



NON PAPER ON THE FUTURE OF COHESION POLICY

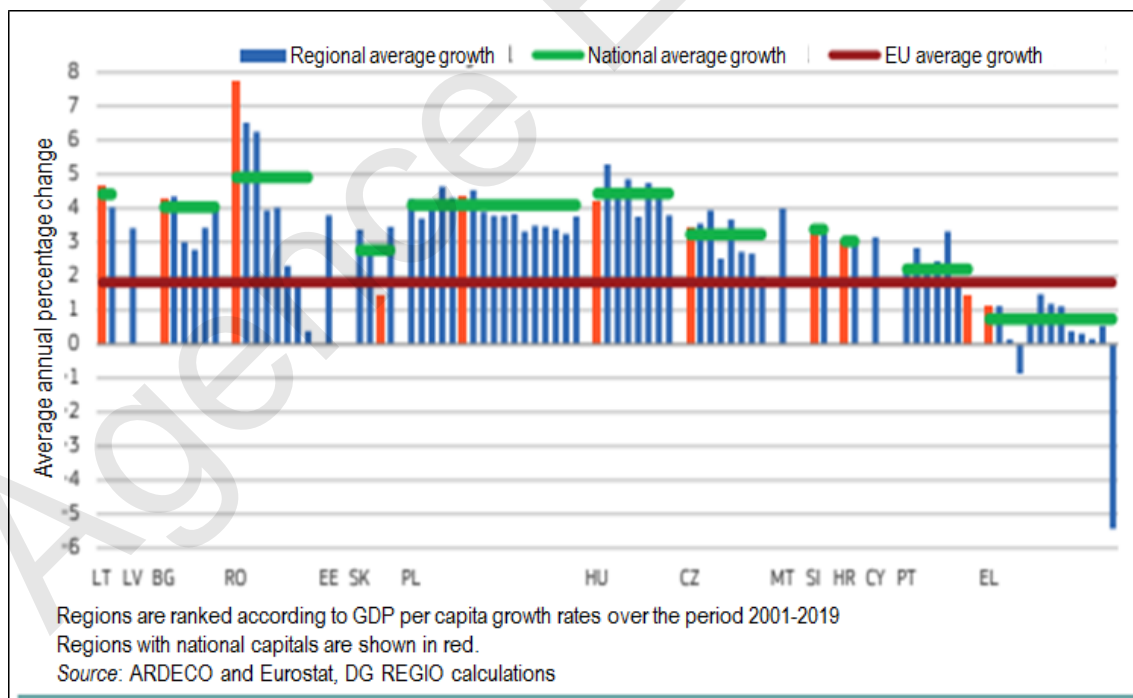
I. CONTEXT ANALYSIS

Regional convergence and cohesion have been essential for European integration since its inception. Cohesion policy has thus become one of the most emblematic policies of the Union and one of the most recognizable by European citizens, thus forming part of the common heritage.

The 8th Cohesion Report, published last year, highlighted several trends in territorial cohesion and regional convergence in the EU. Among the positive ones, the dynamism of most of the less developed regions, which continue to catch up and converge with the average of the Union's regions, is noteworthy.

This dynamism is evident in Illustration 1, which shows that between 2014 and 2019, the average growth of the regions belonging to the least developed or moderately developed Member States has been mostly higher than the average growth of the European Union (EU).

Illustration 1. GDP per capita growth rates in regions located in the least developed or moderately developed Member States, 2014-2019

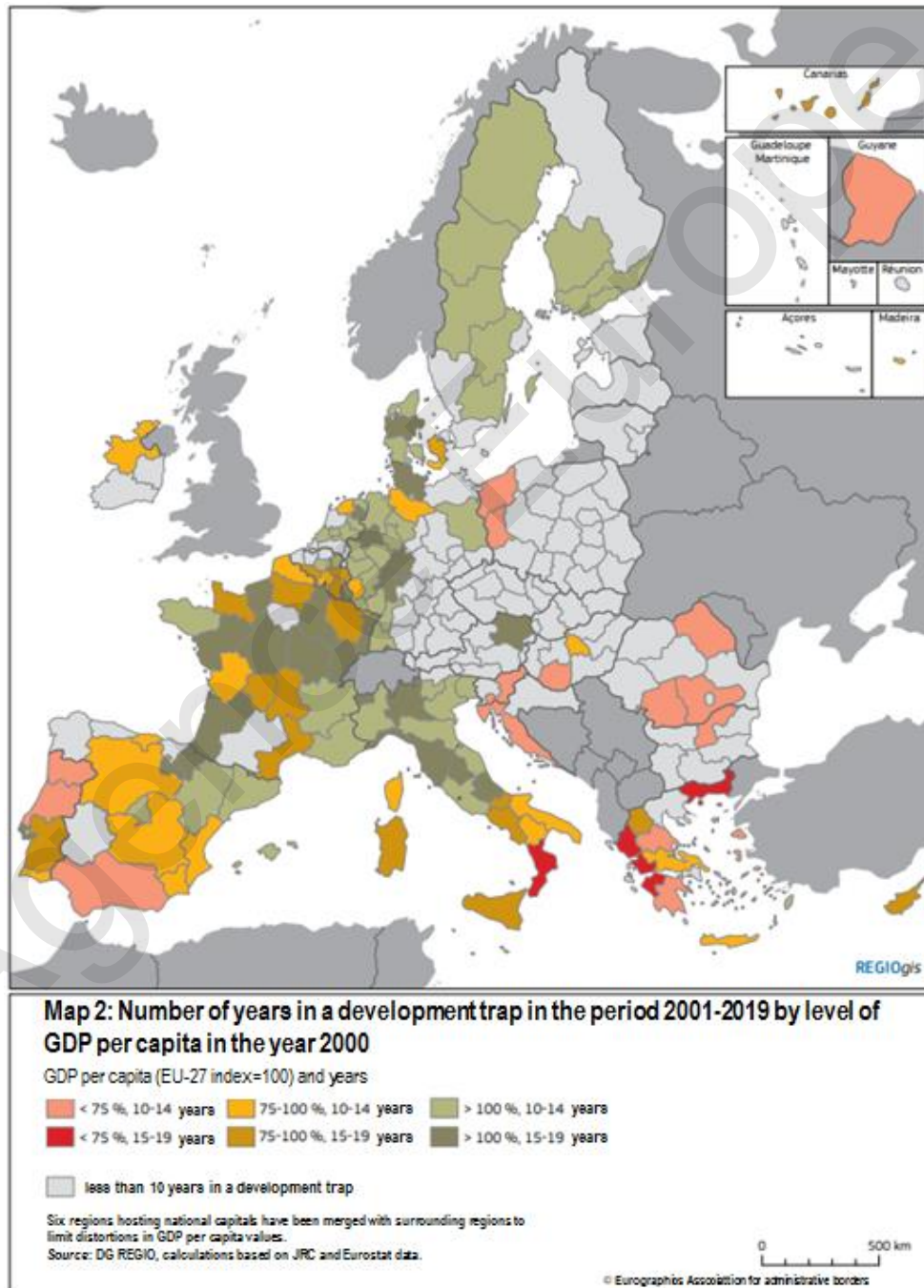


However, the report also reflects some worrying issues that deserve in-depth reflection. There is a set of European regions, mainly in the "transition" category, but also among the "more and less developed" ones, which have difficulties continuing the convergence path due to so-called

"development traps"¹. These regions are not able to maintain their economic dynamism in terms of per capita income, productivity and employment, while performing worse than their countrywide and European peers in these same dimensions are.

The following illustration provides a picture of precisely this by highlighting the regions in all three categories that have remained in a development trap for more than ten years.

Illustration 2. Regions that have been in a development trap for at least 10 years. 2001 - 2019

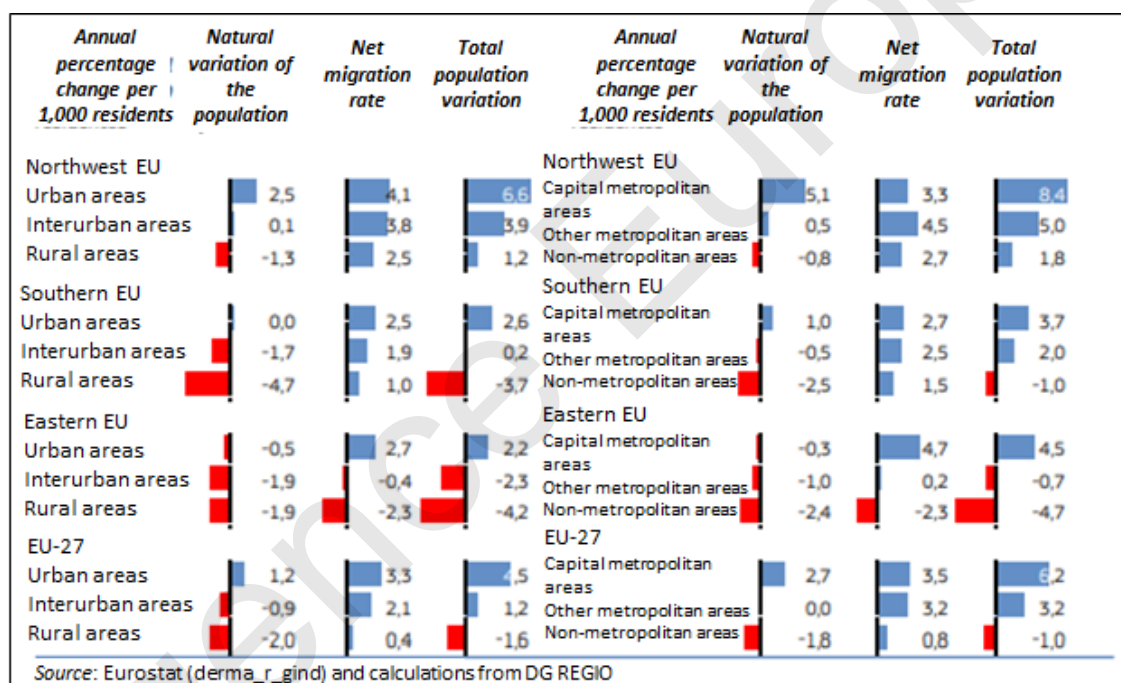


¹ A region is considered trapped if its growth has slowed down and is lower than EU and/or state-level growth

Furthermore, the report refers to new asymmetries and inequalities that will potentially affect territorial cohesion and regional convergence beyond 2027. These include demographic changes, the trend towards concentration of activity in large urban areas, the lower number of active workers, or the differentiated impact of the ecological and digital transitions.

In this sense, Illustration 3 shows this demographic imbalance with differentiated changes in urban and non-urban regions, beyond the difference between countries. These changes are often the result of the so-called market forces of attraction and dispersion, which tend to generate notable differences in the concentration of population and economic activity between the center and the periphery of states.

Illustration 3. Population growth, net migration, and total population growth by urban/rural regional typology and by type of metropolitan region during the years 2010-2020.



We are therefore at a crossroads that requires creativity, vision, and conviction to address with renewed effectiveness the objective enshrined in Article 174 of the TFEU, i.e., the harmonious development of the EU as a whole.

Indeed, a EU without cohesion as an objective would lack mechanisms to compensate for the dynamics of the European market, leading, as mentioned above, to the concentration of activity in certain specific areas and congestion in large cities. These dynamics ultimately lead to ultimately at the rise of the so-called geography of discontent, i.e., the emerging phenomena of social discontent, which proliferate throughout Europe, based on the questioning of the usefulness and, therefore, the legitimacy of state-level and EU institutions.

We must therefore continue to pursue the original objective, enshrined in the Treaties, of achieving a "harmonious" and balanced development allowing both the most advanced regions to

develop and to cooperate with others, exerting a tractor effect on them, and always taking advantage of the conditions of each region to develop its full potential. This approach would be an exceptional starting point for a post-2027 Cohesion Policy at the service of a stronger EU.

II. EXPERIENCES ON THE COEXISTENCE OF INSTRUMENTS

It seems unquestionable that the longed-for harmonious development of our regions would require a general review of the set of EU support instruments, which enhance economic development to maximize coherence and synergies between all of them.

In particular, the experience of the coexistence of the Recovery and Resilience Mechanism (RRM) and Cohesion Policy funds in recent months has allowed some relevant conclusions to be drawn on the advantages and disadvantages of each of these instruments from a management perspective, which should be taken into account in the future design of these instruments.

First, the alignment between country-specific recommendations and the reforms and investments contained in Member States' recovery plans is an unprecedented success in the gradual process of European economic integration.

Secondly, the RRM approach based on the achievement of milestones and concrete objectives rather than on the mere certification of expenditures encourages further planning and transformation of the administrative culture towards the achievement of results.

Finally, the significant scale of frontloading and frontloading linked to reforms in the RRM has helped to foster greater coordination between budgetary policy and the management of the funds of the RRM in the different Member States. This has ultimately led to a better design of our fiscal policy and a more efficient use of our public resources.

In addition, the question of the management model is worth mentioning. In this case, the shared management of the Cohesion Policy is a co-governance model that allows to preserve the balance in decision-making between the role of the Commission and the Member States, within the framework of the regulation that we have all given ourselves. This sphere of autonomy of action seems necessary and appropriate to ensure the harmonious development of the EU, considering the granularity of a territorial reality that is difficult for a one-size-fits-all approach to respond to.

In this way, the procedures for drawing up Partnership Agreements and Operational Programs, as well as the subsequent management of the latter, allow an appropriate balance to be achieved in the necessary inter-institutional coordination between the EU, the Member States, and the regions, especially in federal or quasi-federal style states. The importance of this balance is underlined, it is also necessary to reflect on how to properly combine this regional approach with a more purely global country approach, which is specific to the RRM. Indeed, certain reforms or strategic investments for the Member State should be able to be addressed, from the support instrument in question, without the need to establish a prior territorialization of resources.

In addition, we must also reflect on what instruments we design as the EU to strengthen our strategic autonomy and ensure that Europe remains an economic power in the current geopolitical context. In this regard, joint support for the technological and digital transformation and the decarbonization process of our industry, including large companies, must be a priority. To this end, all resources are necessary, both those originating in state-level budgets and those originating in EU budgets. All of them must be able to finance, on equal terms, the investment support instruments that we design in the different state aid schemes, including the temporary frameworks. Discriminating between what is allowed to be financed under agreed state aid schemes with resources from country-level budgets and what is allowed to be co-financed with European funds could introduce fiscal discrimination and legal inconsistencies that would be difficult for beneficiaries to understand, even jeopardizing the viability of the single market.

The impact on regional convergence of this potential fiscal and legal discrimination would be large: a disproportionate concentration of large companies precisely in the most developed and, above all, the most urbanized regions.

Lastly, we need to assess the impact of the bureaucratic burdens generated by the management of the instruments used. The coexistence of state-level budgetary management and control systems with those of the EU is generating enormous regulatory costs and requiring a great deal of energy and resources to maintain them, coordinate them, and ensure their coherence. For this reason, it is also necessary to rethink the need to design and apply the single audit principle, to increase efficiency in the management of public resources.

III. TOWARDS A NEW COHESION OBJECTIVE 2.0

In this context, we need to reflect on how to shape the post-2027 Cohesion objective, what we call Cohesion 2.0. There is no doubt that an EU without cohesion as an objective could ultimately be transformed into an EU even more concentrated around large cities overly congested, with difficulties in the supply of certain raw materials, and exposed to major climate risks in large parts of its territory, as well as to greater problems of integration and social discontent.

The Cohesion 2.0 objective must be capable of measuring and highlighting the positive externalities associated with maintaining life and activity in other areas that are less dynamic, but which are key, for example, for the protection and conservation of the environment, the guarantee of agri-food supply, risk prevention in the face of disasters, land stewardship, or the conservation of historical, cultural, or natural heritage, among others. Therefore, we need to be able to have indicators that reveal the benefit of safeguarding these positive externalities and how they contribute to offsetting the associated costs.

Balanced and harmonious regional growth as an ultimate objective of Cohesion Policy

From a political and social point of view, moreover, it is essential to pay significant attention to these areas, not only because of the positive externalities mentioned above, but also because of

the risk posed to the stability of our democracies by the aforementioned rise of populisms associated with the so-called geography of discontent.

This harmonious development has been implemented through Parliament and Council Regulations which have been defining the specific thematic objectives that would make it possible. It is necessary to reflect on how the definition of these common objectives must be compatible with the need to design place-based policies for a more effective impact of the co-financed actions.

This is something that has been repeatedly raised in the discussions that have been taking place over the last few months in the High-Level Expert Group on the reflection on the Cohesion Policy after 2027 and is undoubtedly one of the major challenges of the future Cohesion 2.0 objective.

There are 242 NUTS-2² regions in the EU with extraordinarily diverse demographic compositions, geographical and climatic characteristics, and socio-economic fabrics. However, for the Cohesion Policy, this diversity is exclusively categorized into three groups.

It is difficult to argue that European regional diversity can fit into three categories that determine in a very significant way the nature of investments co-financed with Cohesion Policy funds.

On the one hand, pre-existing local capacities, whether economic, political, social, or cultural, strongly condition the results attainable by each region in terms of diversification of the productive fabric, innovation, or in terms of capacity to react to new challenges. On the other hand, the entry or risk of many regions into the development trap suggests that the co-financed actions in some of these regions are not achieving their objective of promoting balanced development. This argument would support both the maintenance of specific support for the more developed regions and a partial de-territorialization of resources in favour of major state-level investments and reforms. Arguably, arriving at a more precise categorization of regions would be a step in the right direction to solve this and other associated problems, supporting a stronger, more resilient Union, recognized by its citizens.

It would therefore be worth exploring the possibility of redefining the categories, and even configuring some additional categories, more adapted to the European regional reality, which is much more diverse than the current scheme allows us to envisage. This would facilitate a more adapted design of the programs, which should in any case be sufficiently flexible to adjust as best as possible to each regional reality. It should be clear that we are referring to new indicators for programming adjusted to the reality of each territory, without in any way calling into question the distribution criteria used to determine the amounts of Cohesion that should correspond to each Member State.

Implementing a series of additional characterization indicators for the regions (e.g., "youth unemployment", "% VA of the tourism sector", indicators of insularity, etc.) would allow for more

² Administrative units with a population between 800.000 and 3.000.000 people.

precise identification of needs, both in quantitative and qualitative terms (e.g., it is an island region, very touristic, with low youth unemployment, etc.). This would result in a fairer redistribution of resources and a better definition of policies to respond to such needs, perhaps with a menu of policies in response to certain regional realities which, in any case, should be able to be adjusted according to regional preferences, always ensuring a certain margin of flexibility.

This is why policy should not be structured around specific standardized objectives for all regions but should be sufficiently flexible to allow for real adaptation to local needs. A blanket ban on certain types of investment in any region may be counterproductive.

Thus, the regulatory framework should make it possible to draw up programming, understood as an integrated medium-to long-term strategy, which should set out the lines of action for each region. Ideally, and without losing the necessary common objectives towards which to advance as an EU, the thematic priorities should be much more adapted to the reality of each region, regardless of their relative GDP per capita. This would undoubtedly require from all, Commission and Member States, a much more solid knowledge of the regional socio-economic structure as well as solid partnerships.

Consistency and coherence of regional and state-level objectives

As anticipated, the experience of managing the RRM in recent months has revealed the importance of reconciling the traditionally regional approach of Cohesion Policy with a more aggregated, country-level approach.

The future Cohesion 2.0 objective should allow certain reforms or strategic investments from the perspective of the member state could be tackled, without the need to establish a prior territorialization of resources. Adequate development, coordination, and financing of the major common reforms and investments that condition the competitiveness of a country will undoubtedly contribute to a more harmonious development of Europe as a whole, regardless of where these investments are carried out.

The importance of territorial cooperation

In the overall objective of integration and harmonious development of the EU, territorial cooperation, especially cross-border cooperation, is of particular importance.

It is necessary to continue to work to ensure that the Member States, the regions, and the localities bordering or adjoining localities continue to strengthen cooperation between them, designing intervention projects that respond to their specific reality.

In cross-border cooperation, we will also find, on either side of the border, similar problems or development potential or with the capacity of one region or locality to generate a tractor effect on another or jointly.

All this is something that the new 2021-2027 regulations have reinforced and on which we must continue to insist.

To conclude, we now have the opportunity to reform the European Union's Cohesion Policy and adapt it to the new geopolitical, social and economic reality that the different regions of the Union currently have. To this end, the coexistence of this policy with the Recovery and Resilience Mechanism over the last few months undoubtedly allows us to explore the lessons learned from two instruments that have been crucial to convergence, growth and welfare in the Union.

Thus, the debate revolves around how to balance the coexistence of major reforms or investments at state level, with a more particular focus to the different realities of each region, beyond their relative GDP per capita. All of this, with the ultimate purpose of making further progress towards the fundamental objective of the harmonious development of the regions enshrined in Article 174 of the Treaty on the Functioning of the European Union.

Agence Europe

QUESTIONS FOR DISCUSSION

Spain, as one of the great historical references of Cohesion Policy, and now also of the RRM, is facing the debate on its future with great interest. For this reason, as the rotating Presidency of the EU Council, it has commissioned reports from the Committee of the Regions and the Economic and Social Committee, which are intended to serve as a basis for discussion by the delegations over the next six months.

To elicit some of the reflections considered most relevant, delegations are invited to respond to the following questions, to discuss them in person at the Cohesion Ministers' meeting in Murcia on 29 September.

- 1. What are the main lessons learned from the coexistence of two different instruments (RRM and Cohesion Policy Funds) to finance the bulk of EU reforms and investments in member states?**
- 2. What are the advantages and disadvantages of the regulation of each of these instruments as a framework for efficient investment management?**
- 3. How should state, regional, and local approaches be brought together when addressing reforms and investments that contribute to the cohesion of our societies?**
- 4. How can we approach the future regulation of European cohesion, so that it responds to the common objectives and the particularities of the development of each region? Are the economic, social, and territorial cohesion indicators we have so far sufficient?**