CPMR CRPM

COHESION

Reflection Paper
October 2023

Reflection paper on the future of Cohesion: A policy scenario catering for tomorrow's Union

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In a nutshell

- With this reflection paper, we seek to develop an understanding of the policy developments and economic dynamics that will shape the policy debates on the future of cohesion, allowing the deployment of a realistic policy scenario that preserves the core principles of the policy while responding to the current crisis and the challenges ahead.
- Despite recent simplifications, Cohesion Policy is suffering from overcomplexity at programme and project level stemming from a fragmentation of funding sources and the increase of additional priorities linked to crisis measures not directly related to its original objectives. Given the recent crisis and emerging priorities, Cohesion Policy has been used as the budgetary firefighter in all fronts, attending to the lack of resources for new objectives at the risk of deviating from its long-term goals.
- We are seeing an increase of centralisation at national level that will also impact future cohesion funding. This includes the potential introduction of structural reform conditionalities linked to the European Semester at presently focusing at the national level for the disbursement of cohesion funding, following the example set by the RRF.
- More importantly, there seems to be a clear mismatch between EU ambition and its financial capacity, in the sense that the current EU Budget is insufficient to accommodate the various compounding needs and pressures. Unless we keep the increased budget ceiling introduced by the NGEU, investments and reforms will fall short of completion and the continuous crisis will hammer ongoing developments.
- *In a viable scenario Cohesion policy:*
  - is as a place-based instrument shaped by regional authorities.
  - complies with the principle of subsidiarity and multilevel governance.
  - is based on shared management supported by partnership agreements.
  - has a well-endowed budget including a sizeable fund for crises
  - has a clear and consolidated financial regulatory framework bringing together all disparate funds.

1. Introduction

Articles 174 and 175 of the Treaty on the Functioning of the European Union (TFEU) provide the EU with a **clear mandate on Cohesion Policy**. The EU shall promote an overall harmonious development and pursue actions leading to the strengthening of economic, social and territorial cohesion, in order to counterbalance potential distortions created by the Singe Market. This signifies that EU should aim to reduce disparities in development between regions, allowing all citizens to reap the benefits of the Single Market.

Cohesion Policy is, by nature, a long-term investment policy. But the quick succession of health, financial, geopolitical, migration, and climate and energy crises of the past decade have led to a **loss of focus on those long-term goals**, due to the need to liberate funding to address immediate problems. Indeed, Cohesion Policy has provided financial support to stem those problems via a series of amendments (CRII, CARE, REACT-EU etc.) and demonstrated its flexibility and value in times of crisis.

The difficulty for the EU economies to withstand and recover from the permacrisis has led to a **soul-searching amongst policy makers and practitioners**. The 8th Cohesion Report highlights that, while Cohesion Policy continues to create jobs and growth, it does suffer real reputational issues, especially in comparison to the "faster" but untested Recovery and Resilience Facility (RRF). Delays in the negotiations due to a lengthy legislative process and the administrative burden associated with the delivery of the cohesion funds **make Cohesion Policy seem less agile than the RFF.**

National governments have therefore prioritised RRF programming over Cohesion Policy, to the detriment of the partnership principle and multilevel governance. Regions have mostly been absent from the development of the National Recovery and Resilience Plans. Looking at the case of REACT-EU, the €50 billion top-up of cohesion funding has in some cases been allocated exclusively to national programmes (i.e. Italy, Greece). The **key questions here is whether Cohesion Policy is losing its purpose and identity**, and whether it needs an important change to its architecture and objectives in the future. It should not be forgotten that all of this is happening at a time when Cohesion Policy's core function of ensuring balanced development across the EU's regions is more needed than ever, due to an increase in economic and social disparities.

As it is the habit during this period of time whenever the MMF revision and the role of cohesion policy within it is examined, a number of scenarios are developed from the very bleak to the most positive:

- Should Cohesion Policy disappear or be centralised, with the EU focus solely on stemming the 'permacrisis' and creating economic growth without considering the regional dimension?
- Should we turn Cohesion policy into an exclusively financial transfer to poorer regions and leave the rest of the regions to be supported nationally?
- Should we establish a two speed Europe in regional policy with most developed and centrally located regions to see increased success and concentration of resources via mechanisms like STEP, while less developed and peripheral regions would be left with the crumbs**?**
- Should we keep cohesion as it is?
- Or should we opt for a reformed Cohesion policy financially strengthened to address long-term regional disparities and be flexible enough to also address crisis situations via a reserve facility within the cohesion policy allocations to be disbursed at regional level?

Our work within CPMR will be to associate our regions and carefully assess the long-term needs of the EU and its regions and focus on the desirable and feasible at the same time aspects of Cohesion Policy, such as the design, the governance model and the necessary financial resources.

2. A challenging environment for Cohesion Policy

2.1. Fragmentation and overcomplexity – the temptation of the quick fix

Even before the recent succession of crises, the **convergence of EU regions has slowed down significantly.** Regional divergence is increasing, and evermore regions are entering a development trap.[1] Cohesion Policy, and its place-based approach, is the natural go-to instrument to address this issue. Nonetheless, recent **amendments to the Cohesion Policy regulations are not always following this objective**, such as REpowerEU, the Just transition Fund, Fast-CARE and the Ammunition Act which by the sectoral support nature may not be in like with 'balanced' territorial development.

The reprogramming of funding[2] under the proposed Strategic Technologies for Europe Platform (STEP)[3], for example, is **seemingly in line with the cohesion objective, but the more developed regions are much better placed to use the reprogrammed funding** as they already have a high concentration of high-tech companies to support. Funds programmed for STEP risk therefore to be either underused in or reprogrammed away from regions which are already lagging behind, increasing regional disparities.

If Cohesion Policy continues to move away from the support of its original objective, guaranteeing equal opportunities and access to essential services independently of one's place of birth or residence, **a growing number of EU citizens might feel dissatisfied with the Single Market and the EU itself**. This presents a potential source of unrest and instability in the EU as economic and social disparities lead to Euroscepticism and distrust.

At the same time when Cohesion Policy is more needed than ever to fulfil its role as a cohesive force in the EU, it suffers from considerable degrees of overcomplexity. Despite the introduced simplification measures, managing authorities and beneficiaries keep underlining the **bureaucratic burden of using ESIF funding**. This not only affects its efficiency, but **also deters potential beneficiaries on the ground**. At the same, with the RRF, a seemingly simpler solution[4] is available, making it a blueprint for the future of cohesion in the eyes of some policymakers even if there is a lack of evidence on its actual performance.

This focus on a quick fix blurs the big picture. Cohesion Policy under shared management in cooperation with regions has a proven track record of supporting place-based initiatives for regional convergence while its **problems originate particularly from the bureaucratic burden and the funding fragmentation**. Funding instruments are also spread across different budgetary periods (2014-20 and 2021-27). They are governed by different provisions and rely on different governance and delivery mechanisms. This generates substantial workload and complexity that regional authorities may not always have the capacity to cope with while also creating overlaps and competition among funds.

Furthermore, **a lack of trust in regional managing authorities has created a highly rigid monitoring and auditing system** which does not allow for any flexibility or experimentation on the ground, forcing managing authorities into a one-size-fits-all approach.[5]

2.2. Centralising cohesion – the territorial dimension between a rock and a hard place

We are facing a situation where **new EU financial support instruments are increasingly at risk of having a weaker territorial dimension**, with a reduced role for regions in programming and implementation. If the future Cohesion Policy follows this model, **regional interests and the territorial dimension run the very real risk of being squeezed between EU and national objectives**.

[1] 10 years of economic sub-par economic performance compared to the national of EU average.
[2] STEP allows less developed and transition regions, and more developed regions in Member States with a GDP per capita below the EU average, to use Cohesion Policy funding to support large companies in pre-determined industries.
[3] For a detailed analysis on STEP by CPMR, see here.
[4] Debate around the effectiveness and efficiency of the RRF approach is ongoing, see below.
[5] CPMR has issued a political position along with a technical note outlining key reforms and proposals.

In a world of centralised investment instruments, regions in less decentralised countries risk losing the administrative capacity they have developed thanks to cohesion, transferring substantial functions to national authorities. Concentrating administrative capacity for investment and cooperation at the national level will **not only negatively impact the cohesion and development of the regions, but evidence suggests that it also reduces that of the Member States.** By undermining regions' capacity to contribute to a balanced territorial development the overall economic and social resilience is reduced.

Finally, the experience with the RRF has also ignited a **debate around the introduction of a structural reform conditionality in Cohesion Policy**, based on the Country Specific Recommendations (CSR) of the European Semester. It is likely that this topic will become a prominent part of post-2027 cohesion negotiations. But those recommendations primarily address areas under central government control, not regional competencies.[6] The challenge will be to **avoid regional programmes being conditional to the achievement of centralised national reform obligations.**

2.3. Identity loss in a time of crisis

The effect of the permacrisis has **led increasingly for the Commission to resort to structural funds for crisis mitigation measures[7]**. For now, this mostly concerned unused funds of the 2014-2020 period, redirected to address the effects of the pandemic, aid Ukrainian refugees and now support SMEs/households in paying energy bills. However, certain provisions have been introduced throughout the current period allowing for the repurposing of structural funds to other instruments addressing emerging priorities, such as REPowerEU, FAST-CARE, the Ammunition Act and now STEP, suggesting that the Commission may consider introducing a more flexible approach to tap into these funds for punctual needs **undermining the coherence of programming**.

Cohesion Policy has increasingly taken on a **role as a budgetary firefighter**. When the EU lacks resources to address new objectives, Cohesion Policy is often used as a source of funding via dedicated specific objectives, or *missions*.[8] Many of the **missions addressed by the earmarked funds, while certainly important, are not directly linked to regional cohesion[9].** Thus, the allocation of the EU funds might be inefficient, as it is not aligned with the severity of the problems in the regions, and the actual benefits manifest at the national or EU level.

While this shows that Cohesion Policy is a versatile policy and can play a key role in crises, it is also a cause for concern in that a growing amount of funding meant for territorial investment is re-directed towards short-term measures, indicating that these exceptions could became the norm.

Cohesion Policy should not take the role of a crisis instrument at the expense of its original purpose. Drawing from Cohesion Policy funds as when other sources are lacking and using it as a "catch-all" policy can potentially affect its coherence and long-term effectiveness.

2.4. EU ambition and EU Budget – a match made in heaven?

The financial ceilings of the Multiannual Financial Framework have remained limited to approximately 1% of GNI despite the increasing demands on the EU budget. The recovery programme is time limited and placed outside the MFF with the implicit aim to maintain the core budget constrained for the future. The end of the recovery programme will also result in a rather abrupt fall in EU investments while many of the challenges will remain latent and new ones may emerge. For example, we can see how as the increasing tensions with China have been leading the EU to rethink supply chains and promote the emergence of EU industries to reduce dependency on non-EU suppliers. In addition, more is very likely to happen, while war is being waged

[6] CPMR has discussed this in a reflection paper.

[7] For a detailed analysis, see the technical note here.

[8] Via use of earmarking and specific objectives via amendments to regulations, thereby also increasing administrative complexity.

[9] F. ex. REPowerEU (the war in Ukraine has led the EU to seek an increase in energy security for Europe, increase the defence capabilities and prepare for potential enlargement to Ukraine and other candidate countries); STEP (increasing tensions with China are leading the EU to rethink supply chains and promote the emergence of EU industries to reduce dependency on non-EU suppliers).

in Ukraine a new conflict is emerging in the Middle East with potentially very destabilising effects beyond the region.

Limiting the MFF to the present level may already lead to real cuts, because the additional costs of servicing the debt burden from NGEU repayments will have to be added as costs. If this is confounded with increasing costs for external action and neighbourhood policy due to the enlargement process, the gap between expectations on the EU budget and what it can deliver will grow. There are thus justified concerns that Cohesion Policy may also be expected to take over ongoing objectives of the Recovery and Resilience Facility (RRF) with a reduced budget harming cohesion and penalising regions.

It is safe to say that there is a mismatch between EU ambition and its financial firepower. The EU requires a budget reflecting its ambitions and ensuring that all EU citizens have the same opportunities to participate in and reap the benefits of the single market.

3. A sound policy scenario ensuring enhanced territorial cohesion to all EU regions.

The future of **cohesion policy as a place-based instrument led by regional authorities** in line with the subsidiarity principle is no longer a given. CPMR has already warned of different potential scenarios and the increasing trend towards a more centrally managed policy, by central governments or the European Commission directly. The discussions on the future of Cohesion will intensify during 2024 and there is a need to bring a clear policy position forward for a scenario which corresponds to a vision of a policy CPMR members seek to promote in which regional authorities are driving the policy and a direct partner of the European Commission.

For this vision to become a reality, **Cohesion Policy has to be able to provide answers** for key challenges the EU faces that have a territorial dimension, but there should be clear boundaries on what the policy should not do. To be more precise, cohesion policy is a policy specifically designed to focus on territorial cohesion and problems where the best level of governance is regional. For some actions, this level of governance may not be appropriate.

This section envisions such a policy design in which the future Cohesion Policy post-2027 is configured to address present and future challenges while preserving the fundamental principles that make Europe a global model of solidarity and unity in diversity. Cohesion Policy can serve as a cornerstone in safeguarding the EU's rich cultural and social heritage while boosting its economic and technological leadership both domestically and on the global stage, enhancing competitiveness and influence. To achieve this, the policy must evolve in response to the challenges it faces.

In the potentially best policy scenario, we could think of for the 2027 Multiannual Financial Framework, the EU Cohesion Policy could have the following characteristics:

A clear and strong role in providing "Territorial Cohesion" for all EU regions

Cohesion Policy is anchored to deliver the EU objectives of social, economic and territorial cohesion in line with of Article 174 of the Treaty. The term "territorial cohesion" in the treaty originates from the work of CPMR and the successful adoption of this term by policymakers. The core focus is **balanced territorial development** in which regional authorities are best placed to act **according to the principles of subsidiarity**. All regions should be covered with the support levels proportionally distributed according to indicators which reflect primarily the fiscal capacity, as well as specific pressures the regions suffer due to shocks or characteristics which affect the living standards and prosperity of the regions.

The choice of these core functions is based on the recognition that today's challenges go beyond merely raising poorer regions to the EU average level of development. This includes supporting regions to become **more resilient and promote EU objectives**.

In this framework, the **principle of additionality** is central, ensuring that **investments lead to outcomes that would not have been possible without EU support**. This justifies an approach where all regions are included, with wealthier regions also receiving support for projects that contribute to key objectives with high EU value-added and transboundary benefits.

Trust and Real Partnership via shared management and multilevel governance

Cohesion Policy reaffirms that the EU budget should be delivered according to the **principle of subsidiarity**, based on common EU rules to ensure a level playing field. The best mode to achieve this is through **shared management with the European Commission and the Member States** allowing regional authorities to use their knowledge of the territories to implement a strategic development vision strongly tied to the real needs on the ground. Hence, multilevel governance based on a reinforced partnership build on mutual trust becomes the only way ahead. In this perspective, European Territorial Cooperation and Macro-Regional strategies should also be kept and enhanced as key instruments to respond to common territorial challenges via joint impactful solutions (also at the borders of the EU).

A performance-based positive method of investment

Cohesion Policy remains based on a **long-term investment approach, anchored on holistic integrated strategies**. The long-term investment policy needs to be harnessed to build up the infrastructures and human capital bases for the future aligned to the needs and potential of the regions, helping the EU to develop to the global payer it aspires to be.

The RRF has presented a method to deliver structural reforms through milestones in exchange for support. This model considers that regional performance should be assessed according to regional competences and contribution, not on national-level reforms. The incentive system should be designed based on the **competencies and regional relevance of the structural reforms**. In this scenario, financial disbursements to regions are not subject to reforms that the central government has to undertake. Those are linked to national level funding programmes. Multilevel governance is thus reflected in any conditionality.

Such a performance based approach reduces significantly the bureaucratic burden and **has a simplified cost-based system for many of the programmes**, speeding up delivery and increasing impact.

A crisis reserve within the Cohesion policy to support cohesion in times of crisis

Cohesion policy is be **endowed with a sizeable and funded crisis reserve** to be activated in cases of need. This fund is funded by decommitted funds from the 2021-2027 period and is replenished with unspent funds. Reprograming is avoided while all actions overlapping with regional competencies are under the management of the appropriate Managing Authorities.

Clear and consolidated regulatory framework

The EU budget is consolidated for the post 2027 period, **all funds are part of the Multiannual Financial Framework and the recovery programme and all structural funding operations are brought into one framework under the Common Provisions Regulation (CPR)**. The European Agricultural and Rural Development Fund (EARD) is also reintroduced into the Common Provisions Regulation. There is **one core Policy focused on territorial cohesion**.

A well-endowed EU Budget proportional to the Challenges

In this scenario there is a clear agreement that the **EU budget must have the means to achieve its objectives as demanded by the Treaty provision in Article 311 of the TFEU**. The **financial size and rules are therefore consequently adapted and proportional to the needs**. All new functions considered necessary in cohesion policy are thus endowed with additional means, avoiding the trend to transfer or add competencies and objectives to Cohesion Policy without raising the financial allocation proportionally.

Questions for reflection

1. Is there a clear agreement on the main functions of Cohesion Policy as described in the paper and the treaty at EU and regional level?
2. Is there agreement on the theoretical best policy scenario? How to further shape, enrich it and develop advocacy actions to make it become a reality?
3. How do we deal with the long-term objectives and crisis flexibility? Would the reserve funding be an acceptable option for CPMR to look into?
4. Should the categorisation of regions, or the indicators used be different? Should CPMR look into the development trapped regions or additional indicators beyond the reviewed Berlin formula used on the current programming period?
5. What additional reforms should be necessary to ensure that Cohesion Policy is fit for the future? Should CPMR look into reforms that could be delivered or contributed at regional level like civil justice, or public procurement or transposition of environmental law into national law? Any other structural reforms that could have a regional dimension?
6. How can multilevel governance be reinforced? We need examples of good practice when the multilevel model has produced results as opposed to the mere national delivery model. Look into the CPMR proposal (present examples from regions) on the partnership agreements where the code of conduct for regional involvement becomes compulsory for any future investments?
7. What are the key barriers affecting the management of the funds beyond what we have already identified in our technical note on simplification? Would the suggestion of a single Rules book help with the workload of managing authorities and complexity of delivery?

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The Conference of Peripheral Maritime Regions (CPMR) represents more than 150 regional authorities from 24 countries across Europe and beyond. Organised in Geographical Commissions, the CPMR works to ensure that a balanced territorial development is at the heart of the European Union and its policies.

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