12 September 2017

CEEP RESPONSE TO THE REFLECTION PAPER ON THE FUTURE OF EU FINANCES

Executive summary

- Overall, CEEP agrees with the European Commission's (EC) assessment that at a time when Europe must decide on its future, the EU needs a budget that is fit for purpose and makes every euro work for its citizens. The EU should look for greater synergies between EU funds, national public funds and private money in order to face the major challenges that lay ahead (the ecological, digital, demographic transitions).

- **On cohesion policy**: CEEP strongly opposes any of the white paper's scenarios which would scale down the EU's efforts in relation to cohesion policy. Consequently, CEEP invites the Commission, on the contrary, to present a comprehensive legislative proposal for a strong and effective post-2020 cohesion policy.

- **On flexibility**: CEEP agrees with the EC assessment that the EU should be able to react effectively and quickly to unforeseen events such as the current migration challenge. Increasing the flexibility should be done in a way that does not harm the function of the budget.

- **On the link with the EU Semester**: CEEP strongly supports the reinforcement of the link between the European cohesion policy and the European Semester to encourage and to better support structural reforms.

- **On defining a European added value as a criterion for EU funds**: CEEP agrees that European added value should become one of the key criteria for the successful use of EU funds and thus also for the success of cohesion policy. This criterion should be exactly defined from the beginning.

- **On financial instruments**: In the context of fiscal austerity and of a growing pressure to maintain or even reduce the EU budget, a well-programmed and efficient multiannual financial framework is crucially important. In this respect, financial instruments are particularly well suited to address financially viable projects that have potential to generate returns.

- **On administrative barriers**: CEEP urges the EC to address the need to reduce the administrative burden for beneficiaries. The EU budget is pressured by the need to be more efficient, really based on simplification, to focus on the areas where its impact is greatest and to ensure that burdensome rules and procedures do not hinder the achievement of its goals.

- **On communication**: The increased visibility of the EU action is vital to fight Euroscepticism and can contribute to regaining citizens' confidence and trust. CEEP highlights that a greater focus must be placed on the content and results of programmes in order to improve the visibility of EU action.

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GENERAL REMARKS

- The latest reflection paper published by the EC as part of the White Paper on the Future of the EU intends to raise a key issue: the one of the design of the new European budget to respond to the critical challenges Europe faces today.

- CEEP agrees with the European Commission's assessment that at a time when Europe must decide on its future, the EU needs a budget that is fit for purpose and makes every euro work for its citizens.

- The functioning of the EU as a "convergence tool" stalled after 2008, causing an increase in existing divergences between and within Member States, as well as deepening social and economic inequalities throughout the EU.

- Europe is facing increasing challenges and the EC rightly recalls the new priorities which need to be tackled within a new Multiannual financial framework (MFF) namely our Internal/external security, the migration crisis and border control and the future European defence.

- In the long term, there will also be a greater need for Union funds at all levels in order to boost long term investment. It is likely that in the future the funding available for this purpose will continue to be caught up in the tensions surrounding the consolidation of national budgets and the willingness of the Member States to finance EU tasks. That is why it is crucial for the EU to be able to leverage on private capital.

- It will be important for EU policy to fulfil its task of strengthening economic, social and territorial cohesion in such a way that it makes a convincing contribution to strengthening European regions and the EU, and that the funds are used effectively.

- We need Europe to provide an innovation-friendly environment based on cross-sectoral and interdisciplinary work across the value chain, bringing together technological innovation and artistic and cultural creativity around R&D activities. Indeed, ensuring sustainable funds and investments in culture, research and innovation with the purpose of bridging these spheres will not only ensure the competitiveness and future developments of the European industries, but it will also unleash the enormous creative potential for innovative services in Europe.

- CEEP replied to all the reflection papers on the future of the EU and will therefore not explore here the question of the European Macroeconomic stabilisation function developed in the CEEP response to the EMU reflection paper. We will not develop here CEEP's commitment to reinforce the EU action to resolve the migration crisis. In its response to the future of the EU social Dimension, CEEP called for enhanced cooperation between the Member States willing to do more.

- The key priority addressed here is the future of the EU Cohesion policy and how we will fund the physical and social infrastructures of today and tomorrow. Bringing answers to these questions will be the focus of the present CEEP position.

COHESION POLICY

CEEP strongly opposes any of the white paper's scenarios which would scale down the EU's efforts in relation to cohesion policy. Consequently, CEEP invites the Commission, on the contrary, to present a comprehensive legislative proposal for a strong and effective post-2020 cohesion policy.

- CEEP is convinced that the future of cohesion policy is inextricably linked to the future of the EU. The European cohesion policy is vital for a strong and effective European Union. CEEP is therefore also very much in favour of securing the important role of cohesion policy in the EU beyond 2020.

- Although cohesion policy has mitigated the impact of the recent economic and financial crisis, regional inequalities and disparities in competitiveness remain high.

- The policy for strengthening economic, social and territorial cohesion is one of the most important and comprehensive EU policies. It is an essential component of the Treaties and a pillar of the European integration process, likewise the internal market or the Economic and Monetary Union.

- Cohesion policy creates a level playing-field as an essential counterpart to the internal market rules, it helps to protect existing jobs and create new ones through investments in the real economy. It ensures that the less developed Member States, regions and municipalities can benefit from the advantages offered by EU integration. As a result, cohesion policy makes a significant contribution to strengthening the EU as a whole.

- CEEP calls for strengthened action to reduce these disparities and prevent the development of new inequalities in all types of regions (including outermost regions), whilst maintaining and consolidating support for territories to facilitate ownership of the policy in every region and to achieve EU objectives throughout the EU.

- Financial instruments can be a useful complement to grants, in order to increase the impact of the cohesion policy and to make it possible for the EU to face all the challenges ahead. Indeed, when appropriate, financial instruments are a way to leverage on European funds by crowding in private money.

- Given their mandate to carry out development or promotional activities, in the full respect of their different forms, and the fact that they are all solid financial institutions, NPBIs are natural partners of the European Union Institutions in enabling the roll-out of financial instruments.

FLEXIBILITY

CEEP agrees with the EC assessment that the EU should be able to react effectively and quickly to unforeseen events like the current migration challenge. Increasing the flexibility should be done in a way that does not harm the function of the budget.

- Flexibility instruments provided for by the MFF regulation were intensively used during the first half of the MFF 2014-2020. A long-term plan, such as the MFF, requires sufficient flexibility to cope with new challenges and priorities that arise during its implementation.

- As they proved efficient in the past few years, we believe that the current flexibility and special instruments must be reinforced in the next MFF, the purpose of those instruments being to provide additional means to new and unforeseen challenges.

- CEEP particularly supports the Commission's proposal for stricter decommitment rules. If the sums committed to a programme have not been claimed by the end of the second year following the programme's adoption, any unpaid money ceases to be available to that programme. CEEP agrees that the funding committed and thus attributed to the EU budget should stay available in this budget, and be re-allocated to another programme. Nevertheless, this rule should be flexible due to political circumstances in any Member state, during the implementation of the Funds, that would render the effective performance of co-funded projects more difficult for beneficiaries on the ground.

- CEEP encourages the European Commission to present ideas for greater flexibility in the implementation of the global EU budget.

- CEEP supports the strong potential behind the EC proposal to put aside "a share, often called a non-programmed reserve, within each spending programme that remains unallocated and reserved for unexpected developments". The creation of a non-programmed reserve is an interesting option to address major unforeseen challenges during the programming period and to facilitate the re-programming of operational programmes in order to adapt ESIF investments to the changing needs of each region, and also to address the effects of globalisation at regional and local level.

LINK WITH THE EUROPEAN SEMESTER

CEEP agrees with the EC that the link between the European cohesion policy and the European Semester should be reinforced to encourage and to better support structural reforms.

- CEEP highlighted in its response to the reflection paper on the future of the EMU that we advocate the establishment of a self-standing structural reform support programme under the future Multiannual Financial Framework (MFF). The EU should increasingly be empowered to play a real counter cyclical role.

- There should be a balanced link between cohesion policy and economic governance processes in the European Semester and this link should be reciprocal.

- CEEP often argued that a greater recognition of the territorial dimension would be beneficial for the European Semester, i.e. economic governance and the policy objectives of economic, social and territorial cohesion, as well as of sustainable growth, employment and environmental protection, should be considered in a fair and balanced manner.

- A reinforced territorialising of economic governance could strengthen the understanding of regional variation in economic, social or institutional development needs, and could help shape the reform proposals accordingly.

LINK BETWEEN ESIF AND EFSI

CEEP is concerned by the risk highlighted by the EC of existing competition and crowding out effects between EU programmes — for example in the case of infrastructure, particularly linked to EFSI.

- CEEP calls upon the Commission to ensure better synergies between the ESIF Funds and other Union funds and programmes including EFSI, and to facilitate the implementation of multi-fund operations. This blending can be a very powerful tool to leverage on private capital (making projects bankable thanks to grants or guarantees) and thus alleviate the burden that falls on the EU budget.

- The EFSI should not undermine the strategic coherence and long-term perspective of cohesion policy programming and should never replace or crowd out the grants nor aim to replace or reduce the ESIF budget.

- Consequently, CEEP calls for the establishment of clear delimitations between the EFSI and cohesion policy, together with the provision of opportunities for their combination and facilitated use, in order to make good use of scarce EU resources.

- In this respect, National Promotional Banks and Institutions which have played a major role in the implementation of the EFSI can also be key actors to ensure better synergies in the next MFF. In this respect, the revision of the Common Provisions Regulation (CPR) is a step in the right direction since it allows NPBIs to be entrusted with implementation tasks through the direct award of a contract. The next MFF should go further, by fostering the implication of NPBIs in the implementation of multi-fund operations.

EUROPEAN ADDED VALUE AS A CRITERION FOR USING EU FUNDS

CEEP agrees that European added value should become one of the key criteria for the successful use of EU funds and thus also for the success of cohesion policy.

- So far, there is no uniform definition for the EU added-value. This would however be essential should the specific criteria to measure the European added value of cohesion policy be discussed and approved together with the funds' regulations.

- The setting of objectives and indicators to evaluate the European added value of cohesion policy must take place at EU and not at Member states level, during the programming process. This also applies to the specific measures required for implementing strategies such as Europe 2020 at national, regional and local levels.

- The added value should be measured against the following objectives:
    - To overcome socio-economic disparities;
    - To stabilise growth and tackling crises through public investment;
    - To achieve common EU objectives and improve the quality of administrative capacities.

- Concerning more specifically financial instruments, they should be designed in a way that ensures the valuation of the externalities of the project (in addition to its financial return) – be they positive or negative.

CLIMATE CHANGE

CEEP supports the EU's commitments under the Paris climate change agreement and recalls, in the context of the reflection on the future of EU finances, the goal endorsed by all EU institutions of spending at least 20% of the EU budget on climate change-related action. The ESI Funds play a key role in this direction and should continue to be used as effectively as possible for climate change mitigation and adaptation.

- Mitigation policies should take a comprehensive approach and be structured around resource efficiency and decarbonisation. SGIs sectors such as transport, telecommunications, energy, waste management and water treatment, as well as R&D have an important mitigation potential. To fully exploit it, the current orientation in Europe to set up a European Emissions Trading Scheme (ETS) must imperatively provide a true and fair carbon price, creating a level-playing field in order to incentivise investments that foster the decarbonisation of the European economy.

- Adaptation policies should be complementary to mitigation policies as they provide measures needed to tackle the negative consequences due to climate change. Adaptation measures should include the protection of infrastructures in order to increase their resilience. The implications of climate change on sectors such as water, energy and transport, urgently need to be considered.

- Climate change policies cannot ignore the investment challenge. There is a strong economic case for investing in climate action as this will create the sustainable growth and jobs Europe needs. So as to unleash the full potential of investments in climate-friendly solutions, private investment needs to be underpinned by public investment.

ADMINISTRATIVE BARRIERS

CEEP urges the EC to address the need to reduce the administrative burden for beneficiaries. The EU budget is pressured by the need to be more efficient, to focus on the areas where its impact is greatest and to ensure that burdensome rules and procedures do not hinder the achievement of its goals.

- It is essential to reduce the administrative burden for beneficiaries and management authorities, truly simplifiying the use of the Funds. CEEP is concerned that cohesion policy is jeopardising its own objectives, as the complexity of the management and control system is no longer proportionate to the added value of planning. No clear rules on the use of the SCO as proven that in some Member states, it has had a bad effect on the application of the Funds.

- As a result, there is a danger that cohesion policy will no longer be perceived by beneficiaries and the public as being a key to success, but rather as another symbol of the EU's alleged remoteness from ordinary citizens. It is not a hazard that several of the issues treated by the REFIT Platform, in response to questions landed into the “lighten the load” tool, are directly or indirectly linked to administrative burden encountered within the application of cohesion policies on the ground. The costs associated with programming, management and control should be assessed, to reduce the burden on beneficiaries. They must also be adjusted in line with the scope of the programmes and projects, following the principle of proportionality.

- CEEP is in favour of any future reform process including a focus on removing administrative barriers, both with regard to the design of the general cohesion policy rules as well as the implementation and carrying out of individual programmes and projects. The REFIT Platform can be of great support in this endeavour, as well as the High-Level Group of Independent Experts on Monitoring Simplification for Beneficiaries of the European Structural and Investment Funds.

- When assessing decentralised programmes where funds are allocated by national, regional and local authorities, the principle of subsidiarity shall be applied in a more consistent way than before.

- Whenever relevant, implementation tasks should be carried out by NPBIs which represent the right scale of intervention in terms of national and local economic development for Member

States, while working with the European Investment Bank (EIB) Group in a complementary manner. They have a sound knowledge of their respective territories and the ability to implement tailor-made financial instruments locally.

- NPBIs knowledge of enterprises' needs, flexibility in the implementation of financial instruments by their managers and focus on maximizing the impact to the EU economies from the financing provided by financial instruments would help simplifying the process and reducing the administrative burden on the final beneficiaries and managing authorities.

COMMUNICATION

The increased visibility of the EU action is vital to fight against Euroscepticism and can contribute to regaining citizens' confidence and trust. CEEP highlights that a greater focus must be placed on the content and results of programmes to improve the visibility of EU action.

- This should be done through a top-down and bottom-up approach including by allowing the participation of stakeholders and recipients who can act as an effective channel through which to disseminate EU achievements. A more-decentralized approach, through the network of NPBIs, would also be a powerful way to increase the visibility of EU actions at the local level.

- CEEP deems it critical for the European Commission, Member States, regions and cities to communicate in a more efficient and simpler way on the measurable results of the EU action which bring added value to the everyday life of citizens.