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## **Presentation of the Orientation Paper on the future of Cohesion policy**

*Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort*

Second Meeting of the High Level Group Reflecting on the Future  
of Cohesion policy

**Brussels, 3 December 2009**

Ladies and gentlemen,

The European Union is facing challenging times. We have experienced the worst economic and financial crisis affecting the world in a generation. The crisis has burdened our citizens and businesses in every part of the continent. It has had a deep impact on our lives and put immense pressure on public budgets.

The EU has developed a joint response to the crisis to enable a rapid recovery from it. But this is not enough! We must intensify our efforts to lay the foundations for long-term sustainable growth and prosperity in the context of the rapidly changing environment of the 21<sup>st</sup> century.

To make this happen, Europe needs a common agenda. The Commission has recently set out its ideas for such an agenda – the EU2020 strategy. It calls for transition to an environmentally sustainable, socially inclusive and knowledge-based economy.

Cohesion policy can play an important part in accomplishing this agenda. It is the primary EU instrument to foster innovation, to improve employment opportunities, to fight social exclusion and to promote environmental sustainability.

Through its territorial approach, cohesion policy offers a unique governance system which exploits local and regional knowledge and combines it with strategic direction from the EU. It is the only Community policy which has the capacity to mobilise actors across all boundaries in pursuit of European objectives.

But I am also aware that cohesion policy is subject to criticism. The impact of the policy is sometimes questioned. Concerns are raised about irregularities, complicated procedures and unnecessary administrative burden.

Some of this criticism is unfounded. But evaluations show that there is room to improve the efficiency and the quality of delivery of cohesion policy. We should use this opportunity to review the policy in order to orient it towards performance and delivering results.

Today I will present to you my vision on the future evolution of cohesion policy addressing three key questions:

Which goals should cohesion policy pursue in the context of the challenges of the 21st century?

How can cohesion policy be focused on impact, performance and results?

How can the delivery system become more efficient and simpler?

My orientation paper is a personal one and does not represent in any way an official position of the European Commission or Directorate General. It presents my personal ideas and recommendations. I hope they will provide a useful input for the work of the next Commission which will present its policy proposals for the period post-2013 in the first half of 2011. I also hope that it could be a point of reference in discussions among stakeholders.

### **Which goals should cohesion policy pursue?**

The context in which cohesion policy operates has changed compared to 10-15 years ago. Global interdependencies, the low-carbon and knowledge-based economy offer a new set of opportunities and constraints for development. Some regions benefit from global processes while others risk losing out.

The Treaty commitment to promote harmonious development and address regional imbalances is therefore as relevant as it was 10-15 years ago. The Union needs a strong territorial development policy promoting long-term sustainable growth through supporting processes of structural adjustment and addressing key bottlenecks to growth.

*(i) To enhance competitiveness and employment at regional level*

First, regions throughout the Union are confronted with the need to continuously adjust to global challenges. Cohesion policy has a key role to play in facilitating the transition to a low-carbon and knowledge-based economy. Innovation is a key driver of change. Evidence confirms the strong advantages of regional innovation systems that use proximity to build trust-based relationships for risk-sharing and networked innovation.

*(ii) To facilitate growth in lagging areas*

Second, lagging regions represent underutilised resources that could contribute to overall EU growth. To achieve their full potential in the Single Market, they need to develop their productive capacity and strengthen their infrastructure and human capital endowments. Lagging regions do not operate in isolation. Their development depends on their connection to and interaction with leading regions. Cohesion policy therefore should further reinforce interactions between lagging and leading regions and maximise spill-over effects.

*(iii) To foster integration across borders*

Third, border regions still offer high unexploited potential. Unleashing this potential will require reinforcement in the scale and a shift in the nature of territorial cooperation. The approach of the functional macro-regions, like the example of the EU Baltic Sea Strategy and the Danube basin deserves further examination. Growing challenges of migration and security, and the need to promote economic integration, while addressing shared environmental concerns, call for increased cooperation with Europe's neighbourhood.

## **How can cohesion policy be focused on impact, performance and results?**

The effectiveness of cohesion policy clearly needs to be increased. Ex-post evaluations show wide variations in the performance of the policy across countries and regions. Enhancing the effectiveness of cohesion policy will require **interrelated actions**, including a concentration of the policy on a limited number of priorities; a stronger focus on performance and results; a high-level debate on policy effectiveness; increased policy coherence and more efficient and simpler management and control systems.

## **Which priorities for the policy?**

In order to maximise the impact of the policy, it will be necessary to focus cohesion policy support on a limited number of commonly agreed priorities. This will create a European-wide critical mass of interventions and focus political and public attention on clear objectives. Focusing funding on selected priorities is also conducive to setting clearly defined objectives and intervention logics. The following key priorities strategy should be considered:

### *Strengthening the knowledge base for growth*

Enhancing competitiveness requires investments in research and innovation; both technological and non-technological innovation, including product and process development; and skills development.

### *Enhancing conditions for a connective and green economy*

In the context of the low-carbon economy, the policy should support environmentally sustainable, connective transport and ICT infrastructure and improve environmental infrastructure.

### *Promoting employment and social cohesion*

The policy should find ways to increase employment, tackle unemployment and social inclusion and integration of vulnerable groups.

## **How to focus more on results?**

We all share an interest in a policy which is more focused on results and better demonstrates its impact. This will require improved strategic planning, monitoring and evaluation systems. It will also imply strengthened conditionality within the policy. The failure of the performance reserve in the 2000-2006 period demonstrated the importance of designing such instruments correctly, both in terms of avoiding perverse effects and ensuring that the focus remains on performance. A new and effective performance reserve would be dependent on the quality of targets set.

We should also consider to link payments for selected priorities to the attainment of verifiable targets. Both policy conditionalities (achieving certain targets in the broader external environment of the programme) and performance conditionalities (achieving the programme targets) could be envisaged in this context.

Making core-indicators introduced in the 2007-13 period obligatory would allow for comparability between Member States and regions. Moving towards more evidence-based policy-making requires an increased use of more rigorous evaluation methods – both quantitative and qualitative. Evaluation plans should become an obligation for all programmes and evaluation results should feed into the policy-making process.

### *High-level political debate on policy effectiveness*

Strengthening the strategic dimension of cohesion policy could be achieved through introduction of a high level political peer review mechanism for debating and reporting on policy outcomes. So far, debates about cohesion policy focused extensively on financial absorption and irregularities.

A high-level political debate has the potential to shift attention to performance, allow Member States to identify common problems and solutions, promote mutual policy learning and increase the visibility of cohesion policy. Such a debate could be held annually within the General Affairs Council (given its horizontal function) and in the European Parliament.

## **How to respond to unexpected economic and social change?**

The crisis has shown the need to find new ways to respond to regional asymmetric shocks. One option could be to broaden the scope of the Globalisation Adjustment Fund to tackle areas affected by the shock with a comprehensive package of measures combining labour markets measures with positive job creation measures such as business start-ups, technological support for the suppliers to move up the value chain, and business services.

## **How can the delivery system become more efficient and simpler?**

In the period 2007-2013, the Community Strategic Guidelines and the National Strategic Reference Frameworks have reinforced the strategic dimension of cohesion policy. But there remains scope for strengthening the scope and coherence of European policies.

The establishment of a **Single Strategic Framework** could be considered in order to provide strategic orientations for all Community funds under shared management and possibly partly under direct management (e.g. transport, energy, research, innovation and support to enterprises).

There is considerable scope for a better division of labour between shared managed funds and closer alignment of programming and implementation systems.

Increasing the flexibility to support **ESF-type** of actions in ERDF programmes and vice versa may result in enhanced complementarity.

Complementarity between cohesion policy and **rural development** needs to be increased. The common type of interventions of ERDF and EAFRD related to economic diversification and local development often led to artificial delimitations of intervention areas and fragmentation of funding. Shifting axis 3 and 4 of the EAFRD to cohesion policy would allow for more effective interventions in terms of sustainable development of rural areas.

Integrating the **Cohesion Fund** into the Structural Funds framework in the 2007-2013 period has allowed for greater coherence in ERDF and Cohesion Fund interventions in infrastructure and environmental programmes. With regard to the period post 2013, the possibility of merging the ERDF and the Cohesion Fund should be explored.

## **More efficient and simpler management and control systems**

The delivery system of cohesion policy clearly needs to evolve to ensure greater efficiency and effectiveness in the use of funds. There is a need to address the complexity of the system by introducing further simplifications, while ensuring that the principles of sound financial management are met.

The triennial review of the financial regulation in 2010 provides an opportunity for simplifying financial rules and streamlining modes of management. Work has started towards a common understanding of the tolerable risk of error for different policy areas.

There is also scope adjust certain elements of the cohesion policy delivery system. These include management and control systems, financial flows, eligibility rules, co-financing, the de-commitment rule, additionality and the role of private sector and financial engineering.

### *Greater differentiation*

With a view of wide variations between Member States in terms of financial allocation, governance arrangements and administrative capacities, there is scope for examining whether more differentiation could be applied in management and control requirements. Member States fulfilling certain objective criteria would not need to carry out controls according to detailed prescription of the Regulations. There could also be an application of 'contract of confidence' type conditions with an initial higher level of involvement from the Commission services in relation to audit or monitoring, which would be reduced after the provision of evidence of sufficiently strong domestic administrative capacities.

In addition, the use of standard unit costs and lump-sums introduced for the 2007/13 programmes as well as of global grants should be applied on a wider scale in order to provide the necessary flexibility to efficiently deliver certain types of interventions (e.g. innovation, local development).

#### *Financial flows*

EU reimbursement should be linked to public contribution only to achieve greater financial transparency and simplification. A possible more radical change would be to base EU reimbursement on the declaration of payments by Member States rather than expenditure by beneficiaries. This would increase the incentive for strong national controls and provide the basis for a regular clearance of accounts procedure. Consideration should also be given to changing from the system of programme closure after 9 years of implementation to an interim closure of accounts, at least every 2 years.

#### *Harmonisation of eligibility rules*

Eligibility is principally being determined at national level. However, the restricted list of ineligible expenditure varies between Community funds. It should be considered to apply a more harmonised approach for all funds.

#### *Reviewing co-financing*

Co-financing is a key principle of cohesion policy ensuring ownership of the policy on the ground. Rates of assistance are differentiated to reflect the gravity of the socio-economic problems to be tackled and the financial capacity of the Member States. In the future, EU co-financing rates should be carefully reviewed and possibly correlated with the GDP per capita of Member States.

#### *Adjustment of the de-commitment rule*

The de-commitment rule aims to encourage financial discipline. Its application however often limited the propensity to risk-taking and experimentation. In the future, it could be considered applying more differentiated de-commitment rules tailored to the type of investments or a blanket rule with a longer time-period but covering all types of expenditure and providing for no interruptions or exceptions. The application of the de-commitment rule at national level, as proposed by the Barca report, could also be considered.

#### *Reviewing the mechanisms for the verification of additionality*

The additionality principle underpinning the structural function of cohesion policy should be retained. The system of verification however needs to be reviewed to make it more reliable, transparent and proportional and to ensure full comparability between Member States. It is worth examining how the system could be based on existing systems of reporting of national accounts data by Member States.

#### *Increasing the role of the private sector and financial engineering*

Cohesion policy contribution should be leveraged, whenever appropriate, by private sector finance. The possibility of using a broader variety of financial vehicles, including risk capital and new types of combinations of grant and loan financing could be envisaged. The scope of financial engineering could also be expanded to cover new activities, for instance research and development and local and rural development.

Finally, a more radical approach to establishing a performance-based delivery system would consist of a full delegation of management and control responsibilities to Member States combined with a performance-based reimbursement system, whereas payments would be conditional upon achievement of results. Such a system would ensure clear division of management responsibilities and smoother financial flows.

Ladies and gentlemen,

The success of cohesion policy will largely depend on our ambition and ability to make the policy more effective and equipped with the necessary tools ensuring that regional economies face up and shape the global processes and patterns of the 21<sup>st</sup> century.

I look forward to hearing your views.

Thank you for your attention.