European Economic and Social Committee

ECO/288
Fifth Cohesion Report

Brussels, 16 June 2011

OPINION

of the

European Economic and Social Committee

on the

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank – Conclusions of the fifth report on economic, social and territorial cohesion: the future of cohesion policy

COM(2010) 642 final

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Rapporteur: **Mr Cedrone**

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Rue Belliard/Belliardstraat 99 — 1040 Bruxelles/Brussel — BELGIQUE/BELGIË
Tel. +32 25469011 — Fax +32 25134893 — Internet: http://www.eesc.europa.eu

On 9 November 2010 the European Commission decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on the

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions and the European Investment Bank – Conclusions of the fifth report on economic, social and territorial cohesion: the future of cohesion policy
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The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 31 May 2011.

At its 472nd plenary session, held on 15 and 16 June 2011 (meeting of 16 June), the European Economic and Social Committee adopted the following opinion by 133 votes to 7 with 14 abstentions.

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1. **Conclusions**

1.1 In brief, the EESC supports the **key points** for cohesion policy set by the European Commission:

- enhancing European added value;
- strengthening governance;
- streamlining and simplifying management procedures;
- improving organisation.

1.2 The EESC believes **these objectives to be achievable if** at the same time:

- strategic programming is enhanced, to help Member States to complete the institutional reforms required to make administrations more functional;
- EU resources are focused on a few priority objectives;
- social and economic mobilisation and the participation of socio-economic partners in the implementation of cohesion policy is broadened;
- reforms are made to the principles of additionality and co-financing;
- impact assessments are made obligatory.

1.3 It should not be forgotten that cohesion policy, together with development and reducing disparities between the regions, must make an active contribution to improving citizens' services and economic and social conditions.

1.4 It is easier for this to happen if the overarching economic fabric and the conditions for companies, their productivity and competitiveness, are improved, particularly in the case of SMEs, micro enterprises and craft enterprises. Organisations representing companies of a territorial nature, particularly those in the EU's priority sectors, together with trade unions and civil society, must therefore be directly involved.

1.5 A useful approach, in terms of **territorial cohesion, as well as infra-territorial, infra-regional and infra-sectoral cohesion**, could be to prioritise the development (under objective 3) of cross-border, inter-regional cooperation, devoting more resources to the territorial cohesion of the regions and the macro-regional strategy of the Euro-regions (the Baltic, the Mediterranean, the Adriatic, Adrian Alps-Danube, Atlantic Axis).

1.6 The EESC believes that the greatest possible effort should be made by the Commission and the Member States to promote the exchange of information on best practices and assistance for local authorities in the management of programmes, including through internal reform processes as well as reform of the sectors in question.

1.7 Only through greater **knowledge** of the results of investments, which is currently insufficient, and through specific impact assessments, will it be possible to identify the priorities to be set in relation to the Europe 2020 strategy and to ensure that the objective of thematic concentration is achieved.

1.8 The EESC also agrees that account should be taken of the distribution of high-growth sectors in all European regions, sub-divided into convergence objective regions, transition regions and competitiveness and employment objective regions. However, the problem of the distribution of resources between poor regions (80% of the funds) and others (the remaining 20%) has yet to resolved, even though this would help solve the problem of co-financing.

1.9 The EESC believes **coordination** between all of the proposals and policies mentioned by the Commission to be essential, i.e. the Europe 2020 strategy, cohesion policy, the CAP, energy policy, transport, the environment, research etc., particularly between the actions funded by the ESF and the ERDF, and also because the ESF should focus on the European employment strategy, the implementation of the Social Agenda, high-quality training, initiatives for young people and European training for cohesion policy operators.

2. Proposals

2.1 Policy proposals

2.1.1 **Europe 2020 strategy**: in the EESC's view, cohesion policy must not be the tool of the Europe 2020 strategy alone; on the contrary, to be credible, cohesion policy should secure its own financing by means of the issue of Eurobonds.

2.1.2 **Cohesion policy** must hold onto its fundamental objectives, such as **solidarity** between peoples and territories, and development.

2.1.3 **European summit**: cohesion policy and all the funds earmarked for it should be discussed and studied on an **annual** basis in the context of a dedicated European summit. This should be done both because of the strategic importance of economic and social cohesion and because of its connection with macroeconomic policy, in the context of European economic and social governance.

2.1.4 **Stability pact and sanctions**: in the EESC's view, the focus should be more on incentives and less on sanctions, so as not to penalise still further those regions that are more heavily in debt and thus at greater risk. On the contrary, the hope is that, in the context of the current draft reform of the stability and growth pact, investments in research, education and training which are not to be considered current expenditure will be excluded from the budget. The poorer regions, which are most in need of EU aid, should not be penalised.

2.1.5 **The priorities** chosen should be limited in number, taking into account what was intended by the various funds' objectives and by the 2020 strategy. In particular, reference should be made to policies aimed at the completion of the **single market**, something cohesion policy should be aiming towards. Priorities should be decided upon by a European summit, preceded by a consultation between public stakeholders and socio-economic partners at all levels.

2.1.6 **Socio-economic partnership**, with the dissemination of best practice, in parallel or in combination with agreements among public entities, should become an ordinary and compulsory procedure, accompanying all processes to define, implement and assess cohesion policy. As such, it should be directly linked with conditionality. The EESC would like to see the principle laid down in Article 11 of the general regulation, stipulating the partnership rules, extended to all of the structural funds.

2.2 Technical operational proposals

2.2.1 The rules on **co-financing** should be tailored in accordance with the development conditions and available financial and social resources of zones and areas concerned by cohesion policy, particularly on the basis of regions' income, the calculation criteria for which should be appropriately revised[1], and their budget.

2.2.2 Ex-ante **conditionality** should be aimed at improving the quality of spending, in connection with achieving objectives, thus rendering the authorities concerned more efficient and maximising the utilisation of the funds, taking care not to penalise the most indebted regions for instance.

1 EESC opinion on the *Proposal for a Regulation of the European Parliament and of the Council establishing common rules for the provision of basic information on Purchasing Power Parities and for their calculation and dissemination*, OJ C 318, 23.12.2006, p. 45.

2.2.2.1 The Member States should be encouraged to carry out the institutional reforms required to ensure structural adjustment, the promotion of innovation and the creation of jobs, with a view to reducing social exclusion. The EESC also considers it to be crucial that this policy is implemented in coordination with socio-economic partners at all levels, as a condition for the granting of funding.

2.2.3 Traditional **indicators** for selecting areas of intervention should be combined with other parameters, such as employment, poverty and school attendance rates, and levels of education, vocational training, services and environmental sustainability.

2.2.4 **Impact assessments** must become a central element of cohesion policy, not only as a form of ex-ante conditionality, in order to assess effectiveness and the degree to which objectives have been achieved. This should be done by means of common parameters defined at EU level and made compulsory throughout European territory.

2.2.4.1 Result-based analysis: while this is of much greater value than an analysis based on the control of financial management, its practical implementation will require lengthy preparation and precise criteria. The results of an action can only be measured over time, particularly in the case of actions of an intangible nature, such as training or investments in development. In order to move to a results-based analysis, project promoters and administrative authorities will require prior training, and the EESC proposes that this formula should be tried out during 2011-2013 in certain regions selected according to the quality of existing partnership-based governance.

2.2.5 **Simplification** should become cohesion policy's main objective. This could be pursued by cutting down on administrative and accounting procedures, improving and strengthening monitoring and evaluation criteria and pruning the number of procedures involved in the presentation of plans and/or projects. The revision of accounting procedures could be achieved amongst all stakeholders, working in partnership with the Court of Auditors.

2.2.5.1 More specifically, the **"one stop shop"** principle should be applied in both the project submission phase, merging official procedures for the various funds, and the auditing phase, harmonising the financial rules and those for the different programmes, and carrying out a single check to be valid for all the bodies concerned.

2.2.5.2 Synergy amongst the different programmes: for the sake of clarity, simplicity and efficiency, maximum complementarity must be sought amongst all programmes involving the same actors in the same territory, both between European, national and regional programmes and between the different Community funds. Lack of synergy is one of the reasons for the under-use or low impact of structural funds and EU programmes as a whole.

2.3 **Training:** this is another fundamental tool that is necessary in order to achieve the objectives of cohesion, including that of the better utilisation of funds.

3. Introduction

3.1 The principles of cohesion and solidarity are two of the fundamental pillars of the Treaty, Article 174 of which states: "In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion".

3.2 There is another particularly important point in view of the two recent enlargements: "In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions".

3.3 These two principles, which form the basis for the integration of the European peoples and regions, must never be forgotten, particularly by those who act on behalf of the EU.

3.4 Next year, the European Commission will present a proposal on the future European budget after 2013 (a communication in this regard was published on 19 October 2010), but the call by certain governments to the Council (December 2010) not to increase the EU budget does not bode well, even though it will be accompanied by a legislative proposal on the Structural Funds.

3.5 The European Commission's fifth report on cohesion policy, and its conclusions, drawn up using a new kind of language, falls within this context and is closely linked to the Europe 2020 strategy.

4. Communication from the Commission: summary

4.1 In its conclusions to the fifth report, the European Commission deals with various issues, taking a rather unusual approach, and seeks to provide responses and recommendations, while awaiting the conclusion of the consultation which it has launched by means of 13 questions set out in the communication.

4.2 The following key issues are discussed:

4.2.1 Enhancing the European added value of cohesion policy

4.2.1.1 The Commission proposes achieving this objective by:

- reinforcing strategic programming;
- increasing thematic concentration of resources;
- strengthening performance through conditionality and incentives, including co-financing and the stability pact;
- improving evaluation, performance and results;

- the use of new financial instruments.
  (See the Commission's first five questions.)

4.2.2 **Strengthening governance**

4.2.2.1 This objective can be achieved by:

- introducing a third dimension: territorial cohesion;
- reinforcing partnership (public and private).
  (See the sixth and seventh questions.)

4.2.3 **Streamlining and simplifying management procedures**

4.2.4 This can be achieved through:

- financial management;
- reducing the administrative burden;
- financial discipline;
- financial control.
  (See questions 8, 9, 10 and 11.)

4.2.5 **The architecture of cohesion policy**

(See questions 12 and 13.)

4.3 **Next steps**

4.3.1 The Commission says that it may fine-tune the proposals in the fifth report on the basis of the replies to the questions.

5. **The European Commission's Communication: general comments**[2]

5.1 With a view to increasing the added value of cohesion policy, the Commission's fifth report proposes a series of very ambitious reforms aimed at improving the efficiency of Member States' spending and simplifying its management. The EESC agrees with the Commission's general approach in the proposed reforms.

5.2 This effort should be welcomed and built upon, but there is a danger that it may be insufficient if certain proposals presented timidly are not turned into practical decisions and actions, particularly in terms of the close, and almost unique, link between the Structural Funds and the Europe 2020 strategy.

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2 COM(2010) 642 final.

5.3 Despite this effort, the analysis of the situation is not realistic, although it is subject to a (somewhat generic) consultation, which relegates the key problems to second place.

5.4 For example, to entrust solely to cohesion policy the "mission" of being the main driver of growth seems a very ambitious and laudable project, provided that there is a radical overhaul of cohesion policy and a lasting follow-up policy to support its implementation. Furthermore, the Union needs a common economic policy.

5.4.1 If this does not happen, the proposal risks being illusory, or at least limited in its effect. Therefore, in order to facilitate the achievement of this objective and not abandon the principle of cohesion, the Europe 2020 strategy needs its own funds, including by means of a European loan, and must be guided by that principle. Furthermore, all of the EU's other policies, including the CAP, would have to be involved, on an equal footing. Only in that way can the Structural Funds maintain their original "vocation", as instruments for regional development. The EESC regrets that the fifth report does not mention rural policy, just as the CAP does not mention cohesion policy.

5.5 The Commission quite rightly notes in its communication that the added value of cohesion policies has repeatedly been a matter of debate between academics, whose empirical analyses quite often reveal that their impact is difficult to measure. One of the reasons for this may be the not always appropriate indicators chosen for territorial cohesion. The Committee thinks more attention will have to be paid to this matter than hitherto.

6. **Specific comments** (regarding the four objectives set by the Commission)

6.1 With regard to the objective of **reinforcing strategic programming**, to be achieved within the context of a strategic framework, the innovation in the Commission's proposal is essentially to ensure coherence and to create a more functional link between the objectives of the Europe 2020 strategy and the actions drawn up at national level through operational programmes.

6.2 The EESC welcomes this innovation, but believes that the main problem to be resolved concerns the link between the annual plans drawn up by the Member States and agreed with the EU for stabilising public finances (National Reform Plans) and cohesion policy. This is a highly topical issue, given the differences between the administrative systems in force in the different countries of the EU and their differing levels of public debt.

6.3 Furthermore, it has yet to be decided whether cohesion policy should remain essentially an independent policy in terms of choosing priorities and future actions, or whether it should be kept subordinate to the economic policy decisions taken at national level for controlling public debt. The EESC believes that the main EU institutions (the European Parliament, the Commission and the Council) and the national institutions must pay very close attention to this problem, with a view to finding ways to maintain coherence between the objectives of the Europe 2020 strategy and the new governance of cohesion policy, which must not however be subordinate to the former.

6.4 A second important aspect, relating to strategic programming, concerns the Commission's proposal to introduce a new system of **ex-ante conditionality** aimed at defining the principles which Member States must follow and apply in order to increase the efficiency of cohesion policy. In view of the criticisms from many countries, it is clear that the Commission has made an effort to set conditions that can ensure greater efficiency of investments. However, the procedures must not become burdensome and regions must not be "punished" for things which are not their fault (the deficits of national States).

6.5 The EESC welcomes the Commission's mention of minimum conditions for access to funding and ensuring the governance of resources, as well as the provision of incentives for Member States to carry out the necessary reforms. The EESC also believes that the Commission and the Member States' main effort should be directed above all to introducing internal reform processes for the institutions and sectors most closely affected by cohesion policy (environment, labour market, vocational training, innovation).

6.6 The use of sanctions or similar measures by the Commission against a Member State, resulting in the suspension or repayment of EU funding, should only be considered in the most serious cases of irregularity and/or non-compliance with the principles and provisions of cohesion policy.

6.7 Another positive aspect is the proposal, backed by the Commission and the Member States, to direct cohesion policy resources towards a **limited number of priorities** (see also opinion ECO/230) since cohesion policy does not have sufficient resources to fund the many requirements of the least-developed regions. The EESC believes that cohesion policy can be more effective if it is geared towards supporting tangible and intangible initiatives of high economic, social and territorial impact.

6.8 However, defining priorities and keeping down the number of initiatives to be funded represent one of the most difficult problems to resolve, given the many calls from regional and national authorities to move in the entirely opposite direction.

6.9 Partnership, as the EESC has frequently said before[3], can provide true added value in this regard. It therefore welcomes the Commission's suggestion, provided that we are not just talking about public partnership, but also, in particular, economic, social and civil partnership, with the concrete involvement of interested social and civil partners, with voting rights, at all

3 See the following EESC opinions: *Results of the negotiations concerning cohesion policy strategies and programmes for the programming period 2007-2013*, OJ C 228, 22.9.2009, p. 141, *How to foster efficient partnership in the management of cohesion policy programmes, based on good practices from the 2007-2013 cycle*, OJ C 44 of 11.2.2011, p. 1; and *Regional policy contributing to smart growth in Europe 2020*, OJ C …., …., p. … (ECO/287).

stages and at all levels. Furthermore, partners should be provided with funding for technical assistance.

6.10 The EESC agrees on the need to reform **the principle of additionality and co-financing**, for which reforms are proposed to link them both to the need to provide for levels of financial participation which are differentiated "to reflect better the level of development, EU added value, types of action and beneficiaries".

6.11 It also welcomes the proposal to establish **a third level of regions**, comprising regions whose current economic situation places them above 75% of the EU average but still below 100% (90%), because this could simplify the verification and implementation of the principle of co-financing, given the possibility of extending the use of resources to all regions, though at lower levels.

6.12 With regard to the principle of additionality, the types of action for which national funding is requested should be better identified, specifying what they offer in terms of added value, impact on employment and stimulation of growth. Reducing the number of priorities and actions to be funded in the Member States should facilitate the application of the principle of additionality, making it more flexible.

6.13 With regard to the second principle, various co-financing levels could be set, lower in the case of regions furthest from the EU average, with the clear aim of facilitating the funding of specific local development actions, and higher for regions which are closer to the EU average.

6.14 The third key objective concerns the **simplification of the procedures for the management of common programmes**. There is a consensus on this issue in all Member States and the EESC has always advocated it in its opinions, with a view to facilitating the implementation of cohesion policy programmes. This objective would take account of the different rules - administrative, accounting, etc. - amongst the different States and regions, while aware that constant changes, particularly when they overlap, create obstacles and delays.

6.15 The EESC believes that the proposal to ask authorities responsible for managing programmes to present annual accounts of expenditure that is co-financed by the EU (together with independent audit opinions) is entirely inappropriate and would be difficult to implement, in view of the methods and timescales currently demanded for carrying out the procedures for awarding EU contracts.

6.16 If however the intention is to "reinforce" the responsibilities of national and regional authorities, in particular those which have the greatest difficulties and/or delays in implementation, the verification of results could be entrusted to independent bodies accredited at European level, after at least two years from the beginning of the programming period. In the event of administrative liabilities or significant divergence from the expected results, the Commission could decide, according to the seriousness of the irregularities found, to close the programme, to suspend payments or to demand the repayment of amounts paid.

6.17 National and regional administrations must provide evidence of their capacity to plan and manage co-financed expenditure efficiently. This result can be achieved not by stepping up the frequency of verification of spending periods (demanding annual accounts) but by verifying that the quality of the investments carried out, or to be carried out, is assured, that the timescales for implementing actions are met, and that effective evaluation and control procedures have been applied.

6.18 There are other important innovations which the EESC also supports. In particular:

- the development of new financial engineering instruments to be developed and extended to sectors which do not currently benefit from them (urban transport, research and development, energy and the environment, telecommunications, etc.);
- the introduction of new forms of public-private partnership;
- the review of the strategies of each Structural Fund, on the basis of the ESF and the contribution which it could make to the implementation of the European employment strategy;
- greater focus on urban areas;
- the introduction of incentives to promote reforms helping Members States and regions to make more efficient use of EU resources;
- the establishment of a reserve, from the cohesion budget, to be allocated to the regions which have achieved the best results in pursuit of the objectives set in the European strategy.

6.18.1 The EESC believes that, for each of these innovations, the objectives should be carefully defined, the available resources assessed and the implementation methods and timescales stipulated, on an individual basis.

6.18.2 The coherence and sustainability of these proposals should be carefully assessed in the light of the four main objectives of the policy reform and their applicability in the regions and territories which are still far below the EU averages in terms of economic development, efficiency of production, social inclusiveness and quality of life.

6.19 For the new Financial Perspectives, the Commission proposes again applying the criterion of 75% of average GDP per capita at PPP in order to determine the eligibility of these regions, applying the convergence criterion. The EESC proposes that the possibility of introducing other parameters be considered, in order better to reflect the objective situation of the EU's individual regions and territories.

7. The EU budget, cohesion policy and the Europe 2020 strategy

7.1 The outlook for the EU budget after 2013 is not encouraging. This was made perfectly clear at the Summit at the end of 2010. Some States (only some?), citing the austerity resulting from the crisis, give justifications for not making more resources available, except symbolically, forgetting that cohesion policy takes up less than 1% of GDP, when certain Member States have spent some 24% of GDP on saving the banks!

7.2 The EESC considers the Europe 2020 strategy, on which the Union appears to be placing all of its hopes, to be important. However, there is a risk that it may fail unless there is sufficient direct funding. This should preferably be by means of European bonds. A degree of flexibility should also be maintained for the weaker cohesion regions, according to their specific characteristics, in order to promote integration between the two policies.

7.3 This integration could be facilitated through greater knowledge of the territorial needs and priorities which may be covered by the Europe 2020 strategy in order to achieve the objective of thematic concentration.

8. The future of cohesion policy after 2013: strategic points

8.1 The proposals on the future of cohesion policy presented by the Commission for the next programming period, combined with the objectives of the 2020 strategy plot a positive pathway that the EESC, as already stated, endorses for the most part, inasmuch as it is geared towards making one of the EU's most important economic redistribution policies more effective. Nevertheless, if these objectives are to be achieved, a number of fundamental strategic conditions, in addition to those already mentioned, will have to be met.

8.2 First: the EESC would argue that the commitments required of the Commission and of the Member States could lead to real results providing this plan is combined internally with a **more general review of the architecture of European economic governance** and of the objectives that the EU intends to pursue at both European and international levels. This review is all the more necessary in the light of the crisis and attacks on sovereign debt, which are obliging the EU to update its monetary policy as well; a policy that has until now been geared towards the richer areas (stability) to the detriment of less developed areas that need to grow (growth).

8.3 The second concerns one of the central points of the plan to revise cohesion policy, the need, in other words, to establish **functional and strategic coordination** between **the various Structural Funds**, which is at present practically non-existent. For this reason, the selection and related financing of measures at regional level should take place as part of a dialogue and working methodology, put together not only with the Member States (partnership contracts) and socio-economic partners, but also with the technical support and resources of the five

Structural Funds, in order to form a **single authority** for the coordination and management of the various funds.

8.4 The third refers to the establishment of **coordination** and synergy between the various cohesion policy measures and the **other connected policies** (sectoral environmental and energy policies, research and innovation policies, employment policies, etc.) and, therefore, the EU's other financing instruments (EIB, financing for innovation, for infrastructure networks, for the development of telecommunications, etc.). Cohesion policy must become the tool for a broader plan to encourage the all-round development of the regions and territories and to activate a range of sector-based measures and financing, not least from the private sector, tailored to regions' specific needs.

8.5 The fourth concerns the possibility, as part of this new approach to European economic governance, of developing forms of **strengthened cooperation** on shared objectives regarding a specific sector or macro-region or the development of activities considered by the Member States to be of strategic importance. This instrument, as yet under-utilised despite being provided for in the Treaty, would facilitate the decision-making process and make it possible to achieve better results much more quickly, owing to the synergistic effects and economies of scale that could be achieved among participating States.

8.6 The fifth, still relating to coordination, refers to the need to launch **inter-institutional coordination** (between the Commission, the European Parliament, the Council and the consultative bodies: the EESC and the CoR and socio-economic partners) as soon as possible, i.e. before the start of the new cohesion policy programming cycle. The aim should be to facilitate discussion and the comparing of notes between the EU institutions on the future of cohesion policy, before the final draft proposals are submitted to the appropriate bodies for approval. This coordination must be ongoing and accompany programme implementation and results evaluation.

8.7 The EESC calls for the (re)establishment of Community initiative programmes as soon as the mid-term review of the structural policies takes place. The dropping of programmes which have proved their effectiveness like URBAN, EQUAL, Interprise and others has been a loss for thematic territorial cooperation and for social innovation, as this role has not been taken over in the mainstreaming of funds or anywhere else.

8.8 The EESC nevertheless hopes that, on the basis of what has already been put in hand with the conclusions appended to the fifth report, the Commission, with a view to the forthcoming reform, will submit even bolder proposals that will represent real change compared to the past.

Brussels, 16 June 2011.

The President
of the
European Economic and Social Committee

Staffan Nilsson