Investment for jobs and growth: promoting economic, social and territorial cohesion in the Union

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PURPOSE: to present the 6th report on economic, social and territorial cohesion: investment for jobs and growth.

BACKGROUND: the crisis has had a profound impact on national and regional budgets availability across all investment areas. In the EU as a whole, public investment declined by 20% in real terms between 2008 and 2013. In Greece, Spain and Ireland, the decline was around 60%. In the central and eastern European countries, where Cohesion Policy funding is particularly significant, public investment (measured as gross fixed capital formation) fell by a third. Without cohesion policy, investments in the Member States most affected by the crisis would have fallen by an additional 50%.

The crisis also led to increases in poverty and social exclusion. For example, in 210 of the 277 EU regions, there was an increase in unemployment between 2007 and 2012. In 50 of these regions, the unemployment rate more than doubled. The situation is particularly worrying for young people as, in 2012, youth unemployment rate was over 20% in about half the regions. As a result, many regions have not yet been able to contribute to meeting the Europe 2020 headline target of 75% employment in the population aged 20-64 by 2020.

This Communication summarises the achievements of cohesion funding in the programming period 2007-2013. It describes the main elements of the cohesion policy reform introduced for the period 2014-20, and the trends emerging from the ongoing programme negotiations between the Commission and Member States.

CONTENT: in its report, the Commission sets out the effect of cohesion policy investments between 2007 and 2012:

- the European Regional Development Fund (ERDF) created nearly 600,000 jobs, invested in 200,000 small and medium-sized enterprise (SME) projects and 80,000 start-ups, financed 22,000 projects involving research and business sector cooperation, provided broadband coverage to 5 million people and connected 5.5 million people to waste water treatment;
- the European Social Fund (ESF) supported 68 million individual project participations, ensured 5.7 million unemployed or inactive people became employed, and saw more than 400.000 reported cases of new start-ups and people becoming self-employed.

The effects of these investments will increase over the next few years as Member States have until the end of 2015 to use the funds from the 2007-13 programmes.

With a total budget of over EUR 450 billion (including national co-financing) for the 2014-20 programming period, Cohesion Policy will be the main investment arm of the EU. It will provide the largest contribution to supporting SMEs, R&D and innovation, education, the low carbon economy, the environment, the fight against unemployment and social exclusion, to developing infrastructure connecting EU citizens and to modernising public administrations.

Evolution of cohesion policy: while remaining true to its roots, cohesion policy has developed and progressed. In its early years, the policy had a purely national focus, financing predetermined projects in Member States, with little European influence. Over time, key principles were introduced such as multi-annual programming, more strategic investment and greater involvement of regional and local partners.

The bulk of financial support under the policy has consistently focused on less developed regions and Member States. There has, however, been a shift of investment away from infrastructure and towards SME support, innovation, more innovative employment and social policies.

By tailoring investments according to levels of economic development, cohesion policy has been able to adjust to the changing needs of each region over time.

However, the evolution of the policy has not been as decisive as might have been expected. Evidence suggests, for example, that the introduction in 2007-13 of compulsory earmarking of part of funding to EU priorities was a step forward, but results have been mixed and funds are still spread too thinly.

It has also become increasingly clear that the effectiveness of cohesion policy depends on sound macro-economic policies, a favourable business environment and strong institutions. Gaps have also remained when it comes to transposing EU legislation into national law in areas directly related to cohesion policy.

Lastly, implementation of the funds has focused more on spending and compliance with management rules than on achieving objectives. Setting targets is complex and some Member States have set targets which were not ambitious enough. This has limited the capacity to evaluate the effects of interventions and to understand which measures were most effective and why.

The new programming period 2014-2020: bearing these observations in mind, several factors have re-directed the new cohesion policy:

- better governance: in order to avoid unsustainable fiscal or economic policies that undermine the effectiveness of EU support during the 2014-20 period, funding may be suspended when a Member State does not comply with the recommendations it received under the EU economic governance process;
- maximising added value: Member States and regions need to concentrate funding on a limited number of areas of EU relevance. A large share of the ERDF will be allocated to four priorities at the centre of the Europe 2020 strategy: innovation and research, the digital agenda, support for SMEs and the low-carbon economy. ESF concentration on up to five investment priorities will support the consolidation of outputs and results at European level. At least 20% of the ESF budget will be ring-fenced for supporting social inclusion and combating poverty and discrimination ;
- policy based on results: when designing programmes, Member States and regions must specify the results they intend to achieve by the end of the programming period. Each programme will have a performance framework to increase transparency and

accountability. To provide an additional incentive, approximately EUR 20 billion (or 6% of the Cohesion Policy budget) has been set aside, to be allocated in 2019 to those programmes which show they are on track to deliver their objectives;

- a stronger voice to cities: around half of ERDF will be spent in cities in 2014-20. The new cohesion policy also aims to empower cities to design and implement policies that contribute to meeting the Europe 2020 objectives, by setting a minimum amount (5% of ERDF) for integrated investment in sustainable urban development ;
- include partners at all levels: the 2014-20 policy framework is based on the premise that all partners at national, regional and local levels, respecting the principles of multi-level governance and including social partners and civil society organisations, will be involved at all stages of programming.

The new programming period brings, therefore, a clear shift in terms of funding priorities compared to 2007-13. Member States and regions will invest more on the ERDF priorities (R&D and innovation, ICT, SMEs, and low-carbon economy) and on the ESF priorities (employment, social inclusion, education, and governance). In turn, less money will be invested in network and environmental infrastructure. The decrease of investment in infrastructure is particularly marked in more developed Member States. These are the first elements emerging from negotiations with Member States and regions in the first phase of programming.

Follow-up: the Commission states that it will submit an initial progress report on the programmes to the European Parliament and Council in 2017. This will give an overview of progress by Member States and regions towards the objectives set in their programmes, indicating whether or not they are delivering the intended results.