



June 2017

EU COHESION POLICY: BUILDING AN INVESTMENT POLICY FOR A MORE COHESIVE EUROPE

EU cohesion policy supports hundreds of thousands of projects in all European regions, it is the EU's largest source of investment, encouraging important real economy projects and contributing to structural change in EU member states.

EU cohesion policy is part of the Treaties and a reflection of EU's solidarity. But more than that, cohesion policy is very important to support a more cohesive Europe in all its forms: economic, social and territorial.

It is however time to move past a mindset of redistribution and fast spending to a rational of investment, competitiveness and structural improvement. This will be necessary to boost the success cases of this policy while at the same time achieve greater convergence between member states, a necessary condition for a proper functioning of the EU.

EU cohesion policy must be an integral part of a European investment strategy, with a strong territorial approach, aiming at empowering each region with the necessary tools to build-up their competitiveness. It must lead to economic and structural transformation, securing a resilient base in each region, based on their own strengths.

It is important to acknowledge that the achievements of EU cohesion policy go way beyond the financial envelop made available through European Structural and Investment Funds, and are strongly anchored to the positive side effects it instigates. These are visible in terms of capacity building, the definition of long-term priorities, regional specialisation strategies, partnership, and others.

But these benefits must be magnified. This is particularly important in view of the exit of the UK from the EU and expected EU budget reductions. The EU cohesion policy must therefore modernise and simplify the way it operates, setting a medium to long-term framework but with enough flexibility to readapt to new events, supporting projects with clear EU value added, and providing the right incentives for performance.

In this position paper, BusinessEurope puts forward a number of ideas on how to improve and strengthen EU cohesion policy, making it fit to address today's challenges and to prove a real enabler for European regions to compete by scaling-up and exploring their capabilities.



BUSINESS REFLECTIONS FOR EU COHESION POLICY POST-2020

A. REFINING THE SCOPE AND OBJECTIVES OF EU COHESION POLICY

- 1. EU cohesion policy as part of a European investment strategy:** EU cohesion policy must be an integral part of a comprehensive European investment strategy, going beyond mere redistribution considerations. The use of European Structural and Investment Funds (ESIF) must be made more efficient, particularly in view of the exit of the UK from the EU and expected EU budget reductions. As competitiveness of European regions must be the main goal of cohesion policy, it is important to improve administrative capacity at regional and local level, and focusing on quality projects that can have real impact.
- 2. A sustainable EU cohesion policy for all regions:** The positive effects of EU cohesion policy go beyond its financial component as it obliges all regions to continuously improve key areas for development and further strengthen their administrative capacity. This was highlighted in an ex-post evaluation independent report regarding the period 2007-2013 made available by the European Commission, justifying that this policy should remain open to all European regions.
- 3. A policy that is inclusive for companies and sectors:** Regions must be able to leverage structural funds strategically to attract investment and stimulate job creation by companies of all sizes and in sectors relevant for their specialisation strategies. Access to structural funds should be granted on the quality of the investment and the investment's expected economic impact, not the enterprise's size. Mid-caps and large enterprises play a crucial 'anchor' role in local and regional economic development as well as for SME growth. Often, SMEs are an integral part of larger enterprises' value chains. Moreover, large companies face the same cost pressures as small companies in making their location choices. In this vein, direct financial support instruments continue to be an important tool used by regions in order to attract large globally mobile investments. Existing measures such as the application of regressive aid intensity funding for investments by large enterprises, subject to limitations, are already in place to reduce the risks associated with funding for large companies. Other measure could be developed to ensure an effective allocation of EU funds but these must be carefully considered to avoid a phenomenon of investment leakage in Europe.

Box 1: Support to non-SMEs

According to the independent ex-post evaluation the Commission published with regard to ERDF and Cohesion Fund for the period 2007-2013, non-SMEs received around 20% of all direct company support under ERDF. According to the



evaluation, the large enterprises supported had a “strongly positive effect on the local economy”, and more than 90% of the 6000 projects achieved or more than achieved the goals set”, and created at least 60 000 new jobs. Knowledge spill overs and the building of local supply chains were important indirect benefits. Thus, larger enterprises should further be eligible to receive ESIF funds.

Other studies highlight the general importance of interlinkages of SME, mid-cap companies and larger enterprises as part of industrial clusters. In Austria for instance, industrial clusters play a crucial role, with larger enterprises at their core. For the whole Austrian economy, 265 industrial frontrunner companies (‘Leitbetriebe’) are responsible for 32% of total R&D investment (€ 3 billion). These companies create positive spill over effects for related SME, as each of these companies interacts with an average of 800-1.000 SMEs. By direct and indirect effects, these industrial clusters generate 25% of all added-value in Austria.

The evaluation, however, also shows that ERDF support is only one factor among many affecting a company’s decision on where to invest. In addition, there is a risk to create dependency on the funds by always granting them to the same companies. This is why cohesion policy must focus on ensuring an effective allocation of EU funds, based on quality of the projects and not on the size of the company.

4. Regions must focus on their own strengths: European regions must compete through excellence, by moving up in the global value chain, by being innovative in their respective fields. Smart specialisation strategies must be preserved as an ex-ante conditionality and should lead to a scaling-up of regions, help strengthening cross-border and cross-national collaboration in specific areas, promote the digital transformation and the innovation processes of all European enterprises, and enable an economic transformation to create a resilient base for European regions to grow. In this process, it is important to involve companies, which are instrumental in the process of entrepreneurial discovery of the regions. This process must be fostered by the economic and social partnership on the territory. It must be ensured that regions do not ignore existing capacities and the potential of developing existing structures. Regions must therefore start by identifying available knowledge, resources and innovation capacity. It is also important that these strategies keep a flexible approach in order to adapt and steer the wheel in the right direction. Strategies should be designed in a way to attract and mobilise private investment where possible. Moreover, it is important to start connecting different strategies in different territories incentivising cooperation and the creating of important synergies for economies of scale and more efficient results.

5. An outward looking policy: EU cohesion policy is focused on the territory of the European Union, on how to support regional development, and on how to ensure an appropriate use of funds. However, it is necessary that EU cohesion policy better understands the role of the EU in the global context as, while it is fundamental to



ensure a level playing field between EU member states, it cannot disregard the fact that the EU and its members operate and compete at a global scale. The EU must therefore use its tools to ensure it is an attractive destination for investment, particularly important when designing the Regional Policy State Aid Guidelines or in specific measures such as the exclusion of non-SMEs from EU funds (see point 3), thinking about competition in a global context and not simply within its territory. The current Regional Policy State Aid Guidelines limit the possibility for non-SMEs to receive regional aid, even in “c” regions, which is not justified, as regional aid should be evaluated on the quality of the investment, its expected impact on the economy and on its effect on competition, not on the size of the enterprise. It is also important that the definition of regions eligible for regional aid does not create excessive cross-region disparities, and this should be taken into consideration when reopening the discussions on the guidelines. Regional permanent handicaps should also be taken into consideration.

- 6. Better communicate about cohesion policy:** A few examples of badly used EU funds are repeatedly used as a criticism to EU cohesion policy when, in reality, only 0,2 to 0,3% of EU cohesion policy funds have been subject to fraud. Another often repeated argument is that only poor regions benefit from EU structural funds when this policy – despite at different intensities – is available for all regions. It is therefore important to make a better coordinated action regarding the benefits of this policy and crucial projects it supported, in order to better spread the benefits of the EU. To this regard, national, sectorial, and regional associations representing ESIF beneficiaries’ interests can play a crucial role as a channel to convey the EU cohesion policy results to their members.

B. IMPROVING THE FUNCTIONING OF EU COHESION POLICY

- 7. Focus on results:** The principle of “focus on results” in relation to EU budget, but also cohesion policy is very welcome, however of difficult implementation. It calls for effective mechanisms of outcome evaluation which require proper coordination between different levels of administration. The introduction of ex-ante conditionality and the performance reserve, by setting aside a dedicated amount to allocate to best performance programmes in 2019, are welcome and launched useful reflections. But further measures will be necessary to ensure a more fundamental change to the way the policy operates.

Box 2: Focus on results

- ✓ a policy more focused on results, less on formal compliance;
- ✓ effective mechanisms of outcome evaluation through proper coordination between administrations;
- ✓ diversify the results from member state to member state;



- ✓ some of these results should be linked to the Country Specific recommendations (CSR) within the European Semester. Procedures and timing should be reviewed in order to align the CSR's to the ESI funds and specific resources should be used to promote the reforms;
- ✓ ensure respect for the subsidiarity principle;
- ✓ enhance the concentration of resources on the priorities allowing the achievement of expected results.

Moreover, the evaluation of results should take into account two important issues:

- ✓ the nature of the projects that are financed by ESI funds implies that the associated results can only be evaluated in the medium and long term. Therefore, short-term evaluations can lead to perverse effects, by potentially discouraging projects of great relevance whose results can only be measured in the long run.
- ✓ the achievement of results may be influenced by factors that are exogenous to cohesion policy and cannot be controlled neither by project promoters nor national or regional authorities. If those factors are not considered, the evaluation of cohesion policies' results may reveal dangerously pro-cyclical under an economic downturn that affects the achievement of previously established milestones and targets.

8. The quest for simplification: The current difficult, complicated and diverging procedures applied with ESIF funds comprise too many layers of rules and controls and thus strongly disincentives the use of EU funds. It is necessary to render structural funds more accessible and understandable. It should be considered to align those procedures among ESIF funds to facilitate their management. We welcome the work being developed by the High-Level Group on Simplification and the recommendations being put forward.

Box 3: Introducing real simplification

- ✓ strengthen more the capacity of the members states to achieve the shared goals, rather than the way in which they are pursued, in particular by simplifying the control system (Single Audit);
- ✓ reduce, simplify and standardize the body of the policy rules and guidelines; unify the number of the funds; strengthen the integrated approach (for example, multi-fund programs and common standards between all funds; align the rules on State aid; harmonize financial rules between different funds;
- ✓ facilitate synergies with other financing resources and instruments (H2020, EFSI), standardizing the different rules of use, financing and control in order to make them simpler and more favorable to the beneficiaries;
- ✓ reduce burdens on beneficiaries, for example by promoting the so called "Only once principle" that limits the demand for documents when currently available, particularly through e-Cohesion platforms; strengthen the extension to all the



funds of the simplified cost options (SCO) and the reduction of time for implementation, and the binding nature of SCO below a certain threshold.

9. Ex-ante conditionality to be continued: The introduction of ex-ante requirements in the current period in order to improve the effectiveness of ESI funds was a very helpful tool in terms of effective and efficient use of resources. It obliged the administrations to ask the right questions and to act upon improvement measures, also encouraging a faster fulfilment of EU regulatory requirements. It brought visible positive results in terms of administrative capacity and good governance, also in terms of development of a project pipeline and smart specialisation strategies. However, in some cases, these ex-ante requirements also triggered substantial delays at the beginning of the period and at projects' starts. Whereas misuse and fraud should always be avoided, too rigid ex-ante conditionality tests shall be eschewed to ensure the funds' smooth settlement.

10. Continuous improvement of partnership: Partnership must continue to be an underlying principle of EU cohesion policy and, eventually, be strengthened further, given the positive results it can achieve in the use of European Structural and Investment Funds and contribution to a higher acceptance and accuracy in the use of structural funds. Unfortunately, several member states have not yet implemented the code of conduct as expected and efforts should continue to improve a real partnership at all stages: designing, programming, implementation and evaluation; and at all levels: European, national, regional and local.

Box 4: Strengthening the partnership principle

- ✓ In the current system, responsibility is in charge of member states that, in accordance with its institutional and legal framework, have to organize a partnership with the competent regional and local authorities and other relevant partners;
- ✓ Involvement is now not binding: commitment must be strengthened;
- ✓ The European Code of Conduct on Partnership should be included in the new regulation for the structural funds, in order to be legally binding for member states;
- ✓ It is also necessary to make distinction within the partnership, giving different roles to the relevant partners and to the functional ones;
- ✓ In addition, member states have to demonstrate which added value they expect from each partner and how to give evidence of concrete contributions obtained;
- ✓ Partner capacity: partners have to modify their concrete involvement, and more accountability from their side is needed. It means:
 - to be able to identify the needs and expectations of members/represented in terms of expected results;
 - to develop strategic programming capacity;
 - to develop planning capacity;



- to be able to participate in projects selection;
- to increase involvement in evaluation, and in use of results.

11. Combine flexibility with predictability: Designing operational programmes requires a medium to long-term framework, given the focus on priorities for the future and the underlying objective of structural change, which cannot be accomplished overnight. However, the right balance must be found and greater flexibility allowed so that programmes and priorities can be readapted in view of unexpected events and new regional needs.

C. A MORE EFFICIENT USE OF EU COHESION POLICY FUNDS

12. Invest in quality projects which meet EU objectives: The strong focus placed on “absorption capacity”, as a reflexion of member states’ capacity to spend available EU funds, can provide perverse incentives by encouraging speed over quality of spending. It must be ensured that ESIFs only finance quality projects that are fully aligned with EU key objectives and demonstrating EU valued added. Innovation, digitisation, and skills for the future, which contribute to the good functioning of the EU single market, and having an important cross-border component, must remain important priorities.

13. Support for structural reforms implementation: While European Structural and Investment Funds cannot be made, in their totality, conditional on the implementation of structural reforms, there is a clear room for strengthening this link. Conditionality should be introduced for specific reforms as part of the European Semester, provided that the implementation can be made at the right level of governance, and with a clear link to cohesion policy objectives. This means that a reform that requires action from central government should not be linked to ESI funds given that regional authorities would have no way to ensure the conditionality would be respected. This process should also be a positive rather than a punitive one: co-financing rates for those that implement reforms could be increased, within the same envelop, rather than freezing funds for those Member States that do not implement them. The current macro-economic conditionality must therefore be overtaken.

14. Improve the use of financial instruments: While a greater use of financial instruments is welcome, it does not replace the absolute need for grants in some areas, particularly for very innovative projects, risky projects, in cutting edge technology or early stage of applied research. There is also not enough public support for R&D in Europe which must continue to be incentivised. It is however fundamental to reduce grant dependency in areas where these are not justified, in order to ensure that resources are used in a more efficient way. To successfully achieve this transition, it is important to build-up the necessary capacities at regional and local level on how to use financial instruments and, simultaneously, further simplification in their use when it comes to shared management practices.



- 15. The European Fund for Strategic Investment is a helpful tool:** The EFSI is a welcome tool to help mobilising private investment in Europe, and that brought about a greater risk culture in project financing. The EFSI must however be taken for what it is: a tool which can help mobilising private investment, but not a policy in itself, and therefore not tailored to address wider goals and structural improvements in EU member states. Therefore, while the EFSI can never replace cohesion policy, it can be a very important complement to ESI Funds, supporting viable projects in European regions, including through investment platforms, attracting private investment and following a market-based approach.
- 16. Intensify synergies between funds:** Greater synergies can be created between different funds available at European level. The ongoing simplification for the combined use of ESIF and EFSI must be continued, entailing greater awareness and knowledge regarding the use of financial instruments. When the EFSI works in synergy with the ESI Funds, it must however follow the cohesion policy principles. Synergies must also be intensified in other areas such as in connection with Horizon 2020 and the Connecting Europe Facility.

D. ADJUSTING FUNDING PRIORITIES

- 17. Thematic concentration with a territorial logic:** Selecting priority areas for investment is crucial to avoid funds to be too thinly disbursed across too many objectives, and thus failing to provide a real impact on the ground. EU cohesion policy has been significantly improved with the introduction of thematic concentration. However, is important not to be too prescriptive as different regions have different needs. Establishing a wider list of priorities, from which each region would select its own key priorities, avoiding minimum shares for specific objectives, could help supporting a stronger territorial approach.
- 18. European Regional Development Fund priorities:** the ERDF is of utmost importance for investment in the real economy and on key projects for regional development. We consider this fund should remain forward looking, where innovation and research, digital and SME support remain fundamental. However, it is important the understanding that different regions have different needs and that priorities should not be too prescriptive. Regional development projects should indeed ensure a small number of priorities are targeted in order to be able to achieve difference in those areas, but quality project must be the main preoccupation. The same way, projects must be evaluated on the basis of the estimated impact of the project for the region where it is located, employment creation and the potential it brings for other companies in the value chain, and not on the basis of the size of the companies involved. The recovery schemes for undertakings in difficulties should be included in the ERDF eligibility, since these recovery schemes are of utmost importance to avoid economically viable firms in temporary financial distress from having to shutdown



unnecessarily, with consequent loss of productive capital, and jobs. This is particularly important given that the financial distress of many companies is still harming the recovery of many European regions.

19. European Social Fund priorities: There are several priorities for the ESF, some of which are institutional in nature and others which are policy oriented. Firstly, as concerns those of an institutional nature, it is important to create stronger synergies between the Fund and the European semester process. Notably, this concerns using the Fund to support the implementation of the country-specific recommendations. Secondly, it is necessary to improve the ESF regulation to ensure a dedicated approach to support for social partners' capacity building as part of the relevant thematic objectives, including the possibility to finance actions that have a European dimension, where relevant. The distinctive role of social partners compared to other civil society actors needs to be better reflected in ESF implementation. As concerns the policy priorities, the first is that when the ESF is used to provide funding for the Youth Employment Initiative, we would advocate that this is targeted towards supporting the development and strengthening of national apprenticeships systems, for those member states that want to do so. Finally, the ESF has a role to play in supporting and enhancing human capital development in innovative and learning environments in which employers and workers are adapting to new forms of work organization and new forms of intracompany communication. This impacts upon the skill and competences that people need and is important for companies, SMEs in particular.