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Reshaping the EU budget and Cohesion Policy: carrying on, doing less, doing more or radical redesign?

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EXECUTIVE SUMMARY

The context for the future direction of EU policy and spending is the aim of EU institutions to reaffirm the importance of the European Union, following the UK's decision to leave, and to seek common purpose on the future of European integration. The debates conducted under the Budget Focused on Results process and the Commission's 'reflections papers' indicate that EU institutions and some Member States want to allocate substantially more funds to EU priorities such as youth employment, managing migration, security, adaptation to climate change and a quicker transition to clean energy.

There are major implications for Cohesion Policy, including the possibilities of less spending on ESIF, an asymmetric approach to convergence, the prioritisation of social cohesion, measures to ensure faster implementation and stronger capacity, alignment with economic governance, revision of the Berlin formula, a different geographical focus and new budgetary sanctions. Apart from the budgetary dynamics of the MFF debate, Cohesion Policy reform depends on the perceived importance of the territorial dimension in post-2020 EU policy objectives, the role accorded to EU Cohesion Policy in responding to EU development needs and challenges, and the spatial allocation of funding.

EU institutions – Commission DGs, the European Parliament, Committee of the Regions, Council and European Court of Auditors – have all contributed to the debate over the past year through conferences, studies, reports and resolutions. National policymakers have also produced some position papers or statements, either on the MFF, the role of Cohesion policy or specific aspects of its implementation. Key issues raised are the added value of the policy, its geographic and thematic targeting, economic governance, simplification and differentiation.

Cohesion policymakers have stressed the value of the policy in delivering collective action in responding to EU objectives related to globalisation, competitiveness and climate change, as well as the capability of smart specialisation strategies in designing and implementing coordinated policy interventions. They also acknowledge that policy reform has to incorporate more flexibility in response to unforeseen challenges, the need for structural reforms to improve effectiveness and ensure that administrations have sufficient capacity, and simplification especially through common rules.

The context for the reform of the MFF is challenging, with downward pressure on major spending areas such as Cohesion Policy and the Common Agricultural Policy. The debate on reforming Cohesion Policy will need to re-establish the added value of Cohesion Policy in this new context, increased budgetary flexibility to deal with unexpected challenges as well as simplification and differentiation of management, performance and the links with economic governance. The wider challenge is to (re)design a future Cohesion policy as part of a coherent, consistent and mutually reinforcing policy framework at EU and Member State levels which recognises that 'sectoral policy' objectives – innovation, a low-carbon economy, social inclusion and the integration of migrants – cannot be addressed effectively without taking account of the territorial dimension. The policy framework also needs a reformed economic governance system which can ensure better coordination of economic policies, and appropriate incentives to ensure that structural reforms take place and the quality of government is improved. Greater performance and accountability have been important new additions to the programming and implementation system for ESIF, but have added new complexity to an already complicated implementation system. Finally, there is a need to continue institutional capacity to ensure effective implementation, not just in areas like expertise but also addressing the politicisation of spending decisions and the lack of trust in institutions.

1. INTRODUCTION

The budgetary and policy debates on the post-2020 reform have potentially major implications for the future of Cohesion policy. Most obviously, the EU budget will be under pressure as a result of Brexit and the loss of the second largest net payer. The spending review being conducted within the European Commission is looking at scenarios of cuts of 15-30 percent in the budgets of different policy headings. Further, the debates conducted under the Budget Focused on Results process and the Commission's 'reflections papers' indicate that EU institutions and some Member States are pressing to allocate substantially more funds to different EU priorities such as youth employment, managing migration, internal and external security, adaptation to climate change and a quicker transition to clean energy.

Internal Commission discussions are also examining ways to focus and streamline Cohesion Policy. Consideration is being given to rationalising the scope of Cohesion Policy, potentially concentrating on fewer thematic objectives and demarcating the borders between different policy areas and funding instruments more clearly to avoid duplication and overlaps. A key question is whether the policy has become too sectorally focused; under a number of important EU policy objectives, place-based intervention is increasingly recognised as necessary.

Alignment of Cohesion Policy with the objectives of economic governance is clearly important, possibly integrating the policy more with the European Semester and Country-Specific Recommendations. The use of conditionalities may extended, for example to encourage structural reform.

Policymakers are acutely aware of Cohesion Policy's reputation for complexity, bureaucracy and inflexibility. The pace of spending under the 2014-20 programmes is still slow in many countries, and the measures to enhance the performance and effectiveness of the policy have yet to show results. There is pressure from within the Commission to allocate funding more 'efficiently' through central management, and from some Member States for more differentiation in rules and procedures used for implementing the Funds. Performance-based budgeting could be an option for the future.

Simplification of the regulatory framework and harmonisation of rules across the ESI Funds and potentially other EU instruments has been extensively discussed, but the challenge will be to simplify and maybe differentiate while ensuring that the (painfully won) progress with reducing the error rate is not reversed. Flexibility is another important theme, either by enabling programmes to respond more quickly to unexpected shocks or via the reintroduction of 'Community Initiatives'. The Structural Reform Service is likely to play a greater role in developing the institutional and policy frameworks, including administrative capacity-building, for implementing the policy.

The aim of this paper is to examine future options for Cohesion policy after 2020.[1] It begins by exploring the state of debate on the MFF, notably the reflections papers produced by the Commission, and the budget and policy dynamics influencing the discussions. It then explores the range of views on the content of the post-2020 policy drawing on the positions or views of EU

[1] This paper was originally prepared for the 38th Meeting of the European Regional Policy Research Consortium (EoRPA) held on Loch Lomondside on 1-3 October 2017. It has been updated to reflect new research and policy contributions since the EoRPA meeting.

institutions, Member State authorities and region al interest groups. The final section draws together the main issues to emerge.

2. STRATEGIC CONTEXT

The context for the future direction of EU policy and spending is the aim of EU institutions to reaffirm the importance of the European Union, following the UK's decision to leave, and to seek common purpose on the future of European integration. Further, as the Bratislava Declaration by the EU27 stated in September 2016, the EU not only needs to "make a success of the EU" but recognise that people are "concerned by a perceived lack of control and fears related to migration, terrorism, and economic and social insecurity".[2] The objectives and measures agreed in Bratislava were developed further in the Rome Declaration in March 2017, where the 27 Member States, European Council, European Parliament and European Commission stated their "pledge to work towards" four main goals and policy initiatives (see Box 1).

Box 1: The Rome Declaration

1. **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
2. **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.
3. **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.
4. **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.

A more fundamental question as to how these goals should be achieved was posed at the start of March 2017 by the European Commission President Jean-Claude Juncker in a White Paper on the

[2] European Council (2016) *The Bratislava Declaration and Roadmap*, General Secretariat of the Council, Brussels.

Future of the EU.[3] This set out the Commission's analysis of the changing economic context for the EU due to globalisation, the evolving security threats, the pressures of migration and the uneven economic and social impact of structural changes, as well as the need to restore popular trust in the EU and European integration. Most significantly, the White Paper presented five scenarios for the future of the EU, labelled: carrying on; doing less together; some do more; radical redesign; and doing much more together. The implications for spending priorities were set out in a subsequent reflection paper on EU finances (see Table 1).

Table 1: Reflection Paper - scenarios for the future of EU finances

SCENARIOS	Carrying On	Doing Less Together	Some Do More	Radical Redesign	Doing Much More Together
POLICY PRIORITIES	Taking forward current reform agenda	Mainly financing of functions needed for the single market	As in scenario 1; additional budgets are made available by some Member States for the areas where they decide to do more	Financing of priorities with very high EU value added	Doing much more across policy areas
VOLUME	Broadly stable	Significantly lower	Somewhat higher	Lower	Significantly higher
COMPETITIVENESS	Slightly higher share	Same as in scenario 1 but significantly lower amount	Same as in scenario 1	Higher share	Higher share
ECONOMIC, SOCIAL and TERRITORIAL COHESION	Lower share	Lower amount	Same as in scenario 1	Lower share	Higher amount
AGRICULTURE	Lower share	Lower amount	Same as in scenario 1	Lower share	Higher amount
SECURITY, DEFENCE, MIGRATION	Higher share	No funding	Higher share partly covered by willing Member States	Significantly higher share	Significantly higher share
EXTERNAL ACTION	Higher share	Lower amount	Higher share partly covered by willing Member States	Significantly higher share	Significantly higher share
ECONOMIC AND MONETARY UNION FISCAL CAPACITY			Macro-economic stabilisation function for euro-zone Member States		Macro-economic stabilisation function and a European Monetary Fund
REVENUE	Current system without rebates; other sources of revenue or fees finance the EU budget	Current system without rebates	Same as scenario 1; plus new policies financed only by participating Member States	Scenario 1 further simplified; new own resources	In depth reform beyond scenario 4; new own resources finance significant share of the EU budget

Source: European Commission (2017f).

[3] European Commission (2017a) *White Paper on the Future of Europe: Reflections and scenarios for the EU27 by 2025*, COM(20172025, Brussels, 1.2.2017,

The White Paper was followed up with five specific reflections papers from the Commission on:

- the social dimension of Europe;[4]
- harnessing globalisation;[5]
- the deepening of the economic and monetary union;[6]
- the future of European defence;[7] and
- the future of EU finances.[8]

There was no paper specifically on Cohesion Policy but the Commission's reflections have several significant implications for the policy.

a) **Less spending on ESIF?** Four of the five scenarios in the White Paper state that economic, social and territorial cohesion should have a 'lower share' of the EU budget or a 'lower 'amount'. Only if the EU decided to do much more together is a 'higher amount' deemed justified. Further, under the scenario of 'doing less more efficiently' the White Paper implies that Cohesion Policy is not effective, suggesting that:[9]

> *the EU27 stops acting or does less in domains where it is perceived as having more limited added value, or as being unable to deliver on promises. This includes areas such as **regional development**, public health, or parts of employment and social policy not directly related to the functioning of the single market.*

More specific reference is made to spending in the paper on future EU finances.[10] The paper recognises the role of Cohesion Policy as "a major source of stable growth-supporting investment" during the crisis. It acknowledges that the "overall results of cohesion policy are globally positive" and also identifies "clear added value" of spending on cross-border programmes. On the other hand, the paper also notes the 'hard choices' needing to be made as a result of UK withdrawal and the need to create budgetary headroom for the EU's political ambitions for migration management, internal and external security, external border control, combating terrorism and defence.

b) **Asymmetric approach to convergence?** The reflections paper on deepening economic and monetary union discusses the proposals of the Five Presidents' Report[11] to create a macroeconomic stabilisation function for the euro area. Options to be considered by the Commission are a European Investment Protection Scheme (to maintain public investment

[4] European Commission (2017b) *Reflection Paper on the Social Dimension of Europe*, COM(2017)206, 26.4.2017.

[5] European Commission (2017c) *Reflection Paper on Harnessing Globalisation*, COM(2017)240, 10.5.2017.

[6] European Commission (2017d) *Reflection Paper on the Deepening of Economic and Monetary Union*, COM(291), 31.5.2017.

[7] European Commission (2017e) *Reflection Paper on the Future of European Defence*, COM(2017)315, 7.6.2017.

[8] European Commission (2017f) *Reflection Paper on the Future of EU Finances*, COM(2017)358, 28.6.2017.

[9] European Commission (2017a), p. 22.

[10] European Commission (2017f), 12, 15-17.

[11] European Commission (2015) *The Five Presidents' Report: Completing Europe's Economic and Monetary Union*, Jean-Claude Juncker in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz, 22 June 2015.

during a downturn), a European Unemployment Reinsurance Scheme (for national unemployment schemes) and a 'rainy day fund' (to make discretionary payments to cushion large shocks).[12] As with the wider debate on a dedicated euro area budget, the creation of a new 'convergence instrument' would have significant policy and budgetary implications for Cohesion Policy.

c) **Prioritisation of social cohesion?** A notable feature of the Commission's approach to post-2020 reforms is the emphasis on a stronger social policy dimension – whether through more action on youth unemployment or workers' rights[13]. The Commission paper on future EU finances highlights the priority of "reducing economic and social divergences between and within Member States"[14] but focuses on the role of employment and social policies (education and training, health, equality and social inclusion); the one reference to 'place' is the importance of social spending being targeted on "regions with high social inequalities".

d) **Rationalisation or diversion of funding?** The Commission paper on future finances identifies the importance of coherence in EU spending: "Duplications must be removed and instruments should complement each other and be consistent from a policy perspective".[15] This suggests a greater delineation of the role of Cohesion Policy in relation to other EU policies and, possibly, a transfer of ESIF investment responsibility in some domains to other policy instruments. In this context, the paper raises the possibility of increasing budgetary allocation of programmes such as the Connecting Europe Facility, COSME, EFSI and Horizon 2020. It also moots using 'unallocated capacity' under Cohesion Policy spending for an enhanced and more flexible Globalisation Adjustment Fund.

e) Faster implementation and stronger capacity? The Commission's paper on future finances is critical of the increasing complexity of Cohesion Policy, and the need for simplification and greater flexibility in programming. Apart from the use of a Globalisation Adjustment Fund noted above, it proposes options to speed up implementation such as stricter decommitment rules, shorter closure procedures and quicker designation processes. It also proposes strengthening administrative capacity with more involvement by the Commission.

f) **Alignment with economic governance?** Among the criticisms of Cohesion Policy made in the paper on EU finances is the perceived lack of alignment between the policy and economic governance and the European Semester. To encourage structural reforms, the reflection paper on deepening EMU proposes 'a "dedicated fund to provide incentives to Member States to carry out reforms of by making the disbursement of the ESI Funds, or part of them, conditional on progress in implementing concrete reforms to foster convergence".[16]

[12] European Commission (2017d) p. 26.

[13] *Towards a better Europe – a Europe that protects, empowers and defends,* State of the Union Address 2017 by President Jean-Claude Juncker.

[14] European Commission (2017f) p. 22.

[15] *Ibid,* p.12.

[16] European Commission (2017d) p. 25.

g) **Revision of the Berlin formula?** The future finances paper suggests revising the system for allocating Cohesion Policy funds, with new criteria related to demography, unemployment, migration, innovation or climate change. In part, this reflects broader Commission objectives of aligning funding better with EU objectives, but it also relates to the political dispute between countries seeking to link the disbursement of EU funding conditional on migration quotas (e.g. Austria, Finland, Germany, Italy, Sweden), a move strongly resisted by Central and Eastern European countries.

h) **Different geographical focus?** The future finances paper explicitly considers the possibility of removing Cohesion Policy support from "the more developed countries and regions". It also proposes increasing levels of national co-financing to "better calibrate them for different countries and regions and increase ownership and responsibility".[17]

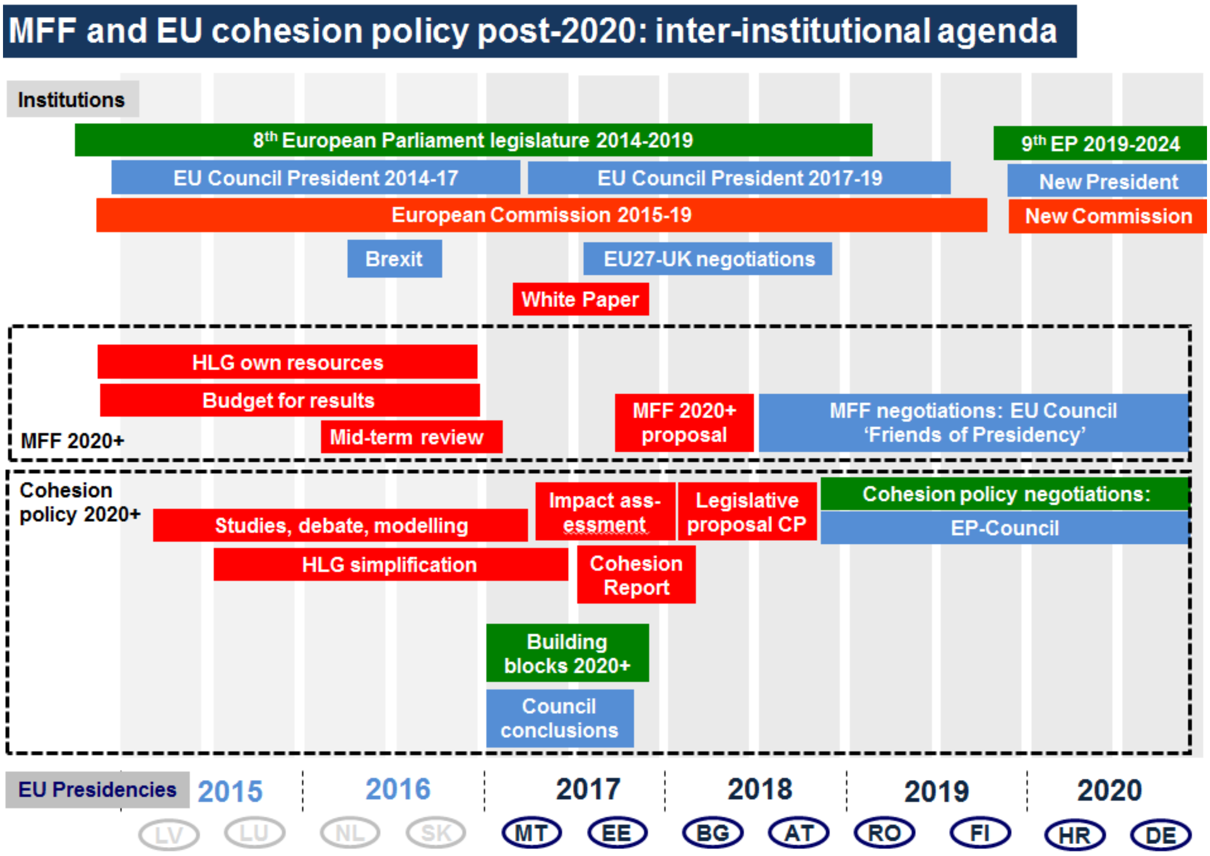
i) **New budgetary sanctions for Member States?** A further political proposal is the link made by the Commission's future finances paper between the need for Member State to uphold "EU core values when developing and implementing EU policies". Specifically, it cites suggestions for linking the disbursement of EU funds to "the state of the rule of law in Member States" judged according to European Justice Scoreboard measures of the quality, independent and efficiency of national justice systems".[18]

Following the reflections process, the Commission has encouraged broader debate on the priorities for the next Multiannual Financial Framework (MFF), with a view to tabling the Commission's proposals for the post-2020 MFF and legislative package at the end of May 2018 (see Figure 1) and the start of negotiations thereafter.

[17] European Commission (2017f) p. 25.

[18] European Commission (2017f) p. 22.

Figure 1: Interinstitutional timetable for the MFF[19]



19 Petzold W (2017) *EU cohesion policy: a short history of its future*, Annual Regional Studies Association Conference, Dublin, 4.6.2017.

3. BUDGETARY AND POLICY DYNAMICS

3.1 Budget dynamics

The withdrawal of the United Kingdom will reduce the revenue available for the EU budget. In the progress report on the UK-EU negotiations of 8 December 2017, the UK agreed to contribute its share of the financing of the Union's liabilities incurred before 31 December 2020, including its share of outstanding budgetary commitments (RAL). It will continue to participate in the EU programmes financed by the MFF 2014-2020 (including Cohesion policy) until their closure. UK payments thereafter are currently unclear, although the UK has stated that it may wish to participate in some Union budgetary programmes of the new MFF post-2020 as a non-Member State.[20]

Over the past year, calculations of the liabilities of the UK have been subject to widely differing estimates ranging up to €100 billion, although most have been in the €20-70 billion range.[21] The UK-EU progress report does not provide any figures on the UK liabilities, although press comment has referred to figures in the range €40-45 bn.

For the 2021+ MFF, the implications are either less EU spending, and potentially lower receipts for current recipients, or additional contributions from net payers, so-called 'fresh money'. As Iain Begg has noted:[22]

> *In round numbers, the loss of the UK will mean a hole of around €17 billion (the annual average for the period 2013-15) in the EU's receipts – roughly 12%. To put this in perspective, it is equivalent to the gross payments into the EU budget of the twelve Member States which acceded to the EU in 2004 and 2007. This revenue shortfall will only partly be offset by identifiable spending in the UK of about €7 billion (also the annual average for 2013-15); in other words a net loss of the order of €10 billion – amounting to the entire budget for the EU's Horizon 2020 research programme in 2015.*

The Centre for European Policy Studies has argued that the impact of Brexit on the EU budget might be easily absorbed.[23] Their analysis of different scenarios of the future UK-EU relationship assumed the UK continuing to make payments either to secure preferential access to the single market or via tariffs in line with WTO rules. Other research by Notre Europe has been less optimistic, foreseeing important shifts in the net balance position of net payers and net beneficiaries and difficult debates on

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[20] Speech of UK Prime Minister in Florence, 22 September 2017. European Commission (2017m) *Joint report from the negotiators of the European Union and the United Kingdom Government on progress during phase 1 of negotiations under Article 50 TEU on the United Kingdom's orderly withdrawal from the European Union*, TF50 (2017) 19 – Commission to EU 27, 8 December 2017.

[21] Barker A (2017) *The EUR 60 Billion Brexit Bill: How to disentangle Britain from the EU budget*, Centre for European Reform, London. FT breakdown: the €100 bn Brexit bill, *Financial Times*, 3.3.2017. Darvas Z, Efstathiou K and Goncalves Raposo I (2017) *Divorce settlement or leaving the club? A breakdown of the Brexit bill*, Working Paper 03/2017, Bruegel, Brussels. House of Lords (2017) *Brexit and the EU budget*, 4 March, 15th Report of Session 2016-17, The European Union Committee, HL Paper 125, London.

[22] Begg I (2017) The EU budget after 2020, European Policy Analysis, September 2017, Swedish Institute for Growth Studies, Stockholm.

[23] Núñez Ferrer J and Rinaldi D (2016) *The Impact of Brexit on the EU Budget: A non-catastrophic event,* CEPS Policy Brief, No. 347, 7 September 2016.

the size and structure of the budget on both the income and expenditure side.[24] The European Policy Centre has estimated that Brexit would leave the EU with a financial gap of 14-19 percent (€ 20-27 billion) which could be managed through a range of possible mechanisms (see Box 2).[25] A crucial factor is how the losses are spread over the budget headings – whether on a standard basis or in proportion to the UK's contribution to the headings, thereby disadvantaging the CAP and Cohesion Policy in particular.[26]

Box 2: Options for managing the shortfall in the EU budget[27]

Adjustment of the budget size according to the shape of the future EU-UK deal. In this way, the financial gaps in the programmes in which the UK would participate post-Brexit could be reduced. Funding for the Cohesion Fund could also be decreased proportionally to the UK's direct contributions to selected member states for disparities reduction, and additional income from customs duties could be taken into account. The potential temporary financial impact of a negotiated 'exit bill' should also be accounted for. However, as the final shape of any EU-UK arrangement and exit bill is very uncertain, this might require more flexibility in the new MFF negotiating process

Maintaining the EU27 payments to the EU budget that were once made to cover the costs of the UK rebate.

Making budget cuts in all areas, equivalent to the level of the UK's receipts estimated there.

Decreasing funding for areas considered of lower priority in the outcome of EU interinstitutional MFF discussions. This could be accompanied by additional EU27 payments in fields of higher importance. Rising political priorities such as migration or security could thus be addressed accordingly, similarly to areas with higher EU added value (like research, combating climate change or defence).

Beyond 2020, the Brexit influence will be subsumed in the wider debate about the size and allocation of the EU budget to different headings, as set out by the Commission in the Reflections Papers noted above. While the Commission will make proposals, the outcome depends on negotiations through various Council formations and the views of the European Parliament.

As yet, there are no clear indications from Member States on the political or policy positions regarding the overall budget for the MFF. While the Commission has mooted net payers paying more into the EU budget,[28] richer countries have been signalling their unwillingness to make up for any budgetary shortfall. The German Deputy Finance Minister was reported to have said:[29] "*If Britain's contribution*

[24] Haas J and Rubio E (2017) *Brexit and the EU budget: threat or opportunity?* Notre Europe – Jacques Delors Institute, Policy Paper, January 2017.

[25] Chomicz E (2017) *EU budget post-Brexit Confronting reality, exploring viable solutions*, European Policy Centre, Brussels.

[26] Bachtler J and Polverari L (2017) *Building Blocks for a Future Cohesion Policy – First Reflections*, Research for REGI Committee, Directorate-General for Internal Policies, European Parliament, Brussels.

[27] Chomicz E (2017) *op. cit.*

[28] Brexit means Germany will have to pay more into EU budget – Oettinger, *Reuters Business News,* 27.2.2017.

[29] Wie Schäuble das EU-Budget reformieren will, *Handelsblatt*,, 12.1.2017

falls away, the EU budget will shrink…..There is certainly no automatic mechanism that Germany and other net contributors increase their contribution". The same sentiment was voiced by the Austrian Minister for Foreign Affairs, quoted as saying that his country would not increase its payments to the EU budget:[30] *"net contributions will not go up…There will have to be savings".* In similar vein, the Swedish Finance Minister has said:[31] "*To ask us to show even more solidarity as a net contributor than we do today would be, to say the least, difficult to explain to the Swedish public."* Notwithstanding this unfavourable reaction, the EU Budget Commissioner has continued to make the case for 'fresh money', floating an EU budget 'somewhat more than 1.1 percent' of EU GDP.[32]

With respect to the structure of the budget, previous assessments of the debate[33] have identified several principles emerging from the contributions to the Budget Focused on Results and the MFF review. Key priorities are regarded as:

- **flexibility**: greater responsiveness of the EU budget to unforeseen circumstances;
- **effectiveness and efficiency**:
    - more use of conditionalities in influencing changes in national policy-making,
    - strengthening of linkages between ESIF and economic governance,
    - expanded use of financial instruments through EFSI and other instruments,
    - simplification, including programme requirements under shared management;
- **added value of spending**, aligning the EU budget with the EU's political aims, potentially including a greater focus on areas such as defence and security, and completion of EMU;
- **own resources**, based on the recommendations of the High-Level Group on Own Resources;
- **transparency,** ensuring a greater visibility of the relevance of EU spending; and
- **duration of the MFF**, potentially aligning the MFF period with the mandates of the Commission and European Parliament.

Characteristic of some of the debates in the BFOR process over the past three years, Schratzenstaller (2017) argues that a fundamental overhaul of the future focus of the MFF might be needed in order to address the long-term challenges faced by the EU (e.g. regional disparities, poverty, migration and refugee crisis, demographic changes, climate change and energy transition).[34] The paper suggests: decreasing and shifting agricultural subsidies towards environmental and employment goals in less wealthy countries; coupling cohesion funding with climate / employment goals and a proactive migration policy; significant increase in R&I funding, cross-border cooperation

[30] Austria won't increase contribution to EU budget after Brexit, *euractiv,* 27.4.2017

[31] Speech by Magdalena Andersson, Finance Minister, Sweden, to the EU Budget Focused on Results Conference, 27.9.2016.

[32] 'A budget matching our ambitions', Speech by Günther Oettinger to the EU Conference Shaping Our Future Designing the Next Multiannual Financial Framework', Brussels, 8 January 2018.

[33] 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. Becker P (2016) *The EU budget's mid-term review: with its promising reform proposals, the Commission lays the groundwork for the next, post-2020 budget.* Stiftung Wissenschaft und Politik – SWP, Berlin Bachtler and Polverari (2017) *op. cit*.

[34] Schratzenstaller M. (2017) 'The next Multiannual Financial Framework (MFF), its Structure and the Own Resources', *Fair Tax Working Paper Series* No. 4, Vienna: Austrian Institute of Economic Research, p. 2.

(especially in energy and transport) and decarbonisation projects.[35] It argues that a shift is needed in the way in which revenues towards the budget are calculated, and an increased use of the EU's own resources system add to this, including several new taxes (e.g. fuel tax, net wealth tax, financial transaction tax, carbon tax, corporate tax). Moreover, the current EU budget channels its resources towards the local rather than European added value, predicting that the future MFF could enable changes that consolidate the EU's reform agenda, particularly post-Brexit.

Two particularly important implications for Cohesion Policy are associated with the interpretation of ***added value*** and the greater use of ***conditionalities***.

Added value is a term defined in many different ways and traditionally used by EU institutions and Member States to justify their spending preferences[36]. As noted above, the Juncker White Paper was critical of the added value of Cohesion Policy relative to other EU spending objectives, reinforced by the 2016 MFF Review which contrasted the implementation performance of ESIF unfavourably (and perhaps unfairly) to competitiveness programmes such as Horizon 2020, CEF and COSME.[37] Support for a reprioritisation of budgetary priorities – reflecting the positions taken by net payers in previous reform debates - has also been advocated by ministers in Germany and Sweden, proposing less spending on the CAP and Cohesion Policy in favour of greater allocations to areas such as security, migration, competitiveness, research and climate change.[38]

Equally typical, net recipients have sought to defend cohesion spending (discussed in more detail in Sections 3 and 4 below). Central and Eastern European countries, through the Visegrad 4+4 group, have stated that:[39] "*Cohesion Policy is the fundamental EU investment policy supporting growth and creating jobs, and thus should remain one of the key pillars of the EU budget after 2020".* The European Parliament has also been forthright in its defence of spending on Cohesion Policy, with the Regional Development Committee asserting that it:[40] *"strongly opposes any scenario for the EU27 by 2025, as contained in the White Paper on the Future of Europe, which would scale down the EU's efforts in relation to cohesion policy; invites the Commission, on the contrary, to present a comprehensive legislative proposal for a strong and effective cohesion policy post-2020".* Representatives of regional interests have also supported retention of a significant budget for Cohesion Policy[41], latterly coordinated through the so-called 'Cohesion Alliance'.

[35] *Ibid.* pp. 3-4.

[36] Bachtler K, Mendez C and Wishlade F (2013) *EU Integration and Cohesion Policy: the Dynamics of Budgetary and Policy Reform*, Ashgate: Aldershot. Bachtler et al (2016) *op. cit.*

[37] European Commission (2016b) *Mid-term review/revision of the multiannual financial framework 2014-2020: An EU budget focused on results*, Commission Staff Working Document, SWD(2016) 299 final, Brussels, 14.9.2016.

[38] Schäuble W (2016) Speech by Wolfgang Schäuble, German Minister of Finance, to the Symposium 'The Future of EU Finances', 14 January 2016. Swedish Government (2017) Smaller EU budget and Sweden's contribution must be kept down – the Government's general priorities ahead of the upcoming EU budget negotiations, Government Offices of Sweden.

[39] Visegrad Group (2017) *Joint Paper of the Visegrad Group, Bulgaria, Croatia, Romania and Slovenia on Cohesion Policy after 2020* adopted on 2 March 2017 in Warsaw by the Ministers responsible for Cohesion Policy, in parallel to the adoption of the COTER position on the future of Cohesion Policy.

[40] European Parliament resolution of 13 June 2017 on building blocks for a post-2020 EU cohesion policy (2016/2326(INI)).

[41] CoR (2017) *The Future of Cohesion Policy Beyond 2020*, Opinion of the European Committee of the Regions, March 2017. CPMR (2016) *Position Paper on the future of EU Cohesion Policy*, Conference of Peripheral and

In many respects, these differences reflect long-standing views about the use of the EU budget. A new and politically contentious move would be the greater use of conditionalities as part of the allocation of EU funding. There is a long history of using conditionalities in EU policymaking (especially under external policies), and the 2014-20 budgetary and legislative introduced almost 60 ex ante conditionalities on spending, especially under Cohesion Policy. Of particular note was the introduction of macroeconomic conditionality to enforce compliance with European economic governance rules. Some richer countries (e.g. Germany, Sweden) have proposed extending this approach to use EU funding, particularly through the CAP and Cohesion Policy, to support structural reforms in the Member States, adherence to the rule of law, or the acceptance of migration quotas. While conditionalities have a record of changing national government behaviour, their increasing use raises broader questions of how ‘solidarity’ is interpreted in practice.[42]

3.2 Policy dynamics

Three policy issues have a bearing on the dynamics of the budgetary debate with respect to the decisions made on future Cohesion Policy spending: the territorial dimension in post-2020 EU policy-making; the recognition accorded to the role of Cohesion Policy; and the spatial allocation of Cohesion Policy funding.

The first issue is the importance accorded to the **territorial dimension in post-2020 EU policy objectives** and spending priorities. At EU and national levels, there has been growing recognition of the unequal distribution of economic and social benefits and losses from globalisation and European integration, and particularly the loss of trust in EU institutions to cope with the economic and migration crises of the past decade.[43] Regional economic divergence is now regarded as threatening economic progress, social cohesion and political stability in Europe.[44] The 7th Cohesion Report shows evidence of a resumption of convergence between regions, principally due to growth in Central and Eastern European countries and cities, but with major regional disparities in labour market and social indicators especially for youth unemployment and poverty.[45]

The challenge for the EU is how to promote stronger and sustainable growth while ensuring that all parts of the Union are able to exploit opportunities from globalising trade and technological change. In this regard, recent research has focused on the longer term trajectories or pathways of economic development, providing a better understanding not just of the current or recent development positions

Maritime Regions, 3 November 2016. APR (2016) *Position of Polish Regions on EU Cohesion Policy beyond 2020 (CP2020+),* Association of Policy Regions, 23 November 2016.

[42] Viorica V (2017). Revisiting the Dominant Discourse on Conditionality in the EU: The Case of EU Spending Conditionality. *Cambridge Yearbook of European Legal Studies*, 1-28. Viţă notes that: “While the pursuit of effectiveness is a legitimate goal of EU government….the extended use, intensity and most importantly the announced future development of conditionality internally seems to depart from the founding principles and ethical convictions upon which the entire European construction was built. In the view of the EU’s founding fathers, the achievements of a unified Europe were to lead towards an increased solidarity (not conditionality) within the EU. In contrast, what we see today is an increased influx of conditionality in the EU internal affairs which often informs the limits and meaning of solidarity – a de facto conditional solidarity.”

[43] Bachtler J, Oliveira Martins J, Wostner P and Zuber P (2017) *Towards Cohesion Policy 4.0: Structural Transformation and Inclusive Growth”*, Regional Studies Association (RSA Europe), Brussels.

[44] Iammarino S, Rodriguez Pose and Storper M (2017) *Why Regional Development Matters for Europe’s Future*, Working Paper 7/2017, DG Regio, European Commission, Brussels.

[45] European Commission (2017j) *Seventh report on Economic, Social and Territorial Cohesion*, DG Regional and Urban Policies, European Commission, Brussels.

but how these are evolving over time – and their prospects for sustainable development in future, in particular whether lagging regions have a prospect of catching up.[46] OECD data, for example, have revealed an increasing productivity gap between groups of EU regions that are at the global frontier, are catching up, keeping pace or diverging – with each group requiring distinctive strategic responses.[47] Similar differences have been identified in the economic development potential of 'regional clubs' of high, middle and low income regions across the EU, reinforcing the need for distinctive place-based policy responses.[48]

Research undertaken by the Commission in lagging regions of the EU has also provided new insights on the development barriers for enhancing the competitiveness of low-growth and low-income regions.[49] Policy recommendations include the need for a stronger commitment to smart specialisation strategies, addressing gaps in infrastructure and the quality of human resources, supporting linkages between cities and surrounding areas, investing in the quality of institutions and regional administrative capacity, and improving the macroeconomic and structural conditions for investment. The main conclusion was that "moving to the next level of economic development cannot be accomplished by a one-size-fits-all policy, but will require regionally differentiated investments and policy responses."

In this context, it is notable that the Commission's future finances paper explicitly recognises regional variation in economic and social performance and resilience and notes that[50] "differences of economic and social perspectives may create socio-political tensions and require an appropriate EU response so that no person or no region is left behind." It also shows starkly the variation in 'risk factors' associated with globalisation and technological change with respect to employment change, sectoral composition of employment and educational attainment. This suggests at least an awareness of the importance of economic, social and cohesion in deciding priorities for future EU spending.

The second factor is **the role accorded to Cohesion Policy** in responding to identified EU development needs and challenges. There are two influences in this regard. One is the institutional conflict within the Commission about the control of funding, and the interest of different Directorates General in maximising the resourcing of their policy responsibilities, potentially at the expense of the funding of ESIF. Thus, DG EMPL, for example, has questioned the extent to which the European Social Fund remains as part of Cohesion Policy or included as part of an umbrella Human Capital Development Fund encompassing all employment and social policy instruments. Likewise DG MOVE is said to be proposing an extension of Cohesion Policy support for the Connecting Europe Facility, of which almost half is funded through the Cohesion Fund in the 2014-20 period under a 'cohesion envelope' of some €11.3 billion.

The countervailing influence is the recognition that Cohesion Policy has the institutional mechanisms to facilitate coordinated or even integrated place-based responses to EU policy objectives, most

[46] Iammarino et al (2017) *op. cit.* Bachtler et al (2017) *op. cit.*

[47] OECD (2016) *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris.

[48] Iammarino et al (2017) *op. cit.*

[49] European Commission (2017j) *Competitiveness in low-income and low-growth regions: The lagging regions report,* Commission Staff Working Document, SWD(2017) 132 final, Brussels, 10.4.2017.

[50] European Commission (2017f) *op. cit.*

prominently through smart specialisation strategies but also the emerging integrated territorial initiatives, and other initiatives to promote synergies across EU policy boundaries.[51] The Commission paper on harnessing globalisation specifically recognises that the EU's future strategy for long-term competitive needs to be 'in close partnership with more empowered regions' and acknowledges the role of ESIF:[52]

> *Fundamental economic transformation happens at the local level where industry and people interact. We therefore needs to target regional and local investment needs, skills gaps and regulatory obstacles to ensure that all regions can benefit from the internal market and better prepare themselves for the challenges of globalisation.*

The recent communication on smart specialisation, developed across several DGs in the Commission also acknowledges the value of Cohesion Policy:[53]

> *The experience acquired so far with the current cohesion policy programmes…will provide a useful input in preparing the next Multiannual Financial Framework…..Smart specialisation represents a new way of working together, which ensures stronger local and regional participation in decision making, and whose potential can be scaled-up for the benefit of the EU's regions and the EU as a whole. This approach may be replicated and used in a broader context as a useful tool to implement the future EU budget in the most effective way.*

Similar language is used in the Commission's 2017 report on the state of the energy union,[54] which emphasises the importance of strong partnerships with countries, cities and regions in developing EU and national plans for the transition to clean energy, as well as a specific joint DG Energy-DG Regio initiative for supporting the transition of carbon-intensive mining regions.

There are indications here of a greater emphasis on policy synergies and how Cohesion Policy may be used after 2020 to achieve EU policy goals and targets – not just by allocating funding to thematic objectives but working in concert with other DGs to undertake more targeted place-based approach intervention.

As part of internal Commission scenario planning, DG Regio has modelled the impact of cuts to the Cohesion Policy budget of 15 percent and 30 percent for the post-2020 MFF. Radical cuts of 30 percent would restrict Cohesion funding to "Eastern European countries plus Cyprus, Greece and Portugal" while discontinuing "support for less developed regions … in France, Italy and Spain" according to a leaked report of the DG Regio study.[55] In addressing the European Parliament's REGI

[51] Ferry M, Kah S and Bachtler J (2016) *Maximisation of Synergies between European Structural and Investment Funds and other EU Instruments to attain Europe 2020 Goals*, Research for the REGI Committee, European Parliament, Brussels.

[52] European Commission (2017c) p. 19.

[53] European Commission (2017g) *Strengthening Innovation in Europe's Regions: Strategies for resilient, inclusive and sustainable growth*, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2017) 376 final, Brussels, 18.7.2017.

[54] European Commission (2017h) *Second report on the state of the energy union*, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2017) 53 final, Brussels, 1.2.2017.

[55] Politico (2017) Commission gets glimpse of post-Brexit EU budget horrors, 23 November 2017: https://www.politico.eu/article/commission-gets-glimpse-of-post-brexit-eu-budget-horrors/

Committee, the Budget Commissioner Günther Oettinger was reported as saying that a 30 percent cut in the Cohesion Policy budget for post-2020 would be "very damaging" but that "a 10 percent reduction could be envisaged".[56]

Reviewing whether or not the future MFF can act as a financial and policy instrument sustaining future EU reforms, Kaiser and Prange-Gstöhl stress that given the current socio-economic climate there are no strong arguments for significant cuts in Cohesion Policy, but there are "plausible reasons for a re-design of their instruments" and "more emphasis on strengthening the coherence of structural reforms".[57] Arguing that the budget is unlikely to increase whilst revenue will decrease, policy and spending coherence will take a more important stage in the debate by potentially linking Cohesion Policy with the European Semester as a "condition for funding", whilst new funding instruments (e.g. loan based funding and EFSI) is likely to increase.[58]

A third factor is the ***spatial allocation of funding*** and the balance of gains and losses for individual Member States under Cohesion Policy. Traditionally, allocations under EU Cohesion Policy have been the 'adjustment variable' in the MFF, being used to ensure that the net balances of Member States are politically acceptable. As noted in previous research, the original 1999 Berlin formula has become steadily more complex due to new indicators, thresholds, ceilings and weights used in the 2005 and 2013 negotiations, complemented by an increasing use of 'special provisions'.[59] Key issues influencing the allocation of funding will be as follows.

- **Regional change in GDP.** Since the eligibility map for 2014-20 was determined, there have been significant shifts in regional GDP across the EU. As previous analysis by EPRC in 2016 and the MFF Review indicated,[60] regional GDP change would lead to many southern EU regions in Cyprus, Greece, southern Italy, Portugal and Spain as well as Ireland and parts of France being re-categorised from More Developed Region (MDR) to Transition Region (TR) status, or from TR to Less Developed Region (LDR), with a limited degree of change in the reverse direction (LDR to TR) due to higher growth in Estonia and the Czech Republic.

- **Brexit.** Under the current variant of the Berlin formula, the removal of the UK lowers EU GDP per head, altering the thresholds for LDR, TR and MDR. On the basis of a comparative assessment of GDP per head levels for 2015 only (see Figure 2 and Figure 3 below) some 12 Member States could be affected:
    - Molise and Sardegna in Italy and several regions in Greece and Spain would regain LDR having ceased to qualify in 2007;

[56] Conference of Peripheral Maritime Regions (CPMR) (2017) *Potential budgetary cuts for Cohesion policy: analysis by the CPMR*, available at: https://www.politico.eu/wp-content/uploads/2017/12/Budgetary-cuts-for-Cohesion-Policy-an-analysis-from-the-CPMR.pdf

[57] Kaiser R. and Prange-Gstöhl H. (2017) *The Future of the EU Budget. Perspectives for the Funding of Growth-Oriented Policies post-2020*, Report No 6 for the Swedish Institute for European Policy Studies (SIEPS), p. 9.

[58] *Ibid*. p. 10.

[59] Bachtler *et al* (2013) *op. cit.* Mendez C, Bachtler J and Wishlade F (2013) *A new dawn for Cohesion policy? The emerging budgetary and policy directions for 2014-2020*, EoRPA Paper 13/4, European Policies Research Centre, University of Strathclyde.

[60] Bachtler *et al* (2016) *op. cit.* European Commission (2016c) *Communication from the Commission to the Council and the European Parliament Technical adjustment of the financial framework for 2017 in line with movements in GNI and adjustment of cohesion policy envelopes* (Article 6 and 7 of Council Regulation No 1311/2013 laying down the multiannual financial framework for the years 2014-2020).

  - Strední Cechy, Jihozápad and Jihovýchod (Czech Republic), Dolnoslaskie Wielkopolskie (Poland), Yugozapaden (Bulgaria), Lithuania, Estonia, and Nyugat-Dunántúl (Hungary) would lose LDR status, becoming TR;
  - Bourgogne, Bretagne and Champage-Ardennes in France and Pojois-ja Itä-Suomi in Finland would lose TR status to become MDR.

- **Different typology or indicators.** The above analyses assume that the current categorisation of regions (MDR, TR, LDR) and eligibility thresholds remain the same. As in previous reform negotiations, Member States will seek changes to the formula to benefit their regions and receipts. A more fundamental change would be to add new indicators, as mentioned in the Commission's future finance paper. For example, allocating funding on the basis of regional innovation performance[61] to encourage more rapid convergence of regional innovation could benefit regions in central and Eastern Europe (especially Romania, Bulgaria and Poland) southern Europe (especially Greece). However, incorporating indicators to support regions that have received the greatest number of migrants (relative to population) could benefit mainly richer countries – Luxembourg, Austria, Germany, Ireland, Denmark, Sweden, Belgium and the Netherlands – though also Malta and Estonia.[62]

Recent analysis by the CPMR has modelled the implications of some of the radical scenarios for cutting funding for Cohesion Policy, as well as the option noted above of ESF ceasing to be a Structural Fund under shared management.[63] The paper outlines several scenarios in terms of budgetary cuts for CP. Based on DG Regio's concept paper, the CPMR discusses in depth three potential scenarios (see Table 2).[64]

Its findings suggested that net contributor countries to the EU budget would significantly lose out on a reform of a Cohesion Policy resulting in the suppression of the MDR or TR categories, with Germany, Sweden and France losing most. Countries with only MDR would also be most affected if ESF ceased to be a fund under shared management, with greatest adverse budgetary impact on Belgium, the Netherlands, Sweden, Germany and France. The CPMR concluded that *"maintaining an ambitious budget for Cohesion Policy for all regions is crucial to ensure that the EU continues to support its goals of cohesion, solidarity and investment in all EU regions. In the worst-case scenario, a 'hair-cut' budgetary reduction would be the least damaging option for Cohesion Policy."*

[61] Based on Regional Innovation Scoreboard 2017

[62] Based on Eurostat data for immigrants, 2015.

[63] Conference of Peripheral Maritime Regions (2017) *op. cit*.

[64] *Ibid,* p. 3.

Table 2: CPMR scenarios for Cohesion policy coverage and budget implications

Scenarios	Policy coverage	Budget implications
Scenario 1	Policy restricted to LDR and Cohesion Countries, except for INTERREG programmes which would be maintained for all regions.	15% budgetary cut in current prices, or 26% in 2011 prices.
Scenario 2	Policy restricted to Cohesion Countries, except for INTERREG programmes which would be maintained for all regions.	30% budgetary cut in current prices, or 39% in 2011 prices.
Scenario 3	Policy for all regions. Changes to eligibility of TR to include regions from 75-100% of EU average (compared to current range of 75-90%).	budgetary surplus of 15% compared to the current Cohesion policy envelope for 2014 – 2020 in current prices, or a freeze (no difference) in 2011 prices."

The following sections now explore the positions of EU institutions and Member States on the reform of Cohesion Policy in more detail.

Figure 2: Indicative post-2020 spatial coverage, *including* the UK

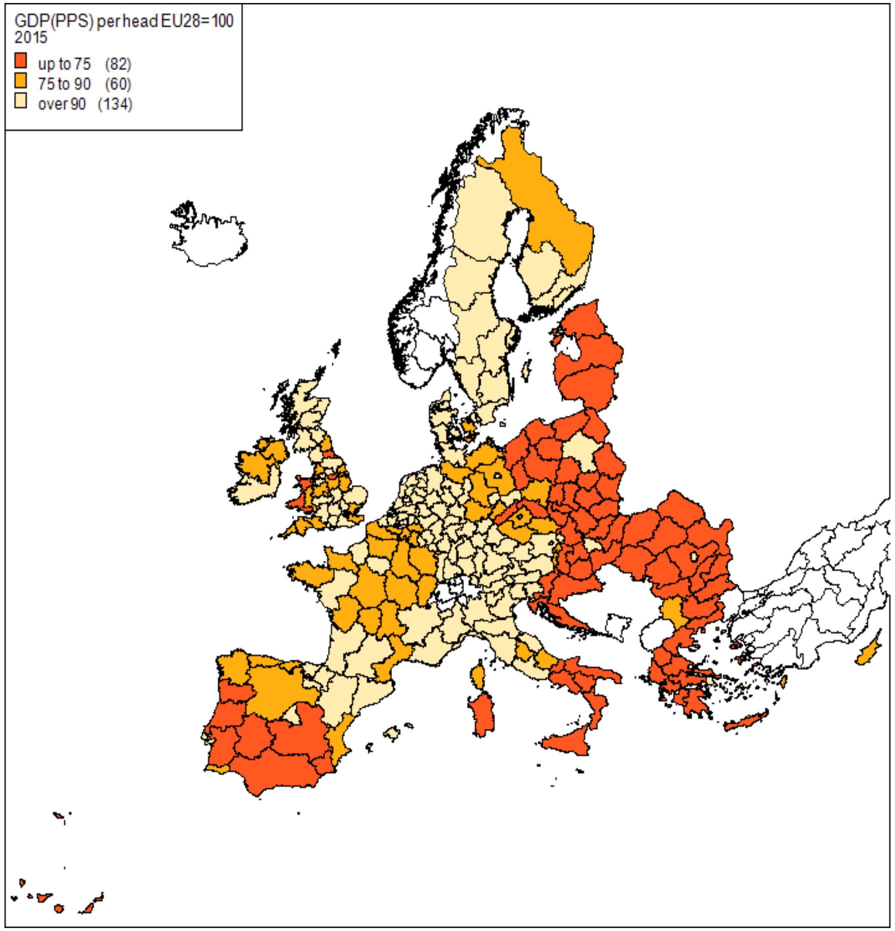
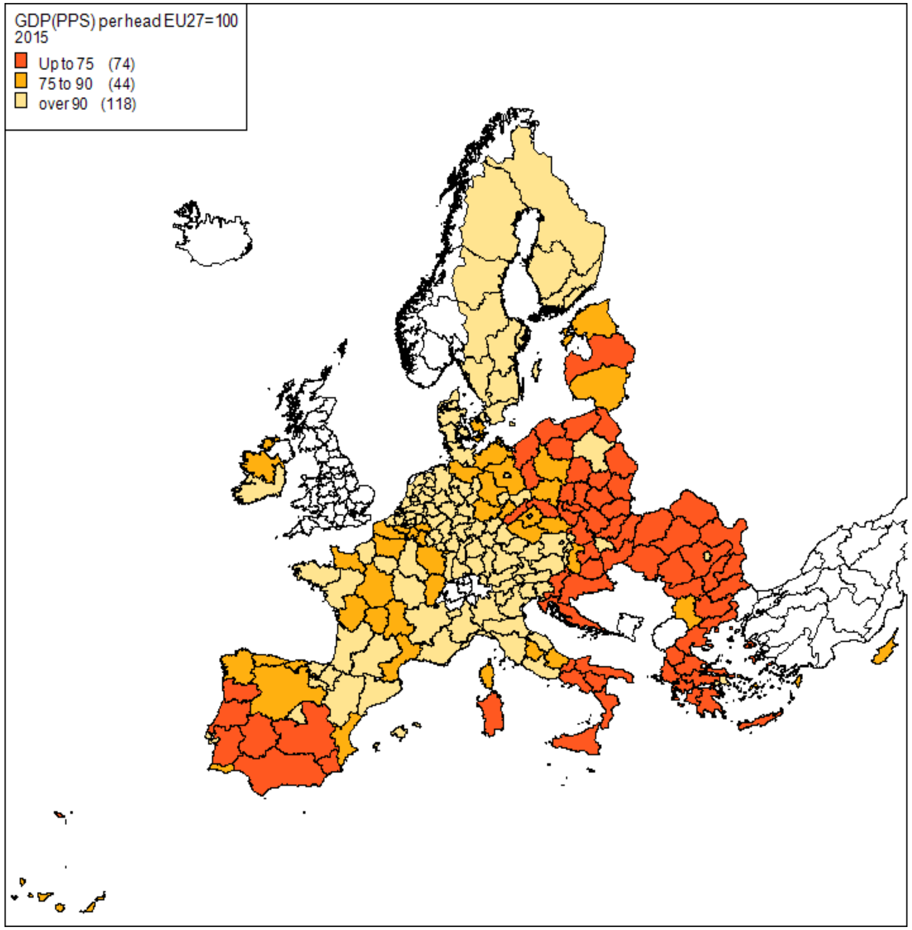


Figure 3: Indicative post-2020 spatial coverage, *excluding* the UK



Source: EPRC calculations.

4. THE REFORM DEBATE ON COHESION POLICY

4.1 European Commission

Beyond the broad statements in the Reflections Papers discussed above, the Commission has not provided specific orientations on the future of Cohesion Policy for the period after 2020, and, unusually, there is no specific indication of the Commission's thinking in the 7th Cohesion Report (see below). This lack of detailed indications contrasts with the previous, 2013 reform which was informed by comprehensive Commission reflection papers on future Cohesion Policy and high-level policy-maker discussions well in advance of the tabling of formal proposals. The (then) Commissioner for Regional Policy Danuta Hübner tabled a *Reflection Paper on Future Cohesion Policy* in April 2009, just two years after the start of the 2007-13 period (equivalent to 2016 in the current 2014-20 period). The paper drew in part on the Barca Report, a major strategic review setting out a comprehensive agenda for a reformed Cohesion Policy. In turn, Commissioner Samecki, set out another orientation paper on Future Cohesion Policy in December 2009. There was also extensive debate by national and EU policymakers on the proposals contained in these reports though a High Level Group on the Future of Cohesion Policy, which held its first meeting in October 2009.

A broad agenda for the post-2020 reform debate was originally set out in the ten questions posed by Commissioner Creţu in August 2015 (Box 3). Subsequent speeches in 2016 by Commissioner Creţu and her Head of Cabinet Nicola De Michelis have focused on four key challenges for Cohesion Policy in the post-2020 period.

- **Flexibility.** The refugee crisis has demonstrated that Cohesion Policy is not flexible enough to respond swiftly to new challenges/priorities. Flexibility must accordingly be a core principle for the future so that Cohesion Policy can react to new events. While this may imply losing a degree of stability/predictability in investment planning, the alternative could be to create flexibility outside of the cohesion heading in the MFF compensated through a reduction in Cohesion Policy funding.

- **Economic Governance.** The links between Cohesion Policy and wider economic governance have been strengthened in terms of alignment with CSRs and macro-economic conditionality. The challenge now is to demonstrate that Cohesion Policy is contributing to Europe 2020 targets and the delivery of key structural reforms (e.g. health and education systems). A focus is needed to optimise the functioning of the links between Cohesion Policy and economic governance.

- **Performance.** An increased performance orientation has been a cornerstone of the 2013 reform through requirements for thematic concentration, a clearer intervention logic with targets and result indicators, and a performance reserve. The challenge is to provide credible evidence of performance in 2014-20 and making the performance framework an effective instrument for measuring and reporting on progress and results in the post-2020 period.

- **Simplification.** The complexity of administration is an ongoing challenge particularly in the area of audit and control. The HLG on Simplification will focus on improving simplification in 2014-20 but will not entail major changes to the policy framework. A more fundamental and

systemic simplification for the future would require a rethink of budgetary discharge requirements and responsibilities.

Box 3: Commissioner Creţu questions to guide the post-2020 Cohesion Policy reflections

Objectives
1. How EU Cohesion Policy can best contribute to its two complementary objectives, the two sides of its coin: competitiveness and cohesion. In your opinion, what is the added value of Cohesion Policy in this context?

Less-developed regions
2. What is the best way to support the lagging regions, especially those which in spite of decades of EU and national support, did not converge towards the EU average?

Policy architecture
3. How should the architecture of the policy be defined? Should Cohesion Policy continue to invest in the advanced regions, especially in the metropolitan ones, which are not only richer, but also privileged by private investors?

Financial instruments
4. What is the best use of Cohesion Policy funds to stimulate investment in Europe? Which form of support is most efficient: grants, repayable assistance, financial instruments, or their combination? Should the share of financial instruments in EU funds be further increased?

Thematic and territorial balance
5. How can Cohesion Policy investment best contribute to overarching European priorities, while keeping its territorial focus? Should we pay a more specific attention to certain geographical areas?

Challenges
6. How could Cohesion Policy address new or growing challenges (such as, for instance, energy security or migration)?

Urban dimension
7. What should be the role of urban dimension in Cohesion Policy? Where can EU action bring most added value? On the contrary, how can Cohesion Policy better support growth, jobs and innovation outside heavily populated areas?

Governance
8. How can we further simplify the implementation of the policy for beneficiaries? How can Cohesion Policy stimulate better national and regional governance? Should the shared management model be revised? Should there be any kind of conditionality regarding quality of institutions?

Financial allocations
9. Should the allocation of Cohesion Policy funds continue to be based on GDP per head, or rather on other indicators capturing social progress?

Economic governance and structural reform
10. What form should take the contribution / integration of Cohesion Policy to the EU's economic governance and structural reform agenda?

Source: Creţu C (2015) Speech at the 55th Congress of the European Regional Science Association in Lisbon, Portugal, 28 August 2015.

These themes were reiterated in the Commissioner's speech in September 2016 at a conference under the Slovak Presidency, with a particular focus on simplification and the linkages between

economic governance and ESIF. With respect to simplification, two concrete proposals were put forward.

- **Differentiation of rules across Member States.** In the area of financial management, audit and control, the Commissioner stated that a "fundamental review of the way Cohesion Policy operates" is needed to recognise differences in "institutional and administrative structures and capacities" across Member States. This could involve significantly fewer controls "where administrations can prove that they are reliable and strong audit authorities are in place" potentially "relying only on national rules in these cases".

- **Harmonisation of rules across ESIF:** The priority here is "to move toward a single set of rules for shared management funds for the next period"

In a more recent speech to the Committee of the Regions (CoR), Commissioner Creţu re-emphasized the idea that Cohesion Policy could be more effective and more visible by focusing it on fewer policy areas.[65] Moreover, the Commissioner argued that 'trust' should be another potential pillar for a future Cohesion Policy. More specifically, she stated that shared management has to be based on shared responsibility and on shared trust between the EU institutions and member states, in order to improve assurance and policy implementation.[66]

In terms of the relationship between Cohesion Policy and the wider economic governance of the Union, a vaguer proposal is to build on the new conditionality provisions without compromising the Treaty objectives on cohesion. Nevertheless, it implies a stronger level of conditionality by potentially introducing formal ex-ante conditionalities on the implementation of Country-Specific Recommendations. One of the specific issues relates to the excessive deficit procedure and it's relation to Cohesion Policy implementation. On this, the 7th Cohesion Report stresses that, so far, the link between ESIF and economic governance surveillance procedures has provided "important incentives to the Member States concerned to take effective action in a reasonable time to correct and put an end to their excessive deficits".[67] In other words, the Commission envisages this mechanism as being functional and does not recommend any changes to Article 23 of the Common Provisions Regulation (no. 1303/2013) addressing this link.[68] The same report stressed that the link with economic governance, and especially the European Semester, needs to be "strengthened to ensure that the system is simpler, transparent and provides positive incentives to implement concrete reforms to foster convergence".[69]

At the Seventh Cohesion Forum in May 2017, Commissioner Creţu highlighted three key points on the role and future of Cohesion Policy. First, Europe needs a less divisive and more cohesive response to address key EU challenges, such as globalisation and security, and Cohesion Policy is well-positioned for delivering collective action in these fields. Second and related, smart specialisation strategies are crucial tools to raise competitiveness and adapt to globalisation and crises in all

[65] Commissioner Creţu (2017), Speech at the meeting of the COTER Commission of the Committee of Regions, Brussels, 27 September 2017.

[66] Commissioner Creţu (2017) Speech on the 7th Cohesion Report and the Future of Cohesion Policy at the joint REGI-COTER meeting, Brussels, 10 October 2017.

[67] European Commission (2017j), p. 173.

[68] *Ibid*. p. 174.

[69] *Ibid.* p. XXVI.

regions. A more comprehensive Commission assessment of the smart specialisation experience in 2014-20 was provided in a subsequent communication tabled by the Commission in July 2017 (summarised in

Box 4).[70] Third, Cohesion Policy needs to be more flexible, effective and simpler in the post-2020 period.

- **Flexibility** is needed to adapt to unexpected events or challenges such as climate change (through mitigation and adaptation) and migration (by integrating migrants as assets for ageing societies);
- **More effectiveness by supporting structural reforms** to strengthen the link between investment, growth and jobs, and ensuring that administrations have sufficient capacity; and
- **A simplified policy**, especially for project promoters, by ensuring that all Funds work together based on common rules and taking on board key recommendations of the High-level group on Simplification (see Box 5 and Box 6).

At the same Forum, Commissioner Jyrki Katainen, the Commission's Vice-President for Growth, Jobs, Investment and Competitiveness stressed similar reform themes in his opening intervention on the priorities for Cohesion Policy post-2020.

- **Incentivising structural reforms.** Supporting structural reforms by providing positive incentives to Member States, while keeping what is useful in the present system of ex-ante conditionality.
- **Responds flexibly and speedily to new challenges.** For example, the impact of a global shock on local industry. As outlined in the Reflection Paper on harnessing globalisation, comprehensive responses to such shocks are needed at regional level involving long-term economic reconversion based on smart specialisation and sustainable jobs. Another example which requires flexibility is the case of a sudden influx of asylum seekers.
- **Simpler and more efficient policy.** Key options being explored are performance-based payments for outputs and results, a more coherent, single set of rules for Cohesion Policy funds, and clearer demarcation with other EU instruments.

From an ESF perspective, the Employment Commissioner Marianne Thyssen stressed five key features for the future including financing issues

- **Adequate resources.** The EU needs adequate levels of funding for human capital development in the next MFF given the high level of unemployment in the Union
- **Tailored funding strands.** Financial support should focus on three main strands: Investing in people in need of support; incentivising structural reforms; and promoting policy experimentation to adapt to adverse and unexpected situations and to develop innovative responses to social challenges, also by supporting social enterprises.

[70] European Commission (2017g) *op. cit.*

- **Targeted funding – aligned with EU priorities.** Funds should directly support EU policies and objectives delivering EU added value. The allocation of the Structural Funds based on GDP per capita criterion at NUTS 2 level is not adequate system and other indicators are needed to reflect more accurately the strengths and weaknesses of people wherever they live in the Union. Improved links are also needed between the European Semester monitoring system and the use of the Structural Funds. Employment and social Country Specific Recommendations point to the priority areas where more investments have to be deployed at national or regional level.

- **Simplification.** Key priorities include extending simplified cost options, which should be used as the default model and real costs used only exceptionally; and a simple set of common minimum rules for all funds – while allowing certain specific rules, depending on policy objectives, size and nature of the actions and stakeholders. The transition between two programming periods would also benefit from a more coordinated and seamless process. Implementation has been delayed by the late designation of national authorities and excessively complex ex-ante conditionalities, which needs to be reviewed and where appropriate revised for the next programming period.

- **Communication & visibility of funding results.** Visibility of results is needed to build up strong public support with and in the Member States around the funds investing in human capital. The European Parliament's report on increasing stakeholders' engagement and the visibility of ESIF was welcomed as were the joint DG Regio and DG Empl proposals in May 2017 to implement an ambitious communication action plan for Cohesion Policy at national, regional and local levels.

Many of the themes discussed at the Cohesion Forum were underpinned by the evidence base of the 7th Cohesion Report published in October 2017. Mandated to review the state of economic, social and territorial cohesion in the EU, the report also assessed the quality of institutions at the national level, the effects of the financial crisis and the impact of Cohesion Policy. It sought to "fuel discussions" on Cohesion Policy post-2020 by reiterating future strategic EU goals: "harnessing globalisation" (via investments in innovation, digitisation and decarbonisation), "leaving no one behind" (through social cohesion and by tackling unemployment, exclusion and discrimination[71]) and "supporting structural reforms" (by further strengthening the link between Cohesion Policy and EU economic governance).[72]

Making the case to retain the EU-wide remit of Cohesion Policy, the report emphasised that it is not only Less Developed Regions that are faced with problems associated with globalisation, migration, poverty and a lack of innovation.[73] Similarly, in an address to the European Parliament, Commissioner Creţu highlighted the increasing disparities between different regions and rural/urban areas in Europe as a justification for maintaining an all-region Cohesion Policy.[74] The Commissioner has also

[71] This is in line with the recently adopted text on the 'European Pillar of Social Rights' which links economic and social progress with cohesion and convergence (Preamble, Article 7).

[72] EC press release, 'The Future of EU Finances: new Cohesion report fuels the discussion on EU funds after 2020', 9 October 2017.

[73] European Commission (2017j), *op cit.,* p. XXV.

[74] Corina Creţu (2017), Speech at the 6th Interparliamentary Committee meeting: 'The Future of Cohesion Policy post 2020: Opportunities, challenges and next steps', Brussels, 22 November 2017.

stressed the EU's commitment towards an EU Urban Agenda based on the 12 priorities for urban areas adopted.[75]

Box 4: DG REGIO Communication on Smart Specialisation

The Commission's Communication 'Strengthening Innovation in Europe's Regions: Strategies for resilient, inclusive and sustainable growth' was published in July 2017 to review the experiences with the design and implementation of smart specialisation strategies and to suggest improvements for the future. The key achievements to date include:

- contributing to the quality of investment through mobilising €65.8 billion, supporting a bottom-up process of priority selection and dialogue of innovation stakeholders;
- supporting investments where the needs have been developed through a bottom-up process of priority selection;
- creating an investment friendly environment through an intensive dialogue of innovation stakeholders in the local context; and
- addressing priorities of the Digital Single Market, Energy Union, the Circular Economy and the single market through technological and non-technological investments in innovation

The key areas for improvement are:

- selecting priorities and keeping a structured interaction between researchers, businesses and civil society going;
- broadening the scope of actors and topics at the local level to go beyond the excessive focus on research and technology led by universities and research organisations (rather than firms), and the underrepresentation of civil society organisations; and
- preconditions necessary to put smart specialisation in place, notably leadership to embed strategies in the policy framework of regions, an enabling public administration to harvest the knowledge generated, genuine and ongoing interactive and entrepreneurial discovery processes, openness to the global economy and transparent monitoring mechanisms serving management goals.

A series of wider challenges that must be addressed relate to the policy framework:

- further reform of research and innovation systems within regions to boost potential;
- increasing cooperation in innovation investment across regions;
- leveraging research and innovation in less developed and industrial transition regions;
- harnessing synergies and complementarities between EU policies and instruments.

The Communication also highlights a number of pilot actions that are being implemented and should support future thinking. For instance, a pilot action to support interregional and cross-border partnerships in areas such as industrial modernisation, digitisation, the energy transition, or agrifood. Another pilot action aims develop innovative ideas to accelerate innovation uptake, reskilling, removing investment barriers by making the best use of the existing regulatory and financing opportunities.

Source: European Commission (2017g)

[75] *Ibid.* p. 10.

in the 2016 Amsterdam Pact.[76] For instance urban poverty and the integration of refugees are named as two potential priorities to be funded from a future Cohesion Policy.

Finally, in line with some of the views summarized above and the reflection paper on future finances, the 7th Cohesion Report outlined several specific options for improving the implementation of Cohesion Policy.

- *A **single set of rules for existing funds**, would ensure more coherent investment and make it easier for beneficiaries. Coherence could also be improved by a single rule book for cohesion policy and other funding instruments with programmes or projects of the same type. This should lead to stronger complementarity between cohesion policy and innovation or infrastructure funding.*

- *The system of **allocation of the funds could be revised by adding criteria linked to the challenges the EU faces**, from demographics and unemployment to social inclusion and migration, from innovation to climate change.*

- *The levels of **national co-financing for cohesion policy could be increased** to better align them for different countries and regions and to increase the sense of ownership in the policy.*

- *An **unallocated proportion of funding could make cohesion policy more flexible** and able to respond to new challenges more quickly.*

- *Faster implementation and a smoother transition between programming periods could be achieved by changes, such as **stricter decommitment rules, shortening procedures for closing programmes and speeding up the processes for appointing the management authorities** and for programming and making them more flexible.*

- ***Complementarity between financial instruments could be enhanced**. Upstream coordination, the same rules and clearer demarcation of interventions could ensure complementarity between the European Fund for Strategic Investment, the new pan-European Venture Capital Fund and the loan, guarantee and equity instruments managed by Member States under cohesion policy.*

- *Finally, the policy has become increasingly complex to manage. Therefore, **a much more radical approach to simplifying implementation** is needed."*[77]

Lastly, the 7th Cohesion Report also touches on the politically sensitive issue[78] of linking Cohesion Policy funding to compliance with 'the rule of law', noting that there are "calls to make the disbursement of EU funds conditional on legislation and institutions adhering to common EU values"[79]. As noted above, this was also mentioned in the EU reflection paper on the future of EU

[76] European Commission (2017l) *Report from the Commission to the Council on the Urban Agenda for the EU*. COM(2017) 657 final, Brussels.

[77] European Commission (2017j), *op cit.,* pp. XXVI-XXVII.

[78] Euractiv (2017) *France and Germany seek to reform cohesion funds*, 13 October 2017.

[79] European Commission (2017j), *op cit.,* p. XXVI.

finances.[80] It has been argued that suspending EU funds would act as a mechanism for improving rule of law and the quality of democracy in some countries, whilst indirectly improving convergence across the EU.[81] However, it remains to be seen whether this would be possible given its potential to exacerbate tensions between 'old' and 'new' Member States.

4.1.1 Ex ante conditionalities

As noted in Section 3.1 above, conditionalities are playing an important part in Commission and Member State thinking about the future of the policy. While much of the debate is likely to focus on the 'political' conditionalities, initial evidence on the use of ex ante conditionalities (ExAC) in 2014-20 and the lessons for the future have been published in a Communication assessing the value added of ex-ante conditionalities based on independent evaluations and the preliminary experiences of the Commission services.[82] The overall conclusion of the assessment is that the ExAC mechanism brought significant added value by contributing to improving the framework within which the EU budget operates; ensuring a direct link between the investments and EU level policies; and contributing to the transposition and implementation of EU legislation, helping to tackle barriers to investment and supporting climate change objectives. Moreover, ExAC triggered strategic, regulatory, institutional and administrative changes in the Member States. They have also triggered policy reforms and delivery on relevant country-specific recommendations at national and regional level that should lead to more effective and efficient spending and improving the investment environment in the EU.

The Communication highlights **a number of areas for improvement of the ExAC approach,** particularly to reduce the complexity of the process and the administrative burden.

- **There is a need to make ExACs more manageable and more flexible** in the post-2020 period, taking into account national and regional contexts. Some Member States have been critical of the high level of time and effort needed for the assessment of fulfilment of ExAC, particularly in Member States with a large number of investment priorities and thematic objectives in relation to allocated resources.

- **Improving the scope of ExAC with a focus on a limited number of ExAC. S**ome Member States considered that the proportionality principle was not applied effectively and the mechanism would have been more efficient if it had focused on a limited number of ExAC. The criteria for assessing the fulfilment of ExAC are defined in detail and introduces a certain degree of rigidity and different national and regional contexts cannot thus be reflected.

- **The sustainability of results should be strengthened** to ensure a stable link between investments and policy objectives expressed in the ExAC. The current assessment process is a one-off exercise and does not cater for new investment priorities introduced later in the period. Nor does the system require mid-term or ex-post evaluations of the completion of ExAC, or allow monitoring of implementation on the ground.

[80] European Commission (2017f) *op. cit.*

[81] Šelih J, Bond I and Dolan C (2017) *Can EU funds promote the rule of law in Europe?* London, Centre for European Reform.

[82] European Commission (2017i) *The Value Added of Ex ante Conditionalities in the European Structural and Investment Funds*, Commission Staff Working Document, SWD(2017) 127 final, 31.3.2017, Brussels.

- **Reflections are needed on positive incentives** (as opposed to payment suspensions) to foster reforms needed for effective implementation. How to make Commission support, including technical assistance, more effective in view of timely fulfilment of ExAC should be considered. Positive effects of ExAC may be undermined by lack of appropriate administrative and institutional capacity and insufficient involvement of the relevant stakeholders.

4.1.2 Simplification

The Commission's reflections papers make clear that simplification is a key priority for post-2020 Cohesion Policy. Its importance, for both the 2014-20 and post-2020 periods, is reflected in the establishment of the High-Level Group (HLG) monitoring simplification for beneficiaries of ESI Funds in July 2015 to review simplification experiences and to make proposals for both the 2014-20 period and the post-2020 regulatory framework. The HLG issued its report with conclusions and recommendations for the post-2020 period on 11 July 2017, proposing a simpler and results-oriented delivery approach based on the following principles:

- EU funds should be delivered via existing national administrative mechanisms by continuing with the current systems where they are required and are functioning well;
- a streamlined and more effective common European set of rules should be provided; and
- more concise legislation, focused on the strategic level and principles.

The proposed criteria to be fulfilled by a Member State/region to use this option are:

- a reliable management and control system;
- significant Member State/regional public co-financing rate for the programmes (50 percent);
- a solid strategy that outlines objectives and key structural reforms in the supported policy area in the Member State/region, agreed with the Commission with milestones as a basis for funding; and
- funding allocated to a limited list of EU policy areas, which may vary by region according to the development needs of the region and EU objectives.

The approach to **programming** would involve the Member State and Commission discussing and agreeing strategies in each of the policy areas to be supported, agree on mid-term and long-term objectives and time-bound relevant and achievable deliverables, the structural reforms to be achieved, and key implementation steps which would trigger payments.

There would be a **regular review of progress** between the Commission and the Member State. Where there are multiple programmes, an overall strategic national-level document reflecting key elements of the agreed strategies is also agreed in parallel with the strategies

Controls would be a Member State responsibility primarily**.** Commission audit work would be of limited scope, focusing on verifying whether or not the Member State system for reporting on milestones and achievements from a given Member State as the basis for EU reimbursements is reliable. To provide assurance, Member State audit work would be carried out in line with international standards for public-sector auditing, distinguishing well between fraud and errors without further need for the Commission to micromanage the process. The proper functioning of the national system implementing EU rules related to public procurement, state aid and the environmental acquis would be a precondition for the delivery mechanism to be approved. The enforcement of possible

infringements would be done under standard rules for the respective frameworks, without directly affecting the agreed EU payments under the strategy.

A detailed and comprehensive range of specific proposals for the post-2020 period are included in the HLG report distinguishing shared management, legislation and guidelines, control and audit, and unified rules (see Box 5 and Box 6).

Box 5: HLG Simplification: Proposals on Shared Management, and Legislation and Guidance

Shared management

- National rules and systems (including audit authorities) should be used as much as possible, which the Commission can assess through the designation process.
- A separate regulation could be set up for administrative issues (management and control) distinct from thematic content issues and applicable across funding periods.
- Need and purpose of the Partnership Agreement should be reassessed.
- Budgetary flexibility could be achieved by not assigning part of the allocation to any priority axis.
- Conditionalities should be streamlined and differentiated (e.g. a lighter procedure where resources are low or making use of existing compliance scoreboards).
- Approved conditionalities should be recognised in follow-up controls.
- Meaningful application of the code of conduct on partnership.
- Broader use of integrated approaches without increasing administrative burden.

Legislation and guidelines

- Continuity of the current text but with a simpler structure of the regulations and full alignment of terminology.
- Elimination of rules which obstruct a smart application of a differentiated approach.
- Limiting the number of guidelines and changing their nature.
- A separate regulatory framework for Interreg maintained, with specific rules applicable to all. interregional and transnational cooperation beyond Interreg.
- Specific simplification proposals:
    - omit regulatory provisions related to CSF/PA for MS with a single or limited number of OPs; streamlined PAs focussed on synergies with other EU/national instruments and MS issues, such as CSRs, ex-ante conditionalities;
    - reassessing the need for designation or making it more focused;
    - more use of off-the-shelf SCOs, including for projects subject to public procurement;
    - harmonised, much shorter and less-prescriptive rules on publicity;
    - streamlined rules for geographical eligibility, net revenue-generating operations and technical assistance;
    - reassessing the need for the current approach to major projects or consider them separately from programmes with more practical requirements;
    - streamlined and more focused ex-ante conditionalities;
    - clear and proportional rules on state aid;
    - eligibility rules should remain at the national level; and
    - assessment of the value of the new annual accounts system, management declarations and annual summary

Box 6: HLG Simplification: Proposals on Controls and audit and Unified Rules

Controls and audits

- Fewer rules and more use of off-the-shelf solutions, such as flat rates, unit costs or lump sums.
- Less micromanagement and more reliance on national rules.
- Avoiding parallel control structures when it is proven that national rules (not just restricted to EU funds) function properly.
- Scope of audit proportional to risk.
- Focus on preventive measures.
- Shift towards risk-based auditing and performance-based auditing.
- Single audit+
- A faster and more transparent conflict-resolution mechanism.
- More differentiated approach to errors and frau .
- Preventing gold-plating.

Unified rules for EU funds

- **Alignment of horizontal rules.** Projects financed by ESIF should not receive more restrictive treatment than similar projects under central EU management.
- **Links with EU instruments outside the ESIF.** PAs/OPs should specify demarcation and coordination arrangements, potentially including common investment platforms; Combining funds from different sources should be permitted for the same item of expenditure.
- **Alignment in the specific EU policy context.** Consolidate various financing instruments under a given field of interventions (e.g. comprehensive social/employment fund to replace ESF, Fund for European Aid to the Most Deprived, European Globalisation Adjustment Fund, EU Programme for Employment and Social Innovation); remove overlaps from EU funds supporting investments (ESIF, EFSI, CEF, Horizon 2020, etc.).
- **Rules which are tailor-made to specific measures.** Rules which need to be adjusted to the type of intervention should be addressed either in fund-specific rules, or in the programmes or national implementing documents; a common set of indicators should be improved and consolidated.
- **Specific rules for European Territorial Cooperation in a single regulation.** ETC should remain exempt from ex-ante conditionalities and low-value projects (with unlikely impact on trade and competition) should be exempt from state aid rules; a complete set of common indicators is required and data at NUTS III level in cross-border areas should be made available; the monitoring system (eMS) should be continued and used by all programmes allowing better aggregation of data.

4.2 European Parliament

The European Parliament tabled a report on building blocks for a post-2020 EU Cohesion Policy at the end of May 2017.[83] The key elements proposed for the post-2020 Cohesion Policy are:

- an adequate budget;
- better synergies between ESI Funds and other EU funds;

[83] European Parliament Report on Building Blocks for a Post-2020 EU Cohesion Policy, (2016/2326(INI)), 24.5.2017. This draws on a study for the REGI Committee - Bachtler and Polverari (2017) *op. cit.*

- EFSI should not undermine the strategic coherence, territorial concentration and long-term perspective of Cohesion Policy programming;
- simplification of its overall management system at all governance levels;
- harmonisation between Cohesion Policy and Competition policy (particularly state aid rules);
- retaining grants as the basis of financing, whilst the use of financial instruments should be carried out with caution;
- increased visibility of ESI Funds by focusing more on the content and results of programmes and by allowing participation by stakeholders and recipients who can act as disseminators of Cohesion Policy achievements.

More specific views and proposals by the European Parliament on these issues - relating to the added value of EU Cohesion Policy, the post-2020 policy architecture and key policy areas for modernisation - are set out below in Box 7, Box 8 and Box 9

Box 7: European Parliament building blocks for post-2020 Cohesion Policy

Added value of EU Cohesion Policy

- Strongly opposes any scenario which would scale down the EU's efforts in Cohesion Policy, as suggested in the White Paper on the Future of Europe.
- Partnership is crucial for achieving cohesion objectives. Shared management, which is based on the partnership principle, multilevel governance and the coordination of different administrative levels, is of significant value in ensuring better ownership.
- Emphasises the catalyst effects of Cohesion Policy, particularly the horizontal and cross-cutting provides a framework for mobilising and coordinating actors towards reaching EU priorities, and calls for optimal coordination and cooperation between the Commission DGs and with national, regional and local authorities.
- Urges EC to continue with the Task Force for Better Implementation to support implementation and to identify the causes of the delays, and to propose practical ways and measures of avoiding such problems at the outset of the next programming period.
- Calls on EC to come up with a structured solution to RAL problems before the end of the current MFF and to prevent them from spilling over into the next MFF.
- Room for improvement in partnership to ensure the real and early involvement of all stakeholders. Partnership principle and the code of conduct should be further strengthened in the future by, for example, introducing clear minimum requirements for partnership involvement.
- Calls for strengthened action to reduce disparities and prevent the development of new disparities in all types of region. More attention needs to be paid to making regions more resilient to sudden shocks.
- Territorial cooperation transposes the concept of political cooperation and the coordination of regions and citizens across borders. OMR special status should be maintained post-2020.
- ETC adds substantial added value to EU objectives and should remain an important instrument post-2020. However, calls for a substantially increased ETC budget for post-2020 because the current budget does not match the great challenges facing Interreg.

Box 8: European Parliament building blocks for post-2020 Cohesion Policy

Architecture of post-2020 Cohesion Policy – continuity and areas for improvement

- Greater budgetary flexibility is supported including the creation of a reserve to address major unforeseen events and to facilitate re-programming to adapt to changing needs without negatively the strategic orientation, objectives and planning.
- Recognises value of ex-ante conditionalities, particularly smart specialisation (RIS3), for strategic programming and performance.
- Need a balanced and reciprocal link between Cohesion Policy and economic governance with greater recognition of the territorial dimension in the European Semester.
- National contributions to the co-funding of projects should not be taken into account in deficit calculations under the Stability and Growth Pact rules.
- Increasing administrative and institutional capacities is crucial for timely and successful Cohesion Policy performance.
- Need to simplify the management system and combat gold-plating. Increase the possibilities for e-cohesion and specific types of expenditure, such as standard scales of unit costs and flat-rate amounts under CPR, and to introduce a digital platform or one-stop shops for information for applicants and beneficiaries.
- Supports the recommendations by the 'High Level Group monitoring simplification for beneficiaries of ESI Funds'.
- Need proportionality and differentiation in the implementation of programmes, based on risk, objective criteria and positive incentives for programmes, their scale and administrative capacity, especially with regard to the multiple layers of audit, greater harmonisation between Cohesion Policy, Competition policy and other EU policies, particularly state aid, which apply to the ESI Funds but not to EFSI or Horizon 2020, as well as a single set of rules for all ESI Funds.
- Extend the simplified cost regime to the ERDF in line with the Omnibus regulation.
- Grants should remain the basis of the financing of Cohesion Policy; FIs can play a complementary role, only where there is demonstrable added value and leverage.
- Importance of assistance through platforms such as fi-compass or by providing incentives for beneficiaries; opposes binding quantitative targets for the use of FIs, and increasing use should not lead to a reduction in the EU budget in general.
- Ensure better synergies between ESI Funds and other funds and programmes, including EFSI, and facilitate the implementation of multi-fund operations.
- EFSI should not undermine the strategic coherence, territorial concentration and long-term perspective of Cohesion Policy and should not replace or crowd out grants; need clear delimitations between the EFSI and Cohesion Policy; harmonisation of rules for multi-fund operations is needed and a toolbox for beneficiaries.
- Develop indicators that complement GDP, which remains the main legitimate and reliable method for allocating ESI Funds fairly; believes that the Social Progress Index or a demographic indicator should be evaluated and considered in this context in order to provide a comprehensive picture of regional development.
- Measures to resolve problem faced by local and regional authorities co-financing restrictions in highly centralised Member States Consider the possibility of using the NUTS III level as a classification of regions in Cohesion Policy for some selected priorities.

Box 9: European Parliament building blocks for post-2020 Cohesion Policy

Key policy areas for a modernised Cohesion Policy after 2020

- Stresses the importance of the ESF, the Youth Guarantee and the Youth Employment Initiative.
- Post-2020 Cohesion Policy should continue to care for the vulnerable and the marginalised, notes the positive impact in education, training and culture; points to the need to maintain social inclusion, including ESF spending, complemented by ERDF investments in that field.
- Better use of ESI Funds to tackle demographic change and territorial consequences.
- Increasing importance of the Territorial Agenda and of rural-urban partnerships and smart cities. The Pact of Amsterdam and better recognition of cities and urban areas and of partnerships should be incorporated in future EU policies post-2020.
- Sustainable urban development and urban innovative actions should be further developed and financially strengthened and that the sub-delegation of competences to lower levels should be reinforced; EC to improve coordination between various measures aimed at cities to enhance direct support to local governments through financing and tailored instruments; emphasises the future role of territorial development tools, such as Community-Led Local Development and the Integrated Territorial Investments.
- Endorses EU's commitments under the Paris climate change agreement and the goal by EU institutions of spending at least 20% of the EU budget on climate change-related action. ESI Funds should continue be used as effectively as possible for climate change mitigation and adaptation, as well as for green economies and renewable energies. Need to improve the monitoring and tracking system for climate spending.
- Smart specialisation should become one of the leading approaches of post-2020 Cohesion Policy encouraging territorial cooperation and bolstering economic development, creating synergies between transnational RIS3 and world-class clusters; Further efforts needed to maximise synergies.
- Increased visibility of the Cohesion Policy is vital to fight against Euroscepticism and can contribute to regaining citizens' confidence and trust. In order to improve the visibility of ESI Funds, a greater focus must be placed on the content and results of their programmes through participation by stakeholders and beneficiaries. Need to communicate more efficiently the measureable results which bring added value to the everyday life of citizens. Communication activities under a specific budget within the technical assistance should continue until after a project has closed when its results become clearly visible.

4.3 Committee of the Regions

The Committee of the Regions issued an opinion on the future of Cohesion Policy beyond 2020 on 12 May 2017 with the following principles for reform.

- **Rationale.** Cohesion Policy is one of the most important and comprehensive EU policies, making a significant contribution in terms of solidarity to strengthening the EU as a whole and considerably strengthens the European added value that is tangible for each EU citizen;

- **Categories of regions.** the basic architecture of Cohesion Policy with its three categories (most developed, transition and less developed regions) should be retained.

- **Adequate funding.** It is important that Cohesion Policy has adequate funding, by ensuring that the percentage share of the budget allocated to Cohesion Policy in the next MFF remains the same.

- **Budgetary flexibility.** More budgetary flexible is supported on the condition that it does not impact on the strategic focus and planning certainty of multi-annual programmes.

- **Multilevel governance.** essential to guarantee the functioning of multi-level governance and the bottom-up approach through shared management and in full compliance with the subsidiarity principle.

- **Management and control.** a comprehensive review of the requirements for ESIF management and control systems is urgently needed.

- **Visibility. C**alls for substantially increasing the visibility of Cohesion Policy measures through appropriate communication actions, as they are one of the indisputable advantages of EU integration for people at local level.

Simplification of ESIF from the perspective of local and regional authorities was the focus of an earlier opinion by the Committee of the Regions on 11 October 2016. It criticised the increasing complexity of ESIF programming period and that many beneficiaries were being discouraged from seeking funding due to the high risks and lack of guarantee that project funding would not be withdrawn or suspended. It encouraged future Council Presidencies should to continue discussing simplification with active involvement of all relevant Directorates-General of the Commission as well as other institutions and EU bodies (such as audit authorities). The key issues and priorities for simplification are as follows.

- **Simplification for all actors.** The system must be simplified for both the beneficiaries as well as administrative authorities;

- **Retroactivity.** Current rulings and changes to procedures or guidelines should not be applied retroactively to projects that are at an advanced stage of implementation.

- **State aid rules.** There are inconsistencies in the application of state aid rules. While programmes managed centrally by the European Commission are exempt from state aid procedures, funding under the EU's Cohesion Policy is not exempt.

- **Inconsistent audit methodologies.** The lack of consistency in audit methodologies at national and European level is perhaps the biggest challenge for the ESIF implementation process. Managing authorities and different European and national audit authorities frequently arrive at different interpretations of the same rules.

- **Financial instruments.** There is an urgent need for simplifying the set-up, the reporting requirements and the audit rules for financial instruments under ESIF.

4.4 European Court of Auditors

European Court of Auditors has issued two reports in 2017 with implications for the future of Cohesion Policy. A special report on the **Commission's negotiation of the 2014-20 Partnership Agreements and programmes,** issued in May 2017,[84] found that the late adoption of the legislative package delayed OP approval and that negotiations between the Commission and Member States were more demanding due to new requirements (such as ex-ante conditionality). Partnership Agreements were effective for ring-fencing ESI funding to thematic objectives but the achievement of strategic results would require a substantial contribution from national budgets and additional regulatory measures and structural reforms.

In terms of the new results orientation, the ECA concluded that programmes have a more robust intervention logic and there is a significant increase in the number of performance indicators although the arrangements to measure performance are increasingly complex. The fund-specific regulations have introduced different requirements for collecting and reporting performance data, there is no common definition of 'output' and 'result' concepts, and a lack of harmonisation between the different funds as to the use of common indicators. These differences raise questions as to whether a meaningful aggregation of performance data will be possible. The large number of indicators result in additional administrative burden and it remains to be seen what use will be made of the data. That said, the ECA recognises that more and better performance data on outputs could pave the way for a more performance-based budget in post-2020. Lastly, the ECA made a number of recommendations for the Commission and Member States, some of which apply to the post-2020 period (see Box 10).

A subsequent report by the ECA in 2017 assessed **the effectiveness of the Commission's preventive measures and financial corrections in protecting the EU budget**.[85] While the focus was mainly on 2007-13 it also concluded that the regulatory provisions for 2014-20 are a significant improvement in the design of the system and significantly strengthen the Commission's position on protecting the EU budget from irregular expenditure. This is mainly because the Member State's reporting on financial corrections is now integrated into the annual assurance process and examined by the audit authority; new legal provisions give more power to the Commission to ensure that irregular expenditure is no longer reimbursed from the EU budget; and there is also increased legal certainty due to the rules being set as regulations rather than guidance. However, the ECA identifies shortcomings in information systems used by the Commission to monitor and report on preventive measures and financial corrections for 2007-13 programmes. In particular, the information systems are not integrated and they do not provide an overview for individual cases of all preventive measures and financial corrections.

- **Integrated monitoring system needed.** For the 2014-20 period, the Commission should set up an integrated monitoring system covering both preventive measures and financial corrections by 2019
- **Net financial corrections should be enforced.** The Commission should make effective use of the significantly strengthened provisions for the 2014-20 period and impose net financial

[84] European Court of Auditors (2017a) *The Commission's negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion*, Special report No 2/2017, European Court of Auditors, Luxemburg.

[85] European Court of Auditors (2017) Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in Cohesion during the 2007-2013 period, Special Report No.5/2017, European court of Auditors, Luxembourg.

corrections wherever necessary on the basis of its own checks and/or the audits carried out by the European Court of Auditors.

Box 10: ECA recommendations on post-2020 programming

Recommendations for the European Commission

- ensure that its Cohesion Policy legislative proposals for the post 2020 period are presented timely so that there remains sufficient time to complete the negotiations between the European Parliament and the Council before the start of the programme period;
- ensure that the ring-fencing of ESI funding to thematic objectives is respected by Member States;
- define a common terminology for 'output' and 'result' and propose it for inclusion in the Financial Regulation and ensure that the proposals for the sectoral regulations follow these definitions for the post-2020 periods;
- carry out an analysis of the 2014-20 programme-specific and common indicators for outputs and results to identify those which are most relevant and best suited to determining the impact of the EU interventions;
- use the data collected via the annual implementation reports and the results of ad hoc and ex-post evaluations for comparative analysis of performance and, where appropriate, to promote the use of benchmarking to allow for policy learning during 2014-20 period;
- apply the concept of a performance budget, which links each increment in resources to an increment in outputs or other results, to the funding of Cohesion Policy interventions for the post-2020 period where appropriate - in this context, the Commission should make use of data on the actual unit costs determined during the 2014-20 period;
- disseminate 'good practices' by Member States of impact evaluations and assist the Member States in updating their evaluation plans which include such 'good practice evaluations'.

Recommendations for the Member States

- provide to the Commission the financial information necessary to effectively monitor compliance with the thematic concentration requirements (including the derogations set out in the ERDF regulation);
- discontinue the use of unnecessary programme-specific indicators in case of programme modifications;
- ensure that data that is relevant to establish the effects of the ERDF interventions is collected.

4.5 Council of the EU

The Council of the EU adopted conclusions in April 2017 on improving the visibility of Cohesion Policy and reform priorities for the post-2020 period, with a particular emphasis on simplification.[86] On the communication front, the Council called **for further efforts by Member States and the Commission to increase the visibility and the positive image of Cohesion Policy** and to show how represent a tangible and positive manifestation of the EU in the daily lives of citizens. To further increase the visibility of the policy, the Council invited:

- Member States to communicate the advantages Europe offers to citizens;

[86] Council conclusions on "Making Cohesion Policy more effective, relevant and visible to our citizens", 8463/17, adopted on 25.5.17.

- the Commission and Member States to enhance cooperation on their communication strategies respecting the principle of proportionality, including through the new communication action plan;
- the Commission to outline and disseminate good practice on communication measures which can best illustrate the policy's positive contribution;
- beneficiaries and authorities of the Member States to communicate widely and in systematically the results, benefits and long-term impact of the policy; and
- all stakeholders to make the best use of available communication tools, including new communication techniques, to increase the visibility of the policy in a way adapted to the needs of relevant target groups;

With respect to the future of Cohesion Policy post-2020, the need for **simplification is underlined** by the Council for both management bodies and beneficiaries, contrasting with the Commission's emphasis on simplification for beneficiaries. Reducing disproportionate administration costs should involve a better application of the principle of proportionality and, as an option, differentiation based on transparent and objective criteria. It also calls for further simplification of shared management and audit systems, finding the right balance between the result orientation and controls as well as simplification of procedures, which should be proportional, preventive and predictable whilst taking account of the work of national control and audit authorities.

The Council also called for **a forward-looking Cohesion Policy that maintains its commitment to cohesion while addressing future challenges** and, at the same time, continuing to provide a stable and predictable investment and cooperation framework to reduce regional disparities taking account of different social, territorial and economic realities.

Finally, the Council invited the Commission to seek policy dialogue with Member States in the post-2020 preparatory process and for **the Commission to publish proposals as soon as possible in 2018** to allow a timely agreement and an early start of programming.

4.6 Regional stakeholders

Apart from the EU institutions and national governments, several stakeholders have been involved in the debates on the future of Cohesion Policy post-2020.

The recently constituted Cohesion Alliance has gained momentum in the second half of 2017 with a 'declaration' which been signed by a growing number of local/regional authorities and other stakeholders with a vested interest in the future of Cohesion Policy. The founding members of the alliance were: the Committee of the Regions; the Assembly of European Regions (AER); the Association of European Border Regions (AEBR); the Conference of European Regional Legislative Assemblies (CALRE); the Conference of Peripheral Maritime Regions (CPMR); the Council of European Municipalities and Regions (CEMR) and EUROCITIES.

The main declaration stresses several principles for the future development of Cohesion Policy

i. acknowledging it is the long-term investment policy for EU regions;
ii. its solidarity features and its important function in addressing economic, social and territorial divides;
iii. the need for it to be better communicated;

iv. the requirement for the policy to have sufficient resources;
v. the need for a common set of provisions;
vi. the need to strengthening the partnership principle and the place-based approach by reinforcing the role of local and regional authorities;
vii. better coordination of Cohesion Policy with other EU policies;
viii. must not be subject to conditionalities which cannot be influenced by local and regional authorities; and
ix. must be simplified and improved.[87]

Most of the signatories have produced analyses and formulated position papers on various aspects of Cohesion Policy development and reform. While most umbrella organisations representing European regions, municipalities and cities advocate a 'strong Cohesion Policy' as an investment tool post-2020, independent analysts have stressed the challenges faced by the next Multi-Annual Financial Framework (MFF).

[87] Declaration: #CohesionAlliance for a strong EU cohesion policy beyond 2020, available at: http://cor.europa.eu/en/takepart/Documents/declaration-cohesion-alliance.pdf

5. NATIONAL PERSPECTIVES ON COHESION POLICY REFORM

As yet, there is very limited insight into national positions on the future of the MFF or Cohesion Policy. There are published statements or non-papers on specific aspects of Cohesion Policy reform from France, Germany, Italy and the Netherlands,[88] among others, but the strongest political statement on the future of Cohesion Policy was adopted by the Visegrad 4+4 group on 7 March 2017 involving the Ministers responsible for Cohesion Policy in Poland, Hungary Czech Republic, Slovakia, Slovenia, Bulgaria, Romania and Croatia.[89] Subnational stakeholders have developed papers on the future of Cohesion Policy and EU funding in a number of countries, most notably the Italian Regions, the South and West of Finland and the French Association of European Municipalities and Regions & Joubert Centre (umbrella association of French elected representatives), and the Association of Polish Regions.

Among the most common points raised in the papers produced to date are concerns about the impact of Brexit, calls for a reinforcement of cohesion and a closer alignment with EU goals

- **Brexit and the budget.** A number of Member States countries have expressed concerns about the impact that Brexit might have on the size and scale of a post-2020 CP (CY, EL, FI, HU, LV, SE).

- **Reinforcing the commitment to cohesion.** The Visegrad 4+4 (BG, CY, CZ, HR, SK, SI, PL, IT, RO) call for the long-term development support of Cohesion Policy to remain stable and predictable whilst also ensuring some key elements for the future namely: “result-orientation, flexibility, proportionality, integrated approach and simplicity”.[90] The Italian and Polish authorities stress that Cohesion Policy should remain a fundamental priority for the EU and MFF given its role in fostering integration, reducing regional disparities and improving the living and working conditions of European citizens.

- **Alignment with EU goals and economic governance.** Net EU budget contributors such as Germany, Finland, Sweden and are calling for closer link with EU strategic goals and wider EU economic governance. Net beneficiaries such as Poland also recognise that CP “must be integrated more closely with other, horizontal EU policies (especially Horizon 2020 and the Juncker Plan)” in order “to improve coherence and exploit synergies between territorial and sectoral instruments”.

[88] Position paper Netherlands – Mid term review MFF Dutch non-paper on the mid-term review of the Multiannual Financial Framework 2014-2020, The Hague, the Netherlands – July 2016. Joint position of the national, regional and local governments of the Netherlands on reform of ESI Funds – Coherence and simplification – March 2017. Joint statement by the German government and the German *Länder* on EU Cohesion Policy beyond 2020, Federal Government and European Ministers Conference, Berlin 20 June 2017. Letter from the Prime Minister of France to European Commission President Jean-Claude Juncker (10 April 2017). Italian Government - Multiannual Financial Framework: A Strategic Tool for Meeting the Goals of the European Union, Interministerial Committee, 12 April 2017. Wstępne stanowisko Rządu RP ws. polityki spójności po 2020 r. przyjęte przez Komitet do Spraw Europejski w dniu 17.07.2017.

[89] “Joint Paper of the Visegrad Group, Bulgaria, Croatia, Romania and Slovenia on Cohesion Policy after 2020”, available at: http://www.visegradgroup.eu/calendar/selected-events-in-2017-170203/joint-paper-of-the

[90] *Ibid.*

The following sections draw together the main issues to emerge from the debates and papers at Member State level to date under the headings of added value; geographical and thematic objectives; economic governance and structural reform; and simplification and differentiation.

5.1 The added value of Cohesion Policy

The added value of Cohesion Policy has been reviewed extensively in previous EoRPA reports[91]. While it remains largely uncontested across most Member States, there is however variation in the different understandings or perceptions regarding the added value of the policy. It is variously regarded as contributing to:

- the achievement of EU goals by addressing the needs of under-developed regions and/or reducing regional disparities (CZ, LT, LV, PL, RO);
- growth and public investment in many Member States and providing an economic stabilization function during the economic crisis (PL);
- supporting the development of strategic coherence and planning for development across the EU (CZ, DE, RO, FI, FR, RO);
- cooperation and partnership between stakeholders at different levels (CZ, EL, HR);
- policy transfer / learning and spill-over effects from EU rules and practices to the national level, for instance with regard to the use of public funding (CZ, DE, FR, HR, HU, SI, SK);
- supporting cooperation and investments with a national / macro-regional and EU added value (DE, PL, HU, LT, SE, SI, SK);
- development of administrative capacity at the national and local level (including policy evaluation) (PL, FR, SI, SK);
- improving the image of the EU and its actions in different areas such as public health and the environment (FR, HU).

Apart from underlining the positive aspects, the French position paper also stresses some of the limitations and negative dimensions associated with the policy: "regulatory complexity", "bad image of EU funds", "rigidity in adapting to current challenges" and it's lack of ability to structurally address "inter-regional disparities". Other countries also highlight the general burden of Cohesion Policy implementation.

5.2 Geographical and thematic objectives

There is a general consensus that **Cohesion Policy should address regional disparities and promote investments and economic growth across the EU.** Most countries adopt the traditional position that funding should be primarily channelled towards lagging or less-developed regions (PL, IT, PT, RO, SK, SI). On the other hand, several net payer countries advocate that Cohesion Policy should focus more on objectives such as competitiveness, innovation/RDI and a low-carbon economy (DE, FI, SE). In developing this position, countries such as Germany stress the fact that the newer Member States have often not spent Cohesion Policy funding on such priorities, but rather on physical and cultural infrastructure. What is more, the issue of low absorption rates and weaknesses in domestic administrative capacity is seen by some (DE, EE) as a potential argument for allocating fewer funds to those MS suffering from these shortcomings.

[91] Bachtler et al (2016) *op. cit*. Section 5.1.

With regard to the **financial allocation mechanism**, there is some support for going beyond GDP per capita indicator as a basis for defining financial allocations (HU, EL, FI, FR).

Thematic concentration is widely supported. However, while some countries are calling for more focus on fewer goals or themes (NL), others emphasise the need to take into account local particularities and needs (EE, HR) particularly in less advanced and outermost regions (FR). More generally, the Visegrad 4+4 note the importance of "ensuring the right balance between thematic support and specific needs of Member States, regions and cities".

There is also widespread recognition of the added value of **European Territorial Cooperation**. While some recognise that funding ought to continue for existing three strands (DE) others consider that more funding could be channelled for cross-border cooperation (LV, PT). Finland places a high priority on the Baltic Sea, Arctic areas and the border areas with Russia. It also consider, along with Hungary, that more funding could be concentrated in urban areas.

Lastly, several countries support **using Cohesion Policy to tackle the effects of the migration crisis** (EL, DE, FI).

5.3 Economic governance and structural reform

The legislative framework for 2014-20 formalised the linkages between ESIF and the European semester and economic governance, notably the requirement for Partnership Agreements and Operational Programmes to take account of country-specific recommendations (CSRs), and the introduction of macroeconomic conditionality.

A key issue for the future is how to improve the links between Cohesion Policy and the CSRs. Germany is calling for CSRs to be drawn on "more systematically and to an even greater extent" in programming, provided they are suitable in terms of substance (relevant) and timelines (e.g. long-term). More controversially, Germany would like the Commission to use existing provisions on reprogramming and financial suspensions more strictly to ensure that CSRs are implemented in a more targeted way. By contrast, others recognise that national priorities must be aligned with EU priorities and the MFF budget, but recommendations should not be punitive in nature but based more on trust between national and EU institutions (CZ, PL, HR, HU, LV, LT, RO, SK). Poland argues for a change in logic away from the current focus on sanctions or punishments (e.g. through increased obligations or potential payment suspensions) to one based on positive incentives (e.g. rewarding the introduction of reforms with elements of simplification, differentiation or greater access to funding such as through higher levels of co-financing – 'top up').

As discussed in previous EoRPA papers,[92] a related proposal mooted by the Commission is the introduction of **structural reform conditionality**, for example introducing a mix of incentives (higher co-financing rate, increased advance payments, and flexibility in applying de-commitment) and/or sanctions (suspensions of commitments and payments) linked to structural reforms through the annual cycle of the European semester. In its latest position paper, Germany has proposed introducing **ex-ante conditionality for compliance with CSRs.** President Macron has recently proposed to make Cohesion funding conditional on corporate tax harmonisation.[93] While the Dutch

[92] Mendez and Bachtler (2015) *op. cit.*

[93] Macron E (2017) Emmanuel Macron makes radical appeal for more powerful EU, 26 September 2017, Financial Times

position paper on the MFF review called for “a more effective link between EU resources and economic policy coordination …to align investments more closely with economic, employment and fiscal policy requirements, a more recent non-paper on post-2020 ESIF notes that suspensions of payments could hinder rather than incentivise structural reform and success would in any case be dependent on regional governments having sufficient influence over national CSRs or structural reforms. Ex-post conditionality through a Cohesion Policy performance reserve based on the realisation of structural reforms is opposed by Poland on the basis that it would create competition among Member States and would fail to take into account the multi-nation character of reforms and different timescales.

Going beyond structural reforms, both Germany and Italy support making EU cohesion funding subject to **compliance with basic EU principles and values including the rule of law**. President Juncker has apparently opposed the idea indicating that the proposal would be “poison for the continent.”[94]

Macroeconomic conditionality remains a controversial issue, particularly as it has proven difficult to apply in practice. The Commission envisaged proposing payment suspensions linked to excessive deficit for the first time in the case of Spain and Portugal in 2016, but decided not to propose a suspension because of the challenging economic and fiscal situation. Instead, the Commission recommended that Portugal put an end to its excessive deficit by 2016 and that Spain did so by 2018. Net payers such as Germany and Finland are in favour of maintaining and strengthening macroeconomic conditionalities. Germany argues that they should be strengthened and proposes a one-month deadline within which the Commission must table a proposal for suspending funding for non-compliance with EU economic and fiscal policy rules. On the other hand, other countries oppose macroeconomic conditionality (GR) and argue that they should be abolished (France) or reconsidered (Italy). The Italian position paper argues for reconsidering macroeconomic conditionalities given their potential to “endanger investments in those areas with greater structural difficulties.” Poland stresses the need for a shift in logic from Brussels sanctions and punishments towards more positive incentives.

A broader strategic issue concerns alignment with the overarching EU goals currently within the framework of the Europe 2020 strategy. For Poland, Cohesion Policy should be more closely related to the EU system of economic governance at the level of objectives through a successor to Europe 2020 strategy that is directed towards structural transformation and pursuing the territorial dimension. The emphasis in Cohesion Policy should be on coordination and implementation through a modified system of national reform programmes and country-specific recommendations. The Netherlands also calls for a stronger focus on EU goals but considers the scope of the Europe 2020 strategy to be too broad and calls for a focus on the big societal challenges that can be addressed most effectively at European level (e.g. social inclusion and migration, security, climate change, health, food, energy, sustainability and technological development).

5.4 Simplification

Simplification is a major priority for Member States and stakeholders involved in implementing Cohesion Policy. Many countries agree with the need for a simplified management and delivery of the policy (BG, CZ, CY, DE, EE, PL, FI, HU, LT, PT) and stress the need for enhanced cooperation

[94] Financial Times (2017) Juncker rejects German plan to tie EU funding to democracy, 1 June 2017.

between Member States and the Commission and for more trust from the latter towards the former in order to achieve this (PL, GR, HR, RO).

- **Common and streamlined rules.** Reduced procedural obligations through the integration of ESIF regulations and the development of a single set of rules (NL, PL). France calls for harmonised rules for schemes that target the same beneficiaries (ESIF, H2020, EDF, EFSI, CEF) and introducing into ESIF certain rules that apply to direct management: selection of financial intermediaries as if applied to EIB, State aid rules on H2020 and EFSI model; calculation of indirect costs as 25 percent of direct costs as for H2020; possibility to apply a 100 percent co-funding rate under technical assistance. Greece also calls for the same procedures and criteria that apply to central management to be applied to shared management.

- **EC guidance.** Elimination of the plethora of Commission guidance is a priority for Germany. Similarly, for Poland, simplification should result from a reduced number of guidelines and a shift from heavy regulations to the provision of good practice examples and off the shelf solutions.

- **Subsidiarity and specification of roles.** A precise specification of the roles and responsibilities of all stakeholders and the establishment of clear division of their competences is emphasised in the Visegrad 4+4 positon paper.

- **Timing of OP approval/launch**. A key concern is that actual implementation can only start 2-three years after the start of the programming period (PT). A streamlining is needed of the process of designation (DE) and of commission approval of OPs (PL).

- **OP revisions.** Existing procedures for modifying programmes and re-adjusting priorities need to be sped up and simplified according to Germany.

- **IT systems.** More pragmatism is needed on the timing of IT monitoring systems (DE). For instance, the Commission required all aspects to be in place before OPs could be approved, including aspects related to payments which would not be needed at the start of the programme period. France suggests a single IT system for all funds, with harmonised procedures and requirements and keep the number of required indicators to a minimum.

- **Simplified Cost Options**. Stronger focus on using off-the-shelf simplified cost options which should be available from the beginning of implementation (Visegrad 4+4). In promoting the use of SCOs, France calls for national applicable rates when it is not possible to define fair, equitable and verifiable calculation methods; the application of SCOs even when state aid rules apply; and harmonisation of SCOs across all funds. Greece does not oppose the obligatory use of SCOs under €100,000 but requests a transition period because of difficulties in their design and implementation. There are also concerns in Portugal regarding the obligatory use of simplified cost options for support under €100,000.

- **Uniform co-financing rates** for different categories of regions would be appreciated as an aspect of simplification (CZ).

- **Proportionality of audits:** France calls for adjusted control based on assessment of management and control systems and reliance on previous audits to ease the designation procedure; and cost/benefits analysis based on projects' size and type.

- **Strategic ex-ante conditionality.** If there is already a smart specialisation strategy, there should be no need for a new one, or maybe just a simple update (DE). Poland argues that there is a need to rethink the Cohesion Policy hierarchy of strategies.

- **Urban development.** Simplification and more flexibility on the scope and instruments for integrated urban development (ITI and ISUD) (DE).

5.5 Differentiation

There is increasing recognition of the need for some form of differentiation to take account of the disproportionate administrative costs and burden of management in countries with relatively low allocations.[95] Several countries are calling for a differentiated system that simplifies rules for OPs and controls and audits based on objective criteria such as:

- share of national co-financing (DE, NL);

- scale of funding relative to public investment (NL) or size of territory/population (PL);

- scale of funding/OPs (FI, HR, LT, PL);

- number of OPs (PL);

- performance and assurance e.g. the error rate and quality of management (DE, FI, NL, PL, Visegrad 4+4);

- quality of public administration (DE, PL, Visegrad 4+4); and

- fulfilment of ex-ante conditionalities (PL).

For instance, a Dutch non-paper on ESIF in the post 2020 period makes the case for a risk-based differentiation model by allowing member states to comply with a lighter accountability regime – that relies on national audit systems or involves direct budget support – if certain criteria are met relating to experience, ownership and quality of management and performance. By contrast, the Italian position paper considers that differentiation in the managing rules should be based on objective criteria valid for all Member States irrespective of the financial scale of the programs or level of investment.

Performance-based management and differentiation has been particularly salient in Austria. A recent paper[96] looks at whether there is any potential for a move from cost-based to performance-based

[95] Bachtler J and Mendez C (2017) *Differentiation in the management of Cohesion Policy: an idea whose time has come?* http://www.cohesify.eu/2016/12/20/differentiation-management-cohesion-policy-idea-whose-time-come/

[96] Austrian Federal Chancellery (2017) *Performance Based Management and Cohesion Policy - An approach for simplification? Reflections from an Austrian perspective*, Federal Chancellery Department IV/4 – Coordination Spatial Planning and Regional Policy.

model with reimbursements linked to achievements based on different scenarios (see Table 3 and Table 4). It concludes that this is only realistic if outputs (rather than results) are used for groups of projects and that there is no move from “cost audit” to “performance audit” at EU level. Further, Member States would need to be responsible for verification of project outputs and deliverables.

Table 3: Cohesion Policy post-2020 options for reform

SCENARIO A: Cost-based		SCENARIO B: Performance-based	
General elements for simplification, such as reduction of the existing regulatory framework (in particular "grey law")			
Reduction of objectives, including the horizontal objectives and thematic concentration			
Harmonisation of the regulations at EU level: consistent terms and definitions among all Funds, alignment with state aid rules etc.			
No annual closure etc.			
A.1. **Standard Approach** **Shared Management**	**A.2.** **Differentiated Approach** **Devolved Management** Conditionality: > 50% national public funding	**B.1.** **Standard Approach** **Shared Managements** Model: Output-based aid for beneficiaries	**B.2.** **Differentiated Approach** **Devolved Management** Conditionality: > 50% national public funding, achievements at programme level
Partnership Agreements	No Partnership Agreements	Partnership Agreements	No Partnership Agreements
Programming of OP	"Simplified" programming of OP	Programming of OP	"Simplified" programming of OP
Simplified designation	Programming based on a "menu of interventions" without thematic earmarking	Simplified designation	Programming based on a "menu of interventions" without thematic earmarking
Result orientation	Limited Ex-ante Conditionalities	Evaluations	Limited Ex-ante Conditionalities
Evaluations	No designation		No designation
Disbursement based on budget absorption and certified expenditures		Disbursement based on output indicators and achievements (deliverables)	
Payments Based on certified expenditures	**Payments** Based on certified expenditures	**Payments** 100% based on achievement of predefined outputs and milestones	**Payments** Reimbursement of standard (unit) costs per predefined achievements to MS
(Simplified) EU rules of control: Increase of significance threshold for errors (error tolerance) to 5% Simplified rules for project audit e.g. limitation of mandatory on-the-spot controls to major projects….	Implementation and controls according to national rules and by national institutions	Transfer of the output-based aid to beneficiaries Financial flows to beneficiaries are triggered by the achievement and verification of outputs (see World Bank Model or JAP) Definition of verification methodology at project level	Outputs and deliverables are predefined at programme level Reimbursement to beneficiaries according to national regulations. Audits and controls according to national rules Definition of verification methodology for predefined outputs and deliverables at programme level

Source: Austrian Federal Chancellery (2017) *op. cit*.

Table 4: Cohesion Policy post-2020 – Assessment of scenarios

Scenario	**SCENARIO A: Cost-based**		**SCENARIO B: Performance-based**	
Options	**A.1. Standard-Approach Shared Management**	**A.2. Differentiated Approach Devolved Management** Conditionality: > 50% national public funding	**B.1. Standard-Approach Shared Managements** Model: output-based aid for beneficiaries	**B.2. Differentiated Approach Devolved Management** Conditionality: > 50% national public funding, achievements at programme level
Characterisation	General simplification & simplified control mechanisms	Simplifications in programming, implementation according to national regulations on the condition of high share of national co-financing	New funding scheme, yet little experience in the field of innovation High innovation potential as funding scheme	Reimbursement of standard costs, according to types of project or output & deliverables
Assessment	Only limited simplification, no structural change; control of costs and EU regulation remain "policy driver"	High potential for simplification Cost management based on national standards, avoidance of parallel systems	Need for further conceptual development to be applicable, detailed planning is needed Transfer of output targets to the beneficiaries If only outputs are recognised, only parts of the programme can be managed according to this approach Otherwise, solutions for infrastructure projects and funding for firms have to be developed (e.g. recognition of standardised input indicators, see option B.2.) Applicable for parts of the programme or in case standardised input indicators are recognised	High potential for simplification, however, detailed planning is needed Reimbursement to MS based on standard unit costs Corresponding standardised budget support/contribution to interventions
Suitable types of interventions	Rather large investments due to comprehensive regulatory framework	Wide range of interventions	Rather standardised, demand-oriented interventions and basic infrastructure measures	Rather standardised, demand-oriented interventions and larger number of smaller projects
Open questions	Are the simplifications sufficient to restore a cost-benefit balance?	Is a high national co-financing rate sufficient for the devolvement to the MS and their national regulations? On which basis can discharge of the EU be granted?	Is this approach applicable for an entire programme? Requires change of national co-financing systems, crowding-out by national support schemes? Applicability in R&D/innovation?	Detailed clarification is needed regarding mechanisms for verification and management of certain intervention types

Source: Austrian Federal Chancellery (2017) *op. cit*.

5.6 Other issues

In addition to the above topics there are other issues, featuring less prominently in debates and papers, but which are still important for the content and implementation of a reformed Cohesion policy.

One of these is the **results orientation and performance framework,** where a number of countries have emphasized the value of the approach taken and the need to strengthen the demonstration of results (FI, IT, PL, PT). For instance, the Italian position paper calls for a stronger result orientation with resource allocations more closely linked *"to the clear identification of results, their systematic verification in the implementation phase and ex-post evaluation, encouraging transparency and the ability to communicate results, and promoting mobilization of partnerships and use of "open data" methods."* The new performance framework is considered effective (PL) with "positive effects on programming" (PT). Whist several countries have a positive image of new performance framework (PL, PT), others call for improvements (FR) or criticise the resulting pressure (HU).

With regard to **ex-ante conditionalities**, some countries have acknowledged their value whilst also calling for changes to the way they are negotiated (CZ), to timelines and deadlines (FI, HU), to their quality (HU) and a more precise formulation and verification system (PL) with less administrative burden and delays (HR, PL, HU). The V4+4 group call for the number of ex-ante conditionalities to be reduced and targeted - as does the Dutch position paper - as well as "more consistency between ex-ante conditionalities and other measures linking the ESI Funds, including the relevant Country Specific Recommendations and avoiding a duplication with existing EU compliance regimes".

Several countries have expressed strong **concerns or opposition to proposals for increased use of Financial Instruments** in the future (BG, PT, RO). Germany is supportive of greater use where appropriate and decided autonomously by regions themselves, while a minimum quota or compulsory use is opposed. Only Cyprus seems to be largely in favour for enhancing the use of financial instruments. Several countries do not oppose FIs in principle but ask for more evidence of their effectiveness or highlight the lack of evidence regarding long term benefits (CZ, PL, SE, IT, South and West of Finland regions). Moreover, the Visegrad 4+4 call for the effectiveness of financial instruments to be measured in terms of achieving public policy objectives rather than financial leverage/multiplier effects. Others highlight management difficulties (HU, PT, SE) particularly with respect to compliance with state aid and procurement rules (FR, PT). Lastly, Romania has stressed that whilst old Member States benefited from grants for decades it would be unfair if these are reduced for new member states in favour of FIs.

There are increasing demands for **coordination between ESIF and EFSI** priorities, rules and funding (FR, GR, PT). For instance, Greece suggests a combination of funding from the above in order to address the challenges raised by the refugee crisis, including migration and asylum support. However, Portuguese authorities have expressed concerns about the potential for future transfers from ESIF funds to EFSI, as provided for in the Omnibus regulation, and consider that this should be avoided. A number of countries consider the need for clarifying the relationship between the EFSI and ESIF in the future MFF (DE, FR, PL). There is also concern about the level of territorial targeting of EFSI funds which are perceived to be heavily concentrated in a few countries (BG).

Turning to **territorial instruments**, Poland supports continuation of the current approach but proposes a simplification of regulatory requirements and more flexibility to allow a wider application in different types of functional area, along with a strengthening of macro-regional strategies. By contrast, Sweden acknowledges the use of these instruments, yet criticises the “one size fits all approach” that accompanies them. Some countries have emphasized the need for a stronger urban dimension (FI, HU, LV, SE). As already noted, Germany advocates more “simplification and flexibility” for integrated urban development instruments (ITI / ISUD).

Finally, it is widely agreed that more needs to be done in order to **improve the communication of achievements** and to make the benefits of CP more visible to citizens across the EU. Cyprus, Estonia and Greece have had specific position on this issue. Cyprus demands more efforts in making “the performance of CP more visible to the wider society” whilst arguing that it’s “economic and social relevance” has to be communicated “more meticulously” to EU citizens.

6. CONCLUSIONS

2017 marked a key milestone in the debate on the reform of the EU budget and Cohesion policy. While Commission proposals are not expected until May 2018, reform challenges and priorities for the post-2020 Cohesion Policy were set out in the Commission White Paper on the Future of Europe and subsequent Reflections Papers. The Seventh Cohesion Forum in Brussels in June 2017 and the 7th Cohesion Report published in October 2017 also highlighted important issues. Member States have been developing their thinking and some have issued position or discussion papers, although many are waiting for formal budgetary and legislative proposals.

As the high-level MFF conference in January 2018 made clear, the context for the reform of the MFF is challenging. Notwithstanding the revival of economic growth in Europe, the United Kingdom's departure and new challenges relating to migration, security and climate change will need to be addressed in the next MFF, creating downward pressure on existing, major spending areas such as Cohesion Policy and the Common Agricultural Policy. While the more radical scenarios for cutting the Cohesion Policy budget by up to 30 percent are unlikely, the post-2020 budget for Cohesion Policy will probably be smaller and more thematically focused. The Commission President and Budget Commissioner have both underlined the importance of Cohesion Policy but also the requirement for 'modernisation' and flexibility. In this context, the debate on reforming Cohesion Policy will need to re-establish the added value of Cohesion Policy in this new context, increased budgetary flexibility to deal with unexpected challenges as well as simplification and differentiation of management, performance and the links with economic governance.

The wider challenge is to (re)design a future Cohesion policy as part of a coherent, consistent and mutually reinforcing policy framework at EU and Member State levels which recognises that 'sectoral policy' objectives – innovation, a low-carbon economy, social inclusion and the integration of migrants – cannot be addressed effectively without taking account of the territorial dimension. The economic, social and institutional differences across the EU need a strong commitment to integrated territorial policy responses, meeting the different comparative advantages, development opportunities and challenges of regions with place-specific – or at least place-sensitive - strategies and interventions.

The policy framework also needs a reformed economic governance system which can ensure better coordination of economic policies, and appropriate incentives to ensure that structural reforms take place and the quality of government is improved. However, the design of incentives (and conditionalities) needs to be less prescriptive and ensure that Member States take 'ownership' of reforms, without the blunt instrument of sanctions that become politically impossible to enforce. Accounting for a large share of the EU budget allocated to specific Member States, Cohesion Policy has been in the front line for ensuring compliance with economic governance requirements but without the European Semester process giving due recognition to territorial impacts and the role of regional and local actors in ensuring that structural reforms succeed on the ground.

Greater performance and accountability has been central to the 2006 and particularly the 2013 reforms of Cohesion Policy. The results orientation, performance framework and ex ante conditionalities have been important new additions to the programming and implementation system for ESIF, but have added new complexity to an already complicated implementation system. Together with the pressure to spend through N+3, the constraints of thematic concentration, and a pervasive audit culture to reduce the error rate, there is a real danger of overloading management and

implementation bodies which are having to make trade-offs as to which incentives to prioritise. There is also a stark contrast between the emphasis placed on performance and accountability under Cohesion Policy and some other areas of EU spending, EFSI being the most egregious example.

Finally, it has long been recognised that ‘institutions matter’. Evaluation studies and academic research consistently emphasise the importance of quality of government and specifically administrative capacity as important factors explaining the differential performance and effectiveness of interventions under Cohesion Policy programmes. The focus on institutional capacity-building through Thematic Objective 11, the administrative support through DG Regio and DG Empl and the more recent creation of the Structural Reform Support Programme are important contributors to building the structure, systems, tools and human resources for effective implementation of the Funds. There is, however, a long way to go, not least because of the pervasive politicisation of spending decisions and the lack of trust in institutions, especially at regional and local levels in some countries. Changing cultures will be one of the most difficult but necessary tasks for the next period.

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EoRPA Research

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