

## **Reflection paper on future Cohesion Policy**

### **Informal Meeting of Ministers for Regional Policy**

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#### **1. INTRODUCTION**

The last 20 years have seen fundamental changes driven by the shared process of broadening and deepening of the European Union. The historic enlargement to the East has fundamentally changed the map of Europe, enriching its cultural and economic potential, as well as significantly increasing its population and number of regions. The single currency and market have provided the basis for stability in the face of external challenges and increased economic integration. At the same time, forces such as globalisation, the information society and environmental concerns have steadily transformed Europe. However, the unfolding of the recent economic crisis has highlighted how quickly changes can touch the fabric of Europe's economy and society.

It is now almost two years since the adoption of the Fourth Report on Economic and Social Cohesion. This report launched a wide ranging debate on the future Cohesion Policy. Since then a number of important initiatives have been undertaken to enrich this debate with analysis, stakeholder involvement and exchanges with academics and other international organisations:

- Results from the consultation on the 4<sup>th</sup> Cohesion Report were summarised in the Fifth Progress Report on economic and social cohesion of June 2008 which stressed the need for an ambitious European Cohesion Policy, with competitiveness remaining at the heart of the policy.
- A working paper on the challenges facing the regions of Europe "Regions 2020" was presented in December 2008. This provided a first prospective analysis of the likely regional impact of four major challenges facing Europe: globalisation, demographic trends, climate change, and energy use and supply. The report concluded that the European policy framework must be adapted to help regions meet the challenges of 2020, and that all regions will need to find tailored solutions to meet the combination of challenges which they face.
- The first results from the consultation on the Green Paper on Territorial Cohesion point to the need to take account of territorial diversity and functional economic areas, to better coordinate EU policies, to improve understanding of territorial processes and to develop more strategic and flexible territorial cooperation.
- Work undertaken by the OECD has stressed that countries are moving forward with the implementation of a new approach based on the capacity to mobilise regional development potential and offer a tailored set of public goods and services. It stresses that regional policy can help achieve agglomeration economies in all types of regions, including smaller cities and rural areas as well as large conurbations.

- Fabrizio Barca has undertaken an independent review of Cohesion policy. This is based on a series of meetings with academics and practitioners which have taken place during 2008 to assess the achievements of cohesion policy to date and to discuss the policy's rationale, objectives and governance.
- First results from the ex post evaluation of Objectives 1 and 2 2000-2006 are emerging and the full results will enrich debate in the coming year. Analysis of the programming of the current period has also been carried out through evaluation and the Communication "Member States and regions delivering the Lisbon Strategy for growth and jobs through EU Cohesion Policy, 2007-2013".

This paper builds on the key issues identified in this work, and sets out possible orientations as regards the rationale, goals, delivery of EU priorities and delivery mechanisms of future Cohesion policy.

## 2. A STRENGTHENED RATIONALE FOR THE POLICY

The goal of economic and social cohesion was first expressed in the Single European Act and became reality in 1988 with the adoption of the first regulation for Cohesion Policy. In the early years of the policy, the drivers of structural change were largely internal and linked to the establishment of the single market and currency, and the restructuring of important industrial sectors such as coal, steel or textiles. Cohesion policy played an essential role in facilitating and accompanying these processes. With increasing external challenges, the focus of the policy has shifted to supporting adaptations brought about by the global economy and integration of new members into the single market. The Lisbon strategy has stressed the need for the European Union as a whole to maximise its potential to seize the opportunities offered by globalisation. However, the current financial and economic crisis has highlighted the structural weaknesses of Europe's countries and regions. In this global context, supporting competitiveness by building comparative advantages in all regions is the most effective way to achieve cohesion.

*By mobilizing territorial potential to promote competitiveness, Cohesion policy can help all regions to contribute to a sustainable and prosperous Europe.*

Europe needs a high skills, high innovation economy with efficient markets underpinned by robust interconnections. Securing high levels of employment, innovation and skills in lagging regions brings efficiency gains, makes regions more attractive to investors and increases standards of living. Cohesion policy can help regions to stand on their own feet in a globalised economy by helping them to target factors of competitiveness and make better use of their unexploited economic potential. In this way, Cohesion policy can therefore deliver simultaneously greater efficiency and equity.

*Cohesion policy, by mobilising underutilised resources, is a development policy that ensures that all territories, lagging and non-lagging, improve their contribution to overall economic efficiency and growth.*

This rationale for Cohesion policy, aiming at sustainable growth across the territory, has found a strong resonance in emerging economies such as China, Russia and Brazil. The signing of cooperation agreements in the field of regional policy lays the basis for establishing international economic relations at the sub-national level and for further exchange of experience between regions inside and outside Europe.

### 3. A REINFORCED ROLE FOR TERRITORY AND INSTITUTIONS

Mobilising the full potential of Europe's regions requires policies that help people and businesses to make the best use of tangible and intangible **territorial assets**. Many problems are best solved at a territorial level, whether this is local, regional, functional or cross-border. This approach has been central to the implementation of Cohesion policy since its inception. However, it has been more explicitly formulated in the context of the recent consultation on **territorial cohesion**. At the same time, there is an emerging consensus in the OECD on the role of place-based policy approaches in capitalising on territorial assets and locational advantages such as knowledge, skills, specialisation, and proximity between economic agents. Place-based policies built on local geography and institutions can help deliver **sustainable development** by bringing about long-term changes in behaviour, governance and use of resources in the regions concerned.

In this respect, sound institutions at national, regional and local levels are central to economic and environmental performance and specifically to the effectiveness of Cohesion policy. For this reason, Cohesion policy has focused on building the administrative structures and organisational cultures necessary to implement complex investment programmes. However, there is scope for a stronger emphasis in future cohesion policy **on the development of effective institutions**, perhaps with associated incentives and conditionalities.

In an appropriate framework of multi-level governance such as that offered by Cohesion policy, place-based approaches can address economic inefficiency or social polarisation through the **integrated delivery** of public goods and services tailored to the needs of particular places. They have the potential to promote more innovative policies and strategies, to strengthen institutions and to improve the access of firms and citizens to goods, services and information. Place-based policies can cluster activities in rural areas, small and medium-sized towns building on scope for agglomeration economies. They can foster interaction between peripheral regions and large metropolitan areas, or between business districts and deprived urban neighbourhoods, focusing interventions more strongly on territorial interlinkages. This entails **a reinforced approach to rural and urban development**, with an increasing need to facilitate and indeed **reinvent rural-urban linkages**.

*The territorial dimension of Cohesion Policy should be reinforced. There must be a stronger focus on institutional capacity, the creation of linkages and the provision of integrated solutions to new challenges.*

### 4. DELIVERING THE POLICY'S OBJECTIVES - A STRONGER FOCUS ON CORE PRIORITIES

The basic goals of Cohesion policy – increasing competitiveness in all regions, removing barriers to growth in particular in the poorest regions and territorial cooperation – remain as relevant as ever. However, their focus needs to be reexamined in the light of changing expectations and the role that territorial assets, institutions, sustainability and agglomeration play in responding to global challenges.

In all regions, **strategies for competitiveness must build on territorial assets and comparative advantages** to foster innovation and development capacity. To achieve

sustainable growth and social cohesion, regions need the strategic capacity to identify their growth potential, build partnerships and make the best out of complex trade-offs and synergies between environmental, economic and social concerns.

Many EU priorities linked to competitiveness (innovation, entrepreneurship, social inclusion, energy efficiency, infrastructure) have a strong territorial dimension. Cities and small towns in rural areas can be motors of growth and sustainable jobs. The drivers of regional competitiveness are very often intangible factors linked strongly to territories – sharing of knowledge, proximity, informal networks, human, social and institutional capital, strategy development, capacity building. Cohesion policy could therefore achieve greater added value by targeting regional competitiveness measures more strongly on mobilising relevant territorial assets.

Such an approach would imply a considerably more targeted set of core priorities linked to innovation, entrepreneurship, and development of integrated local strategies in urban and rural areas. This would also require examination of whether there should be a more localised and integrated approach to social cohesion.

*In all regions, promoting competitiveness calls for a stronger focus on know-how, capacity building, strategy development and networks. Local communities and NGOs, particularly in cities and rural areas, should play a more important role in delivering priorities on the ground.*

The reduction of disparities between regions and **the focus of the policy on the poorest parts of the EU** commands a strong consensus in both policymaking and academic circles. It reflects both equity and efficiency concerns. This reduction of regional disparities is not an end in itself, but a fundamental element of the harmonious development of EU integration, including enlargement and the single market. Poor regions constitute underutilised resources that could be contributing to overall EU growth – in particular, the new Member States have been identified as potential growth dynamos. However, to achieve their full potential and make full benefit of the single market, many regions need support to close the infrastructure gap in transport, ICT, environment, energy, human capital, education and research.

*In regions experiencing strong barriers to growth, it will be essential to address the key bottlenecks and identify the core capacities to facilitate integration in the single market and unlock their growth potential.*

In a national context, disparities may increase during periods of significant structural change that accompany rapid growth. It is therefore important to ensure that the poorest regions are able to benefit from national growth poles and that the foundations for future growth are established.

*Cohesion policy should play a more important role in ensuring that lagging regions are able to benefit from knowledge and technology spill-overs from leading regions.*

There is a strong consensus on the EU added value associated with territorial cooperation. However, although networking and exchange of experience activities are well established there is considerable scope to further develop the role of territorial cooperation in providing common solutions to shared problems. Indeed, there is an increasing demand for shared implementation mechanisms in the context of concrete cross border and network interconnection projects. The experience of the Baltic Sea Strategy has demonstrated that in certain functional macro-regions there is a common desire to go

beyond pure cooperation and to explore stronger commitments. To achieve this, a number of elements could be considered:

- An overall EU strategy to provide a framework for co-operation activities could be put in place. Transnational/cross-border programmes could be conditional on a supportive policy framework being established by the participating Member States.
- Other barriers to more intensive cooperation could be addressed such as whether transnational and cross-border funding should be allocated to programmes rather than individual Member States.
- Many cross-border and transnational challenges extend beyond the boundaries of the EU. Within the European Neighbourhood policy, the increased focus on regional policy interventions calls for increased exchange of experience and support to the institution building process.

*The need to find common solutions to shared problems will require a reinforcement in scale and a shift in the nature of territorial cooperation. The role of cohesion policy in developing energy and transport networks, the growing challenges of migration and security, and the need to address shared environmental concerns and promote economic integration call for an increased focus on cooperation with neighbourhood countries.*

## 5. DELIVERING EU PRIORITIES

In achieving its objectives, Cohesion policy contributes simultaneously to the delivery of key EU priorities. However, evidence increasingly suggests that the full potential of double dividends between Cohesion Policy and other policies is not being fully realised. This potential could be better achieved through **better coordination between cohesion and sectoral policies at national and EU levels and an increased targeting of interventions**.

To achieve maximum impact it would be necessary to focus a significant proportion of cohesion policy funding on a more limited number of narrowly defined core EU priorities. The selection of these core priorities should be the subject of a strategic political process involving the EU and Member States.

- In the case of measures targeting competitiveness and employment under the Lisbon Agenda, in spite of close cooperation, the integration of the National Reform Plans and Cohesion policy measures has often been disappointing. In particular, linkages between the micro-pillar and relevant cohesion policy measures were often unexploited.

*In future, stronger links must be built between cohesion policy programmes and the Lisbon Strategy.*

This could be achieved by a stronger integration of national Lisbon objectives in programmes, and greater involvement of local and regional partnerships in the national Lisbon coordination structures and national employment strategies. In delivering the Lisbon Agenda, **mobilising innovation and research potential at regional level** is equally important. In the context of stronger links, it is necessary

to sharpen the earmarking mechanism together with the concentration on core priorities.

- The fight against climate change and its impact on Europe's environment, economy and society have become central to the European policy agenda. This applies both to efforts to mitigate climate change by tackling greenhouse gas emissions and to the need for measures to adapt to the consequences of climate change. Cohesion policy can contribute both to mitigation and adaptation. While the policy can play a role, as it has done in recent years, in supporting energy efficiency measures and environmental infrastructure, the real challenge will be to mainstream climate change into core cohesion priorities.

*It will be necessary to rethink competitiveness measures to take into account the constraints and opportunities of a low carbon economy and climate change proofing of infrastructure investment.*

In the context of an increased focus on climate change, cohesion policy must play a strong role in encouraging the internalisation of costs by public and private sector actors.

The Spring European Council of 2005 concluded that greater ownership of the objectives of the new Lisbon agenda on the ground was necessary, involving regional and local actors and social partners, in particular, in areas where greater proximity is essential, such as in innovation, and the knowledge economy. As suggested above, Cohesion policy with its strong focus on competitiveness and its multilevel governance structures is well placed to fulfil this role.

Challenges such as climate change, energy, globalisation and demographic change have a strongly differentiated regional impact and call for solutions designed and implemented at local and regional level. Many of the public goods linked to EU priorities therefore have a strong territorial dimension. The success of corresponding policies will depend on their capacity to mobilise relevant stakeholders and civil society at national, regional and local level.

*Cohesion policy must therefore play a central role in delivering EU priorities by actively mobilising territorial actors, including civil society, across Europe.*

## **6. A MORE EFFICIENT AND DIFFERENTIATED APPROACH TO DELIVERY SYSTEMS AND PERFORMANCE**

The delivery system of Cohesion Policy has evolved over the past years to meet competing demands. In many respects it has been at the forefront of policy development and there are many positive lessons to be drawn.

**Partnership** has become the norm in economic development policies. The system of **multilevel governance** that brings different levels together in the pursuit of common goals has been recognised as an essential element in the EU integration process and beyond that as a way of organising public intervention in the complex societies of a globalising world. By creating new types of partnerships multi-level governance can foster cooperation that cuts across administrative boundaries to target policy in functional economic areas.

The Strategic Guidelines for Cohesion Policy and National Strategic Reference Frameworks have reinforced the integration of EU priorities and linkages between EU, national and regional levels. **Shared management** allocates tasks and responsibilities, decentralising implementation to the Member States while providing a supervisory role for the Commission to verify the legality and regularity of the execution of the EU budget.

**Multiannual programming** guarantees that regions and Member States can develop long-term development strategies in the certainty that resources will be available. **Financial additionality** ensures that the action of the EU has a genuine value added. Finally, flexibility of programming structures ensures that each Member State can adapt the implementation of cohesion policy to specific constitutional and economic circumstances. This permits countries to define **an appropriate balance between national sectoral and regional approaches** and reflects respect of the principle of subsidiarity.

However, the expectations of the performance of cohesion policy have grown, along side increased complexity. It will continue to be necessary to ensure **high standards of financial management, transparency and assurance**.

*The best elements of the existing delivery system must be retained and performance reinforced while putting in place simpler, more efficient and more effective mechanisms.*

To achieve this, a better balance must be found between, on the one hand, the rules and procedures required for ensuring effective and proper use of the EU budget, and on the other, reducing the administrative burden for implementing bodies and beneficiaries. The new Lisbon Treaty redefines the respective roles of the Commission and the Member States in article 317 and may provide scope to further clarify their respective responsibilities in the execution of the budget.

*To achieve a better balance between performance, simplification and assurance of financial legality and regularity, it is necessary to tailor management and control mechanisms more closely to the nature of the intervention.*

Activities in the context of regional competitiveness such as innovation, entrepreneurship or local development require a different approach to management of risk and objective setting than basic transport, energy or environmental infrastructure. Territorial cooperation faces particular challenges due to the range of actors involved in different countries.

*A step change is required in respect of territorial cooperation which faces particular challenges in implementation and management mechanisms building on the possibilities offered by the European Grouping for Territorial Cooperation (EGTC).*

A more differentiated approach could help achieve more efficient delivery and fully exploit the potential for **simplification** of the policy. Rules and procedures should be the minimum necessary to achieve the relevant policy objectives and furnish reasonable assurance of the legality and regularity of expenditure. There may be scope for **reinforced proportionality** of procedures in relation to underlying risk. Above all, there needs to be a concerted effort between the Commission and Member States in ensuring that legal norms are as clear and unambiguous as possible, to reduce uncertainty for implementing bodies and project promoters. Such clarification could contribute to the **regularity and legality of EU expenditure** and reinforced assurance.

- A stronger focus on results and moving towards **evidence based policy making** would improve the impact and value added of the policy. This will require a **stronger monitoring and evaluation culture** and commitment to **learning** within partnerships. An increased focus on performance may need to be linked to **incentives and conditionality** to encourage quality. Performance related contracts may play a role in this respect.
- The **strategic dimension of the policy** and its focus should be reinforced, with greater importance given to the strategic guidelines and national strategic reference frameworks. A high level annual political debate should be introduced to allow Member States to review progress together. In this respect, there is scope to enhance the strategic role of the Commission.
- Cohesion policy must offer a favourable environment for generating new ideas and approaches. It will therefore need to take into account **greater scope for innovation, policy risk and experimentation**, particularly in the business and local development sectors. In this context, more differentiated decommitment rules could be considered.
- At the same time, the **role of financial engineering** in increasing leverage and impact of cohesion policy should be enlarged. It will be essential to consolidate the positive start achieved by JEREMIE and JESSICA and exploit the full potential of microcredit.
- The strategic framework for **major projects** and the respective responsibilities of the Commission and Member States in ensuring compliance and effectiveness need to be reviewed, while consolidating the experience gained under JASPERS.
- Faced with the present **fragmentation of Funds**, it is necessary to review the various options to improve uniformity, coherence, and synergy.
- The implementation of **additionality** should be reviewed to ensure greater effectiveness through, for example, harmonisation of methodology with European national accounts rules, which are also used in the context of the stability and growth pact.
- The regional threshold and transition mechanisms within the policy have been highlighted by many observers as both inefficient for delivery and unfair due to the volatility of GDP estimates. There is the need to move towards an overall **sliding support mechanism**, which is stable, smooth and fair.

*Delivery mechanisms must focus more on results, with a more strategic approach and high level political debate, while providing greater scope for experimentation and an enlarged role for financial engineering. The efficiency of the policy could be increased through a review of the arrangements for major projects, a reduction of the fragmentation of the funds, harmonisation of additionality methodology and a fairer and more stable support mechanism.*

In conclusion, since its inception Cohesion policy has been an essential element in the successful realisation of European economic integration, growth and development, by supporting the necessary processes of structural change, but also in ensuring the costs of adaptation as well as the benefits of participation in the single market are shared. This principle of solidarity remains at the heart of the European project. It is in this spirit that the development of the policy must be pursued.