



EUROPEAN COMMISSION
 DIRECTORATE-GENERAL
 REGIONAL POLICY

HIGH LEVEL GROUP REFLECTING ON FUTURE COHESION POLICY

REPORT OF SIXTH MEETING, 23-24 SEPTEMBER 2010

1. INTRODUCTION

On 23-24 April 2009, Ministers responsible for Cohesion policy met in Mariánské Lázně to discuss future policy directions and delivery systems. Danuta Hübner, then Commissioner for Regional Policy, also attended this meeting at which she presented a Reflection Paper on future Cohesion policy and announced the establishment of a High Level Group reflecting on future Cohesion Policy (HLG) to provide an informal platform for discussion between Commission services and Member State policy makers.

The sixth meeting of this HLG took place on 23-24 September 2010 and was attended by national government experts from the 27 Member States, by observer government experts from Croatia, by members of Commissioner Hahn's Cabinet and by representatives from the Directorates-General for Agriculture and Rural Development; Budget; Climate Action; Employment, Social Affairs and Equal Opportunities; Energy; Enterprise and Industry; Environment; Maritime Affairs and Fisheries; Research; Regional Policy; and the Secretariat-General. Representatives from the European Investment Bank also attended the agenda item on non-grant financial instruments.

2. NON-GRANT FINANCIAL INSTRUMENTS FOR ERDF AND COHESION FUND

The Directorate-General for Regional Policy presented a number of considerations and questions for the possible future development of non-grant financial instruments based on results achieved and experience gathered to date. These included: the rationale and scope of financial instruments; minimum requirements and rules to be observed; incentives, blending and leverage; financial management and control; and institutional questions.

The European Investment Bank outlined progress to date with the JEREMIE and JESSICA facilities, highlighting critical issues for implementation, such as leverage rate, how to create revolving funds, increase of allocation efficiency, and connecting supply with demand through tailor-made products which take account of the needs of the financial beneficiaries. The Directorate-General for Employment, Social Affairs and Equal Opportunities added that non-grant financial instruments are

being progressively introduced in ESF-funded programmes, in particular through micro-finance facilities and interest rebates.

The main points made by the experts were as follows:

- There is general support for the continuation and strengthening of use of non-grant financial instruments in the future. Such instruments are perceived as useful for leverage of private sector expertise and finance, particularly in a context of budgetary austerity. Some experts also consider that they contribute to more efficient and effective implementation. However, others said that the effectiveness and efficiency of these instruments should be further evaluated and pointed to high implementation costs, including for funds delivered with the EIB and EIF.
- A large number of experts expressed the view that non-grant financial instruments could not entirely replace grant instruments in the future. Critical mass and economies of scale are crucial to determining whether such instruments can be appropriately used. However, some experts argued that an increase in the relative share of non-grant instruments vis-à-vis grant instruments (e.g. for certain sectors) might be envisaged if the general conditions for use of financial instruments were improved. Some Member States are already moving in this direction, and one expert suggested that the Commission should take a more active role in future negotiations to urge application of non-grant instruments where this is appropriate.
- Experts agreed that geographic coverage should be flexible, allowing Member States to find tailor-made solutions for the establishment of financial instruments (regional, multi-regional, national or cross-border as appropriate).
- Several experts underlined the need to ensure clear, simple and stable rules throughout the programming period as regards both implementation and audit. Many experts consider that a separate tailor-made set of rules for financial instruments would be helpful, in particular for audit issues.
- There were some specific suggestions regarding possible expansion of eligibility in the future, including eligibility of working capital for SMEs, incentives for use of repayable assistance, combination of grants and loans.
- Most experts agreed that the quality of EIB technical assistance was good, though expensive, and supported the idea of setting up a European technical support facility for this type of intervention. Several experts also said that enhanced dissemination and sharing of good practice would be helpful in better informing implementation of non-grant financial instruments.

The Directorate-General for Regional Policy is organising a conference on JEREMIE and JESSICA on 29-30 November in co-operation with the European Investment Bank Group. Building on recent experience of implementation, it will provide updated information about the progress of both initiatives across Member States, including case studies presented by national and regional authorities, and financial institutions. Member State experts are invited to attend. Further to this conference and any written contributions received from Member State experts on

the document prepared for today's meeting, the subject may be discussed again at a future HLG meeting or in another forum as appropriate.

3. FUTURE EU SUPPORT FOR THE LOCAL DEVELOPMENT APPROACH UNDER THE EUROPEAN REGIONAL DEVELOPMENT FUND

The Directorate-General for Regional Policy presented a number of considerations for the possible future application of local development, with particular focus on the need for better coherence and coordination of local development approaches supported by different funds; clarification of the local development methodology; harmonisation of rules and regulations; appropriate delivery mechanisms and the possibility for support and earmarked funding for capacity building and implementation. These considerations built on the results of a recent study on Cohesion Policy support for local development, involving a wide range of stakeholders and experts ('Cohesion policy support for local development: Best practice and future policy options', final report April 2010: http://ec.europa.eu/regional_policy/consultation/terco/cp_support_local_dev_en.pdf http://ec.europa.eu/regional_policy/consultation/terco/cp_support_local_dev_fr.pdf)

The Directorate-General for Agriculture and Rural Affairs gave an overview of the experience of the 4th generation of the LEADER initiative, integrated into overall rural development policy for 2007-2013. Several Member States have chosen to go beyond the 5% minimum allocation for LEADER, for example Denmark, Spain, Ireland and the Netherlands. There are a total of 2155 Local Action Groups. Issues arising include the need for proportionality of controls and clear, simple rules, the potential conflict of interest at local level raised by the Court of Auditors, the perception that integration into the mainstream has sometimes led to less scope for innovation and the need for better coordination with other policies and funds.

The Directorate-General for Maritime Affairs and Fisheries presented the experience of FARNET, a LEADER-inspired initiative within the 2007-2013 European Fisheries Fund programmes, based on the objective of the sustainable development of fisheries dependent areas delivered through an area-based approach including local decision-makers. Local Action Groups are currently operating in 11 countries. Issues arising include the need to provide support for local capacity and networking as well as positive incentives for innovation, and the importance of adopting a common approach to local development across all funds concerned.

The main points made by the experts were as follows:

- The paper was welcomed as providing a basis for consideration of this important topic which often appears in policy papers but which has not been adequately addressed in previous discussion fora. The paper was also seen as timely in the light of current discussions regarding implementation of the Europe 2020 Strategy and the need to better involve regional and local levels in its future delivery.
- There are mixed views concerning whether the local development approach in ERDF and CF needs to be strengthened in future, either through a more precise regulatory framework or through earmarking. Some consider that the local

development approach is not applied or supported in the absence of earmarked funds and that a certain top-down encouragement is necessary. Others do not support earmarking, arguing that their Member State already supports local development approaches. Some experts said that they would not object to earmarking but that it should be applied at operational programme rather than EU level.

- In this context, there was general agreement that there should be no EU-level specification of minimum and maximum areas or population sizes, as this will depend very much on the characteristics of the specific Member State.
- There is general appreciation of local development. Some emphasised that local development requires capacity building but that the results are good. Several experts consider that lessons could be learned from the LEADER approach for future ERDF and CF as regards capacity-building, ownership, harnessing local potential and the application of an integrated approach. However, some experts also described challenges with the implementation of LEADER and other local development initiatives, in particular highlighting complexities of local political systems, difficulty in coordination of separate funds and slow absorption rates. Few experts would support a wholesale application of LEADER approach to the ERDF programmes.
- There was general agreement that it is vital to focus on greater harmonisation and to avoid fragmentation at both policy and delivery level. Some experts consider that a single strategic framework could help in this regard but others consider that it would not be enough and that more will need to be done in order to ensure harmonised delivery rules for all funds (ERDF, CF, ESF, RDF and EFF).

4. FINANCIAL MANAGEMENT AND CONTROL: MANAGEMENT STRUCTURES, CLEARANCE OF ACCOUNTS AND ROLLING CLOSURE, ELIGIBILITY

Further to the discussions at the March and June High Level Group meetings, the Directorate-General for Regional Policy presented further details on proposed future arrangements for management structures, clearance of accounts and rolling closure, as well as a brief overview of internal work recently started on the mapping of eligibility rules across different EU funds.

Management structures

Referring to the Commission proposal for the amendment of the Financial Regulation setting out common principles for delivery systems of policies implemented under shared management, the Directorate-General for Regional Policy presented further details on the implications of the proposal for the accreditation of one or more 'accredited bodies' which would assume sole responsibility for the proper management and control of EU funds. Given that the setting up of systems for the period 2007-2013 has generally led to the establishment of reasonably solid management systems, it was emphasised that major overhauls should not be necessary and that it was essential to retain the expertise gathered by different authorities to date. A number of options for amended management structures were suggested, although it was emphasised that this was not an exhaustive list.

The main points made by the experts were as follows:

- There was general agreement that the arrangements for the setting up of the current system had been time-consuming but had clear added value. In this context, there was a strong message that future systems should build on current systems with as little change as possible in order to ensure continuity and to limit administrative costs. Most experts felt that changes to the present systems would be justified only where they would constitute a clear simplification or lead to an increase in efficiency.
- Some Member State experts commented that the proposed system is based on the need for better alignment of the management of different EU funds and also a stronger political commitment concerning the effectiveness of the systems. Others were more sceptical about the potential benefits of the proposed changes, saying that there should first be more analysis of the present systems and their effectiveness and that proposed changes should focus on moving towards a more performance-based and results-oriented system.
- Some Member State experts commented that one or more of the options proposed would be feasible in their Member State. However, others expressed doubts as to the feasibility of the options proposed, due to factors of institutional set-up, institutional capacity or size of Member State, and emphasized the importance of retaining flexibility in the set up of structures. A number of experts expressed a particular concern that finding an accrediting authority of sufficient competence and authority would be difficult. Some also noted that replacing present coordinating bodies with accrediting authorities would be a loss, as the latter would only have limited supervisory functions and would not steer the implementation towards achievement of results.
- Several Member State experts highlighted that special arrangements would need to be considered for the European Territorial Cooperation objective and recalled the importance of proportionality, suggesting that very small programmes could be exempted from some of the obligations.

Clearance of accounts and rolling closure

Referring to the Commission proposal for the amendment of the Financial Regulation, the Directorate-General for Regional Policy outlined the stages of the process of clearance of accounts, as well as the potential implications of the proposals on clearance of accounts and rolling closure of ERDF and Cohesion Fund for the national authorities and for the Commission. The proposed process for clearance of accounts would establish greater coherence in timing and a more direct link between the annual opinion and the transactions of a specific budget year. In addition, regular partial closure would provide more legal certainty for beneficiaries and national authorities and would reduce the burden of document retention.

The main points made by the experts were as follows:

- In principle there is broad agreement that a system based on annual clearance of accounts and especially one which includes a more regular partial closure has benefits. However, this support is somewhat diluted by the concern that this system as applied to ERDF and Cohesion Fund could lead to increased administrative burden and reduced flexibility in terms of replacement of expenditure.
- The main concerns expressed related to the proposed timetable for annual clearance of accounts: it was noted that the schedule is not congruent with the national budgetary or fiscal year, that 15 October is too early a deadline for the closure of accounts from 30 September and that there would not be enough time for the audit authority to complete its work. This last issue in particular will be the subject of further discussion at the annual meeting of the Homologue Group of Audit Authorities on 18-19 October.
- Some experts consider that the introduction of an annual management declaration would constitute an additional burden but be of limited added value in terms of assurance as it is envisaged to be presented by the managing authority rather than an independent body.
- As at previous HLG meetings, experts emphasised that the introduction and functioning of this system would be conditional on there being sufficient advance payments to Member States.
- Questions were posed regarding the place of non-grant financial instruments in this system (to be discussed separately as will depend on the general eligibility rules for such instruments) and the treatment of the final balance of 5%.

Eligibility rules

The Directorate-General for Regional Policy informed the HLG that an inter-service group has been established to map current eligibility rules and identify areas for potential improved alignment post-2013. The inter-service group includes representatives from over 10 Directorate-Generals covering all areas of shared management and many instruments under direct management of the Commission. Issues identified to date include overheads, staff costs and value-added tax.

The next meeting of the HLG will devote an agenda item to this topic. Member State experts are invited to send written contributions presenting their experience and views by 16th November in order to help inform preparation of the discussion.

5. NEXT STEPS AND FUTURE OF THE HLG

The next meeting of the HLG will take place on 2-3 December. This topics for discussion will be urban and eligibility. There will also be a presentation of the 5th Cohesion Report.

The HLG was established as an informal advisory group to support the work of the Commission in developing the main building blocks of post-2013 Cohesion policy.

In view of the timetable for development of future Cohesion policy and the fact that many HLG Member State experts also sit as representatives in formal Council structures such as the Structural Actions Working Group, it was originally planned that the mandate of the HLG would expire at the end of 2010. Several Member State experts have expressed an interest in the continuation of the work beyond that date in order to provide a forum for the discussion of practical aspects of proposals from an implementation perspective. The Commission is currently considering the options and will communicate its decision on the future of this HLG to Member States and to the other Institutions in due course.