Reflection paper of the European Commission on the Future of EU Finances

Initial views from the CPMR on the future of Cohesion Policy – July 2017

What we agree with	
On the added value of Cohesion Policy	Some positive signals are embedded in the paper, which suggest that the European Commission recognizes the added value of Cohesion Policy: - "*Cohesion policy has emerged as* ***a major source of stable growth-supporting investment***." (p. 7) - "*Investments made under Cohesion policy in one region or Member State* ***contribute to macroeconomic stability and increases the growth potential of the Union*** *as a whole*" (p.12) - "***Cohesion policy has effectively compensated for declining national and regional investments*** *as a result of the crisis*." (p. 17)
On the architecture of Cohesion Policy	Out of the 5 scenarios**, none of them suggest renationalising the policy**, which was perceived to be a risk for the CPMR.
On the European Fund for Strategic Investments (EFSI)	- The paper mentions, though with a great deal of caution, the "***competition and crowding out effects*" that the EFSI may have introduced** (p. 23). It recommends "*clearer demarcation of intervention*" between the funds supporting investments (p. 27). - This echoes key messages included in the CPMR's Policy Position adopted on 22 June, namely the **uneven playing field between the EFSI and Cohesion Policy funds and the complexity of** the combination between these funds. As the EFSI is here to stay, **the CPMR supports the idea of setting clearer boundaries between this fund and Cohesion Policy.**
On financial instruments	- The paper states that **financial instruments are useful for revenue generating projects**, such as basic research or some infrastructure, but asserts that **they cannot replace grants** for investment in the social domain or people-related investments. It calls for a definition of a clear strategy on the use of financial instruments, depending on specific market needs, beneficiaries and objectives (p. 26). - In its Policy Position, the CPMR clearly promotes these views: "***the best approach for the post-2020 period is a constructive one: rather than opposing grants and financial instruments, it is more appropriate to define where financial instruments add most value,*** *within a future Cohesion Policy that should continue to rely primarily on grants.*" Recent CPMR analysis has also showed that financial instruments are less effective to support projects in area of social issues.

On simplification	- The paper contains some positive messages on simplification, in particular the full recognition that "*what matters for those being supported is the simplicity of rules and not the funding source*." (p. 27). Avenues of reflection for the future include: o The creation of **a single 'rule book'** for existing funds and instruments designed for the same type of projects, or even **a single investment fund r**eplacing the 5 ESI funds (pp. 25, 26, 27) o **Differentiation in terms of control requirements**: "*moving towards proportionate controls that depend on volumes and reliability of institutions*." (p. 27) o The need for **faster implementation of operational programmes,** in particular shorter closure process and designation procedures at the beginning of the new programming period. o The need for **clear complementarities between EU programmes and instruments** (for instance between EFSI, ERDF and Cosme in the area of SME financing or between ERDF, CEF and TEN-t in the area of transport) (p. 12, 26) - **The CPMR supports all of these options** but goes even further in its proposals for a simpler Cohesion Policy for beneficiaries **and managing authorities**. It is also not in favour of a "radical approach to simplifying implementation" as stated in the reflection paper (p. 17) but believes that **evolution rather than revolution is needed for the future**.
On European Territorial Cooperation (ETC)	- There is a **clear recognition of the added value of cross-border programmes** (p. 12). Territorial cooperation is largely encouraged throughout the paper, whatever the scenario. - The CPMR is well aware of the benefits of ETC programmes and calls for a **strengthened territorial cooperation objective** in Cohesion Policy post-2020.

What we are unsure about	
On thematic concentration	- The paper considers **more flexibility for the EU budget, with a larger share of the budget left unallocated** to better address new challenges (pp. 24, 26). Cohesion policy should also have more flexible programming rules (p. 17). - **More emphasis will be put on social issues** such as *employment, education, training and social inclusion*, defined as key European priorities several times in the paper (pp. 16, 22) and in all five scenarios. - The CPMR promotes **greater flexibility at the regional and local levels** and has very specific proposals: o ESI Fund managing authorities should have **more flexibility regarding thematic concentration rules**, considering the diversity of regional needs. o They should also have **more flexibility to modify their operational programmes and reallocate resources** between priority axis and between Thematic Objectives within one axis without needing to resort to the European Commission. o Each operational programme should contain **a regional reserve of unallocated funding to be allocated according to critical needs** during the programming period. A balance needs to be found between providing greater flexibility in thematic concentration rules and ensuring the **stability of investments**. One avenue developed in the paper to enhance the flexibility of the EU budget is to **increase the use of financial instruments** (p. 15). The views of the CPMR on this topic are much more nuanced (see below).

	- The CPMR is not opposed to a shift in thematic priorities, but warns that **Cohesion Policy's objectives should continue to mirror areas or regional competences**.
On the allocation of Cohesion Policy funds	- The paper considers **a new allocation methodology of the funds**, based on new criteria such as demographics, unemployment or levels of innovation. - The CPMR General Secretariat has expertise on this issue, having studied it via a dedicated working group in 2014. - The idea of developing a new allocation methodology incorporating new indicators (and perhaps in a reformed architecture of the policy based on one single category of regions) **needs to be carefully examined and considered.**
On the timing of the future MFF	- One option suggested in the paper to enhance the flexibility of the EU budget is to **set up a 5+5 years MFF**, with an obligatory mid-term revision (p. 26). - The CPMR has not taken a final position on this issue. A 5 years programming period could be counterproductive given that **Cohesion Policy pursues long-term objectives.** - The Commission foresees to present its proposal for the next MFF "*around the middle of 2018*" (p. 36). - The CPMR does not have views on the legislative timing for the future MFF yet. One could expect that if the Commission's proposal is published mid-2018 (as per EC Budgets Commissioner Oettinger's wishes), it could be **adopted before the European elections in spring 2019**. But this would mean that the current parties would have **less than a year for negotiating**, knowing that for the last MFF more than two years of negotiations were needed. Such a timeline of negotiations will be difficult to respect. - On the other hand, if the legislative proposal is only issued in 2019 it is very likely that the start next programming period will be significantly delayed.
On the link between Cohesion Policy and the European Semester	- **A support to structural reforms via positives incentives** mechanism provided by the EU budget is brought up several times in the paper. Yet, it does not set out clearly how it should be done and whether it should be done via a new '*standalone fund open to new Member State'* or via Cohesion Policy only (pp. 15, 17, 22). - **The CPMR understands that there is a link between Cohesion Policy and the European semester and recognises the potential support of Cohesion Policy** in helping carrying out structural reforms. This relationship must indeed be positive rather than punitive (e.g macroeconomic conditionality). However, this link should not be only realized with Cohesion Policy and in return ESI Fund managing authorities should be more formally involved in the European Semester process.

What we don't agree with	
On the 2030 United Nations Agenda for Sustainable Development Goals (SDGs) as "*an anchor of EU policy*" (p 13)	- It is suggested that **the SDGs flowing from the United Nations' agenda will be the next strategic framework** guiding future EU policies after 2020. - For the CPMR these objectives are too broad, rather **the Commission should define a long term and overarching European strategy for growth and jobs running from 2020 onwards**, at the heart of which Cohesion Policy should be integrated.

On the partnership principle	The CPMR deplores that there is **no mention in the paper of the role of local and regional authorities** in the next MFF, although their involvement is essential for an enhanced impact of EU policies. This is why in its Policy Position the CPMR calls for **strengthened multi-governance mechanisms, a better implementation of the partnership principle and an improvement of the involvement of regional authorities.**
On financial instruments	- All five scenarios insist on a **higher use of financial instruments**, including within Cohesion Policy. - The CPRM remains careful on this trend: **no targets as regards the compulsory use of financial instruments should be imposed** and Cohesion Policy should continue to rely primarily on grants. In any case, this increase should be supported by appropriate level of **technical assistance for regional managing authorities.**
On state aids	- The CPMR regrets that **the issue of state aids in Cohesion Policy is not addressed once in the paper.** - For a simpler and more efficient post-2020 Cohesion Policy, the CPMR recommends that **ESI funds should not be subject to state aid verification and notification processes.**
On smart specialization strategies (S3)	- The CPMR regrets that **the importance of S3 for boosting research and innovation at regional level is not developed** in the paper at all. *(only mentioned once p. 17)* - On the contrary, **the CPMR underlines in its Policy Position the key role of S3 and recommends a reinforcement of this tool** in the next programming period.
On the territorial dimension of EU policies	- **The territorial dimension of EU policies is almost non-existent, with no explicit references to territorial inequalities** (pp. 14, 22, 23). Likewise, the need to better address the challenges faced by **specific territories** such as outermost or island regions is not mentioned in the paper, or in a very vague wording: "*the levels of national co-financing for cohesion policy should be increased, in order to **better calibrate them for different countries and regions***" (pp. 24-25) - **The urban dimension is reinforced within Cohesion Policy in scenario 5**, which is not directly supported by the CPMR as regions are best placed to design strategies of territorial development
On European Territorial Cooperation	**- Territorial cooperation is only mentioned as "cross-border cooperation"** and there are no references to the two other strands of transnational and interregional cooperation. - Although the CPMR acknowledges the added value of cross-border cooperation, **transnational and interregional strands should continue to receive appropriate level of funding.**
On the future architecture of Cohesion Policy	- In 4 out of the 5 scenarios, **Cohesion policy has a lower budget** and in 2 of them it is **even restricted to less developed regions.** - The CPMR is thus concerned about the paper questioning the availability of Cohesion policy funding for more developed countries and regions (p. 25), as it has always strongly supported **a future Cohesion Policy for *all* European regions.** - The CPMR also fears that the key principle of "*EU value added*" which runs strongly throughout the paper becomes an argument to justify the dismantling of the policy.