COHESION POLICY POST 2020

NON PAPER FROM THE SPANISH REGIONS

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This document sets the common position **on Cohesion Policy post 2020 of all the Spanish regions and Autonomous cities**. The **General Directorate of European Funds** of the Ministry of Finance also joins to the general principles and contents described in it.

The aim of the document is to enrich the discussions on the next programming period and to improve Cohesion Policy as one of the most relevant EU policies, of a greater European added value, and the most visible for the citizens.

The recommendations and proposals here included are based on the experience of Spain and its regions along several programming periods; and in particular they refer to the elements that configure Cohesion Policy in 2014-2020; in this period, Cohesion Policy has achieved an unsustainable level of complexity, which hampers its implementation and the achievement of the expected results. This makes it necessary to revise its current elements.

1. A POLICY FOR ALL EU REGIONS

Cohesion Policy has been traditionally one of the main pillars of the European Union, aiming at promoting convergence among regions. It also plays a key role in the global competitiveness of the European territories. Cohesion Policy is rooted in the foundations of the European Union and constitutes a unique achievement of the EU. The main reasons for this are that Cohesion Policy:

- Represents the values of solidarity and economic, social and territorial cohesion.
- Contributes undoubtedly to the structural development of the territories.
- Is the main investment instrument of the EU.
- And is one of the most visible EU policy actions –and therefore closest to the citizens.

Cohesion Policy must continue to be the **main investment policy of the EU in the MFF post 2020;** it should **maintain its investment level** and **continue to benefit all regions**, aiming at reducing economic, social and territorial disparities in the EU.

Cohesion Policy contributes to **deliver public goods of a European dimension**, such as: transport infrastructures, energy and telecommunication networks; it supports the internal market and the stability of the EMU. Furthermore, as set in the report of the Commission to the European Parliament, the Economic and Social Committee and the Committee of the Regions (October 9^{th} 2017), the public investment has not yet fully recovered; unemployment rates are still at higher levels than before the crisis; and although some regions grow rapidly, others lose population. Therefore, Cohesion Policy is still a key policy for Europe, although its thematic priorities and implementation mechanisms should be revised.

For this reason, the future Cohesion Policy must **reinforce its objectives** of: economic, social and territorial cohesion and reduction of disparities among regions, as set in article 174 of the Treaty.

The Union is facing numerous challenges, including the definition of its own future. In the last years, new priorities have emerged that need to be addressed, such as defence and security, migrations or growth and jobs, still weak after the recent crisis.

Therefore, the financial allocations of Cohesion Policy should not be sacrificed in face of the foreseeable complexity of the next negotiations. Given the challenges that economic, social and territorial cohesion face in Europe, it is essential **to at least maintain** the **financial allocation at its present level, and if possible, to increase them, not to endanger the progress achieved in regional and local development**. The implications of the BREXIT need to be taken into account, limiting its negative impact on Cohesion Policy allocations. In this way, Cohesion Policy will continue to be a counter-cyclical instrument, with the capacity to purse the Treaty’s objectives in critical moments, like the ones experienced in recent years.

The high *“intrinsic”* European added value of Cohesion Policy must be acknowledged. Solidarity, convergence, enough resources, sound governance and flexibility should constitute the key elements of the Cohesion Policy post 2020, as well as its territorial approach.

2. STRATEGIC FRAMEWORK

The **Europe 2020 Strategy**, successor of the Lisbon Strategy, defined the compromise of the EU to recover from the crisis, with new reinforced objectives and a clear link between growth policies and the financial stability of the Member States.

The EU 2020 was updated by the Commission in 2014-14, and we consider that it has been an adequate framework to promote growth and jobs. Therefore, we would recommend to develop a new strategy for the post 2020 period, defining the long term strategic framework.

The successor strategy of the EU2020 should represent the shared vision of all member States and regions, of the Union's priorities. For this reason, it should be developed in partnership with member States and regions, in particular, as regards its definition, scope, content, monitoring and implementation inside the European Semester.

This long term vision is crucial to ensure the stability of Cohesion Policy. Given that the challenges of Europe may change over the years, we risk transforming **Cohesion Policy in the *"universal remedy"*** for sectoral policies that are scarcely harmonised. For this reason, Cohesion Policy must not **lose sight of its original objective of reducing economic, social and territorial disparities;** and should focus on stable priorities in the long term. Furthermore, it should provide more flexibility so as the different Administrations may carry out the most urgent actions in their respective territories.

We consider that a **strategic framework successor of the EU2020 is needed.** It should reflect the common priorities for the Union and align the national and regional policies towards common objectives.

3. HORIZONTAL ELEMENTS OF COHESION POLICY

The achievement of the objectives of Cohesion Policy requires a new architecture for the next programming period. It should be based on an **integrated approach** and **more flexibility** to allow the different Administrations develop their programs and projects co-financed with the Funds, and the **improvement of governance at all levels.**

Legal certainty and simplification

An effective simplification of the regulations of all the elements of the MFF, so as to ensure **legal certainty** and **reasonable expectations** for the stakeholders.

The **implementation rules** must be **clearly defined** at the beginning of the programming period; they should not be applied **retroactively**; and will be approved **before the start** of the activities of the Managing Authority.

The **administrative burden** must be dramatically cut down, mainly in those cases in which it discriminates certain policies, based on the argument of a "more sound financial management".

In this regard, we consider that **there should be a single set of rules for all the ESI Funds**.

The **new orientations, guidelines and regulations should be really simplified**; this would ease its adoption without the delays occurred in previous periods. These documents should be drafted with a clear wording, be easily understandable and without leaving room to ambiguous interpretations;

especially when referring to basic concepts such as: operation, beneficiary, indirect costs, eligible costs, etc. And will not be applied retroactively.

Another key element for simplification could be **to maintain the current regulations 2014-2020,** although adapted to the new challenges. However, they should be **considerably streamlined in areas such as**: the performance framework, thematic concentration, ex ante conditionalities, subsidiarity and proportionality, link with the economic governance of the Funds (art. 23 of the CPR); and in all the mechanisms to obtain **a significant reduction of the administrative burden** in all the implementation phases.

The **Partnership Agreement**, in case it continues to exist in the future, should be simplified and include a really strategic approach, in coherence with the existing sectoral and regional strategies of the Member State. Duplication of contents with the Operational Programmes should be avoided.

The **designation** of the Managing Authorities and Intermediate Bodies (if the same) could be considered to be valid for the next period as well, without requiring to go through all the process again.

Common indicators should be carefully selected and reduced in number, in order to improve comparisons of the efficiency and effectiveness of programs of the different Member States.

The **Information System SFC** should be improved and simplified, in particular as regards the structure and format of the programs, so as the documents are more easily understandable by the beneficiaries and the citizens.

We favour the **single audit principle**, avoiding double controls and contradictory assessments. The audits carried out by European institutions should be limited to verify if the objectives have been achieved, as well as to fraud and corruption.

Subsidiarity and multilevel governance

In the next Cohesion Policy, these principles should be **maintained** and **reinforced** in all the implementation phases of the ESI Funds:

- The **subsidiarity principle** is an essential element of Cohesion Policy, which needs to be applied in an effective manner. It means that actions are taken at European level only if it produces more efficiency than when taken at national, regional o local level.
- Additionally, the **multilevel governance principle** implies that actions must be taken preferably at the administrative level which is closest to the citizens, when it produces greater efficiency, effectiveness and higher European added value; and also allowing to tackle territorial priorities more efficiently.

All the above mentioned issues will generate greater closeness to the citizens, fostering their ownership and participation.

It is deemed necessary a **greater recognition, by the European authorities, of the capacity and responsibility** of the national and regional authorities to manage public resources. The European Funds represent, in general, a small percentage of the total resources managed by them. It isn't neither reasonable, nor proportionate to impose parallel systems to manage the EU Funds (with numerous controls and check lists that seem inspired by mistrust). This produces a considerable increase of the administrative burden and inefficiencies in the Funds' management.

We favour an effective recognition of the principle set in article 4 of the CPR, that establishes that **Member States, in accordance with their institutional, legal and financial framework, shall be responsible for preparing and implementing programmes and carrying out their tasks.**

Proportionality

The proportionality principle means that the European intervention will be proportionate to the objectives pursued.

Proportionality should be applied in a more effective manner, through specific regulatory provisions, as it is an important way of simplification in all phases of the implementation cycle: management, control, evaluation, reporting, etc.

Flexibility or adaptability

Given the complexity of managing the EU Funds, **flexibility** if not well defined, could hamper implementation. But if flexibility is well-managed, it will improve the management processes of: definition, selection of operations, implementation, certification, controls, etc. And will have a positive influence in the achievement of the objectives of the Funds.

A **certain degree of flexibility** should be provided, as it will allow to adjust the programs to the new challenges that might arise, to the recommendations of evaluations or to those of the European Semester.

Flexibility must be allowed when managing the EU budget. But it must not neither jeopardise key policies such as Cohesion Policy; and nor lead to a reduction of Cohesion funds in favour of other EU policies, in particular, those centrally-managed by the European Commission.

In the case of acute crisis or unforeseen circumstances, **the Managing Authorities** should have **more flexibility to modify the programs and re-allocate resources between priorities.**

More flexibility is needed:

- To modify the programs and re-allocate resourced between priority axis and thematic objectives.
- In the indicators, so that the targets could be adjusted to the funds allocated to the program.

Shared Management of Cohesion Policy

Cohesion Policy should keep its current scheme of a **balanced and proportionate shared management structure**, between the Commission, the Member State and the regions. This system generates a continuous **dialogue** along the period, oriented to the achievement of the objectives planned.

Cohesion Policy should keep and improve its current management system between the Commission, the Member State and the regions. The future system must be based in mutual trust between the

Commission and the national and regional authorities.

A greater support from the Commission is required, in order to replace the excess of control and sanctions by higher responsibility of national authorities; trust in the national and regional systems to avoid duplication of management and control systems; incentives, not sanctions; capacity building and technical assistance.

4. ELEMENTS OF COHESION POLICY TO MAINTAIN

Categories of regions

Categories of regions are a good tool to define the convergence between regions (although regions near the limits between categories can be mistreated). The existence of transition categories helps to soften the changes in status; but still, it is essential to guarantee adequate financing also to the most developed regions, to strengthen their achievements and their potential to drive dynamic processes in all regions.

Establishing categories between regions can serve as a tool to define aid intensities. In the case of direct actions on people (ESF), the variables linked to the population must be considered in a more relevant way.

In general, it is necessary **to avoid abrupt reductions in European funding**, between regions, between periods, due to statistical effects, compensating, where appropriate, the Brexit effect. Likewise, special consideration should be given to those regions that change their category, as it has been done in the previous period.

Variables of allocation

The use of **objective variables (from public sources -EUROSTAT)** for the definition of the allocation criteria of financial resources linked to the regional policy is a basic and effective element for sizing this policy.

Within the framework of the EU's regional policy, territorial cohesion complements economic and social cohesion. Therefore, other indicators, besides economic and social ones, are needed in order to have it adequately measured.

European regions should participate in the debate on future variables which go beyond GDP, to achieve a sustainable development and cohesion in the European Union.

GDP, being a general and objective variable, does not measure the capacity of a society to address issues such as: climate change, resource efficiency and the competitiveness of the regions, quality of life, population ageing, social inclusion, specific geographical conditions, the income distribution or the geographical distribution of resources and economic growth factors.

Consequently, it is considered that **the current allocation system can be updated** as far as it does not **generate abrupt changes between periods.**

Variables such as GDP per capita, population and regional or national unemployment rate, as well as others (social inclusion, security, education, demographic challenges, integration) that reflect the European added value of the actions to be promoted, can be incorporated into the system, always ensuring its compatibility with the objective of convergence between regions and the new challenges that the future EU will face.

Outermost Regions

It is considered appropriate to pay special attention to **these regions** that are objectively disadvantaged and more vulnerable, as set in the Communication from the Commission: *A stronger and renewed strategic partnership with the EU's outermost regions.*

European policies with a strong territorial impact, such as Cohesion Policy, are fundamental for outermost regions. After five generations of European programs, a strong development process has begun, with a clearly visible evolution in these regions. However, the ORs maintain structural constraints that still slow down their economic, social and territorial cohesion. In this sense, the accelerated scenario of globalization contributes to increasing the economic and social inequalities of the ORs, especially exposed and vulnerable.

Article 349 of the TFEU provides for measures for the ORs that have not been fully implemented to date. Therefore, all consequences should be extracted by applying the following measures:

- Maintain the current allocation criteria for the additional allocation in which the ORs benefit from an aid intensity based on euros per capita.
- Continue to increase the flexibility of the regulatory framework of the ESI Funds (co financing rate, thematic concentration, automatic decommitment rules, etc.).
- Increase the specific allocation reflecting the reality of the effects of the permanent structural constraints of the ORs.
- Ensure greater coherence of Cohesion Policy funds with respect to the ORs so that investments in accessibility infrastructures - airports, ports and roads, as well as for internal and external connections – could be eligible for the ERDF regardless of the regional classification.
- Establish a new financial envelope that compensates for the extra costs related to employability and mobility, especially of young people (additional specific allocation under the ESF), in line with the renewed EU Strategy for the ORs of 2012.
- Regarding the European Fund for Strategic Investments (EFSI), its eligibility criteria should be adapted so that the specificities of the ORs are taken into account, in order to allow them to access, expand the eligible sectors and reserve an allocation for projects related to infrastructures of a more modest size and, facilitating synergy between the European Structural and Investment Funds and the EFSI, when necessary, by simplifying their respective rules.

Regions of Article 174 TFEU

Special attention shall be given to the **regions referred to in Article 174 of the Treaty on the Functioning of the EU;** in particular, those undergoing serious and permanent natural or demographic disadvantages such as insular, transboundary and mountain regions.

In this regard, special attention will be paid to all island regions, including the non-outermost regions, as well as to territories with special characteristics such as the Autonomous Cities of Ceuta and Melilla, in which there are also permanent obstacles that weigh down its development process (such as isolation, reduced size and vulnerability).

Urban and Territorial Dimension

The majority of the European population (70%) live in urban areas that constitute the poles of economic growth. Traditionally, Spain has successfully invested the funds to act in urban areas - the closest to citizenship - for what it considers appropriate to continue maintaining the actions in urban, as well as rural areas.

It is considered appropriate to continue strengthening **the urban dimension of Cohesion Policy**, which represents one of the best examples of multi-level governance, the application of integrated approaches and the territorial dimension of Cohesion Policy.

However, sub-regional disparities and the potential and needs of rural or mountainous areas should be taken into account in the design of the ESI Funds. In these areas, the actions supported by the EAFRD can also be complemented with the ERDF and ESF.

The **territorial approach** of Cohesion Policy must be **reinforced.**

After the experience of the current programming period of the territorial integration instruments, the **-voluntary- application** of mechanisms such as the Local Action Groups is considered positive, and should be further developed in the future**.**

European Territorial Cooperation

The **European Territorial Cooperation** must be reinforced, as an expression of the essence of the construction process of the EU, both cross-border and transnational and interregional, and a better integration with the macro-regional and maritime strategies.

The European Territorial Cooperation projects reflect very well the territorial dimension of Cohesion Policy and provide **a real added value to the European action**. They contribute to territorial cohesion and to the European integration.

Given the complexity of Cooperation programs, it is required, in addition to an increase in its financial allocation, a streamlined regulatory framework for authorities and beneficiaries to avoid contradictions between the regulations of the Territorial Cooperation and the ERDF.

European territorial cooperation must be strengthened but cross-cutting elements of cooperation must be included, i.e. depopulation. Failure to introduce these cross-cutting elements may reduce the cooperative stimulus to areas with particular needs.

In the **outermost regions**, the regulation still does not take into account the geo-strategic realities of the ORs, unique in Europe. Therefore, a regulation must be adopted, endowed with a specific financial instrument, based on Article 349 of the TFEU, to definitively end the coordination difficulties of EDF-ERDF and, on the other hand, to support the establishment of neighborhood plans applying true specific solutions adapted to the ORs.

The role of the **island territories** within the objective of the CTE could also be reinforced, for example by eliminating the distance criterion of 150 km.

New policies to include in Cohesion

It is considered that, although the menu of "Thematic Objectives" of Cohesion Policy includes practically all the sectoral policies of the Member States, there should be a **more relevant territorial**

approach that allows taking into account adequately the **potential of each region in every policy.**

Likewise, the territories, from their maturity and their responsibility in the development of key competences, may carry out an exercise to be able to **choose with adequate and sufficient flexibility**, the financial allocations between investment priorities and thematic objectives.

Sectoral policies such as tourism, migration, the circular economy, climate change, reindustrialization, or action in sparsely populated areas, can be carried out in whole or in part with the programming structure defined but in many cases very partially. This sectoral approach **must be combined with the territorial approach**, seeking a better balance between cohesion and the potential for regional growth.

Cohesion Policy must be at the service of the new challenges facing the EU in which the action at Community level produces a clear added value. Specifically, in areas such as:

Industrial Policy

Cohesion Policy should recover one of the objectives it had in the past, which helped the redevelopment of regions that were affected by processes of industrial decline.

The ESI Funds should support industrial modernization processes, and the transition towards a new European economy that generates more jobs and higher economic growth in all European regions.

The renewed strategy of industrial policy of the EU groups, in a global industrial strategy, all the horizontal and sectoral initiatives -existing and new-. Its objective is to help the European industry maintain a leading position in innovation, digitalization and decarbonisation. The implementation of this global strategy is a shared responsibility. Its success will depend on the efforts and cooperation of the EU institutions, Member States and regions, but, above all, on the active role of the industry itself.

The 2008 crisis led to a significant acceleration of European industrial decline; for this reason, the industry needs specific support to return to its growth path.

Likewise, the processes of economic globalization will not only continue to advance, but will possibly accelerate and with certainty will be transformed as emerging economies evolve and develop. For this reason, it is likely that industrial restructuring will continue in many areas of the EU, with the inevitable challenges it faces when supporting industrial zones during the reconversion and rehabilitation phases.

Climate Change

Climate change has implications on a whole series of issues related to economic development; it has a particularly serious impact at regional and local levels. For instance, changes in the models of agriculture or livestock in sensitive areas from a climate point of view; mountainous regions; or the need to carry out infrastructure projects in coastal areas. In addition, climate change also impacts on our collective capacity to improve social and economic cohesion, especially at the territorial level.

Demographic Challenges

In addition, the EU must face demographic challenges stemming from both the aging of its population and the depopulation of some rural areas. This results in an increase in the demand for quality health and social services, which can be key elements for the attractiveness of a region.

Similarly, there is a serious problem of low birth rates that must be addressed; affordable housing or social housing for young parents have an impact on birth rates, in the same way as access to health services and day care centres for parents.

Cohesion Policy must be at the service of the **new challenges the EU is facing** and in which the action at European level has a **clear added value:** industrial policy, adaptation to globalization, the fight against climate change, and the demographic challenge are issues that cannot be overlooked in regional development and territorial cohesion policies. In all of them, common action is the one that provides the greatest value.

5. ELEMENTS OF COHESION POLICY TO REVISE

Thematic Concentration

Thematic objectives and investment priorities should be determined according to regional needs, and not uniformly at EU level.

We support a certain level of thematic concentration but the choice of investment objectives and priorities must be more flexible and defined during the programming phase.

"Incentives instead of sanctions"

There are numerous references in the Common Provisions Regulation that can be interpreted in a **coercive way: ex ante conditionality, performance framework, performance reserve, macroeconomic conditionality or financial corrections.**

We considered that, although the above could be adequate to achieve greater efficiency in management and even in other EU policies through the Structural Funds, the result is sometimes asymmetric as it "*punishes*" more intensely those Member States with higher allocation of funds. Under no circumstances should Cohesion Policy be hampered by conditions whose compliance does not depend on the local and regional authorities and beneficiaries.

Transform the above into **incentives instead of sanctions** through additional allocations that could be added over time; or increasing the co-financing rates, as an alternative formula to achieve similar results.

Macroeconomic conditionality

The Europe 2020 strategy, implemented in the context of the global financial crisis, has not provided an adequate instrumental solution for the **compatibility of the objectives of growth and financial stability**.

Macroeconomic conditionality that doubly penalizes regions that respect the rules of the Stability and Growth Pact is not supported. In addition, the regions are not responsible for the national deficit, since they are subject to important budgetary restrictions, as much or more than the Central Administration.

The **tensions between cohesion spending and deficit control,** in a scenario in which EU funds are the main contribution to regional investments, becomes less sustainable the greater the volume of funds is, and, paradoxically, where they are most needed . Therefore, we propose **the exclusion of the**

national co-financing from the Stability and Growth Pact.

Regarding the Country Specific Recommendations, it should be taken into account that they do not have, in many cases, a relationship with the areas of implementation of the Funds. Therefore, it is proposed that the application with the Funds is kept voluntary and carried out through incentive mechanisms (for example, higher co-financing rates), included within Cohesion Policy itself.

Financial Instruments (FI)

It is considered that **mandatory use of financial instruments,** born of an excessive optimism about this figure, should not be included. Nor should **minimum earmarkings for their use** be established.

Its application must be voluntary due to its dependence on the macroeconomic context, the interest rates, the higher or lower interest of financial institutions for its implementation, and the competition with other operators and existing instruments in the market; on the other hand, it is necessary to consider the greater complexity in the implementation and the required administrative capacity; their lower demand against grants; or the lack of evidence about its effectiveness.

Performance Framework and Performance Reserve

The definition of indicators was one of the most complex elements to define and which required more time for discussion and negotiation. With the first reprogramming exercise, it has already been noted that the Performance Framework introduces an extreme rigidity in the programming when the organisms need to revise them.

Performance Framework and **Performance Reserve** are two elements that in the future **should be reformulated or eliminated**, because:

- They introduce an extreme rigidity that prevents programs from being adjusted to the normal evolution of the context, the political priorities and the situation of each organism.
- They do not serve their objective of encouraging the more efficient organisms.
- It generates a huge administrative burden for the Managing Authority, the Intermediate Bodies and the evaluation and monitoring units.
- It obliges to elaborate an "almost perfect" planning, since they are quite fixed throughout the 10 years of the period.
- Penalizes organisms that, although they will execute the funds effectively throughout the period, have had difficulties at the beginning of the period and therefore at the 2018 milestone.
- It can generate imbalances in the financial allocation of the programs, deriving funds towards axes that comply with the Performance Framework but that may be at the limit in their absorption capacity, or be outside the thematic concentration, or not be a priority for the national or regional governments.

State Aid Rules

ESI Funds regulations in the area of State Aid should be significantly simplified.

Currently, there is an **unequal** treatment that is not justified, between the **centrally managed** instruments (such as Horizon 2020, COSME or LIFE) and the **shared management** instruments, such as the ESI Funds. This leads to a greater administrative burden and hinders synergies between funds.

We should prevent the legal regime and the intensity of regional aid from being very different between cross-border regions.

Smart Specialization Strategies

The RIS3 strategies are a valuable tool to address the innovation gap and promote growth and employment in Europe.

In the post-2020 period, special attention should be paid to monitoring and reviewing strategies to optimize their results on the one hand, and interregional cooperation on the other, with the aim of developing ambitious projects that add value to the economy. Simplification, as well as the coordination of existing programs, are also essential to contribute to a good application of these strategies in the post-2020 period.

The relevant role that the **RIS3 have played in the current period** is underlined, so these should be **maintained.**

Simplified Cost Options

Simplified Cost Options should continue to be voluntary.

However, in case its application is mandatory, it should be accompanied by the necessary adjustments in the design of the control system of the expenses co-financed by this method; and its approval should offer greater legal certainty.