European Economic and Social Committee

ECO/370
Sixth cohesion report

Brussels, 21 January 2015

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 and the Committee of the Regions - Sixth report on economic, social and territorial cohesion: investment for jobs and growth

COM(2014) 473 final

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On 23 July 2014 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 - Sixth report on economic, social and territorial cohesion: investment for growth and jobs*
> COM(2014) 473 final.

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 16 December 2014.

At its 504th plenary session, held on 21 and 22 January 2015 (meeting of 21 January), the European Economic and Social Committee adopted the following opinion by 211 votes to 1 with 3 abstentions.

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1. Conclusions

Formatiert: Nicht vom nächsten Absatz trennen

1.1 The EESC welcomes the *Commission communication – Sixth report on economic, social and territorial cohesion*, while also wishing to express certain reservations and concerns on this extremely important topic.

1.2 Cohesion policy should continue to pursue its original objective, enshrined in the Treaty on the Functioning of the European Union, of promoting social, economic and territorial cohesion, placing cooperation and solidarity at the service of harmonious development and creating prosperous communities. The focus on the Europe 2020 strategy is important, although insufficient given the current challenges.

1.3 The report bears witness to European efforts to make Europe a better place but it also indicates the difficulty of achieving this. The crisis has increased economic and social disparities, worsening the differences between Member States (and also within them) and concentrating growth and development. Not only did the crisis interrupt the convergence which had been achieved; in some cases the situation actually worsened, and recession is a fact of life across almost the whole euro area.

1.4 At times of crisis such as the present, most Member States - particularly those in the euro area - are not in a position to promote investment, and the differences between peripheral and central regions (both between and within Member States) increase. This has the perverse effect of causing migration and investment to centre on more developed areas, leaving other areas abandoned and in decline.

1.5 The austerity policies adopted have not generally produced the desired effects. Although pursuing budgetary balance is necessary, it cannot be achieved at any cost, as this would have the counterproductive effect of cancelling out the effects of cohesion policy.

1.6 In many cases, cohesion policy will be the main source of investment; it needs to be more ambitious, or even radically reviewed, pending an upturn in growth and employment. The results achieved so far indicate that cohesion policy resources are manifestly insufficient to solve the real problems. Alternative forms of convergence financing will thus have to be found to bring cohesion policy to a new stage, not based solely on European solidarity – a very sensitive issue at the present time. Europe is making great efforts at solidarity but the resources mobilised for this are not enough to meet real convergence needs, given the scale of the needs facing the most economically and socially lagging regions.

1.7 In a global economy, different regions have been suffering different effects of globalisation. Regions respond differently to investment, and study is needed of why some regions are catching up while others are not. It is vital, through cohesion policy, to establish new forms of governance enabling regions to meet the challenges facing them. The role of the State should help to exploit the specific attributes of regions, ensure smart regulation principles, guarantee entrepreneurial drive and support development (especially of SMEs), and boost innovation capacity, promoting wellbeing, quality of life, social cohesion and environmental sustainability.

1.8 Cohesion policy must continue to strive to promote economic growth and competitiveness, while not forgetting social objectives in support of smart and inclusive growth. The EESC supports the sixth report's motto of "investment for growth and jobs".

2. Proposals

2.1 Cohesion policy must channel and invest its funds with the basic aim of promoting a special investment plan for growth and jobs. In tandem with the Juncker plan which has now been approved, it should give priority to the funding of transnational European structural projects (e.g. various transport and broadband networks), and provide direct funding for businesses (especially SMEs) in sectors vital for social development and social economy activities.

2.2 The recently adopted Juncker plan sets up a new European Fund for Strategic Investment, financed by existing Community funds and the EIB. Its extremely ambitious goal is to secure maximum use of private and public investment funds by selecting projects which can be rapidly implemented. The plan assumes that there is huge untapped demand for this type of investment. Only time will tell if it can succeed.

2.3 With wider objectives in mind, cohesion policy could, alongside the funds available, find autonomous forms of financing such as European Investment Bank (EIB) involvement or eurobonds, without affecting fiscal consolidation efforts or achievement of the targets of the Stability and Growth Pact.

2.4 To ensure that investment has a multiplier effect, a significant proportion of the Structural Funds remaining from the preceding period (2007-2013), together with funds from the new period, should be allocated to the EIB, in order to provide a fresh injection of capital able to attract venture capital available on the market that could provide leverage for cohesion policy[1].

2.5 Cohesion policy needs to be closely coordinated with other EU initiatives, and notably with the promotion of Economic and Monetary Union so that the 11 objectives set can be achieved and "investment for growth and jobs" can actually take place.

2.6 Cohesion policy must not call into question the fiscal consolidation targets. The poorest countries do not at present have the resources to promote public investment and so do not offer attractive conditions for private investors. The additionality principle has to be carefully applied and adapted in Member States making efforts in this area, as failure to comply with this principle affects the allocation of funds which, in some cases, may be the only source of investment financing. The EESC supports the application of golden rules to provisionally exclude from the fiscal compact (and/or the stability pact) co-financing from the Structural Funds in the regions and Member States hardest hit by the recession[2].

2.7 Monitoring the results achieved is vital. The EESC reiterates its firm belief that mid-term and final results should be monitored by dynamic teams who can present their conclusions at an annual European summit[3] that will promote debate and the adoption of any corrective measures which prove necessary.

2.8 Cohesion policy must be implemented with the close involvement of the social partners. The governance model for cohesion policy programmes should consider the allocation of global grants to organised civil society in order to provide support that is close to communities and directly targeted on specific problems. The EESC has been advocating this for a long time, but sadly its proposal has not been taken up by the EU authorities.

2.9 In order to enable the social partners to monitor progress, proper follow-up mechanisms must be established to ensure that they are not (as often occurs) mere spectators but are able to play a truly active role. Input from organised civil society representatives is vital, not only when

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1 OJ C 143, 22.5.2012, p.10.

2 OJ C 451,16.12.2014, p. 10.

3 OJ C 248, 25.8.2011, p.68.

designing operational programmes but also when monitoring and assessing results. Involving the partners encourages discussion of the difficulties faced and proposals for improving and simplifying access to EU funding and using the funds more efficiently.

2.10 Simplifying and harmonising the rules that govern the programmes, and standardising procedures and forms, is vital in order to improve outcomes. The Commission can simplify some procedures, but the main role lies with the Member States as EU regulations establish possibilities rather than obligations. Member States should be supported and encouraged to radically simplify procedures and not add unnecessary details; these efforts can be monitored by the Commission, preferring rigorous checks on results rather than purely administrative controls, wherever possible. Simplification could form the subject of an extraordinary measure (new regulation) by the Council[4].

2.11 There are various situations in which one could apply the principle of granting investment and assessing eligibility of expenditure with the option of repayment based on simplified costs (flat-rate principle), for example in relation to general operating costs; the eligible expenditure then depends on the result, and not on allocations based on allocation keys. Member States should be encouraged to apply this system wherever possible, simplifying procedures.

2.12 Alongside simplification of administrative procedures which add nothing to the results, training should be provided for entrepreneurs (especially in SMEs), their employees, and public officials. Training is a basic tool for understanding financing mechanisms and for using the available funds properly. In particular, training of public officials is vital for achieving the thematic objective of better public administration.

2.13 Resources saved by cutting red tape could be used for setting up a group at the Commission to support and assist countries and regions in drawing up and carrying out cohesion policy projects. This group could support countries and regions by taking the place of the national bodies managing European funds, as a last resort and in the event of non-compliance, whether with planning or with the implementation of plans and keeping to schedules.

2.14 Cohesion policy objectives cannot be measured by quantitative indicators alone. Promoting social, economic and territorial cohesion - the focus of cohesion policy - includes objectives which must also be measurable using qualitative indicators; these should be designed to measure development as well as growth. For example, it is not enough to measure the number of unemployed people who have gained training and work; one must also measure the impact of this training on improving living conditions.

2.15 *Ex ante* conditionality, which introduces a number of conditions to be met before funds can be released, cannot be used to exclude some of the most indebted regions whose economic circumstances prevent them from investing or attracting investment in order to create these

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4 OJ C 44, 15.2.2013, p. 23.

conditions. *Ex ante* conditionality should be applied very carefully, or even suspended for a certain period when there is a risk of crisis and deflation, in order not to worsen the vulnerable situation of some regions by denying them any possibility of obtaining growth-promoting financing, as this would make their problems even worse.

2.16 Macroeconomic conditionality should not be used to penalise regions and their inhabitants for bad macroeconomic decisions taken at national or EU level[5].

3. General comments

3.1 The introduction of reforms to cohesion policy was already addressed in the Fifth report on economic, social and territorial cohesion, and the EESC was able to endorse the general approach.

3.2 Cohesion policy is presented as the main driver of growth. However, it must be remembered that it will only succeed in this if it acts in concert with the other EU policies. Although it is important for cohesion policy to focus on the Europe 2020 targets, this is not enough: joint implementing strategies have to be established with the other common, economic, social and regional instruments and policies.

3.3 Special care is needed when implementing cohesion policy in the countries worst hit by the crisis, which are in the throes of fiscal consolidation efforts that are affecting public investment. The balance between application of the additionality principle and need for fiscal consolidation is tenuous; failure to coordinate objectives and the means of attaining them could have an impact on fiscal consolidation and/or nullify the potential effects of cohesion policy.

3.4 Although the importance of cohesion policy in the development of the most disadvantaged regions is recognised, in some regions this growth could have been further strengthened if there had been more conducive conditions for development. The EESC welcomes and supports the introduction of concern for good governance, which seeks to foster a better environment for development, in keeping with the guidelines issued by the OECD.

4. Specific comments

Formatiert: Nicht vom nächsten Absatz trennen

4.1 There is still a long way to go before Europe gets back to the development, employment and prosperity levels it enjoyed prior to the crisis. Smart, sustainable and inclusive growth - a priority of the Europe 2020 strategy - is now being supported by the realignment of cohesion policy.

5 OJ C 191, 29.6.2012, p.30.

4.2 The sixth report does not yet assess the impact of cohesion policy in the 2007-2013 period, as the ex post evaluation will only begin in 2015. However, from the data presented it is clear that the crisis had a major impact and that cohesion policy was not able to counter its effects; thus, differences remained and in some cases actually worsened.

4.3 Clearly defined strategies are advocated for each investment area, taking account of the specific features of each region: this is essential. As the communication states, "projects should follow strategies and not the other way round". However, defining strategies is not enough. An appropriate regulatory framework has to be created; this must be strict, without imposing pointless and off-putting red tape. As the communication says, operating in a favourable environment is essential. The Commission must act firmly in countries which fail to comply, in order to prevent funds being wasted, as the Member States which are net contributors will not accept this.

4.4 One new tenet of cohesion policy concerns the benefits of supporting a limited number of priorities, as there are insufficient resources to satisfy all the needs of the less developed regions. Concentrating resources on support for high-impact projects with lasting socio-economic effects has its advantages in resolving specific problems. However, this type of approach could prove counterproductive in some cases: in countries whose regions have differing development levels and where there is insufficient private investment, concentrating resources too narrowly will deny growth and development to areas and sectors which could otherwise benefit from cohesion policy funds, helping them to catch up and contribute positively to integrated development.

4.5 While various figures are provided regarding the impact of cohesion policy, the true impact of investment remains difficult to quantify, showing that the choice of indicators was probably not the most appropriate. The EESC is pleased to see that this seems to be changing, as shown in the intention to define clear, measurable objectives and results. The priorities, indicators and targets established in the partnership agreements need to be monitored over time so that corrective measures can be taken where necessary, ensuring Member States' effective responsibility for results and reliable monitoring of measures.

4.6 However, the choice of indicators should not stop at quantitative ones. Although quantity is the ideal aspect for measuring growth, development requires the use of qualitative indicators and these should not be neglected.

4.7 The communication mentions cities as an engine for growth. They will receive around half of available ERDF funding. Investment in cities and in their potential as a catalyst is to be welcomed, but with certain reservations. The EESC points out that care must be taken with such investment in order to ensure it does not fuel undesirable centralising tendencies. While it is true that the pull exerted by cities can encourage development, it is also true that overpopulation aggravates poverty and social exclusion. Moreover, lack of investment in less central regions threatens the quality of life of their residents, leading more of them to move away to the big cities and no longer work in agriculture, fisheries or industrial sectors that are essential for the EU's development.

4.8 Better inclusion of the social partners and civil society organisations is highlighted as a basic tenet of cohesion policy. In January 2014 the Commission published a delegated regulation on the European Code of Conduct on Partnership in the framework of the European Structural and Investment Funds[6]. Analysis of this document prompts the conclusion that it does not entail any major innovations to existing practice. It lists basic principles for selecting and involving the partners, together with some good practices, but without describing any binding mechanisms for follow-up by the social partners. In fact, in many Member States the social players still play only a symbolic role in decisions: consultation takes place, but the opinion of those closest to the situation on the ground and best acquainted with the problems is not taken into account. Despite these difficulties, the EESC reiterates its support for widespread implementation of the European Code of Conduct.

4.9 The EESC has already stated its firm belief that involving all partners and organised civil society stakeholders in the preparation, execution and ex post evaluation of programmes and projects helps to improve their quality and efficient delivery[7].

4.10 Red tape needs to be cut. Making use of audit recommendations, programmes should focus on monitoring the results achieved rather than on how they are obtained, with tortuous administrative procedures that require gargantuan and costly public and private structures. Red tape is a real barrier to participation for many entrepreneurs, as well as to efficient public administration. Simplifying and standardising procedures, rules and forms is both possible and desirable.

5. **Good governance: a new challenge for 2014-2020**

5.1 Although there are two schools of thought about the importance and influence of good governance for economic growth, more and more people take the view that good governance and efficient public institutions are a prerequisite for strong economic growth. The EESC shares this view.

5.2 Guaranteeing legal certainty and an independent judicial system, and regulating in an appropriate and stable manner, reduce administrative waste and create a feeling of stability that is conducive to investment, which directly affects cohesion policy.

5.3 The EESC supports the move to include concern for good governance in cohesion policy, as enshrined in the principles for effective public investment set out by the OECD, as this is necessary across the board. Implementing projects and new business is easier in some

6 Commission delegated Regulation (EU) No 240/2014 of 7 January 2014.

7 OJ C 44, 15.2.2013, p. 23.

Member States than in others. These discrepancies need to be ironed out, as weak governance has an impact not only on the domestic market but also on the EU single market, creating barriers for operators from other Member States.

5.4 In some Member States there is a need to improve coordination at regional level, or indeed to establish effective regional governance as a bridge between national and local government, able to delineate regional strategies which are important for regional development and convergence. Central government is frequently unable to interpret the needs and priorities of the regions, but in some cases it does not give the requisite powers to regional authorities, which merely provide a sounding board for the national political authority, without any added value for the region.

5.5 In the context of the new concern for good governance, it must not be forgotten that more efficient public administration will only be achieved if training for public officials goes hand in hand with the political commitment to make the requisite regulatory changes.

Brussels, 21 January 2015

The President
of the
European Economic and Social Committee

Henri Malosse