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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Sixth report on economic, social and territorial cohesion: investment for jobs and
growth**

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Sixth report on economic, social and territorial cohesion: investment for jobs and growth

1. INTRODUCTION

Although national governments had to apply spending cuts in recent years to balance their budgets and private financing dried up because of the financial and economic crisis, Cohesion Policy funding continued to flow to Member States and regions, supporting critical investments in growth and employment.

The crisis has had a profound impact on national and regional budgets, limiting funding 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%. Cohesion funding now represents more than 60% of the investment budget in these countries.

Figure 1: Impact of Cohesion Policy on public investment

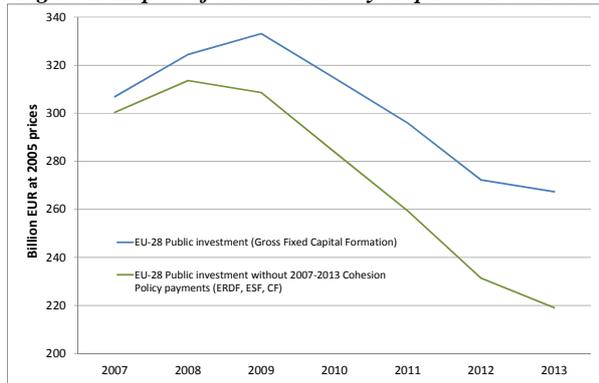
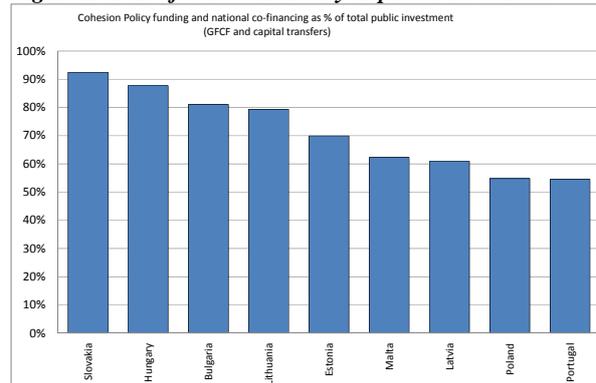


Figure 2: Part of Cohesion Policy in public investment



The economic crisis reversed a long trend of converging GDP and unemployment rates within the EU, affecting in particular regions in Southern Europe. The crisis also led to increases in poverty and social exclusion. This in turn has made it more difficult to meet several of the objectives of the Europe 2020 strategy.

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 increase meant that the unemployment rate more than doubled. The situation is particularly concerning for young people as, in 2012, in about half of the regions the youth unemployment rate was over 20%. 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.

As well as maintaining a focus on tackling long-term structural obstacles to development, the Commission and Member States responded to the crisis by re-directing some cohesion investments to areas where the impact on economic activity and employment would be direct

and immediate. As a result, more than €45 billion – or 13% of total funds – had been re-allocated by the end of 2013. This shifting of funds supported measures to mitigate growing unemployment and social exclusion and sustain investment in innovation and research and development (R&D), business support, sustainable energy, and social and education infrastructure.

The Commission also proposed measures to improve liquidity for the Member States most affected by the crisis. The adoption of these measures by the European Parliament and the Council allowed a reduction in national contributions, and led to more than €7 billion of additional advance payments. A further reduction in national co-financing was also approved, worth almost €2.1 billion.

Evidence suggests that Cohesion Policy investments have had a significant impact.

Between 2007 and 2012, the European Regional Development Fund (ERDF) created nearly 600.000 jobs. This is equivalent to almost 20% of the estimated job losses in the same period, since the on-set of the financial crisis. It 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. In addition, EU investments under Cohesion Policy built 3.000 km of key European transport networks (15% of the overall TEN-T network) and also doubled the volume of government funding for R&D in the less developed Member States.

Between 2007 and 2012 the European Social Fund (ESF) supported 68 million individual project participations. After receiving ESF support 5.7 million unemployed or inactive people entered employment, and almost 8.6 million qualifications were gained through support from the ESF. There were more than 400.000 reported cases of new start-ups and people becoming self-employed. All of this has helped to either limit the fall in GDP in many countries or to prevent further increases in unemployment.

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 and there is a time lag between the moment an investment is made and the time when its impact can be measured.

With a total budget of over €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. Its investments, combined with structural reforms, will play a key role in supporting growth and job creation and in achieving the Europe 2020 strategy's objectives of smart, sustainable and inclusive growth.

The challenge is to ensure that these resources are used in the most effective and efficient way, maximising their impact, consolidating recovery and helping the EU to emerge from the crisis stronger and more competitive than before.

The new Cohesion Policy is fully aligned with the Europe 2020 strategy and its headline targets on employment, research and development, climate and energy, education and the fight against poverty and social exclusion, and linked to the European Semester and the EU economic governance process. Therefore, investments under Cohesion Policy will also be used to support policies pursued by Member States under the Integrated Guidelines and the National Reform Programmes, as well as to address the relevant country-specific recommendations (CSRs) from the Council. The Commission can also ask Member States to

amend their Partnership Agreements and operational programmes to meet new challenges identified in the CSRs.

This Communication summarises the achievements of cohesion funding in the previous programming period. It describes the main elements of the Cohesion Policy reform introduced for the period 2014-20,¹ and the trends emerging from the ongoing programme negotiations between the Commission and Member States. It is accompanied by a Staff Working Document, analysing the socio-economic and governance challenges that Member States and regions are facing and assessing the impact of Cohesion Policy and public investment on economic and social disparities.

2. AN EVOLVING POLICY: INVESTING IN REGIONS’ COMPETITIVENESS TO IMPROVE PEOPLES’ LIVES

The EU Treaty sets as objective for Cohesion Policy to reduce economic, social and territorial disparities, providing particular support to less developed regions.

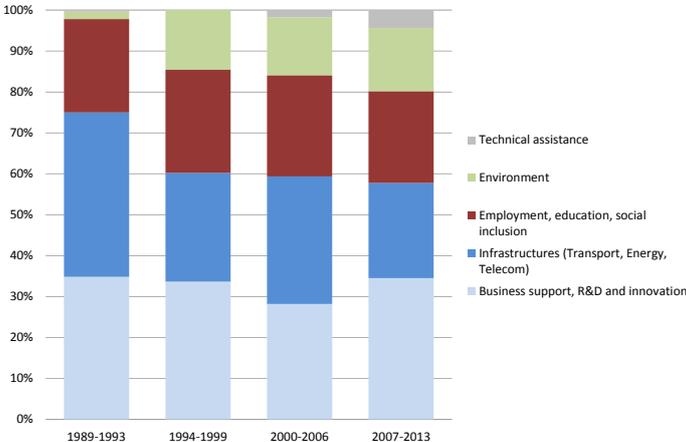
Over time, the policy has helped to improve the standard of living and economic opportunities in EU regions by improving skills and employability; increasing access to regions; supporting administrative capacity building; establishing links between research institutions, universities and the business community; and providing services to small and medium-sized businesses. By supporting the main drivers of economic growth, Cohesion Policy helps EU regions grow more quickly.

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. This shift has been made possible because of infrastructure development in Member States (both those that acceded after 2004 as well as in the 'older' Member States) supported under the Cohesion Policy in previous periods.

Figure 3 shows how the composition of investment has evolved since 1989.

Figure 3: Composition of cohesion policy investment in less developed regions (1989-2013)



¹ See OJ L347, 20 December 2013.

The proportion of investment in heavy infrastructure (transport in particular) was high when the policy was launched and after the 2004 enlargement, when countries with a clear infrastructure gap joined the EU. With the creation of the Cohesion Fund (CF) in the 1990s, environmental investment became increasingly relevant, helping Member States and regions to comply with EU directives and regulations in this area. Investment in the productive sector and in SMEs in particular has remained relatively stable.

Investment in people (education, employment, and social inclusion), however, has declined slightly in relative terms. Nonetheless, the role of the ESF as an instrument for investing in human capital has grown significantly, most recently as a result of the dramatic impact of the economic crisis on Member States' labour markets. As a new measure to address this, the regulatory framework for 2014-20 ring-fences a minimum share (23.1%) of the Cohesion Policy budget for the ESF. This is important to ensure the volume of investments in human capital, employment, social inclusion, public administration reform and institutional capacity building necessary for working towards the objectives of the Europe 2020 strategy.

For the first time, Cohesion Policy – in particular through the ESF – provided support during the 2007-13 period to modernise and reform public administrations and judicial systems in convergence countries. This support aims to improve the functioning, accessibility and quality of public services, to facilitate evidence-based policy making and to deliver policy jointly with social partners and civil society.

Finally, the proportion of resources dedicated to technical assistance has increased significantly since 2000-06, reflecting the critical importance of well-functioning institutions for the effective management of Cohesion Policy programmes.

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. In some cases, inappropriate policies and administrative and institutional weaknesses have limited the effectiveness of funding. Gaps have also remained when it comes to transposing EU legislation into national law in areas directly related to Cohesion Policy. Although attempts have been made to define strategic, institutional and administrative frameworks being in place, their application remained discretionary and unsystematic.

Finally, implementation of the funds has focused more on spending and compliance with management rules than on achieving objectives. Programme objectives have sometimes been vague, making it difficult to monitor and evaluate performance. 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.

3. ACHIEVING RESULTS IS AT THE CORE OF THE NEW COHESION POLICY

The results of the negotiations on Cohesion Policy reform, which ended in December 2013, address these shortcomings.

The reform is focused on delivering an investment policy. Cohesion Policy objectives have been brought into line with the Europe 2020 strategy, and relevant CSRs are systematically

being taken into account when planning investments. The way in which Cohesion Policy works has also been reformed, based on five main ideas.

3.1. Cohesion Policy programmes need to operate in a favourable environment

The new Cohesion Policy is linked to the EU economic governance process and to the ‘European semester’, as investment under the Cohesion Policy cannot be considered in isolation from the economic context in which it is undertaken.

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.

The effectiveness of investment must not be undermined by unsound policies or regulatory, administrative or institutional bottlenecks. Member States and regions must therefore meet a series of pre-conditions. These are designed to ensure that investment feeds into a clear strategic policy framework that ensures swift transposition of EU law affecting the implementation of cohesion funding, sufficient administrative capacity, and respect of minimum requirements on, for example, anti-discrimination, gender equality, disability, public procurement and state aid.

In particular, each area of investment must be based on a well-defined strategy. For example, no investment in transport can be made until a comprehensive national or regional transport strategy is in place. Similarly, investment in the field of R&D and innovation needs to be framed within a ‘smart specialisation strategy’, which involves a process of developing a vision, identifying competitive advantage, setting strategic priorities and making use of smart policies to maximise the knowledge-based development potential of any region. In a nutshell, projects should follow strategies and not the other way around.

3.2. Cohesion Policy programmes need to concentrate resources on a small number of priorities and maximise their 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. It will also ensure a clearer link with the European Employment Strategy and the Integrated Guidelines on Employment. At least 20% of the ESF budget will be ring-fenced for supporting social inclusion and combating poverty and discrimination.

Given the urgent need to tackle youth unemployment, a €6 billion Youth Employment Initiative (YEI) has been launched, providing dedicated funding to help implement the Youth Guarantee across the EU. This ensures that every young person is offered appropriate employment or training within four months of leaving school or becoming unemployed. YEI funding will be focused on regions with particularly high youth unemployment rates.

Regions and Member States will have to make clear choices about their objectives. This will allow a critical mass of resources to be reached, ensuring a meaningful impact and guaranteeing that investments are made in those areas that have a direct and immediate impact on growth and jobs.

3.3. Cohesion Policy programmes need to define clear objectives and results

Cohesion Policy success will be measured by its results and its impact. The reforms therefore concentrate on ensuring greater focus on results through better performance indicators, reporting and evaluation.

When designing programmes, Member States and regions must specify the results they intend to achieve by the end of the programming period. Programmes will have to set out how the proposed actions will contribute to achieving these objectives and will establish performance indicators with clear baselines and targets to measure progress. Each programme will have a performance framework to increase transparency and accountability.

To provide an additional incentive, approximately €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.

3.4. Cohesion Policy programmes need to give a stronger voice to cities

Cities can play a key role in Cohesion Policy and in meeting the objectives of the Europe 2020 strategy. More than two thirds of Europeans live in cities. Cities are productive and innovative and can take the lead on achieving smart growth. They can be more resource efficient (e.g. by minimising land take, soil sealing and energy use) and can take part in realising sustainable growth, e.g. through green infrastructure. Given the disparities of wealth, concentration of the socially excluded and concentration of poverty in cities, they are essential to tackling the challenge of inclusive growth.

For these reasons, it is expected that 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, and by guaranteeing that cities will play the main role in selecting projects.

The Commission will also launch calls for projects under the new Innovative Urban Actions programme to support cities that are willing to test new ideas in urban development.

3.5. Cohesion Policy programmes need to better 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. For the first time at EU level, the European Code of Conduct on Partnership² provides a blueprint for Member States to reach out to and engage these partners in developing programmes, throughout programme implementation and during monitoring and evaluation. Partnerships could also be particularly effective in delivering community-led local development strategies. Measures to build capacity in social and civil society partners are also embedded in the new regulations.

4. FROM THEORY TO PRACTICE: EMERGING EVIDENCE FROM NEGOTIATIONS

At the time it adopted this Communication, the Commission had received all 28 Partnership Agreements (PAs) and around 150 operational programmes (OPs).³ Negotiations with Member States and regions are ongoing. Therefore, the following only provides an indication

² See Commission delegated regulation of 7.1.2014, C(2013) 9651 final.

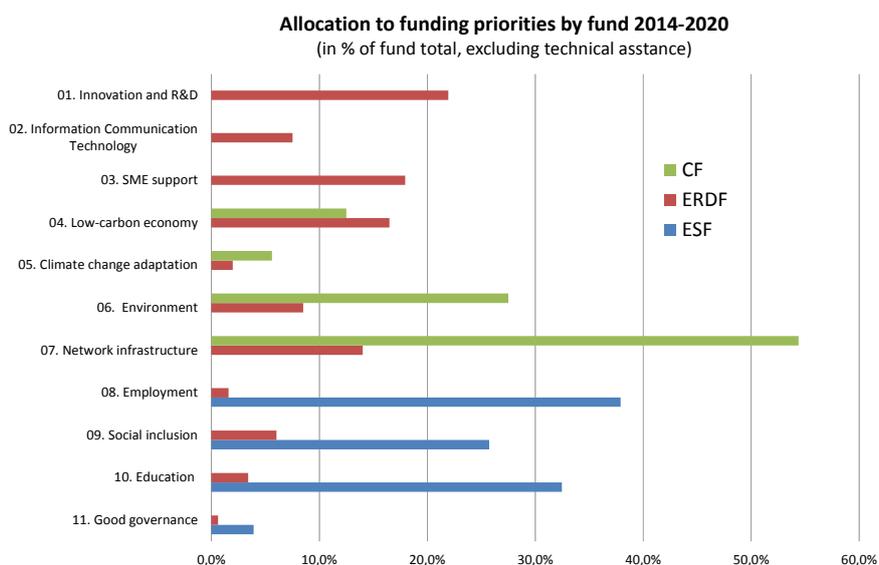
³ Four PAs have already been adopted by the Commission.

of the extent to which the main elements of the reform have been incorporated in the new strategies and programmes.

The information available shows some very encouraging trends and some challenges.

Overall, around €336 billion are allocated to national and regional programmes under the Investment for growth and jobs (IGJ) goal. The resources are divided as follows: €187.5 billion to the ERDF, €63 billion to the Cohesion Fund, and €85 billion to the ESF which is higher than the legally required minimum ESF allocation of €80 billion.⁴

Figure 4: Allocation to funding priorities by fund (2014-20), in % of fund total



Around €24 billion is allocated to R&D and innovation, ICT, SMEs, and low-carbon economy. This represents an increase of almost 22% compared to 2007-2013. Most of this amount is financed by the ERDF (€16.5 billion) and the rest by the Cohesion Fund.

€8 billion will be invested in employment, social inclusion and education measures. Most of this amount is financed by the ESF: employment (€30.7 billion), social inclusion (€20.9 billion), and education (€6.3 billion).

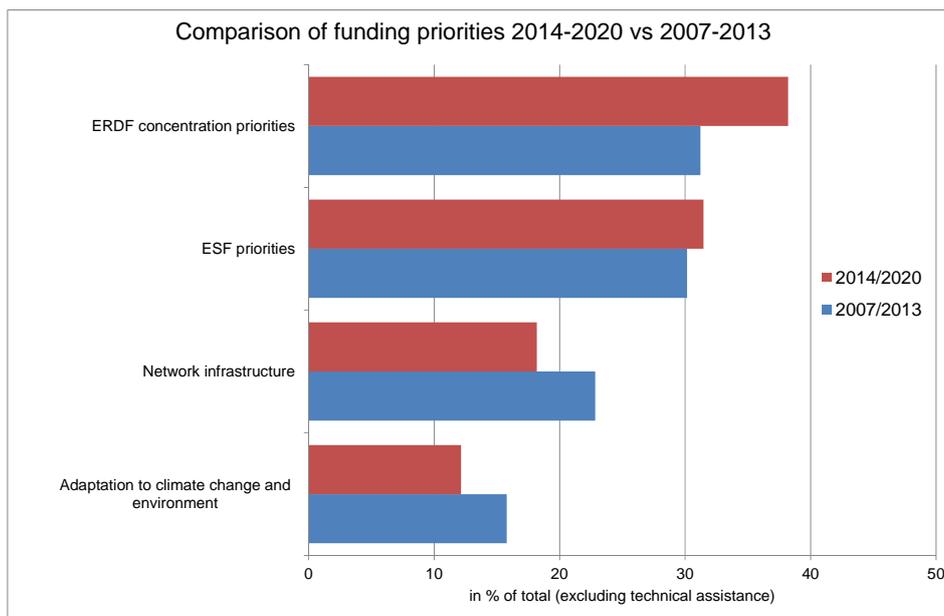
€9 billion is allocated to transport and energy network infrastructure, representing a decrease of 21% compared to 2007-2013.

Almost €4.3 billion will be invested in institutional capacity building of public authorities and in the efficiency of public administrations and services ("good governance"). This represents an increase of 72% compared to the last period.

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.

⁴ The financial resources for the IGJ goal include the ERDF (excluding support for European Territorial Cooperation), the ESF and the Cohesion Fund. The figures reflect the situation as of 1 June and may still change in the context of the programme negotiations.

Figure 5: Allocation to funding priorities 2014-20 vs. 2007-13, in % of total



The particular focus that the Commission has placed on the low-carbon economy has resulted in a visible increase in this type of investment: more than €8 billion will support the transition to a low carbon and climate resilience economy. Several countries have put particular emphasis on energy efficiency or developing renewable energy. In some cases, however, the link between investment and the expected results in relation to the climate change objectives needs to be made clearer.

Given the challenges of high unemployment and increasing poverty, the focus on inclusive growth could be stronger in some PAs. The Commission is also of the view that the funding allocated to education is for the moment not sufficient to implement the priorities identified. In some PAs low priority is given to active measures for social inclusion. To ensure better social outcomes and investments that are more responsive to social change, social policy reform needs to be better embedded in programming.

Moreover, concerning the YEI, relevant information in some PAs and OPs is rather general and does not set out how this new initiative will be delivered and if and how it will support the implementation of Youth Guarantee schemes. In some programmes the actions supported by the YEI need to be more focused on supporting employment creation.

Notwithstanding the existence of a CSR on the integration of the Roma minority, some Member States do not foresee a dedicated priority for marginalised communities, making it more difficult to assess how much funding will be allocated to this policy area. Some Member States do not sufficiently address the needs of this target group or need to further elaborate their strategy and intervention logic.

Administrative modernisation and the quality of justice are recognised as key factors for competitiveness and inclusive growth. Many Member States are planning measures to make their public institutions stronger and improve their capacity to deliver more effective policies, better administrative services, speedier judicial proceedings, increased transparency and integrity of public institutions, and improved public participation in the different phases of policy-making. Yet, in a number of Member States where public administration reform has been identified as a challenge, a clear strategy is missing and objectives are incomplete and unclear, whilst such reform is indispensable to support jobs, growth and competitiveness.

Moreover, in some of these Member States a clear political commitment to such reform is lacking.

It is clear that the need to prepare for investment by fulfilling conditions in advance of programme implementation has been taken seriously. The process has not been easy and, in many cases, the Commission will have to agree on action plans to ensure full compliance with the requirements within well-defined deadlines. Conditions, which Member States have found particularly difficult to meet, concern areas where EU Directives need to be transposed or where EU regulations need to be applied effectively.

Smart specialisation strategies have been designed at national and regional level to accelerate economic transformation and narrow the knowledge gap. More emphasis needs to be put on soft forms of support, on supporting market-driven research and cooperation with business. There is a risk of business-as-usual support for SMEs, instead of support being tailored to their needs and growth potential to ensure a high leverage effect and a quick uptake.

Some Member States have also designed programmes that establish clear links between the digital economy and innovation. This is important as investments in high speed broadband and ICT are needed to overcome specific bottlenecks and to encourage market-driven solutions. For example, it is essential to focus investment in broadband on next-generation networks to ensure that less developed regions do not fall further behind. Synergies between Cohesion Policy, Horizon 2020 and other EU programmes are also critical in the context of smart specialisation strategies at national and regional level.

In 2014-20, some 88 programmes in 16 countries will be multi-fund programmes, combining resources from the ERDF, CF and ESF. This is expected to encourage an integrated approach bringing together different policies, funds and priorities.

To make the policy more effective, result-oriented and performance-based, Member States and regions will have to set detailed objectives and targets. It is essential that programmes do not express aims too generally, including a large number of possible actions to maintain maximum flexibility in selecting projects at a later stage. This is critical: if objectives and targets are not ambitious enough and detailed enough, it will be very difficult to evaluate the policy and to have a meaningful public debate about it. During the negotiation process, the Commission will focus on these risks.

Partnership Agreements have largely been drafted through reasonable dialogue with partners, although there are indications that in some cases this dialogue has been insufficient, important stakeholders were not involved, or comments were not reflected in later versions of the documents. The Commission will look very carefully at how Member States have applied the Code of Conduct on Partnership to ensure genuine participation by stakeholders.

Last but not least, the new period requires strong governance and coordination mechanisms at the national and regional level to ensure consistency between programmes, support to Europe 2020 and the CSRs, and to avoid overlaps and gaps. This is particularly important in view of the overall increase in the number of regional programmes (for ESF programmes it is almost 60% compared to 2007-13).

5. CONCLUSION

In 2014-20 Cohesion Policy will guide the investment of a third of the EU budget to help achieve the EU-wide goals of growth and jobs and reduce economic and social disparities. It is also the biggest investment instrument at EU level for pursuing the objectives of the Europe 2020 strategy. It provides the largest contribution in a number of areas, including support to

SMEs, R&D and innovation, investment in a skilled and competitive workforce, the fight against unemployment and social exclusion, climate change adaptation and the environment.

Economic models provide an indication of the macro-economic impact. For example, it is expected that in the main beneficiary countries thanks to Cohesion Policy GDP could be on average 2% higher and employment around 1% higher during the implementation period.

But the productivity-enhancing effects of the Cohesion Policy continue to build up after programmes have come to an end. By 2030, it is estimated that GDP in these countries will be more than 3% above the level expected in the absence of the policy. This means that over the period 2014-30, for each euro spent in the main beneficiary countries, GDP is expected to be more than three euros higher.

For these effects to be realised, however, it is essential that Member States and regions deliver on the reforms and use the policy as an effective investment tool. The outcome of the ongoing negotiations to develop robust strategies, identify a small number of key investment priorities, set ambitious targets, and ensure that micro and macro conditions maximise the impact of the investment co-financed under the Cohesion Policy, will therefore be crucial.

The Commission 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.