European Regional Development Fund and Cohesion Fund 2021-2027

OVERVIEW

In the context of the upcoming Multiannual Financial Framework for 2021-2027, the European Commission published a proposal for a regulation on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) on 29 May 2018. The new single regulation on the ERDF and CF (previously covered by two separate regulations) identifies the specific objectives and scope of support for both funds, including non-eligible activities. The majority of ERDF funding (65% to 85%) will focus on smart growth and the green economy, while the fund will also support other activities such as connectivity, social issues and local development. The CF will continue to focus predominantly on environmental and transport infrastructure. Special provisions have been proposed for territories such as urban areas and outermost regions. The indicator framework for monitoring progress will include new common results indicators. At the European Parliament, the file has been allocated to the Committee on Regional Development, where the rapporteur’s draft report was presented in October 2018. It is planned to be voted in committee in February 2019.


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<th>Committee responsible:</th>
<th>Regional Development (REGI)</th>
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<td>Rapporteur:</td>
<td>Andrea Cozzolino (S&amp;D, Italy)</td>
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<td>Shadow rapporteurs:</td>
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<td>Rosa D’Amato (EFDD, Italy)</td>
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<td>Next steps expected:</td>
<td>Committee vote</td>
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<td>COM(2018) 372 29.5.2018</td>
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<td>2018/0197(COD) Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')</td>
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Introduction

In preparation for the upcoming Multiannual Financial Framework 2021-2027, the European Commission adopted a series of legislative proposals in May and June 2018. This included the regulation on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF), published on 29 May 2018. The proposed new single regulation on the ERDF and CF (previously covered by two separate regulations) establishes the specific objectives and scope of support for both funds, including non-eligible activities. It also provides an indicator framework for monitoring progress and outlines provisions for specific territories, such as urban areas and outermost regions.

While the regulation on the ERDF and CF sets out only the specific objectives for both funds, the general rules regarding delivery and implementation are established by what is known as the Common Provisions Regulation (CPR) for several EU funds (proposal also published on 29 May 2018). The financial allocations put forward in the multiannual EU budget post-2020 can be found in the proposal for a regulation laying down the Multiannual Financial Framework for the years 2021-2027 published on 2 May 2018. More specific percentage allocations to various goals and groups of regions within the cohesion policy framework are outlined in the ‘financial framework’ section of the CPR proposal (Title VIII and Annex XXII).

Existing situation

General cohesion policy framework

Article 174 of the Treaty on the Functioning of the European Union (TFEU) stipulates that the EU aims to strengthen economic, social and territorial cohesion by reducing regional disparities, with particular attention paid to the least favoured regions and areas with special territorial features. EU cohesion policy helps to address these challenges via the European Regional Development Fund, Cohesion Fund and the European Social Fund. Cohesion policy funding amounts to €351.8 billion in the years 2014-2020, i.e. almost a third of the total EU budget.

The current cohesion policy framework is established for a period of seven years (2014-2020) on the basis of the Common Provisions Regulation 1 of 2013, covering the three cohesion policy funds (ERDF, ESF and CF), as well as the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund. These five funds together are called European structural and investment funds – ESI funds – in the current period.


The current framework focuses on investments towards 11 thematic objectives: 1) Research, technological development and innovation; 2) Information and communication technologies (ICT); 3) Small and medium-sized enterprises (SMEs); 4) Low-carbon economy; 5) Climate change; 6) Environment and resource efficiency; 7) Transport; 8) Employment; 9) Social inclusion and poverty; 10) Education and training; 11) Efficient public administration.

European Regional Development Fund

The ERDF (which has existed since 1975) provides funding for all EU regions, categorised into less developed, transition and more developed regions, on the basis of their GDP per capita (less developed regions: GDP/head <75% of the EU-27 average; transition regions: GDP/head between
75% and 90%; more developed regions GDP/head>90%). The less developed regions receive the highest percentage of funding.

While the ERDF supports all of the current 11 thematic objectives, its main focus are objectives 1-4, i.e. research and innovation, ICT, SMEs and the low-carbon economy. This means that most resources are concentrated on smart growth and environmental measures. In the more developed regions, at least 80% of ERDF resources at national level must be allocated to two or more of these four objectives and at least 20% to the low-carbon objective. In the case of transition regions, these proportions are 60% and 15%, respectively, and for the less developed regions 50% and 12%. Moreover, a minimum of 5% of the ERDF resources must be allocated at national level to sustainable urban development. As far as details of the investments are concerned, the current ERDF Regulation lists a high number of investment priorities within these thematic objectives.

Cohesion Fund

Since 1994 the Cohesion Fund has supported environmental and transport infrastructure projects in EU Member States with gross national income (GNI) per capita below 90% of the EU average. In the 2014-2020 period, these 'cohesion countries' are the EU-13 (Member States that have joined the EU since 2004), as well as Greece and Portugal. The Cohesion Fund mainly finances investments in environmental and transport infrastructure projects, contributing to thematic objectives 4-7: 4) Low-carbon economy; 5) Climate change; 6) Environment and resource efficiency; 7) Transport). As the CF includes a technical assistance component it also contributes to thematic objective; 11) Efficient public administration. The CF covers a relatively long list of investment priorities, mainly in the field of transport, energy and environment.

Parliament's starting position

In its resolution of June 2017 on the building blocks for a post-2020 EU cohesion policy, the Parliament presented its views on the future of cohesion policy beyond 2020. It underlined the importance of investing in SMEs, the digital agenda; low-carbon economy; climate change; green economy and renewable energy; social inclusion; education, training and culture. It also called for an enhanced urban dimension and actions for the integration of migrants. Moreover, it stressed the need for better synergies with other Union funds and programmes. It advocated better communication and enhancing the result and performance orientation of the policy.

In March 2018, ahead of the Commission's package of proposals, the Parliament adopted a resolution on the next MFF: Preparing the Parliament's position on the MFF post-2020. It stressed that cohesion policy should continue to cover all EU regions, while concentrating the majority of its resources on the most vulnerable areas. The EP stated that, in addition to the goal of reducing regional disparities, cohesion policy funds should also contribute to achieving the EU's broad political objectives, such as 'growth and competitiveness, research and innovation, digitalisation, industrial transition, SMEs, transport, climate change mitigation and adaptation, environmental sustainability and just energy transition, employment, social inclusion, gender equality, poverty reduction, and demographic challenges'. Parliament supported the performance-oriented approach. In terms of stronger cohesion and solidarity in Europe, it advocated dedicated actions in the field of asylum and migration. It also called for continuous support under cohesion policy for the outermost regions.

While many comments in these resolutions were related to the general cohesion policy framework laid out in the CPR proposal, some demands were also taken up in the regulation on the ERDF and CF. The examples include the thematic concentration on priority areas, continued performance orientation and better communication (via adding common results indicators, including integration of migrants among funding priorities, enhancing the urban dimension and continued support for outermost regions). Synergies with other EU funds were also addressed (especially the new Horizon Europe and Connecting Europe Facility).
Council starting position

In its conclusions of November 2016 on the 'results and new elements of cohesion policy and the European Structural and Investment Funds', the Council of the European Union stated that ERDF and CF resources must be prioritised on the right geographic and thematic objectives. In its view, while predefined requirements for thematic concentration on innovation, SMEs and green growth are important, they must be balanced against other emerging needs at national and regional level.

In April 2017, the Council adopted its conclusions on 'making cohesion policy more effective, relevant and visible to our citizens'. It invited the Member States and the Commission to increase the visibility of cohesion policy and its tangible results as part of raising awareness of the positive impact that the EU can have on the everyday life of EU citizens. It also acknowledged that cohesion policy is a key EU policy supporting investments for growth and creating jobs. At the same time, it advocated a tailor-made approach that takes into account the different social, territorial and economic realities on the ground.

In its conclusions on the 'synergies and simplification of cohesion policy' of November 2017, the Council called for synergies between ESI funds and other EU instruments, as well as a simpler and more coherent system of indicators allowing a better assessment of impact. In its conclusions of March 2018 on 'streamlining the delivery system and implementation of cohesion policy and the European Structural and Investment (ESI) Funds post-2020', the Council supported the territorial approach, including a focus on cross-border cooperation, smart specialisation, urban dimension and a strategic partnership with the outermost regions.

Preparation of the proposal

The Commission proposal for a new regulation on the European Regional Development Fund and the Cohesion Fund was accompanied by an impact assessment. It discusses the findings of ex-post evaluations of previous cohesion policy programmes financed by the ERDF and Cohesion Fund (completed in 2016), as well as the public consultation on EU funds in the area of cohesion carried out between January and March 2018.

The main conclusions from the impact assessment show the need for administrative simplification, flexibility to respond to emerging needs and for better use of financial instruments (issues addressed in the CPR proposal). Moreover, activities with a high and low impact in terms of EU added value were identified. The best performing investments turned out to be: support for SMEs; smart specialisation strategies and facilitating regions to move up the economic chain; the low carbon economy; sustainable urban development; and regional co-operation. The lowest impact was identified in support for large enterprises and airport investments (except in the outermost regions). It was concluded that large enterprises responded better to improved local business conditions rather than financial incentives, while airport investments on the whole tended to perform poorly. Additionally, waste and water sector investment has already created significant change in many Member States, reducing the need for further funding.

To deal with the forthcoming budget reduction, the impact assessment considered three policy options: 1) a cut across the board; 2) reducing the contribution to the more developed regions; 3) maintaining support in key areas (thematic concentration) with reduction in other themes. The third option was preferred, in order to maintain the focus on areas with highest EU added value, where evaluation evidence suggested the policy's highest impact. Maintaining support in all EU regions, including the more developed ones, was also considered the most effective way to meet cross-cutting challenges (globalisation and economic transformation, transition to the low carbon and circular economy, environmental challenges, migration and pockets of urban poverty), a sign of solidarity and a way to ensure visibility of cohesion policy funds in all Member States.

The impact assessment therefore recommended maintaining support in key areas with the highest added value, while reducing support in other fields with low impact. The choice of priorities in the
currently proposed cohesion policy framework and the thematic concentration of the ERDF take these findings into account.

EPRS published an initial appraisal of the Commission’s impact assessment in September 2018. The appraisal states that the impact assessment (IA) provides a good description of policy challenges and lessons learned from previous programmes. However, social and environmental impacts are not directly assessed, and the potential impacts of the proposed measures discussed only generally. While the evidence base and expertise appears to be sound, the IA could benefit from additional explanations regarding the assumptions and uncertainties underlying the analysis.

The changes the proposal would bring

General framework

The new regulation on the ERDF and CF outlines the specific policy objectives to be supported by the ERDF and CF (among the five policy objectives established in the CPR proposal). The regulation also specifies the thematic concentration of ERDF support (i.e. percentages allocations for certain objectives required for the three different groups of regions). In addition, it gives detailed guidance on the scope of support from ERDF and CF, specifying the types of investments to be supported and excluded. In its annex, it lays down the common output and result indicators to track progress and performance. The regulation also contains provisions on the treatment of territories with particular territorial features, such as urban areas and the outermost regions. The organisation of the new ERDF and CF regulation is similar to the two previous separate regulations on ERDF and CF. The main difference is the extension of non-eligible activities, introduction of common result indicators (only common output indicators existed in the previous period, while the result indicators were programme-specific), and the disappearance of separate articles on areas with natural or demographic handicaps and the northernmost regions with very low population density. There is also a slight shift as regards the content and required earmarked percentages of thematic concentration of ERDF activities (CF continues to support the same two areas as before, i.e. transport and environment).

Thematic concentration

The 11 thematic objectives from 2014-2020 have been reduced to 5 ‘policy objectives’ (POs): 1) a smarter Europe – innovative and smart industrial transformation; 2) a greener, low carbon Europe – clean and fair energy transition, green and blue investment, circular economy, climate adaptation and risk prevention; 3) a more connected Europe – mobility and regional ICT connectivity; 4) a more social Europe – implementing the European Pillar of Social Rights; 5) a Europe closer to citizens – sustainable and integrated development of urban, rural and coastal areas through local initiatives. The ERDF will support all these policy objectives. In the context of budget reduction, however, the majority of ERDF resources will be concentrated on PO1 and PO2 (i.e. smart and green economy). This is in line with the findings from evaluation evidence and the impact assessment, which suggested the highest added value and the greatest contribution to EU priorities of EU funds in these areas. To increase flexibility, it is proposed that thematic concentration criteria will apply at national level with some possibility to adapt them at the level of individual programmes.

Table 1 – Thematic concentration criteria at national level (ERDF)

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<th>For countries with:</th>
<th>minimum % PO1</th>
<th>minimum % PO2</th>
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<tr>
<td>GNI below 75 %</td>
<td>35 %</td>
<td>30 %</td>
</tr>
<tr>
<td>GNI 75-100 %</td>
<td>45 %</td>
<td>30 %</td>
</tr>
<tr>
<td>GNI above 100 %</td>
<td>60 %</td>
<td>not applicable (PO1 and PO2 minimum 85 %)</td>
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As regards the details of investments, the ERDF will support: a) investments in infrastructure; b) investments in access to services; c) productive investments in SMEs; d) equipment, software and intangible assets; e) information, communication, studies, networking, cooperation, exchange of experience and activities involving clusters; f) technical assistance.

The Cohesion Fund will continue to provide financial support mainly for environmental and transport infrastructure projects in the cohesion countries. Thus, it will support only PO2 (environment) and parts of PO3 (TEN-T and transport mobility). The focus on these two areas (environment and transport) is the same as in the previous period, and as in the previous period the scope of CF also includes technical assistance. The detailed support will include: a) investments in the environment, including investments related to sustainable development and energy presenting environmental benefits; b) investments in TEN-T; c) technical assistance.

Both funds are expected to contribute to the EU’s overall 25% commitment to the climate objective. Investments under the whole ERDF financial envelope are expected to contribute 30% to climate objectives, while this percentage rises to 37% under the Cohesion Fund.

Non-eligible activities

Activities excluded from the scope of ERDF and CF support include: decommissioning and construction of nuclear power stations, reduction of greenhouse gas emissions from certain activities, tobacco and tobacco products, certain undertakings in difficulty, airport infrastructure except in outermost regions, disposal of waste in landfill, facilities for the treatment of residual waste, fossil fuels (with the exception of investment in clean vehicles), broadband infrastructure in areas with already good coverage, and purchase of rolling stock for use in rail transport, with some exceptions (Article 6). In addition, the Cohesion Fund will not support investments in housing unless they are related to energy efficiency and renewable energy use. The choice of these non-eligible activities aims to ensure consistency with evaluation evidence for activities with the highest impact, as well as the EU political and sustainability objectives. Some of these non-eligible activities were already present in the previous separate Cohesion Fund and ERDF Regulations. The main additions in the 2021-2027 framework are the landfill and treatment of residual waste, fossil fuels, broadband infrastructure and rolling stock for rail transport.

Indicators

In order to measure progress towards performance, the regulation refines the common set of output indicators, while for the first time adding a common set of results indicators. These will facilitate comparison and aggregation at EU level. Results will be reported in real time (every two months) on the Open Data Platform, improving transparency and communication of data to the general public, the media, analysts, and researchers. The full indicator framework (available in Annex I to the regulation) includes output and result indicators for each of the five policy objectives, such as support to businesses and individuals, upgraded energy performance, broadband coverage, length of new transport links, improved social and health care facilities, strategies for local and urban development.

Sustainable urban development

The regulation increases the focus on sustainable urban development by dedicating 6% of ERDF resources to this area (5% in the previous 2014-2020 period). These actions are to be delivered through territorial instruments, such as community-led local development, integrated territorial investments (ITIs) or other tools under PO5 (i.e. ‘A Europe closer to citizens’). Moreover, the regulation provides for ERDF support to the European urban initiative to be implemented by the Commission through direct or indirect management. The initiative aims to cover all urban areas and contribute to the Urban Agenda of the EU. It will consist of three strands supporting sustainable urban development: 1) capacity building, 2) innovative actions and 3) knowledge, policy development and communication.
Outermost regions

The regulation sets out special measures regarding allocations for outermost regions to accommodate their specific situation. The additional allocation for these regions can be used to offset additional costs resulting from their permanent development restraints, however, some types of support cannot be funded by this allocation (Article 11). Also, the exclusion of funding airport infrastructure as a non-eligible activity does not apply to outermost regions.

European territorial cooperation (Interreg)

European territorial cooperation (Interreg) will continue to be supported by the ERDF and it is subject to a separate specific legislative proposal (i.e. COM(2018) 374 final). In this context, for regions with matching 'smart specialisation' assets, pan-European clusters will be built in priority sectors under a new interregional instrument aimed at ‘helping those involved in smart specialisation strategies (S3) to cluster together, in order to scale up innovation and bring innovative products and processes to the European market’. In addition, a new European cross-border mechanism is proposed in a separate regulation.

Advisory committees

The European Committee of the Regions (CoR) adopted its opinion in plenary on 5 December 2018. It welcomed the simplification of rules but regretted the spending cuts, which are particularly high for the Cohesion Fund. It suggested introducing horizontal enabling conditions regarding the Paris Agreement in order to ensure the EU meets its climate objectives. It welcomed the focus on green economy and the new Interreg component for innovative interregional investments, while calling for an increased ETC budget. It advised against ERDF thematic concentration at national level rather than regional level. The CoR also recommended involving local and regional partners in decisions on any transfers of ERDF and CF resources to other Commission programmes such as InvestEU.

The European Economic and Social Committee (EESC) adopted its opinion on 17 October 2018. It welcomed the simplification of the use of funds, improved multilevel governance and participation of civil society organisations. However, it strongly disagreed with the cuts to cohesion policy. The EESC called for making the criteria for co-financing more flexible, increasing the ETC budget, earmarking 10% for PO4 (policy objective on social issues), and establishing a European Civil Society Cohesion Forum as well as a Social Sustainability and Accessibility Regional Initiative. It also stressed that equality, non-discrimination and accessibility for persons with disabilities should be included horizontally in all Commission proposals for regulation.

National parliaments

The proposal for a regulation was submitted to national parliaments, with a subsidiarity deadline of 24 September 2018. None of the national parliaments raised subsidiarity concerns, although several parliaments presented detailed comments. The Romanian Senate in its opinion suggested a clarification of financing infrastructure investments (expressing concern about decreasing allocations available for basic infrastructure) and technical assistance measures. It also advocated a decentralised territorial approach and better adaptation to regional needs. The Czech Senate issued a resolution, in which it supported the Czech government’s request to justify the proposed percentage distribution of the thematic concentration, provide greater flexibility in determining the percentage distribution of thematic concentration for individual Member States and ensure that policy objectives and specific objectives are selected on the basis of fundamental regional differences, expressed both in qualitative and quantitative terms. The German Bundesrat presented a decision, in which it welcomed the focus of cohesion policy. However, it questioned the concentration of ERDF funding on PO 1 and 2, as it may limit the support available for SMEs and other crucial objectives. It also pointed out the rigidity of provisions on sustainable urban development and stressed that new indicators should not lead to additional administrative burdens.
Stakeholders’ views

The Cohesion Alliance, an EU-wide coalition of various regional policy stakeholders including regional and local authorities, business associations, academia, trade unions and think-tanks, such as the Association of European Border Regions (AEBR), the Assembly of European Regions (AER), the Conference of European Regional Legislative Assemblies (CALRE), the Council of European Municipalities and Regions (CEMR), the Conference of Peripheral Maritime Regions of Europe (CPMR) and EUROCITIES – reacted to the publication of the Commission proposals on the new MFF and the cohesion policy package. It welcomed the continued coverage of all EU regions and in particular the investments in education, research, youth and migration. However, it expressed concern over the impact of cohesion budget reduction and risks of centralisation of investment. It also pointed out the growing separation of structural funds, with the European Social Fund and the Agricultural Fund for Rural Development increasingly detached from the ERDF and CF.

Legislative process

The European Commission adopted the legislative proposal on 29 May 2018. In the Council, the proposal is being examined by the Working Party on Structural Measures. At the European Parliament, this file was allocated to the Committee on Regional Development (REGI) and the rapporteur is Andrea Cozzolino (S&D). At the REGI meeting on 20 June 2018, the European Commission representative presented the proposal and an exchange of views took place. MEPs raised questions about the cuts in funding and co-financing rates, addressing disparities within Member States. Another exchange of views took place in the REGI committee on 3 September.

The rapporteur’s draft report was published on 21 September and presented on 15 October 2018. It welcomed the Commission’s work on simplification. However, it pointed out that simplification should not be applied to the principles and goals, but rather to cutting bureaucracy and the costs for regions and citizens. The report also considers that the definition of the five new policy areas is less clear compared to the previous 11 thematic objectives. Moreover, to avoid excessive centralisation, the report suggests re-establishing thematic concentration at the level of categories of regions rather than at the Member State level, as is currently the case in the Commission proposal. The report also highlights that activities excluded from ERDF support need greater thought, especially with regard to environmental measures, airport infrastructure and rolling stock purchases. Other amendments proposed in the report refer to the synergies between the cohesion policy funds (ERDF, CF and ESF+), extended support for sustainable urban development and preserving technical assistance. Several parliamentary committees (CONT, LIBE, ENVI, BUDG, AGRI, CULT and TRAN) have provided opinions on the proposal. The vote in the REGI committee is expected in February and the plenary vote by April 2019.

EP SUPPORTING ANALYSIS


Sapala M., Post-2020 MFF and own resources: Ahead of the Commission’s proposal, EPRS, April 2018.

OTHER SOURCES


European Commission, A simpler and more flexible framework for cohesion policy, Fact Sheet, 29 May 2018.
European Commission, A more tailored approach to regional needs, Fact Sheet, 29 May 2018.

ENDNOTES


2 Period 2007-2013, as a comprehensive evaluation of cohesion policy results for 2014-2020 is not yet available. The latest report relating to the current framework is the strategic report of 2017 on the implementation of European Structural and Investment Funds, prepared by the European Commission.

3 Output indicators refer to parameters such as the number of enterprises or individuals supported, while result indicators focus on jobs created, patent applications made or innovations introduced in SMEs. The full set of output and result indicators for ERDF and CF is laid out in Annex I to the regulation.

4 EC, Proposal for a Regulation on specific provisions for the European territorial cooperation goal (Interreg) supported by the European Regional Development Fund and external financing instruments, COM(2018) 374 final.

5 This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under ‘EP supporting analysis’.

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Second edition. The 'EU Legislation in Progress' briefings are updated at key stages throughout the legislative procedure.