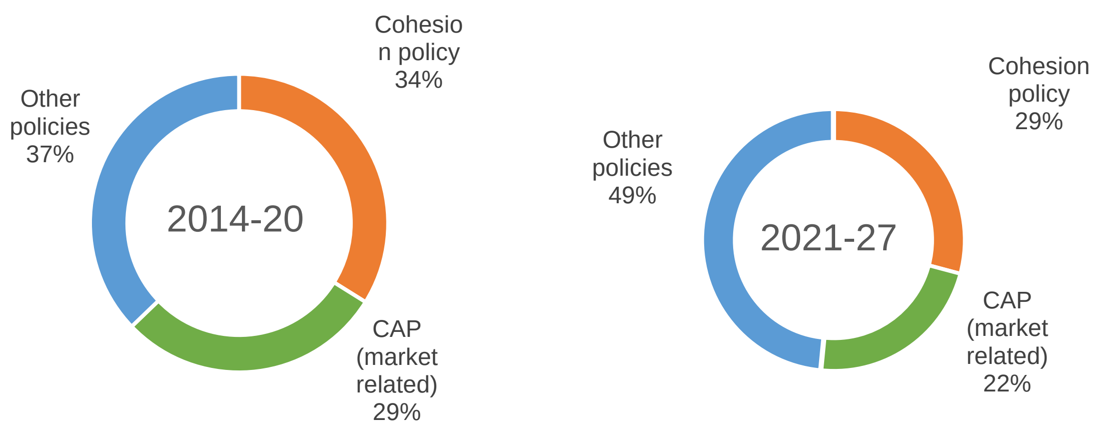
AMBITIOUS AND PRAGMATIC? FIRST REFLECTIONS ON THE REFORM OF COHESION POLICY[1]

The launch of the proposals for the Multiannual Financial Framework for 2021-217 was presented as being both ambitious for the EU but also pragmatic given the straightened budget circumstances associated with Brexit. It was also said to be future-oriented in reflecting the pressures of rapid developments in innovation, the economy, the environment and geopolitics, while retaining a strong commitment to solidarity. As the process of negotiation gets underway in the various Council formations, and in parallel deliberation by the European Parliament, what are the implications for Cohesion Policy?

As in all negotiations, the fundamental issue is about money. The Commission's proposals provide for a budget of €1,135 billion in commitments (2018 prices) for 2021-27, equivalent to 1.11 percent of EU27 GNI. Initial reactions from some net payers (Austria, Denmark, Netherlands, Sweden) is that the size of the budget is unacceptably high, compounded by the proposed phasing-out of rebates, which could lead to steep increases in some net payments. At the other end of the spectrum, several net recipients are critical of the 'lack of ambition' of the EU budget (Greece, Hungary, Poland, Portugal).



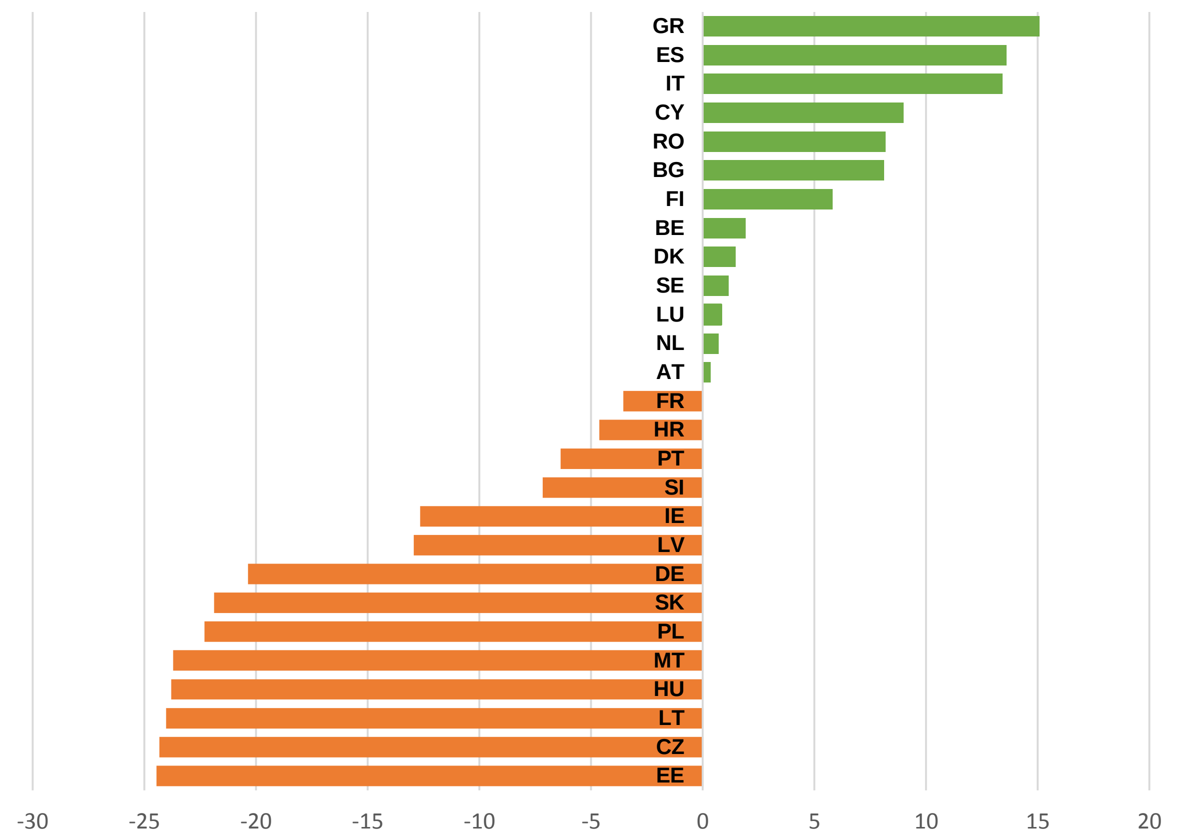
Proposed shifts in composition of the MFF

[1] This blog draws on the paper: *Proposals for the MFF and Cohesion Policy 2021-2027: a preliminary assessment*, by John Bachtler, Carlos Mendez and Fiona Wishlade, EoRPA Paper 18/IM, European Policies Research Centre (University of Strathclyde, Glasgow and TU Delft), https://bit.ly/2tN5P9U

Changes in the composition of headings are significant because **they conceal shifts in expenditure**. This is particularly so for Headings 1b and II – Cohesion policy. The Cohesion policy budget *appears* to increase. but the new Cohesion and Values heading includes Erasmus+, transferred from Heading 1a (€26,368 million), and the new EMU reform support tool (€22,282 million), as well as a number of smaller items from Security and Citizenship. Taking account only of the ERDF, the Cohesion Fund and the ESF+, the proposed Cohesion policy budget is around €331 billion for 2021-27 compared with €374 billion for 2014-20. The budget lines for agricultural policy (Heading 2 and III) also show a pronounced reduction in proposed spend on agriculture, fisheries and rural development.

In short, compared to 2014-20, the Commission proposes a significant shift away from Cohesion policy and market-related expenditure and direct payments towards other areas of spend, notably the single market innovation and digital heading. Overall, the new proposals envisage that 'other' policies would account for almost half of spend, rather than just over a third in 2014-20.

Within the Cohesion policy heading, **there are major implications for individual Member States**. Although the Commission has proposed changes to the Berlin formula, the allocations are primarily determined by 'adjustments': a safety net (to limit cuts); and a reverse safety net capping (to limit increases). Increases in Cohesion policy allocations are concentrated in southern Europe – especially Greece, Italy and Spain - which would see gains of over 10 percent relative to 2014-20. Seven countries would see decreases in Cohesion policy allocations exceeding 20 percent of initial 2014-20 allocations – mainly in Central and Eastern European (especially Poland, in absolute terms), but also Malta and Germany.



Change in allocations as a percentage of initial allocations for 2014-20

As in previous reforms, **there is a big gap between the expectations of the Member States on the overall size of the MFF as well as its allocation to policy headings**. However, there are other factors which will affect the dynamics of the negotiations:

- the absence of the UK is placing greater pressure on those net payers seeking a smaller EU budget to take a more prominent role;
- the proposed phasing-out of rebates and changes to national co-financing would significantly affect the net position of individual Member States;
- coalition politics may influence national negotiation strategies and the flexibility available to some national leaders;
- the Commission's publication of figures for Member State receipts at the outset of the negotiations, focus political and public attention on budgets rather than policy issues – this may accelerate the negotiations but may also constrain the flexibility available to Member States;
- changes to the Berlin Formula include migration in the algorithm for allocating Cohesion Policy funding, but also include arbitrary figures for capping and safety nets;
- there may be less coherence among the Central and Eastern European countries, who are affected very differently by proposed national allocations;
- proposals to link funding to the rule of law are highly divisive; and
- increased allocations to non-traditional policies may lead some countries to seek compensation for cuts in CAP and Cohesion policy through a territorialisation of policies such as Horizon Europe.

The regulatory proposals for Cohesion Policy are less divisive, with continuity in some areas (especially continuation of an all-region approach) and efforts to respond to Member State concerns on issues such as proportionality, flexibility, harmonisation of rules, and simplification. There are also some imaginative elements – the potential for increasing the emphasis on integrated territorial development and more citizen-focused intervention (Policy Objective 5) and the new innovation-focused strand of Interreg.

However, early reactions have drawn attention to **several aspects that are likely to be problematic for at least some Member States**:

- the absence of an overarching strategy or framework to provide direction and purpose to the policy;
- the perceived encouragement for ESIF funding to be allocated to InvestEU and other instruments (but not vice versa);
- the uncoupling of rural development from the CPR;
- the grouping of ERDF/CF and ESF+ with different groups of EU instruments, and the potential 'nationalisation' of ESF;
- continuation of thematic concentration through earmarking, albeit at national rather than programme levels, particularly for parts of Central and Eastern Europe which now have Transition Region status;
- the lack of coherence between the thematic objectives for ERDF/CF and ESF+;
- the implications of a closer link of Cohesion Policy to the European Semester and Country-Specific Recommendations;
- the proposed reduction of spending on European Territorial Cooperation;
- the changes to pre-financing, especially when combined with greater national co-financing; and
- the shift from n+3 back to n+2, especially for Member States allocating funding to large and complex projects.

Looking beyond the specific proposals, there are several points of note about the broad approach to the reform.

First, **there is no clear mission for Cohesion Policy**. Previous reforms of the policy were conceptualised, structured and communicated with a set of strategic objectives – facilitating enlargement, delivering EU policy objectives (Lisbon Strategy, Europe 2020) – that are absent from the Commission's proposals for 2021-27. **The five repackaged policy objectives lack an overarching EU strategic framework, potentially weakening the political commitment to and visibility of EU Cohesion Policy in delivering EU goals at both EU and national levels.** At one time, it appeared that the UN Sustainable Development Goals might provide a framework for the MFF or Cohesion Policy specifically, but this was rejected by the Commission. Insofar as objectives are set out, they are functional and administrative (e.g. modernisation, flexibility, simplification) rather than strategic. In part, this reflects the way in which the current proposals have emerged, with a much more constrained role for the Commissioner for Regional Policy and DG Regio, and stronger control from the centre of the Commission. Of particular concern is the lack of attention paid to OECD and academic research on the need for more place-based or place-sensitive policies for economic development. Sectoral interests have won out; the centre of the Commission is clearly less sympathetic to Cohesion Policy and appears to regard it more as a political tool than in the past.

Second, **the Commission is seeking more control over EU spending**, reflected in the proposed shift from shared management to central management of funding, and greater influence for the Commission services in areas such as the European Semester, application of the proposed conditionality on the rule of law, and the introduction of structural reform programmes.

In this context, it is notable how the Commission's spending review uses evidence selectively to rationalise its proposals for change. For example, the review of Cohesion Policy makes full use of a range of evaluation studies and ECA reports to provide comprehensive (critical) assessment of the strengths and weaknesses of ESIF. By contrast, the review of the European Fund for Strategic Investment has no significant evidence base to justify the continuation of the instrument and omits any reference to the criticisms of EFSI's lack of additionality in the (one) evaluation conducted to date, while ECA and European Parliament reports go completely uncited (an issue picked up by the RSB following a similar omission in the impact assessment).

In this context, the line of argument - characteristic of previous reform debates - that Cohesion Policy is ineffective or inefficient seems to have been laid substantially to rest. The MFF proposals recognise that the ERDF and Cohesion Fund Policy has high additionality: "only limited parts of [its] investments would happen without the two Funds". Cohesion Policy is acknowledged to support economic adjustment and has an "important role in mitigating economic and financial shocks by stabilising public investment in times of fiscal consolidation" and promoting territorial cooperation (p.28). Similarly, the ESF is also "one of the tangible illustrations of EU added value". Yet, the major strides in improving the effectiveness of Cohesion Policy, investing in performance management and demonstrating results appear to have counted for little in the decisions made on policy priorities.

Finally, **the reform proposals weaken the long-standing commitment to a coordinated use of the Funds**. A key principle of the 1988 reform, reiterated and strengthened in successive reforms, has been seriously undermined. The separation of rural development from the CPR is likely to complicate efforts to coordinate intervention in rural areas at both strategic and operational levels. Further, the regional role of ESF has been almost entirely airbrushed out of the story in the budget proposals and the spending review (as was the case in the ESF ex post evaluation of 2007-13). While the ERDF-ESF-EAFRD coordination task has often been difficult at EU and national levels, and unpopular in parts of DG EMPL and DG AGRI, it is remarkable that these moves have been proposed at a time when greater emphasis is being placed on synergies and integrated development.

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