Common Position Paper on the Future of Cohesion Policy with a Focus on Ensuring Regional Flexibility and Promoting Simplification

Introduction

Our associations and networks believe that Cohesion Policy has been an important instrument in promoting regional development across Europe, while also contributing to the green and digital transitions. Particularly, we would like to emphasize the fundamental role played by many of our members in the implementation of this funding, relying on our strong presence within local economies.

Driven by this successful experience as implementing partners, we would like to share our common views in the incipient policy debate on the future of Cohesion Policy. We are particularly concerned about the potential alignment of future cohesion funding with the Recovery and Resilience Facility (RRF) model. We believe that, instead, future reforms of the system should focus on simplifying funding regulations and reporting requirements, which are already excessively complex and risk becoming even more burdensome in the future.

- **Lessons from the RRF: the importance of regional flexibility**

  We have significant concerns about a potential alignment of future Cohesion Policy funding with the RRF model. Although the RRF has played an important role in the post-COVID-19 recovery, its highly centralized approach could be counterproductive when applied to Cohesion Policy, which relies heavily on regional flexibility and specificities. Applying a centralized framework would risk excluding valuable local projects and would undermine the policy's ability to support less-developed regions. We therefore advocate for preserving the decentralized and flexible structure of the Cohesion Policy with its core principles, in particular the partnership principle and multi-level governance that has ensured equitable access to EU support. Moreover, this one-size-fits-all approach, which is against think local and small first principle, could increase reporting burden and create further delays in funding. Finally, in the event that the eligibility of expenditure is based on the RRF rules, i. e. on the achievement of pre-agreed KPIs, ensure that only the achievement of KPIs is checked. Avoid applying stricter, more detailed verification procedures for expenditure eligibility which is increasingly being pursued in the context of the RRF.

- **Addressing the simplification of administrative processes**

  One of the greatest obstacles to the effectiveness of Cohesion Policy funds has been the complexity of administrative procedures. Furthermore, the reporting burden threatens to become even worse in the future due to increasing regulatory requirements, such as the alignment of different EU funding programs, the possible expanded application of the "Do No Significant Harm" (DNSH) principle which according to us could lead to excessive projects' exclusion[1], and greater compliance obligations stemming among other things from the newly adopted Financial Regulation applicable to the budget of the EU[2]. Compliance with State aid rules also poses a constraint when Managing Authorities provide aid through financial instruments co-financed by ESIF.

These factors could discourage participation from smaller beneficiaries, particularly SMEs and local institutions, who may find it increasingly difficult to access funding. In this context, while the audit trail requirements under ESIF regulations have not posed significant issues so far, a potential alignment with the RRF regulation may introduce challenges, particularly given differences in how audit processes and controls are structured.

We call for further simplification across regulations, particularly in reducing the administrative burden related to reporting audit processes, and compliance. Simplified procedures could make funds more accessible to beneficiaries who often struggle with the complex regulatory environment. In particular, the alignment of rules across funding instruments would increase the efficiency of the process by reducing duplication of efforts. The growing role of new digital technologies, particularly Artificial Intelligence, can be useful in the task of simplifying the process.

- **Managing regulatory stability to support continuity**

Frequent regulatory changes disrupt investment stability in an environment where providing clarity and security to business partners is more important than ever. Constant updates create uncertainty for local authorities and financial intermediaries, making it challenging to plan and allocate resources effectively. This is the case for example for FIs and investments lasting longer than one programming period and financed over two consecutive periods, as allowed by the current CPR.

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[1] The DNSH spread would be an additional public policy objective on top of those already pursued by each specific EU programme. Therefore, it should be required when feasible and appropriate in accordance with sector-specific rules. DNSH involves a comprehensive evaluation of the company's climate and environmental impacts, requiring significant human and financial resources. Its implementation is disproportionate for SMEs and small projects below 10 million euros. DNSH does not serve the objective of rapid transition as it can block a transition investment if the project has any residual impact. It is advisable to finance transition step by step, addressing issues one by one, rather than trying to tackle everything (i.e. 6 environmental dimensions) at once, with the risk of excluding companies that need to transition. In view of the next MFF, DNSH should not become a prerequisite of all EU funding programs, but it remains a useful tool to guide businesses and financing.

[2] COM(2022) 223 final: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52022PC0223&from=EN

See also joint papers and amendment proposals from our associations and networks about ethe Financial Regulation Recast:

- https://www.eltia.eu/images/2022_10_17_ELTI_Position_Paper_Financial_Regulation.pdf
- http://aecm.eu/wp-content/uploads/2022/12/20001205_EAPB-AECM-NEFI-Position-on-the-Financial-Regulation-Recast.pdf

We therefore advocate for greater regulatory stability and predictability, allowing beneficiaries—especially local financial institutions and SMEs—to operate with confidence and meet long-term objectives.

- **Expanding the role of financial instruments**

  We advocate for an expanded role of financial instruments (f.e. loans, guarantees, and equity) and blending instruments (combination of ESIF grant-based funding with a financial instrument operated by an intermediary like NPBIs) alongside traditional grants. These instruments can serve as a complement to traditional grant-based support, raising the leverage of funding over budget means for ESIF funds and thus providing for better returns for public funds, particularly when supporting long-term investments in the green and digital transitions. This can be done, for instance, by easing the reporting requirements for financial instruments and blending instruments in comparison with grants. Furthermore, financial instruments should be governed by tailored, less stringent requirements compared to grants, to effectively incentivize entrepreneurs to adopt and utilize these tools. Entrusting the implementation of financial instruments to national and regional financial institutions, as it is currently the case, would enable them to build on their expertise and required understanding to effectively communicate with SMEs and address their specific needs.

- **Delivery of technical assistance**

  To enhance the effectiveness of Cohesion Fund implementation, it is essential to strengthen the institutional capacity of local authorities and Managing Authorities, particularly in the use of Financial Instruments. This support is crucial to address practical implementation challenges, as unclear guidelines and delayed responses often obstruct the efficient deployment of these instruments. Providing technical assistance from the EIB, the EIF and the EU institutions (through for example DG Reform programs) will equip these bodies with the necessary tools and knowledge to effectively access and deploy funds, supporting the achievement of long-term policy objectives.

  Furthermore, we suggest that the Commission develops a comprehensive set of FAQ to better and timely address practical challenges related to implementation.