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# PLACE -BASED POLICIES

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### *III CONFERENCE P3DT*

#### Place-based policies

V. N de Gaia, 1-2 March 2018

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## **The future of the EU Cohesion policy and the Europe 2020 Strategy: from a place-based approach to a blind territorial logic?**

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### **Abstract**

Cohesion Policy is one of the most important policies of the European Union and historically one of the most financially significant. Over the past four decades, the focus, strategies and goals of Cohesion Policy have experienced significant changes. With the increased importance of economic growth and job creation in the 2000's, supported by the Lisbon Strategy, cohesion started losing importance and the initial objectives of promoting regional development and reducing disparities between regions have been progressively replaced by others, such as promoting growth and employment. Based on the Portuguese experience in the design and programming of its operational programs, the study emphasizes the connections, divergences and dilemmas between Cohesion Policy and the Europe 2020 Strategy objectives and presents some contributions to the debate about the future of Cohesion Policy and Europe 2020 Strategy in order to minimize the risks of evolving from a place-based approach to a more blind territorial logic.

**Keywords:** Cohesion Policy, Europe 2020 Strategy, Territorial dimension

## **1. Introduction<sup>8</sup>**

Economic, Social and Territorial Cohesion is a cornerstone of the European Project and Cohesion Policy is one of the most important policies of the European Union (EU) and historically one of the most financially significant. The founders of the European project recognize in the preamble to the Treaty of Rome in 1957 (...) the necessity 'to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions'. Fifty years later, the Article 174 Treaty of Lisbon (2010) reinforces these goals stating that (...) 'In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions'.

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The mobilized investment by the different instruments of Cohesion Policy represents roughly 45% of the EU 2014-2020 budget (33% to Cohesion Policy and 10% to Rural Development) and addresses the most vital challenges, from economic development to social and territorial cohesion, and has facilitated the attainment of some EU most challenging goals, from the completion of the single market to the Eastern enlargement.

Over the past four decades, the focus, strategies and goals of Cohesion Policy have experienced significant changes. The initial objectives of promoting regional development and reducing disparities between regions have been progressively replaced by others, such as promoting growth and employment (Barca, 2009). In the early stages, Cohesion Policy had eminently redistributive goals and it assumed an explicit spatial dimension, but by the end of the 20<sup>th</sup> century, the enlargement towards Eastern European countries and the limited willingness of net contributors to increase funding led to a turning point in Cohesion Policy (Piattoni & Polverari, 2016).

With the increased importance of economic growth and job creation in the 2000's supported by the Lisbon Strategy, cohesion started losing importance with a shift from competitiveness and regional equity towards regional and national efficiency. Those changes were deepened with the Europe 2020 Strategy, and the Cohesion Policy instruments had been progressively reoriented to incorporate the former priorities (economic growth and job creation) and to contribute to attain its objectives for smart, sustainable and inclusive growth. Cohesion Policy has become the EU's main investment instrument to contribute to the Europe 2020 Strategy objectives, and the European Structural and Investment Funds (ESIF) were oriented toward eleven thematic objectives, common to all member-states, which are directly derived from the latter. This means that policy interventions are designed to contribute directly to Europe 2020 Strategy goals. Finally, the Cohesion Policy also has a closer link to the broader economic governance process, through the so-called "macro-economic conditionality" measures (Haase, 2015)

But the Europe 2020 Strategy, focused on competitiveness, has a very limited contribution to the cohesion objectives, especially in promoting the territorial cohesion and underestimates the impact of territorial structures on smart, sustainable, inclusive growth (Böhme, Doucet, Komornicki, Zaucha, & Świątek, 2011). In fact, Europe 2020 Strategy has a very limited reference to cohesion/territorial issues, cohesion policy and its instruments, and is based on a top-down, uniform, and territorially blind approach, focusing essentially at the Union and Member State (MS) levels. The reduced importance of the cohesion policy objectives and its traditional territorial approach, can be demonstrated by the non-territorialised strategic goals of the EU 2020 Strategy, that completely undervalue the contribution of each region to the accomplishment of national targets,

and by the sectoral approach adopted on the definition of its 11 thematic objectives ((E Medeiros, 2017)).

## **2. The Cohesion policy post-2020 reform: Dilemmas and Challenges**

The debate on the future of Cohesion Policy post 2020 was launched in August 2015. The Commission began to consider her proposals for the reform in the “7th Cohesion Report” and the debate included questions related to where cohesion policy should invest, what should be its priorities and how it can be implemented in a more flexible and efficient manner. The report shed light on the increasingly importance on cohesion policy in “reconciling sustainable economic growth with social progress”.

Given the discussion framework defined by the European Commissioner for Regional Policy, Corina Crețu to guide the post-2020 Cohesion policy reflections, three main scenarios emerged for the post-2020 European Structural & Investment Funds (ESIF): a) a first scenario entitled “continuity and modest change” with a modest simplification of rules, maintaining the seven years duration of the programme (2021-2027) and with a total budget share that remains at one third for cohesion policy (about EUR 900-950bn with cohesion policy allocations of EUR 300-330bn); b) a scenario of “significant change” with a radical simplification of rules and an increase duration of the programme, with a “net fund” model, or only with the European Regional Development Fund (ERDF), for less developed regions and a “deregionalised” European Social Fund (ESF) where differentiation becomes the principle and with a full alignment with national reforms as agreed within European Semester. In this scenario the total budget is about EUR 600bn with cohesion policy allocations of EUR 150-200bn; c) a third scenario of “system change/phasing-in of Eurozone budget” with a clear deconstruction of cohesion policy on the way to a fiscal federalism through, e.g. direct budget transfers, new instruments such as “EU Unemployment Reinsurance Scheme”, “Rainy Day Fund” or “EU Investment Protection Scheme”.

Regarding specifically the Cohesion Policy the European Commission also developed three scenarios regarding eligible Member States and corresponding total expenditure, namely: a) a “Cohesion for all regions” scenario, maintaining the current level of support for all MS and all regions, with a total expenditure of almost 35% of the EU budget (EUR 370bn) for the seven years period; b) a “support for less developed regions and cohesion countries” scenario where support for most developed regions of central and northern Europe countries as well as some regions in Italy and Spain would be discontinued. In this scenario the total budget will have a reduction of EUR 95bn; c) a “support only cohesion countries” where even the support for less developed regions in France, Italy and Spain would be discontinued, with a total budget reduction of EUR 124bn (figure

1).

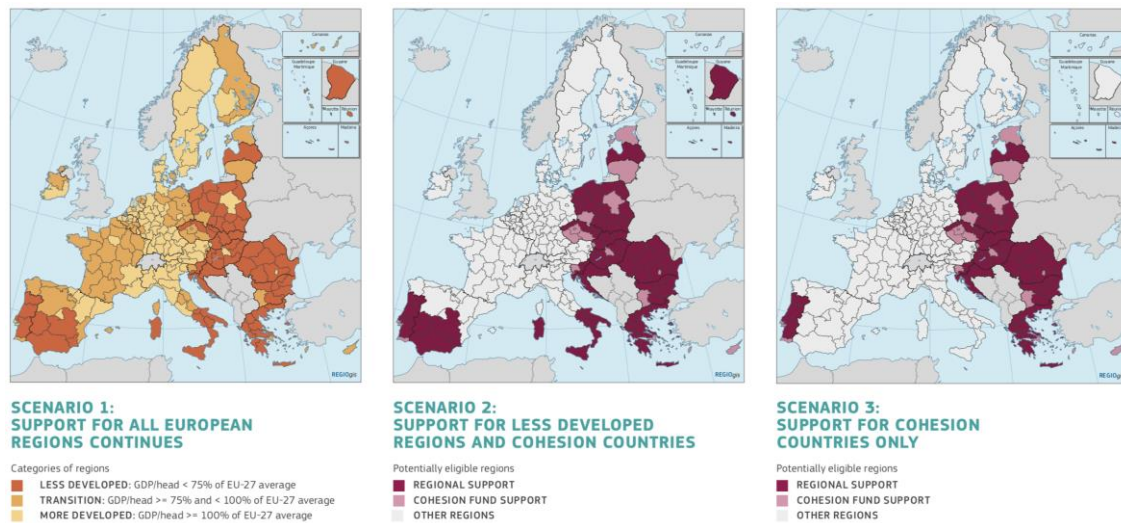


Figure 1. Cohesion Policy eligibility scenarios

Source: adapted from European Commission (2018). What kind of Europe for our future?

Given the considered scenarios, several positions were assumed by different Member States regarding the Post 2020 cohesion policy discussion, but two main opposite positions have emerged. The “Visegrad Group+4” (Bulgaria, Croatia, Romania and Slovenia), defends the maintenance of cohesion policy basically *as is*, but with more simplifications and reduced bureaucracy and administrative requirements, with a strong connection to economic governance through *ex ante* conditionalities. On the other side, the “Net Payers” present several critics to the maintenance of cohesion policy financial weight, defending that a centralized management (e.g. 2020 HORIZON, CEF) would perform better than the current shared management applied model, and proposed that the total budget and Member States contributions should be the same as the 2014-2020 programming period but with a more results-oriented contracting and added value demonstrations.

The Multiannual Financial Framework proposed by the European Commission at the beginning of May 2018 closely follows the first referred above scenario in terms of the overall budget, proposing for the post 2020 period (2021 to 2027) a value of EUR 1.135bn, corresponding to 11% of the EU-27 gross national income. With regard to Cohesion Policy, the Commission proposal also closely follows scenario 1 previously presented - "Cohesion for all regions" - proposing to introduce some changes and modernizations. Generally speaking, this proposal points to a reduction of the current eleven thematic objectives to only five policy objectives, namely (European Union, 2018):

- **Smarter Europe**, through innovation, digitization, economic transformation and support to small and medium-sized businesses;
- a **Greener, carbon free Europe**, implementing the Paris Agreement and investing in energy transition, renewables and the fight against climate change;

- a more **Connected Europe**, with strategic transport and digital networks;
- a more **Social Europe**, delivering on the European Pillar of Social Rights and supporting quality employment, education, skills, social inclusion and equal access to healthcare;
- a **Europe closer to citizens**, by supporting locally-led development strategies and sustainable urban development across the EU.

Approximately 65% to 85% of Cohesion Policy total investment will have to be applied in the first two objectives and the thematic concentration, that is, the allocation of resources by each political objective, will be applied at the national level. Another innovation relates to the method of allocating the funds, which will continue to be based on the Berlin formula adopted by the 1999 European Council, which is predominantly based on per capita GDP but incorporates new criteria for all categories regions, notably unemployment and education levels, climate change and the reception and integration of migrants, in order to better reflect the evolution of disparities in recent years and socio-economic reality on the ground. In terms of the architecture of cohesion policy, a substantial reduction in the number of European funding programs is proposed, from the current 58 to only 37, as well as a stronger relationship with the European Semester in order to improve the investment environment in Europe. In terms of its regulatory framework, it is proposed that it be simpler and more flexible and with less rules, more succinct and clear and common to the different European funds.

The reduction of the Multiannual Financial Framework caused by Brexit and the emergence of new EU priorities will certainly have a strong impact on resources for cohesion policy, but the most relevant impact will come mainly from changes in the objectives and scope of cohesion policy.

A first impact stems from changes in spatial coverage and eligibility criteria. The extension of the territorial coverage to all regions, rather than a concentration of funds only in the less developed regions, plus the introduction of the new above-mentioned eligibility criteria, may jeopardize the basic focus of cohesion policy, i.e. the reduction of regional asymmetries.

A second impact refers to thematic concentration. The investment focus of cohesion policy on Smarter Europe and Greener, Carbon free Europe objectives and the allocation of resources by each political objective being applied only at the national level, is exceedingly limiting for less developing regions like the ones with infrastructural deficits, and may jeopardize basic cohesion objectives, preventing the development of place-based policies to better respond to the specific bottlenecks and potential of each region.

A third impact refers to the requirement for each country/region to align the programming of funds with the European Semester. In this more restrictive arrangement, cohesion funds might well be used to finance the costs of structural reforms, meaning that a part of cohesion funds might end up serving purposes not directly linked to their core objectives.

Cohesion Policy place-based and tailor-made approach is pivotal to fight interregional and infra-regional disparities that are growing everywhere due to globalization, but with the current proposals it risks being downsized in terms of financial resources, spatial coverage focus, governance and objectives.

### **3. Conclusions**

Although their relevant connections, the divergences between the (new) objectives of the Cohesion Policy (more focused on competitiveness) and its intervention tools (designed to promote cohesion) are becoming evident and deeper. The debates about the future of the Cohesion Policy (Böhme et al., 2011) and the review of Europe 2020 Strategy, highlighted these divergences and contradictions and claimed for a more effective consideration of the territorial determinants. This debate is also conditioned by the actual trends, since the current proposals of the European Commission for Cohesion Policy budget present a smaller value of investment and a more efficient and thematically focused scope and with greater homogeneity in its interventions like Bachtler & Polverari (2017) and Ferry, Kah, & Bachtler (2016) have foreseen. Given this scenario, the risks of not evolving to a more place-based approach, as recommended in the Barca report (2009), and accentuating the territorially blind logic, are very serious.

Cohesion Policy has been strongly oriented towards supporting the Europe 2020 Strategy through the requirements for thematic concentration in the 2014-2020 Programmes. Although research has shown significant alignment between the priorities set out in Partnership Agreements and Operational Programmes and the priorities of the Europe 2020 strategy (Heil, Tetenyi, & Danson, 2016), with a shift in the thematic orientation of programmes, especially towards SME competitiveness and low carbon economy, there have also been questions about the balance struck between the overarching goals of Cohesion Policy and the thematic focus of Europe 2020 (Piattoni & Polverari, 2016), notably the tensions between cohesion and competitiveness objectives, the insufficient multilevel approach to the socio-economic governance of both the EU and the Europe 2020 strategy (Begg, Corrado, Bachtler, Mendez, & Wishlade, 2014; Budd, 2013), as well as the mismatched timetable between the annual monitoring of European Semester recommendations and the multi-annual planning of Cohesion Policy (Zakrzewska, 2015).

The major challenge is to (re)design a future Cohesion Policy as part of a coherent, consistent and mutually reinforcing policy framework at EU and Member State levels which recognizes that 'sectoral policy' objectives – innovation, a low-carbon economy, social inclusion and the integration of migrants – cannot be addressed effectively without taking account the its territorial dimensions. The economic, social and institutional differences across the EU need a strong commitment to integrated territorial policy responses and an effective territorialisation of sectoral policies, meeting

the different comparative advantages, development opportunities and challenges of regions with place-specific strategies and interventions.

As in previous reform debates, Cohesion Policy is under pressure to justify its added value in relation to EU political objectives. The latest data presented in the 7<sup>th</sup> Seventh report on economic, social and territorial cohesion (European Commission, 2017) shows that the challenges for economic, social and territorial cohesion remain profound, with wide disparities across and within countries, especially with respect to unemployment. Cohesion policymakers have emphasised that there is increasing evidence for the effectiveness of Cohesion Policy and they highlight the contribution of Cohesion Policy to Europe 2020, economic governance and structural reforms through thematic concentration, macroeconomic conditionality and *ex ante* conditionalities.

However, there are competing pressures on the EU budget. Cohesion Policy is already making a substantial contribution to the main policy fields for the EU (economic growth, managing migration, climate change, energy security, digital agenda, defence and security), but there are still valid concerns as to whether this is the most efficient way for the EU to respond to new policy challenges. Cohesion Policy is already managing difficult policy tensions and, arguably, suffering from policy overload, so one of the most difficult debates for post-2020 is to clarify the priorities for Cohesion Policy and its relationship with other EU policies. This implies, as referred by Bruijn (2017), a major revision of EU 2020 Strategy, putting the territory back at the heart of Cohesion Policy and diminishing the tension between a sectoral and a political integrated approach, by not using sector-focused thematic objectives but instead ‘territorial keys’.

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