Technical note

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A new turn for Cohesion Policy? The elusive link with the European Semester

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The link of Cohesion policy with the EU semester and structural reforms **is one of the main issues at stake for the future of Cohesion policy**.

The links that already exist between the 2014 – 2020 Cohesion Policy and EU economic governance have been significantly strengthened in the past two years. There seems little doubt that Cohesion policy will be asked to support the European Semester more after 2020, as evidenced by proposals made in the Economic and Monetary Union (EMU) package published by the European Commission last December 2017.

The intention of the Commission is to support Member States financially for carrying out structural reforms. The Cohesion policy budget is, in the eyes of the Commission, a good candidate to provide financial incentives for Member States that do carry them out efficiently. **This would mean a decisive turn for Cohesion policy.**

This note attempts to **contribute to the discussions on how to link Cohesion policy with the EU semester and structural reforms in the future**. It does so by:

- In **Section 1,** looking at the **context** in which Cohesion policy reform discussions are embedded
- **In Section 2,** explaining **the elements within the EMU package** (December 2017) that affect Cohesion policy:
    - o The Structural Reform Support Programme
    - o The 'new reform delivery' tool
    - o Stability function
- **In Section 3** offers the **preferred options for the future for the CPMR Secretariat:**
    - o only structural reforms with a Cohesion Policy/regional relevance to be covered
    - o involvement of regional authorities in carrying out structural reforms in the areas of Cohesion policy and in the areas of their competences
    - o ensure a territorial dimension within the EU semester process

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1. The context

The European Commission is expected to publish the next Multiannual Financial Framework (MFF) proposal on 2 May 2018. The Cohesion policy legislative proposal will follow soon thereafter. Uncertainty about the EU budget for post-2020 and a lack of a clear strategy for the future of the EU is clouding the future of crucial policies such as Cohesion policy.

Rather worryingly, only a trimester away from the legislative proposal, there has been very little debate on the future of Cohesion policy in general.

In fact, the only policy document on the table addressing the future of Cohesion Policy is the European's Economic and Monetary Union package published in December 2017. The package proposes several elements to complete the EMU with clear and straight links with, and consequences for, Cohesion policy.

These elements were recalled in the European Commission Communication published on 14 February which represents the Commission's contribution to the Informal Leaders' meeting on 23 February 2018 on the Multiannual Financial Framework for post-2020. The Communication plays with the idea of a **budget line of around €25 billion to provide "strong support and incentives for a broad range of reforms"** to Member States. This obviously raises several questions on the place of this instrument in relation to Cohesion policy and these "new" elements, its objectives, its management, and even its adequacy.

1.1. Discussions on the future of the MFF

The Communication published by the European Commission on 14 February 2018 lays down different budgetary scenarios for all already existing and new priorities for the EU and will serve as the basis for the discussions between Member States on the future of the EU budget.

The EU budget will suffer from the consequence of the exit of the United Kingdom from the EU and the introduction of new priorities such as migration and defence, the social Europe, etc. The deepening of the European's Economic and Monetary Union also stands high on the EU agenda. Several EU policies will be affected by these circumstances, including Cohesion policy.

Some of the scenarios contemplated in the February Communication would be quite revolutionary in terms of the distribution of the EU budget. By way of examples, the Commission contemplates the possibility of increasing the budget for Erasmus+ from €13 to €90 billion, or cutting Cohesion policy funds by 15 % or even 30%, as shown in the CPMR analysis on the Potential budgetary cuts for Cohesion policy published in December 2017.

1.2. Discussions on the future of Cohesion Policy itself

At the time of writing, a number of critical issues are still open for discussion when it comes to Cohesion policy reform. The CPMR secretariat chose to categorise future of Cohesion Policy reform issues in two categories in the table below:

- issues we consider as 'high-level issues'; e.g., those critical to Cohesion Policy reform but which fall outside its direct scope or depend on external factors
- 'specific issues' to Cohesion Policy itself

Main issues at stake for Cohesion policy post-2020

High level issues
- Nature of the link of Cohesion policy with economic governance and structural reforms
- Role of Cohesion Policy: investment priorities; role vs other programmes and policies
- Architecture of the policy and allocation methodology

Specific issues
- Territorial dimension of the policy
- INTERREG
- Shared management arrangements and partnership principle
- Financial instruments
- Simplification
- Flexibility
- Performance
- Smart specialisations strategies
- Synergies with other instruments/funds/programmes

1.3. Why is the CPMR looking at the link with the European Semester in details?

With regards to the above-mentioned 'specific issues', the CPMR secretariat has already adopted policy messages in its June 2017 CPMR policy position.

With regards to the three high level issues mentioned above, it is early days to focus on the role of Cohesion policy and its investment priorities, and discussions on the architecture of the policy and the way funds will be distributed are far from being settled.

Following the publishing of the EMU package in December 2017 and the Commission Communication on the future budget of February 2018, **this note focuses on the nature of the link of Cohesion policy with EU economic governance since the discussions are,** at this stage, **very open for discussion.**

1.4. The already existing link of Cohesion policy with EU Economic Governance

Cohesion policy is already linked to EU economic governance[1]. The reform of Cohesion policy for the 2014-2020 period introduced a series of features to ensure that Cohesion policy contributed to structural reforms by laying down the necessary conditions for investment:

1. **Partnerships Agreements, Operational Programmes and the EU semester:** Member States can review and propose amendments to their Partnership Agreements and programmes by request by the European Commission in line with the EU semester recommendations
2. **Macro-economic conditionality**: The European Commission can propose a suspension of part or all the payments of operational programmes if a Member State fails to comply with certain rules of sound economic governance
3. **Thematic Objective on Efficient Administration:** one of the thematic objectives of Cohesion policy dedicated to enhancing the institutional capacity of public authorities and stakeholders
4. **Ex ante conditionalities**: linked to policy, strategic and regulatory framework, they are features to ensure that EU funding is focused on results

[1] The CPMR Secretariat published a technical note explaining the -at the time- New European Economic Governance model, September 2013. The CPMR also adopted a policy position at the beginning of this programming period on how to reconcile EU Economic Governance with Cohesion policy and the regions (2014). Most of the features, challenges and ideas laid down in this paper remain relevant today.

There is yet another, newer, link of Cohesion policy and EU economic governance in the **Structural Reform Support Programme (SRSP).** The programme was proposed by the Commission in 2015 and adopted in May 2017. The SRSP takes part of the technical assistance of Cohesion policy to provide support to national authorities, on a voluntary basis.

2. The EMU Package

On 6 December 2017, the European Commission published a legislative package on the completion of Europe's Economic and Monetary Union containing five elements. Within the package, the most relevant document for Cohesion policy is the Communication on new budgetary instruments. It proposes:

1. The reinforcement of the **Structural Reform Support Programme**
2. The creation of a **reform delivery tool**
3. A **stability function at European level**

2.1. Reinforcing the Structural Reform Support Programme

The programme, adopted last May 2017, provides technical support for specific actions at the request of the Member States to help them carry out reforms. The areas of reform are linked to Governance and public administration, tax revenue and public financial management, growth and business environment, labour market, health and social services, climate action, financial sector and access to finance.

The EMU package has introduced new elements to it which are quite relevant for the current and future Cohesion policy:

1. The SRSP will most likely **reinforce its budget** for its remaining life span (until 2020) to up to EUR 300 million
2. **Member States, would be able transfer part of their resources from their ESI funds technical assistance** component to the SRSP
3. The European Commission already envisages a **post-2020 SRSP with a a dedicated convergence facility for Member States on their way to joining the euro**. Where will the funds for post-2020 programmes come from and the relationship with Cohesion policy, remains unknown.

2.2. New 'reform delivery tool'

The European Commission also proposed a new reform delivery tool, to be tested in a pilot phase for the period 2018-2020, and fully fledged in the next MFF.

For 2018-2020: a 'pilot'

The objective of the tool is to support Member States in implementing the reforms identified in the context of the European Semester in the areas of product and labour markets, tax reforms, the development of capital markets, reforms to improve the business environment as well as investment in human capital and public administration reforms.

The tool revolves around so-called **'reform commitment packages':**

- These are to be proposed by Member States to the Commission and include a set of reform measures with milestones and targets
- The reform commitment packages would be monitored together with the National Reform Programmes (NRPs, part of the EU semester)

- The monitoring and reporting on the implementation of its milestones would be aligned with the European Semester
- The annual Country Reports produced by the Commission's services would provide an updated assessment of reform progress
- The pilot (2018-2020) will be **financed from** part of the **performance reserve** of the current ESI funds

For post-2020

There are vague indications as to how the pilot could become a fully-fledged instrument in the next MFF:

- In a first phase, following a dialogue with the Commission, a **reform commitment package** would cover **reforms to be implemented over a three-year** period at the start of the MFF programming period post-2020
- The agreed reform packages would provide for a detailed set of measures, milestones for implementation and a **calendar for completion within a maximum period of three years**. Member States would report on progress together with National Reform Programmes.
- **A second round of reform** commitment packages **could be agreed during the programming period**, for example at the request of a new government.

2.3. Stability function

The European Commission has also proposed a **stability 'function'** for post-2020.

- The idea seems to be about **activating 'resources' rapidly** to deal with large asymmetric shocks that cannot be managed at the national level alone.
- Access to the stabilisation function would be subject to eligibility criteria and an agreed mechanism to trigger its use.
- This function would affect Cohesion policy and ESI funds in two ways:
  - The Commission considers ESI funds have a **potential stabilisation effect** and contemplates the **possibility of a temporary increase of the EU co-financing rate and/or a possible modulation of the level of pre-financing of ESI Funds** depending on the circumstances.
  - The European Commission also contemplates the **possibility of including a budget support/grant component system to complement the existing system of loans**. The EU budget would provide some limited annually budgeted grant support to the Member States concerned, committed on a **specific budget line, <u>possibly as part of the ESI Funds for the participating Member States</u>.** This budgetary line would feed every year into the stabilisation function to help build up its capital.

The above-mentioned February Commission Communication alludes to a **€25 billion budget line,** as mentioned in point 1 of this note, which would be linked to the 'stability function', but also to the already mentioned convergence facility (point 2.1.) within the post-2020 Structural Reforms Support Programme.

What it means for CPMR regions

- **The link between Cohesion and the EU semester will be strengthened.** Cohesion policy will continue supporting reforms necessary for the functioning of projects by EU funds and for efficient public administration. **But it is likely to go further than that in the future.** This also implies changes to ex ante conditionalities and macroeconomic conditionality.

- A more formalised link with the European Semester raises critical questions about the future of Cohesion Policy. **One of such critical issues would be to define eligible actions to be covered within Cohesion policy.** Financing structural reforms with Cohesion policy could raise questions about ownership, subsidiarity and accountability. It is difficult to conceive a scenario under which the EU budget would 'pay' Member States for carrying out structural reforms.

- There is **no evidence to suggest that providing financial incentives as a means of 'encouraging' Member States to carry out reforms will have a positive effect on the take up of structural reforms** in the Member States. There are significant question marks with regards to the indicators which would be used to evaluate progress in terms of implementing structural reforms in the Member States, how the 'financial reward' would be calculated and distributed across Member States, and the **crucial question of whether it would be the Commission or the Council who would make the decision on who gets what.**

- There is **no evident link with the parallel plans and proposals for the completion of Europe's Economic and Monetary Union**. It remains unknown which strategy underpins all these proposals. The European Commission argues in the EMU package that *"the overall aim is to enhance the unity, efficiency and democratic accountability of Europe's Economic and Monetary Union by 2025"*[2]. There is little evidence regarding how democratic accountability will be pursued when looking at the specific proposals made in the EMU package.

- There is a **high risk that Cohesion policy will be stripped out of considerable financial resources devoted to its 'traditional' objectives** (regional economic development, etc). Technical assistance from ESI funds is already used (e.g. the SRSP) to help Member States carry out structural reforms. There is a new proposal on the table (EMU package) to encourage Member States to use the performance reserve of Cohesion Policy to implement structural reforms. In the long term, **a budget line of around €25 billion** to support and provide incentives for structural reforms **will most likely affect the Cohesion policy budget, regardless of whether this instrument is integrated within Cohesion policy or not.**

- Issues covered by these **new reform instruments** are a **mix of reforms linked to the objectives of Cohesion policy, reforms enabling investment by the EU budget, and macro-economic** level type of reforms.

- **Cohesion policy,** ESI funds and operational programmes could, **in the future, be linked to the proposed 'stability function',** by means of a **temporary increase of the EU co-financing rate and/or a possible modulation of the level of pre-financing.** The new proposal considers using **Cohesion policy funds to create a budget line for this function** to deal with asymmetric shocks.

- Linking Cohesion Policy further to the European Semester will **no doubt add to the bureaucratic burden of the policy,** especially at managing authorities level.

[2] European Commission Press release on a Roadmap for deepening Europe's Economic and Monetary Union, December 6, 2017: http://europa.eu/rapid/press-release_IP-17-5005_en.htm

3. CPMR preferred options for the future

The European Commission is proposing several changes to the European Economic and Monetary Union system which affect the present and future of Cohesion policy. It has proposed the creation of a programme, a tool, and a function, that are outsourcing Cohesion policy funds to finance structural reforms or reduce asymmetric shocks. A budget line of around €25 billion to provide support and incentives to carry out structural reforms in the next EU budget has also been hinted at. While structural reforms are not completely foreign to regional disparities and territorial cohesion, the nature, raison d´être and objectives of Cohesion policy seem to be at stake.

Cohesion policy will continue to exist but its link to EU economic governance will be much more prominent. We suggest that any proposal for reform of the link between Cohesion policy and EU economic governance should:

1. **Consider that Cohesion Policy is an investment policy above all.** Despite pressures for Cohesion policy to support the European Semester in the future, **the CPMR strongly believes that any reform in that regard should ensure that only structural reforms with a Cohesion Policy/regional relevance are covered.**
    - Avoid any further outsourcing of Cohesion policy funds (and technical assistance) to multiplying programmes, instruments and functions for structural reforms (such as the Structural Reform Support Programme)

2. **Take into account the necessary involvement of regional authorities in carrying out structural reforms in the areas of Cohesion policy and in the areas of their competences.** Therefore, possibilities to ensure the strategic place of Regions could be:
    - A **reforms contract** between the Regions, the Member States and the European Commission on the reforms to carry out, linked to Cohesion policy objectives. Based on reform regional strategies to be carried out by Regions, this contract would ensure ownership by the Regions, and that reforms are carried out at the level in which they are needed. A **bonus for the implementation of such agreed upon reforms,** in the way of additional funding or a higher co-financing rate, would incentivise Regions and Member States to carry them out. These reforms, linked to Cohesion policy objectives, would be linked to the decrease of regional disparities and towards the achievement of territorial, economic and social cohesion
    - In the case of the creation of a thematic objective on structural reforms, ensure that the **reforms or areas of reform are decided jointly by Regions and Member States and agreed with the European Commission**. The European Commission should ensure this
    - A **European Code of Conduct** could be introduced to formalise the role of Regions as strategic partners in the EU semester process[3]

3. **Ensure a territorial dimension within the EU semester process**
    - Regions could be **formally consulted by their governments on a compulsory basis** in drafting the National Reform Programmes and in feeding the national growth process
    - Integrating **a territorial analysis into the whole process,** starting from the National Reform Programmes, following with the Annual Growth Survey, the Country Reports and the Country Specific Recommendations
    - **Introduce**, together with classic Country Specific Recommendations, **territorial/regional specific recommendations**

[3]https://cor.europa.eu/en/documentation/studies/Documents/code_of_conduct_lras_european_semester%20-%20pdf.pdf

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The Conference of Peripheral Maritime Regions (CPMR) brings together some 160 Regions from 25 States from the European Union and beyond.

Representing about 200 million people, the CPMR campaigns in favour of a more balanced development of the European territory.

It operates both as a think tank and as a lobby group for Regions. It focuses mainly on social, economic and territorial cohesion, maritime policies and accessibility.

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