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EU Cohesion Policy 2014-2020: what will change

SUMMARY *In October 2011, the European Commission unveiled its proposals for EU Cohesion Policy for the 2014-2020 period, which is expected to better reflect the objectives of the Europe 2020 strategy and simplify the Structural and Cohesion Funds regulations.*

This new legislative package tries to address criticism directed at the current architecture of Cohesion Policy, namely, its complexity, its insufficient integration with other thematic policies and the need for systematic indicator-based evaluation, to name just a few.

The proposal introduces a new category of 'transition' regions, to avoid excluding those which still need some support. Another novelty relates to the Partnership Contracts between the Commission and individual Member States, in which their development needs are assessed and conditions relating, in particular, to the attainment of the Europe 2020 objectives are defined. The disbursement of funds will then be subject to the fulfilment of these ex-ante, ex-post, and macro-economic conditions.

This last point has already attracted major criticism both from institutional actors, such as the European Parliament and the Committee of the Regions, and NGOs.

However, the final legislative package will also depend on the amount of funding available for Cohesion Policy. This will be decided by the European Parliament and the Council by 2013.

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In this briefing:

Background

Why a new legislative package?

The Cohesion Policy of the European Union (EU) provides a framework for a wide range of programmes aimed at increasing economic growth and social cohesion and reducing disparity levels in the EU Member States and their 271 regions. The policy is overhauled every seven years. The current programming cycle runs until 2013.

The proposals for regulations setting out the rules for Cohesion Policy 2014-2020 were published by the European Commission on 6 October 2011. The regulations are expected to be definitively adopted by the end of 2013, following approval by the European Parliament and the Council.

The preparation of the new legislative package was marked by a mix of political, economic and financial considerations which had profound implications for the shape and content of the policy.

Firstly, the Lisbon Treaty, in force since 1 December 2009, introduced the concept of territorial cohesion, highlighting the increasing importance of all territorial aspects.

Secondly, the Europe 2020 long-term economic strategy aimed at transforming the EU into *"a smart, sustainable and inclusive economy, delivering high levels of employment, productivity and social cohesion"* was launched in March 2010. The Europe 2020 strategy is the basis for the Cohesion Policy's new thematic objectives.

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Finally, the economic and financial crisis dominating the EU agenda in recent months, prompted new ideas on EU economic governance in general and on macro-economic conditionality in particular.

Criticism of current Cohesion Policy

The rationale and effectiveness of Cohesion Policy have been frequently questioned, but overall, there is consensus on the importance of reducing disparities among EU regions. The policy is often criticised for its coverage/focus, its implementation and especially its complexity. In this respect, issues include the multiplicity of objectives and priorities, changing guidelines, excessive bureaucracy, difficulties with financial management and inadequate coordination across policies and institutions.

In addition to the criticisms expressed above, the authors of a comprehensive report reviewing the successes and failures of Cohesion Policy, suggest tackling the following issues within the new policy framework: need to combine conditionality and subsidiarity, insufficiently developed territorial dimension, need for systematic indicator-based evaluation and insufficient policy integration with other EU policies.

Addressing these critical issues has been the starting point for the reshaped Cohesion Policy 2014-2020.

Overview of the legislative package

The legislative package includes an overarching regulation (replacing the five existing ones) setting out common rules for the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development, and the European Maritime and Fisheries Fund[1]. In addition, there are specific regulations for the ERDF, the ESF, the Cohesion Fund, the European Territorial Cooperation Goal, the European Grouping of Territorial Cooperation, the Globalisation Adjustment Fund and the EU Programme for Social Change and Innovation.

The following sections will review the new and/or most prominent elements of the proposal which deal specifically with regional development.

Geographical coverage of support

Regions will be divided into three categories: **less-developed regions** (with gross domestic product (GDP) below 75% of the EU average), **more-developed regions** (GDP above 90%) and a new category of **transition regions** (GDP between 75% and 90%). This new category should ease the transition of regions which have gradually become more competitive but still need targeted support.

Funds

Cohesion Policy action will continue to be channelled through the ERDF, the ESF and the Cohesion Fund.

Common Strategic Framework

The proposed changes to the strategic planning framework will see the current Community Strategic Guidelines transformed into a **Common Strategic Framework**, containing the EU's top priorities and applicable to all funds. Member States will be able to combine ERDF, ESF and Cohesion Fund allocations in multi-fund programmes to allow the greatest impact on the ground and ease coordination with other EU policies.

Partnership contract

The reform of the strategic planning framework also implies a move from National Strategic Reference Frameworks to **Partnership Contracts**. The latter are a core innovation aimed at making optimal use of funding received by Member States, through conditionality determined in accordance with the priority thematic area of the programme to be financed.

Thematic objectives

As a result of the strategic shift initiated in the current programming period, the competitiveness and efficiency aspects of Cohesion Policy have acquired increased importance. Member States will therefore be expected to implement programmes within

11 thematic areas - all stemming from the Europe 2020 strategy - among which: research, information and communication technology, the competitiveness of small and medium-sized enterprises (SMEs), transition to a low-carbon economy, prevention of and adaption to climate change, sustainable use of resources, sustainable transport and reduction of bottlenecks, promotion of employment, education and the efficiency of public administrations.

Although the areas of action are broader, the Commission will set quotas (**ring-fencing**), according to the category a region comes under. For example, in more developed and transition regions, at least 80% of ERDF funding is expected to be allocated to energy efficiency and renewables, innovation and improved competitiveness for SMEs. This proportion is lowered to 50% in less developed regions, reflecting their specific development needs.

Conditionality

Member States will be required to fulfil a range of specific conditions. On the one hand, **ex-ante conditions** - linked to management, control and administrative capacity - will be set before the funds are disbursed. On the other, **ex-post conditions** - relating to the attainment of Europe 2020 objectives and measured by way of performance indicators - will make the release of additional funds subject to performance. Those indicators are detailed in the annex of the general regulation. Additionally, in order to ensure that funds are spent in a sound budgetary context, **macro-economic conditions** will be set out, in line with the Stability and Growth Pact. A Member State which fails to fulfil those conditions may have all or part of pending payments suspended.

Financial framework

The European Commission published its proposals for the 2014-2020 Multiannual Financial Framework in June 2011. With a budget of over €375 billion, Cohesion Policy represents over one-third (36.7%) of the EU budget, and for the first time overtakes Common Agricultural Policy's budget. However, Cohesion Policy allocation falls by some 5% compared to the current financial framework. The table below shows the suggested breakdown.

Draft Cohesion Policy budget for 2014-2020

Purpose	€billion, 2011 prices
Less-developed regions	162.6
Transition regions	38.9
More-developed regions	53.1
Territorial cooperation	11.7
Cohesion Fund	68.7
Extra allocation for Outermost and sparsely populated regions	0.926
TOTAL Structural and Cohesion Funds	336.026
Connecting Europe Facility	40(+10 inside the Cohesion Fund)
TOTAL Cohesion Policy	376.026

Data source: European Commission, 2011.

These proposals are to be adopted by the end of 2013 by the Council (by unanimity), after obtaining the consent of the European Parliament (by a majority of its Members).

Performance reserve

The release of 5% of funds placed in reserve will be subject to meeting the targets set as part of the ex-ante conditionality.

Co-financing rates

For the new category of transition regions, the maximum co-financing rate within each programme will be 60%. The other ceilings remain unchanged, i.e. 50% for the more developed regions and 85% for the less-developed and Outermost regions.

In addition, the Commission plans to allow for a temporary increase in the co-financing rate by 10% in some specific cases (i.e. Member States receiving financial assistance in accordance with Article 143 of the Treaty on the Functioning of the EU) to reduce the strain on national budgets in times of fiscal consolidation.

Absorption capacity

In order to address the issue of absorption (of funds over a limited period of time), the Commission proposes to cap the rate of Cohesion allocations at 2.5% of GDP (as opposed to 4% in the current period).

Simplification

Further simplifying the rules has been one of the main concerns behind the reform. This includes harmonising eligibility rules and management and control systems between the different funds, by way of a single overarching regulation; the introduction of simplified reimbursement rules and wider use

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of 'simplified costs' (flat rates, standard scales of unit costs and lump sums); a move towards e-cohesion, allowing beneficiaries to submit all information electronically; an easier application system for 'major projects', i.e. with total funding above €50 million; and the possibility for Member States to reduce the number of authorities in charge of Cohesion Policy, through joint bodies.

Territorial cohesion

At least 5% of ERDF resources will be allocated for 'integrated actions' - involving investments under more than one priority and/or programme - thus putting a clear focus on sustainable urban development.

Particular attention will also be paid to areas with specific natural or demographic features, with an additional allocation of €926 million for Outermost regions and sparsely populated areas.

Territorial Cooperation

European Territorial Cooperation still encompasses three strands - inter-regional, cross-border and transnational - but its financial resources will be increased by over 30%. A specific regulation clarifies current provisions and tackles a common concern - the need for simplified rules - particularly important for programmes involving more than one Member State.

European Grouping of Territorial Cooperation (EGTC)

To accelerate the creation of EGTCs, the Commission proposes to simplify the process of establishing an EGTC, to open EGTCs to non-EU regions and to set out clearer operating rules on staff recruitment and spending.

Cohesion Fund

The scope of the Cohesion Fund will remain largely similar to the current period. The fund will continue to provide support for transport and energy infrastructure which complies with environmental standards in Member States with GDP below 90% of the EU average. For the first time, part of the Cohesion Fund (€10 billion) will contribute to the Connecting Europe Facility – for a competitive and sustainable European transport system.

European Parliament's role and views on Cohesion Policy

Since the entry into force of the Lisbon Treaty, the adoption of the new regulatory framework for Cohesion Policy will see the European Parliament and the Council involved as equal partners for the first time, through the ordinary legislative procedure, or co-decision.

However, the main 'battle' between the EP and the Council is expected to be over the financial allocation for Cohesion Policy 2014-2020. Historically, the EP has backed the Commission's budget proposals, while the Council - in particular net contributors - has aimed to cut them down.

In a resolution on EU Cohesion Policy after 2013, the EP rejects all attempts to renationalise the Policy. In addition, MEPs insist that the regional dimension is fully taken into account in the upcoming budgetary review, and that "*a strong and well-financed EU regional policy is a condition* sine qua non *for achieving social, economic and territorial cohesion*".

In its report on the Financial, economic and social crisis, the EP recommends that the next Multiannual Financial Framework focuses on the key priority areas of the Europe 2020 strategy and that adequate financing of the flagship initiatives is ensured, notably through the Structural Funds. Further, the EP pleads for "*a fair allocation of resources between Member States and regions*" to enhance convergence and foster competitiveness.

Reactions to the legislative package

The publication of the legislative proposals received mixed reactions both from institutional actors and NGOs. The point most criticised at this stage is macro-economic conditionality.

Institutional actors

European Council

Member States expressed their views during an orientation debate held by the Council in December 2011.

In principle, they are not opposed to the thematic approach set out by the Commission. However, a majority of Member States consider that they should be able to choose the priorities from the thematic 'menu' depending on their specific regional needs. Therefore, they call for greater flexibility according to the principle of subsidiarity, highlighted in particular by Hungary, Slovakia and Sweden. France is the only Member State to be fully satisfied with the thematic approach as defined by the Commission.

The United Kingdom, Austria and Ireland suggested that youth unemployment be included among the thematic areas.

A large number of delegations (Belgium, Germany, Finland, Slovakia, Sweden and the United Kingdom) expressed scepticism about ring-fencing (spending quotas per thematic area according to the type of region concerned).

Estonia, Latvia, Lithuania and Hungary still find the capping rate of Cohesion allocations (2.5% of GDP) too low.

Concerning the adoption of the Common Strategic Framework (CSF), several delegations (Austria, Belgium, Ireland, Poland and Portugal) oppose the idea of using the delegated acts' procedure (delegating the power to the Commission to supplement or amend certain non-essential elements of a legislative act). Member States consider that Parliament and Council should be involved throughout the decision-making process, which provides greater legal certainty. In addition, a majority of delegations expressed willingness to adopt the CSF as an annex to the general regulation.

European Parliament

Macro-economic conditionality, flexibility, and the capping rate of cohesion allocations continue to cause concern among MEPs. They are particularly worried that there is no safety net provided for the most disadvantaged regions should conditionality be applied.

A discussion among the Members of the EP's Regional development committee in December 2011, showed that the positions of the Council and the EP are not far apart on a number of points. Like Member States, MEPs oppose compulsory ring-fencing and are critical about its lack of flexibility.

Similarly, Committee members are against the use of delegated acts for the adoption of the CSF. However MEPs did not express a clear stance on whether the CSF is to be annexed to the general regulation (as suggested by the Council), or be a separate piece of legislation.

Concerning partnership contracts, MEPs are in favour of multi-level governance, i.e. involving regions and even cities in the drafting of contracts.

European Commission

Johannes Hahn, the Commissioner responsible for Regional Policy, suggests that discussions on the content of future Cohesion Policy and on the Multiannual Financial Framework are held in parallel. In this way, if the budget allocated to Cohesion Policy were to be cut, a reduction in a linear manner could be operated without 'sacrificing' any elements of the proposed structure. He believes, however, that the requested amount will be granted.

Committee of the Regions

Macro-economic conditions have also been criticised by the Committee of the Regions (CoR), in particular in relation to the weakness of their legal basis.

Romeo Stavarache, rapporteur of the CoR on the Cohesion Fund expressed scepticism over the contribution of this fund to the Connecting Europe Facility. He is critical in particular about *de facto* redirecting €10 billion of the Cohesion Fund to transport. He fears that centralised management of the Cohesion Fund does not correspond to the national and regional priorities of the Member States and raises the question of the role of local stakeholders in this mechanism and its flexibility.

Another rapporteur, Michael Schneider (on the ERDF regulation) expressed readiness to focus on the demographic challenges of mountainous, island and sparsely populated regions.

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European Court of Auditors (ECA)
In its opinion reviewing the legislative package, the ECA expresses criticism on several issues. Despite the claimed focus on results, the Court argues that the scheme remains essentially input-based and oriented towards compliance rather than performance. The proposed reduction of the capping rate is considered to be a "*significant policy change*" whose impact needs to be assessed. According to the Court, macro-economic conditionality would require "*careful consideration*" since it might cause legal uncertainty and pose a threat to the fulfilment of long term obligations in the framework of partnership contracts. The ECA notes the positive efforts to reduce beneficiaries' administrative burden, but regrets that the burden for EU and national administrations remains high. Finally, the Court underlines that issues to be adopted by delegated acts, deemed to cover non-essential elements of EU legislation, "*deal with key elements of the future Cohesion scheme*", i.e. the CSF.

NGOs and associations
The CEE Bankwatch network considers that the legislative package fails to earmark sufficient funding for green spending, in areas such as energy efficiency of buildings, sustainable transport, nature protection and waste management. However the NGO qualifies as a "*promising initiative*" the fact that more-developed regions, and regions in transition, will need to set aside 20% of their funding for energy efficiency measures.

Again, the introduction of macro-economic conditionality raises concern among the European Anti-Poverty Network (EAPN), even though the NGO acknowledges some "*positive developments*".

For the European Association of Craft, Small and Medium-Sized Enterprises (UEAPME) the setting of conditions prior to the disbursement of European funding is a positive development. The association also welcomes the introduction of specific quotas to encourage SMEs' competitiveness, and further administrative simplification.

Eleven associations of European cities and regions take a common stance in the 'St Pölten manifesto'. They emphasise the importance of enhancing the integrated approach to territorial development and stress the importance of implementing conditionality based on performance. However, they warn against the danger of "*penalising regions for shortcomings beyond their control*".

The Assembly of European Regions (AER) is urging EU regions to write to their governments to express their concern over the Commission's proposal. The AER wishes to focus on three points in particular: the simplification of the rules and procedures for allocating Structural Funds, the principles of partnership and multi-level governance, and the integrated territorial approach.

Further reading

Comparative study on the visions and options for Cohesion Policy after 2013/ EPRC et al., Policy Department B, European Parliament, Brussels, 2011.

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Endnote

[1] This briefing will not deal with the regulations on the European Agricultural Fund for Rural Development, the European Maritime and Fisheries Fund, the European Social Fund, the European Globalisation Adjustment Fund and the European Union Programme for Social Change and Innovation. These funds/instruments are included in the legislative package for historical reasons, but their management is split among three different Commission Directorates-General: Agriculture, Fisheries and Employment and Social Affairs. This briefing will review only issues relating to Regional Policy.

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