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Proposals for the MFF and Cohesion Policy 2021-27: a preliminary assessment

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This paper was prepared for the EoRPA Meeting held at EPRC Delft on 20 June 2018.

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1. INTRODUCTION

On 2 May 2018, the European Commission published its proposals for the Multiannual Financial Framework (MFF) 2021-27 with the title ‘A Modern Budget for a Union that Protects, Empowers and Defends’. The proposals comprised a draft Council Regulation on future expenditure, a ‘spending review’ to justify the Commission’s choices, a draft Interinstitutional Agreement, and a series of proposals for reforming the system of Own Resources. The budget was presented as being *ambitious* but also *pragmatic* given the straightened budget circumstances associated with Brexit, *future-oriented* in reflecting the pressures of rapid developments in innovation, the economy, the environment and geopolitics, while retaining a strong commitment to *solidarity* (see Box 1).

Box 1: European Commission presentation of the MFF proposals

> *“Today is an important moment for our Union. The new budget is an opportunity to shape our future as an ambitious Union of 27 bound together by solidarity. With today’s proposal we have put forward both a vision for the kind of Union we want, as well as a pragmatic plan for how we make it happen.”*
>
> Jean-Claude Juncker, President of the European Commission, 2 May 2018
>
> *“This budget proposal is truly about EU added value. We invest even more in areas where one single Member State cannot act alone or where it is more efficient to act together be it research, migration, border control or defence. And we continue to finance traditional – but modernised – policies, such as the Common Agricultural Policy and Cohesion Policy - because we all benefit from the high standard of our agricultural products and regions catching up economically.”*
>
> Günther Oettinger, Commissioner for Budget & Human Resources, 2 May 2018

The Commission’s proposals for the MFF involved less change than might have been expected during 2017. The proclaimed modernisation does not involve either ‘radical redesign’[1] – an option set out in the 2017 White Paper on the Future of Europe – and is arguably more evolution than revolution.[2] As the Bulgarian Presidency of the EU noted:[3]

> *The Commission’s MFF proposal does not constitute a radical reform in relation to either budget size or the key priorities for funding. This also reflects the political state of play across the EU, where reinforcing stability and harmony across EU-27 is imperative. Nonetheless, tensions will likely emerge during the negotiation period and are likely to focus on CP budget size and the different views from some EU member states; conditioning CP funds on the rule of law; and the role and direction for a strengthened commitment to address structural reforms.*

[1] Bachtler J, Mendez C and Wishlade F (2016) *Reshaping the EU budget and Cohesion Policy: carrying on, doing less, doing more or radical redesign?* EoRPA Paper 17/4, European Policies Research Centre, University of Strathclyde, Glasgow.

[2] Bachtler J, Mendez C and Wishlade F (2016) *Evolution or revolution? Exploring New Ideas for Cohesion Policy. 2020+,* EoRPA Paper 16/4, European Policies Research Centre, University of Strathclyde, Glasgow.

[3] *High Level Conference Dedicated to EU Cohesion Policy: post-2020 Perspectives for Convergence and Sustainable Regions, Sofia, 8th June 2018, Background paper*, Bulgarian Presidency of the Council of the European Union.

These tensions referred particularly to the MFF being accompanied by a proposal “on the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States” and giving the EU the powers to adopt “appropriate” measures including the “suspension, and reduction of funding under existing commitments, or the prohibition to conclude new commitments with specific categories of recipients”.

The presentation of the budget proposals was also linked with a plea for urgency in negotiating the proposals. President Juncker said that *“The ball is now in the court of Parliament and Council and I believe we should aim to have agreement before the European Parliament elections next year.”* The Commission’s argument is that, unless the Council are able to agree by April 2019, the European Parliament elections and appointment of a new Commission would significantly delay any prospect of reaching agreement until late into 2020.

The individual policy proposals for the budget headings were published over a two-week period almost a month after the MFF. Proposals for a new Common Provisions Regulation were published on 29 May 2018 covering the ERDF, Cohesion Fund and EMFF (but not the EAFRD) as well as for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument. Specific regulations were also published for the ERDF and CF, territorial cooperation, and a new cross-border mechanism, as well as the impact assessment. A day later, proposals were also published for the ESF+ and the accompanying impact assessment.

Since then, the Commissioner and Director-General for Regional and Urban Policy has been engaged on a ‘tour of capitals’ to present the proposals, and technical presentations by DG Regio.

This paper provides a preliminary review and assessment of the budgetary and regulatory proposals for Cohesion Policy. It is based on desk research covering policy and media sources, and fieldwork discussions on Member State positions (mainly conducted prior to the publication of proposals). It also takes account of the views expressed by Member States and EU institutions at the high-level conference organised by the Bulgarian EU Presidency.

2. PROPOSALS FOR THE MULTIANNUAL FINANCIAL FRAMEWORK

The Commission proposed Multiannual Financial Framework (MFF) for 2021-2027[4] was accompanied by proposals for a new Interinstitutional Agreement (IIA),[5] for a own resources Decision[6] and for a Regulation to protect the EU budget in relation to 'generalised deficiencies' in a Member State's application of the rule of law.[7] Collectively, these documents set out Commission thinking on the key parameters for revenue and expenditure in 2021-27 and involve some significant changes, elaborated further in the legislative proposals for spending programmes.

2.1 Policy rationale

The Commission has presented its MFF proposals as being aligned with the Commission's political priorities set out by President Jean-Claude Juncker in his State of the Union address on 14 September 2016 agreed by the EU27 Leaders in the Rome Agenda Declaration of 25 March 2017 (Box 2). Thematic spending priorities correspond to the headings in the formal budget structure grouped in policy clusters.

[4] A Modern Budget for a Union that Protects, Empowers and Defends – the Multiannual Financial Framework for 2021-2027, COM(2018) 321 final, 2 May 2018.

[5] Proposal for a Interinstitutional Agreement between the European Parliament, the council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, COM(2018) 323 final, 2 May 2018.

[6] Proposals for a Council Decision on the system of Own Resources of the European Union, COM(2018) 325 final, 2 May 2018.

[7] Proposal for Regulation of the European Parliament and of the Council on the protection of the Union's budget in the case of generalised deficiencies as regards the rule of law in the Member States, COM(2018)324 final, 2 May 2018.

Box 2: Rome Agenda for the future of the EU

In the ten years to come we want a Union that is safe and secure, prosperous, competitive, sustainable and socially responsible, and with the will and capacity of playing a key role in the world and of shaping globalisation. We want a Union where citizens have new opportunities for cultural and social development and economic growth. We want a Union which remains open to those European countries that respect our values and are committed to promoting them.

In these times of change, and aware of the concerns of our citizens, we commit to the Rome Agenda, and pledge to work towards:

- **A safe and secure Europe:** a Union where all citizens feel safe and can move freely, where our external borders are secured, with an efficient, responsible and sustainable migration policy, respecting international norms; a Europe determined to fight terrorism and organised crime.

- **A prosperous and sustainable Europe:** a Union which creates growth and jobs; a Union where a strong, connected and developing Single Market, embracing technological transformation, and a stable and further strengthened single currency open avenues for growth, cohesion, competitiveness, innovation and exchange, especially for small and medium-sized enterprises; a Union promoting sustained and sustainable growth, through investment, structural reforms and working towards completing the Economic and Monetary Union; a Union where economies converge; a Union where energy is secure and affordable and the environment clean and safe.

Box 2: Rome Agenda for the future of the EU (continued)

- **A social Europe:** a Union which, based on sustainable growth, promotes economic and social progress as well as cohesion and convergence, while upholding the integrity of the internal market; a Union taking into account the diversity of national systems and the key role of social partners; a Union which promotes equality between women and men as well as rights and equal opportunities for all; a Union which fights unemployment, discrimination, social exclusion and poverty; a Union where young people receive the best education and training and can study and find jobs across the continent; a Union which preserves our cultural heritage and promotes cultural diversity.

- **A stronger Europe on the global scene:** a Union further developing existing partnerships, building new ones and promoting stability and prosperity in its immediate neighbourhood to the east and south, but also in the Middle East and across Africa and globally; a Union ready to take more responsibilities and to assist in creating a more competitive and integrated defence industry; a Union committed to strengthening its common security and defence, also in cooperation and complementarity with the North Atlantic Treaty Organisation, taking into account national circumstances and legal commitments; a Union engaged in the United Nations and standing for a rules-based multilateral system, proud of its values and protective of its people, promoting free and fair trade and a positive global climate policy.

Source: European Commission (2018)

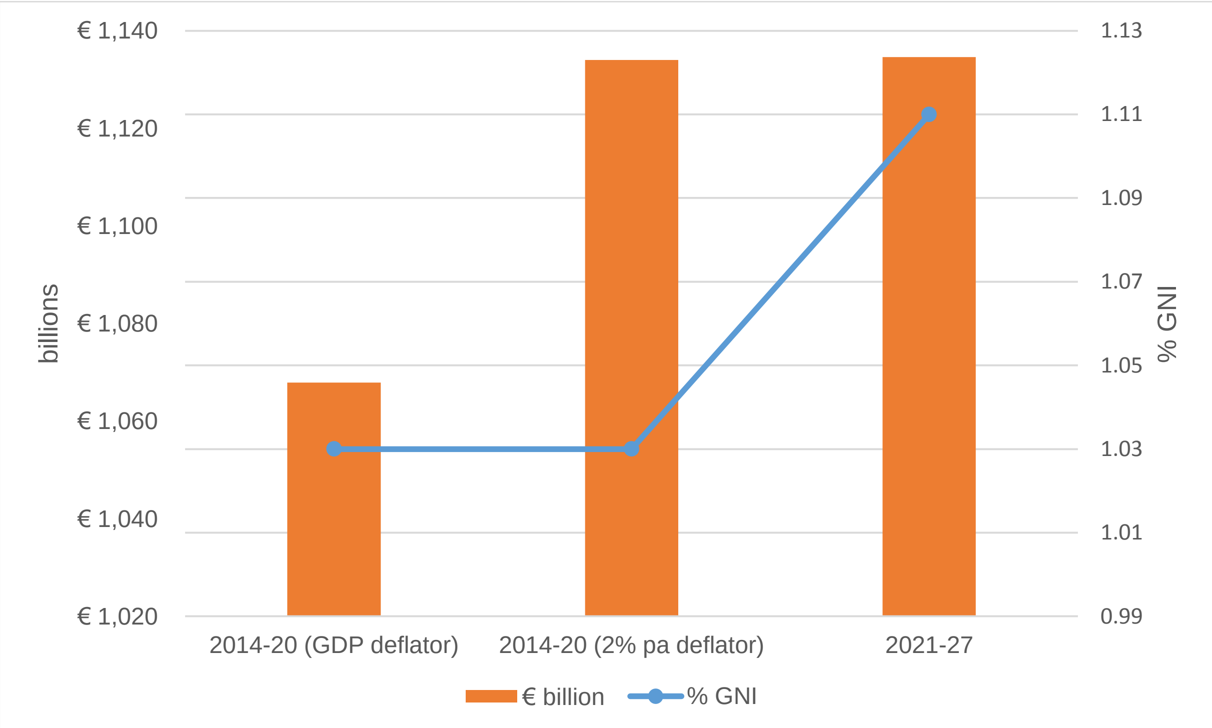
2.2 Expenditure

The main features of the Commission's proposals for 2021-2027 expenditure concern the overall scale of the budget, its structure and policy priorities, new provisions for sound financial management and the rule of law and linkages between the EU budget and economic and monetary union.

In terms of **scale** 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. This includes the European Development Fund (EDF), which was off-budget in 2014-20. The Commission notes that the amounts are broadly comparable between the two periods once EDF is taken into account.

Direct comparisons between 2014-20 and 2021-27 are not entirely straightforward, as illustrated in Figure 1. Past Commission presentations of MFF proposals have usually included the final year of the current period as a point of comparison, but the current proposal eschew this – perhaps because the Commission considers that Brexit diminishes the relevance of such comparisons. By convention, EU budget calculations apply a two percent deflator in the annual adjustments of the MFF.[8] Using this approach, the overall amount is indeed comparable between the periods – €1,134 billion in 2014-20 compared to €1,135 billion in 2021-27. Importantly, however, the 2021-27 figure applies to the EU27 i.e. post-Brexit. Also interesting is that inflation in the EU27 has averaged around 1.1 in the EU27 between 2011 and 2018, well below the two percent deflator. As a proportion of GNI, the proposals involve a substantial increase – from 1.03 percent (including the EDF) to 1.11 percent. As a result, it could be argued that the proposals represent a significant increase compared with 2014-20.

Figure 1: Headline budget data 2014-20 and 2021-27 (2018 prices)



Note: EDF is included in the 2014-20 data to render the two period comparable.
Source: Own calculations from MFF 2014-20, COM(2018) 322 final and AMECO online.

[8] For the latest version see: Technical adjustment of the financial framework for 2019 in line with movements in GNI (ESA 2010)(Article 6 of Council Regulation No 1311/2013 laying down the multiannual financial framework for the years 2014-2020), COM (2018) 282 final.

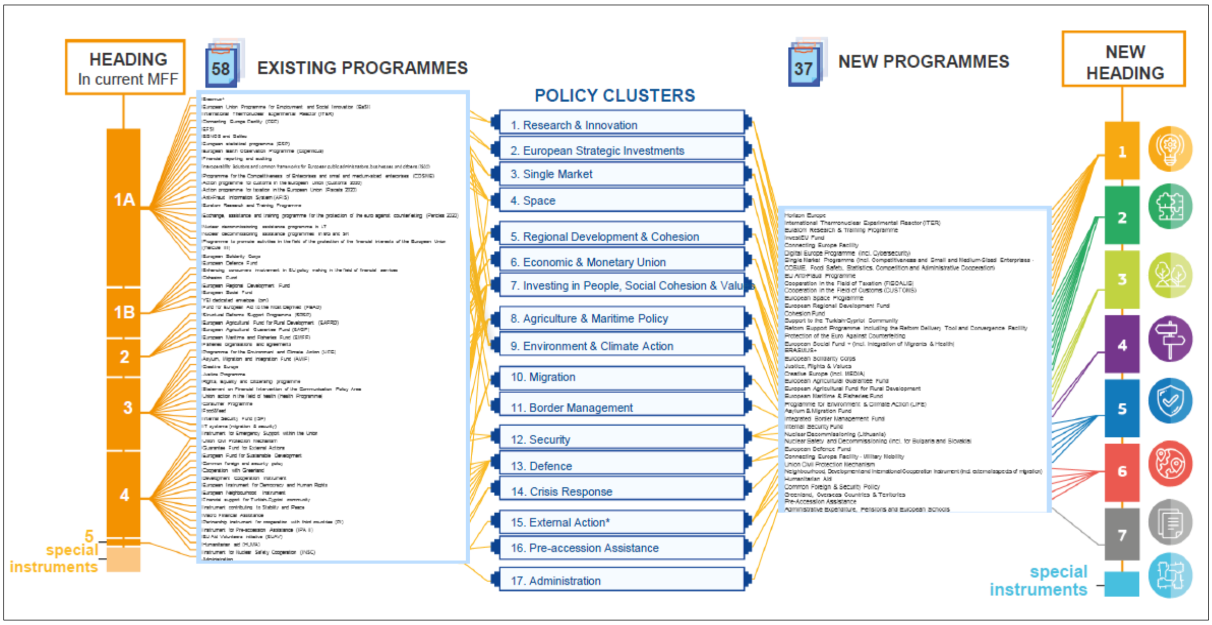
The key developments in the **structure and policy priorities** of the budget comprise:

- **changes to budget headings** and their content;
- significant **cuts** to Cohesion policy and the agriculture; and
- significant **increases** in others, albeit from a much lower base, notably in the case of policies for *migration and borders*, which are set to more than double under a new heading, support for *young people*, and *research and innovation*.

In broad terms, the number of headings has been increased from five (six if the 1a / 1b split is included) to seven – ostensibly to align spending with the political priorities of the EU. Each of the broad headings comprises up to four policy 'clusters', of which there are 17 in total. There is also at least a partial rationalisation of programmes, according to the Commission, with the total falling from 58 in 2014-20 to 37 in 2021-27.

Overall there are similarities in top-level headings, but there are important changes of detail within them. This is illustrated in Figure 2 where the Commission has provided a 'read-across' from MFF 2014-20 to the proposed new MFF.

Figure 2: 'Mapping' MFF 2014-20 to MFF 2021-27



Source: European Commission.

The complexity of the relationship between the existing programmes (58) and the new policy clusters (17) limits the scope for direct expenditure comparisons between periods. Indeed, only Heading 2 (MFF 2014-20) and Heading III (MFF 2021-27) are directly comparable.

Figure 3: Current and proposed MFF headings, € million, 2018 prices

MFF 2014-20	Commitment	MFF 2021-27	Proposal	Key shifts
1a Competitiveness & growth for jobs	€144,330	I Single market, innovation & digital	€166,303	• Losses Erasmus+ to II (€26,368m) • Losses nuclear safety to V (€1190m)

1b Economic, social & territorial cohesion	€373,596	II Cohesion & values	€391,974	• Gains Erasmus+ (€26,368m) • EMU reform tool support (€22,282m)
2 Sustainable growth: natural resources	€428,783	III Natural resources & environment	€336,623	• Directly comparable
3 Security & Citizenship	€18,023	IV Migration & border management	€30,829	• New heading, some shifts from 3 to I and II
		V Security & defence	€24,323	• New heading, some shift from 1a and 3 to V
4 Global Europe (including EDF)	€96,648	VI Neighbourhood and the world	€108,929	• Broadly comparable
5 Administration	€70,812	VII Administration	€75,602	• Comparable
Total	€1,134,031		€1,134,583	

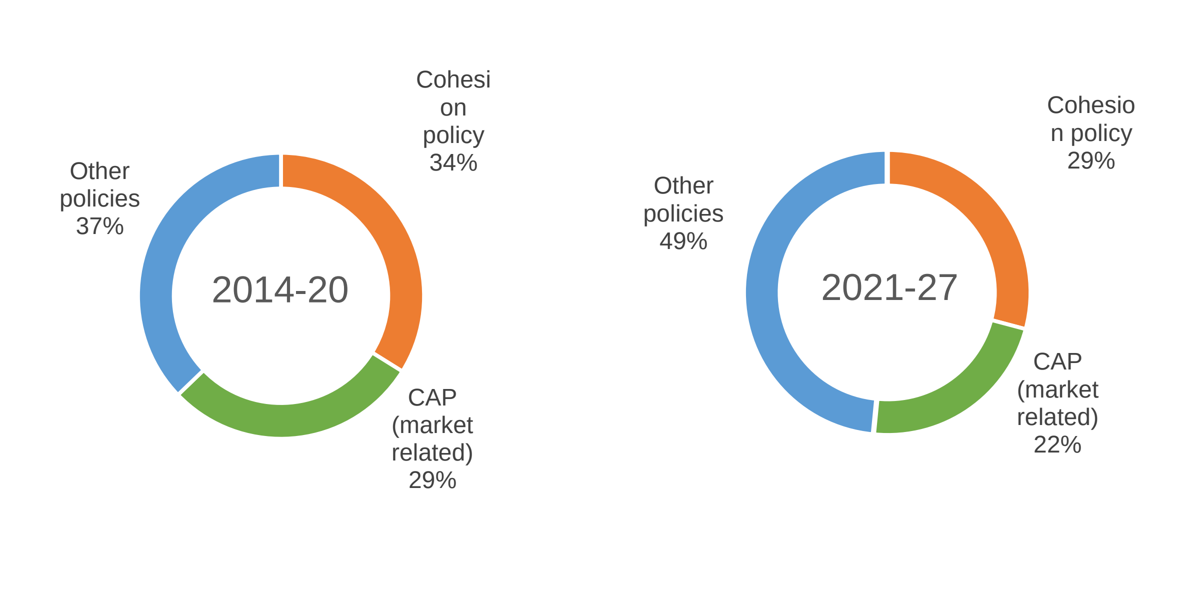
Source: Own calculations from MFF 2014-20 and MFF proposals for 2021-27, using MFF price deflator.

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 (see Figure 3), 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.

By contrast with Cohesion policy, the budget lines for agricultural policy (Heading 2 and III) are directly comparable and 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.

Figure 4: Proposed shifts in the composition of the MFF



Source: Own calculations for MFF 2014-20 and Commission proposals for MFF 2021-27.

2.3 Revenue

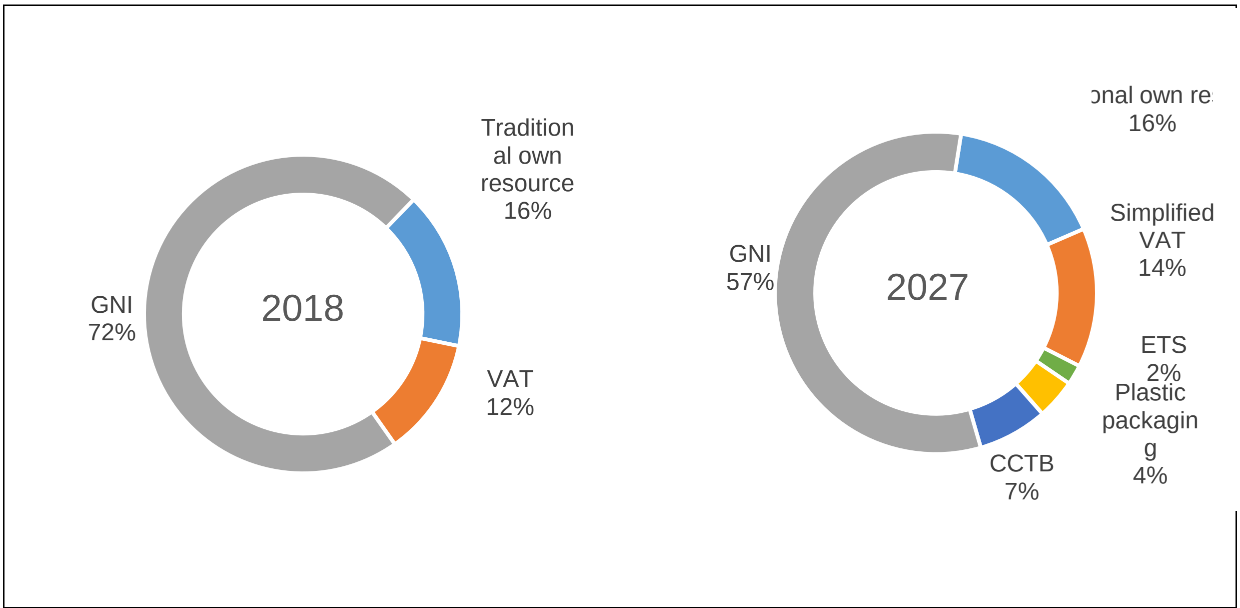
The EU budget is driven by expenditure rather than the revenue available. As such, revenues are adjusted largely automatically to meet spending needs, essentially through the GNI-based contribution. This was introduced in 1988 as 'balancing' contribution to ensure full funding of agreed spending and avoid the budget crises that characterised the pre-MFF era. Since then, however, the revenue side of the budget has proven resistant to change with successive Commission attempts to introduce new own resources rebuffed by Member States. Own Resources Decisions (ORD) apply indefinitely rather than being linked to specific MFF periods, but a new ORD is required following Brexit. This is required both to address the revenue shortfall arising from the UK departure and to amend the specific correction mechanisms linked to the UK rebate.

On the **revenue side** the key changes involve:

- a ***higher own resources ceiling*** – up from .1.2 percent of GNI to 1.29 percent;
- ***new categories of own resources***:
    - a three percent call rate applied to the common consolidated tax base (CCTB)
    - a national contribution based on the amount of non-recycled plastic packaging waste
    - a 20 percent share of the auctioning revenue from the EU emissions trading system.
- ***phasing out national rebates*** over 5 years;
- reducing the ***customs duties collection costs retained by Member States*** from 20 percent to 10 percent; and
- simplifying the ***VAT-based resource.***

Overall, the main outcome of these proposals would be to reduce quite significantly the share of own resources based on GNI. However, at national level, the effects will be quite differentiated, with those currently benefiting from corrections negatively affected, along with those which account for a significant share of customs duty collections. Other impacts are more uncertain since some of the changes depend on further legislation (CCTB) or would be phased-in. However, the Commission estimates that its proposal would result in the share of GNI falling from 72 percent of revenues to 57 percent by the end of MFF 2021-27.

Figure 5: EU revenues under the Commission's own resources proposals



Source: European Commission.

3. POLITICAL REACTIONS TO THE MFF PROPOSALS

3.1 Scale of funding

The publication of the Commission's proposals has elicited three groups of reactions, broadly conditioned by the implications of the proposed MFF for net payments or receipts.

First, there is a net payer group comprising Austria, Denmark, Netherlands and Sweden – dubbed the 'frugal four' - who consider that **the proposed EU budget is too large** and (in some cases) have referred to one percent of EU GNI as being a threshold for post-2020 EU spending (see Box 3). The Dutch government has called the MFF unacceptable due to an expected rise in national contributions of potentially 30-40 percent; spending on foreign policy and Cohesion policy is still considered too high. Likewise, the Swedish government has estimated that its net contributions would increase by 35 percent, which is not considered acceptable; it has also expressed concern at the phasing out of rebates. Similarly, Denmark's official position is that it will not increase its budget contributions to the EU, regardless of Brexit and the consequence for reduced national Cohesion Policy receipts. Clearly, the position of Member States will be determined by the individual effects of removing/reducing rebates and changes to own resources.

Box 3: EU budget is too large: political reactions

"*It is an unreasonable proposal and we cannot accept that…..we want a more modern budget which reduces agricultural subsidies and focuses resources on things that create common EU benefits such as EU security, migration and job creation…… "Some form of [rebate] adjustment is needed to ensure reasonable payments. Sweden is a country that contributes a lot."*

Magdalena Andersson, Finance Minister of Sweden

"The proposal from the European Commission for the multiannual budget is an unacceptable outcome for the Netherlands. A smaller EU means a smaller budget. It requires austerity and ambitious modernization. Moreover burdens are not distributed fairly."

Mark Rutte, Prime Minister of the Netherlands

"The EU Commission's proposal for a new EU budget contains some positive approaches for modernization….but it still far from and acceptable solution. Our goal must be for the EU after Brexit to be slimmer, more economical and more efficient."

Sebastian Kurz, Chancellor of Austria

The EU just presented an EU budget the size of 28 Member States. But we are only 27 Member States to finance it. A smaller EU should mean a smaller budget

Lars Løkke Rasmussen, Prime Minister of Denmark

Second, there is Member State reaction which regards the MFF proposal as **broadly acceptable as a starting point for negotiation.** This includes countries which are not necessarily satisfied with the proposed level of spending, and have concerns about the distributional or other issues (see Box 4), but have presented their position in more flexible terms. For example, Finland has called the MFF a

'good basis for negotiation''. It is reluctant to pay more into the EU budget, but does not regard itself as part of the 'one percent club'; it is concerned about the scale of funding to both the CAP and Cohesion Policy and seeks to maintain EU funding for eastern and northern Finland. Germany has also not rejected the MFF proposal out of hand, though has drawn attention to the significant increase in net payments implied and the need for burden-sharing across the whole EU27.

"Our starting point is that the gap left by Britain will not be met and our net contribution will remain reasonable. However, we have not set ourselves at the strictest net contributors' rate. Finland is ready to invest through the EU if the policy priorities are balanced and acceptable, and the decisions and the EU's activities have added value and impact. We want to maximize the EU's return to Finland while we want to keep our net payment reasonable."

Juha Sipilä, Prime Minister of Finland, 9 May 2018

"The proposal of the EU Commission would considerably increase the additional burden on Germany. Even with an EU budget of 1 percent of gross national income (GNI), Germany would have to pay an average of up to 10 billion euros per year from 2021 onwards. We are ready to take responsibility for strengthening the European Union - but this requires a fair burden-sharing of all Member States."

Otto Scholz, Federal Minister of Finance, and Heiko Maas, Federal Minister for Foreign Affairs, Germany, 2 May 2018

"We welcome the fact that despite the anticipated withdrawal of the United Kingdom from the EU , the European Commission has proposed a level of funding comparable to the current multiannual financial framework as the starting point for the negotiations. We believe that in this way, the key challenges of the European Union can be addressed effectively."

Government of the Republic of Slovenia

Box 4: MFF proposals are a starting point: political reactions

Like some other Central and Eastern European countries, Slovenia and the Czech Republic have acknowledged that a decline in funding is at least partly attributable to economic growth. Romania, one of the few countries, predicted to have an increase in EU funding has also referred to the MFF proposals as 'balanced'.

Third, there is a large group of countries which are unhappy that **the MFF has insufficient funding** (see Box 5). Greece, Hungary and Portugal, for example, consider the Commission to have been insufficiently 'ambitious' in matching the budget to new policy needs. Portugal has criticised the proposal as a 'bad starting point' for negotiations that are likely to be 'long and difficult'. The most trenchant criticism has come from Poland which considers the MFF to be divisive at a time when unity is needed.

Box 5: MFF has insufficient funding: political reactions

"The European Union budget and cohesion policy will require compromise. The most important thing is that we achieve a common goal – an agreement. Today's proposals of the European Commission significantly distance the possibility of concluding such an agreement by spring next year. It can be said that such an agreement is almost impossible. The proposed drop in funds for Poland and other Central European countries, largely to the benefit of richer countries of the South of Europe, is not acceptable. We are ready to seek a compromise, but the distribution of resources from cohesion policy must be fair."

Jerzy Kwieciński, Minister of Investment and Development, Poland

"Europe needs a budget tailored to its ambitions….what Europeans really do not like is that Europe will continue to promise them more than it actually can deliver. This is what disillusioned the Europeans, that is what generates populism and anti-Europeanism. If we want a strong Europe, we have the have a budget that is tailor-made for Europe that we want."

António Costa, Prime Minister of Portugal

This group of Member States also includes those countries that feared that the MFF 'could have been worse'. This applies partly to some of the less-developed Member States (e.g Estonia, Latvia) where more severe cuts in budget receipts were anticipated. Estonia, for example, had expected that cuts to EU funding might exceed 45 percent, which (for now at least) puts a lesser reduction in a more favourable light. Some more developed Member States (or their regions) had been concerned that the Commission's presentation of 'policy scenarios' in March 2018 would lead to the abolition of Cohesion policy funding for some categories of regions; the retention of an all-region policy has been greeted with some relief. Some of the Baltic States (Estonia, Latvia) are looking to compensate cuts in Cohesion Policy allocations with increased funding from the Connecting Europe Facility (Rail Baltic) and Horizon Europe.

Lastly, all Member States recognise the scope for changing the Commission's proposals during the negotiation – albeit in very different directions**.** The unanimity required in the Council (and agreement from the European Parliament) gives all Member States options to press for changes to the proposals during the negotiations, with respect to the overall MFF or allocations to individual headings.

3.2 Allocations to budget headings

While Member States are divided on the overall budget, there is widespread support for the Commission's focus on innovation and digitalisation in the proposed MFF. The importance of spending on migration is also welcomed, especially among countries most affected by migration flows. Enhanced attention to defence spending has support too, especially among several Central and Eastern European countries.

The greatest criticism of the Commission concerns the proposed cuts to the Common Agricultural Policy and Cohesion policy.

3.2.1 Implications of the MFF proposals for Cohesion policy

Some of the Central and Eastern European countries losing receipts have highlighted the potential negative impact for convergence and cohesion. The Slovak government, for example, has noted the role played by Cohesion policy in public investment (50+ percent) in contributing to three percent growth over the 2014-20 period – although also acknowledging the difficulties of absorption. Croatia has made similar points, warning against the sustainability of infrastructure development and research and innovation projects – not just from reductions in funding but also the increased national co-financing proposed. Hungary has highlighted that its four regions are ranked among the 20 poorest regions in the EU, yet would suffer a 'radical drop in funding'; further a significantly lower share of EU resources coupled with a higher co-financing rate would overstretch the national budget, impacting on major development programmes and projects. The Czech Republic has also acknowledged the implications for loss of EU receipts and the requirement to consider other options for financing regional development. Regional interest groups in some more-developed countries also anticipate that cuts in Cohesion Policy funding will not be 'compensated' by national regional policy funding, with implications for development programmes.

Polish government officials have been particularly critical of the compound effects of several budgetary changes: the cuts in Cohesion Policy allocations; the proposed increase in national co-financing; the reduction in pre-financing; and the scope to reallocate Cohesion Policy funding to other policy areas (but not vice versa).

Several Member States (Germany, Netherlands, Sweden) have voiced support for the Commission's proposals to link EU funding to compliance with the rule of law, and for a stronger link between Cohesion Policy and economic governance, with greater emphasis on structural reforms.

By contrast, Central, Eastern and Southern Member States have either concerns or are opposed to these proposals. The Czech Republic, for example, is against linkage of Cohesion policy and Country-Specific Recommendations (CSR) but in favour of 'positive incentives' for fulfilment of enabling conditions. The Greek position is still more opposed to conditions on funding, not just with respect to the rule of law, but also advocating the abolition of macroeconomic conditionality and any linkage of Cohesion policy with the European Semester and CSR. Positive incentives may be introduced to encourage structural reforms but sanctions and conditionalities should be avoided. Poland has been particularly critical of linkage to the rule of law. Others in Central & Eastern Europe have been less immediately critical but are concerned about the need for transparent and objective criteria for applying the principle of rule of law to funding, and the processes of assessment and decision-making (Bulgaria, Czech Republic).

3.2.2 Implications of the MFF proposals for the CAP

While acknowledging the positive elements of the MFF proposals (reorganisation of the MFF architecture, new priorities, links to the rule of law), France has been vociferous in its opposition to the scale of reduction in agricultural spending (see Box 6). Along with Finland, Greece, Ireland, Portugal and Spain, the French government aims to retain allocations to the CAP at current levels.

Box 6: Proposals for the Common Agricultural Policy: political reactions

"The budgetary proposal presented by the Commission is nothing but a proposal. Concerning the CAP, the proposal is not acceptable. It is not acceptable because it would lead to drastic cuts in the revenue of our farmers and it would concern most agricultural undertakings. It is not acceptable because CAP is at the heart of the strategic challenges of the EU…..modernising CAP yes, because that is what farmers ask of us, it should be more efficient and simpler, but to sacrifice the CAP is out of the question."

Nathalie Loiseau, Minister for European Affairs, France

"The Commission has proposed cuts in the agricultural budget. This is very difficult to accept. We need close cooperation and negotiations with the Commission, the Member States and the Parliament."

Juha Sipilä, Prime Minister of Finland

Cohesion policy and the CAP "should not be the adjustment factors" as they are "two policies that are the EU's 'identity marks'…sacrificing these policies in a bad contribution to the future of the European Union".

António Costa, Prime Minister of Portugal

"[a] notable reduction in funding [for agriculture, particularly rural development] is proposed by the European Commission. Given the importance and role of rural development policy, Slovenia believe that the proposed reduction in this area is much too large."

Government of the Republic of Slovenia

4. PROPOSALS FOR COHESION POLICY REFORM

4.1 Rationale for the reform of Cohesion Policy

Turning now to the proposed legislative changes to Cohesion policy for 2021-27,[9] the Commission identified four main features of its proposal for a modernised Cohesion policy:[10]

(a) **a focus on key investment priorities, where the EU is best placed to deliver:** innovation, support to small businesses, digital technologies and industrial modernisation, shift towards a low-carbon, circular economy and the fight against climate change;

(b) **a Cohesion policy for all regions and a more tailored approach to regional development:** Retaining the existing regional eligibility categories - less-developed, transition and more developed regions – with GDP per capita remaining as the main allocation criterion while introducing new climate change and migration criteria; more involvement of local, urban and territorial authorities is proposed, and increased co-financing rates to increase ownership of EU-funded projects;

(c) **fewer, clearer, shorter rules and a more flexible framework:** Simplifying access to funds through fewer rules and lighter control procedures for beneficiaries; a single rulebook to cover seven EU funds, flexibility in order to cope with unforeseen events through a mid-term review; and

(d) **a strengthened link with the European Semester to improve the investment environment in Europe:** stronger Cohesion policy support to structural reforms ensuring full complementarity and coordination with the new, enhanced Reform Support Programme.

Subsequently, the Commission has presented the principles underlying the reforms as being four-fold:[11]

- modernisation – redefinition of fundamental policy objectives on a more limited but broader set of priorities, with a particular focus on innovation and embedding of support for long-term integration of migrants;
- dynamism – punctual launch of the new programmes and scope for more quicker response to changing conditions;
- flexibility – more opportunities for Member States to make adjustments, link with other policies, and use different instruments; and
- simplification – involving a programme of some 250 measures to simplify management and implementation

[9] https://ec.europa.eu/commission/publications/regional-development-and-cohesion_en

[10] European Commission (2018) EU budget: Regional Development and Cohesion Policy beyond 2020 European Commission Press Release, IP-18-3885, Strasbourg, 29 May 2018: http://europa.eu/rapid/press-release_IP-18-3885_en.htm

[11] Speech by Marc Lemaitre to the High-Level Conference on Cohesion Policy, Sofia, 8 June 2018.

Some of the justification for specific changes to Cohesion policy are set out in the Commission's spending review.[12] This is intended as a strategic review that "blends detailed bottom-up analysis of all spending programmes with top-down guidance from senior management and the political level." Further, the review states that it sought opportunities for maximising the EU added value and efficiency **o**f spending, making the budget simpler and more flexible, and streamlining delivery mechanisms (see Box 7).

Box 7: Commission spending review of Cohesion policy: lessons learned

Simplification: Despite recent efforts to simplify the delivery of cohesion policy funds in the 2014-2020 period, a strong effort for further simplifying implementation and allowing for more agile and flexible programming is needed

Contribution to policy objectives and structural reforms:

- Cohesion policy funds provide insufficient incentives to Member States to ensure that policy objectives are met. Funding and conditionalities should be more closely aligned with the European Semester to support reforms and increase the funds' political leverage.
- The importance of the local business environment and innovation ecosystem is key for helping regions move up the value chain.
- Shortcomings in administrative capacity and institutional quality are often key obstacles to economic, social and territorial progress.

Flexibility: Despite the responsiveness of Cohesion policy to both the financial crisis and the more recent migration crisis, the capacity of current programmes to adapt to changing political environment is considered limited. Cohesion policy needs to review how it can better prepare and react to unexpected developments, crisis, economic and societal changes.

Result orientation: The result orientation of the programmes could be further improved and there are still difficulties to fully capture the contribution of the funds to EU policy priorities. Further efforts are needed to ensure that cohesion policy funds are more effectively implemented through the sound definition of targets and results to be achieved.

Synergies: the experience from the 2014-2020 period shows that additional efforts to harmonise rules are still needed6and that the synergies with sectoral policies and programmes such as LIFE, Connecting Europe Facility, Horizon 2020, Erasmus+, Asylum, Migration and Integration Fund/Internal Security Fund were not exploited to their full potential. The diverging rules for similar interventions under different funding sources (e.g. state aid, public procurement, maturity of projects) created uncertainty for programme beneficiaries. A more coherent use of EU funds would enable establishing a more visible link between EU policies and the needs and realities at national and regional level.

[12] European Commission (2018) *op. cit.*

Box 7: Commission spending review of Cohesion policy: lessons learned (continued)

Stabilisation impact: During the financial crisis, EU funds played a countercyclical role with a stabilising effect, by increasing the co-financing rates and lowering the national contribution for affected Member States. It is now appropriate to increase national co-financing rates, in order to increase ownership at national level. In particular as long as the European Investment Stabilisation function is not yet in place, this would also allow keeping a margin of co-financing rate for potential stabilising action in the future.

Source: European Commission (2018) op cit.

4.2 Legislative proposals

Against this context for the regulatory proposals, the following sections now review each of the main areas of proposed change and the potential implications.

4.2.1 Thematic concentration

The Commission's proposals for thematic concentration envisage a smaller but wider menu of five Policy Objectives (POs) to replace the previous 11 Thematic Objectives (TOs) – see Table 1. This could be interpreted as a cosmetic change because the scope of action within priority objectives is wider and essentially covers all the previous thematic objectives. The Commission argues that this simplification enables synergies and flexibility between various strands within a given objective, and removes artificial distinctions between different policies contributing to the same objective. It also provides flexibility to reallocate funding within priorities during implementation given the wider scope of action.

Table 1: Changes to thematic objectives

2014-2020 Thematic objectives	2021-2027 Policy objectives
1. strengthening research, technological development and innovation; 2. enhancing access to, and use and quality of, ICT; 3. enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the EMFF); 4. supporting the shift towards a low-carbon economy in all sectors; 5. promoting climate change adaptation, risk prevention and management; 6. preserving and protecting the environment and promoting resource efficiency; 7. promoting sustainable transport and removing bottlenecks in key network infrastructures; 8. promoting sustainable and quality employment and supporting labour mobility; 9. promoting social inclusion, combating poverty and any discrimination; 10. investing in education, training and vocational training for skills and lifelong learning; 11. enhancing institutional capacity of public authorities and stakeholders and efficient public administration	1. a smarter Europe by promoting innovative and smart economic transformation; 2. a greener, low-carbon Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate adaptation and risk prevention and management; 3. a more connected Europe by enhancing mobility and regional ICT connectivity; 4. a more social Europe implementing the European Pillar of Social Rights; 5. a Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives.

The ERDF/CF Regulation disaggregates the five policy objectives into 21 specific objectives. Among the main changes are a stronger focus on digitisation within the Smarter Europe objective, and on the integration of migrants within the Social Europe objective.

The ESF+ regulation specifies that the Social Europe objective (PO4) will be addressed through eleven specific objectives, and that it will also contribute to PO1 (Smarter Europe) and PO2 (Greener, Low-carbon Europe).

Thematic concentration will continue to require **spending to focus on areas that are considered to have high added value**. The majority of the ERDF would be concentrated on the innovation (PO1) and low-carbon economy (P2) objectives with more flexibility for less developed countries. The mechanism is applied at national level (rather than OP / category of region level, as in 2014-20) with varying flexibility for three country groupings on a sliding scale (Table 2).

Table 2: Thematic concentration in ERDF/CF Priority Objectives

Country Group	PO1: Smarter Europe (minimum share)	PO2: Greener, low-carbon Europe (minimum share)
1. GNI above 100%	60%	*PO1 + PO2 = min. 85%*
2. GNI 75-100%	45%	30%
3. GNI below 75%	35%	30%

Source: COM(2018) 372

The implications of the thematic concentration requirements for spending patterns under the ERDF/CF are estimated in the Commission's impact assessment,[13] which shows **a significant shift in funding from infrastructure towards innovation, broadband and SME support.** The overall increase is 16 percent, bringing the relative share for innovation, broadband and SME support up from 30 percent of total ERDF/CF at present to 46 percent in 2021-27.

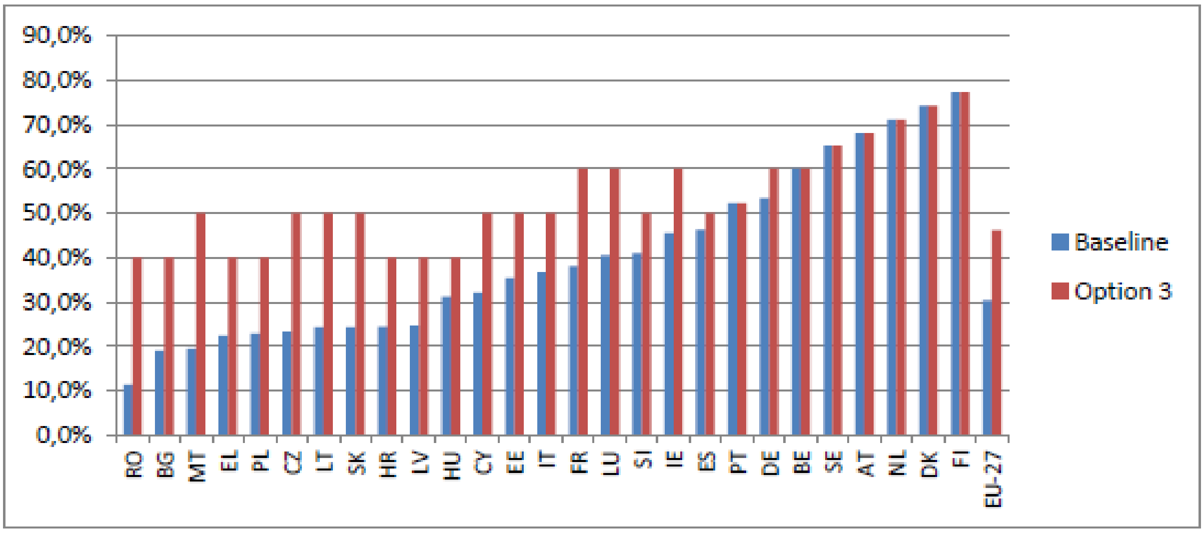
There are marked variations across countries in anticipated shifts in thematic concentration, according to the Commission's estimates - see Figure 6. In some EU15 countries, there will be no adjustment needed because the current levels of concentration on P01 and PO2 already meet the new thresholds (e.g. Finland, Denmark, Netherlands, Austria, Sweden, Belgium and Portugal). However, there would be radical shifts in funding prioritisation required in some EU12 countries, notably in Romania, Malta, Czech Republic, Lithuania and the Slovak Republic. Major reductions in infrastructure allocation to support competitiveness-oriented activities are likely to pose absorption capacity challenges in some of these countries.

A further tightening in current ERDF/CF funded activities is expected as a result of **new restrictions on eligible expenditure,** as specified in Article 6 of the draft ERDF/CF Regulation. In particular, support to large enterprises and to regional airports (except those in the outermost regions) will no longer be eligible, justified by the Commission on the basis of the low impact of these measures. In

[13] European Commission (2018) Impact Assessment Accompanying the document Proposals for a Regulation of the European Parliament and of the Council on the European ERDF and on the CF, on a mechanism to resolve legal and administrative obstacles in a cross-border context, on specific provisions for the European territorial cooperation goal (Interreg) supported by the ERDF and external financing instruments, Commission Staff Working Document, SWD(2018) 282, Strasbourg.

addition, certain activities that are not in line with EU priorities will be ineligible: landfill and fossil fuels (due to the negative environmental impact) and tobacco (because of the negative impact on health).

Figure 6: ERDF/CF Thematic concentration shifts in 2021-2027



Note: Option 3 refers to percentage of spending in the new PO1 (former TOs 1-3: innovation, broadband, SME support) in 2021-27 compared to the baseline in 2014-20.
Source: European Commission (2018)

For the ESF+, Member States will be required to allocate an ‘appropriate amount’ of funding to address challenges identified in relevant CSRs. The relative share of funding allocated to the **social inclusion specific objective – including integration of migrants – will increase** from a 20 percent of funding minimum at present to 25 percent. Commission’s impact assessment states that many Member States allocated significantly more than the minimum level and the EU average was close to the 25 percent level, although it does not identify the countries that allocated less than 25 percent or whether it expects absorption challenges in these cases.

New ESF+ earmarking requirements are proposed in the areas of youth employment and addressing deprivation.

- **Youth employment.** At least ten percent of funding should be concentrated on targeted actions and structural reforms to support youth employment where there is a NEET rate (age group 15 – 29) above the EU average in 2019, increasing to 15 percent in outermost regions.

- **Deprivation.** two percent of funding should be concentrated on the objective of addressing material deprivation.

A first debate on the thematic concentration proposals during the Bulgarian Presidency indicated mixed views among Member States about the new approach. Some net payers were positive about the focus on innovation, digitalisation and integration of migrants, and in favour of concentration. However, Central and Eastern European countries do not agree with the strict limits on thematic concentration and are calling for greater flexibility for Member States to focus on their specific needs needed and to recognise differences in added value in the objectives across different Member States. By contrast, a CPMR analysis considers the proposals to provide significant flexibility although it is

critical of the various thematic concentration requirements across the funds because of it will be "complex for managing authorities to align funding and break silos".[14]

4.2.2 The territorial dimension

The territorial dimension has received greater visibility through a new dedicated Policy Objective: "a Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives" (PO5). While greater visibility of the territorial dimension is likely to be welcomed by Member States and stakeholders, it could be argued that the territorial dimension should be a horizontal and cross-cutting objective.

The required ERDF funding for this objective will go up marginally from 5 to 6 percent, delivered through local development partnerships via existing tools (sustainable urban development strategies, integrated territorial instruments, community-led local development) but with more flexibility in decision-making responsibilities for cities. A key difference is that the EAFRD is no longer included within the remit of the Cohesion Policy Funds and the territorial instruments. This is problematic given the inherently territorial nature of rural development and because of concerns of centralisation in EAFRD management.[15] It may also make coordination more difficult between the ERDF/ESF and EAFRD.

A **European Urban Initiative** will provide a more streamlined and coherent approach to capacity building, innovative actions, knowledge and policy development and communication by combining the various urban tools (such as URBACT or the Urban Innovative Actions) in a single programme.

A more ambitious **European territorial cooperation** is proposed, albeit with a lower budget. Interregional and cross-border cooperation would facilitate funding projects with other regions anywhere in Europe. Key changes highlighted by the Commission are the emphasis on enhancing cross-border strategic planning and institutional cooperation, including through new legal instruments; and the addition of co-operation outside the EU with a specific strand for outermost regions and incorporating the current IPA/ENI funding to support enlargement and cooperation with neighbourhood countries. INTERREG will continue to be able to draw on all of the priority objectives.

Analysis of the European Territorial Cooperation proposals by **the CPMR highlights the radical nature of the changes and provides a mixed assessment** including criticism of the restructuring of the components and the cut in the budget (Box 8). The European Parliament and Committee of the Regions will be aiming to restore the interregional cooperation budget, which is arguably optimistic given the downward pressure on the overall budget for Cohesion policy.

[14] CPMR (2018) Initial views on the post-2020 Cohesion Policy package, CPMR briefing.

[15] *Ibid.*

Box 8: CPMR position on European Territorial Cooperation

- **Maritime CBC programmes and INTERREG Europe are no more**. The fears of CPMR Members are now confirmed: maritime cross-border programmes will cease to be under the Commission proposal, and will be merged with the transnational component. This is a massive concern for a variety of reasons as expressed in our open letter on the future of INTERREG sent out in April. The INTERREG Europe interregional programme is also set to disappear.
- **'Functional areas' to define the geography of transnational programmes.** Article 5 ETC states that the regions to be supported by the transnational programmes (Components 2A and 2B) will be regions 'covering contiguous functional areas' taking into account (where applicable) macroregional strategies and sea-basin strategies. What 'contiguous functional areas' means would require clarity.
- **New outermost regions component.** The additional outermost regions component sounds like a positive development, though a closer look (including a comparison of what that component would achieve in relation to the European Development Fund) would be needed.
- **New interregional innovation investments component.** Similarly, scaling up the already existing cooperation between regions on innovation is certainly a positive step but there are questions about how this will be managed, not to mention the transversal nature of innovation which is already supported by all strands of INTERREG.
- **The UK can participate in INTERREG programmes after 2020.** This was a key message from the CPMR and is very much welcome.
- It is difficult to get around the fact that **INTERREG will be cut by 12% compared to the 14-20 period** (€8.4bn compared to €9.3bn in 14-20) and will only represent 2.5% of the Cohesion Policy envelope, even though ETC will get two additional 'components' to address."

Source: CPMR (2018) Initial views on the post-2020 Cohesion Policy package, CPMR briefing.

4.2.3 Synergies

The CPR states that synergies between different EU instruments will be encouraged through the strategic planning process, which will identify common objectives and common areas for activities across different EU programmes (e.g. with the CAP, Horizon Europe, CEF, DEP, Erasmus, InvestEU Fund, LIFE).

The most significant synergies are expected with Horizon Europe and the Connecting Europe Facility, although the CPR mainly demarcates the different scope of actions or provides for transfers of Cohesion policy funding to the CEF (and other EU policies).

- **Horizon Europe:** will focus on 'European excellence' (the generation and exploitation of new knowledge) the ERDF will focus on 'regional relevance' (diffusion of existing knowledge and technology notably via smart specialization). The 'Seal of Excellence' will allow projects successfully evaluated under Horizon Europe to be funded by Cohesion policy without having to pass another selection process.

- **Connecting Europe Facility:** The CEF will focus in particular on the "core network" while the ERDF and the Cohesion Fund will also provide support for the "comprehensive network". As previously, there are provision for a transfer of CF resources (€10 billion) to the CEF.

- **Migration:** All Cohesion Policy Funds will also address long-term needs linked to the integration of migrants, while AMIF will focus on short term needs.

- **Cohesion policy transfers to other EU instruments/objectives:** Framed as providing flexibility, the CPR enables voluntary transfers of funding towards the InvestEU instruments or to any instrument under direct or indirect management, including the Reform Support Programme.

A key budgetary concern among Cohesion policy stakeholder are the provisions on transfers to other EU funds, which could mean further losses to an already reduced Cohesion policy budget. Moreover, the synergies are one-way in terms of how Cohesion policy can contribute to other EU instruments and objectives with no provision for other instruments to contribute to cohesion goals.

The decoupling of rural development policy (EAFRD) from Cohesion policy is a key concern for the European Parliament, Committee of the Regions, and some Member States given the strong territorial dimension to rural policy and, as a consequence, the strong case for coordination across the two policies.

In a similar way, **the perceived 'nationalisation of the ESF' has raised alarm** at the Committee of the Regions as it is considered to hamper the pursuit of integration with the ERDF/CF and to weaken territorial cohesion goals and decentralised delivery. By contrast, the Commission maintains that cooperation will continue to be very close given the shared management structure and rules under the CPR.

4.2.4 Links with economic governance / conditionalities

Strengthened and streamlined links between Cohesion Policy, structural reforms and sound economic policies are envisaged building on current arrangements.

The European Semester's **Country-Specific Recommendations** will be taken into account twice throughout the 2021-2027 programming cycle: during the design of programmes, and during the mid-term review in 2024. Member States would be required to present to the Commission progress in implementing the programmes in support of the Country-Specific Recommendations.

To support the closer link with the European Semester process, a new provision under Article 4 of the CPR specifies that the Commission and Member States shall ensure the coordination, complementarity and coherence between the Funds and the new **Reform Support Programme**, including the Reform Delivery Tool and the Technical Support Instrument.

However, there are concerns about the relevance, accountability and political implications of the reform support programme. While Germany would like to see a stronger link between Cohesion policy and relevant CSRs, the SRDT is different in that it aims to link Cohesion policy to all/any structural reforms. It is also based on bilateral relationships between an individual Member State and the Commission implying less transparency – unlike the European Semester approach, where there is a clear and transparent system. The current structural reform programme only funds technical assistance i.e. funding to design not implement reforms and is not seen to be functioning well. Whereas the idea is that the SRDT would also fund the implementation of structural reforms, there is

a risk that this could increase euro-scepticism if uncomfortable reforms are seen to be being imposed by EU.

Macroeconomic conditionality is maintained and justified on the basis of a need to ensure EU investments operate in a sound fiscal environment. When a Member State fails to take effective or corrective action in the context of key EU economic governance mechanisms (Excessive Deficit Procedure, Excessive Imbalance Procedure) or fails to implement the measures required by a stability support programme, the Commission shall make a proposal to the Council to suspend all or part of the commitments or payments for one or more of the programmes of a Member State. The Commission may, on grounds of exceptional economic circumstances or following a reasoned request by the Member State concerned, recommend that the Council cancels the suspensions.

Streamlined ex-ante conditionalities (now labelled 'enabling conditions') are proposed by halving the number of conditions to 20, which would cover similar thematic and horizontal areas as in 2014-2020 but with more precise conditions. A new horizontal condition is the requirement for effective application and implementation of the EU Charter of Fundamental Rights, including arrangements to ensure verification of compliance of operations and to report to the monitoring committee on compliance. Aside from reducing the number, the procedures linked to the enabling conditions are simpler by not requiring action plans to be submitted in cases of non-fulfilment, although Member States will not be able to send payment claims related to unfulfilled preconditions, and their fulfilment will need to be respected throughout the programming period.

Streamlined conditions and decision-making will be welcomed as it was a key demand by some Member States during the reform debate, along with an increased focus on conditions that are more relevant to Cohesion policy and under the control of managing authorities. Whether new requirements for ongoing monitoring throughout the period will lead to additional bureaucratic burden remains to be seen.

4.2.5 Rule of law conditionality

Conditionality linked to the rule of law is a controversial proposal that has received considerable media attention in the context of debates about legislative changes in Poland and Hungary. Introduced in a separate financial regulation on 'the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States' (COM 2018/383), it goes beyond Cohesion policy and is applicable to various EU instruments under both centralised and shared management. In the case of shared management funds, the Commission proposes a range of financial sanctions where there is a risk of a generalised deficiency in the rule of law in a Member State:

- a suspension of the approval of one or more programmes or an amendment thereof;
- a suspension of commitments;
- a reduction of commitments, including through financial corrections or transfers to other spending programmes;
- a reduction of pre-financing;
- an interruption of payment deadlines;
- a suspension of payments.

The sanctions would be applied where the deficiency in the rule of law in a Member State risks affecting the principles of sound financial management or the protection of EU financial interests particularly in the context of:

- public procurement or grant procedures;
- the proper functioning of investigation and public prosecution services in relation to the prosecution of fraud, corruption or other breaches of EU budget law;
- the effective judicial review by independent courts of actions or omissions by the authorities referred to in
- the prevention and sanctioning of fraud, corruption or other breaches of EU law relating to the implementation of the EU budget, and the imposition of effective and dissuasive penalties on recipients by national courts or by administrative authorities;
- the recovery of funds unduly paid; and
- the effective and timely cooperation with the EU fraud and prosecution offices.

The Commission would propose such measures to the Council, which would make a decision based on a reversed qualified majority vote, and the measures would be lifted once the deficiency has been remedied or ceases to exist.

There is support for the introduction of a rule of law conditionality among net payers in principle, notably in Germany, France and the Netherlands. Countries such as Poland and Hungary oppose the proposals arguing that it would be subjective, lacks transparency, politicises the EU budget and does not support the objectives of cohesion.

4.2.6 Management of funding

The slow launch of programmes and pace of sending in 2014-20 has been a challenge for implementation with negative political implications for debates on the performance of EU Cohesion policy in the context of the EU spending review. To speed up absorption the Commission has proposed to **return to the n+2 rule** whereby committed funding can be lost to the programme if it is not spent within two years as opposed to the three-year rule used in 2014-2020.

Some Member States are critical of n+2 and argue that it will lead to a recurrence of problems with preparing and managing large, high-value projects, encourage a less strategic approach to project selection and may not even improve budget discipline. Other Member States consider that financial absorption could speed up if N+2 was reintroduced if it is accompanied by a genuinely simplified designation and programming process. Indeed, a commonly held view is that the reason for slow absorption is not only slow designation but also risk aversion due to concerns about net financial correction risks during annual closure processes.

A reduction in pre-financing levels is also proposed to speed up absorption, which would in the future constitute 0.5 percent of programme resources to be paid each year except for 2027, the final year of the new funding period. The risk here is that less pre-financing will lead to liquidity challenges in less-developed countries with fiscal constraints.

Lastly, EU co-financing rates would be reduced. The Commission argues that high EU co-financing rates are no longer necessary and lower rates promote "ownership" and increase the overall cohesion policy budget. The EU co-financing rates proposed are

- 70 percent for the Less Developed Regions (including outermost regions);
- 55 percent for the Transition Regions; and
- 40 percent for the More Developed Regions.

Efforts to reduce the EU component of funding are generally welcomed by net payer countries. However, in countries facing fiscal constraints greater domestic co-financing may be a challenge. Indeed, Italy is calling for Cohesion policy investments to be deducted from deficit calculations to ease fiscal pressures.

4.2.7 Flexibility

To provide flexibility to adjust programmes at the end of the period, **a mid-term review will be introduced.** Allocations for the first five years will be programmed, while the budget for the remaining two years – 2026 and 2027 – will be allocated following a review in 2024. The programming period will essentially become a 5+2 period with a reprogramming in 2025 to take account of:

- the challenges identified in the relevant Country-Specific Recommendations adopted in the context of the European Semester in 2023 and 2024;
- the socio-economic situation of the Member State or region concerned;
- the progress made towards the milestones of the programmes' performance framework;
- the outcome of the technical adjustment, an exercise which will be carried out in 2024 and lead to a review of national Cohesion Policy envelopes based on the most recent statistics.

As a consequence of the new mid-term review, the previous performance reserve is discontinued. Based on previous experience of the mid-term reviews in the 1994-99 and 2000-06 periods, key questions are whether the administrative effort will be worth the effort and that any reprograming does not disrupt the stability provided by the long-term planning approach. More cynically, there are concerns that the exercise will merely be used to divert Cohesion policy funding to other EU priorities or centralised instruments.

Programming flexibility will also be provided through **t**he possibility to transfer funding across priorities without the need for formal Commission approval - a threshold for such transfers is set at five percent of a priority's budget.

4.2.8 Simplification

Responding to ongoing concerns about the complexity of Cohesion policy administration, a number of simplification measure are proposed by the Commission. The main simplifications from a management perspective are as follows:[16]

- **the management designation process will not be repeated,** so that existing arrangements can be rolled over with simpler rules for designating new bodies.
- **fewer layers of control** involving Certifying Authorities (CA) being replaced by an accounting function, which will not duplicate controls; however, in some countries the existing

[16] von Breska E (2018) *EU Budget for the future, CPR ERDF/CF ETC & ECBC*, CoR COTER meeting, 6 June 2018

arrangements are valued and there is an open question about whether this will imply a new designation with additional administrative effort;
- **a risk-based sampling method for administrative verifications**, instead of verifying 100% of payment claims;
- **a more proportionate system for low error rate programmes** involving reliance on national systems, no system audit, and a maximum audit sample of 30 operations; and
- **a simpler process for acceptance of accounts**

Member State debates during the Bulgarian Presidency suggested that expectations were higher in the area of simplification, with more radical proposals anticipated drawing on the work of the high-level group on simplification. Others welcomed the core direction of change and expressed support for specific proposals especially on designation.

4.3 Eligibility and allocations

There is both continuity and change in the approach to Cohesion policy eligibility and allocations under the Commission proposals.

- Presentationally, the structure of the Cohesion policy budget has ***changed*** to include an *a priori* allocation to the ERDF and ESF+. Previously, allocations distinguished categories of region, but not the division between funds
- Spatial coverage ***retains*** the same eligibility categories – Less Developed, Transition and More Developed Regions, but the threshold for Transition Regions is ***changed*** from 90 percent of the EU average to 100 percent.
- The Cohesion Fund eligibility threshold ***remains*** at 90 percent of EU GNI per head, but the reference period is aligned with the reference period for GDP data used elsewhere.
- Calculation of the financial allocations ***remains*** based on the so-called Berlin formula and the dominant allocation criterion is GDP per head, but there are ***changes*** in approach, notably the addition of criteria related to climate change and migration
- According to the Commission, GDP accounts for 81 percent of the distribution formula (compared to an estimated 86 percent in the 2014-20), with labour market data accounting for 15 percent, and migration and climate change accounting for three percent and one percent respectively.[17]
- As in the past, the ‘adjustments’ play a determining role in the allocations notably through capping.
- Perhaps most the striking ***change*** from past practice is that the Commission has published the outcomes from applying the Cohesion policy allocation formulae at the outset.

4.3.1 Overall budget allocations

The overall budget allocation for economic, social and territorial cohesion is proposed as €330,624 million for 2021-27 compared with €373,596 million for 2014-20.[18] This is effectively a cut of around €30 billion in real terms, once Brexit is taken into account.

In the Commission proposals, this is broken down between funds as illustrated in Table 3.

[17] Eric von Breska presentation to CoR and COTER, 6 June 2018.
[18] Both in 2018 prices, with the 2014-20 figures based on the MFF, and the application of the 2% deflator.

Table 3: Proposed allocations by fund 2021-27

Fund	€ million
European Regional Development Fund	200,622
Cohesion Fund (including transfers to CEF)	41,374
European Social Fund + (excluding health, employment and social innovation)	88,646

Source: Commission proposals for MFF 2021-27.

An initial breakdown for ERDF and ESF was not made in MFF 2014-20, but comparisons can be made between the two periods at the level of categories of region and overarching objectives. This shows that while the overall budget would fall by over 11 percent, allocations to Less Developed and Transition Regions would increase (see Table 4). The reduction in allocations to the Cohesion Fund – almost 46 percent in real terms, is especially striking. In per capita terms, however, only the allocations to LDRs increase.

Table 4: 2014-2020 and proposed 2021-27 commitment appropriations for Cohesion policy (€m)

	Total, €million (2018 prices)			€ per head per annum (2018 prices)		
	2014-20	**2021-27**	**% change**	**2014-20**	**2021-27**	**% change**
Less Developed Regions	188,757	198,622	5.2	213	230	8.1
Transition Regions	36,397	45,935	26.2	74	58	-20.7
More Developed Regions	56,867	34,843	-38.7	26	24	-10.1
Territorial Cooperation	10,282	8,430	-18.0			
Cohesion Fund	76,250	41,349	-45.8	84	47	-43.7
OMR and LPD	1,593	1,447	-9.2	35	30	
YEI	3,447		-100.0			
Total	373,596	330,624	-11.5			

Note: The 2014-20 figures include the United Kingdom, which was allocated around €12,273 million (2018 prices). OMR=Outermost Regions. LPD=Low Population Density. YEI= Youth Employment Initiative.
Source: Own calculations from MFF 2014-20 and MFF proposals for 2021-27, using MFF price deflator.

4.3.2 Spatial coverage

The approach to spatial coverage in the Commission proposal is broadly consistent with that in 2014-20. It is based on GDP(PPS) per head at NUTS 2 over the period 2014-16 (as opposed to 2007-09 for MFF 2014-20). However, there are two key differences.

- First, in anticipation of Brexit, **EU27 averages are used instead of EU28**. This is a break from convention insofar as Commission calculations are by convention based on *current* membership, even when accession of new countries is imminent. In practice, however, the departure of the UK has a limited impact on EU average GDP per head and the relevant thresholds.

- Second, **Transition Region coverage is widened** to include regions with GDP per head between 75 percent and 100 percent of the EU average, rather than 75 percent to 90 percent,

as previously. This has a significant impact on Transition Region coverage – increasing it from under 15 percent to over 25 percent of the EU27 population.

The impact of changes in GDP(PPS) per head and of the new Transition Region definition are summarised in Table 5 and illustrated in Figure 7 and Map 1 and Map 2.

Table 5: Cohesion policy status 2014-20 and under Commission proposal for 2021-27 (% of population)

	MFF	LDR	Transition	MDR
EU28	**2014-20**	25.4	13.5	61.0
EU27	**2021-27**	27.6	25.3	47.1

Source: Own calculations from Eurostat data.

In 2021-27 the Less Developed Regions would cover 27.6 percent of the EU27 population. The overall pattern is of a southern shift in coverage, with Greece, Spain, Italy and Portugal all gaining LDR coverage to varying degrees, and many Central and Eastern European countries losing LDR coverage. The key points to note are:

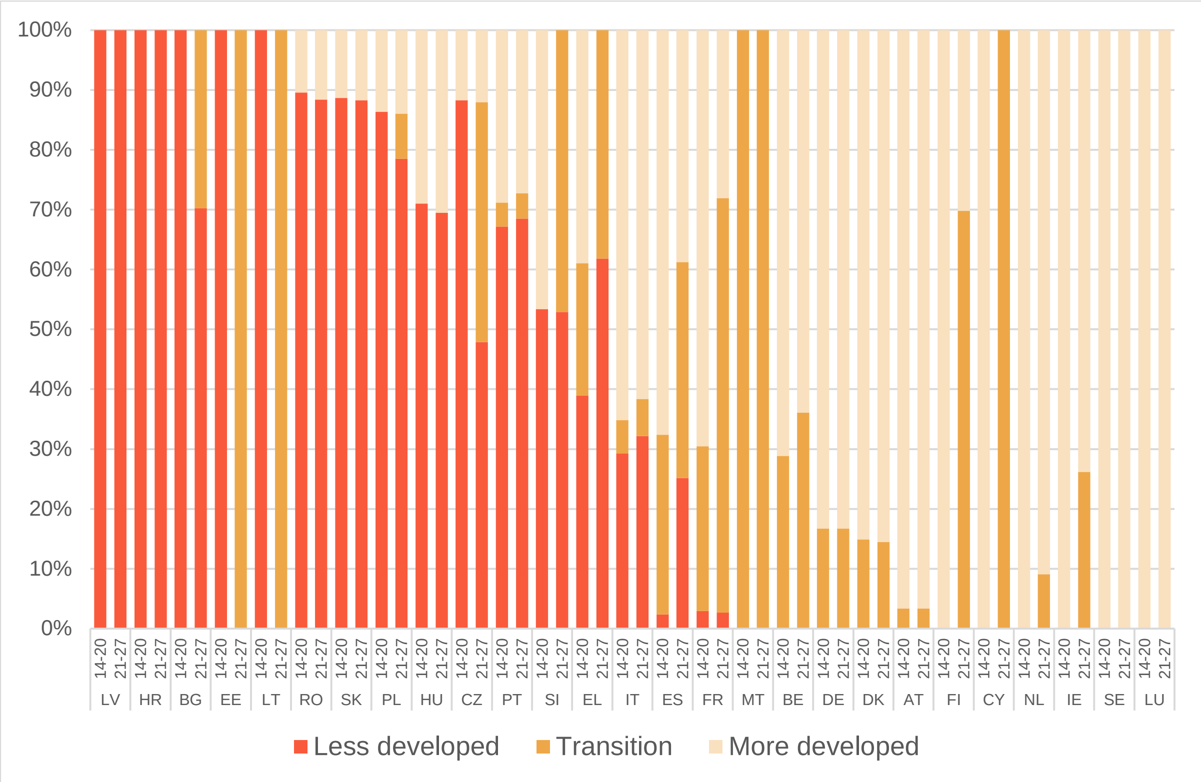
- only Latvia and Croatia would be covered by LDR status in their entirety;
- Estonia and Lithuania would no longer have LDR status;
- LDR coverage also falls in Czech Republic, Poland and Bulgaria;
- all of Greece except Athens and the Northern Aegean would ‘gain’ LDR status and none of Greece would have MDR status;
- similarly in Spain, LDR coverage would increase significantly include Andalucía, Murcia and Castilla-La-Mancha; and
- there would be more modest increases in Italy and Portugal as Sardegna and Madeira, respectively, would qualify as LDR regions.

Changes to Transition Region coverage are more complex owing to the different threshold:

- Transition coverage in Germany in unchanged, but largely due to the change in threshold, without which Transition coverage would have been extremely limited;
- several countries increase Transition coverage due to the new definition, notably Belgium, Finland, France, the Netherlands and Slovenia;
- Cyprus and Ireland increase Transition coverage, but bcause of economic change, not the threshold; and
- in Italy, Transition coverage increases to include Umbria, Abruzzo and Marche, the latter owing to the new threshold.

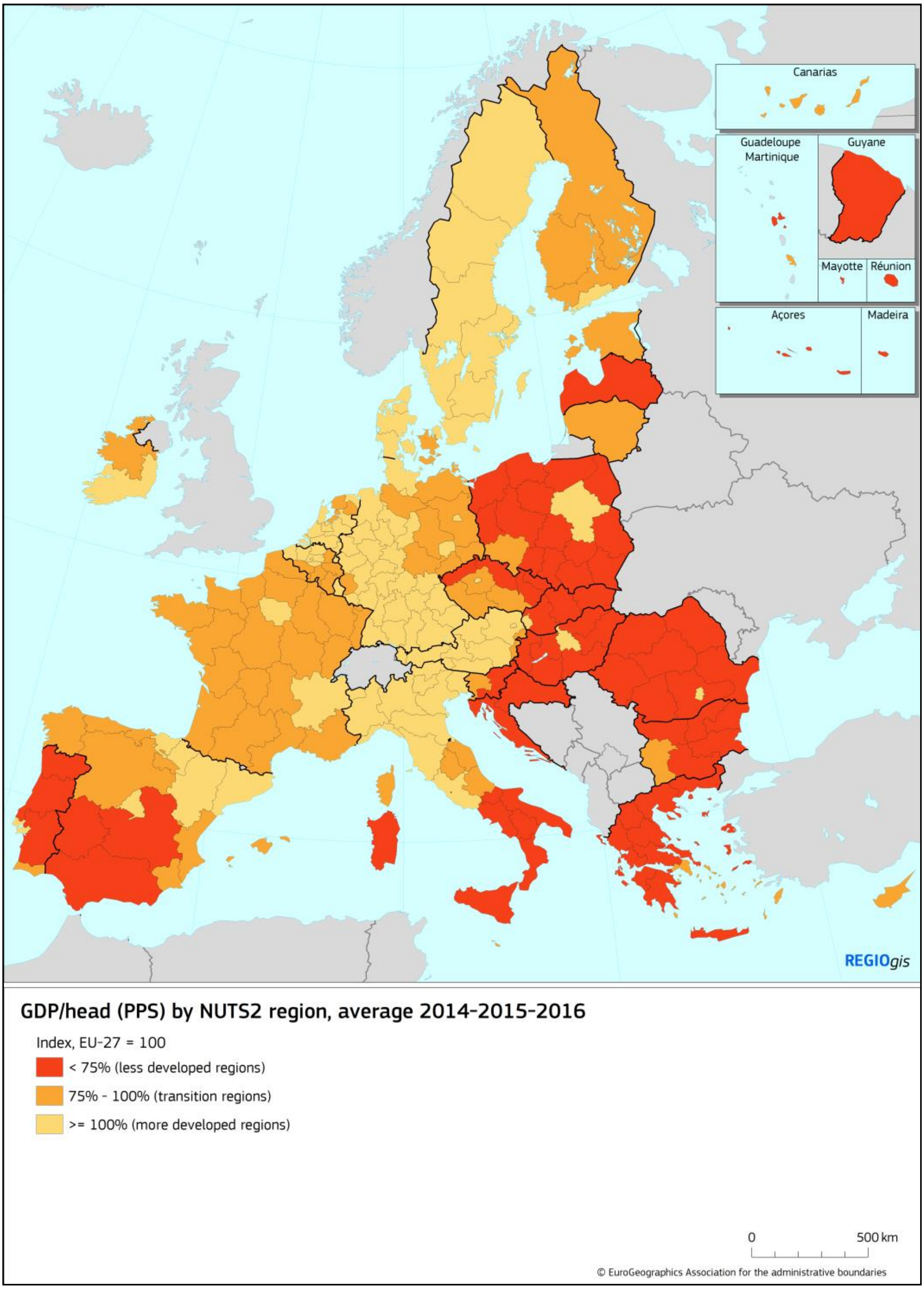
There are two outstanding questions on coverage. First, it is unclear whether new data would be used for eligibility – in principle, revised GDP data will be available in spring 2019. A second question is whether the new NUTS Regulation would be taken into account. This entered into force in January 2018 and, among other changes, affects NUTS 2 boundaries in Hungary, Lithuania, Poland and Ireland, with implications for Cohesion policy status in most cases.

Figure 7: Changes in Cohesion policy status 2014-20 and 2021-27



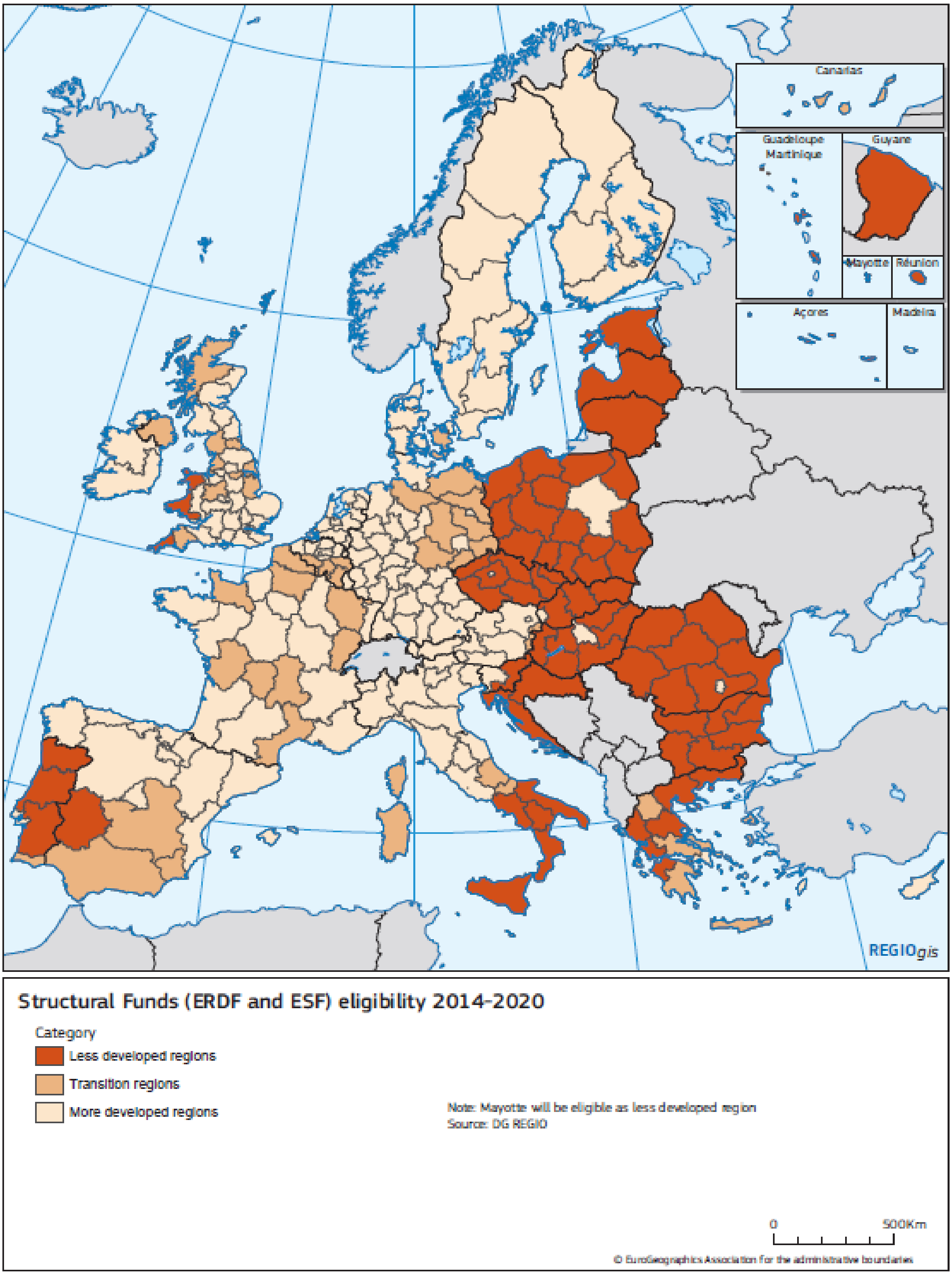
Source: Own calculations from Eurostat data.

Map 1: GDP(PPS) per head 2014-16 average – EU27=100



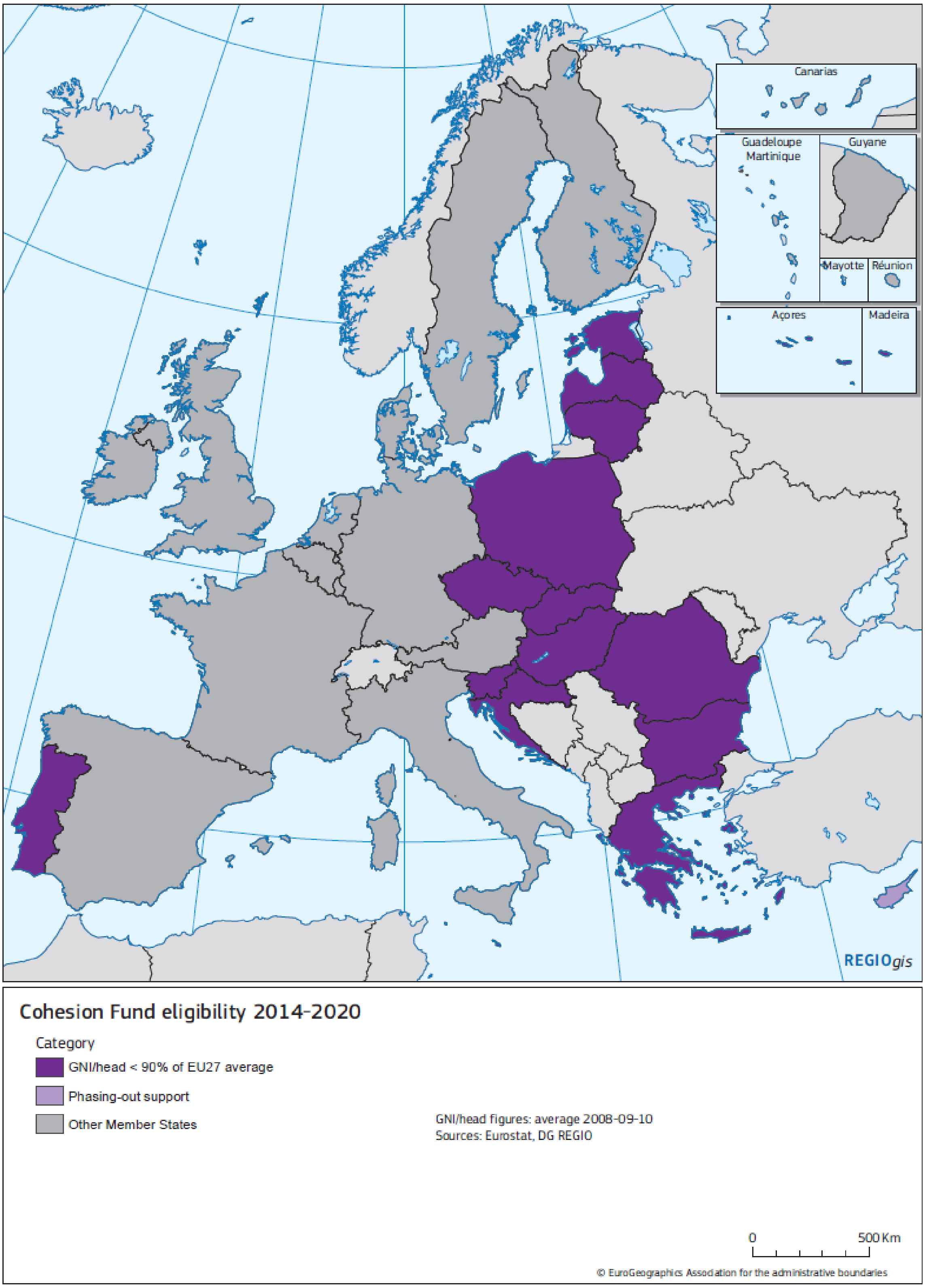
Source: DG Regio

Map 2: Cohesion policy assisted areas 2014-20



Source: DG Regio.

Map 3: Cohesion Fund Eligibility 2014-20



Source: DG Regio.

A final point to note concerning coverage is eligibility for the **Cohesion Fund**. Current coverage is shown in Map 3. The only change compared to the current period would appear to be that Cyprus would qualify in full for the Cohesion Fund, whereas in 2014-20 it had Phasing-out status.

4.3.3 Financial allocation mechanisms

In the past MFF, financial allocations for Cohesion policy have comprised three main elements:

1. Specific methodologies for allocating the sums under each strand of policy (LDR, TR, MDR, OMR/LPD, CF, ETC);
2. A series of adjustments is applied in the form of capping, safety nets, 'reverse' safety nets and ceilings at regional and national levels; and
3. Provisions to address 'special situations' – typically the outcome of last minute negotiations.

Since the late 1990s, when the so-called 'Berlin formula' was introduced by the Commission to calculate Objective1 allocations, the precise details of the methodology (1 and 2, above) have been the subject of intense discussion, with the list of 'special situations' growing longer (and accounting for more funds) under successive MFFs. A key difference in the current proposals is that the Commission has published the outcome of its methodology at the start of the negotiating process.[19] Nevertheless, the methodology remains opaque in places – indeed the Commission considers it useful to 'keep parts of the method secret in order to help the negotiations'.[20]

The following subsections outline the main features of the methodologies and adjustments – (a) and (b) above – and highlights proposed changes between 2014-20 and 2021-27.

(i) Less-Developed Regions

The core elements of the Berlin formula used to allocate funding to LDRs **remain the same,** i.e.:

a) the ***regional allocation*** is based on the 'gap' between GDP(PPS) per capita in the eligible regions and the EU average;

b) the allocation (in euros) is calculated as percentage of that gap, the percentage varying according to ***national prosperity;***

c) an ***unemployment premium*** is added for each unemployed person in excess of the LDR average rate.

However, there are important **changes** of detail to the national prosperity coefficient (b), and the employment premium (c); and ***additional criteria*** (see (d) to (g) below) are introduced:

b) ***National prosperity*****,** as Table 6 shows, the Commission proposals *retain* the 'banding' from the current period, although Brexit means that EU27 refers to the EU28 excluding the United Kingdom, rather than the EU28 excluding Croatia. There are significant changes in relative levels of national prosperity, with the result that the Czech Republic moves 'up' a

[19] See Annex XXII to Commission proposal for a new common provisions Regulation, COM(2018)375.

[20] Lewis Dijkstra presentation of proposals for Cohesion Policy post 2020 at Regional Studies Association conference, Lugano, 3-6 June 2018.

band, while Spain, Italy, Greece and Slovenia all move down. The proposed coefficients differ, with the Commission proposing lower rates across the board, but (proportionately) less of a reduction in the least prosperous Member States, albeit with no apparent logic to the reduction. In the past, these bands have been the subject of intense negotiations – in the original Berlin formula Commission proposals of the late 1990s, the coefficients were five, four and three percent, and in no MFF round have the coefficients remained unchanged.

Table 6: National prosperity coefficients 2007-13 and 2014-20

2014-20			2021-27 proposals		
GNI EU27=100	**Member State**	**Coeff (%)**	**GNI EU27=100**	**Member State**	**Coeff (%)**
<82	BG CZ EE LV LT HU PL PT RO SK	3.15	<82	BG EE LV LT HU PL PT RO SK, **SI, HR, EL**	2.8
<99	EL SI	2.7	<99	**CZ, ES, IT**	1.3
>99	ES FR IT UK	1.65	>99	FR	0.9

Source: Own calculations from Ameco online and Council Regulation (EC) No 1303/2013 'Common provisions regulation', OJ L347/320; Commission proposals for a new common provision Regulation, COM(2018)375.

c) Unemployment premium. This is *retained*, but the amount is reduced sharply. For 2014-20, the unemployment premium was set at €1494, per person per annum (2018 prices), but for 2021-27, the Commission proposes €500 per person per annum.

Alongside the core provisions that have been part of the Berlin formula since the outset, **four new criteria** are added:

d) youth unemployment: this operates in the same way as the unemployment premium and involves a further €500 per person per annum in relation to the 15-24 age group;

e) educational attainment: a premium of €250 per person per annum related to proportion of the regional population with below LDR average low education levels;

f) greenhouse gas emissions: €1 per year per tonne of CO_2 equivalent of the regional share[21] of the amount by which the Member State exceeds its 2030 GHG emission targets outside the emissions trading scheme; and

g) migration: €400 per person per year applied to the regional population share of net migration from outside the EU to the Member State.[22]

[21] Calculated using regional shares of national population applied to emissions targets, rather than as regional GHG targets.

[22] As for the GHG premium, this is appears to be calculated using regional shares of national population, rather than requiring regional net migration data.

(ii) Transition Regions

As previously, the calculation of the TR allocation is complicated. Indeed, the ***same complexity is retained***, with some changes of detail. The per capita allocation for each Transition Region (TR) is calculated with reference to a theoretical maximum intensity and a minimum intensity.

- The *maximum* intensity is based on the method for LDR. The formula assumes a region with GDP of 75 percent of the EU average, applies the LDR method outlined above, including the national prosperity coefficient (see Table 6), and then takes 60 percent of the amount obtained by this method as the maximum.[23]
- The *minimum* intensity is the 'initial average per capital aid intensity for all MDR regions', this being given as €18 per person per annum.[24]

The *actual* aid intensity for each TR depends on the prosperity of the region and is calculated through a 'linear interpolation' of regional GDP per head along scale from the minimum and maximum calculated as outlined above. This means that the closer a region's per capita GDP is to the EU average, the closer the aid intensity of the TR will be to the average of the MDRs.

As before, the unemployment premium applies on top of this sum, but under the Commission proposals is at the same rate as for the LDRs (whereas before the amount was lower). Similarly, the new premia in relation to youth unemployment, educational attainment, greenhouse gas emissions and migration are also applied, and also at the same rates as for the LDRs.

In addition, a specific safety net is applied to ensure that no TR receives less than it would have had it been a MDR.

(iii) More Developed Regions

The MDR methodology is similar to that for 2014-20. It is based on an initial financial envelope set on a per capita basis - €18 per head of eligible population per annum. As for 2014-20, this initial sum is distributed on the basis of a key (see Table 7). The criteria proposed for 2021-27 are very similar to the current period, but involve a shift toward younger people.

[23] This is 40 percent in the current CPR.

[24] In the 2014-20 CPR, the *national* average of MDR regions is used as the minimum.

Table 7: Criteria and weightings for MDR financial allocations 2014-20 and proposed for 2021-27

2014-20		Proposed for 2021-27	
Criterion	**(%)**	**Criterion**	**(%)**
Total MDR population	25.0	As 2014-20	20.0
Number of unemployed people in NUTS 2 regions with an unemployment rate above the average of all MDRs	20.0	As 2014-20	15.0
Employment to be added to reach the Europe 2020 target	20.0	Employment to be added to reach the average employment rate (age 20-64) of all MDRs	20.0
Number of people aged 30 to 34 with tertiary educational attainment to be added to reach the Europe 2020 target of 40 percent	12.5	Number of people aged 30 to 34 with tertiary educational attainment to be added to reach average of all MDRs	**20.0**
Number of early leavers from education and training (aged 18 to 24) to be subtracted to reach the Europe 2020 target of 10 percent	12.5	Number of early leavers from education and training (aged 18 to 24) to be subtracted to reach the average of all MDRs	**15.0**
Difference between the observed GDP(PPS) of the region and the theoretical regional GDP if the region had the same GDP per head as the most prosperous NUTS 2 region	7.5	As 2014-20	7.5
Population of NUTS 3 regions with a population density of below 12.5 inhabitants per km^2	2.5	As 2014-20	2.5

Source: Common provisions regulation', OJ L347/320; Commission proposals for a new common provision Regulation, COM(2018)375.

In addition to the distribution of this initial amount based on the key above, the premia related to greenhouse gas emissions and migration also apply on the same terms and rates as for LDR and TR (the youth unemployment and educational attainment premia do not apply, these having been incorporated into the MDR key).

(iv) Outermost, sparsely-populated regions and islands

As in 2014-20, proposed 2012-27 allocations to the Outermost regions and the northern sparsely-populated regions are based on a per capita amount and are in addition to any allocation under the relevant designated area strand (i.e. LDR, TR, MDR). In 2014-20, this amounted to about €35 per head per annum (at 2018 prices). The Commission has proposed an allocation of €30 per head per annum for 2014-20; this is obviously below the intensity in 2014-20 (and substantially below that for 2007-13).

(v) Cohesion Fund

As for 2014-20, for 2021-27 the Commission proposes an initial distribution of Cohesion Fund monies on the basis of a 'theoretical envelope'. The initial theoretical envelope is calculated on the basis of €62.9 per annum per head of eligible population.[25]

The criteria for the distribution of the theoretical envelope are unchanged since 2007-13. This takes the form of an allocation key based on national shares of population and surface area, adjusted for prosperity. As in both 2007-13 and 2014-20, the Cohesion Fund is to account for a maximum of one-third of total Structural and Investment Fund allocations.

4.3.4 Adjustments

The allocations resulting from the above methodologies are subject to a series of adjustments. The role of these adjustments is crucial. For example, in 2014-20, Cohesion policy allocations to eight central and eastern European countries was determined by GDP-related capping, rather than the allocation methodologies outlined above.

(i) Capping

As in 2007-13 and 2014-21, the Commission proposes that 2021-27 Cohesion policy allocations will be subject to capping, expressed as a proportion of GDP. Where capping applies to a national allocation, as previously, it reduces all transfers, except those to ETC and MDRs – in other words, the allocations to LDRs, TRs and the Cohesion Fund are reduced proportionately to respect the cap.

Proposals for capping vary by GNI(PPS) per head as set out below in Table 8; the rates proposed are lower than in 2014-20, and much lower that 2007-13, but GDP growth in the intervening period complicates direct comparisons of impact. On the basis of *current* data, all but three countries would be subject to the same cap (although most countries escape the cap altogether). Importantly, capping is calculated on an annual basis for the MFF. Assuming the same method is applied as in the past, this means that the level of Cohesion policy allocations is directly affected by actual growth in a given country, and by DG ECFIN long-term growth forecasts.

Table 8: Capping based on 2016 GNI(PPS) per head

Threshold	Member States	Cap
GNI(PPS) per head < 60% EU27	BG RO HR	2.3% of GDP
GNI(PPS) per head >60%, <65% EU27	~	1.85% of GDP
GNI(PPS) per head >65% EU27	All others	1.55% of GDP

Capping was a major area of contention in 2014-20 – the Commission had proposed a general cap of 2.5 percent of GDP, but as this had the effect of enabling higher allocations to countries where there was higher growth, (arguably a perverse effect), a 'low growth' gap of 2.59 percent was introduced to compensate for this. As in the past, capping seems likely to be a controversial aspect of the

[25] Compared to €55 per head – 2018 prices – in 2018.

negotiations, not least since it is this rather than actual allocation formula that can determine a Member State's Cohesion policy receipts.

(ii) Ceilings ('reverse' safety net)

As in 2014-20, the Commission proposes that national allocations be limited as a percentage of the previous period. In 2014-20, this was set at 110 percent of previous allocations; for 2021-27, the Commission proposes to ***reduce*** this to 108 percent.

A ***new proposal*** is that, for Member States with GNI exceeding 120 percent of the EU average, allocations should be capped at 2014-20 levels. On the basis of 2016 GNI data, this would apply to:

- Belgium
- Sweden
- Germany
- Netherlands
- Austria
- Denmark
- Ireland
- Luxembourg

(iii) Safety net

Conversely, and again as in the past, the Commission proposes a minimum national allocation compared to the previous period. This is proposed as 76 percent of the 2014-20 allocation, ***considerably higher than the 55 percent*** applicable in 2014-20.

(iv) Transitional arrangements

Similar to previous period, the Commission proposes special arrangements for regions losing LDR status. As in 2014-20, this is set at 60 percent of their indicative annual allocation. However, an important issue is that ***indicative allocations at regional level are never published by the Commission***. Much of the uncertainty involved in replicating Commission calculations arises from the absence of information on allocations in the previous period, sometimes compounded by NUTS boundary changes.

4.3.5 Outcomes

For the first time in the history of MFF negotiations, the Commission has published the outcome of applying the methodology alongside its proposals. This is replicated in Table 9.

Table 9: Proposed Cohesion policy allocations 2021-27 (€)

	2018 prices	Current prices
BE	2 443 732 247	2 754 198 305
BG	8 929 511 492	10 081 635 710
CZ	17 848 116 938	20 115 646 252
DK	573 517 899	646 380 972
DE	15 688 212 843	17 681 335 291
EE	2 914 906 456	3 285 233 245
IE	1 087 980 532	1 226 203 951
EL	19 239 335 692	21 696 841 512
ES	34 004 950 482	38 325 138 562
FR	16 022 440 880	18 058 025 615
HR	8 767 737 011	9 888 093 817
IT	38 564 071 866	43 463 477 430
CY	877 368 784	988 834 854
LV	4 262 268 627	4 812 229 539
LT	5 642 442 504	6 359 291 448
LU	64 879 682	73 122 377
HU	17 933 628 471	20 247 570 927
MT	596 961 418	672 802 893
NL	1 441 843 260	1 625 023 473
AT	1 279 708 248	1 442 289 880
PL	64 396 905 118	72 724 130 923
PT	21 171 877 482	23 861 676 803
RO	27 203 590 880	30 765 592 532
SI	3 073 103 392	3 463 528 447
SK	11 779 580 537	13 304 565 383
FI	1 604 638 379	1 808 501 037
SE	2 141 077 508	2 413 092 535

Source: Annex XXII to Commission proposals for a common provisions Regulation, COM(2018)375.

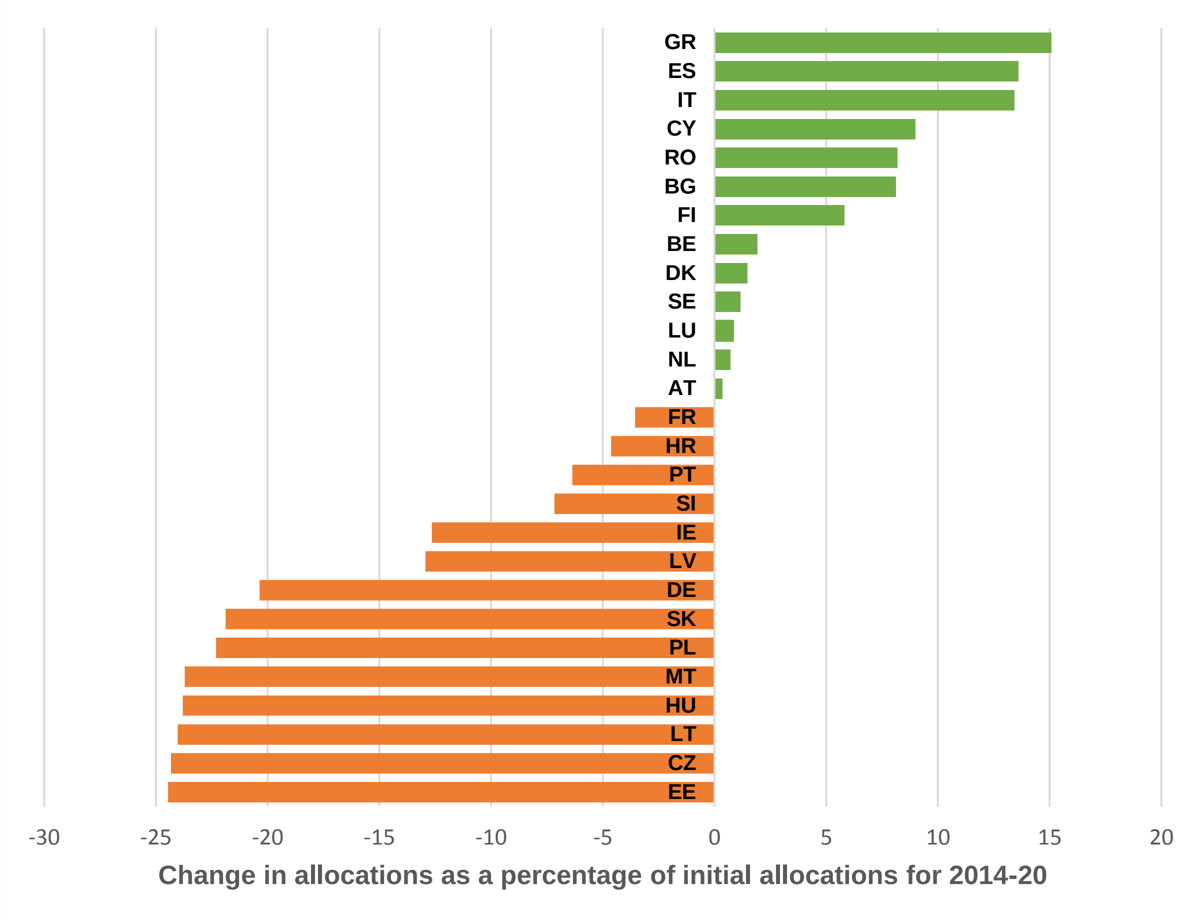
For some countries these allocations differ quite considerably from those for 2014-20. Figure 8 compares the initial allocations for 2014-20 (expressed in 2018 prices) with the allocations given in the Commission's new proposals.[26] This suggests the following.

- **Increases** in Cohesion policy allocations are concentrated in southern Europe – Greece, Italy and Spain, which would see gains of over 10 percent relative to 2014-20 – along with Bulgaria and Romania. In *absolute* terms, the highest 'gainers' are Italy and Spain, with increases of €4.5 billion and €4 billion, respectively; gains in Romania and Greece exceed €2 billion compared to 2014-20, and Bulgaria €670 million, but elsewhere the absolute sums are small.

- Seven countries would see **decreases** in Cohesion policy allocations exceeding 20 percent of initial 2014-20 allocations – mainly in central and eastern European and the Baltic countries, but also Malta and Germany. In *absolute* terms, the worst affected Poland where receipts would fall by over €18 billion, but the Czech Republic, Hungary, Germany and Slovakia would also see reductions in the range €3 - €6 billion.

[26] It does not take account of any adjustments in the interim.

Figure 8: Impact of Commission proposal on Cohesion policy allocations

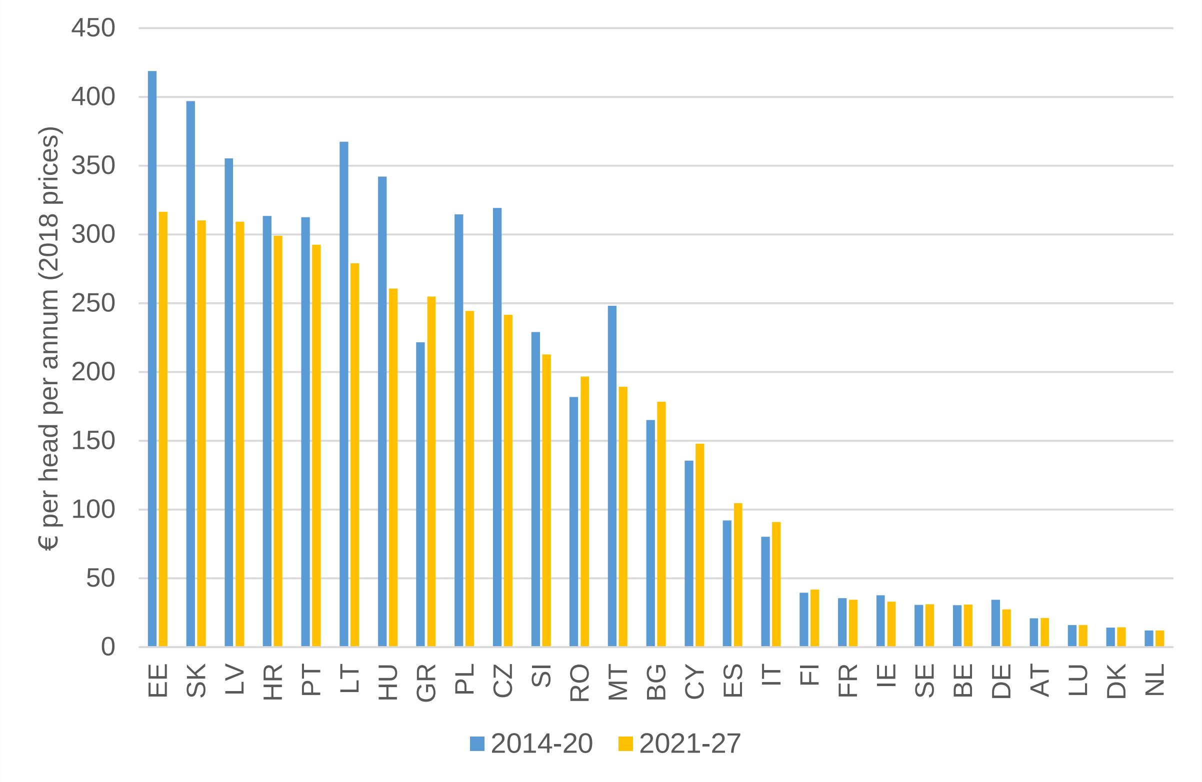


Source: Own calculations using 2014-20 initial allocations converted to 2018 prices and Com(2018)375 Annex XXII.

Related, there are also changes in the *intensity* of support – expressed as an aid amount per head of national population per annum. In Figure 9 countries are ranked by aid intensity under the 2021-27 proposals. This shows an overall narrowing of the range of aid intensities, although in Estonia, Latvia and Slovakia they still exceed €300 per person per annum, at one end of the spectrum, while in Luxembourg, Denmark and the Netherlands per capita annual amounts are less than €20.

One interesting point to note is that Romania and Bulgaria have much lower aid intensities than other countries that are far more prosperous. This reflects the impact of the capping provisions, which in are indicative of concerns at the capacity to absorb the funds in the current period.

Figure 9: Changes in aid intensity



5. DISCUSSION

The publication of the European Commission proposals for the MFF and Cohesion Policy has initiated negotiations among Member States in the various Council formations, beginning with the clarification of details with the Commission services. In parallel, the European Parliament is beginning the process of developing its own positions in preparation for the inter-institutional negotiations once the Council has reached agreement.

The reform agenda is, of course, still in its early stages. The European Parliament has called for agreement to be reached among the Member States ahead of the May 2019 European elections, and the Commission favours an early conclusion. However, the European Council favours finalisation at a later stage.[27] Based on past patterns of MFF negotiations, and the range of issues to be addressed, it remains to be seen whether the process can be concluded any more swiftly than in the past.

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.

[27] European Parliament (2018) The European Council and the Multiannual Financial Framework, available at: http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/615644/EPRS_BRI(2018)615644_EN.pdf

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, and corrected, 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.

EoRPA RESEARCH

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Many thanks are due to everyone who participated in the research. Particular thanks go to the interviewees from institutions that are not members of the EoRPA Consortium. Thanks are also due to Lynn Ogilvie, Alyson Ross and Marie Devine for editorial, coordination and secretarial support respectively. In addition, the European Policies Research Centre gratefully acknowledges the financial support provided by the members of the EoRPA Consortium.

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