Briefing on Cohesion Policy Funding Instruments 2014-2020

The European Commission adopted a draft legislative package on 6 October 2011 framing the cohesion policy for 2014-2020. The new proposals are designed to reinforce the strategic dimension of the policy and to ensure that EU investment is targeted on Europe's long-term goals for growth and jobs ("Europe 2020 strategy"). This package includes an overarching regulation setting out common rules governing the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). This will allow for the better combination of funds for a stronger impact of EU action.

The funds allocated under the Cohesion Policy for 2014-2020 represent 37% of the EU budget, with the amount of 376 EUR billion for economic, social and territorial cohesion. Furthermore, the Cohesion Policy Funding Instruments for the next period are considered to be the biggest source of funding for local sustainable energy projects.

**Thematic objectives**

There are 11 thematic objectives foreseen for the Cohesion Policy 2014-2020 but resources will mainly concentrating on three objectives:

- Shift towards a low carbon economy
- Research and innovation
- Competitiveness of SMEs

The latest proposal on the Cohesion Policy budget (July 2012) of the European Parliament is highly ambitious and gives priority to sustainable energy policies. If accepted, at least €25.4 bn could be earmarked for the thematic objective “Shift towards a low carbon economy”.

The decision, on which thematic objectives will be prioritised at national level, is agreed jointly by Member States (in some countries regions) and the European Commission. The management of the funds is handled by Member States. The Member States would also be invited to sign partnership agreements with local and regional authorities which should actively participate in the development of priorities and measures financed through the structural and cohesion funds. They could also become responsible for their direct management.
Three cohesion policy funds are important for local authorities

As a basic principle, the European Regional Development Fund (ERDF) should support sustainable urban development through integrated strategies that tackle the economic, environmental, climate and social challenges of the urban areas.

During the 2014-2020 financing period, it should become mandatory for all regions to allocate part of the ERDF to the thematic objective “Shift towards a low carbon economy”. A European Parliament report dated July 2012, proposes that 22% of the ERDF budget should be dedicated to this thematic objective in developed and transition regions and 12% in less developed ones. This represents 25.4 billion EUR and a threefold increase compared to the current regulation. No more “ceiling” should apply for energy efficiency investments in housing.

Member States should also allocate 5% of the ERDF to “Sustainable Urban Development - integrated actions” to tackle the economic, environment, climate and social challenges affecting urban areas.

The European Social Fund (ESF) should also contribute to thematic objectives such as supporting the shift towards a low carbon, climate resilient and resource efficient economy through building human capacities and professional skills in this field.

The Cohesion Fund is set to support investment in climate change adaptation and risk preventions as well as investment in the water and waste sectors, and the urban environment. Under the current financial proposal for 2014-2020, this fund should also support investment in energy efficiency and renewable energy. In the field of transport, in addition to the TEN-T network, the Cohesion Fund will contribute to investments in low-carbon transport systems and urban transport.

Distribution of cohesion policy funds per region

The Cohesion policy funds are allocated according to the level of Gross Domestic Product (GDP). The regions are divided into less developed, transition and more developed regions.

Less developed regions are considered to be those regions whose GDP per capita is less than 75% of the average GDP of the EU-27. The catching-up process of these regions will require long-term sustained efforts.

Transition region is a new category introduced in order to replace the current phasing-in and phasing-out system, including all regions with a GDP per capita between 75% and 90% of the EU-27 average.

The more developed regions category concerns regions whose GDP per capita is above 90% of the average GDP of the EU-27.

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1 The Commission has proposed that 20% of the European Regional Development Fund (ERDF) should be spent on energy efficiency and renewable energy in more developed and transition regions, and 6% in less developed regions.


2 Further information: See fact sheet on Integrated Urban Development

In addition a “safety net” is created for all regions that were eligible under the convergence objective in the 2007-2013 period, but whose GDP per capita is above 75% of the GDP average of the EU-27.

Within the transition or more developed regions categories they shall receive an allocation under the Structural Funds equal to at least two-thirds of their 2007-2013 allocation.

<table>
<thead>
<tr>
<th>Distribution of Cohesion policy funds per region</th>
<th>ERDF (€ bn)</th>
<th>ESF (€ bn)</th>
<th>TOTAL (€ bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convergence regions (“less developed regions”)</td>
<td>122.7</td>
<td>40.9</td>
<td>163.6</td>
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<tr>
<td>Transition regions</td>
<td>21.9</td>
<td>14.6</td>
<td>36.5</td>
</tr>
<tr>
<td>Competitiveness regions (“more developed regions”)</td>
<td>26.6</td>
<td>28.8</td>
<td>55.4</td>
</tr>
<tr>
<td>Territorial Cooperation (for all regions)</td>
<td>11.9</td>
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<td>11.9</td>
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<tr>
<td>TOTAL</td>
<td>183.1</td>
<td>84.3</td>
<td>267.4</td>
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<table>
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<tr>
<th>Cohesion Fund</th>
<th>(bn EUR)</th>
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<td>(for Member States with GNI &lt; 90% of the EU-27 average)</td>
<td>68.7</td>
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**Instruments used**

The Commission is interested in introducing new types of financing schemes into the structural funds. It is clear that funding is moving towards new types of funding schemes, and less funding will be provided as direct grants. Member States and regions should ensure that public funding is better combined with private sector investments. The leverage effect will depend on the financial instrument used, the specific financial products developed, and the sector in which it is applied.

In the energy efficiency sector for example, the option of creating value for energy savings through market mechanisms (energy saving obligations, energy service companies, etc.) should be considered before public funding. It is proposed that Structural and Cohesion Funds would be delivered through innovative financial instruments, which should be used where potential for private revenue or cost savings is large. For example enterprises and projects expected to generate substantial financial returns.

Innovative financial instruments could take the form of loan guarantee instruments, equity and risk sharing instruments, revolving urban fund, etc. approach that would help to mobilise additional funding by including the private sector. In the case of physical investments, grants should be used primarily to address market failures or to support innovative technologies and investments going beyond cost-efficient energy efficiency performance, thus ensuring that energy savings and greenhouse gas emission reductions are above those attainable with "business as usual".

**Further information:**

*Covenant of Mayors webinar “What perspectives for sustainable energy funding in the future EU budget?”*
Cohesion Fund, Commission proposal, June 2011
Cohesion Fund, European Parliament, Committee on Regional Development, Draft report; May 2012

European Regional Development Fund, Commission proposal; October 2011
European Regional Development Fund, European Parliament, Committee on Regional Development, Draft report; May 2012
European Regional Development Fund, Amendments tabled in Committee on Regional Development; June 2012

European Social Fund, Commission proposal, October 2011
European Social Fund, Committee on Employment and Social Affairs, Draft report; April 2012

Cohesion Policy 2014-2020: Investing in growth and jobs