Moving ahead EU investment instruments to accelerate economic, social and territorial development

CPMR “Territories Matter” Initiative – 3rd seminar
06.07.2023

The third seminar under the “Territories Matter” initiative aimed to reflect upon the current framework of EU investment instruments, particularly the Recovery and Resilience Facility and Cohesion Policy, considering how their optimization could accelerate economic, social and territorial development.

The main questions addressed during the seminar were the following:

- *What are the advantages and disadvantageous of the Recovery and Resilience Facility? What elements should we keep for the future?*
- *How can we upgrade Cohesion Policy to an evolving Europe? What can the recent developments tell us about the future?*

The session gathered over 50 participants, among them, CPMR member regions, and officials from the European Commission, as well as the European Parliament.

This document aims to give an overview of the main ideas and messages raised during the session and will contribute to the subsequent discussions under the initiative and the future CPMR policy paper.

1. **Opening Session**
   Eleni Marianou – CPMR Secretary General
   Elisa Ferreira – Commissioner for Cohesion and Reforms (video)
   Pedro Azpiazu – Basque Minister for Finance
   Peter Berkowitz – Director-Policy, DG REGIO

2. **Thematic session 1 – Advantages and Disadvantages of the RRF, what to keep for the future?**
   Marcos Ros Sempere – Member of the European Parliament
   Elisa Roller – Director-Twin Transition, Economic and Social Affairs, European Commission
   Francesco Corti – Associate Research Fellow and co-leader of the RRF Monitor Project, CEP

3. **Thematic Session 2 – Upgrading Cohesion Policy to an evolving Europe**
   Karl Heinz Lambertz – Member of the High-Level Group of experts on the future of Cohesion Policy
   Iñaki Barredo Ardanaz - Vice-Minister for Economy and European Funds, Basque Country
   Aude Körfer – Permanent Delegate, EU Office of Brittany Region
   Dr Merten Barnert – Deputy Director, Mecklenburg-Vorpommern Office to the European Union
   Jonas Lundström - Director of Enterprise and Social Development, Region Västerbotten
Introduction session - Trends in Cohesion and Convergence in the EU

Disparities between Member States and NUTS 2 regions have been decreasing rapidly until the economic and financial crisis in 2008. Regional convergence resumed afterwards at a slower rate and was further hampered by the COVID-19 pandemic. Although the upward convergence at the NUTS 2 level is progressing, GDP per capita disparities are still significant, and an increased number of EU regions are struggling to grow. Member States’ internal patterns show both convergence and divergence due to very high growth in the most developed regions or stagnation in previously dynamic regions.

Development trap risks are increasing in southern Europe, transition regions and Central European Countries. It is likely that climate change mitigation and adaptation will exacerbate these trends in many European Regions. Besides this, the demographic shift caused by ageing, lower birth rates and migration flows will affect all of the EU, which can stunt economic growth due to the lack of talent and human capital in exodus regions.

Tackling the innovation and digital divide with tailored action, particularly against the emergence of development traps, are priorities to address these trends and boost upward convergence. In practical terms, policies must be more transformative, anticipating, and better integrate reforms, capacity building and investment at the subnational level. Policies must be better tailored to different regional needs, such as transformation, catching up and development traps with greater involvement of public, private and civil society actors.

Thematic session 1: Advantages and Disadvantages of the RRF, which elements to keep for the future.

This session aimed at taking stock of the lessons learned from the RRF so far, discussing the advantages and disadvantages of the instrument, to draw lessons for the future framework of Cohesion Policy.

We are approaching the time in which the RRF and Cohesion policy will be assessed and lessons drawn. An antagonist binary discussion between the RRF and Cohesion Policy should be avoided and the focus should be on building a better Cohesion Policy based on good practices. The RRF may have an easier delivery mechanism, but nonetheless, it has also become the most audited instrument so far in EU history since the Court of Auditors is auditing every expenditure undertaken. Despite several flaws, the RRF has demonstrated its value by successfully integrating of real reform dimension in its structure (leading to economic, labour market and pension reforms that would not have happened without the strong reform conditionalities to benefit from the funding). This success needs to be taken seriously for the future of Cohesion Policy, as it addresses the net contributors’ concerns on the need for tangible returns to the investments in terms of long-term impacts. Spain shows a good example of how financial incentives can deliver reforms.

However, disbursement speed in the RRF also comes with challenges. It is difficult to have such large financial support to be delivered in a short time span while ensuring that it finances well-designed projects and tight timescales are fulfilled. There is a very likely risk of delays, in addition, reprogramming will be a must with priorities shifting.
Although the governance of the RRF shows that centralization has made it easier to deploy funds, the RRF performance is better when the involvement of actors/stakeholders ex-ante is stronger. Simplified rules also helped and with leaner more simplified implementation systems it would have been possible to achieve the same level of effectiveness without centralization. The RRF is mostly place-blind and competitive procedures have been shown to lead to increased disparities as regions have unequal capacity to participate. It is important to note that the RRF does not have the same objectives as Cohesion Policy and answers a different purpose. The policies are better served if they are set up to complement and not compete against each other.

**Thematic session 2: Upgrading Cohesion Policy to an evolving Europe**

The purpose of this thematic session was to reflect upon the latest developments in Cohesion Policy, more specifically, in the high-level group of specialists set up by the Commission, also taking into consideration what the current situation tells us about the policy post-2027.

If we look at the nature of Cohesion Policy, why it was created and why we have it, and how it has changed over time, we can view it as the DNA of a certain conception of the EU, an integrated union with a place for democracy where no place is left behind. We must also be aware that we are presently looking at the future of the policy based on today’s realities, but this is very naïve because it neglects that incoming pressures due to enlargement and the costs from the aftermath of the war in Ukraine, all of which will carry implications for Cohesion Policy.

Regarding the work of the HLG, one of the challenges is to move beyond theory to practice to reach real operational conclusions. Some of the messages of the HLG reminding the importance of Cohesion Policy are the following:

- It has to strengthen the EU’s place in the world;
- It must drive Europe forward;
- It must be a policy for equality in opportunities;
- It must be a real policy for ALL citizens;
- It must avoid development traps and create synergies;
- It must be place-based.

Despite the great effort of the High-Level Group in underlining the importance of Cohesion Policy, it is unclear how much weight the final report from the high-level group will actually have in decision-making. To protect the policy, regions have to step up the work to use the funding to offer answers to great challenges on the ground, where EU citizens live.

It is inevitable that structural reform conditionality becomes part of the future of Cohesion Policy even if more adapted to the competences of the regional authorities. There is a real risk that the European Semester is too focused at national level, thus threatening multilevel governance. Fiscal decentralisation has also been addressed, i.e. more fiscal powers for regions emerged during the discussion as an important aspect. However, the competence on the matter is in the hands of member states.
A good example presented on the use of funds is Brittany, in which Cohesion Policy has made it possible to fast-track investments, as these funds have enabled the region to materialize investments much sooner.

There should be a single policy for Cohesion. This would require that a chapter on crisis management should be included. There is a visibility problem with the EU, it needs greater projection, particularly in rural areas and on how it addresses regional gaps.

For example, transparency is a problem in which the RRF does not deliver in some member states, e.g. in Germany, and many regional authorities do not have a clear view of its role.

Simplification is crucial for the future. We must be able to address short-term crises without disturbing long-term investments, transnational programmes need more focus. The idea of a specific financial compartment reserved for crises has been mentioned.