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Technical Note from the CPMR General Secretariat

POST-2020 COHESION POLICY REFORM: TRENDS, PRESSURES AND OPPORTUNITIES

1. Introduction

The purpose of this note is to analyse the state of play with regards to developments related to post-2020 Cohesion Policy. It does so by looking at **the latest set of regional GDP data** (section 2), by setting out some of the **pressures and opportunities with regards to the future of Cohesion Policy** (section 3), and concludes by suggesting **a course of action for the CPMR for the next 12 months** (section 4).

2. The trends for Cohesion policy reform: a look at GDP

2.1 A (partial) glimpse into the future…

In the history of Cohesion Policy, the most reliable crystal ball for second guessing future developments regarding Cohesion Policy eligibility has always been regional Gross Domestic Product[1].

At a time when threats that Cohesion Policy might not cover all European regions after 2020 are looking very real, regional GDP only provides a very partial clue of what the post-2020 Cohesion Policy architecture might look like. Nevertheless, the remainder of this section analyses some of the emerging trends and useful facts from the most recent set of regional GDP data published by EUROSTAT.

2.2 CPMR simulation

The CPMR General Secretariat carried out a simulation exercise to evaluate the eligibility of CPMR regions if the latest regional GDP statistics were used. The exercise took into account the average of regional GDP for 2012, 2013 and 2014. The trends for each region and the list of regions changing eligibility are provided here.

The following map shows what the eligibility of regions within Cohesion Policy would look like using the latest GDP statistics.

[1] See here for more details about the importance of regional GDP within Cohesion Policy

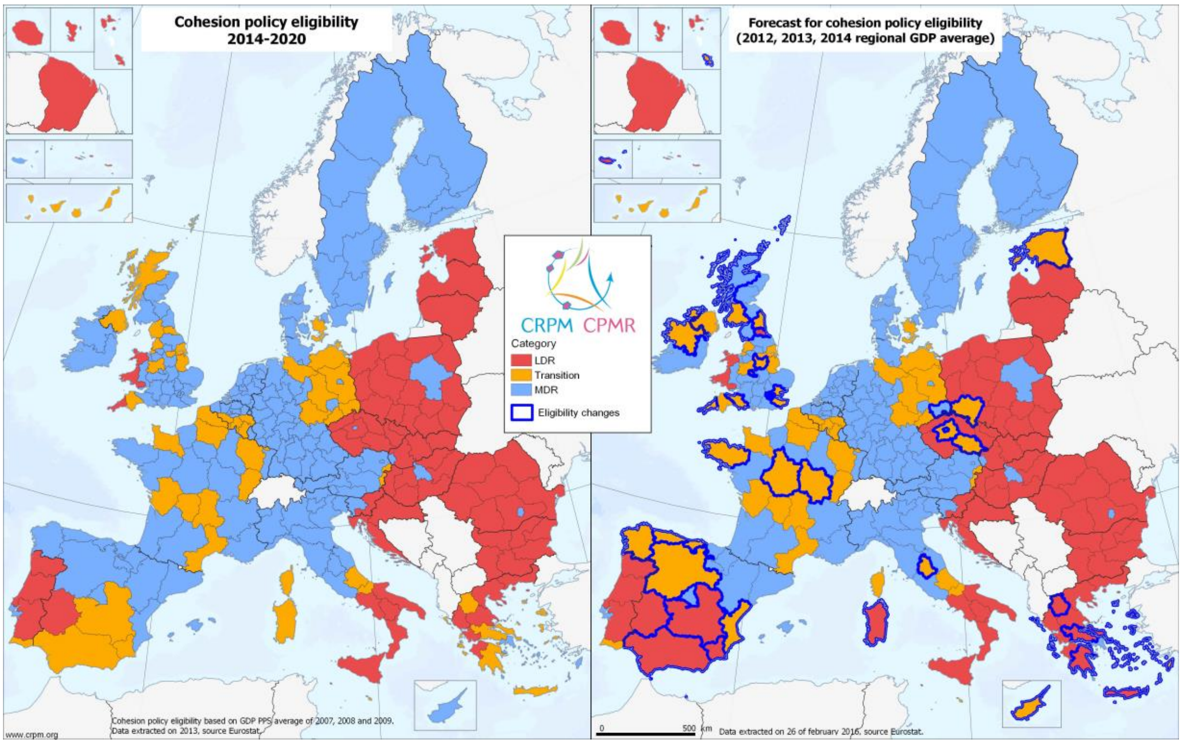

Figure 1 – Cohesion Policy eligibility 2014 – 2020: comparison of 2007, 2008, 2009 regional GDP as % of EU average with forecast based on 2012, 2013, 2014 regional GDP as % of EU average

Quick analysis of trends

- **43 regions** would change eligibility using the most recent regional GDP data;
- Out of these 43 regions, **34 would move down a category** (from more developed to transition regions or from transition to less developed), **whilst 9 would move up a category;**
- Many of the trends identified by the CPMR in its analysis published last year (see here) are confirmed with the most recent figures: **more regions would change eligibility and regional disparities are increasing;**
- **Disparities of development have increased between regions of the same country**. This is particularly true in the Netherlands, Portugal, Germany, the UK and Greece;
- Greece, Spain, France and the UK are the countries with the most amount of eligibility changes. All eligibility changes would concern regions going down a category, with four exceptions;
- Figures suggest a general **positive trend for regions from EU13 Member States** and a **downward trend for Mediterranean regions** (with the exception of Malta);
- **Many more regions are on the verge of changing eligibility**, confirming the point above. Based on current trends:
    - 4 more regions (1 Bulgarian region, 1 Czech region, 2 Polish regions) and Lithuania would move up from less developed regions to the transition regions category;
    - At least 5 regions from Mediterranean countries would move down to the less developed regions category (1 Greek region, 2 Spanish regions, 1 Italian region, 1 Portuguese region);
    - Two of the French outermost regions could move up to the transition regions category. Germany and Austria could also be devoid of transition regions after 2020.

2.3 Key learnings

Message 1 – Cohesion Policy is delivering in Central and Eastern Europe

For all its flaws, regional GDP remains at the heart of Cohesion Policy. It determines eligibility of regions within the policy. It is key to the allocation methodology for ESI funds (particularly with regards to the less developed regions category). It is also a crude – but easy to grasp – indicator to measure policy performance at the level of regions and at the scale of the European Union. Of course, positive economic performance figures in a given region cannot solely be down to the influx of ESI funds over a given timeframe. But the significant share of the ESI funds envelope in less developed regions (in addition to match funding from public or private sources) in particular makes it undeniable that Cohesion Policy funding contributes to growth[2].

A key message arising from the latest set of statistics is that the policy is delivering positive results, particularly in less developed regions from Central and Eastern European Member States. Two Czech regions, one Polish region and Estonia would phase out from the less developed regions category. This is significant, particularly as the bulk of Cohesion Policy funding is concentrated in regions from countries from EU13.

Message 2 – Cohesion Policy is more needed than ever in Mediterranean regions. The technical review will probably be of benefit for Greece and Spain.

It is of no surprise to see that the effects of the 2008 financial crisis are being reflected in the CPMR forecast for Cohesion Policy eligibility for the post-2020 period. Most regions in Greece, Spain and Italy (to a lesser extent) would drop down a category based on the most recently available statistics.

A key message is that support from the policy is needed in Europe, particularly in Mediterranean countries.

On a practical level, the Commission will review structural funds allocations at Member State level around September/October 2016 to take into account the latest economic data. Member States which have most suffered the impact of the crisis will get additional funding from within the Cohesion Policy budget. . There is no additional money to Cohesion policy overall and adjustments cannot exceed 4 billion euros overall. **Based on CPMR projections, regions from Greece and Spain are likely to be the main beneficiaries of the technical review.**

Message 3 – Regional disparities are on the increase, between European regions but also within Member States. New patterns of regional disparities are emerging.

One of the main 'raison d'être' of Cohesion Policy is to reduce the levels of disparities of development between European regions (and Member States) to support their effective integration into the Single Market.

The latest set of regional GDP data reveals that regional disparities have increased on two levels:

- **at the level of Member States**, where one can clearly identify which countries have clearly emerged relatively unscathed from the effects of the financial crisis, and those which were already lagging behind before the crisis and which are continuing to plummet down the rankings. The following graph shows the extent to which countries that have joined the European Union since 2004 are performing better than the EU average, against the performance of Mediterranean countries and regions (particularly since 2012).

[2] As an example, 97% of public investment in Hungary in 2011 came from Structural funds and match-funding

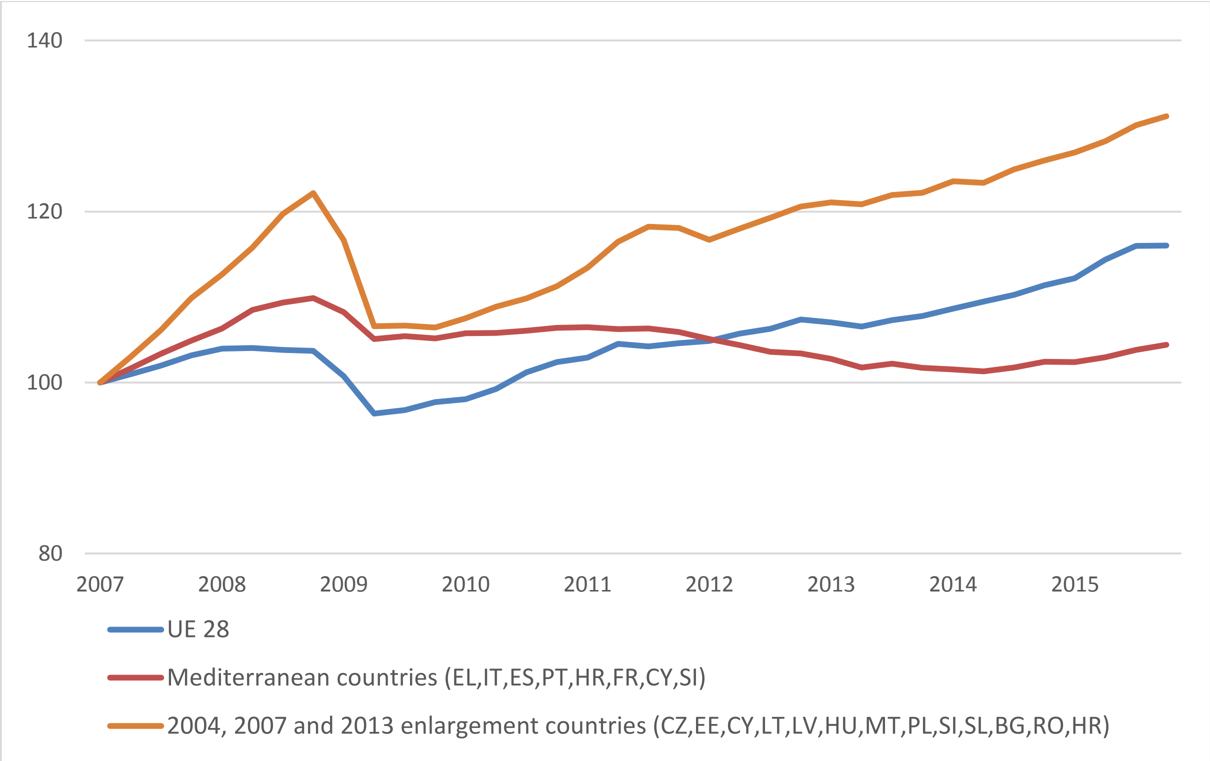

Figure 2 – Evolution of national GDP statistics shown by group of countries

- **within Member States**, with wide ranging discrepancies in terms of growth between regions in the same country, for several Member States, as the following graph shows. This reveals uneven patterns of growth, across Member States which have enjoyed positive levels of growth as well as those which have not. All German regions, for instance, have grown (since the 2007, 2008, 2009 average baseline) but where the region of Stuttgart grew from being at 137% compared to the EU average to 160% (+23 points), figures for regions such as Mecklenburg Vorpommern only rose by a single point (from 82% of the EU average to 83% of the EU average). Patterns of growth are particularly uneven in the UK, the Netherlands, Portugal and Greece.

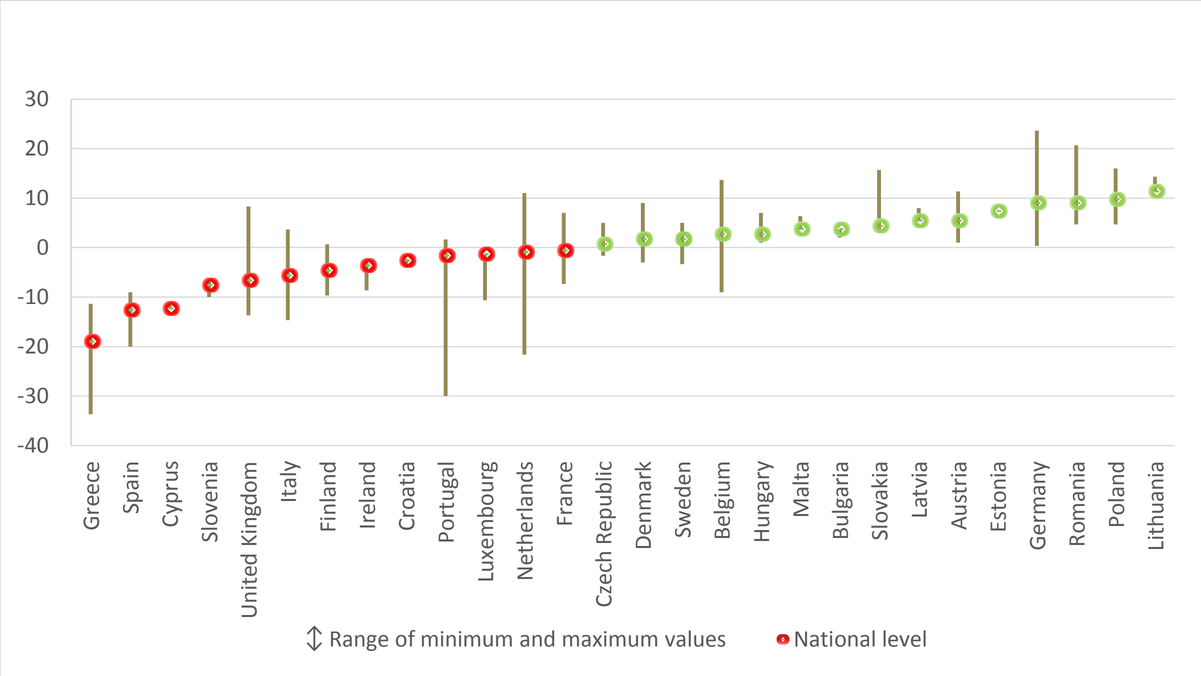

Figure 3 – Evolution of regional GDP averages (2007, 2008, 2009 vs 2012, 2013, 2014) including range for regions within Member States

Message 4 – How will these statistics influence the Member States' position on Cohesion Policy?

This is more of an interrogation that a message, but there is no doubt that regional GDP statistics will inform the positions of Member States with regards to post-2020 Cohesion Policy. Certain trends are worth a look:

- some Member States which are now labelled as **'Cohesion Countries' are likely to receive considerably less funding** as a result of changes in regional GDP. Estonia and Lithuania may well phase out of less developed regions status. A number of regions from the Czech Republic, Bulgaria and most significantly Poland could also gain transition region status, looking at long term trends. The extent to which these trends will affect – negatively or positively – the position of EU13 Member States is an unknown at this stage

- **Regions from Germany and Austria,** two of the net contributors to the EU budget, could all be eligible for the more developed regions category after 2020, looking at current trends. Will this lead to reduced support from these two countries with regards to post-2020 Cohesion Policy?

- **The position of Spain** – and to a lesser extent, Italy – is likely to be heavily influenced by these trends. Will this mean that Spain will be one of the main flag-bearers supporting a strong Cohesion Policy for the post-2020 period?

- Two of **France's outermost regions** (Guadeloupe and Martinique) and perhaps a third one (Réunion) could well phase out of the less developed regions category, resulting in a considerably reduced allocation for France. How would that affect France's traditional support for the policy?

3. Cohesion policy: under pressure(s)

No matter what the social, economic and territorial trends may reveal for European regions, the question about the future of Cohesion Policy remains a political issue above all else. At this stage the policy faces significant pressure which is worth detailing here.

3.1 External pressures

The most significant challenge for Cohesion Policy reform is the extent to which its role, its objectives and its thematic focuses will change so that it can survive as a standalone policy. This is not new: Cohesion Policy 2007 – 2013 was driven by the need to link Structural Funds to the Lisbon Strategy (the EU's former strategy for growth and jobs), Cohesion Policy 2014 – 2020 was driven by a stronger thematic focus (thematic concentration of priorities) and additional conditionalities.

- **Adapting Cohesion Policy to new challenges**

The perceived failure of Cohesion Policy in tackling emergencies, and to give a recent example, the migrant and refugee crisis, has prompted many to ask for **more 'flexibility' in the way ESI funds should be used in the future.**

There are two opposing schools of thoughts. One approach would be to ensure that dealing with the effects of migration should be a core objective of post-2020 Cohesion Policy, by way of a dedicated thematic objective and dedicated resources. The other approach would be to consider challenges linked to migration – by their very nature – are best deal with by a dedicated EU budget line with as suggested recently by Germany's Development Minister Gerd Müller.

- **Reinforcing the link between the European Semester and Cohesion Policy**

Strengthening economic policy coordination across EU Member States – via a process known as the European Semester - is one of the biggest priorities of the Juncker Commission. It is widely accepted that the implementation of the Commission recommendations for structural reforms tailored to each EU Member State (known as 'Country Specific Recommendations') is unsatisfactory.

This is where Cohesion Policy comes in. A link already exists with Cohesion Policy, macroeconomic conditionality, which was arduously fought against by both the European Parliament and the CPMR for the current period. The Commission is going a step further with the so-called proposal for 'Structural Reforms Support Programmes', which essentially suggests redeploying some of the Commission's technical assistance allocated to ESI funds (except the EMFF) to support capacity building in the Member States to implement structural reforms more effectively.

The question is whether Cohesion Policy should be primarily be focused on supporting structural reforms at Member State level and therefore less about supporting long term regional development.

- **Is Cohesion Policy still the EU investment policy?**

The EFSI is clearly a significant political priority for Commission President Jean-Claude Juncker, as exemplified by the appointment of a dedicated figurehead in the person of Commission Vice-President Jyrki Katainen.

The position of the CPMR on this issue[3] is constructive: the EFSI is a positive step forward but should not replace Cohesion Policy in the future, and there are limits in terms of what financial instruments can actually achieve and where they can be used. This was also one of the main conclusions of the joint CPMR – Dutch Presidency conference on investment in blue growth held in February this year.

[3] CPMR Policy Position adopted in Nantes, February 2015

Rumours already abound about a successor to the Juncker Plan after it expires in 2018. **How the intervention logics of Cohesion Policy (which is about reinforcing economic, social and territorial cohesion) and the EFSI (which is about increasing investment volume) can be reconciled is a major challenge for post-2020.**

3.2 Internal pressures

As has already been widely reported in previous notes from the CPMR, some of the biggest challenges facing Cohesion Policy lie within the policy itself.

- **Simplifying Cohesion Policy**

Simplification already is a major focus for both the Commission and the European Parliament, particularly as some of the net contributors to the EU budget are already showing signs that they might not support a continuation of the policy after 2020 if it continues to be marred by a high level of bureaucratic burden. It is already clear that the traditional blame game between the Commission and Member States about responsibility for unnecessary bureaucracy for ESI funds implementation will also feature prominently in discussions ahead.

One of the most promising avenues for reform so far is the idea of proportional audit and control systems, which essentially means that operational programmes in Member States with a low degree of error rates could benefit from a lower degree of controls.

The question is whether a radical overhaul of the policy to simplify its delivery is needed (and possible) will be a key issue.

- **Measuring performance**

Ever since the start of the European Commission's current term, Cohesion Policy has been under pressure to show results[4]. As a long term investment policy, this is no easy feat, particularly as the impact from ESI funds in the current programming period will not be ready to be analysed on time for the debate on post-2020 Cohesion Policy. This is why the European Commission is supporting initiatives such as the Social Progress Index to improve the quality of the monitoring of the impacts of ESI funds.

The question is how the Commission will find the right approach to show that the Cohesion Policy is performing both as a policy to create jobs and growth as well as a policy that is seen as support EU priorities in wider sense.

- **Territorial focus**

Another indirect challenge to Cohesion policy reform links to discussions on developing an EU Urban Agenda and the Amsterdam declaration. Although there is no serious consideration that more Cohesion Policy resources should be focused on urban areas, there is no denying that the urban agenda has dominated debates related to Cohesion Policy in recent months and detracts attention of EU decision-makers on more pressing issues. As mentioned in the CPMR Technical Note "Addressing the Commission's initial questions on post-2020 Cohesion Policy" presented in October 2015, it is vital for Cohesion Policy not to oppose different types of territories, such as urban against rural regions.

[4] Commissioner Cretu mission letter

Using regional GDP to compare the situation of urban regions with another type of regions identified under Article 174 TFEU identified as deserving 'special attention' – island regions – is useful in that respect. The graph below shows the evolution of regional GDP figures for urban regions compared to island regions. The already existing development gap between urban regions and island regions in 2000 has only continued to widen until today.

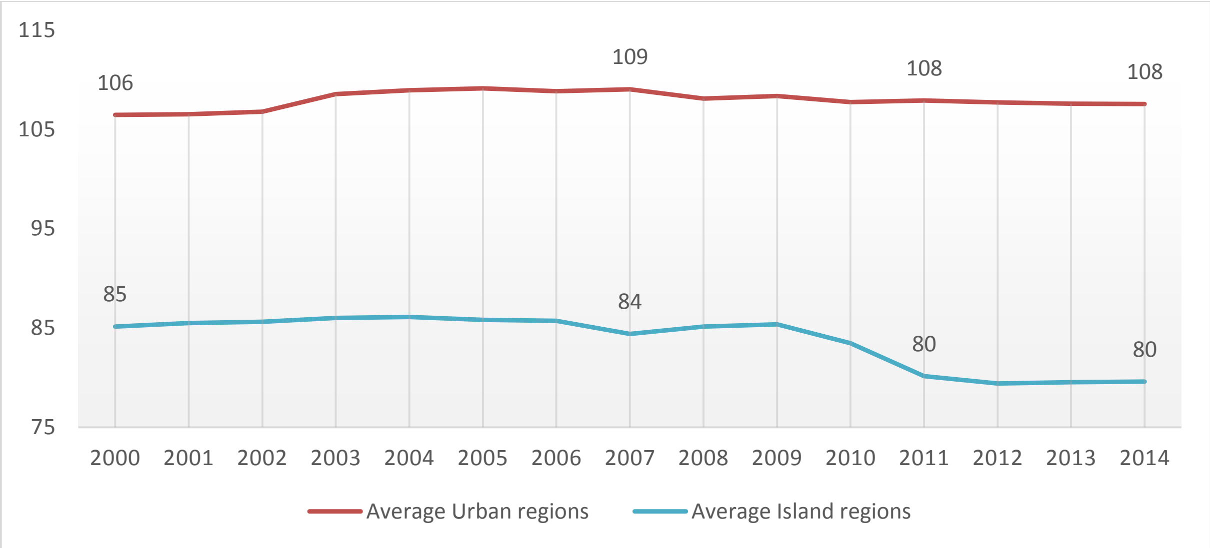

Figure 4 – Evolution of regional GDP data (as % of the EU average) for urban regions and island regions[5]

4. Opportunities: proposal for a CPMR approach

The challenges expressed in Sections 2 and 3 of this note set the scene for a coordinated action from CPMR and its regions. The much reduced margin for manoeuvre require a constructive approach with radical arguments for the policy to survive after 2020.

The CPMR General Secretariat is already preparing the grounds for post-2020. Aspects studied so far include the following:

- **the role of regions within Cohesion Policy**: a study was carried out with 40 CPMR Members to analyse the involvement of regions with ESI funds (October 2015) ;

- **the territorial dimension of Cohesion Policy**: practical scenarios on improving the island dimension are being prepared. Concrete ideas have already been presented to the European Parliament in March 2016;

- **the role of Cohesion Policy as an investment policy**: the CPMR is studying the territorial dimension of financial instruments via a study realised with its Members (expected July 2016). A high level conference organised with the Dutch Presidency on investment in blue growth (February 2016) also showed the added value of grants to stimulate investment and the effective role of regions in that respect.

Other aspects of the policy will be studied by the end of the year, namely **the link with EU economic governance** (this will be broached during a joint DG REGIO/CPMR conference on 27 September 2016), the link with **migration**, and **simplification**.

[5] NUTS II regions with at least one city with a population of above 250,000 people were considered as urban regions in this graph. Island regions at NUTS II level and NUTS II regions with at least one NUTS III island region were considered as island regions.

The CPMR General Secretariat proposes the following approach:

- A series of **technical debates** will be organised by the CPMR Secretariat, gathering Cohesion policy experts from the CPMR Membership and experts from EU institutions and academia to discuss practical ways to adapt Cohesion Policy for post-2020. The debates will build on from the work realised by the CPMR so far on post-2020 Cohesion Policy (see above paragraphs);

- **A CPMR options paper for the post-2020 Cohesion Policy**, to be adopted at the CPMR General Assembly in the Azores which will be held end of October 2016. The options paper will put forward concrete ideas and recommendations for discussion with Members;

- **A position paper with a CPMR vision on post-2020 Cohesion Policy** would then be presented at the Political Bureau meeting which will be held in Malta in Spring 2017.