Initial views on the post-2020 Cohesion Policy package

The European Commission unveiled its proposal for a 2021-2027 Cohesion Policy package on 29 and 30 May. Making sense of it all is a daunting task, not least because the 'package' comprises 4 regulations and 3 annexes worth analysing.

Because it will take us a little time to analyse the proposals in detail, we thought it might be worthwhile sharing initial views about the Cohesion package. *This is NOT an exhaustive analysis of the Cohesion package and may leave out important aspects.*

Before delving into details, it is perhaps worth offering a word of appreciation to DG REGIO and its staff who managed to put together a balanced package for a policy supporting all EU regions, against all odds and bearing in mind calls from many to reform Cohesion policy more radically.

In this note, we look at the following aspects:
1 - **Funding** (including the allocation methodology for ESI funds)
2 - **Priorities and focus** (including thematic concentration, the European Semester, INTERREG and the attention to specific territories)
3 - **Architecture and management** (including the funds supported by the policy, shared management, the categories of regions and partnership provisions)
4 - **Conditionalities and simplification**

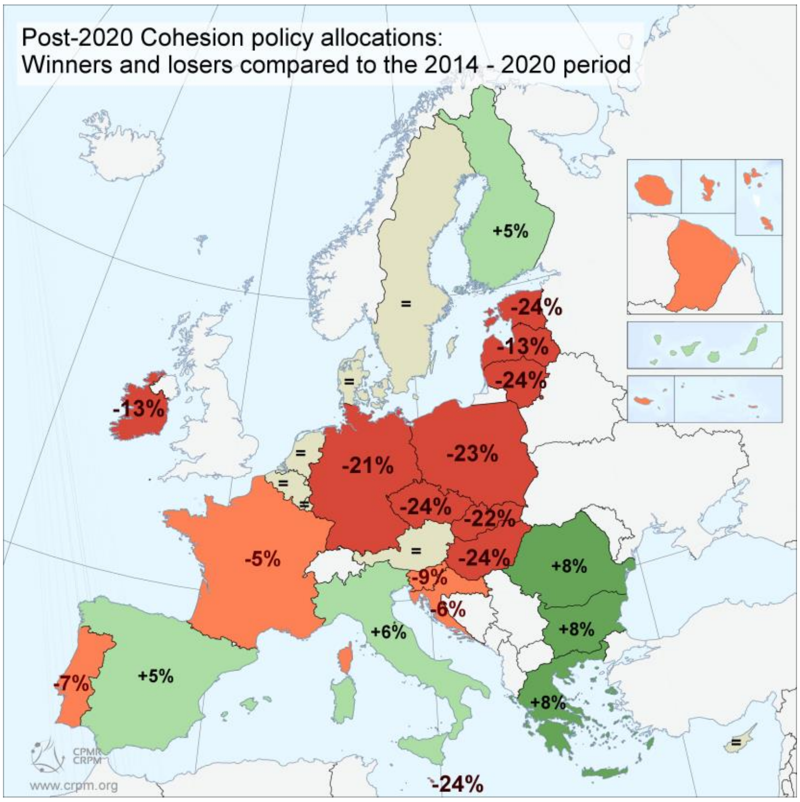
1. Aspects linked to funding and allocations to Member States

- **Publicly available allocations reveal funding shift to South of Europe**

Unlike the 2014-2020 period when Member States (and external observers like the EPRC or the CPMR) spent a great deal of time making sense of the Berlin formula early in the negotiation period to come up with Cohesion policy allocations at national level, the Commission decided to publish the amounts straight away for post-2020.

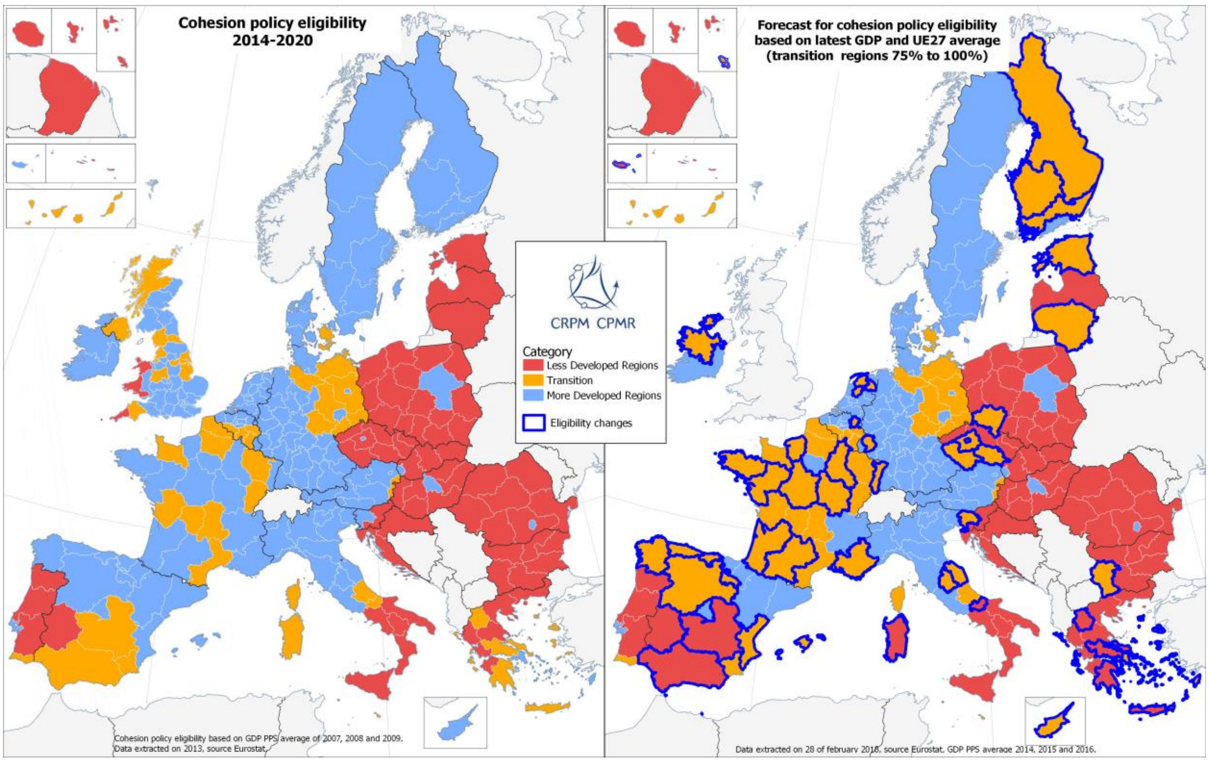
This makes things very transparent but inevitably turns the attention of Member States on their very own allocation as foreseen in the proposal and their budgetary 'juste-retour'. This was immediately apparent in the press conference held to announce the proposal, where all the journalists' questions (but one) concerned financial figures and the size of national allocations.

In terms of 'who wins' and 'who loses' compared to the current period, more funding will go to some Mediterranean Member States, Bulgaria, Romania and Finland, whereas most 'Cohesion' countries and Germany will lose out the most. In comparative percentage terms, this is how things look like:



- **Three categories of regions maintained, but threshold for transition regions changes**

As alluded to in the 14 February Communication from the Commission on the post-2020 MFF, the transition regions category will include all regions from 75% to 100% of the EU average (as opposed to 75% to 90% in the current period). France, Finland and Germany are most affected by this change. The map below compares regional eligibility for Cohesion policy in the current period to the Commission proposal for post-2020:



- **Cosmetic changes to the allocation methodology**

Despite announcements made by DG REGIO over the past months that Cohesion policy funds will be distributed on the basis of new indicators to complement GDP, in the end we got a slightly updated version of the current methodology used for the 2014-2020 period (the so-called 'Berlin' formula).

Looking at the details of the updated Berlin formula as laid out in Annex XXII of the CPR, the one notable change is the addition of two steps for each of the category of regions: the first one providing additional funding for Member States exceeding the target of greenhouse gas emissions outside the emissions trading scheme set for 2030, and the second one rewarding Member States which have seen a high net migration rate from outside the EU.

It does seem that these changes are nothing more than cosmetic and symbolic at this stage and that GDP continues to remain the 'king' of all indicators determining the size of allocations at national level (its 'weight' in the allocation methodology remains at 81%, compared to 86% for 2014-2020).

- **A lower budget overall supported by lower EU co-financing rates**

The overall 10% cut of the Cohesion policy budget compared to the 2014-2020 period is supplemented by another subtler reduction to the Cohesion policy investment efforts overall: the general reduction of maximum EU co-financing rates. The following table shows the proposed reduction of EU co-financing rates compared to the 2014-2020 period.

	2014 – 2020 period	**2021 – 2027 period**
Less developed regions	85%	70%
Transition regions	60%	55%
More developed regions	50%	40%
Cohesion fund	85%	70%
Territorial Cooperation	85%	70%
Outermost regions	85%	70%

***Table 1**: Comparison of maximum EU co-financing rates for Cohesion Policy funds*

2. Aspects linked to Cohesion policy focus and priorities

- **Cohesion Policy to serve the European Semester more directly (particularly the ESF)**

As raised by the CPMR on numerous occasions, the idea of using Cohesion policy as a way to improve the take up of country-specific recommendations was always going to raise substantial questions about the nature and objectives of Cohesion policy.

That very idea seems to have become reality on 29 May in the Commission package for the post-2020 Cohesion Policy.

At a general level, one substantial addition compared to the 2014-2020 period concerns the decision-making process on the 'alignment' of operational programmes with country-specific recommendations (CSRs). Article 15 of the CPR states that the Commission would not only have the power to force Member States to 'review or amend' operational programmes so that they are aligned with CSRs (as per the 2014-2020 period), but it could also unilaterally 'suspend payments of all or part of a programme'.

This is a significant change as the process for doing so in the current period leaves it to the Council to suspend payments.

Looking more specifically at the ESI funds, an over-exaggerated (but not completely unfounded) view would be that the European Social Fund has gone from a social investment fund to a financial instrument supporting the European Semester with a chief function to implement country specific recommendations.

Article 7 of the ESF+ regulation on thematic concentration fails to alleviate such fears, by stating that:
'Member States shall concentrate the ESF+ resources on interventions that address the challenges identified in their national reform programmes, in the European Semester as well as in the relevant country-specific recommendations'

And that:

'Member States shall allocate an appropriate amount of their ESF+ resources under shared management to address challenges identified in relevant country-specific recommendations'

Of course, Cohesion policy (and the ESF in particular) already supports certain CSRs in the current period. But one should ponder over what the Commission intends by 'relevant' or 'appropriate amount', not to mention the fact that country-specific recommendations are about 'structural' reforms (e.g: reforms linked to public finance, taxation, labour market …), not investment.

Macro-economic conditionality is maintained, although suspensions are only linked to commitments, and not payments as in 2014-2020.

- **Member States get more leeway to concentrate funding thematically**

Thematic concentration of funding to address the 5 policy objectives (POs - formerly known as thematic objectives) seems to be significantly more national… and complex.

In terms of priorities, Member States will be asked to heavily prioritise ERDF funding on PO1 (focused on innovation, digital, SMEs) and PO2 (focused on climate, energy and low carbon).

➢ *No more thematic concentration at programme level*

At a general level for all three ESI funds, thematic concentration will happen at national level, which is a significant change compared to the 2014-2020 period. Recital 17 of the ERDF regulation does make it clear that the framework will allow for flexibility at programme level, however.

What this means is that managing authorities or intermediate bodies at regional level will have to reach an agreement with their respective national governments if they wish to concentrate funding on priority areas which differ from those preferred at national level. This will be an issue in centralised Member States, and might make life difficult for territories with specific geographical handicaps in certain Member States in the absence of an EU framework.

➢ *Thematic concentration for the ERDF*

Regarding the ERDF, Member States will be grouped under three categories depending on their respective Gross National Income (GNI).
'Group 1' Member States will concern those with a GNI above 100% of the EU average;
'Group 2' Member States will include those in between 75% and 100% of the EU average;
'Group 3' Member States will concern all Member States with a GNI below 75% of the EU average.

Unsurprisingly, Group 3 Member States have the most flexibility when it comes to allocating funding across the 5 priority objectives (see article 3 of the ERDF/CF regulation for more details).

Outermost regions are also granted the maximum level of flexibility by being classified under group 3 and therefore benefit from a differentiated treatment compared to national level. The specific derogation for island regions and member states has surprisingly been dropped for the post-2020 period.

➢ *Thematic concentration for the ESF*

Regarding the ESF, it gets a lot more complicated:

- Member States will be asked to focus 'an appropriate amount' of their ESF+ allocation to 'relevant' country-specific recommendations
- Member States will also have to focus at least 25% of their ESF envelope to social inclusion
- Member States with a high NEET rate should also allocate at least 10% of their ESF+ resources to support young people.
- Outermost regions with a high NEET rate should allocate at least 15% of their ESF+ resources to support young people
- Member States will be also asked to allocate 2% of resources to measures addressing material deprivation

The ESF+ seems to be guided by both is own 11 'specific priorities' as well as PO4 (Social Europe), which is confusing.

This raises a number of critical questions, such as how should Member States prioritise CSRs over ESF + specific priorities, which CSRs should be supported by the ESF +, and which amount should be allocated to support CSRS.

➢ *Thematic concentration for the Cohesion Fund*

Regarding the Cohesion Fund, Member States will be able to address PO2 (focused on climate, energy and low carbon) and aspects of PO3 (transport (TEN-Ts) and connectivity)

Such an intricate system suggests a number of things:
- Commission services seem to have had a very tough time to get to some sort of agreement on how EU priorities should be addressed by the various funds under shared management. The confused focus of the ESF+ seems to be a product of such lack of consensus within the Commission.

- Priority areas seem to have been designed by 'default' rather than being a reflection of a European growth strategy. They are largely a condensed version of the current system which relies on 11 thematic objectives
- Member States will enjoy significant flexibility when it comes to prioritising funding from Cohesion policy funds
- The fact that concentration of funding will take place at national level raises significant question marks as to how funding will address the potential and challenges of European regions, let alone territories beset by permanent geographical handicaps.
- The various thematic concentration requirements across the funds will make it very complex for managing authorities to align funding and break silos.

- **INTERREG gets new interesting missions… but will do more with less**

European Territorial Cooperation goes from three strands to five components: the existing cross-border, transnational, interregional strands are complemented with an additional component designed for outermost regions and a further one on interregional innovation investments.

This is perhaps the area of the Cohesion Policy package undergoing the most radical changes:

- **Maritime CBC programmes and INTERREG Europe are no more.** The fears of CPMR Members are now confirmed: maritime cross-border programmes will cease to be under the Commission proposal, and will be merged with the transnational component (component 2B). This is a massive concern for a variety of reasons as expressed in our open letter on the future of INTERREG sent out in April. Also, the INTERREG Europe interregional programme is also set to disappear.

- **'Functional areas' to define the geography of transnational programmes.** Article 5 ETC states that the regions to be supported by the transnational programmes (Components 2A and 2B) will be regions 'covering contiguous functional areas' taking into account (where applicable) macroregional strategies and sea-basin strategies. What 'contiguous functional areas' means would require clarity.

- **New outermost regions component (Component 4).** The additional outermost regions component sounds like a positive development, though a closer look (including a comparison of what that component would achieve in relation to the European Development Fund) would be needed.

- **New interregional innovation investments component (Component 5).** Similarly, scaling up the already existing cooperation between regions on innovation is certainly a positive step but there are questions about how this will be managed, not to mention the transversal nature of innovation which is already supported by all strands of INTERREG.

- **The UK can participate in INTERREG programmes after 2020.** This was a key message from the CPMR and is very much welcome.

It is difficult to get around the fact that INTERREG will be cut by 12% compared to the 14-20 period (€8.4bn compared to €9.3bn in 14-20) and will only represent 2.5% of the Cohesion Policy envelope… even though ETC will get two additional 'components' to address.

- **A huge focus on urban, but what about other types of territories?**

Regarding the focus of Cohesion Policy on particular types of territories, it is clear that the focus of the package is on urban issues. The term urban is referenced 46 times in the ERDF regulation as opposed to… twice for the term island. Beyond such symbolic considerations, 6% of ERDF funding is to be earmarked to sustainable urban development (an increase on the 5% in the current period), and €500 million will be allocated to a new European Urban initiative.

The picture seems more mixed for outermost regions: the specific allocation is maintained and there will be a specific INTERREG component on outermost regions, but existing specific derogations for thematic concentration requirements for outermost regions have been replaced by vaguer legal provisions, and lower co-financing rates are a cause for concern.

The specific allocation for Northern Sparsely Populated Areas is renewed for post-2020.

There is nothing of note in the whole Cohesion package for islands, apart from a reworded version of Article 174 in the first recital of the ERDF regulation, with no further legal implications.

3. Aspects linked to the architecture and management of Cohesion Policy

- **A rather convoluted framework for funds under shared management**

We were promised genuine simplification when it came to rules and procedures governing the various EU funds under 'shared management'. Instead, the Common Strategic Framework disappeared and we got:
- Common 'provisions' and financial rules for four funds: the ERDF, the Cohesion Fund, the ESF + and the EMFF
- Financial rules only for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument
- The EAFRD no longer has a specific regulation and becomes an integral part of the CAP Strategic Plans regulation

Taking out the EAFRD of the framework governing funds under shared management (the CPR) is a real cause for concern, not least because rural development is an inherently 'territorial' issue, but also because many European regions have a formal role in the delivery of the EAFRD in the current period. There seems to be a possibility for Member States to delegate the implementation of CAP Strategic Plans (which includes the EAFRD) at regional level, but whether that means regional authorities can obtain meaningful management responsibilities needs further exploring.

One will also need to take a closer look at the 'single rule book' to have a clearer picture of what the proposals mean for managing authorities of ESI funds.

- **The 'shared management' approach is undermined…**

The ambition of the Commission to encourage Member States to use Cohesion policy funds for other purposes than were originally intended dates back from the early days of the life of the Juncker Plan (EFSI). The Commission made no bones about the fact that Cohesion funds should be used 'in synergy' with the EFSI… to make the EFSI go that extra mile.

- ***… Member States are encouraged to transfer ESI funds to InvestEU***

That ambition is further reinforced in the post-2020 package. The title of Article 10 of the CPR could not be any clearer: 'Use of the ERDF, the ESF+, the Cohesion Fund and the EMFF delivered through InvestEU'. The idea is for Member States to transfer up to 5% of their ERDF allocation (for instance) to the EFSI 'to be delivered through budgetary guarantees'. This is also a possibility under the CAP Strategic Plans regulation for the EAFRD.

- ***… Member States are also encouraged to transfer ESI funds to direct management***

Member States could also go one step further and transfer a further 5% of their ERDF allocation to an EU programme managed by the European Commission, such as Horizon Europe or the Reform Support Programme, for instance.

- ***… What is 'indirect management'?***

There are several references to certain parts of Cohesion Policy being managed under 'indirect' management, such as the specific INTERREG component for outermost regions. It is difficult to get hold of a clear legal definition of what 'indirect management' is at this stage, though it seems that the Commission would delegate implementation aspects (call for proposals, selection of projects) to an agency or intermediate body.

- ***Only €7 billion under shared management for Territorial Cooperation***

Two of five of the European Territorial Cooperation 'components' (Components 4 and 5) are to be managed under direct or indirect management. This means that only €7 billion (out of €8.4 billion) will be managed under shared management. This is a concern for this part of Cohesion policy that prides itself on being about 'bottom-up' and close to citizens.

- **Three categories of regions, but what for?**

Clearly, Cohesion Policy will continue to have three 'categories' of regions (less, more developed and transition regions), and the transition category will include all regions between 75% and 100% of the EU average.

But what these categories will achieve has changed. An initial look at the package seems to suggest that the two unique purposes of these categories will be to determine how much funding regions in these categories will receive (less developed regions will receive more than transition regions, etc) and maximum EU co-financing rates.

The level of flexibility to concentrate funding on a number of priorities will no longer depend on the above-mentioned three categories of regions, however (see Section 2 above).

- **Multilevel governance and partnership remain strong**

There is a dedicated article to partnership and multilevel governance provisions (article 6 CPR) which is almost identical to the equivalent article in the 2014-2020 framework. However, Partnership Agreements will no longer need to include details on how partnership arrangements are put in place at sub-national level, which is a cause for concern. The existing 'Code of Conduct' will simply be reused for the post-2020 period.

All in all, this is fairly positive although we would have liked to see stronger provisions in line with proposals from the CPRM to reinforce the role of the Commission as a guardian of the partnership principle.

4. Aspects linked to conditionalities and simplification

- **Ex-ante conditionalities become 'enabling conditions'**

Apart from the change of name from ex-ante conditionalities to 'enabling conditions', there are several evolutions of note on that theme:
- there will be less of them to comply with (about half compared to 14-20)
- there will be a new condition linked to compliance with the Chart of Fundamental Rights (this is clearly aimed at Poland and Hungary)
- the implementation of 'enabling conditions' seems far less stringent than in the current period: no more action plans, no more set deadline for compliance, and no suspension of payments if enabling conditions are not in place

- **Simplification: Member States acquire more responsibilities**

Simplification is an area which has seemingly received a lot of attention from the Commission, and which will require a thorough analysis. The general trend is that some aspects of the policy will be decentralised to Member States.

A significant evolution foresees a 'proportionate' approach to controls and audits where 'lower risk programmes' can rely more on national systems. Article 78 of the CPR describes a legal basis for 'enhanced proportionate arrangements' if the total error rate for each two last years is below 2%.

Other aspects of note include the removal of the designation procedure of the managing authority and the certifying authority (a very positive development), the reintroduction of the N+2 rule, the removal of a number of existing requirements, and the extension of the use of simplified cost options, lump sums and flat rate financing.

Next steps

Following on from this initial take on the Cohesion Policy package for post-2020, the CPMR General Secretariat will:
- publish a more comprehensive analysis looking specifically at whether the Cohesion policy package for post-2020 match the CPMR vision for the future of Cohesion policy
- publish a detailed analysis of the CPMR Members questionnaire on the future of European Territorial Cooperation, which will include several points of reaction to INTERREG regulation published on 29 May