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Baden-Württemberg

Position paper

Shaping the European Cohesion Policy after 2027 with particular attention on ERDF support

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Ministry of Food, Rural Affairs and Consumer Protection
Ministry of Economic Affairs, Labour and Tourism
Ministry of Science, Research and the Arts
Ministry of the Environment, Climate and Energy Sector
State Ministry
of the State of Baden-Württemberg

Position paper

Shaping the European Cohesion Policy after 2027 with particular attention on ERDF support

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0. Foreword

The European Union faces many challenges. They range from digital and green transformation to the fight against the climate crisis, preservation of peace in Europe and the world, and social cohesion. In these times, the European Union's cohesion policy is a reliable basis for a strategic policy with a long-term perspective that can nevertheless respond to crises.

The state of Baden-Württemberg has played an active role in the process of shaping cohesion policy after 2027 through several position papers. Among other things, the Baden-Württemberg state government presented to the Commission the position paper of 7 February 2023 on the mid-term evaluation of the Multiannual Financial Framework, as well as a position paper on the transformation of the automotive sector presented to Members of the European Parliament in Baden-Württemberg.

The present position paper is intended to now further contribute to the focus on important aspects of ERDF support after 2027 in context of the meeting with Commissioner Elisa Ferreira on 19.2.2024.

1. Content-strategic positions

1.1. All regions participate in cohesion policy

The European Union can only become stronger if the more developed regions remain strong and obtain support in their transformation efforts. All regions of the European Union must therefore continue to participate in the cohesion policy of the European Union. More than ever, this is needed, especially in light of the green and digital transformation challenges that also affect the economically strong regions, and in view of global competition on issues such as innovation, infrastructure and location conditions. European innovation regions radiate across the EU. They create employment across Europe and strengthen the EU through the transfer of innovation to all European regions.

As the EU's main investment instrument, cohesion policy in the Multiannual Financial Framework from 2028 onwards should be provided with at least the same level of funding as before, plus inflation compensation. This equipment, and beyond this, the joint efforts of all regions can additionally enable added value and leverage effects by strengthening cooperation, sharing good practices and thereby strengthening cohesion within the Union. The ERDF and European Territorial Cooperation (ETC) programmes contribute equally to this.

1.2. Design programmes for the regional level

Cohesion policy is the EU's only investment policy with a place-based approach specifically at regional, i.e. sub-national level. In this way it offers the regions their own location-based design possibilities, with which they can address their respective different transformation needs. Programmes at national level, such as the German Recovery and Resilience Plan (DARP), are not an alternative to this because such programmes do not guarantee the necessary regional scopes.

It can be helpful to incorporate elements of administrative implementation from DARP into cohesion policy, such as the settlement system between Member States and the Commission on the basis of milestones.

1.3. Focus cohesion policy on transformation regions

With their high share of industry, **transformation regions** make an above-average contribution to the economic strength and competitiveness of the European Union. Necessary transformation processes not only concern those sectors directly involved in the promotion and conversion of fossil fuels, but in particular those sectors for which fossil fuel-based technologies are an essential basis.

In the spirit of a forward-looking cohesion policy, falling back of regions, especially due to major transformation challenges, thus creating new regional and interregional disparities must be prevented. There is also a need for coherence within more developed regions, as evidenced, among other things, by the eighth Cohesion Report.

Cohesion policy after 2027 should therefore focus more on transformation regions and should have adequate funding in order to effectively support the transformation processes in regions with a still strong industrial base. This can be reflected directly in the ERDF as well as through an enhanced Just Transition Fund that takes into account all transformation regions. In case of a successor instrument to the **Just Transition Fund**, all transformation regions should be able to participate, and not only those that promote and convert fossil raw materials.

For the allocation to Member States, in addition to gross domestic product (GDP), **other indicators** should therefore be included, which better take into account the framework conditions in the regions and meet the needs of transformation challenges.

1.4. The potentials of the STEP Regulation can be exploited

The STEP Regulation aims to establish a platform for strategic technologies for Europe¹. We welcome the aim pursued by the proposal to place a strategic focus on critical and new technologies in order to further advance

¹ Draft REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing the Strategic Technologies for Europe Platform (STEP) and amending Directive 2003/87/EC, Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241

the digital and green transitions in the implementation of the European Green Deal, to preserve and expand the European Union's lead in terms of these technologies, and to address the shortage of skilled workers.

Deep tech and digital technologies, environmentally friendly technologies and biotechnologies are key technologies for the future viability of the European Union. However, the field of application should not be drawn too narrowly. Topics such as the environmental economy, the circular economy and agriculture should also be addressed.

The target group of the STEP Regulation should not only address companies, but should also include research institutions as potential beneficiaries.

Large companies play an important role in the above-mentioned technologies; they are the ones in particular, who carry out the essential research effort in these strategic areas of technology in the economic sector. It must therefore also be possible to support large enterprises in more developed regions in Member States with a GDP above EU average. Their potential can be harnessed even more widely, in particular through cooperation with SMEs.

1.5. [Integrate transformation into the Smart Specialisation Strategy \(S3\), not request an additional transformation strategy](#)

ERDF funding will continue to need a forward-looking strategic umbrella. The strategic orientation of the main policy objective, the promotion of research, development and innovation for a competitive and smarter Europe, should remain aligned **with the Smart Specialisation Strategy** of each region. Innovations are also key to the success of digital and green transformation in their full breadth. Thus, Baden-Württemberg's Smart Specialisation Strategy is also the overarching umbrella strategy, which incorporates and integrates the goals and measures to manage the transformation into the overall target system. The following equation applies: **Smart Specialisation Strategy = transformation strategy = investment strategy**. An independent transformation strategy or investment strategy as an enabling condition or similar is not necessary and would only mean additional bureaucracy.

1.6. Increase co-financing rate for more developed regions to 50 %

The 40 % EU co-financing rate currently applicable to more developed regions is insufficient, as experience has shown. It reduces potential applicants' incentive to submit applications for ERDF funding, thereby to provide the basis for selecting innovative, high-quality and forward-looking projects.

At the same time, the high bureaucratic burden of EU co-financed projects cannot be justified if the EU share does not reach **at least half** of the funding.

The **EU co-financing rate** in more developed regions should therefore be increased to **50 %** in the next funding period.

1.7. Avoid artificial separation of innovation and environmental issues

Innovation and sustainable development are inextricably linked, ideally the green and digital transitions have a mutually reinforcing effect. Innovation regularly aims at sustainable development. Sustainable development cannot be achieved without innovative technologies. By strategically aligning the programme with an overarching strategy and using an appropriate earmarking, environmental objectives can be achieved and measured without the need for separating them into different policy objectives.

1.8. Strengthening the importance of European territorial cooperation (Interreg)

In times of multiple crises and many uncertainties, European cooperation needs to be further strengthened. In order to survive in global competition, cooperation within Europe is an important building block to network competences and to optimise value chains. In cross-border bodies Baden-Württemberg co-creates diverse living conditions in border areas and traditionally connects with European regions. Cross-border, transnational and interregional cooperation programmes are therefore of particular importance for the state and for the creation of an European added value that is felt by its citizens.

The State of Baden-Württemberg

- supports the continuation of Interreg in the three proven strands (cross-border (A), transnational (B) and interregional (C));
- encourages the continuation of **simplification and reduction of administrative burden** in order to **speed up processes** and
- calls for the allocation of a budget in the amount of at least the current funding period and with a corresponding inflation compensation.

For INTERREG A – cross-border cooperation Baden-Württemberg is committed to ensuring that:

- due to their successes the **small project funds** will be maintained and will be used in other programmes: In particular, small project funds contribute to strengthening people's and regional ties through meetings and joint projects.
- **in the future, third countries** (e.g. Switzerland) will be able to participate directly in small cross-border projects **with national funding**. This is currently excluded by Article 25(1) ETC Regulation.
- in programmes involving non-EU countries, in addition to the current ex-post conversion of non-euro expenditure, **recognition of the exchange rate will be allowed at the actual time of issuance**. The aim is to avoid financial disadvantages for beneficiaries.

With regard to INTERREG B and C – transnational and interregional cooperation – the state supports

- **closer integration with macro-regional strategies**. In order to preserve and enhance the effectiveness of cooperation, transnational programmes need to be linked more closely to existing and future macro-regional strategies, without using them as the sole implementation tools of macro-regional strategies.
- adapting the **orientation and geography**, in particular of transnational programmes in order to meet the new challenges of our time. The need for cooperation in many thematic areas does not stop at programme area boundaries; more cooperation opportunities are needed across Europe.
- **the EU co-financing of at least 80%** for projects to allow also financially weaker institutions to participate in the programmes.

- the **reduction of distortions of competition**, which are partly caused by individual Member States' total commitment to co-financing. This leads to an above-average number of partners in these countries (partially with lack of project ownership) and thus to large numbers of applicants, which prolongs the overall procedural time.

1.9. Avoid minimum quotas for policy objectives, sustainable urban development, etc.

Minimum quotas should be avoided for policy objectives that are closely and inseparably linked and interwoven, such as Policy Objective 1 for a smarter Europe and Policy Objective 2 for a greener Europe. Such minimum quotas limit the possibility of creating a tailor-made programme for each region. At the same time, this increases the bureaucratic effort, especially since such quotas must be respected over the funding period.

A minimum quota for sustainable urban development is not effective simply because it has to call for a minimum quota for other territorial structures. Moreover, territorial development, known as 'sustainable urban development', does not go far enough, as it more likely hinders a comprehensive integrated territorial approach, such as RegioWIN and RegioWIN 2030, rather than promoting it.

Minimum quotas should therefore be waived in general in the future.

1.10. Maintain and enhance flexibility in the planning and implementation of the Structural Funds. More room for experiments.

Flexibility in the planning and implementation of the Structural Funds should be maintained at least, or better still developed in order to create more space for experimentation. In this way, regional needs for the green and digital transformation of regions can be addressed even better and, to a certain extent, improve the response to crises.

1.11. Improve coordination of EU policies at EU level to facilitate synergies between EU instruments

The coordination of EU policies at EU level should be improved in order to facilitate **synergies** between EU programmes and instruments and EU macro-regional strategies. This applies in particular to the coordination between Horizon and the ERDF. The very different funding logic of the directly managed Horizon programme and the ERDF programme which is implemented under shared management make coordination difficult.

So far, it is more or less a matter of chance if, with great effort, it is possible to generate effective cooperation projects out of the previously uncoordinated calls of the two programmes, in which Horizon (or other EU instruments) and ERDF support can complement each other effectively in a region and thus generate synergies.

From a Baden-Württemberg point of view, the Seal of Excellence is not an appropriate tool to generate synergies, as this seal raises expectations that the ERDF programme cannot usually meet. These include, among other things, the significantly higher funding rates and funding amounts in Horizon Europe.

The funding logic, funding conditions and the time schedule of EU instruments should be better coordinated in order to enable synergies.

1.12. Continue to allow the use of grants

In order to generate high benefits and added value, Baden-Württemberg uses ERDF funds in particular for investments in research, development and innovation as well as for technology transfer in the non-economic sector. This applies equally to the objectives of a smarter and a greener Europe. Such investments and financing cannot generate a return and therefore funding cannot be repaid.

In addition, Baden-Württemberg has established a well-balanced financing and support landscape for the funding of companies, which leaves no room for EU co-financed financial instruments (such as loan funds, equity instruments, venture capital, etc.). This is regularly investigated in studies.

The results show that the grant from ERDF and/or national funds is often an important basis for the creditworthiness of SMEs.

The use of grants must therefore remain possible in cohesion policy.

1.13. State aid law: Improve conditions for non-assisted areas and harmonise aid regimes

European State aid law needs to take greater account of transformation needs of strong and innovative industrial ecosystems. These “transformation regions” create employment and strengthen the entire EU through the transfer of innovation and supply chains to all European regions. And especially these strong regions are indispensable in order to be able to globally shift the industrial value-added process to climate-neutral production. The current distribution of grants under state aid law to assisted areas promotes intra-EU competition with unequal conditions.

State aid policy should therefore focus more on the needs of more developed regions and transformation regions in order to avoid competitive disadvantages. This includes in particular the possibility to support large enterprises with significant aid for investments.

Consideration should also be given to exempting Structural Fund support from state aid law when approving the programme.

Alternatively, comparable support in directly managed programmes and under shared management should be treated in the same way in terms of state aid relevance and should therefore be harmonised.

2. Cutting red tape and simplification

2.1. Legislative package adopted in time

The legislative process on the ERDF regulation for the funding period after 2027 must be organised in such a way as to avoid a late start-up of the new programmes. The aim should be to complete the legislative process again half a year before the start of the new funding period, as last achieved in 2006. It is only under these conditions that the planning and implementation of the programmes can be rescheduled again, enabling early start-up, timely commitment, continuous outflow and closure without special arrangements.

2.2. No further loading of project selection criteria

In addition to the actual content-related objective, the project selection criteria are loaded with a variety of other objectives. These include four cross-cutting objectives on social and environmental objectives, the New European Bauhaus objective, the climate impact assessment, the “Do No Significant Harm” review, and more. This results in complex selection processes with high bureaucratic effort and lengthy processes. In addition, there is a risk that potential applicants will jump off due to the high bureaucratic burden, or ultimately refrain from funding and implementation of the project.

Therefore, the project selection criteria must not be loaded with even more basic requirements and other conditions.

2.3. Better coordinate environmental issues at EU level

In the current funding period, a large number of environmentally relevant processes are to be completed with regard to climate and environmental protection:

- carry out a strategic environmental assessment of the programme;
- evaluate the “Do No Significant Harm” principle in advance and then follow it,
- operationalise the cross-cutting objective of sustainable development;
- carry out the climate impact assessment of infrastructures;

- carry out the labelling of expenditure related to climate and environmental objectives;
- implement policy objective 2 for a greener Europe with a quota;
- meet the enabling conditions of Policy Objective 2;
- take into account the principles of the New European Bauhaus Initiative;
- include sustainability criteria in procurement.

The objective of environmentally and climate-friendly implementation of the programmes is consensus. However, the above-mentioned requirements are partly overlapping, are partly inconsistent (climate protection contribution from certain intervention fields, earmarking) and, in some cases, were also significantly too late for an early, efficient implementation of the programme. In the future, such targets will need to be better aligned and coordinated at EU level.

2.4. Reduce data acquisition and collection

The amount of information to be recorded and stored in the computerised system per project increases from funding period to funding period. At present, this figure amounts to 142 data per project. This includes information on the beneficial owners of undertakings and, in the case of public contracts, on the contractors and their subcontractors. This results in considerable effort and, in addition, significant deterrence potential for the beneficiaries. For example, if the ERDF managing authority has to explain to a municipality as a beneficiary that its contractor must declare to its subcontractor that even sensitive data about the subcontractor will be processed and stored in the promotional bank's system, this is no longer communicable. The effort for acquiring and collecting data must therefore be significantly reduced.

In this context, the European Commission's data mining tool "ARACHNE" is designed to enable the comparison of the aforementioned 142 data with data from other publicly available databases and thus to identify risks related to fraud and corruption. The instrument has not proven its suitability to this day. The use of this or such kind of instrument should continue to be possible on a voluntary basis and not be mandatory.

2.5. Further reduce reporting

In the 2021-2027 funding period, detailed data on programme implementation is transmitted to the Commission five times a year. In order to be able to deliver consistently high data quality, the high frequency of data deliveries involves a corresponding effort in testing and plausibility checks. The number of data deliveries should therefore be reduced from five to two. At this frequency of reporting, progress in programme implementation remains be well comprehensible.

2.6. Introducing more standardised SCOs

The use of simplified cost options, such as standard unit costs for personnel costs or flat rates for residual costs or overheads, greatly facilitates the provision of funding. Cost rates already set out in the Regulation represent particular advantage and do not require further verification or plausibility by the Member State.

In addition to the existing standardised simplified cost options, more should therefore be defined in advance in order to minimise the bureaucratic effort and the vulnerability to errors.

2.7. Keep performance assessment and programme implementation review under the responsibility of programme managers; flexibility reserve within the competence of the Member States

The performance evaluation and review at mid-term of programme implementation should be fully the responsibility of programme managers. The mid-term review is carried out by the Member States, but afterwards reviewed by the Commission. This also takes into account external factors that are not directly linked to the implementation of the programme, such as the country-specific recommendations. A mid-term review designed in this way is not effective in the sense of long-term reliable planning (security of planning).

The budget of a programme must be fully available from the outset in order to enable its use at an early stage in accordance with programming and predictive management (security of planning). Especially model projects and lighthouse projects have a long project duration due to the preparation and planning phase, the competitive selection and the subsequent implementation phase. It is no longer possible to implement such projects halfway through the programme period when the mid-term review takes place.

A flexibility reserve deferring part of the programme budget in order to be able to respond flexibly to new challenges should therefore be the responsibility of the Member States on the one hand and, on the other hand, can only be used on a voluntary basis. A binding flexibility reserve of 15 % of the programme volume, as fixed in the 2021-2027 funding period, which will only be definitively allocated by the Commission after a mid-term review, should be waived in the future.

