

## Research for REGI Committee: Mid-term review of the MFF and Cohesion Policy

### 1. Introduction

The Committee on Budgets (BUDG) of the European Parliament (EP) decided to draw up a strategic report on the preparation of the post-electoral revision of the MFF 2014-2020: Parliament's input ahead of the Commission's proposal (Rapporteurs: Jan Olbrycht, Isabelle Thomas). In the Working Document<sup>1</sup> of the aforementioned BUDG procedure the Rapporteurs state that it is "in the Parliament's interest to make the Commission aware in advance of the issues that it would like to see included therein."

The Committee on Regional Development (REGI) decided to draw up an opinion (Rapporteur for the opinion: Constanze Krehl) for the report of BUDG. In January 2016 the Policy Department for Structural and Cohesion Policies was requested to provide internal expertise in support of the ongoing work of REGI on the aforementioned opinion. This briefing has been drawn up in response to this request.

### 2. MFF Review/revision, adjustment of cohesion policy envelopes

Article 2 of the regulation on the multiannual financial framework (hereinafter MFF Regulation)<sup>2</sup> states that the Commission is to present a review of the functioning of the MFF (taking full account of the economic situation at that time as well as the latest macroeconomic projections). The compulsory review shall be presented **by the end of 2016 at the latest**, and it **might** be accompanied by a legislative proposal.

The mid-term review is to allow for reassessing the priorities of the 7 year financial framework (2014-2020). The results of it are then to be taken into account in any revision of the MFF Regulation for the remaining years of the 7 year framework.<sup>3</sup> It is also specified in the MFF Regulation that **such revision shall not lead to reduction of preallocated national envelopes - this being however without prejudice to the adjustment of cohesion policy envelopes under Article 7 of the same regulation** (adjustment of cohesion policy envelopes as part of the technical adjustment for the year 2017).

Provisions for the adjustment of cohesion policy envelopes are set out in Article 7 of the MFF Regulation and Article 92(3) and 90(5) of the Common Provisions Regulation (CPR)<sup>4</sup>. On the one hand, total allocations under the Investment for growth and jobs goal (i.e. European Regional Development Fund, European Social Fund and Cohesion Fund allocations, with allocations to European Territorial Cooperation goal not being subject to the exercise) are to be reviewed for the years 2017-2020. The calculation method is set out in Annex VII of the CPR (paragraphs 1 to 16). The total net effect of adjustments (i.e. the cumulated absolute value of necessary changes in allocations) is capped at EUR 4 billion. On the other hand, eligibility of Member States for support from the Cohesion Fund is also to be reviewed, and in the case eligibility comes to an end, support on a transitional and specific basis is to be provided.

In 2015, the Conference of Peripheral Maritime Regions of Europe (CPMR) carried out a simulation about the potential changes in eligibility (noting that the "highly complex nature of the process for reviewing structural funds allocations (...) makes it impossible for the CPMR to work out precisely the adjustments for each Member State"). Their analysis shows that it is likely that Greece, Spain and, to a lesser extent, Italy, Cyprus and the UK could benefit from the review, whereas Poland, in particular, but also Hungary and Romania would lose out.<sup>5</sup>

<sup>1</sup> DT\1079911EN, PE572.902v01-00 of 30.11.2015.

<sup>2</sup> Council Regulation (Eu, Euratom) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020.

<sup>3</sup> MFF Regulation, Recital 2.

<sup>4</sup> Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

<sup>5</sup> [What do the recent regional GDP statistics tell us about Cohesion?](#) Analysis from the CPMR Secretariat, July 2015.

### Questions for further reflection

- It remains to be seen what aspects of MFF and in what detail will be addressed by the review, in particular what concerns cohesion policy implementation.
- The MFF Regulation does not set a deadline for the Commission's (potential) legislative proposal. Depending on the timing of presenting such a proposal, the time needed for adoption of an amending regulation and the management of the changes would need to be carefully weighed against the expected policy outcomes.
- Can it be assumed that "macroeconomic projections, and the economic situation at that time", mentioned in the MFF Regulation will not address different territorial levels? To what extent can aggregate indicators (national or EU level) serve a debate on regional development policy, should it become part of the reflections?
- To what extent can such review have an impact on the implementation of the European Structural and Investment Funds (ESIF/ESI Funds)? The MFF Regulation ring-fences the national allocations, but can such a review result in an attempt of the Commission to change the ESIF legal framework 2014-2020, or guide Member States in a way that can lead to changes in already adopted operational programmes/Partnership Agreements? What are the risks and opportunities of such changes (in terms of complexity of the exercise, delays in programme implementation, potential simplification)?

### 3. Scope of the MFF Review/Revision - according to Commission sources

There are open questions as regards the scope of the mid-term review and the possible content of a legislative proposal. Some answers can be found in **different Commission sources**, the key document being the Commission's Work Programme for 2016 (CWP 2016) that includes the following information (also relevant for cohesion policy) on the review:

The mid-term review of the Multi-annual Financial Framework will look at **how better to target funding on the priorities we face**, such as the internal and external dimensions of the refugee crisis. Furthermore **the Commission will propose a strategy on 'An EU budget focused on results' to ensure that future financing has a stronger focus on achieving results**. More can be done to **facilitate the use of innovative financial instruments**, and there is considerable **scope for simplification** (in particular in agriculture, the European Structural and Investment Funds and further efforts on research), **performance-enhancement and measures linking effectiveness of funds to sound economic governance**.

Source: Commission Work Programme 2016, COM(2015)610 of 27.10.2015 (highlights added)

Annex I of CWP 2016 adds the following elements to the above: "The mid-term review of the MFF will address how better to target funding on the priorities the EU faces. The review will also look for ways to further orientate the EU budget towards results and simplify the applicable rules (REFIT) e.g. for the ESI Funds and the Common Agricultural Policy (CAP), and will explore the scope for further simplification under Horizon 2020 funding."

The "Commission at work" website includes several **roadmaps**, including one with the title "[Commission Communication and Proposal for a Council Regulation on the Mid-Term Review of the MFF 2014-2020](#)"<sup>6</sup>. This document states that "the MFF review will be an important staging post on the road to the Commission's proposal for the next Multiannual Financial Framework"<sup>7</sup>. The Commission lists the following elements as relevant for the review process:

- first evaluation of the Youth Employment Initiative (YEI);
- first recommendations from the High Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of the European Structural and Investment Funds (hereinafter High Level Group);
- first outputs of the wider "Budget Focused on Results" strategy.

Reference is also made to the above mentioned adjustments of the cohesion policy envelopes under Article 7 of the MFF Regulation. Finally, it is explained that the MFF review, in addition to quantitative elements, will also include a **qualitative assessment** that could concern the functioning of new financial instruments<sup>8</sup>, simplification measures or flexibility embodied in the MFF structure. The "main policy objectives" section outlined in this paper make it rather clear that even though **the review is an opportunity to orient the EU budget further towards jobs, growth and competitiveness and to identify the room for manoeuvre towards new initiatives, policy options and their benefits and costs remain to be determined**. This is echoed by a recent European Regional Policy Research Consortium (EoRPA) Paper underlining that the rationale of transfers across budget headings of the 2014-2020 MFF need to be carefully substantiated:

<sup>6</sup> The date of the roadmap is December 2015. It was consulted on 26 January 2016.

<sup>7</sup> As for the procedural aspects, the coordination of the MFF review seems to be allocated to the Secretary General of the European Commission, but consultation with relevant DGs was started already in May 2015.

<sup>8</sup> It can be assumed that "financial instruments" are to be understood as defined in Article 2(p) of Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (hereinafter Financial Regulation). This term can thus also refer to financial instruments in policy areas other than cohesion policy.

(...) there is an opportunity cost from transferring funds from high value-added headings of the EU budget - the Connecting Europe Facility (CEF) and Horizon 2020 - to the EFSI. It is worth recalling that during the negotiations over the 2014-20 Multiannual Financial Framework the Member States eligible for the Cohesion Fund (CF) were required to transfer a share of their Cohesion Fund allocation to the CEF (€11 in total) to increase its critical mass, yet this has now been reduced. The CEF also has similar objectives in terms of mobilising private financing sources and financial instruments, such as guarantees and project bonds, to gain maximum leverage.

**Source:** C. Mendez and J. Bachtler (2015) Permanent Revolution in Cohesion Policy: Restarting the Reform Debate, EoRPA Paper 15/4, Paper prepared for the 36th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 4-6 October 2015.

The information distilled from Commission sources seems to indicate that the qualitative part of the MFF review is to touch upon **issues of direct relevance for cohesion policy**, these being **simplification, implementation of the YEI, enhanced use of innovative financial instruments, measures related to result orientation as well as measures linking effectiveness of funds to sound economic governance**.

As a parallel, but related process, the ongoing review of the Financial Regulation (FR)<sup>9</sup> should be monitored as well: the Commission's [roadmap](#) on this process states that the review of the FR should be considered as part a simplification package and **should be adopted together with the MFF Mid-term review foreseen in 2016**. The roadmap document includes a list of key elements for simplification that could have an impact on the rules governing the ESI Funds.

Finally, during the [debate on the MFF review in REGI](#) (18 April 2016), the Commission representative highlighted that the **review of the "top-up" measures and the special co-financing rates for Cyprus** (Article 24(3) and Article 120(3) CPR respectively) might also play a role in the MFF review process (both actions are due 30 June 2016).

#### Questions for further reflection

- To what extent will the qualitative assessment part of the MFF review include elements paving the way towards the post 2020 MFF proposals?
- What are the limitations and the possibilities to achieve simplification/greater result orientation/enhance the use of financial instruments within the framework of rules and budgetary allocations set for the 2014-2020 programming period?
- Cohesion policy constitutes a large proportion of the budget, and in 2016 implementation of multi-annual programmes is still at an early stage: what are the limitations of the mid-term review that policy makers should be aware of? (How far reaching can the conclusions drawn from the exercise be?)
- Core issues of cohesion policy that have always been subject to high political interest and strong EP positions are mentioned in the context of the MFF review. It remains to be seen in what way the Commission will outline ideas regarding these issues, and to what extent REGI and the EP wishes to formulate positions at this early stage of debate.

## 4. Main policy objectives of the MFF review with relevance for cohesion policy

Previous sections have explained the regulatory requirements governing the MFF review, and explored different Commission sources about its potential scope. This Section includes background information about some of the topics mentioned by the Commission in the context of the MFF review that have a direct relevance for cohesion policy.

### 4.1. Simplification

**Simplification is important in the overall context of improving policy performance and delivering better results.** It was a shared objective of the co-legislators during negotiations on the legislative package. Nevertheless, some studies, and initial feedback from Member State authorities, report that "there is little sign of simplification" in the current period. For example, even though there is a new expanded "umbrella regulation", the CPR, the Fund-specific regulations, delegated and implementing acts and numerous guidance papers create a complexity that seems difficult to handle by Member State authorities, undermining legal certainty.<sup>10</sup> Whilst it is true that clarity of rules, and especially clarity about the full set and subset of rules and their interrelation, is of utmost importance, it should be recalled that the separation of provisions into delegated and implementing acts is governed by the Treaty of Lisbon for all EU legislation, thus it is not an issue specific to cohesion policy. Moreover, in some areas more guidance, not less, was requested in previous periods. Finally, **the complexity of rules often comes from other policy areas and not from the ESI Funds regulations themselves** (such as state aid and public procurement). Nevertheless, **the lack of clarity about the relation between different rules** (regulations and amending regulations, delegated/implementing acts, guidance, or conflicting rules under ESI Funds and state aid, etc.) remains a real concern. There are also claims that the **coherence and coordination provided by the CPR is accompanied by increased complexity** through new elements linked to enhanced result and performance orientation (e.g.

<sup>9</sup> Regulation the European Parliament and of the Council Regulation (EU, EURATOM) no 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, EURATOM) No 1605/2002.

<sup>10</sup> [Strategic coherence of Cohesion Policy: comparison of the 2007-13 and 2014-20 programming periods](#), Policy Department B: Structural and Cohesion Policies, DG IPOL, EP, Authors: Stefan Kah, Carlos Mendez, John Bachtler, Stephen Miller, EPRC, University of Strathclyde; February 2014, European Parliament.

ex-ante conditionalities, performance framework, etc.). On the positive side, there are some **examples of simplification having been achieved** (and welcomed by Member States) such as with respect to revenue-generating projects, although it was noted that the benefits are most likely to be limited to beneficiaries.

The EU institutions have responded to the early feedback and have all sought to identify solutions ([Council Conclusions on the implementation challenges of the cohesion policy 2014-2020 of 23 June 2015](#), the Commission's High Level Group, opinion and technical workshops of the Committee of the Regions, the latter being organised in cooperation with The Netherlands Presidency of the Council of the European Union). REGI Committee also engaged in the debate by organising a public hearing, by inviting Commissioner Kallas to report back about the High Level Group, and by requesting a workshop and studies to draw on external expertise. REGI initiated a question for oral answer with debate and a subsequent EP resolution entitled "[Towards simplification and performance orientation in cohesion policy 2014-2020](#)", which was adopted on 26 November 2015 in plenary.

**Simplification is flagged up as a crucial issue in the context of the MFF review**, and as explained before, it has received interest across the board. The reason for this is that administrative burdens are a cross-cutting issue, raising important questions about the future of cohesion policy, including about the model of shared management, and also the concepts linked to performance and result orientation. The earlier mentioned EoRPA paper includes the following feedback:

The principle of shared management is widely considered to be appropriate and involves a relatively clear division of responsibilities. However, the policy is subject to a high error rate and complex administrative procedures that are frequently criticised. Many Member States complain that the model is too top-down and has engendered a checklist and compliance culture that hampers a focus on the quality of implementation and performance. Countries receiving relatively limited allocations are critical of the one-size-fits-all approach with similar obligations irrespective of the scale of funding, although they also insist on strong monitoring by the Commission to ensure that their contributions to the EU budget as net payers are well managed.

**Source:** C. Mendez and J. Bachtler (2015) Permanent Revolution in Cohesion Policy: Restarting the Reform Debate, EoRPA Paper 15/4, Paper prepared for the 36th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 4-6 October 2015.

Even though the criticism of the administrative burden related to cohesion policy is widespread, it must be recalled, that **the administrative costs of implementation are in fact in line with comparable policies managed by international organisations**. It is rather **the complexity stemming from the shared management model and the principle of multi-level governance that create difficulties** when it comes to demonstrating the positive impact of the policy (on economic development).<sup>11</sup> Moreover, if shared management is to be put under the magnifying glass, **the alternatives (direct/indirect management) also need to be carefully examined**: would a change mean transferring more responsibility towards (sub)national systems, thus a shift of roles from the EU to the national/regional/local levels, or would this mean a shift towards centrally managed Union instruments? In both cases the feasibility of such changes, and the projected efficiency gains, need to be carefully considered and analysed.

## 4.2. Financial Instruments

Enhanced use of financial instruments is also flagged up by the Commission in the context of the MFF review. Formulated differently, the question is **how/in what form to spend the available budget under MFF, and what is the relative efficiency of different forms of support** (i.e. grants, financial instruments, etc.). There seems to be strong voices in favour of increasing the share of financial instruments in cohesion policy (and in Union policies in general), and a "fear" (also voiced by REGI members during debates) that grants would be side-lined in favour of financial instruments.

It should be recalled that the co-legislators were very clear as regards financial instruments under the FR: recital 53 of the FR clearly states that " financial instruments should be used on a complementary basis, on the basis of an ex ante evaluation demonstrating that they are more effective for the achievement of the Union's policy objectives than other forms of Union funding, including grants."

Overall, as also pointed out in the earlier mentioned EoRPA paper, the evidence base proving the efficiency of financial instruments, and the results in terms of public policy goals, is still weak. **More robust evidence is needed to understand how such instruments can be effectively used in public policy, in particular cohesion policy, and what are the prerequisites on the implementation side**, in terms of the specifics of programmes and programme areas as well as administrative capacity. Recent research identifies pitfalls including:<sup>12</sup>

- the extent to which programmes can incorporate FIs is limited;
- administrative complexities associated with FIs are a significant challenge;
- Member States perceive FIs as less useful in small programmes and in sparsely-populated areas where there are both few SMEs and a less well-developed capital market (against the high administrative burden and the specific expertise needed);
- the experience of the crisis seems to suggest that (cohesion policy) FIs may have limited capacity to leverage-in private sector funding or to incentivise SME investment;

<sup>11</sup> C. Mendez and J. Bachtler (2015).

<sup>12</sup> C. Mendez and J. Bachtler (2015).

- evidence seems to be missing about FIs leading to better programme performance in comparison to grants (performance meaning growth, productivity, jobs).

The June 2015 Council Conclusions (see above) echo these concerns<sup>13</sup>: they recognise the potential effectiveness of FIs, but at the same time underline the fact that **grants are an effective form of support both alone, or, in combination with financial instruments**. The Council conclusions stress that when opting for the use of FIs, different contexts and situations in Member States and regions need to be taken into account.

Supporting the above concerns, a recent study commissioned by the Committee of the Regions (CoR) concludes:

While FIs have indeed room to increase their potential applications, in many areas of public interventions the use of grants will always be necessary, and FIs can thus only be considered complementary tools. The proper use of FIs requires a considerable rethinking of the role of public budgets and proper assessments. There is a risk that the opportunities are lost by badly designing the FIs, leading to little use and impact.

Despite the importance attached to the leverage effect, seeking a high leverage should not be the sole objective of the public sector, but rather the final economic impact and the public goods that the projects deliver. The leverage objective is partially weakening the actual function of the FIs, as a higher leverage does not indicate that a project is socially better, but only that it is attractive enough for its private returns. A focus on leverage may lead to the excessive use of FIs, weakening the additionality principle of EU interventions, i.e. they should not be used were the private sector would intervene by itself.

**Source:** Financial instruments in support of territorial development, study commissioned by the Committee of the Regions, authors: Centre for European Policy Studies (CEPS) (Jorge Núñez Ferrer and Federico Infelise), European Union, 2015

The above ideas were also mentioned during a [BUDG public hearing](#) on 17 March 2016, where one of the experts stated that "financial instruments can be applied only to revenue generating projects", and that "there are plenty of areas where the EU projects contribute to economic development (...), but where generating financial returns is impossible or impractical".

In this context the newly created European Fund for Strategic Investments (EFSI), and its potential synergies with the ESI Funds should also be analysed. (In February 2016 the Commission published a [brochure](#) on complementarities among these instruments.<sup>14</sup>) It might be too early at the time of the MFF review to draw policy conclusions about the first experiences of EFSI, but it remains to be seen whether EFSI or a similar instrument will largely replace ESIF type support or if it will remain a complementary tool, due to its own limitations as a public investment instrument. As for cohesion policy financial instruments in general, more evidence is needed for the debate on EFSI. It remains to be seen how EFSI (and projects supported) will be evaluated in the course of the current MFF cycle.

### 4.3. Economic governance measures and their links to cohesion policy

First, it should be noted that this briefing does not include a detailed explanation on how economic governance processes and the European Semester are linked to cohesion policy in the 2014-2020 programming period.<sup>15</sup> Nevertheless, it is worth pointing out, that **MFF review related (Commission) documents seem to highlight the measures linking ESI Funds to sound economic governance, whereas broader linkages between cohesion policy and economic governance seem to get less attention**, considering, for example the contribution to the implementation of relevant country-specific recommendations or the alignment with the Europe 2020 Strategy.

Key elements of links between cohesion policy and economic governance processes include:

- Programming documents (Partnership Agreements and programmes) take into account National Reform Programmes (NRPs) and relevant country-specific recommendations (CSRs), linking investment to a the broader context of the European Semester;
- Thematic objectives set for the 5 ESI Funds are directly derived from the Europe 2020 strategy, thus there is a strong strategic alignment of cohesion investment to broader Union objectives;
- Several measures are (re)introduced that link ESI Funds to sound economic governance (CPR Article 23 provisions (earlier called "macroeconomic-conditionality" - also linked to CSRs implementation), increase in payments ("top-up") and centralisation of technical assistance for Member States with temporary budgetary difficulties);
- More coherence is introduced in reporting by the Commission and debate on the ESI Funds (Article 53 CPR), leading to synthesized and direct input given to the Council, the EP, the European Council as well as the Committee of the Regions and the European Economic and Social Committee.

<sup>13</sup> See paragraphs 14-20.

<sup>14</sup> European Structural and Investment Funds and European Fund for Strategic Investments complementarities, ensuring coordination, synergies and complementarity, February 2016, European Commission.

<sup>15</sup> For more background information on these linkages, please see: EP study on [European Economic Governance and Cohesion Policy](#), Policy Department B: Structural and Cohesion Policies, DG IPOL, EP, Authors: LSE: Iain Begg, Corrado Macchiarelli, EPRC: John Bachtler, Carlos Mendez, Fiona Wishlade, January 2014, European Parliament; EP study on [The Cohesion Policy Dimension of the Implementation of the Europe 2020 Strategy](#), Policy Department B: Structural and Cohesion Policies, Author: Diána Haase, June 2015, European Parliament; EP briefing on [The European Structural and Investment Funds and sound economic governance: guidelines for the implementation of Article 23 of the Common Provisions Regulation](#), Policy Department B: Structural and Cohesion Policies, Author: Diána Haase, December 2014, European Parliament.

It remains to be seen whether such linkages lead to more policy coherence on the EU level, and what influence they will have on policy delivery. **A recent EP study<sup>16</sup> finds that CSRs have played a limited role in the programming process, but Member States were mostly able to address them**, and emphasis has been placed in the PAs to outline in detail how interventions can produce results consistent with CSRs and NRPs. The same study also refers to early assessment by the European Commission, which confirms that CSRs were generally well reflected in terms of identifying development and investment needs, but the results expected from the ESI Funds are not in many cases clearly related to the CSRs. **It is not completely clear to what extent key aspects of CSRs and NRPs can be addressed through investment expenditure** (for example structural or regulatory reforms, labour market issues, banking sector, education, public administration reform).

In this context it should be recalled that the **debate on whether cohesion investment can and should be tied to structural reforms is not new**. In the preparation of the 2014-2020 framework, apart from ex ante and macro conditionalities the idea of stronger structural conditionalities was also debated, but then opposed by many Member States, and not explicitly included in either the 2011 EC legislative proposals, or in the subsequent legislative amendments by the Council and the EP. In general, the EP's position was that (ex ante) conditionalities should be issues that are genuinely linked to investments under the ESI Funds<sup>17</sup>. **There are signs that a similar debate may be about to start (continue) as regards structural reforms and the creation of a Union level financial instrument to support such reforms**: at the time of writing, reflections are starting both in the Council and in the EP on a recently published Commission proposal on the Structural Reform Support Programme for the period 2017 to 2020.<sup>18</sup>

As regards structural reforms, recent research has indicated the following:

By contrast, according to discussions with Commission officials, there is interest in parts of the Commission in strengthening the relationship between Cohesion policy and structural reforms further. A recent study by the Commission's DG for Economic and Financial Affairs shows that the implementation of structural reforms could significantly increase the economic performance of EU Member States. Because the effects are largest in the less-developed countries with the largest potential for reform, it is possible that Cohesion policy could be seen as an important lever to facilitate the implementation of structural reforms identified in the CSRs.

As noted, DG REGIO has commissioned a study on lagging regions including analysis of the structural reforms that are most needed to maximise growth and jobs in these regions, which could provide support for a stronger link between Cohesion policy and structural reforms in the future.

The question is how this would be achieved. Structural reform conditionality provides one option, as has already been introduced for the macro-economic dimension in 2014-20 by linking stability and growth pact compliance to commitments and payments of the ESI Funds.

**Source:** C. Mendez and J. Bachtler (2015)

An EP study on economic governance and cohesion policy found that the emergence of new instruments pursuing EU objectives might create pressure on the budget, objectives, priorities and governance of Cohesion Policy. However, **a positive scenario could be that such pressures result in rationalising the sometimes conflicting objectives currently set for cohesion policy, and rationalising the policy itself** (more focus and decreased administrative burden).<sup>19</sup>

#### 4.4. Enhanced performance of the EU budget

The Commission roadmap on the MFF review refers to "performance-enhancement" as part of the main policy objectives of the review. It is worth explaining what performance/performance based budgeting means from the EU budget's perspective. According to information received from the Commission, performance based budgeting is a general concept, which builds on the relationship between fund allocation and the results achieved against pre-defined objectives, both ex-ante (in the resource allocation phase) and ex-post (during implementation and control). EU budget focusing on results means that policies (e.g. cohesion policy) and the budget are focused on the delivery of tangible results in terms of economic and social benefits across the EU. An initiative for an [EU Budget focused on results](#) was launched in 2015 by Commission Vice-President Georgieva, part of it being dedicated to performance budgeting with the aim of ensuring that the budget procedure supports decision-making with meaningful performance information. Some elements are highlighted in the [summary document](#) of the 1st annual conference held on 22 September 2015: the existence of specific performance requirements, performance framework with indicators and monitoring of results. These elements being clearly present in the 2014-2020 architecture of cohesion policy, and the performance reserve under Article 20 CPR mentioned as "one of the best examples" in the aforementioned document, **it can be assumed that cohesion policy is considered to be very much in line with this emerging budgetary philosophy**.

<sup>16</sup> Strategic coherence of Cohesion Policy: comparison of the 2007-13 and 2014-20 programming periods", EPRC, University of Strathclyde, February 2014; commissioned by Policy Department B: Structural and Cohesion Policies, DG IPOL, EP, at the request of REGI.

<sup>17</sup> Amendment 12, MANDATE for opening inter-institutional negotiations adopted by the Committee on Regional Development at its meeting on 11 July and 27 November 2012 on the CPR. The EP's views are reflected in the adopted text of the CPR (Article 2(33)).

<sup>18</sup> Proposal for a Regulation of the European Parliament and of the Council on the Establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013, COM(2015) 701 of 26.11.2015, 2015/0263 (COD).

<sup>19</sup> EP study on [European Economic Governance and Cohesion Policy](#), Policy Department B: Structural and Cohesion Policies, DG IPOL, EP, Authors: LSE: Iain Begg, Corrado Macchiarelli, EPRC: John Bachtler, Carlos Mendez, Fiona Wishlade, January 2014, European Parliament.

It should be recalled that **result and performance orientation have been important elements of the 2013 reform of cohesion policy**. The introduction of ex ante conditionalities, thematic concentration, performance framework and reserve aimed at improving overall policy performance. (However, the EP negotiators disagreed with the concept of the performance reserve, as proposed by the Commission.) Of course, it remains to be seen **how the overall aims of co-legislators will be implemented in practice**. It is also important to add here that **the success of performance orientation in cohesion policy should not be assessed in a "vacuum"**: many factors outside cohesion policy (e.g. overall socio-economic environment, effects of other policies, etc.) have a direct or indirect influence on the achievement of results and overall policy performance. In the context of the MFF review taking place in 2016, it should also be noted, that the programmes of **the current programming period being at an early stage, it is difficult if not impossible to come to evidence-based conclusions as regards results and policy performance so far in the 2014-2020 period**. (The first overview on the outcome of negotiations and commitments made by Member States in programmes is in the so called "Article 16 report"<sup>20</sup>.)

To encourage better performance in the current period, certain recommendations can be made in the context of the MFF review. For example, an earlier EP study<sup>21</sup> finds that **coordination and synergy are essential across ESIF programmes and other EU instruments or national budgeting processes**. Therefore, implementation of existing provisions on coordination and synergies (CSF and those of the PA and OPs) should be emphasised.

Finally, an earlier EP study<sup>22</sup> on performance based delivery systems pointed to the different perceptions of what "performance" might mean. All actors being informed about performance is considered to be crucial for ensuring efficient policy implementation. Such different perceptions include understanding of performance as "the capacity to comply with procedural requirements"; "in relation to sound financial planning and management"; "in relation to "the capacity of the Programme/Project to attain its objectives, expressed in targets"; term referring to "the wider effects of a Policy/Programme, including not only the quantitative results achieved, but also the qualitative aspects"; "the capacity of the Policy to influence macro-economic conditions, meaning the ability to influence local development". Favouring one definition or another appeared to depend on the level of governance, but some argued that all these aspects could be handled together. **This diversity should be taken into account when translating broader and more aggregate performance objectives into specific policy areas** especially given the multi-level governance approach of cohesion policy.

#### Questions for further reflection

- How can performance orientation of the EU budget be defined in more specific terms for individual policy areas?
- Cohesion policy is considered to include best practice among Union policy areas (performance framework). The performance review (under Article 21 of the CPR) being scheduled for 2019, what are the limitations of the MFF review exercise in 2016 (in terms of assessing policy performance) that policy makers should be aware of?
- It can be assumed that when it comes to measuring performance of the EU budget, aggregate indicators will be used. Cohesion policy has multi-annual programmes, complex evaluations take time. How can this be reconciled with the need for information about policy performance at the time of the MFF review and the starting debate about post 2020 Union policies and budget?
- What lessons can be drawn from the performance framework and performance reserve as included in the 2014-20 architecture of cohesion policy?

#### 4.5. New challenges and looking ahead

The new challenges emerging in the middle of the programming period will certainly have a strong impact on the debate about the MFF review and also about the post 2020 EU budget and cohesion policy. These issues include the current migration crisis (and social integration in general), the need to continue recovery from the economic and financial crisis and to tackle the growing disparities among European regions (as highlighted in the Sixth Cohesion Report), and last but not least climate change. Commissioner Cretu in a recent [speech](#)<sup>23</sup> mentioned in addition energy security. It should be added that these issues are to be tackled in the context of tightening public investment resources in many Member States and regions.

In this context a recent EP study concluded the following:

A recent ESPON study modelling future territorial development scenarios across the EU suggests a bleak outlook for territorial cohesion, at least in the short-term to medium-term. In particular, growing disparities are predicted between the core and periphery (southern and eastern) countries and regions as well as large labour migration and depopulation in many Central and Eastern European regions, at least up to 2030 (ESPON, 2013). While More-Developed Regions will be able to exploit the growth of global markets and emerging technologies from now to 2030, Less-Developed Regions and sparsely populated rural regions in Eastern countries will become increasingly depopulated due to out-migration of their young,

<sup>20</sup> [Investing in jobs and growth - maximising the contribution of European Structural and Investment Funds](#), COM(2015) 639 of 14.12.2015.

<sup>21</sup> [Strategic coherence of Cohesion Policy: comparison of the 2007-13 and 2014-20 programming periods](#), Policy Department B: Structural and Cohesion Policies, DG IPOL, EP, Authors: Stefan Kah, Carlos Mendez, John Bachtler, Stephen Miller, EPRC, University of Strathclyde; February 2014, European Parliament.

<sup>22</sup> EP study on [Moving towards a more result/performance-based delivery system in cohesion policy](#), and its [Annex](#), Policy Department B: Structural and Cohesion Policies, DG IPOL, EP, Author: CSIL, Centre for Industrial Studies, November 2011, European Parliament.

<sup>23</sup> At the 55th Congress of the European Regional Science Association in Lisbon, Portugal, 28 August 2015.

more skilled people. The most optimistic model predicts regional convergence over the medium (2030) and long-term (2050), but at a much slower pace than in previous decades. The implication of these scenarios is that there will continue to be demand for a well-funded Cohesion Policy to support regional development and cohesion in the EU. However, the financial and political realities of fiscal consolidation militate against any future increases in resources at EU-level, as was made clear in the recent cuts to the Cohesion Policy budget for 2014-20.

**Source:** EP study on [European Economic Governance and Cohesion Policy](#), Policy Department B: Structural and Cohesion Policies, DG IPOL, EP, Authors: LSE: Iain Begg, Corrado Macchiarelli, EPRC: John Bachtler, Carlos Mendez, Fiona Wislade, January 2014, European Parliament.

Overall, **programmes co-financed by ESI Funds lack flexibility to address issues that appear after adoption and that would require changes in the programmes.** The room for manoeuvre is rather limited in the current period to address new challenges. Nevertheless, it should be highlighted that even now; much is possible under the ESI Funds, to address, for example the migration crisis. **A Commission note** ([Synergies between the Asylum Migration and Integration Fund \(AMIF\) and other EU funding instruments in relation to reception and integration of asylum seekers and other migrants](#)) prepared by DG Migration and Home Affairs (DG HOME) provides a comprehensive overview of the relevant priorities for actions that may support migration challenges. Clearly, **all 5 ESI Funds play a prominent role in this respect**, and the note states that "specific coordination mechanisms, arrangements and procedures between different services and administrations should also contribute to an effective and efficient monitoring of synergies and complementarities. **The Common Strategic Framework (Annex I CPR) is also considered to provide useful guidance in this respect.**

Preliminary findings of an ongoing EP study are as follows:

Immigration and especially problems relating to the current refugee crisis are not in the focus either of any of the ERDF ETC programmes analysed by the consultant. This is partly due to the fact that these programmes cover internal EU-borders which, until recently, were not strongly affected by massive refugee flows and because the programming process has taken place at a time when adverse consequences of this crisis were not yet manifest at these borders (e.g. closure of borders, reintroduction of stricter border controls, hampered cross-border mobility also for EU-citizens etc.). Another aspect is probably also that the concerned Member States are currently acting very "individualistic" and differently on all these matters, which makes it even more complicated to address such issues in a cross-border perspective (e.g. strongly different positions between Germany, Poland and the Czech Republic, but more recently also between Austria and Germany). As regards cooperation at the external borders of the EU, some IPA and ENI CBC programmes deal with the security issues especially related to transport and border security. For the IPA programmes this is the case under CBC IPA Italy – Albania – Montenegro which foresees in the Thematic Priority 4 the possibility for some specific actions to put in place "a coordination mechanism with the Italian responsible authorities of International Security Fund (ISF) in order to increase the effectiveness of the intervention through complementarity programmes". On the other hand, ENI CBC programme Finland-Russia integrates safety and security in its strategy through the TO 10 "Promotion of border management, border security and mobility".

**Source:** preliminary findings, study on "Review of adopted European Territorial Cooperation Programmes", Policy Department B: Structural and Cohesion Policies, DG IPOL, EP, Author: t33 srl

## 5. Post 2020 MFF: its duration and strategic alignment to Union objectives

The MFF review will naturally feed into the debate about the future of the EU budget and of cohesion policy, the latter being a debate that has already started. This final section of the briefing will look into two aspects of these broader debates: strategic alignment of the future MFF and its duration.

### 5.1 Strategic alignment of the MFF

Policy makers face an inherent difficulty in the financial framework cycles of the EU, namely that, in practice, **there is no "cooling-off" phase between two multi-annual financial framework cycles:** full policy lessons learned from a previous programming period are not yet available when the current period is at an early stage of implementation and reflections on future proposals and positions need to start (in order to finish negotiations and adopt legislation in time for the next period).

In the year of the MFF review (2016), analysis of the programming process for the 2014-20 period is already possible, but **it seems too early to have a clear view on the quality of programme implementation** (not to mention results, and especially results aggregated to draw conclusions on EU policy level). However, ex-post evaluations of the 2007-13 cohesion policy programmes become available in 2016. Some lessons from the previous period and early information from the current period could feed the debate about the implementation of the MFF and the future of cohesion policy.

In this broader context it is important to recall the **strong alignment of the 2014-2020 MFF, including the ESI Funds, with the Europe 2020 Strategy.** It is justified to expect some sort of a **continuation** of this policy logic, i.e. a strategic alignment of the post 2020 MFF to a set of overarching Union strategic priorities. However, it should be noted that **having such a strategic framework is not a prerequisite for the implementation of cohesion policy and its instruments**, which are embedded in the Treaty on the Functioning of the European Union.

In this context it should be noted that the process of the so-called review of the Europe 2020 strategy has not led to major novelties or changes. In fact, the Commission originally announced that "proposals to review the strategy will be presented



before the end of 2015"<sup>24</sup>. However, according to the [Annual Growth Survey 2016](#)<sup>25</sup>, this review is already "carried out" in 2014-15 (thus this process was communicated in a somewhat unclear way). The document concludes that "following this review, the Commission will make the best use of the existing strategy and its tools by improving its implementation and monitoring in the context of the European Semester." **This means that, in the absence of further review of the Europe 2020 Strategy, attention will most likely be turned to reflections on the post 2020 strategic framework.**

One scenario could be that strategic high level debates on (the necessity/content) of a new "post 2020 strategy" will take place before a financial framework can be defined, fine-tuned and finalised (especially if MFF instruments will have to be aligned to such strategic framework). (The Commission must present the proposal for the post 2020 MFF before 1 January 2018 in line with Article 25 of the MFF Regulation). **It remains to be seen whether and with what timeline political/strategic priorities will be presented/debated, and what role REGI can play in this process.**

#### Questions for further reflection

- Is there going to be an overarching Union "Strategy" (such as the Europe 2020 or the Lisbon Strategy) to which the 2021-2027 MFF can be aligned? (Assuming the next cycle remains 7 years long.)
- Is it necessary to develop such a "strategy"? Does such a "strategy" need to be in place before the Commission's presents its proposals for the post 2020 MFF? What role will the EP and REGI play in this process?
- If such a "strategy" is not put in place, what does that imply for the future legislative proposals on the ESI Funds?
- What mechanisms might replace thematic concentration in the future, or how can thematic orientation be designed in the absence of an overall "strategy" that reflects political-strategic priorities for post 2020?

## 5.2 Duration of the MFF

Recital 3 of the MFF Regulation states that "in the context of the mid-term review/revision of the MFF, the European Parliament, the Council and the Commission agree to jointly examine the most suitable duration for the subsequent MFF before the Commission presents its proposals with a view to striking the right balance between the duration of the respective terms of office of the members of the European Parliament and the European Commission - and the need for stability for programming cycles and investment predictability." **The "ideal" length of the financial framework was already debated in the preparatory period for the 2014-2020 MFF**, with several arguments in favour of a shorter period also aligned with the political cycle of the European Parliament and other EU institutions, and with arguments against pointing to the unsurmountable difficulties that it would create for policies that function on the basis of multi-annual programming. The debate included ideas of a longer period with a clearly defined and mid-term review, for example a 10 year MFF cycle with a mid-term review after 5 years. **REGI Committee actively participated in this debate, and took the following position:**

Notes that a five-year period is too short, since authorisation procedures would be much too long and would not make it possible to use resources efficiently; points to the fact that a seven-year period has proved its worth in the past and that the programming period should in no circumstances be shorter; underscores the fact that a seven-year or, past 2020, even longer multiannual financial framework (MFF) period, would safeguard efficiency; stresses that a period thus established ought to be designed so as to match the scheduling of financing priorities with the terms of office of Parliament and of the Commission;

**Source:** Opinion of the Committee on Regional Development for the Special Committee on the policy challenges and budgetary resources for a sustainable European Union after 2013 on the policy challenges and budgetary resources for a sustainable European Union after 2013 (Rapporteur for the Opinion: Constanze Krehl)

## 6. Conclusions

### 6.1 Roadmap towards negotiations on the post 2020 cohesion policy framework

In her recent [speech](#), Commissioner Crețu explained the intended roadmap and the Commission's actions for pre-legislative and legislative work. A **first phase** can be characterised by a **strong focus on gathering evidence and information**, through (among others): the launch of [studies](#) (2014 and 2015) about the 2014-20 period; [Article 16 CPR report](#) (on the outcome of the negotiations); [ex-post evaluations](#) of the 2007-13 period; contributions from the [High Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of the European Structural and Investment Funds](#); the Lagging Regions Initiative<sup>26</sup>; the [Task Force on Better Implementation for the 2007-13 period](#); etc. The Commissioner outlined the **plan that the debate on the post 2020 policy would "reach its full speed" by the end of 2016**, with the Commission most likely presenting its **ideas for the post-2020 period in the 7th Cohesion Report** (in 2017) which is to be followed by a large public consultation. The legislative proposals would be submitted to the Council and the EP in 2018.

The already mentioned EoRPA Paper<sup>27</sup>, in referring to the Commissioner's above reflections, underlines the **importance of the ex-post evaluations of the 2007-13 programmes**. These are expected to provide evidence on both the

<sup>24</sup> [http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index\\_en.htm](http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index_en.htm) [Accessed: 24/02/2016].

<sup>25</sup> Pages 5-6, COM(2015) 690 of Brussels, 26.11.2015.

<sup>26</sup> See also: [https://ec.europa.eu/commission/2014-2019/cretu/blog/bringing-europes-lagging-regions-speed\\_en](https://ec.europa.eu/commission/2014-2019/cretu/blog/bringing-europes-lagging-regions-speed_en).

<sup>27</sup> C. Mendez and J. Bachtler (2015).

**achievements of the programmes and lessons for the future**, while assisting the thinking inside the Commission. Further to the ex-post evaluations, **as of 2016, the summary reports of the annual implementation reports, and the Progress Report (2017)** should also feed ongoing reflections.<sup>28</sup>

In a more recent event, organised by The Netherlands Presidency<sup>29</sup>, **Vice-President of the Commission, Kristalina Georgieva** (Commissioner for Budget and Human Resources) made several references in her speech to cohesion policy. In addition to highlighting the importance of a focus on results and of flexibility (in responding to new challenges such as the refugee and migration crisis), she proposed the following questions to be analysed (highlights added):

Is the new cohesion policy delivering **EU added value**? Should we in this context reassess **which countries and regions qualify** for cohesion funding? The current MFF is split 56% for new MS (including Croatia) and 44% for the so-called old Member States. **Is this balance still appropriate?**

The second set of questions is linked to the ongoing reflections about the **economic governance** of the Union: What is the link between the future structural spending and the economic policy of the Union? Is **macro-conditionality** working to design better spending programmes reflecting the real economic needs of a Member State? **Should perhaps a larger part of the funding be centralised on EU level to ensure that money is spent according to (EU) priorities?** What is the **interplay between cohesion policy and the EFSI ("Juncker plan")** if the latter was to be continued beyond 2020?

**Source:** [Speech](#) by Vice-President Kristalina Georgieva at the EU Presidency Conference on the Multiannual Financial Framework [Accessed: 24 February 2016]

## 6.2 Summary

The regulations foresee a review of the MFF, but do not fully define its scope; the Commission is left with discretionary power to decide whether to make a legislative proposal amending the MFF. Further to quantitative elements, the Commission intends to also include in the review a qualitative assessment that could concern the functioning of new financial instruments, simplification measures or flexibility embodied in the MFF structure. The review can be expected to touch upon cohesion policy in several ways. Clearly, the reflections cannot be completely isolated from the emerging debate on the future of the EU budget and of cohesion policy.

The scope for improving the performance of the 2014-20 MFF instruments, including the ESI Funds, is limited, but some steps can be taken (without changing the already allocated national envelopes), such as pursuing simplification on Union and national/regional level; stepping up coordination and synergies across instruments; exploring the most effective ways for using financial instruments as public investment tools; following-up the contribution of the ESI Funds to the European Semester and economic governance efforts.

Finally, it remains to be seen whether and how the emerging challenges, such as the migration crisis, climate change, etc. will be addressed during the MFF review, and whether any changes to the cohesion policy framework will be proposed by the Commission. It seems that the ESI Funds and programmes already in place can to some extent contribute to tackling such challenges, and Member States have the possibility to opt for reprogramming, if necessary.

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<sup>28</sup> See also the [2016 February update of the "policy calendar"](#) prepared by the EP's Policy Department for Structural and Cohesion Policies.

<sup>29</sup> EU Presidency Conference on the Multiannual Financial Framework, Amsterdam - 28 January 2016.