



**HIGH LEVEL GROUP REFLECTING ON FUTURE COHESION POLICY**  
**REPORT OF SEVENTH MEETING, 2-3 DECEMBER 2010**

**1. INTRODUCTION**

On 23-24 April 2009, Ministers responsible for Cohesion policy met in Mariánske 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 seventh meeting of this HLG took place on 2-3 December 2010 and was attended by national government experts from the 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 Inclusion; Energy; Enterprise and Industry; Environment; Home Affairs; Mobility and Transport; Research; Regional Policy; and the Secretariat-General.

The meeting focused on four topics:

- exploratory work on scope for harmonisation of eligibility rules;
- thematic concentration for Cohesion policy post-2013;
- strengthening performance through conditionality and incentives; and
- urban issues.

**2. ELIGIBILITY RULES**

The Directorate-General for Regional Policy presented an update on internal Commission discussions exploring the scope for harmonisation of eligibility rules. Participating services include most Directorates-General implementing instruments under shared and direct management, as well as those managing horizontal issues such as state aid. Options under review include a pre-fixed flat rate for overheads, the possibility of use of flat rates and unit costs established for similar projects/beneficiaries in other EU instruments and common rules for the treatment of in kind contributions.

The main points made by the experts were as follows:

- This initiative was warmly welcomed by Member State experts who requested that the Commission keep them informed of the ongoing work on this issue.
- Some Member State experts are in favour of as much harmonisation as possible, with some favouring the idea of a number of EU rules to be applicable to all Member States, in particular for European Territorial Cooperation. However, others emphasised that one size does not fit all for areas such as VAT.
- Several Member State experts linked this discussion with those on revenue-generating projects and state aids (e.g. definition of 'beneficiary') that had already taken place in other *fora* such as the Informal Group of Experts on Simplification ('Simplification Task Force') and the Coordinating Committee of the Funds (COCOF). These issues should also be considered in the preparation of the draft regulations for post-2013.
- Some Member State experts also emphasised that any work on harmonisation might necessarily lead to more detail but that it should also be carried out in the spirit of simplification.

The Directorate-General for Regional Policy confirmed that Member State experts would be kept informed of ongoing work on this issue and invited them to submit their comments and ideas in writing.

### **3. THEMATIC CONCENTRATION FOR COHESION POLICY POST 2013**

The Directorate-General for Regional Policy presented a first outline of how the thematic concentration for cohesion policy might work in practice. The Regulation would establish a small number of thematic priorities directly linked to the priorities, Integrated Guidelines and flagship projects of the Europe 2020 strategy, and reflecting the specific nature of cohesion policy. Depending on the amount of Community funding involved, Member States and regions would focus on more or fewer priorities, to be set out in the Development and Investment Partnership Contract. Some priorities might be identified as obligatory.

The main points made by the experts were as follows:

- There is general agreement concerning the need to maximise the impact of cohesion policy and provide high EU value-added through the concentration of EU and national resources on a limited number of commonly agreed priorities. Several Member State experts also made the point that greater concentration should apply to other policies in addition to cohesion policy.
- Some Member State experts consider that the approach of linking the menu of thematic priorities directly to the priorities, Integrated Guidelines and the flagship projects of the Europe 2020 strategy would be adequate. Others argued that more flexibility would be required, either in order to ensure funding for specific types of intervention (e.g. basic infrastructure, tourism, culture), or on the basis of a generalised approach whereby a certain percentage (e.g. 70 %) of the funding could be prioritised with the remaining percentage (e.g. 30 %) used flexibly according to the specific needs and opportunities of the Member State or region concerned (in addition to actions strictly related to the

achievement of EU 2020 objectives). In this context, a number of Member State experts warned against moving towards a sectoral approach.

- Several Member State experts raised questions concerning the number of thematic priorities which might be chosen, the number and nature of obligatory thematic priorities, and the precise nature of a 'territorial' priority. While some considered that two/three thematic priorities for more developed regions and more for less developed regions would be adequate, others argued that this could represent reduced flexibility, especially for less developed regions with overarching development needs and substantial budget constraints. Some experts argued that the territorial priority should be considered as additional to the other priorities, but others argued that special treatment for specific territories could impinge on the efforts being made for more concentration.
- A number of technical questions were raised concerning the precise definition of the different thematic priorities, the status of the further priority on institutional capacity-building and the treatment of European Territorial Cooperation. However, it was also recognised that this is work in progress and that more precise definitions will be developed over the coming months.

The Directorate-General for Regional Policy reiterated that the philosophy behind the proposed system was to provide more focus while maintaining the necessary flexibility for Cohesion policy interventions to be tailored to the specific needs and challenges of Member States and regions in order to support their contribution to achieving the goals of Europe 2020. Investments in infrastructure will remain essential in several Member States and regions in order to address bottlenecks and ensure the basic conditions for growth.

#### **4. STRENGTHENING PERFORMANCE THROUGH CONDITIONALITY AND INCENTIVES**

The Directorate-General for Regional Policy presented ideas on how the improvement of the performance and effectiveness of cohesion policy might be achieved through the use of conditionality and incentives. The different types of conditionality include macro-fiscal conditionality, pre-conditions for investment and performance conditionality.

The main points made by the experts were as follows:

- There was general agreement that more needs to be done to optimise the environment for Cohesion policy investments and to incentivise good performance. The view was also expressed that any conditionality introduced should apply to all policy areas. In this context, several Member State experts expressed support in principle for one or more types of conditionality to be applied to Cohesion policy, subject to further discussion and clarification of the different proposals.
- With regard to macro-fiscal conditionality, a number of Member State experts considered that this was a matter for debate outside the field of Cohesion policy and therefore referred to national positions already taken on this issue. The view was also expressed that extending the macro-fiscal conditionality to all interventions under Cohesion policy and not just to the Cohesion Fund would constitute an important step in ensuring equality of treatment between Member States.

- However, some Member State experts stated that the application of macro-fiscal conditionality to Cohesion policy would not be appropriate because sanctions of this kind would further exacerbate the problems of affected Member States and penalise regions for failure to deliver on obligations which are outside their competence. It was argued that the aims of the Stability and Growth Pact and of Cohesion policy are not the same, and that applying sanctions against less developed regions would work against the aims both of the Treaty and of Europe 2020.
- Similarly, a number of Member State experts questioned whether Cohesion policy is the appropriate tool to ensure or incentivise the correct application of other Union legislation and policies. Reference was made to the current period whereby the error rates attributed to Cohesion policy are largely linked directly to problems with compliance with other policies. Cohesion policy should not 'become the hostage' of other policies.
- A number of Member State experts expressed the concern that introducing conditionality into Cohesion policy would stifle innovative and risk-taking projects, as well as constituting a further disincentive for beneficiaries (in particular small- and medium-sized enterprises) who already consider structural funds to be more complicated and exacting than other sources of finance.
- Some Member State experts raised the issue of subsidiarity, stating that conditionality and incentives should be a matter for Member States to decide in partnership with the programme partnership. In any case, it would be vital to ensure full ownership of the conditionalities and incentives at regional and local level. In this context, some experts also expressed a preference for an optional national performance reserve rather than an EU performance reserve.
- Several Member State experts asked for more clarification concerning the application of conditionality and incentives in practice and stressed that this instrument should not lead to additional administrative burden. A particular focus of concern was the resources that would be required both at Commission and Member State level in order to negotiate and programme the relevant conditionality and incentives. Experts referred to the experience of 2007-2013, when the negotiations for some programmes took up to two years. Other experts reacted to this discussion by suggesting that preparatory work should already start now so as to be ready for post-2013.
- A number of Member State experts strongly recommended the application of the proportionality principle, for example, in terms of only applying conditionality where the funding amounts or proportion of EU funding are high and where the track record of the Member State or region gives cause for concern.
- Several specific questions were raised concerning the relationship of conditionality and incentives in the cohesion policy programming structure with the national reform programmes and national structural reforms prepared under the Europe 2020 Strategy, as well how conditionality and incentives would be applied in federalised Member States as opposed to more centralised Member States.

Following the conclusions of the Informal Council in Liege, the Commission is setting up a Task Force on Conditionality to provide a forum for further discussion of this topic and will communicate the next steps to Member States and to the other Institutions in due course.

## 5. URBAN ISSUES

The Directorate-General for Regional Policy presented an overview of the considerations and questions for the possible future development of urban policy, in particular regarding the urban contribution to Europe 2020, strengthening urban governance, and non-grant financial instruments for urban development.

The main points made by the experts were as follows:

- There was general agreement that urban areas are key engines of economic growth and motors of innovation, but that they also suffer from negative externalities such as social exclusion and environmental problems. Urban areas therefore provide a source both of solutions and challenges in terms of achieving the goals of the Europe 2020 strategy and due attention must be paid to the vital role they will play in this regard. Therefore, urban issues have to be an integral part of cohesion policy objectives. However, a number of experts asked whether the specific organisation of this priority area could not be left to Member States.
- Member State experts also agreed that interventions in urban areas should be on the basis of an integrated approach, and some experts highlighted particular problems in the current programming period with the mono-fund approach and cross-financing. There is a need for a more coordinated approach between the policy instruments in future, especially in relation to the ESF.
- Member State experts recognised that there is a need to improve governance, in particular with regard to more active involvement of the relevant urban authorities. However, Member State experts emphasised that sub-delegation to city authorities should only be used in cases where cities have sufficient administrative capacities to manage ERDF funds. In this context, some experts raised concerns as to whether such authorities had the competence to deal with economic development programmes when their main focus is usually on provision of services (social, rubbish-collection etc.). Some experts also raised the question of where responsibility for the implementation of the funding lies and emphasised that they would not be in favour of a situation where the city authorities acted as managing authority but did not have to bear the responsibility for sound financial management and legality and regularity of expenditure.
- Most Member State experts consider that mainstreaming of urban issues in regional/national operational programmes as provided for in the current period is the best approach. They also emphasised that specific actions for deprived urban areas can be drawn up within regional/national operational programmes and that Member States should retain sufficient flexibility in identifying target cities and related financial resources. Some Member State experts raised questions concerning the relationship of the territorial/urban dimension with the thematic concentration principles discussed above, and others requested further clarification on the role of the cities in application of conditionality.
- As regards the extension of the use of non-grant financial instruments such as JESSICA, Member States experts have differing experiences but agreed that decisions about its application should be the exclusive competence of Member States and that its future development should be based on an evaluation of experience to date.

- Several Member State experts emphasised that one size does not fit all and some expressed concern that the urban dimension should not be interpreted as exclusively applying to large cities.

## **6. NEXT STEPS AND FUTURE OF THE HLG**

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.

However, several Member State experts have expressed a clear wish to continue meeting in this forum for as long as possible and to discuss strategic as well as more technical issues. There are also a number of issues on which the need for further discussion has already been indicated, including non-grant financial instruments and eligibility rules. It has therefore been decided to have at least one further meeting of the HLG in early 2011. The Commission will communicate the next steps to the Member States and other Institutions in due course.