CRPM CPMR

Internal CPMR Issues Paper – July 2015

The Cohesion Policy funding allocation methodology – a way forward for the CPMR and its Regions

The purpose of this issues paper is to provide a summary of key issues linked to the allocation methodology for structural funds. This paper follows on from a meeting held on 26 March in the framework of the CPMR Cohesion Policy indicators Task Force in Brussels. The meeting highlighted a number of issues with regards to the Cohesion Policy allocation methodology which are explored in depth in this paper.

1. Structural funds allocation: a statistical exercise or a political game?

The following sentences sum up some of the functions, the role and the missions of Cohesion Policy.

From DG REGIO's website:

'EU cohesion policy is the European Union's strategy to promote and support the overall harmonious development of its Member States and Regions'.

'The bulk of Cohesion Policy funding is concentrated on less developed European countries and regions in order to help them to catch up and to reduce the economic, social and territorial disparities that still exist in the EU.'

'Cohesion Policy is about capitalising on the strengths of each territory so they can best contribute to the sustainable and balanced development of the EU as a whole'

From the Lisbon Treaty:

'The European Regional Development Fund is intended to help to redress the main regional imbalances in the Union through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions.' (Article 176, TFUE)

- In its strictest legal sense, Cohesion Policy is tasked to reduce regional disparities of development within the EU. As recognised in the Sixth Cohesion Report however, overtime the policy has evolved into one that is tasked to support a wider set of objectives linked to achieving the objectives of the Europe 2020 strategy for growth and jobs**. The links between the legal basis of Cohesion Policy (and its funds) and its current form for the 2014 – 2020 have become increasingly tenuous.**

- The reform of the policy agreed last December 2013 confirmed that Cohesion Policy will assume the role of the 'EU do-it-all policy' while playing a more central role in EU economic governance and the European Semester.

- In short, Cohesion Policy has evolved to become 'a do it all' policy with the following objectives:

- reducing regional disparities within Europe
- delivering on the objectives of the Europe 2020 strategy in all regions
- acting as a conditionality instrument for the EU economic governance framework

What is the relationship between the objectives of Cohesion Policy and the way Structural Funds are shared within the EU?

- The distribution of Cohesion Policy budget to Member States and regions is (for its most part) based on an allocation methodology known as the 'Berlin' formula.

The 'Berlin Formula' – key points

- The eligibility of regions within the Cohesion Policy architecture (more, less developed or transition regions) is based on a **reference period taking economic data average of three years**[1]
- The methodology is largely based on regional statistics at **NUTS II level**
- The different categories of regions (more, less developed and transition regions) are subject to **different formulas** for allocating funds
- The methodology for allocating funds is **publicly available**. This, in theory, makes it the only EU policy based on shared management and pre-allocation to Member States to be based on an objective formula.

- Further information about the indicators and criteria used can be accessed in CPMR's paper on Cohesion Policy indicators produced in September 2014.

<u>- In short, there is a very weak connection between the objectives of Cohesion Policy and its funding allocation mechanism, as the remainder of this Paper demonstrates.</u>

What is the allocation methodology really for?

I. It is a methodology serving an intergovernmental political game…

❖ **Structural Funds allocations are largely determined as part of a wider negotiation on the EU budget within the Council**

- As the second largest budget line of the European Union, it is not surprising that the pre-allocated financial envelopes that make up the Cohesion Policy budget are subject to intense negotiations in the Council. Three factors can be identified to understand the dynamic of these negotiations:

- *'What I want from the EU budget' logic.* The various stakes of Member States for particular policies (e.g, Poland's interest in Cohesion Policy, France's interest in the CAP, etc…)

- *The 'juste retour' logic.* The place of a Member State as either a net contributor or a net recipient of/to the EU budget, and their interest in safeguarding their rebates, if applicable.

- *'I want the same as I had before' logic*. The situation of individual Member States with regards to EU policies. Special allocations to Spain and Italy for instance (see more below) totalling 1.874 billion euros and 1.5 billion euros respectively for the 2014 – 2020 are not too dissimilar from the amounts negotiated by both countries for the 2007 – 2013 period (2 billion euros for Spain and 1.4 billion euros for Italy).

[1] The average of regional GDP data (expressed in Purchasing Power Standards) for 2007, 2008 and 2009 is used to determine eligibility of regions within Cohesion Policy

- As the last round of the Multiannual Financial Framework negotiations confirmed, it is impossible to isolate negotiations on the Cohesion Policy budget for 2014 – 2020 from negotiations on all EU budget lines. This means that a Member State may secure a trade-off between its Cohesion Policy allocation for a good deal for its rural development allocation in return, which is what happened for France for instance.

- Bearing this in mind, it is important to note that MFF negotiations are solely about money and the play room for diplomats, not regional development experts or economists.

❖ Member States negotiate **special allocations (gifts)** on top of their allocation

- Member States can also increase their share of the Cohesion Policy budget by asking for 'special allocations', which are in practice nothing less than budgetary handouts from the EU Budget to Member States. These cover an individual region, a group of regions or a whole country. These special allocation provisions totalled **9.9 billion euros for 2014 – 2020** out of the Cohesion Policy budget, rising from 44 million euros in 2000 – 2006.

❖ All in all, the allocation methodology's main purpose is **to justify politically acceptable outcomes in terms of the distribution of funds.**

- It looks better if the national envelopes for Structural Funds for each Member State are the product of a methodology, rather than Member States agreeing on the amounts between themselves. Such is the rationale for the Berlin Formula and much of the purpose of the allocation methodology for structural funds.

- The Berlin Formula can also be a convenient tool to constrain the size of allocations in some Member States in a non-confrontational way. A good example is the introduction of the so-called 'reverse safety net' (point 46 in the MFF Conclusions), which is a mechanism limiting the size of the allocation of structural funds in countries which had seen relative high growth: Romania and Slovakia[2].

- And finally, it is worth pointing out **that the European Parliament has no say in terms of the allocation methodology for structural funds**. It can either approve the MFF in its entirety or reject it under the 'consent' procedure.

II. …that has a limited impact in allocating funding in a place-based approach

- This means that it is the responsibility of national government to ensure that Cohesion Policy funding can indeed 'capitalise on the strength of each territory', and therefore, ensure that funding goes to regions and areas that need them the most.

- Cohesion Policy is, however, not quite a 'blank' cheque for national governments. It is useful at this stage to compare and contrast the margins for manoeuvre of the European Commission versus that of EU Member States:

[2] The reverse safety net only concerns Member States which are concerned by the capping mechanism (point 46 of the MFF Conclusions, 8 February 2013)

European Commission 'powers'	Member States 'powers'
- Earmarks funding to Member States **at the level of categories of regions** (more, less and transition regions) and for Territorial Cooperation. If applicable: Cohesion Fund and funding from the Northern Sparsely Populated Areas and Outermost Regions	- Decide **where funding will be allocated** once funding at the level of categories of regions is known, using their own objective methodologies or none at all. In the case of regional programmes, the level of funding is in most cases set in relation to how much the region received in the previous programming period
- Set **a maximum of 3%** can be transferred from one category of regions to another	- **Can also compensate a region losing out in terms of its structural funds allocation** by increasing the size of regional envelopes from other EU funds such as the EU Rural Development Fund for instance (EAFRD)
- Should ensure that funds are allocated in each Member State in a balanced and justifiable way, and in the spirit of economic, social and territorial cohesion	- In practise, the Commission has little or no incentive to use its prerogative to ask that a Member State allocates funding from Cohesion Policy in the spirit of the policy objectives. A good example of where a Member State has developed a programme that does not seem to be in the spirit of Cohesion Policy is England's single 'EU Structural and Investment Funds Growth Programme', which covers three funds (ERDF, ESF and EAFRD) and the whole of the England territory, despite the fact that there are more, less and transition regions in England with extremely different sets of circumstances and challenges.

III. …and that is not without its flaws

- As established above, one of the most important powers of the European Commission in terms of the allocation of funding is the earmarking of funds at the level of the category of regions, and crucially, making it impossible for Member States to transfer more than 3% of the total amount allocated to more developed regions to transition regions, for example.

- What defines a 'less developed' region, 'a transition' region, or 'a more developed' region, and therefore, how much funding each of these areas is entitled to is a critical question. Crucially, the articles in the Lisbon Treaty linked to Regional Policy do not define what lagging development means and do not impose the use of a certain set of criteria or indicators for Cohesion Policy.

- Let's now take a closer look at how the categories of regions are established. For 2014 – 2020, regions which have a regional Gross Domestic Product measures in Purchasing Power Standards (established on the basis of the average of 2007, 2008 and 2009 data) lower than 75% of the EU average are considered eligible under the less developed regions category. Those regions in between 75% and 90% of the EU average are classed as transition regions, and regions above 90% of the EU average are more developed regions.

Key points of criticism from the CPMR on the 'Berlin' formula[3]

- The level of EU funding support for regions is entirely based on **regional GDP** statistics, which as argued in previous CPMR positions[4], is an indicator unable to capture social, environmental or territorial challenges at regional level.

- There are **different allocation methodologies** for each of the three categories of regions, which lacks coherence. To put is shortly, if Cohesion Policy does not distinguish between 'objectives' for each category of regions as it did in the past[5], what is the rationale for using criteria derived from the Europe 2020 strategy objectives for calculating allocations for more developed regions, and Gross National Income, Regional GDP and unemployment figures for less developed regions?

- With regards to calculating allocations for regions classed as transition regions, the highly complex methodology put in place in the early stages of the negotiations had to be modified to avoid some transition regions getting a lower envelope than more developed regions. This begs the question as to **whether the allocation methodology for transition regions is adequate in terms of targeting funding to this group of regions**.

- For less developed regions in most Member States, **the allocation is not based on an objective formula but is fixed to economic growth projections at national level: this is called the 'capping rate'**. The idea behind capping runs counter to the very rationale of Cohesion Policy, as the more optimistic the economic growth is in a given Member State, the more funding will be allocated to that Member State from the Cohesion Policy budget

2. What margin for manoeuvre for the CPMR?

Bearing in mind the above points, the margin for manoeuvre for the CPMR and its regions appears constrained by a number of factors. Several fundamental questions about the policy can be raised:

Do we accept that Cohesion Policy and its complex distribution of funds mechanism is a reflection of the intergovernmental nature of negotiations on the EU budget?

Do we therefore accept that Cohesion Policy is all but a pot of money at European level, for which some Member States will claim a larger share than others in the name of solidarity?

Should Cohesion Policy cease to pursue its original objectives and be rebadged as the European investment policy for Europe?

There are additional issues for CPMR regions:

- There is a clear lack of appetite for EU Member States to increase the size of the EU budget in years to come. This means that a discussion about the distribution of Cohesion Policy funding is **'a zero sum game' discussion**, so it seems unrealistic for CPMR Regions to ask for an increased size of the Cohesion Policy budget.

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[3] As per Policy Paper 'Refocusing Cohesion Policy on addressing Territorial Cohesion' adopted in June 2014
[4] http://www.crpm.org/pub/docs/422_refocusing_cohesion_policy_on_addressing_territorial_cohesion.pdf
[5] The Objectives 1, 2 and 3 in the 2000-2006 period; the Convergence and the Competiveness and Employment objectives in the 2007 – 2013 period

- Revising the allocation methodology for structural funds means that, inevitably, **there will be winners and losers within CPMR Regions**

- There is seemingly **no appetite within the European Commission to change the allocation methodology drastically** for the post-2020 period, despite a clear mention of the need to so from former Regional Policy Commissioner Johannes Hahn and a reference in the 6th Cohesion Report on that point[6].

- **There is no obvious link between transparency (and exposing the flaws of the Cohesion Policy funding allocation methodology) and policy survival**. Opponents of Cohesion Policy and advocates for a smaller EU Budget may use the lack of transparency of the allocation methodology and the interests of different Member States guiding the outcome of the funding allocation to bring the policy into disrepute and discredit.

[6] http://ec.europa.eu/regional_policy/en/information/publications/reports/2014/6th-report-on-economic-social-and-territorial-cohesion (pages 198 - 200)