Cohesion policy offers an effective response to the post-Covid-19 crisis... with the current regulations

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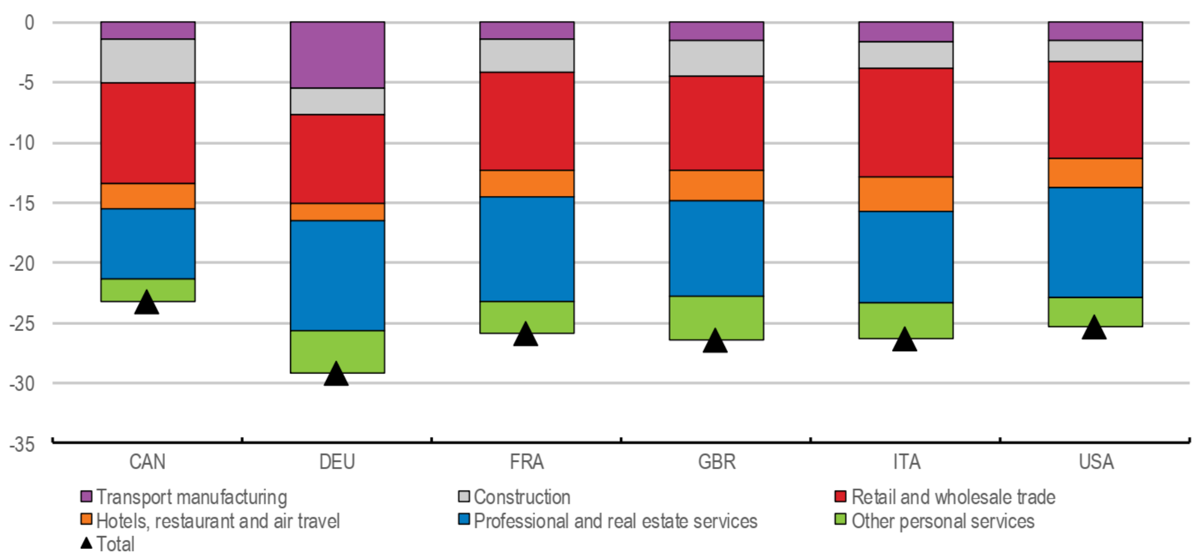
In the next few pages we explain that:
- the restart phase must involve major public investment...
- ... these investments must be multi-sectoral and granular for the territories
- cohesion policy makes it possible to reach all types of regions and cities in depth while maintaining a high level of accountability and effectiveness
- extending the current 2014-2020 programming for at least one year, refinanced with new resources, would accelerate investments and give oxygen to priorities that have been penalised by a reallocation of resources to deal with the emergency and ...
- ... the benefits would outweigh those linked to implementation, as early as 2021, of regulations covering 2021-2027 ...
- .... as the current programming framework already anticipates many of the innovations in simplification and the 'green' approach.

We know the Covid-19 pandemic will have serious effects on the economies of European countries across almost all sectors, generating a systemic crisis. The latest OECD estimates predict a fall of at least 15% of GDP across most economic sectors, especially transport, construction, manufacturing, services, trade and tourism. For Italy, France and Germany the fall will be even greater (see Figure 1).

Figure 1 Potential effects on GDP (% at constant prices) from the complete or partial freeze due to the Covid-19 pandemic



Source: OECD, [Evaluating the initial impact of Covid-19 containment measures on economic activities](#).

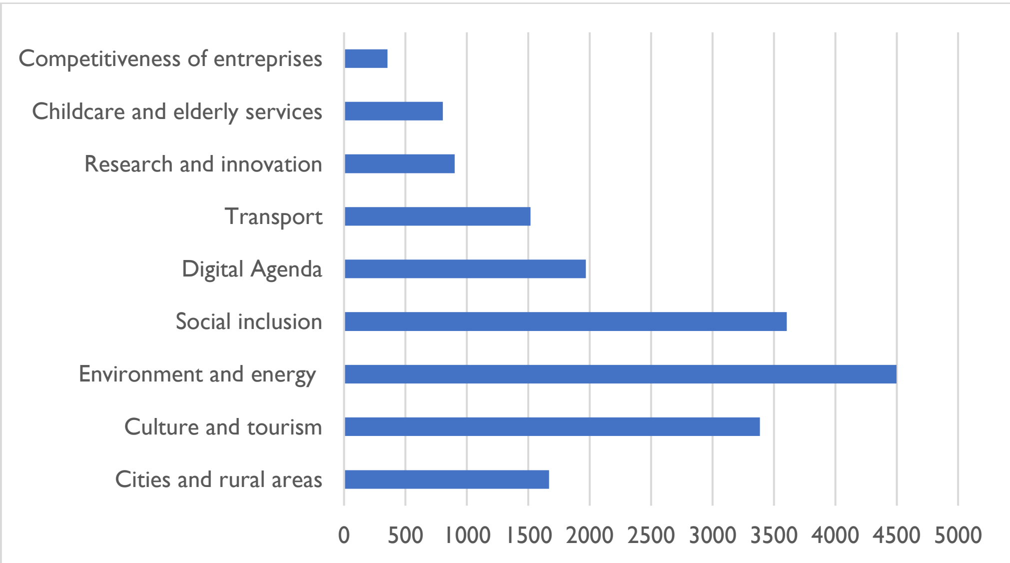
Economists generally feel that, after the emergency phase and 'buffering' with interventions above all providing liquidity to economic activities, a major plan of public investment is needed. This is well expressed by Prof. Alberto Quadrio Curzio in his article '***Il vaccino" economico al Covid-19 sono gli investimenti pubblici in infrastrutture***' (The economic vaccine for Covid-19 is public investment in infrastructure). Massive public investment policies involve two opposing risks. On the one hand, a centralisation and concentration of investment on 'strong' areas produces **distribution asymmetries, increasing socio-economic gaps between territories**. On the other hand, governments could be tempted to distribute '**sprinkler**' financing **-** even in the extreme version of 'helicopter money' **-** without a strategic vision, choosing priorities on the basis of shared criteria and without rules for sound management and transparency.

It is therefore necessary to open a debate on how to make investments. This is a delicate and difficult discussion, especially in places such as Italy, where the focus is exclusively on 'how many' investments can be made.

For public policy analysts reflecting on 'how' means, above all, reflecting on the administrative and institutional devices that underlie public policies. Over the years, cohesion policy has developed administrative and institutional devices that have a robust and well-tested delivery structure and, especially, the capacity to intervene in many sectors and types of territory. Cohesion policy makes it possible to **reach out individually** to small and peripheral administrations, enabling them to make investments consistent with European national policies and, above all, relevant to their territories.

The figure below, based on data from the [Opencoesione website](), illustrates the capacity of cohesion policy to activate a multiplicity of infrastructure investments for key recovery issues such as Cities and Rural Areas, Environment and Energy, as well as Culture and Tourism.

Figure 2 Number of projects by nature of investments in Cohesion Policy 2014-2020



Source: Opencoesione data, own elaboration

Most of these projects are under EUR 10 million. Often the smaller financial dimension of projects is perceived as a limitation of cohesion policy. In the context of the current crisis, however, this is very positive. It is through multiple investments, consistent with precise and common objectives, implemented through a consolidated set of **rules** with widespread and structured **governance**, that cohesion policy resolves the trade-off between concentration and a strategic approach. This enables support to reaching deep into the territories and covering many different economic areas.

Let's start with **targets**. Cohesion policy is implemented through operational programmes, each of which defines its own strategy consistent with European and national priorities. In turn, each strategy is broken down into specific objectives which are constantly monitored through indicators. In addition, the effectiveness and efficiency of each programme must be assessed by an independent evaluator.

For the **rules**, cohesion policy is sometimes criticised for an excessive redundancy of controls. In our view, it is important to stress that these rules ensure high levels of *compliance* with tendering procedures and State aid that are difficult to achieve with other national public policy schemes. Error - not fraud, mind you - represents 3% of total investment on average, an extremely low rate compared to other national policies. Detected fraud is also a few decimal places. It should also be stressed that compliance with these rules does not entail higher administrative costs than for other policies, as the European Court of Auditors recently acknowledged.

For cohesion policy to achieve its objectives and apply the rules, **governance** is extremely important. In this programming period, the added value comes from regional and national structures which allowed actors from the public, private and third sectors to cooperate using similar instruments and aims in a close partnership. Governance frameworks vary and here we can mention three that are particularly significant:

- **Smart specialisation**: each region has adopted an innovation strategy enabling universities, research centres and businesses to cooperate in order to develop their territorial excellence with cross-fertilisation that makes it possible to recast the skills and competitive assets of the territories in the light of emerging technologies.

- **ITIs and CLLDs**: integrated territorial governance tools for urban renewal (ITIs) and rural development (CLLDs).

- The **Small Business Act**: a plan for businesses and public administration to address the issues of simplification together and build a more business-friendly environment.

Other examples include environmental governance at territorial level, but the above examples seem sufficient to illustrate why such governance structures enable funding to be translated into investments calibrated on the territories, combining strategy, discipline and granular interventions. Cohesion policy is not perfect but having benefited from 30 years of experience and developments, it can now be much more effective and, above all, fairer than hypothetical new Marshall plans.

As we know, cohesion policy is based on programming cycles. At the moment we are on the threshold of a transition between 2014-2020 and 2021-2027. Normally, new programmes should be drawn up at this stage. **Our proposal is to extend the 2014-2020 programming** beyond its natural expiry date, refinancing it partly with resources allocated to the first years of 2021-2027. This would allow administrations to focus on identifying and activating new infrastructure investments, especially green ones, necessary for innovation but also for the resilience of territories. This would give oxygen to priorities that could be penalised by a reallocation of resources to face the emergency. The commitment for such a 'reprogramming' would be limited, in terms of analysis, formulation and negotiation. In a phase (2020 and 2021) where the maximum orientation must be towards implementation, administrations could avoid the work of constructing new programmes, as well as intense negotiations with the European Commission.

The proposal, launched by us on 25 March, has provoked two main objections:

- Prolonging the 2014-2020 programming would not exploit the advantages offered by the new regulations. There is no doubt that regulatory proposals for the new 2021-2027 programming period are an evolution from the previous programming period, especially for administrative simplification.
- Extending the programmes would not give access to the benefits of the *New Green Deal* launched by the new Commission.

On the first objection about the **lack of opportunities for simplification**, observing the changes highlights three trajectories underlying the 2021-2027 regulatory framework for simplification:

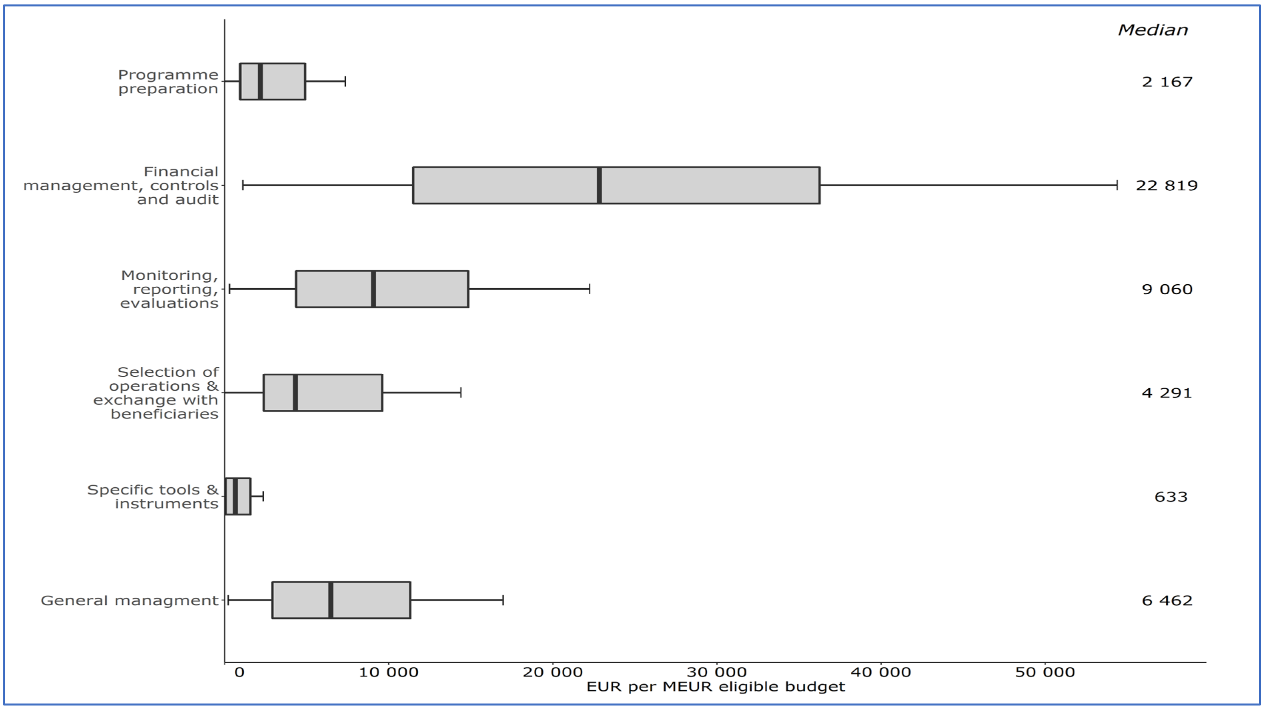
- programming level
- implementation
- monitoring and evaluation

For programming, it goes without saying that with the extension of the programming period there would be no need for new programmes in the near future. The simplification would therefore be even greater than from introducing a new regulatory framework.

Implementation, as stated in a recent study by the European Commission[1], is the phase with the highest administrative costs, mainly related to financial management, controls and audits, (see figure below). The same study also tells us that the greatest simplifications result from adopting simplified cost options and digital management systems (e-cohesion). The new 2021-2027 regulatory framework enriches simplified cost options and makes them easier to use, but it is important to note that many of the innovations in the new regulatory framework have already been introduced in the Omnibus Regulation 2018. For digital management systems, analyses show that most administrations have such systems in place. In summary, while the new Regulation 2021-2027 certainly offers further opportunities for simplification, many of the new elements have already been introduced. Moreover, in terms of simplification, it is worth remembering that for many managing authorities the greatest simplification is from regulatory stability. This point of view is certainly pragmatic, even minimalist, and particularly relevant when it is unreasonable to expect administrations to invest energy in learning new, albeit virtuous, rules when they are called to give answers to an extraordinary situation.

[1] 1 European Commission (2018), New assessment of ESIF administrative costs and burden

Figure 3 Administrative costs per million euros in programmes financed by the European Regional Development Fund and Cohesion Funds



Source: EC 2018, New assessment of ESIF administrative costs and burden.

The last level, monitoring and evaluation, has relatively little impact in terms of costs and administrative burden **-** see the study mentioned above. Moreover, it is worth asking whether relaxing accountability systems, so saving on evaluation and monitoring costs, is a wise choice and whether the financial benefits may justify the economic costs in terms of lack of transparency and ineffectiveness due to less knowledge of the real impacts of policies on territories.

Finally, on the point that extending the 2014-2020 regulatory framework would not allow the potential of the New Green Deal to be exploited, one of the five strategic objectives of this new regulation is: 'a greener, low-carbon Europe through the promotion of a transition to clean and fair energy, green and blue investments, the circular economy, adaptation to climate change and risk management and prevention'. At the same time, to see **the green scope already in the current 2014-2020 programming** in the right light, it is necessary to look at the strategic, financial and implementation elements.

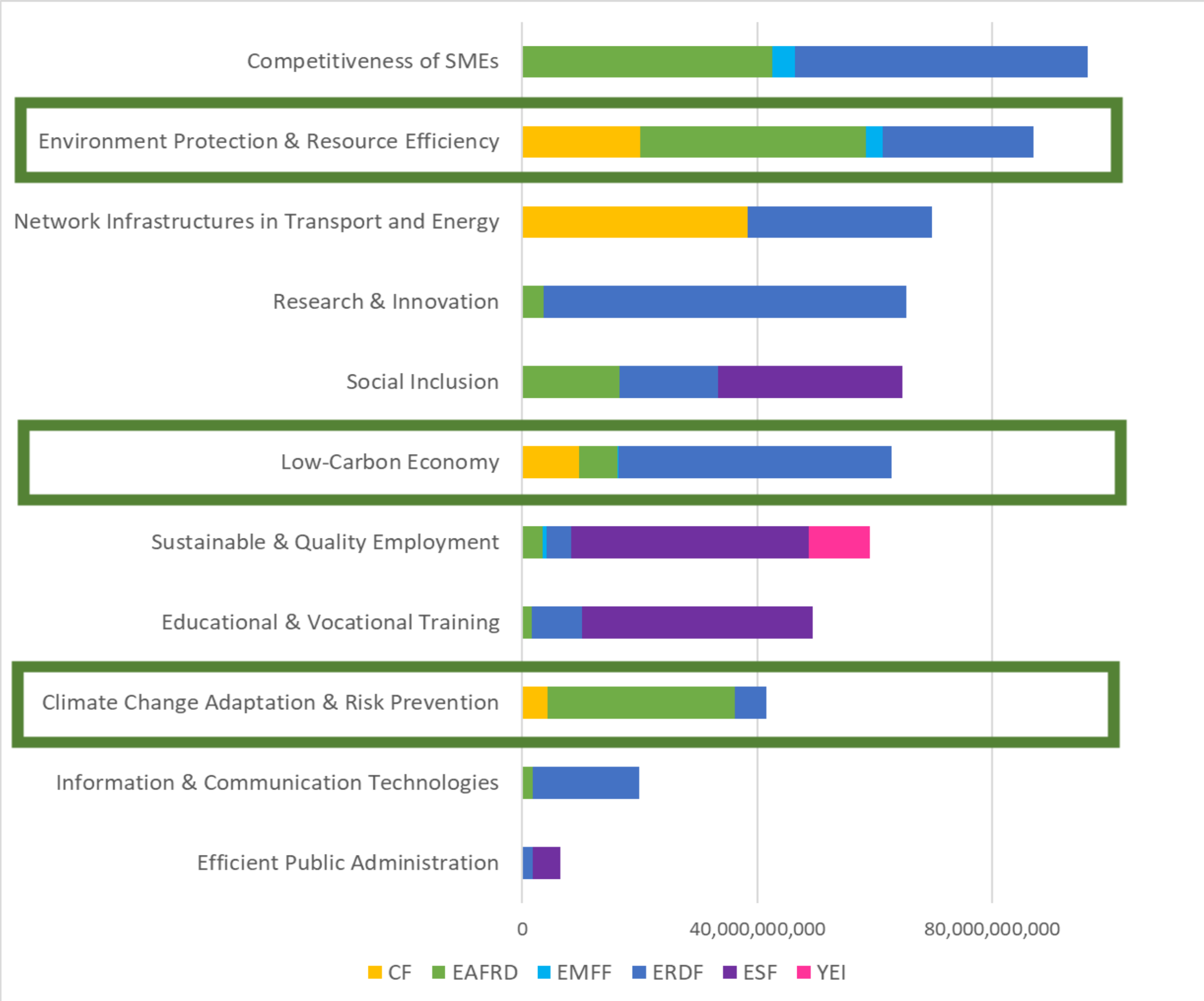
From a **strategic point of view**, the 2014-2020 Regulation foresees three green objectives (of the eleven available):

- Supporting the transition to a low-carbon economy in all sectors
- Promoting climate change adaptation, risk prevention and management
- Protecting the environment and promoting resource efficiency

Therefore, in terms of both content and relative weight, the current policy is already firmly oriented towards a markedly green approach.

From a **financial point of view**, expenditure on green objectives is 30% of the Commission's planned budget for the current programming period (see figure below).

Figure 4 Resources planned by cohesion policy thematic objective



Source: our processing of data from https://cohesiondata.ec.europa.eu/

For **implementation mechanisms**, the 2014-2020 regulatory framework has already made it possible to pursue an ecological transition by experimenting with innovative solutions. In this regard, we should mention two recent studies by the European Committee of the Regions and the Jean Monnet Excellence Centre on Sustainability which illustrate how during the 2014-2020 period innovative solutions such as financial instruments and ITIs have been adopted in full coherence with the *United Nations Sustainable Development Goals*.

In the light of the above, it is clear that current cohesion policy can already channel public and private investment towards an ecological transition, because it is already strategically and financially oriented to this.

In conclusion, **current cohesion policy is an ideal tool to channel resources in a disciplined way, deeply and strategically into the territories using a robust set of rules, a coherent strategic approach and, above all, solid governance structures**.

In the light of these considerations, **there are advantages of using the current regulatory framework and extending current programming. These seem to outweigh the potential benefits of introducing a regulation as early as 2021, albeit with a clear, green scope and important opportunities for simplification**. Its introduction, however rapid, would still mean that new programmes would have to be drawn up and negotiated, regardless of the time needed to learn the new rules.

This article was drafted by t33 partners: Michele Alessandrini, Nicola Brignani, Pietro Celotti, Giovanni Familiari, Andrea Gramillano, François Levarlet, Lorenzo Palego e Alessandro Valenza.