

EU Funds: Proposal for a new regulation for 2014-2020

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Introduction

For a number of fast-growing countries cohesion policy represented during the just completed decade a significant stimulating factor, which in the case of economies of our type contributed to the GDP growth rate with approximately one percentage point per year.

In this way, it has become a factor contributing significantly to the real convergence process, especially in Central and Eastern European countries, in which it significantly accelerated their growth potential. Direct effects of cohesion policy in the past decade also lie in the creation of more than one million jobs, improved skills and employability for more than ten million people, support for the establishment of more than 800 thousand small and medium-sized enterprises and the construction of more than 2,000 km of motorways and 4,000 km of rail.

The proposal for a regulation for the next period embodies in itself the European Commission's vision of cohesion policy, which should be in the next period even more closely focused on the European economic priorities to demonstrate its success also in the future. It is also for this reason that the content of the regulation proposal is focused on the support of measures toward growth and job creation in accordance with the Europe 2020 strategy.

The subsequent step will be the adoption of the final versions of the regulation proposal following discussions at the level of the member states and the European Parliament and then based on the knowledge of the final rules and conditions, the process of negotiating partnership agreements will be started, pursuant to which the interventions within cohesion policy will be targeted on several priority areas defined in accordance with the above described purpose. In this way, the EU member states will define clearly formulated and measurable objectives.

This year's 6th October brought an essential contribution of the European Commission's Directorate General for Regional Policy to the discussion on the future shape of cohesion policy for the programming period 2014-2020. This step gave an official stamp to the debate, which has started at a slower pace almost two years ago. For more information read the following pages.

At the same time, the proposal foresees a requirement, which is controversial for many member states, for the creation of a reserve from which regions with the best results as regards the cohesion policy objectives are to be rewarded. Cohesion policy should be implemented under conditions in which the investments and interventions in favour of development and employment will not be degraded by poor and undisciplined macroeconomic policies or weak and inadequate administrative capacity. In the case of a demonstrable inappropriate environment, which is not responsibly addressed by a member state and remedied in the form of compelling action, it is proposed that the European Commission will be entitled to request a review of the programmes or to suspend the funding.

To ensure that the interventions and investments are made in a responsive and transparent environment, the proposal is aimed at simplifying and harmonising the rules of the respective funds, including the rural development and the maritime and fisheries funds.

Five funds should be managed by a common set of rules. This integrated approach should ensure mutual interconnection and interdependence of interventions at the level of the regions to ensure that synergies are achieved between them and that the interventions do not constitute mutually isolated projects. It is only under these conditions that amplification of the impacts and effects of the supported projects can be achieved.

The next period should also put a strong emphasis on investments and interventions in the social field, also in the spirit of the Europe 2020 strategy, i.e., mainly through addressing social problems through active educational approach and employment ambitions on the labour market.

The European Social Fund should thus be complemented by the European Globalisation Adjustment Fund and a new programme initiative – Programme for Social Change and Innovation, whose purpose is to offer the EU citizens an acceleration tool to help them to cope better with new challenges in finding adequate positions and employment on the labour market.

Cohesion policy should be adapted to the needs of the first half of the 21st century and in addition to fulfilling its primary role – overcoming significant socio-economic and territorial disparities between member states and their regions – it should also implicitly contain a dynamic development element contributing to the growth of prosperity of the EU as a whole.

In the case that the elimination of disparities is directed towards the poorest and least developed member countries and regions, there would be approximation, but in an entirely undesirable direction. It is therefore necessary to accelerate

through the cohesion policy the economic ability of the less developed EU regions, so that they could evenly benefit from the environment of the Single Internal Market in the broadest imaginable economic relations with the most advanced regions.

It is also for this reason that strong emphasis should be given among the supported areas on ensuring that cohesion policy would represent a significant accelerator of growth and competitiveness (which in terms of volume can never be measured against the relevance of the investments coming from private sources, not even the investments from national public sources, which, however, in the coming period of weak economic growth and radical national fiscal consolidation in many member states will find themselves under considerable pressure, but which may become the proverbial accelerator that can trigger the private or national public funds in a sufficient degree).

Even in this orientation on growth and competitiveness, the future beneficial usefulness of EU funds should assert itself more strongly. Their impact should be amplified by the orientation of the instruments of cohesion policy, which comply with its purpose and, at the same time, have a strong effect on economic development – on small and medium-sized enterprises, innovation and energy efficiency.

Also in this respect, accentuating not only the socio-economic but – where possible – also the financial return, we can see simplification and modernisation of cohesion policy and creation of conditions for better measurement of its performance and results as well as stimulating incentives for those who successfully handle its management.

The social dimension of cohesion policy has been expanded: the proposal sets the minimum share of the European Social Fund and increases the share of the European Globalisation Adjustment Fund. In an effort to overcome the longer-term crisis manifestations, strong emphasis is placed on the human factor.

The approach is based on the assumption that in the spirit of this strategy the invested funds are transferred into real life so that when economic recovery is achieved, a significant number of jobs would be created even in the territories now strongly affected by structural unemployment and job opportunities would be found for millions of citizens.

Structure

Individual components of the package of the proposal for a regulation of the European Commission for EU Cohesion policy for 2014-2020:

- **General regulation** setting out common rules for drawing money from the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). The common rules will allow their better combination, which will increase the effect of EU activities;
- **Three specific regulations** for the ERDF, the ESF and the Cohesion Fund;
- **Two regulations** dealing with the European Territorial Cooperation goal (ETC) and the European Grouping of Territorial Cooperation (EGTC);
- **Two regulations** on the European Globalisation Adjustment Fund (EGAF) and the EU Programme for Social Change and Innovation (EUPSCI);
- **Communication** on the European Union Solidarity Fund (EUSF).

The proposals will now be discussed by the EU Council and the European Parliament. The aim is to adopt the whole set of measures for the proposals for regulations by the end of 2012, so as to enable negotiations in 2013 on the shape of the architecture of the EU cohesion policy between the member states and the European Commission and subsequently to initiate a new generation of its programmes in 2014.

At the same time, the negotiations on the final shape of the multiannual financial framework for the entire EU budget will continue. The European Commission has already proposed that in the period 2014-2020 EUR 336 billion will be allocated on cohesion policy.

The final distribution of the funds among member states and the list of eligible regions according to categories will be decided on after the adoption of the final shape of the proposed package of measures for the regulations.

Description and analysis

The Cohesion policy is implemented by programmes which run for the duration of the EU seven-year cycle. The current 455 programmes are foreseen until the year 2013 (plus the period of the following two years). This is why it is necessary to define the architecture of cohesion policy for the new generation of programmes and allocations for the period 2014-2020.

This proposal for legislative measures for the regulations includes an overarching regulation setting out common rules for the ERDF, the ESF, the Cohesion Fund, the EAFRD and the EMFF – that is one set of rules with common structure and logic instead of five.

Since the EU has defined new long-term objectives for growth and jobs in the form of the Europe 2020 strategy, there is a need to align cohesion policy better to make it more streamlined and compatible for achieving the agreed targets of Europe 2020 in employment, education, poverty reduction, innovation, research and development and climate (renewable energy, energy efficiency and greenhouse gas emissions).

This is closely connected with the impacts of the global – or rather pan-Atlantic – economic crisis, unemployment and poverty, climate change, and other challenges that affect all regions of the European Union. Given their share of the overall expenditure of the budget of the European Union, cohesion policy instruments are the key factor in boosting Europe's economic competitiveness, fostering social cohesion, and creating more and better jobs.

The European Commission proposed a number of important changes relating to the form and mechanisms for the implementation of cohesion policy. Worth noticing are the following:

- Concentrating on Europe 2020 Strategy's priorities of smart, sustainable and inclusive growth;
- Improving coordination of various types of EU actions with cohesion policy;
- Rewarding performance within cohesion policy;
- Supporting integrated programming;
- Greater focusing on results in the form of delivering the agreed quality objectives and their systematic monitoring and evaluation;
- Sound macroeconomic and fiscal environment;
- Reinforcing territorial cooperation;
- Territorial cohesion;
- Further simplifying the processes associated with the implementation of cohesion policy.

The proposal for the general regulation is divided into two parts:

1. The first part contains a series of common provisions for the five Funds with defined structural aims covered by the Commission's Common Strategic Framework. It outlines the common elements on strategic planning and programming; the thematic objectives linked to Europe 2020, which will be the basis for the Funds; and provisions on the Common Strategic Framework and on the subsequent Partnership Contracts to be concluded with each member state. Common rules also cover eligibility, financial instruments, and the management and control principles.
2. The second part of the proposal sets out specific provisions for the ERDF, ESF, and Cohesion Fund. They focus on the mission and goals of cohesion policy, the financial framework, specific programming and reporting arrangements, major projects and joint action plans. The proposals also set out the detailed management and control requirements under cohesion policy and the specific arrangements for financial management.

The fund-specific regulations – or, more precisely, proposals for them – include provisions specific to each Fund (ERDF, ESF and the Cohesion Fund), including their scope, investment priorities and indicators.

General principles

The European Commission anticipates in the proposals the adoption of a series of common principles applicable to all Funds distributing resources within the EU cohesion policy. These include partnership and multi-level governance; compliance with applicable EU and national laws; promotion of equality between men and women; non-discrimination; and sustainable development.

Reinforced strategic programming and thematic concentration on Europe 2020

In order to maximise the consistency between the instruments and impacts of cohesion policy with the enforcement of the EU general development priorities, the Commission proposes to reinforce the strategic programming process.

This involves the creation and adoption of the Common Strategic Framework, Partnership Contracts between the European Commission and the member states, and a set of thematic objectives in line with the Europe 2020 strategy and its objectives.

The Common Strategic Framework, to be adopted by the European Commission, will set out key actions to address EU priorities, will provide guidance on programming applicable to all Funds, including EAFRD and EMFF, and will promote a better coordination of the various EU structural instruments.

Partnership Contracts to be agreed between the European Commission and member states will represent the basic platform for the management and implementation of cohesion policy at national level (in principle, similarly to the current National Strategic Reference Frameworks).

They will define the thematic objectives and the commitments of member states to concrete activities, which should correspond with the Europe 2020 content. The targets should be precisely defined and measurable and they will become part of the performance framework.

Minimum allocations should be set for a number of priority areas where the EU has defined its objectives. For example, in more developed and transition regions (see Box below).

New categorisation of regions for the period after 2014), at least 80% of ERDF resources at national level should be allocated to energy efficiency and renewables, innovation and improvement of the competitiveness of SMEs.

According to the European Commission's proposal, in less developed regions this share will be 50%, reflecting their broader range of investment needs in other areas.

Investments and interventions of the ESF should be fully linked with the EU's objectives and focus on employment, education and reduction of poverty.

At least 20% of the ESF's national allocation will have to be used for projects, eliminating social exclusion and poverty.

New categorisation of regions for the period after 2014

Support under the Cohesion policy should be differentiated based on the definition of three types (categories) of regions:

- **Less developed regions;** whose GDP per capita is below 75% of the EU average; these regions should remain a top priority for cohesion policy;
- **Transition regions;** whose GDP per capita is between 75% and 90% of the EU average;
- **More developed regions;** whose GDP per capita is above 90% of the EU average.

The second – newly introduced – category should cover 51 regions and more than 72 million people, including 20 regions in which it is assumed that by 2014 they will move from the current category of less developed regions to transition regions.

A significant part of the regions of the Czech Republic is significantly close to the border of 75%, while it is highly probable that by the year 2014 up to four regions of the Czech Republic will pass this border and only three regions will remain among the less developed regions. The remaining region of the Czech Republic – the Capital of Prague – is from the very beginning of this calculation in the category of more developed regions (with its value of GDP per capita of around 170% of the EU average it even belongs to the top ten richest regions across the European Union).

In addition, a safety net is created for the regions that are classified as convergence regions in the 2007-2013 period, but whose GDP per capita in the upcoming period will be above the 75% border. Within the transition or even the more developed region categories, they would receive an allocation equal to at least two-thirds of their 2007-2013 allocation.

Minimum shares for the European Social Fund (ESF) will be established according to the Commission's proposal for each category of region – 25% for less developed regions; 40% for transition regions; and 52% for more developed

regions. Within the whole EU cohesion policy, the proposed minimum overall share for the ESF is 25% of the budget allocated to cohesion policy, i.e. EUR 84 billion.

The Cohesion Fund will continue to support member states with Gross National Income (GNI) per capita of less than 90% of the EU-27 average. Its thematic focus remains in the field of large transport projects (mainly the Trans-European transport networks – TEN-T) and projects in the field of the environment. Part of the Cohesion Fund allocation (EUR 10 billion) is designed for the exclusive financing of the core transport networks under the newly established Connecting Europe Facility (CEF).

Since the experience with the current financial framework shows that many member states have difficulties in absorbing large volumes of European funds over the limited seven-year period and in view of the fact that the fiscal situation in some member states has made it more difficult to release funds to provide national co-financing and in order to ease the absorption of funding, the European Commission is proposing a number of steps:

- to fix at 2.5% of GDP of each EU member state the capping rates for cohesion allocations;
- capping co-financing rates at the level of each priority axis within the operational programmes at 75-85% of the cohesion policy resources in less developed regions and outermost regions; 75% for European Territorial Cooperation programmes; 60% in transition regions; and 50% in more developed regions;
- to include certain conditions in the Partnership Contracts regarding the improvement of administrative capacity.

Breakdown of EU cohesion policy funds for the period 2014-2020 as defined in the proposal from the EC

Proposed budget 2014-2020	EUR billion
Less developed regions	162.6
Transition regions	38.9
More developed regions	53.1
European Territorial Cooperation	11.7
Cohesion Fund	68.7
Extra allocation for outermost and sparsely populated regions	0.926
Connecting Europe Facility *)	40.0 **)
European Social Fund	at least 84.0

Source: European Commission, *) CEF (Connecting Europe Facility for Transport, Energy and Information and Communication Technologies) in Transport, Energy and ICT, **)with an additional EUR 10 billion ring fenced inside the Cohesion Fund

Better coordination of various types of EU actions with cohesion policy

The Common Strategic Framework contains the top priorities of the European Union and it will apply to all funds, including rural development and fisheries. All Partnership Contracts tailored for and with each member state will find a single European reference frame in accordance with the Common Strategic Framework.

Member states will be allowed to combine the ERDF, European social fund and Cohesion Fund in “multi-fund” programmes to better suit their growth plans, improve coordination on the level of regions and achieve integrated development. The purpose is to allow the biggest impact of EU cohesion policy on the level of regions.

Conditionalities and greater emphasis on performance

Based on the proposals, performance of cohesion policy should be reinforced by the introduction of conditionality provisions, which should encourage the member states to focus the programmes on the fulfilment of Europe 2020 objectives and targets and to introduce greater economic and fiscal discipline.

EU funding should constitute strong incentives for member states to deliver these objectives. Certain ex ante conditionalities must be in place before the funds are disbursed (e.g., the introduction of properly working systems for the implementation of public procurement at member state level). Ex post conditionalities will make the release of additional funds contingent on performance as well.

Ex ante conditionalities – The rationale for the existence of ex ante conditionalities is to ensure that the conditions necessary for effective support from the EU funds are in place. Past and present experience suggests that the effectiveness of investments and interventions financed by the funds have been undermined in some instances by deficiencies in national rules and procedures and by insufficiently functioning institutional structures. The Commission therefore proposes a number of ex ante conditionalities, which are laid down together with the criteria for their fulfilment in the General Regulation. Some conditions are directly related to the thematic objectives of cohesion policy (e.g., appropriate regulatory framework for business support), while others apply horizontally (e.g., rules for public procurement).

Ex post conditionalities – The purpose of using ex-post conditionalities should be to strengthen the performance of cohesion policy and focus on the attainment of Europe 2020 goals. They will be based on the achievement of milestones related to targets linked to Europe 2020 specified in the Partnership Contracts.

A total of 5% of the national allocation of each fund will be set aside in the form of the so-called performance reserve and allocated, during a mid-term review, to the member states for the programmes that have fully met their milestones. On the other hand, failure to achieve milestones may lead to the suspension of funds and a serious underachievement in meeting the targets of a programme may lead to cancellation of the programme.

Sound macroeconomic and fiscal environment and macroeconomic conditionalities

Establishing a closer link between cohesion policy and the economic governance of the Union should lead or contribute to a situation where the effectiveness of expenditure under the cohesion policy would be significantly higher and the expenditure would bring more benefit.

The purpose of this type of measure is to ensure that the effectiveness of the funds is not diluted by unhealthy development of macroeconomic and fiscal policy in individual member states. The closer link should be visible, for example, in the case of the introduction of the excessive deficit procedure (currently applies to 23 of the 27 EU member states), excessive macroeconomic imbalances procedure or the non-performance of the obligations under the European semester of economic policy coordination. It means that the programmes financed by the EU funds can be adapted to changes in economic conditions and circumstances. In certain situations, the Commission could request the review of the Strategic Partnership Contract to support the implementation of Council recommendations.

Refusing or failing to take remedial measures and actions may lead to suspension (in the form of postponement or suspension) of EU funding. It is obvious that the introduction of this procedure should be gradual, starting with amendments to the Partnership Contract and to the programmes in support of Council recommendations to make up fiscal deficit, address macroeconomic imbalances and social and economic difficulties.

Any decision on the suspension of EU funding by the European Commission should also be made in a proportional manner – on the one hand, the effectiveness of this instrument should be felt and, on the other hand, account should be taken of the consequences and implications of this step on the economic and social situation in each member country, depending on specific conditions.

When making these rather difficult decisions, equality of treatment between member states of the European union should be respected, taking into account the resulting impacts. The suspensions should be lifted and funds be made available again to the member state concerned as soon as the member state takes the necessary remedial action.

Common model for management mechanism

The proposal of the European Commission includes concepts of common principles for management and control, which should be identical for all member states. A system of national accreditation of the key control bodies should be put in place to emphasise the commitment of member states to sound financial management.

At the same time, the arrangements for providing assurance to the Commission on the regularity of expenditure should be harmonised and new common elements should be introduced (e.g., a management declaration of assurance and annual clearance of accounts).

Supporting integrated programming

The Commission proposes a key innovation of the future period – an integrated approach to EU interventions and investment within cohesion policy. A practical condition for its application is the identification of common eligibility and financial rules, and the introduction of multi-fund programmes for the ERDF, ESF and Cohesion Fund, as an option.

Increased use of financial instruments

The role of innovative financial instruments in the future period should be substantially enhanced by extending the scope and volume of funds allocated through them, rendering their implementation frameworks more flexible and effective, and enabling their smooth incorporation into the implementation systems. The aim of this aid is their use as a more efficient alternative, or in a complementary way with traditional grants. In accordance with the proposal, the combination of grants with new financial instruments should be possible.

Subject to the area and degree of feasibility, financial instruments can be applied to the full bandwidth of cohesion policy objectives reflected in future programmes, in order to deliver investments in projects that demonstrate appropriate repayment capacity