Background

Cohesion policy background note

[08-07-2013 - 16:13]

This note sets out the key EU regional investment policy changes to be made by the the cohesion policy reform package for 2014-2020.

What is cohesion policy?

Cohesion policy is the EU's main common investment policy tool.

Often referred to as "regional policy", it provides vital basic financial support for investing in regions of the EU, thus helping to create jobs and boost economic growth. It accounts for a substantial share - about a third - of the EU budget: €347 billion in 2007-2013, or almost €50 billion per year.

For 2014-2020, the EU member states have reduced this budget to just over €325 billion.

Cohesion policy's ultimate aim is to reduce disparities between the levels of development of the various regions and the backwardness of the least-favoured regions or islands, including rural areas.

It gives practical expression to the solidarity between the peoples of Europe mentioned in the preamble to the Treaty on European Union. It also helps to achieve one of the Treaty's basic aims: that of strengthening the EU's economic, social and territorial cohesion by reducing disparities between its regions.

Cohesion policy works. It has achieved very positive results, including help to create 1.4 million new jobs in 2000-2006 and giving a substantial boost to GDP growth.

The money for cohesion policy projects comes from three funds, also called "European Structural and Investment Funds" (ESIF). These are the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund.

Cohesion policy supports thousands of projects every year. This funding helps, for example, to improve transport and internet links to remote regions, set up and grow small and medium-sized enterprises (SMEs) in disadvantaged areas, clean up and protect the environment and improve education and skills. EU funding is also invested in innovation, developing new products and production methods, energy efficiency and tackling climate change.

Acting as fully-fledged co-legislator for the first time in the history of the architecture of this policy, members of the European Parliament Committee on Regional Development are strongly committed to ensuring that cohesion policy focuses on results and takes local, regional and national needs into account whilst delivering on EU objectives.

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Cohesion policy reform - key issues

Cohesion policy reform aims to strengthen its role as the EU's main public investment policy, designed to generate stable and inclusive growth.

Cohesion policy depends upon the EU's long-term budget ("Multi-annual financial framework", or MFF) which currently covers 7 years. As the present MFF ends in 2013 and a new one for 2014-2020 is now being put in place, the rules governing cohesion policy are also being overhauled.

In negotiations with the Council and the Commission on the new cohesion package, Parliament has won many improvements including greater involvement of local and regional authorities in planning and implementation, more flexibility with regard to concentrating funding on themes and a particular focus on environmental issues in the Cohesion Fund regulation.

Parliament has also managed to cushion the consequences of a mechanism that could results in the a suspension of funds in the event of a macroeconomic imbalance or excessive budget deficit at national level. This mechanism, which links the effectiveness of ESI Funds to sound economic governance, must now take account of the social and economic circumstances of the a member state concerned, and ensure that any suspensions are proportional to such criteria. In addition, the Parliament will be involved in the decision-making process should the mechanism be triggered.

Key changes

- Introduction of **common rules** for all EU funds, to increase their coherence and maximise their effectiveness

- Simplification of procedures, to make implementation more efficient

- Thematic concentration on a limited number of objectives, linked to the "Europe 2020" (EU's overarching growth strategy) targets

- New partnership agreements to improve coordination between member states and the European Commission

- A new category of transition regions with a GDP between 75% and 90% of the EU 27 average, to avoid excluding those regions which have gradually become more competitive but still need some support.

- Conditionalities to ensure the funds are used effectively

Timeline

In 2011, the European Commission presented its proposals to reform cohesion policy for 2014-2020.

In July 2012, the European Parliament's Regional Development Committee approved mandates to negotiate with Council and Commission for an agreement.

On 10 July 2013, one year after the adoption of the negotiating mandates, the Regional Development Committee held its first reading vote on the draft legislative reports.

The compromise with the Council and the Commission, finally reached in October 2013, was adopted by the Committee on 7 November, and will be put to a plenary vote, also in November.

The legislative package

The legislative package for the 2014-2020 cohesion policy consists of six regulations.

In the European Parliament, the following corresponding draft reports have been published.

Under the responsibility of the Committee on Regional Development:

- Common Provisions Regulation (CPR)

- European Regional Development Fund (ERDF)

- Cohesion Fund

- European Territorial Cooperation (ETC)

- European grouping of territorial cooperation (EGTC)

Under the responsibility of the Committee on Employment and Social Affairs:

- European Social Fund

These regulations are detailed in the sections below.

Common Provisions regulation

This is the principal, overarching regulation of the package. It sets out common rules for the structural funds, including general principles such as partnership, multi-level governance, equality between men and women, sustainability and compliance with EU and national law.

The proposal also sets out common elements of strategic planning, including a list of thematic objectives derived from the Europe 2020 Strategy, and provisions for the Common Strategic Framework (CSF) at EU level and for partnership agreements to be concluded with each member state.

It introduces macroeconomic and ex-ante conditionalities and sets out a common approach to the performance orientation of CSF funds, including a performance reserve clause. It also lays down arrangements for monitoring, reporting and evaluation and common rules on eligibility for funding. Finally, it makes special arrangements for certain financial instruments and community-led local development. Some management and control arrangements are also common to all CSF Funds.

Key improvements obtained in inter-institutional negotiations:

- Cohesion policy now focused on investment in the interests of all regions rather than merely being a distribution system forf EU money

- Common Strategic Framework introduced as an annex to the CPR regulation. This will ensure there is a single source of guidance for all five future funds and strengthen the integration of EU policies

- Stronger partnership principle: local and regional authorities and partners will play a greater role in planning and implementation, supported by a new Code of Conduct on Partnership

- Increase in annual pre-financing rates, which will provide regions with sufficient resources to kick-start investment and hence contribute to the efforts to overcome the economic crisis

- Increase in co-financing rates for the EU's outermost regions and for Cyprus from 50% to 85%.

- Reduced Performance Reserve, resulting in an increase in the overall level of payments for 2014-2020 by more than €1 billion

- Clearer focus on youth unemployment and social inclusion

- Reduced administrative burden for beneficiaries and further simplification

- New rules for increased visibility and transparency

Rapporteurs: Lambert Van Nistelrooij (EPP, NL), Constanze Krehl (S&D, DE)

European Regional Development Fund regulation

The ERDF aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions. The European Regional Development Fund (ERDF) is the biggest single source of EU funding for this. It aims to redress the main regional imbalances by supporting development and structural adjustment in regional economies – including the conversion of declining industrial regions and regions lagging behind. All EU regions will receive funding from the ERDF.

Major changes compared with the current ERDF rules:

- Clearer focus on energy efficiency and renewables, increased support for innovation and support for small and medium-sized businesses (SMEs). No more funding for e.g. manufacturing, processing and marketing of tobacco and tobacco products or the decommissioning of nuclear power stations

- Specific ERDF support for cities and urban development. The proposal would ring-fence an amount for integrated sustainable urban development measures and for setting up an urban development platform to promote exchanges between cities.

Key improvements obtained in inter-institutional negotiations:

- Support for cultural and sustainable tourism infrastructure

- More flexibility with regards to thematic concentration, especially concerning transition regions

- New elements added to investment priorities will enlarge the scope of future investments (e.g. addition of eco-innovation, or allowing for investments to contribute to social inclusion and reduction of poverty, particularly for marginalized groups)

- Compromise text on integrated sustainable urban development mostly based on EP demands, including a provision to give more powers to urban authorities.

Rapporteur: Jan Olbrycht (EPP, PL)

Cohesion Fund regulation

The fund will continue to support transport and energy infrastructure projects which meet environmental standards in member states with GDP below 90% of the EU average. It was first set up in 1994. For the first time, part of the Cohesion Fund will contribute to the "Connecting Europe Facility" which aims to boost the competitiveness and sustainability of the European transport system.

Main improvements obtained during the inter-institutional negotiations:

· Particular focus on environmental issues: the scope of the Cohesion Fund was broadened to include, for example, support for energy efficiency and renewable energy use in the housing sector

· Enterprises other than SMEs may receive support for energy efficiency and renewable energy projects

· Simplification through a high degree of coordination and synergies with the other regulations of the legislative package

Rapporteur: Victor Boştinaru (S&D, RO)

European Territorial Cooperation regulation

The European territorial cooperation scheme helps regions across the EU to work together to tackle shared problems such as pollution in the Baltic Sea, or take joint initiatives such as cross-border use of hospitals or exchanging experience on fostering innovative potential.

Major changes compared to current programming cycle (2007-2013):

- The ETC becomes now a cohesion policy objective in its own right, with a separate specific regulation, allowing for an substantial increase in its funding resources

- It is tailor-made to support multi-country cooperation and has been simplified to reduce the administrative burden for both programme and project managers

Key improvements obtained in inter-institutional negotiations:

· More flexibility in thematic concentration

· Recognition of the new forms of territorial cooperation, like macro-regional and sea-basin strategies

· Specificities of territories such as outermost regions, islands, or sparsely- populated northern regions better taken into account

Rapporteur: Riikka Pakarinen (ALDE, FI)

European grouping of territorial cooperation (EGTC) regulation

European groupings of territorial cooperation (EGTC) were set up to facilitate cross-border cooperation among member states. They enable public entities from several member states to come together to create a structure which has legal personality under EU law.

The EGTC is an important regional policy instrument, particularly for cross-border cooperation. These groups run territorial cooperation projects co-financed by the EU and member states or take territorial cooperation measures initiated by member states.

Major changes:

The Commission proposal aims to improve the current regulation by clarifying tasks, enlarging the geographical scope of membership and simplifying the establishment procedures and rules of EGTCs, so as to improve performance, clarity and certainty as to the law.

Key improvements obtained in the inter-institutional negotiations:

- Operations combining cohesion policy funding with financial support from other sources can now go ahead

- Future EGTCs will contribute to territorial cooperation not only between regions of EU member states, but also with neighbouring third countries. This breakthrough compared to the current regulation is a high priority for Parliament, as it would enable French Guyana, for example, implement territorial cooperation projects with Brazil or Suriname through an EGTC.

Rapporteur: Joachim Zeller (EPP, DE)

European Social Fund (ESF) regulation

The European Social Fund (ESF) is under the responsibility of the Committee on Employment and Social Affairs.

Major changes:

- The scope of the European Social Fund will remain largely similar to the period 2007-2013. It will continue to provide support for employment and labour mobility, education, skills and life long learning, social inclusion and fight against poverty. It will focus on Europe 2020 priorities and targets.

- With youth unemployment averaging 23.7% in the EU, the Commission also proposed in December 2012 "the Youth Employment Initiative", which would be allocated €6 billion for 2014-2020, €3 billion of which would come from the European Social Fund and the other half from the Cohesion Policy Fund. A part of the European Social Fund will also finance the European Fund Aid to the Most Deprived.

- Because of this and in order to alleviate the effects of the economic crisis, Employment MEPs insisted that the resources intended to improve skills and raise employment levels should account for at least 25% of cohesion policy funds, in comparison de 22.1% for 2007-2013. They also argued that the ESF must step up its support for fighting social exclusion and for back-to-work policies by allocating at least 20% of ESF resources in each member state to this tasks.

Rapporteur: Elisabeth Morin-Chartier (EPP, FR)