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TECHNICAL PAPER FROM THE CPMR GENERAL SECRETARIAT

ADDRESSING THE COMMISSION'S INITIAL QUESTIONS ON POST-2020 COHESION POLICY

1. Introduction and background

The debate on post-2020 Cohesion Policy has started. A speech delivered by Regional Policy Commissioner Corina Cretu on 28 August before the 55th Congress of the European Regional Science Association in Lisbon revealed the breadth of the questions the European Commission is asking itself with regards to the future of the policy. Some of the issues raised in the speech touch on the very foundations of Cohesion Policy.

The CPMR needs to be at the centre of this debate and the various questions raised should therefore be addressed. Far from attempting to answer each of the ten questions mentioned in the speech in a comprehensive fashion, the aim of this note is to:

- Recall agreed CPMR messages for some of the questions raised by the Commission
- Identify areas requiring further actions from CPMR

2. The ten questions

The first and central question is how EU cohesion policy can best contribute to its two complementary objectives, the two sides of its coin: competitiveness and cohesion. In your opinion, what is the added value of cohesion policy in this context?

Reducing regional disparities and increasing the competitiveness of regions are accepted as defining the EU Cohesion Policy's 'raison d'être', as mentioned in the CPMR Umeå Statement adopted in September 2014.

Cohesion Policy is as much a solidarity policy born to pursue the integration of the Single Market as one to boost the overall competitiveness in all European regions. The added value of Cohesion Policy, therefore, is primarily its role to link European territories with high level EU policy objectives. Regions are investment actors and are the natural 'match' for realising growth and jobs across Europe.

Second question: what is the best way to support the lagging regions, especially those which in spite of decades of EU and national support, did not converge towards the EU average?

The ambiguity of this question raises a number of issues. The first and obvious one is whether the recently launched Commission initiative on better implementation[1] is being realised with the objective to legitimise the contribution of Cohesion Policy in less developed regions, or on the contrary, whether it will be used to demonstrate the limits of Structural Funds in the concerned regions.

The second one is the extent to which the European Commission will ever be able to assess how different the social and economic situation of the so-called 'lagging regions' would have been ***without*** the support of the policy.

Thirdly, if 'lagging regions' are to be considered as 'less developed regions' as understood in the Cohesion Policy architecture, one has to wonder how the variety of socio-economic challenges in all of the less developed regions will be dealt in an uniform way.

[1] The European Commission launched an initiative on better implementation on 24 March. Part of the initiative will consist of examining why regions with a low level of economic development or regions experiencing several years of negative GDP growth are lagging behind

Third question: how should the architecture of the policy be defined? Should cohesion policy continue to invest in the advanced regions, especially in the metropolitan ones, which are not only richer, but also privileged by private investors?

This question clearly indicates that support from Cohesion Policy to 'advanced regions' should not be taken for granted in the post-2020 Cohesion Policy. It alludes to some lines of thinking within the European Commission – shared with some EU Member States - which would support Cohesion Policy being reduced to supporting less developed regions only in the future.

Beyond budget saving considerations, **such a decision would considerably water down Cohesion Policy, which would therefore cease to be a competitiveness and investment policy.**

Another issue concerns the meaning of 'advanced region', and whether more developed regions and/or transition regions should be covered under the above-mentioned term. The architecture of the policy is entirely defined by regional Gross Domestic Product (GDP), a historically agreed – albeit controversial – indicator. Deciding that a region is 'advanced', and therefore worthy of receiving support from the policy, on the basis of regional GDP is a difficult exercise which would no doubt lead to dividing Europe and its territories, opposing wealthy regions against less wealthy regions and countries.

The CPMR is long attached to the concept that Cohesion Policy should support all European regions, and fought hard in the last period to secure a transition regions category. Reverting Cohesion Policy to a policy supporting only less developed regions would be extremely damaging, particularly on symbolic terms.

Fourth question: what is the best use of cohesion policy funds to stimulate investment in Europe? Which form of support is most efficient: grants, repayable assistance, financial instruments, or their combination? Should the share of financial instruments in EU funds be further increased?

The share of financial instruments within Cohesion Policy is expected to double in the 2014 – 2020 period, compared to the last programming period. This is in line with the ambition of the European Commission which has made it a political priority to boost the use of financial instruments in conjunction with structural funds.

Financial instruments are accepted as a relatively new addition to the menu of instruments at the disposal of Structural Funds managing authorities. As stated in a CPMR position paper on the Juncker Plan adopted in February 2015 however, the wide variety of experiences of regional authorities with regards to financial instruments makes it difficult to generalise the use of financial instruments within Cohesion Policy.

Speaking of 'intervention logic', the above question casts doubts about how 'efficient support' should be understood: it could mean funding from the policy being spent in compliance with the legislative framework, just as much as it could define a project which had a strong impact in terms of the economy of a given region.

The European added value of financial instruments co-financed by Structural Funds compared to financial instruments available at national level is another question, bearing in mind that some regions in the CPMR decided not to use financial instruments in the 2014 - 2020 period even though the same regions were making use of these instruments in the 2007 - 2013 period.

A more meaningful question would be to ask which types of interventions should be supported by financial instruments and which ones should be supported by grants. It is questionable whether some interventions currently supported by ESI funds – such as fighting against poverty – could be financed solely with financial instruments, for instance.

Fifth question: how can cohesion policy investment best contribute to overarching European priorities, while keeping its territorial focus? Should we pay a more specific attention to certain geographical areas?

The CPMR was founded in 1973 on the very promise that EU policy making should take into account territorial disparities within Europe. And Cohesion Policy was born out of a recognised necessity that the Single Market could not operate efficiently without a policy addressing the structural differences of development between European regions.

With that in mind, it is reassuring to see that the Commission sees Cohesion Policy retaining a 'territorial focus' as a priority. The reality of the 'territorial focus' of Cohesion Policy for 2014 - 2020 programmes, however, leaves much to be desired:

- The architecture of the policy is based on an economic productivity indicator (GDP), which fails to capture the grasp of territorial differences of development (and challenges) between European regions;
- The inclusion of 'territorial cohesion' as a political objective within the Lisbon Treaty, and the subsequent Treaty articles (mainly Article 174) to translate territorial cohesion into EU policy making. With the exception of additional support provided to the Northern Sparsely Populated Areas, the link between Article 174 and Cohesion Policy is extremely tenuous. Negotiations over the 2014 – 2020 operational programmes very much confirm the above affirmation for island regions, as demonstrated in the results of a study launched by the CPMR on this issue;
- Initial feedback from CPMR regions suggests that the – much welcome – array of territorial development tools introduced in the 2014 – 2020 period, such as Community Led Local Development, are not as successful as the Commission would have wished.

The territorial focus of Cohesion Policy is its main strength and should therefore remain a central priority. **The complete lack of reference of the concept of 'territorial cohesion' in any of President Juncker's speech since his arrival in office suggests, however, that the territorial focus of the policy is far from a priority.**

Sixth question: how could cohesion policy address new or growing challenges (such as, for instance, energy security or migration)?

One of the strengths of Cohesion Policy is the security of funding it provides over seven years. **It should be flexible and adaptable enough to allow for arising challenges to be tackled in the framework of the operational programmes, whilst keeping a long term strategic focus.**

A very relevant and contemporary example is the contribution of Cohesion Policy to the refugee crisis and the integration of migrants. The recent proposals from the Commission to allow managing authorities to change the focus of some operational programmes to that effect for the 2014 – 2020 period is welcome. It is regrettable that the proposals do not apply to programmes from the 2007 – 2013 programmes. Furthermore, the rigidity of the process does not allow for urgencies to be tackled.

Seventh question: what should be the role of urban dimension in cohesion policy? Where can EU action bring most added value? On the contrary, how can cohesion policy better support growth, jobs and innovation outside heavily populated areas?

It is crucial for Cohesion Policy not to oppose the urban dimension against the rural dimension. This is why the CPMR has always called for a stronger role for regional authorities within Cohesion Policy, with each one being different and able to shape operational programmes depending on its territorial challenges and focusing on endogenous potential. Recent efforts to focus Cohesion Policy further on cities are therefore questionable from that point of view.

Eighth question: how can we further simplify the implementation of the policy for beneficiaries? How can cohesion policy stimulate better national and regional governance? Should the shared management model be revised? Should there be any kind of conditionality regarding quality of institutions?

The rise of the administrative burden linked to the implementation of Cohesion Policy has long been criticised by the CPMR[2]. In light of this, the CPMR hopes that the new European Commission High Level Group on Simplification will address stumbling blocks ahead of post-2020 Cohesion Policy reform.

Simplification of Cohesion Policy is not a new issue. It is first and foremost linked to the fact that it is a contested policy. If Cohesion Policy owes its survival due to its integration with EU economic governance (macro-economic conditionality, CSRs…), the realisation of Europe 2020 objectives (ex-ante conditionalities) and the need to demonstrate results (performance framework, results indicators), then it is no surprise to see the policy marred with 'conditionalities' and a resulting higher level of administrative burden. Options for moving forward could include proportional audit and control procedures[3].

It is regrettable that the impetus of the European Commission to look at simplification only concerns beneficiaries, and does not include a wider discussion involving how the administrative burden could be reduced for managing authorities as well**. Improving the performance of the policy can only happen if**

[2] See Umeå Statement for instance: http://cpmr.org/pub/cr/100_final_declaration-statement.pdf

[3] Controls could be proportional to the size of the projects co-funded by Cohesion Policy; one could also envisage a proportional audit procedure based on past performance for instance

solutions are found to ease the administrative burden of managing authorities, so that the latter can focus on targeting the funding more effectively.

Ninth question: should the allocation of cohesion policy funds continue to be based on GDP per head, or rather on other indicators capturing social progress?

The crucial question of how the Cohesion Policy funds should be allocated was examined at length at the CPMR. The weight of GDP as an indicator to distribute funding and the lack of coherence between Cohesion Policy objectives and indicators used to allocate funding are some of the points of criticism put forward by the CPMR.

However, it is understood that there is no genuine debate at the European Commission on whether the allocation of Cohesion Policy funds should be based on alternative criteria, as brought to light in a recent meeting of the CPMR Task Force on Indicators. The fact that the EU Budget is based on national contributions from Member States makes it politically impossible for the Commission to propose a radically new methodology going beyond GDP. It appears clear that the allocation methodology serves a unique purpose, which is that of justifying politically acceptable outcomes.

Last question: what form should take the contribution / integration of cohesion policy to the EU's economic governance and structural reform agenda?

As mentioned under question 8, **Cohesion Policy owes its survival more due to its integration with the wider EU economic governance agenda that on its own merit as a regional development policy.**

Cohesion Policy 2014 - 2020 negotiations were concluded with a final agreement for 'measures linking effectiveness of ESI funds to sound economic governance', previously known as macro-economic conditionality. The CPMR, alongside the European Parliament, fiercely resisted the inclusion of macro-economic conditionality, particularly with regards to the approach to sanction regional authorities for failures from their respective Member State to respect provisions under the Stability and Growth Pact[4].

In the current context, the real question is no longer whether Cohesion Policy should be integrated to the EU economic governance and its European semester, but rather how much tighter the links are going to get. One just needs to listen to German Minister of Finance Wolfgang Schäuble, who in a recent speech proposed "to use the money that is spent for cohesion policy and parts of the agriculture budget to support reform efforts in the Member States. The national projects which benefit from financing from the European funds should be systematically designed to implement the country-specific recommendations."

3. What actions for the CPMR and its regions?

It appears clear that the CPMR regions should mobilise themselves to present constructed and evidence-based arguments to defend a vision of Cohesion Policy as an investment policy at the service of regional development, for all European regions. **The CPMR will be debating these key questions on the occasion of the next General Assembly of the CPMR on 5-6 November 2015.**

The following issues in particular could be explored:

- since there is a discussion about the need of Cohesion Policy in 'advanced regions', the CPMR should make the case for the added value of Cohesion Policy investments in more developed and transition regions;
- similarly, the CPMR could undertake some work to contribute to the Commission initiative which is targeting "lagging regions";
- on financial instruments, a starting point for a reflection on their contribution to Cohesion Policy could be mapping the use of financial instruments in CPMR regions;
- on simplification, the CPMR could gather feedback from its Member Regions on the stumbling blocks (or positive evolutions compared to the last programming period) faced during the programming process;
- on the 'territorial focus' of the policy, the CPMR will continue to make the case for a territorially differentiated Cohesion Policy;
- The CPMR will also pay particular attention to Cohesion Policy needing the support of regions to function effectively.

[4] Details of how the provisions work are explained in a CPMR Note