

Issue Paper for the meeting of EU 28 Ministers for Cohesion Policy on 13-14 April 2016 in Cracow

** Ministerial Debate **

I. Cohesion policy in the context of Multiannual Financial Framework 2014-20 review

A. The process:

By the end of this year the European Commission is obliged by the Multiannual Financial Framework (MFF) regulation 1311/2013 to present the proposal for the MFF review. The review should take into account the current economic situation along with the latest macroeconomic data and projections. The review should be accompanied, as appropriate, by the legislative proposal for the revision of the MFF regulation. It is likely that the revised MFF will be agreed by the end of 2016, as the Commission should present the legislative proposal for the new 2020+ MFF before 1 January 2018. The whole process aims to enable the European institutions to reassess the priorities and functioning of the MFF.

The debate on the MFF review has already started with the conference in Berlin in June 2015 of the Germany initiative and with the conference in September 2015 in Brussels titled "EU Budget Focused on Results" organised by the Commission, where Vice-President Georgieva presented the key principles which should apply to the review process. President of the European Commission, Jean-Claude Juncker, also took the stand underlining that *"every action we take must deliver maximum performance and value added"*.

B. The determinants:

Across its all territory, the EU has recently experienced a series of crises of different character as well as unfavourable social and economic conditions, having serious impact on the condition of the community. They include the long-lasting financial crisis, worsening public finances, insufficient scope and types of investments, persistent youth unemployment, the migration and refugee crisis, the terrorism threat and falling European competitiveness. It seems that such new EU wide challenges will be the determinants of the debate on the MFF 2014-20 review.

These circumstances put pressure on the EU institutions to ensure better responsiveness of the EU budget to suddenly occurring social and economic shocks. In order to deal with such crises and shocks we should explore options for improving EU ability to stimulate long-term growth and at the same time to cope with newly occurring challenges and priorities. As a result the need for greater flexibility of the EU budget becomes widely discussed.

It is also clear that in order to minimize the negative impact of such crises in the future stronger and more effective preventive measures have to be in place which would ensure sound economic policy. The discussion about how to make the European semester more effective and how to use the EU budget to ensure better economic governance is going to become one of the key issues shaping any future discussion concerning the MFF.

In the context of such challenges and in the light of scarce resources there is a clear need to provide evidence for effectiveness of every EU policy and to prove their European value added.

Therefore, there is a need for an open and honest discussion on the key strong and weak points of the cohesion policy. We have to explain and promote its role, as well as those effectiveness

and performance related mechanisms which are well-functioning and which impact is much wider than the projects for which the policy provides co-financing. At the same time, we have to be ready to openly discuss the potential far-reaching reorganisation of policy architecture, including its specific priorities and implementations methods. Moreover, real simplification as well as increasing performance orientation and strengthening ambitious structural reforms should be considered as being crucial to speed up and improve the quality of EU growth.

The role of the cohesion policy in the future will depend on how well it will be able to address the key determinants of the overall MFF review debate: budget focused on results, economic governance, effectiveness, flexibility and, most of all, the European value added (EVA).

C. The value of the cohesion policy for the EU:

The following strengths of the cohesion policy fit well into the overall budget priorities:

- its countercyclical nature allowing to stabilize growth by maintaining public investment,
- its important role in achieving the common EU development objectives,
- the performance-related incentives and mechanisms, such as performance reserve, which are unique among the EU policies supported by the EU budget,
- positive influence on quality of administrative capacity in the related sectors of the economy and on implementation of national policies (the so-called “policy-leverage effect”),
- higher ownership of the projects’ design and implementation identified in a bottom-up rather than top-down manner, resulting in better-tailored investments,
- strong links with the macroeconomic governance and, through ex-ante conditionalities, other regulatory issues, leading to more sustainable investment and better quality of spending.

The cohesion policy is the only EU policy which has tangible performance-based instruments (such as the performance framework) and therefore could act as an example for other policies. In addition, the policy supports implementation of the necessary structural, legislative and other reforms. Unlike as in the case of country specific recommendations, which are rather general and not linked to any specific financial incentives, the support from the cohesion policy is conditional on legislative, organisational and other very specific requirements with deadlines and potentially serious financial consequences if they are not implemented. Moreover, often investments implemented in the countries with biggest allocation positively stimulate the economy of the other MSs: Poland is currently coordinating the second edition of an evaluation study concerning the impact of the investments in the V4 countries on EU-15.

In the light of the positive aspects of cohesion policy, we need an active discussion between all of the Member States about EVA of this policy in the EU budget.

Questions for the roundtable debate of the ministers (13 April, 17.00-19.00):

1. Which elements and features of the cohesion policy could be considered as contributing to EVA?
2. Which solutions for increasing the EU budget flexibility in the context of cohesion policy should be considered to better meet current challenges such as the migration crisis and demographic decline or any other suddenly occurring social and economic shocks: (a) flexibility in relation to a part of the policy resources? (b) flexibility with regards to the programming priorities? (c) other?

II. European added value in the EU budget and in the cohesion policy

A. *Interpretations of the concept:*

We face a plethora of interpretations of the concept of EVA in the European debates, still we have not agreed on any commonly-shared definition. *“An analysis of official documents and the academic literature on the EU budget reveals the existence of at least four different ways of using added value: first, to refer to the additional gains of acting at the EU level vis-à-vis the national level; second, to refer to the benefits derived from good management and implementation; third, to refer to the opportunity costs of spending in one area vis-à-vis other areas of intervention; and finally, to refer to the positive side effects stemming from public interventions at the EU level (such as their contribution to other Union’s objectives or its positive impact on sub-national levels of governance)”*.¹

In order to achieve such a shared understanding of the EVA concept the following two-step process to identify its criteria could be proposed.

First, we should identify common reference points for the majority of EU policies² to be used as guidance when the decisions on the shape of the Multiannual Financial Framework post-2020 and its policies, programmes and funds are taken. Having in mind the topics at the forefront of current EU debates and the need to agree on the key elements of the EVA, the building blocks of the definition could be the legally enshrined principles governing EU activities such as subsidiarity, performance and effectiveness. Secondly, once the common reference points of the definition are agreed, the specificities of individual EU policies, programmes, etc. should be defined.

In order to fulfil the first step the following elements could be considered:

Subsidiarity. The subsidiarity concept could be used to detect actions with a clear EVA worth EU support, e.g.: ● actions where the lack of EU action would damage the achievement of EU goals; ● actions aiming at a problem of a European dimension which cannot be solved by an isolated intervention of a MS; ● actions delivering benefits which could not be achieved by a MS alone.

Efficiency. This criterion could be used to identify actions with a clear EVA worthy of the EU support, e.g.: ● actions performed in areas which create good growth prospects; ● actions that encourage private financing; ● actions performed in areas in which EU businesses can and must become more competitive; ● actions that passed an ex-ante test of economic viability; ● actions aiming at large-scale projects/actions that establish a critical mass in financial terms; ● actions that will achieve significant results in the whole EU.

Performance. The entire planning and budgeting should be result-oriented. The EU programmes – according to this principle - should be ex-ante checked whether clear and measurable targets and result indicators (directly) linked to the EU core objectives are provided and whether its envisaged actions (interventions) are the right way to achieve the expected results. The objective is to obtain a more direct linkage between results and resources. There is also a need to improve and spread mechanisms aiming at detecting failures in achieving the expected results (e.g. performance reserves).

As a second step each EU policy should identify its specific features that have the potential to contribute to the EVA.

¹ Eulalia Rubio, The “added value” in EU budgetary debates: one concept, four meanings”, http://www.institutdelors.eu/media/bref28_addedvalue_en.pdf?pdf=ok

² Core criteria to determine the added value of EU support.

B. EVA in the cohesion policy

Referring to the main components of EVA it should be noted that:

- Cohesion policy helps to deliver actions that cannot be sufficiently achieved by the MS or the regions and because of their scale or effects should be better delivered at the EU level through the multi-level governance system or actions aiming at a problem of a European dimension which cannot be solved by an isolated intervention of a MS (subsidiarity). In such a way the policy contributes to the achievement of EU goals and enhances ownership.
- Cohesion policy provides a strong incentive to timely implementation of other EU policies and strengthens governance both at national and regional levels. This is mostly due to the fact that the financial support is dependent on fulfilling the ex-ante conditions which in result contributes to better economic governance and creates policy leverage.
- Cohesion policy consists of instruments to support actions performed in areas which create good growth prospects; actions that encourage private financing, its projects pass an ex-ante test of economic viability, establish a critical mass in financial terms and provide a substantial financial leverage effect (efficiency).
- Cohesion policy is a subject of ex-ante checks, mid-term reviews and ex-post evaluations, including to verification if its planned actions have clear and measurable targets and result indicators directly linked to the EU core objectives (alignment with the Europe 2020 strategy, CSR and NRP, ex-ante conditionality) and whether they are the right way to achieve the expected results (the performance framework and reserve).
- Cohesion policy is also implemented via cross-border, transnational and interregional projects where the partners from different EU countries work together in order to bring benefits that are not possible to be achieved by acting alone, through combining potentials of partners from different Member States; such projects also strengthen the EU single market (added value of the European cooperation).

In addition to these four major ingredients of the EVA, the cohesion policy offers the following advantages that also constitute its value added: the policy is a very effective tool for implementation of the *acquis communautaire*, the policy ensures - via its multi-level governance system - strong ownership of goals among the EU and the MS/region levels and encourages partnerships between public authorities, NGOs and the civil society. It delivers European public goods (for example, the European innovation system, the EU internal market, clean air, implementation of the EU law, the trans-European transport, energy and ICT networks) and provides the methods and instruments (territorial/place-based approach) which are not used in the mainstream instruments. And finally, the cohesion policy contributes to the administrative convergence (institutional and policies reforms).

Questions for the round table debate of experts (14 April, 12.00-13.30):

1. What should be the common reference points for EVA definition?
2. When (before or after the intervention) and at which level (European, the policy or a given project) the EVA should be assessed?
3. Which elements we should focus on while discussing the EVA in the cohesion policy? Do we know any practical examples?

III. First experiences of implementing the results-oriented mechanisms in the 2014-20 perspective

A. Main elements of the reform related to implementation

In the present financial perspective, there was a particular stress laid on ensuring the effectiveness of investing the EU funds. The 2014-2020 reform introduced a number of new mechanisms and instruments such as ex-ante conditionality, the performance framework linked to thematic concentration, macroeconomic conditionality or territorial development instruments. These implementation innovations mainly aim at improving the efficiency and effectiveness of the policy. They are also intended to increase contribution of the cohesion policy towards fulfilment of the Europe 2020 goals.

Commission, in its report on results of negotiations with Member State (as required in the Article 16(3) of the Common Provisions Regulation), stressed the following issues:

- a strong link between the European Structural and Investment Funds, the European Semester process and the EU's economic priorities in a number of Member States with CSRs relevant to the ESIF;
- around 75% of all ex ante conditionalities were fulfilled by the time the programmes were approved, while some 750 were not but action plans for their fulfilment by the end of 2016 at the latest were agreed with the Commission;
- past experiences showed that ESIF funding has not achieved the desired impact due to insufficient critical mass. As a result investments in the current programming perspective are more focused on key investment areas and growth bottlenecks, in particular SMEs support, low carbon economy, climate change mitigation and adaptation, as well as on social inclusion;
- programmes have more robust result orientation such as adequate indicators and targets; performance reserve as a reward mechanism for programmes progressing best towards their milestones;
- territorial focus is included in most of programming documents, mainly through the new territorial instruments: integrated territorial investments (ITIs), support to sustainable urban development strategies, multi-fund Community-Led Local Development (CLLD) or macro-regional and/or sea-basin strategies, etc.³

B. Assessment of pro-effectiveness approach for future considerations

At the beginning of third year of implementation of the current perspective and having in mind that the debate on the future of cohesion policy is about to start, it is important to undertake the attempt of assessment of the new elements of the reformed cohesion policy. There is a need to discuss their effectiveness and reflect how the result-orientation of cohesion policy could be strengthened in present and 2020+ perspective.

The elements which will be identified in such a discussion should be relevant to address the determinants of the debate on the MFF 2014-20 review and on future financial perspective. Apart

³ Based on COM(2015)639 final.

from the aspects mentioned earlier, such as flexibility and searching for the European added value, we should also take into account performance-based budgeting and the need to introduce structural reforms in order to speed-up economic development and to align financial resources with strategic policy requirements formulated in the long-term European development strategy. These issues are becoming even more relevant in the context of scarce financial resources and the need for Europe to compete with other global economies.

Questions for the round table debate of experts (14 April, 14.45-16.15):

1. How do you assess the overall cohesion policy 2014-20 reform (addressing greater alignment with EU 2020 goals, increase of effectiveness, the integrated/territorial approach) and first experiences of its implementation? What processes were improved and what challenges were created?
2. Which mechanisms of the result-oriented character introduced by the 2014-20 reform should be reinforced, modified or abandoned? Please identify the key two.
3. Considering the above context, in which direction should the mechanisms linked to structural reforms such as macroeconomic and ex ante conditionality evolve in the context of Multiannual Financial Framework 2014-20 review?