Issue paper 6

Support from Cohesion Policy and reforms - in the context of the European Semester and in synergy with other EU policies

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Group of high-level specialists on the future of Cohesion Policy

The European Commission, the Directorate-General Regional and Urban Policy (lead) and the Directorate-General Employment, Social Affairs and Inclusion (associated) have set up a High-level Group on the future of Cohesion Policy. The group includes members from academia and practice and in 2023 will meet nine times to reflect on current and future needs and the functioning of Cohesion Policy.

The group will offer conclusions and recommendations that will feed the reflection process on Cohesion Policy post-2027 including through the 9th Cohesion Report in 2024 and the mid-term review of Cohesion Policy programmes in 2025.

Disclaimer

The opinions expressed in this paper are the sole responsibility of the authors and do not represent the official position of the European Commission.

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1 Background and objectives

Cohesion Policy impacts all sectors of the economy and the social fabric of Member States and the Union as a whole. As such, it needs to be contemplated in the context of the EU economic governance and policy coordination.[1] One important tool in this context is the European Semester, an annual cycle of economic, fiscal, employment and social policy coordination.

This paper focuses on how Cohesion Policy can contribute to the coordination of economic and social policies in the EU, with the overarching role of achieving long-term, structural, sustainable growth and social development across the Union's territory. Fiscal and macroeconomic policy coordination will be dealt with at the next group meeting and the corresponding issue paper.

1.1 Policy and historical background

Cohesion Policy, developed together with the European Single Market, has been embedded into the EU economic governance. Its aim is to foster convergence, underpinning the Economic and Monetary Union and supporting the Stability and Growth Pact through the promotion of sound and sustained economic growth in all European regions.

The governance and coordination of EU economic and employment policies are referred to in the Treaty on European Union (TEU), Article 3, and established by the TFEU (Articles 121, 126 and 146, and Protocols 12, 13 and 14). The Treaties present macroeconomic stability, reforms and targeted investments as the three main pillars of sustained growth.

1.2 Anchoring Cohesion Policy in the European Semester of economic and employment policy coordination

Since the 2014-2020 financing period, Cohesion Policy has been increasingly strongly aligned with EU economic governance. This enforced alignment increased

[1] The EU's economic governance framework relies on the Treaty on the Functioning of the EU (TFEU) and the six-pack and two-pack legislative reforms, adopted in 2011 and 2013. In April 2023, the European Commission put forward three legislative packages to reorganise the EU's economic governance framework. See https://www.consilium.europa.eu/en/policies/economic-governance-framework/

the effectiveness of spending, reducing in turn the chance that unsound economic policies undermine the effectiveness of policy investments. It also enables Member States to further adapt national and regional Cohesion Policy programmes to address emerging challenges, with the value added that results from the focus of the policy at the territorial level. Furthermore, the increased alignment of Cohesion Policy and EU economic governance follows also the decision by the co-legislators, in 2011, to associate the EU funding with macroeconomic conditionality, that is the possibility of suspending EU Cohesion funding payments in case of repeated failure by a Member State to comply with the Stability and Growth Pact’s rules and recommendations.

The 2021-2027 Common Provisions Regulation (CPR) continued on this path and further reinforced the links between the policy and the EU economic governance, notably the European Semester. In 2019, the analysis of the Country Reports provided the basis for policy recommendations on the investment priorities of Cohesion Policy, ahead of the launch of informal negotiations with Member States on the 2021-2027 programmes. In addition, the 2020 Country Reports set the Commission’s view for the programming of the (new) Just Transition Fund, including the Commission’s views on the potential eligible territories.

Today, policy coordination framework provided by the European Semester embeds the priorities and implementation of the Recovery and Resilience Facility (RRF) and the Cohesion Policy programmes.[2]

With some exceptions, the regional dimension remains limited in the European Semester Country Reports and Country Specific Recommendations, which focus on key national policies and reforms. However, starting from the 2019 cycle, disparities across European regions are progressively being taken into consideration in the Country Reports as a recognition of the risk that regional disparities may undermine the macroeconomic framework, including fiscal and economic policies at national level, and that a balanced regional growth is in itself a source of resilience for national economies and for the EU. This also highlights the role of Cohesion Policy in reducing some emerging imbalances through convergence across regions and territories.

It should be noted that social issues, including policy issues related to education, skills development, health and social care, and other social policies, have been an integral part of European economic governance since its reform in 2011. In the

[2] The European Semester follows an annual cycle. In broad terms, in autumn the College of Commissioners adopts the Annual Sustainable Growth Survey. This identifies macroeconomic and social developments and challenges, and provides strategic direction for the year ahead. In late spring, the Commission publishes Country Reports that cover a broad range of economic and social issues, from the fiscal state of play, competitiveness, and other structural policies. Before the publication of the Country Reports there is a strong engagement with Member States to ensure a shared understanding of facts, trends and policy challenges. The Country Reports are published together with the Commission’s proposal for Country Specific Recommendations (CSRs), adopted by the Council in July, which are based on the analysis made and the main challenges identified in the Country Reports.

years before COVID, over 40% of the Country Specific Recommendations covered these broad domains, which heavily impact social cohesion.

2 Reinforcing links between Cohesion Policy and reforms, steered by the European Semester

After the urgent need to address the immediate effects of the COVID-19 pandemic, EU economic policy coordination has shifted to laying the foundations for a transformational and inclusive recovery with stronger resilience, focusing on fostering sustainable long-term growth through an inclusive digital and green transition. Achieving these priorities implies structural changes to the EU economy, including at national and regional levels. At the same time, asymmetric territorial shocks came to the fore more prominently and called for dedicated action.

There is a broad consensus on priorities for the future European economic growth model, including the green and digital transitions, as well as the need to enhance the EU's economic and social resilience, also in the broader international context. This European model considers economic growth in the light of macro stability, environmental sustainability, productivity, fairness, inclusiveness. The territorial dimension, related to cohesion and solidarity, is steadily finding its way in this European economic model, even though it has been relatively absent until recently.

The transformation of EU economies relies on two equally important pillars: investments and reforms[3], which, in turn, require also an appropriate regulatory and institutional environment.

This is particularly relevant for Cohesion Policy. On the one hand, while many regions supported by Cohesion Policy made quick and constant progress, some others did not have satisfactory results, despite benefiting from significant support for decades. This may indicate that investments have not been rightly oriented, but also that investments without reforms are insufficient. Framework conditions, notably sound socio-economic policies, as well as institutional capacity, play a crucial role in this regard.

On the other hand, Cohesion Policy is a long-term investment policy and, hence, key for investment support and long-term growth within the EU economic governance framework. In the pursuit of strengthening economic, social, and territorial cohesion, the policy aims at fostering resilient growth, being a reliable source of financing through its multi-annual approach.

This is a particularly appropriate time to discuss the role of Cohesion Policy in the context of macroeconomic policies. The Commission has recently put forward

[3] Commission Communication 'Towards a green, digital and resilient economy: our European Growth Model', COM(2022) 83 final, https://economy-finance.ec.europa.eu/system/files/2022-03/com_2022_83_1_en_act_part1_v5_0.pdf

legislative proposals to reform the EU economic governance[4] and discussions have started in the Council and the European parliament. The central objective is to strengthen macroeconomic sustainability while promoting sustainable and inclusive growth in all Member States through reforms and investments. The proposal also puts forward that, in the framework of the reinforced European Semester, Cohesion Policy investments and reforms should be duly taken into account in the drawing of the national medium-term fiscal structural plans of Member States.[5]

Another question to analyse is the role of regions and territories, and how to ensure that growth-enhancing policies driven by national administrations contribute to regional cohesion and minimise the risk of hampering the convergence of lagging behind regions with the front runners that can perhaps more easily embrace new growth opportunities.

3 Synergies with other policies

Cohesion Policy cannot be designed and implemented in an isolated manner. It must take into account other EU instruments and policies, in particular (but not only) those pursuing similar objectives, such as the RRF or the European Agricultural Fund for Rural Development (EAFRD). For the future, the Social Climate Fund (SCF) should also be considered. Likewise, other EU policies should not be blind to cohesion principles.

Traditional synergies include competition policy (state aid), sectoral policies directly supported by shared management funds (e.g. transport, environment, energy, innovation, employment and skills, social protection and inclusion) as well as financing instruments. The 2021-2027 Cohesion Policy legislative framework has further promoted an integrated approach and strengthened synergies between key EU instruments (and their respective pillars and policy objectives)[6], while paying close attention to synergies with the RRF.

Enabling conditions have also contributed to the effective implementation of Cohesion Policy. They promote reforms and enhance coherence with key EU policies, such as the European Pillar of Social Rights and, transport, energy or health. These will be examined in detail in the upcoming meeting.

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[4] COM(2023) 240 final 2023/0138 (COD) Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97

[5] The above-mentioned proposal (legal reference in footnote 4) revises the EU economic and fiscal governance framework by integrating fiscal, reform and investment objectives into a single, holistic medium-term fiscal-structural plan which will be the cornerstone of the new framework. The plan will include all reform and investment commitments taken by Member States to address the challenges identified in the context of the European Semester including the country-specific recommendations.

[6] See for further definitions on and examples of synergies: Commission Notice Synergies between Horizon Europe and ERDF programmes (2022/C 421/03), https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022XC1104(02)

However, further synergies could be explored with other policies to increase the effectiveness of Cohesion Policy. This includes, for example, ensuring the 'do no harm to cohesion' principle is appropriately defined and taken into account by other policies as well as in the European economic governance.

Questions for debate

- Should Cohesion Policy's integration into EU economic governance instruments be reinforced? How can this be done while preserving the objectives and multi-annual character of Cohesion Policy?
- Should Cohesion Policy investments be more strongly linked with regional growth-enhancing reforms and reforms implementation? If yes, how and with what kind of reforms?
- How to better integrate place-sensitive policies into the broader economic governance framework?
- How to streamline the different funding tools available and ensure better synergies with other EU instruments?