



EU Cohesion Policy - an investment tool for the benefit of EU citizens

Position Paper

Introduction

The EU Cohesion Policy is the main investment instrument in the EU - a powerful tool for financing jobs and growth, improving the quality of citizens' lives and creating solidarity and enhanced social, economic and territorial convergence and development in the regions of the EU. Cohesion Policy combined with the €315 billion European Fund for Strategic Investments (EFSI) has the potential of raising the EU's economic and social capacity. An effective combination of the two sources of investment will bring regions and citizens closer together.

Importance of the Cohesion Policy

Cohesion Policy is, as defined in the Treaty on the Functioning of the European Union (TFEU), intended to narrow the disparities between the EU Member States and their regions. Being directed to all regions, it follows an inclusive strategy. Ultimately, Cohesion Policy is the most visible source in the EU for solidarity. Since Cohesion Policy is implemented in the regions, it also represents a key tool for bringing the EU nearer to its citizens.

Key elements of the reformed Cohesion Policy (2014-2020)

Common rules for maximised impact

For the first time a coherent framework, the so-called Common Provisions Regulation (CPR) was created, which sets common rules for all five European Structural and Investment Funds (ESIF): the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EARDF) and the European Maritime and Fisheries Fund (EMFF). To maximise impact and efficiency of public spending and to allow for synergy effects to take place, the S&D Group strongly supports the combined use of these funds and their coordination with other EU programmes, such as Horizon 2020, Erasmus+, LIFE and COSME.

Safeguarding fundamental principles

Key horizontal principles were safeguarded in the design and implementation of programmes, in particular with regard to partnership, non-discrimination, equal opportunities, accessibility for persons with disabilities and sustainable development.

Cohesion policy and sustainable development

Long term challenges such as climate change, energy security and resource scarcity are some of the key strategic priorities of the EU. At the same time there is an increasing awareness of the emerging opportunities that exist in overcoming these barriers to growth by moving towards a resource- and energy-efficient, low carbon economy, by promoting climate adaptation, risk prevention and management and sustainable transport, which are important thematic objectives of the Cohesion Policy 2014-2020. Therefore the Cohesion Policy has the potential to be a key tool to implement the EU 2020 strategy of the transition towards smart, sustainable and inclusive growth and to address a wide range of EU economic, environmental and social objectives. Furthermore, it is important in this context to strengthen the coherence between Cohesion Policy investments and other national and regional strategies, by designing the Partnership Agreements and Operational Programmes so that they take on board existing national and regional sustainable development strategies, as well as wider EU objectives, environmental *acquis* and the international context.

An EU-wide policy

The S&D Group strongly believes that EU Cohesion Policy should remain an EU-wide policy that gives access to resources, experiences and assistance to all regions. Building on this notion, the S&D Group supported the setting up of a new regional category, the so-called transition regions (GDP of 75% to 90%), for regions that have become more competitive in the past, but were not able to develop their economic potential to the fullest extent. Transition regions will as such be able to count on a continuous European support.

The EU's major investment arm

With spending accounting for almost a third of the total EU budget in the current financial period 2014-2020 - EUR 351.8 billion - Cohesion Policy represents the EU's main investment arm. For our citizens it implies that European funds can be directly used to improve their immediate surroundings and quality of life.

Achieving more through targeted investments

In 2010 the EU adopted the Europe 2020 strategy for smart, sustainable and inclusive growth. With this strategy the EU set an ambitious goal of creating prosperity within a decade throughout the Union. Thanks to continued pressure from the S&D Group, the reformed Cohesion Policy 2014-2020 is brought in line with the Europe 2020 strategy, and, as such, focuses on eleven thematic priorities, such as on increasing investments in research and innovation, implementing a digital agenda, boosting low-carbon energy sources, and reducing poverty and social exclusion. Through targeted investments the reformed Cohesion Policy will be able to deliver more to the EU's regions and their citizens.

Stronger partnership

The involvement of regions and cities, economic and social partners as well as other civil society actors is a key for a policy that is oriented towards its citizens. For the current period (2014-2020)

the so-called partnership principle has been strengthened, thus enabling societal partners to be involved in the development, implementation, monitoring and evaluation of regional programmes. Actors "on the ground", who best know the local and regional conditions and requirements, will be the key for the success of regional programmes. Despite strong resistance by the Council, guidelines and best practices for the implementation of the partnership principle (European Code of Conduct) were created.

Further transparency and simplification

An important goal of the financial period 2014-2020 was to make information about projects supported by ESIF more transparent and more accessible to citizens. For this purpose a single website has been created, which contains detailed information about projects, beneficiaries and the means at disposal. Furthermore, in order to enhance the impact of cohesion policy for the beneficiaries and for the Union as a whole, rules governing ESIF have been further simplified.

Ensuring correct use of public means

Provisions were set for the European institutions, the Member States (MS) and their regions to perform checks on how public means are being used. Member States are responsible to notify irregularities and to recover unduly paid amounts. The goal should be an efficient and a legally correct use of public means.

Strengthening a Social Europe

For the new programming period at least 23.1% of the Cohesion Policy budget - around 80 billion EUR - will be allocated to investments under the ESF, which will be directed to education and training, more quality jobs, the fight against poverty and social exclusion and towards measures that promote social inclusion and equal opportunities for men and women, take good care of the disabled and give adequate protection to minorities. In other words, projects supported by these investments will make a real difference to the lives of our citizens.

An energy efficient policy for citizens' pockets

The S&D Group strived and achieved that private housing projects related to energy efficiency and to the use of renewable energy are eligible for financial support. This is a key modification compared to the previous programming period (2007-2013).

For the S&D Group it is important that the eligibility of projects in private housing is adequately reflected in the implementation phase, next to energy efficiency projects for public buildings and enterprises. Projects involving private housing bring benefits to citizens from many points of view: it means using less energy and therefore paying less for the energy bill. It also means supporting SMEs operating in this field, which will in turn create new jobs.

It is equally important that full use can be made of another key new provision - the eligibility for high efficiency district heating and cogeneration of heat and power - which will allow modernisation of these systems or construction of new ones. This is dear to the S&D Group, as it will bring large environmental benefits as well as enable citizens, as final users of these systems, to make significant savings on energy bills.

Macroeconomic conditionality - a hard fought compromise

The S&D group rejects the principle of macroeconomic conditionality, which puts more pressure on the Member States already hit by financial hardships. Moreover, macroeconomic conditionality and its application should not be allowed to endanger or threaten the achievement of the fundamental principles of the cohesion policy, such as economic, social and territorial cohesion. Regions should not be blamed for the fiscal failure of the Member States. Due to resistance from the Commission and the Council, the principle of macroeconomic conditionality still found a place in the Regulation (CPR). However, the S&D Group fought hard to ensure that the European Parliament - in the best interest of our citizens - will exercise its right of scrutiny right from the start, and that in any case, the suspension of funding remains a measure of "last resort".

In addition, it is now time to proceed with concrete actions in terms of the flexibility announced by the European Commission, allowing Member States - and their regional and local authorities - to further boost the economic recovery with additional investments.

For more integrated urban strategies

The development of urban areas takes a central position in the financial period 2014-2020. In order to take care of the different specificities and to implement targeted solutions, European municipalities will assign at least 5% of national contributions from the ERDF to an integrated urban development. This will give cities a decisive input for implementing of their strategic objectives. In order to optimise rural-urban interactions, all responsible authorities (national, regional and local) should be involved, while fully respecting the multilevel governance principle.

Accompanying regions with specific geographical characteristics

Special consideration should continue to be given to outermost, sparsely populated northernmost regions, islands and mountain regions in accordance with the TFEU. Our common effort should be geared towards offsetting their handicaps and turning their potential into assets and opportunities to the benefit of the entire European Union. In order to provide a firm and sustainable basis for economic and social development, long-term investment and innovation needs to be promoted in these regions.

Supporting Micro, Small and Medium-sized enterprises (MSMEs)

Micro, small and medium-sized enterprises and entrepreneurs have a key role in generating economic growth, in creating jobs and in narrowing social disparities. A favourable regulatory environment, as well as access to financing, should be created that is conducive to the setting-up and running of such enterprises, especially those launched by young people, as well as reducing bureaucratic burdens imposed on MSMEs, with full respect for labour and social rights in the EU.

Boosting EU's transport and infrastructure

It remains fundamental to us to continue the development of EU's transport infrastructure. Without an adequate transport infrastructure the reduction of the development gap between regions cannot be achieved. In this context, the Connecting Europe Facility (CEF), which aims at

building the missing infrastructure links in and between all the Member States concerned, can play an important role. For this purpose 11.3 billion EUR has been transferred to the CEF from the Cohesion Fund. S&D Group strongly pushed for a guarantee, which provides that EU funding transferred stays in the national envelopes of the Member States until the end of 2016. It goes without saying that the European Commission needs to provide the Member States with all the necessary assistance, in order to help them to put their projects well on track.

Facilitating cross-border cooperation

Territorial cooperation is a cornerstone of European integration. As such, the S&D-Group has always promoted initiatives that raise cross-border, transnational and inter-regional cooperation for an ever closer Union. Such initiatives include the elimination of bottlenecks in the network infrastructure, the development of innovation clusters and the elevation of labour market mobility, which are all reflected as priorities in the current European Territorial Cooperation framework, known as INTERREG.

Above all, through support from the S&D Group, new concepts, such as Euro-regions and macro-regions have obtained an important place in EU's territorial cooperation agenda. Building on lessons learnt from the three exciting macro-regional strategies - for the Baltic Sea Region, the Danube Region, and more recently, for the Adriatic and Ionian region, the EU Strategy for the Alpine Region is on its way to gather momentum.

Challenges and actions that lay ahead for social, economic and territorial cohesion

Economic and financial crisis

The economic and financial crisis brought about serious change to the EU, especially to certain industrial sectors. Many regions, which have been relying on a specific industry, are now facing serious problems in terms of their development and the discrepancies among EU Member States and regions have rather increased than decreased. They are also confronted with an increase in unemployment and a rise in poverty and social exclusion. The lack of diversity in the economy of these regions and the lack of alternative employment is a very serious issue. The 2014-2020 programming period addresses these problems. The increase in pre-financing rates, which the S&D Group supported, will be able to cushion the impact of the financial and economic crisis. But our endeavours should not stop here. More needs to be done to help all regions forward. This is why our attention should be geared towards targeting investments on key priority areas as defined in the regulations.

Actions

- *Target investments on key priorities:*
 - *Boosting innovation and research;*
 - *Improving skills and employment possibilities of the workforce;*
 - *Promoting the digital agenda;*
 - *Supporting micro, small and medium-sized enterprises;*
 - *Combating inequalities and promoting inclusion;*
 - *Increasing the use of renewable energy and improving energy-efficiency.*

Youth unemployment

The economic and financial crisis has also sparked the rise of the youth unemployment rate in the EU. Figures from the last quarter of 2014 show a youth unemployment rate of 21.6%. It is an alarming number, considering that it is more than twice as high as the adult unemployment rate (8.7%). Even more shocking is the gap between Member States with the lowest (Germany with 7.6%, third quarter 2014) and the highest jobless rates for young people (Spain with 53.5%), which amounts to almost 50 percentage points.¹ To the S&D Group it is clear: we need to tackle this divide, and reinforce social and territorial cohesion in the Union. This is why a greater emphasis is placed on combating youth unemployment in the ESF. In this context, the Youth Employment Initiative (YEI) is important that will help young people that are neither in employment, nor in education or training in regions most affected. It goes without saying that: given the long-term risks of extended unemployment spells, tackling youth unemployment should remain our priority for the time ahead. Young people are our future and potential for sustainable welfare systems and future growth.

Actions

- *Supporting young people in acquiring relevant education and training and in finding employment;*
- *Preparing young people for job opportunities through activation and motivation;*
- *Ensuring that young people are offered more sustainable jobs and clear career paths.*

Demographic change

Demographic change is one of the most serious challenges Europe will face in the upcoming decades. The S&D Group is convinced that regions must be proactive and that, at the same time, need guidance and prospects for the future. Under the 2007-2013 operational programmes, Member States have earmarked 30 billion EUR in Structural Fund resources for measures linked to demographic change. We believe that this amount should be increased, and regions should share good practices in dealing with demographic change and in adapting to new circumstances. In this context, we call upon the European Commission to improve the effectiveness of the EU

¹ Source: EU Labour Force Survey, seasonally adjusted data.

Cohesion Policy by developing - in tandem with Member States and regions - a strategic plan, which will boost EU's population.

Actions

- *Adapting EU's infrastructure that is based on the needs of an ageing society (intelligent public transport systems);*
- *Adapting services (multigenerational housing, eHealth).*

Grants and financial instruments - mutually reinforcing options

The S&D Group made sure that the use of Financial Instruments (FI) by way of loans, guarantees and equity and other risk-bearing mechanisms is reinforced in the programming period 2014-2020. To increase the leverage effect of Cohesion Policy further, we believe that our common effort should be to at least double the efforts in the use of FIs.

What we ask now and what we are working on is that a clearer focus is set on the type of projects investments under Cohesion Policy should attract. FIs must not lead to a reduction of ESIF grants but combine a real additionality regarding private markets and the promotion of quality criteria. To us it is clear that these should be projects that matter most to citizens in the EU. Investments should first and foremost focus on areas that are capable of producing multiplier effects on jobs and growth, such as investments in innovation, education and sustainable energy.

Experience shows that every Euro spent under Cohesion Policy achieves a multiplier effect that is three times larger than the initial investment. In order to further expand this positive leverage effect, the S&D Group believes that increased engagement by all Member States is needed to allocate additional means to projects with a positive impact for society.

As a consequence, sustained investments under Cohesion Policy and common efforts by all Member States and regions will continue to enable economic prosperity, and foster cohesion and solidarity in the EU.

Actions

- *Doubling the use of financial instruments (i.e. JESSICA, JEREMIE);*
- *Combining ESIF and EFSI effectively.*

Final remarks

Cohesion Policy with its investment capacity is *the* long- term solidarity pillar of the Union. It brings regions in the EU closer together and as such unites forces for the well-being of all of our citizens.

In order to address the challenges which Europe faces, we need to make full use of all the different instruments Cohesion Policy entails, also in combination with each other, and reinforce regional capacities and partnerships.

Achieving sustained economic growth and more quality jobs do remain our priorities and goals.

In 2016, the forthcoming Europe 2020 mid-term review will form an excellent opportunity to reflect on the achievements of Cohesion Policy, and to strive for an ever closer Union.