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SEPTEMBER 2014

TECHNICAL PAPER FROM THE CPMR GENERAL SECRETARIAT

## CPMR ANALYSIS OF THE 6<sup>TH</sup> COHESION REPORT

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### 1. Introduction

The purpose of this note is to provide an analysis of [the 6<sup>th</sup> report on Economic, Social and Territorial Cohesion](#), otherwise known as the 6<sup>th</sup> Cohesion Report. Due to size and nature of the document, this note is not an exhaustive summary of the 6<sup>th</sup> Cohesion Report and rather concentrates on a number of key issues raised by the document of common interest to CPMR Members.

Published on 22 July 2014, the 6<sup>th</sup> Cohesion Report is a key publication which examines the state of economic, social and territorial cohesion in the European Union and the role of Cohesion Policy in reinforcing cohesion. The report looks at the following four aspects:

- the reformed Cohesion Policy package for 2014 - 2020 and its main innovations as seen by the European Commission (section 2);
- the European Commission initial assessment of the Partnership Agreements and Operational Programmes for the 2014 - 2020 (section 3);
- the impact of the crisis on regions and the role of Cohesion Policy investments (section 4);
- assumptions about the development of Cohesion Policy made by the 6<sup>th</sup> Cohesion Report (section 5).

### Key messages from the 6<sup>th</sup> Cohesion Report

- The crisis has increased regional disparities and made it more difficult for regions to meet their Europe 2020 targets;
- Cohesion Policy has played a vital role to maintain public investment levels during the crisis, though the low absorption of funds remains a key concern;
- Cohesion Policy is moving away from its original role to invest in infrastructure. Transport and energy infrastructure in particular will receive less funding than for 2007 - 2013;
- Regions in many Member States have become more autonomous over the past 50 years according to Regional Self Rule index, especially in Italy, Belgium, Spain and in the UK;
- Partnership Agreements and Operational Programmes are generally vague in terms of setting targets and objectives. Ex ante conditionalities remain a difficulty, and the link to Country Specific Recommendations could be clearer;

### Interesting facts and figures

- On average, public investment in the EU declined by 20% in real terms between 2008 and 2013. In Greece, Spain and Ireland, the figure reaches 60%
- In 2013, around 55% of total public investment was carried out by sub-national authorities.
- From 2010 to 2013, Cohesion policy funds represented the equivalent of around 21.5% of total fixed public investment in the EU
- In May 2014, 32% of funding available for 2014 - 2020 was still to be paid by the Commission to Member States
- There are 60% more ESF programmes managed at regional level than for the 2007 - 2013 period
- Cohesion Policy 2014 - 2020 is expected to result in a rise of GDP of 0.4% in the EU by 2023. In the EU13 Member States, the impact is expected to result in an 2.6% increase

## 2. What are the main elements of the reformed Cohesion Policy?

The 6<sup>th</sup> Cohesion Report lists the main element of the reforms as five main ideas:

- **Cohesion Policy and the link to the EU economic governance:** a major innovation is the legal connection between Cohesion Policy and the various elements of the EU economic governance, namely the European Semester for policy coordination and the Stability and Growth Pact more widely. This connection is called macroeconomic conditionality. The CPMR has criticised the nature of this relationship on a number of occasions<sup>1</sup>.
- **Cohesion Policy and the thematic concentration of priorities:** the fact that Member States and regions need to concentrate funding on fewer priorities is a real innovation. The Commission also stresses that funding from European Structural and Investment (ESI) funds will be more closely matched to the Europe 2020 strategy
- **Cohesion Policy and the emphasis on results:** Cohesion Policy programmes now need to set out objectives and specify how these objectives will be met. There is also a performance reserve for high performing programmes.
- **Cohesion Policy and a stronger voice to cities:** Rather incoherently, 6<sup>th</sup> Cohesion Report quotes cities as playing a key role in Cohesion Policy and in meeting the Europe 2020 strategy objectives. Around half of the ERDF will be spent in cities.
- **Cohesion Policy and partnership:** The Cohesion Policy package includes additional measures to boost partnership and multilevel governance, which should result in partners at all levels (including local and regional) being involved at all stages of programming.

## 3. What do the 2014 – 2020 Operational Programmes look like?

Although the 6<sup>th</sup> Cohesion Report does not name any Member State or region, the section of the report assessing the Partnership Agreements and the Operational Programmes received draws some interesting conclusions. The report also looks at the impact of the Country Specific Recommendations (CSRs) on the operational programmes and assesses ex ante conditionalities.

### 3.1 - Comparison with 2007 – 2013

The main conclusion of the Commission assessment on the programmes is that Member States and **regions will prioritise investments on R&D and innovation, ICT, SMEs, and low-carbon economy** for ERDF, **and employment, social inclusion, education, and governance** in the ESF. The key change compared to 2007 – 2013 is that less money will be invested in network and environmental infrastructure. While the 'Network Infrastructure' priority will receive the highest amount of funding (see table below), investments will be concentrated in regions eligible for the Cohesion Fund. **The decrease of investment in infrastructure is particularly marked in more developed Member States.**

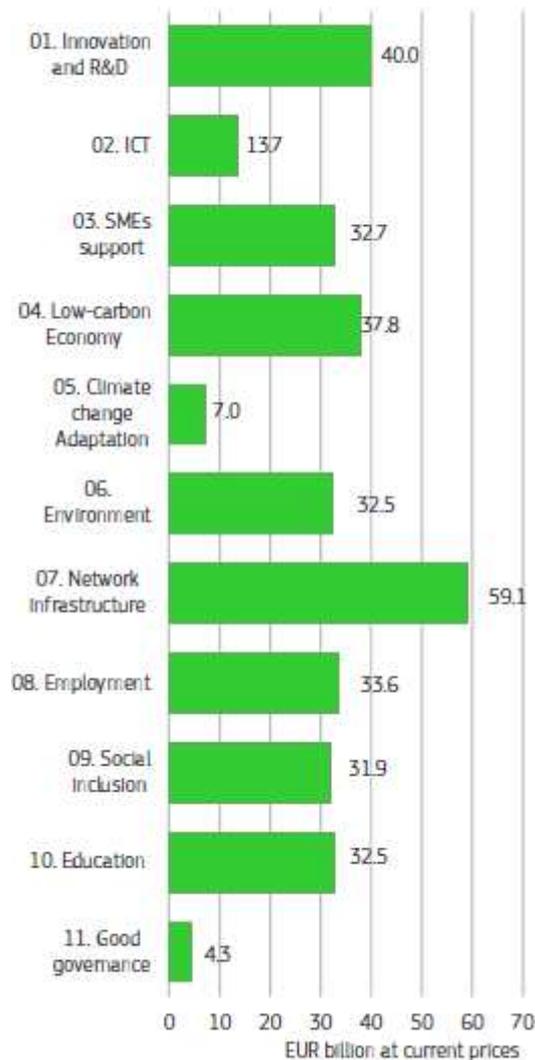
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<sup>1</sup> See [Policy Position from the CPMR General Secretariat: Refocusing Cohesion Policy on addressing Territorial Cohesion](#)

Priorities relating to R&D and innovation, ICT, SMEs and a low-carbon economy will be allocated about €124 billion, which is an increase of almost 22% compared to 2007 – 2013. €98 billion is to be invested in employment, social inclusion and education and training measures, slightly more than in the previous period. On the other hand, EUR 59 billion is allocated to transport and energy infrastructure, a reduction of 21% from 2007–2013, while investment in environmental protection is down by 27%.

The following table shows the allocation of funding to the different thematic objectives.

**Figure 8.1 Allocation to thematic objectives, 2014-2020**



Source: Final and draft partnership agreements as of 1 June 2014

### **3.2 -The Country specific Recommendations (CSRs)**

Country specific recommendations made by the Council to each Member State, which contain recommendations on budgetary, employment and other structural reforms, now need to be taken into account for the preparation of the 2014 – 2020 programmes. In practice, this means aligning investments from structural funds programmes with these high level policy recommendations.

In the 6<sup>th</sup> Cohesion Report, the Commission considers that:

- There is generally a **lack of detail** justifying how operational programmes will address certain CSRs;
- With regards to smart specialisation strategies, there is a need for more emphasis on soft forms of support, **on promoting market-driven research and cooperation with the private sector** ;
- With regards to SME support, the Commission criticises **the 'business as usual' approach** with few new methods of support;

- Focus on inclusive growth objectives could be stronger in some Partnership Agreements. **Funding allocation to education is generally not sufficient** to achieve the priorities identified;
- Regarding the **Youth Employment Initiative**, the information in the Partnership Agreements and Operational Programmes is too general and does not establish a link with the Youth Guarantee;
- There is also a need to be more precise on how ERDF and ESF interventions will be coordinated.

### **3.3 - Ex ante conditionalities**

With regards to how ex ante conditionalities have been followed by Member States and regions, the Commission considers that this has been a difficult process, and **may request action plans to ensure full compliance**. The most problematic ex ante conditionalities are smart specialisation strategies, but also the implementation of energy efficiency and environmental impact assessment, or where EU regulations need to be applied (public procurement for instance). The objectives set in the operational programmes are generally considered too vague, and **many Member States have tended to include a list of possible actions towards fulfilling the conditionalities, rather than clearly defining targets**.

There is evidence that there was a consultation process with partners during the drafting process, but in many cases dialogue was insufficient. **The Commission will look at how the Code of Conduct has been applied to ensure genuine participation by stakeholders**.

## **4. The impact of the crisis and the role of Cohesion Policy**

The 6<sup>th</sup> Cohesion Report goes to great length to explain the crucial role of Cohesion Policy during the financial crisis.

### **4.1 - The crisis has halted public investment in the EU and increased regional disparities...**

As alluded to in recent CPMR papers<sup>2</sup>, there is growing evidence which confirms that the crisis has resulted in an inevitable increase of regional disparities in Europe. In practice, this means that the gap between more developed regions and less developed regions is increasing. The 6<sup>th</sup> Cohesion Report confirms that this trend can be observed within EU Member States, but also between EU Member States.

Interestingly, evidence in the 6<sup>th</sup> Cohesion Report confirms **the impact of the global recession had no clear geographical pattern**, affecting both more developed, transition and less developed regions. As an example, regional disparities also widened in Greece and the UK over these 11 years (the coefficient of variation increasing by 12 and 8 percentage points, respectively), in both cases partly because GDP per head declined relative to the EU average in a number of less developed regions.

**This shows that there is a need for better territorial analysis and to go beyond Gross Domestic Product (GDP) to analyse territorial challenges. This is very much in line with what CPMR is asking for.**

### **4.2 - ... but Cohesion Policy has played a critical role to maintain investment in times of crisis...**

There is undeniable evidence that Cohesion Policy programmes in the 2007 - 2013 period helped 'cushioning' the impact of the crisis in European regions. In 2010-2012, Cohesion Policy funding was equivalent to 21% of public investment in the EU as a whole, to over 75% in Slovakia, Hungary, Bulgaria and Lithuania. The report confirms that **without this funding, public investment in Member States (particularly in the less developed Member States) would have declined even further**

In terms of the role of Cohesion Policy, the report points to the fact that the crisis had the effect to accelerate the disbursement of structural funds and to adapt the focus of the programmes. **Almost 13% of the total funds (EUR 45 billion) have been shifted from one policy area to another since 2009** to meet the most pressing needs and to strengthen particular interventions, with large increases for R&D and innovation, business support, sustainable energy, roads and the labour market, in particular measures to increase youth employment. The other changes towards flexible, responsive use of the funds include the increase in the number of funding advances from the European Commission and the reduction of national co-financing rates.

<sup>2</sup> Most recently, the [Policy Position from the CPMR 'Refocusing Cohesion Policy on addressing Territorial Cohesion'](#) adopted in June 2014

#### **4.3 -... particularly with regions playing a central role for public investment**

The report also recognises the role of regional authorities in terms of public expenditure, and the key role of Cohesion Policy programmes in that respect. Interestingly, the report confirms that this very role has been significantly affected by the fiscal consolidation packages implemented across the EU.

**In other words, the clash between Structural Funds programmes and public investment on the one hand, and the obligations of Member States under the Stability and Growth Pact on the other is brought to the fore, as mentioned in the CPMR Position ‘Reconciling Cohesion Policy with EU Economic Governance’**

### **5. Reflections for future policy reform**

The 6<sup>th</sup> Cohesion Report is not a policy document paving the way for post-2020 Cohesion Policy reform. It does, however, make a series of assumptions which are worth exploring.

#### **5.1 - What is lagging development, and how can Cohesion Policy intervention be justified?**

The 6<sup>th</sup> Cohesion Report attempts to define the economic rationale for Cohesion Policy intervention. It does so by defining ‘three determinants of development’.

- The first determinant is defined as ‘first nature’ development. This concerns the inherent features of regions, such as geographical remoteness. The report quotes Article 174 of the EU Treaty and the territories deserving particular attention, such as rural areas, areas affected by industrial transition, regions which suffer from severe and permanent geographical handicaps.

In direct contrast with CPMR positions, **the report brushes aside the idea that the above mention areas should get additional funding (or ‘permanent funds’) by way of compensation for their geographic characteristics**. It even goes as far as saying that some of these areas ‘have succeeded in achieving a relatively high rate of growth and becoming ‘high income’ regions’ whilst adding that ‘in a 21st century economy, the inherent characteristics in question can be as much a stimulus to growth as an obstacle’.

- The second determinant of development refers to those which are human-constructed or influenced, and in particular those that focus on the impact of trade and economic integration on development. In particular, the report quotes under-investment in public capital stock, low accessibility, human capital, innovation, low institutional quality, and cluster and agglomerations as key determinants to explain lagging development.

- The final and third determinant refers to the closer economic integration of certain regions across the EU, and in particular the role that Cohesion Policy investments have played in integrating lagging regions in the EU Single Market.

***CPMR analysis:*** The report assumes that Cohesion Policy intervention has moved beyond the need to invest in regions which suffer from specific geographical handicaps (‘first nature’ development). It focuses more towards ‘human-influenced’ factors and takes more into account the need for closer economic integration. Justifying policy intervention under Cohesion Policy will need further reflection. However, ignoring geographical characteristics in the mix is **an alarming claim which contrasts strongly with CPMR Positions on the subject**.

#### **5.2 - Cohesion Policy and Territorial Cohesion**

There is a short section in the 6<sup>th</sup> Cohesion Report explaining how European policies (and Cohesion Policy in particular) have evolved to reinforce territorial cohesion since it was integrated into the EU Treaty as a fully fledged objective in 2009.

There are four ‘pillars’ to territorial cohesion:

- **Importance of access to services.** The Commission has launched the ‘Digital Agenda’ which aims to ensure that everyone in the EU has access to a high speed broadband by 2020. The Connecting Europe Facility is also quoted as an instrument from the EU budget which will help resolve this.
- **Sustainable development.** The thematic concentration of priorities and in particular the priority to improve energy efficiency from ERDF is quoted.
- **Functional geographies.** The Integrated Territorial Investment is quoted as a novelty in the 2014 - 2020 package which should help address issues going beyond the NUTS II boundaries with the assistance of structural funds.

- **Territorial analysis.** The report quotes the increasing availability and quality of subnational data from EUROSTAT, the OECD or the Joint Research Centre.

*CPMR analysis:* The CPMR already considers that EU Transport Policy (the Connecting Europe Facility and the TransEuropean Networks) does ignore the needs of peripheral areas of Europe by **concentrating funding in the central part of Europe**. Similarly, despite ICT and high speed broadband being mentioned as 'high growth' sectors, the CPMR has lamented the **difficulties faced by some of its Members to justify the use of ERDF to finance high speed broadband projects**. On territorial analysis, as mentioned in previous CPMR positions, there are existing methodologies to look at regional challenges in a more accurate way (e.g. the Regional Competitiveness Index from the Joint Research Centre) **but the allocation of structural funds to regions continues to rely only on Regional Gross Domestic Product**.

### **5.3 - Improving the absorption of the funds and simplification**

The 6<sup>th</sup> Cohesion Report identifies the low absorption rate as a key challenge for the future of policy. In May 2014, 32% of funding available for 2014 - 2020 was still to be paid by the Commission to Member States.

According to the report, the slow rates of absorption in some countries are due to a number of reasons 'not least a lack of competence in Managing Authorities, or Governments more generally, or insufficient staff'. It does then justify the allocation of €4.3 billion to 'good governance' (institutional capacity building and the efficiency of public administrations), which represents an increase of 72% compared to the 2007-2013 period.

*CPMR analysis:* The CPMR will be monitoring the impact of the additional requirements (ex ante conditionalities, results indicators for instance) and the resulting administrative burden for managing authorities in particular. It may be that the low absorption of funds - including in more developed regions - could well be due to the increasingly strict requirements surrounding the operational programmes, and that **flexible policy solutions to alleviate the bureaucratic burden to highly performing programmes could be the answer**.