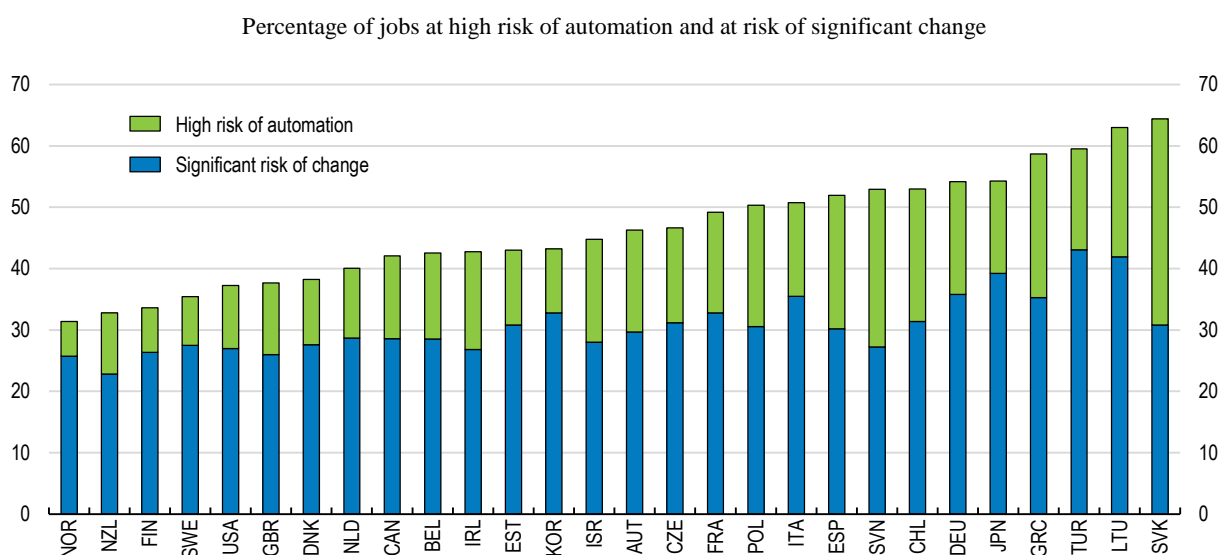
StatLink  <http://dx.doi.org/10.1787/888933748667>

In the long run the objective should be to improve the capacity of national labour market programmes to assist displaced workers, rather than to expand the globalisation fund to become a major source of assistance. Nonetheless, there are a number of ways to make the globalisation fund more effective. The effectiveness of the fund is hobbled by the complex and slow process of eligibility for funding. The European Parliament and the Council need to vote on every grant, which substantially slows up the approval process and raises the risk of politicised decisions. The whole application process can take up to a year. Applying is also tricky, because it is difficult to single out a specific factor that triggered the redundancies. This may explain why even if small, the European Globalisation Adjustment Fund is hardly ever fully used (Cernat and Mustilli, 2017). The Commission should revise the application requirements and procedures to speed the use of the fund and consider whether the EGF budget could be placed in the EU budget, so

the Parliament and Council don't need to approve every application or find ways to speed the approval process by the Parliament and Council.

The scope of the Fund could be broadened not only to help workers displaced by globalisation or an economic crisis, but also due to other reasons such as automation. Automation can lead to job losses in the short-term, particularly in the exposed industries as new technologies make some jobs redundant, even if in the long-term it can raise the demand for other jobs and encourage the creation of new tasks (Acemoglu and Restrepo, 2016; Figure 30). While recent estimates suggest that about 14% of today's jobs in OECD countries have a high risk of automation in the next 15-20 years, a further 32% could see substantial change in the way they are carried out and the tasks performed (Nedelkoska and Quintini, 2018). This may give rise to complicated transitions for workers and create distress in the sectors and regions that have fewer opportunities to adapt. Incentives and opportunities to re-skill and upgrade existing skills will need to be strengthened, especially for low-skilled workers who face the highest risk of seeing their jobs either partially or totally automated.

Figure 30. A significant share of jobs will be affected by automation



Source: OECD (2018), "The Framework for Policy Action on Inclusive Growth", OECD Publishing, Paris.

StatLink  <http://dx.doi.org/10.1787/888933748686>

The Commission argues that an important difficulty for member states to access the fund is that they lack the capacity to come up with tailor-made measures for redundant workers. Better support and clearer guidelines for member states on preparing their applications could help. It is precisely those countries and regions where re-employment and training support for the unemployed are under-resourced where EU support is most important. Evidence suggests that the chances of success when using the fund increase when there is a good knowledge of the application process (EC, 2017h). Finally, building support for the fund might be easier if evidence of its benefits were more solid. The Commission and member states should improve the quality of their datasets and the analysis of workers re-integration into employment.

But policies to help displaced workers are not enough; without firms to hire them even the best skilled workers will not find jobs (OECD, 2018a). Indeed, the effects of trade shocks are often localised in specific regions, therefore when a company or industry goes bankrupt the spillovers often affect the whole region. Encouraging firm creation, by removing barriers to entry, as discussed above, entrepreneurship or start-up assistance can help to rebuild and sustain the regional fabric of firms. Besides the support provided through the European Globalisation Adjustment Fund and the European Social Fund, the EU could play a key role in showcasing successful examples and spreading good practices across the continent. Examples of privately led successful programmes in Europe include the Austrian Steel Foundation, which assists steel workers affected by structural change through various types of training and support, and have fostered the development of more than one hundred firms (2018). Another example of pro-active assistance is the case of Saab Automobile in Sweden (Eurofund, 2014), which supported workers through counselling, psychological guidance and training for workers while still on the job, to help them transition to a new position. More broadly, the Commission has a role to play in enhancing cooperation in smart specialisation strategies to develop new businesses in the European Union based on the experience of several successful cases (OECD, 2018). It can, for instance, provide guidance and good practice examples, facilitate peer-reviews and mutual learning and train policymakers.

Recommendations for stronger growth and more integrated Europe

Making cohesion policy more effective

Key recommendations

- Prioritise cohesion funding to less developed regions.
- Better target cohesion funding on spending with long-term growth benefits (human capital, innovation and network infrastructure), and to projects with clear spillovers across borders.
- Consider increasing national co-financing rates to encourage better project selection taking into account the relative impact of the project and the EU added value.
- Create a “single rule book” for EU funding programmes.
- Use e-government and e-procurement more often.

Other recommendations

- Reduce the number of ex-ante conditions to access cohesion funding and to assess performance and put a greater focus on conditions ensuring effective spending, such as the quality of public procurement.
- Enhance legal certainty and consistency in the application of public procurement rules.
- Put in place a one-stop shop for data collection, processing and analysis to assess the effectiveness of the funds.

Deepening the services market

Key recommendations

- Address barriers in the business services sector through simplified administrative formalities for the establishment and provision of cross-border services and guidance on implementing existing EU legislation.
- Make the electronic European professional card available to all sectors.

Deepening the energy market***Key recommendations***

- Pursue the planned cross-border co-operation on power system operation and trade, including interconnection capacity calculations and reserve margins.

Other recommendations

- Ensure that the European-wide energy wide resource assessment is properly reflected in national 10-year network plans.

Deepening the digital single market***Key recommendations***

- Develop tools to help member states monitor digital skill needs. Set EU standards for the monitoring of digital skills and task content of occupations.

Other recommendations

- To create incentives to invest in high-quality network infrastructures, grant lower access fees to new service providers that commit to undertake productive investment.
- To ensure neutrality and coherence across countries, promote greater involvement of the Body of European Regulators for Electronic Communications in member states assessments of regulatory issues in electronic communications markets.
- Foster the use of e-government by enhancing digital skills of public servants with targeted training programmes to reduce organisational inertia.

Policies to help workers affected by deeper integration and globalisation adapt

- Revise application requirements and procedures to speed the use of the European Globalisation Adjustment fund and expand eligibility to help workers affected by other shocks, such as automation.

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Annex 1.A.

Annex Table 1.A.1. Recommendations on economy wide regulations

Policy area	Countries
Streamline permits/licensing/red tape	BEL GRC HUN IRL LVA POL SVN
Introduce or expand regulatory impact assessment	DEU GRC HUN
Strengthen competition and regulatory authorities	DNK GRC HUN LVA POL
Improve bankruptcy procedures	EST ITA POL PRT
Improve competition framework	CZE HUN
Reduce the scope of public ownership	CZE DEU NOR POL SVN
Improve SOEs governance	LVA LTU
Facilitate firm entry	POL

Source: Going for Growth (2017).

Annex Table 1.A.2. Recommendations on sector specific regulations

Policy area	Countries
Professional services	AUT BEL DEU ESP FRA IRL LVA LUX PRT SVN
Retail	AUT BEL CZE FIN FRA HUN IRL LUX NOR
All network sectors	BEL CZE GRC HUN LVA NOR
Energy	EST HUN
Transport	DEU ESP
Services	BEL DNK
Post	DEU NOR
Ports	ESP IRL PRT
Construction	FIN DNK
Telecommunications	DEU

Source: Going for Growth (2017).

Annex Table 1.A.3. Recommendations on raising the efficiency of R&D and innovation policies

Policy area	Countries
Strengthen collaboration between research centres/universities and industry	EST IRL ITA LUX PRT SVN
Evaluate/reform R&D tax credits	PRT
Improve coordination of public policies	CZE EST
Increase direct and/or indirect support	GBR NLD CZE

Source: Going for Growth (2017).