



European Economic and Social Committee

ECO/115
Economic and social cohesion:
regional competitiveness,
governance and cooperation

Brussels, 25 September 2003

OPINION

of the European Economic and Social Committee

on

Economic and social cohesion: regional competitiveness, governance and cooperation

(exploratory opinion)

In the context of the activities of the Italian Presidency of the European Union, the Italian permanent representative to the EU asked the European Economic and Social Committee in a letter dated 8 April 2003 to draw up an exploratory opinion on

Economic and social cohesion: regional competitiveness, governance and cooperation.

In view of the urgent nature of the work, the Committee decided at its 402nd plenary session (meeting of 25 September 2003) to appoint **Mr Malosse** as rapporteur-general and adopted the following opinion by 76 votes to one.

1. Presentation

1.1 The draft constitutional treaty presented to the Italian Presidency on 18 July 2003 confirms and strengthens cohesion policy as one of the essential pillars of the European Union. The European Economic and Social Committee has been one of the instigators and chief supporters of this policy since its emergence at the beginning of the 1980s.

1.2 As a trailblazer for administrative simplification¹, the Committee is concerned about signs of bad governance such as delays in programme implementation, inadequate partnerships with the socio-economic players and contradictions between the Union's various policies. EU enlargement on 1 May 2004 will see the arrival of countries which will be the major beneficiaries of this policy but which have no experience of implementing it and in many cases lack the capacity to do so. In an increasingly globalised economy, better governance is the only way to secure the future of cohesion policy.

1.3 The Committee unswervingly supports the implementation of the Lisbon process to make the European Union the *most competitive knowledge-based economy in the world* by 2010. This objective could galvanise the EU public, but it is being called into question by economic instability and a lack of real commitment on the part of the Member States and the Union to put the main planks of the Lisbon process into practice. A genuine dialogue has yet to be promoted with businesses, the social partners and all the other civil society players, notably those who can inform the public about the reforms, plans and aims of the Lisbon process.

1.4 Accordingly, the Committee – acting at the request of the Italian Presidency - will draw up a series of recommendations for the future of cohesion policy, focusing on the topics of competitiveness, governance and cooperation. These recommendations will also draw on the recent

¹ The EESC was the first EU body to adopt a code of practice regarding simplification.

work of the Committee's Section for Economic and Monetary Union and Economic and Social Cohesion².

2. **Regional competitiveness**

2.1 The aim of a renewed cohesion policy must be to enable the whole EU area to adjust to the challenges of the knowledge-based economy and thus help all regions to take account of the Lisbon objectives. The Union should now be able to find its way back to strong growth. For the past twenty years, despite being the world's leading industrial and trade power, the Union has appeared as an outsider who is dependent on the outside world to relaunch its economy. Such a situation is not natural. With the majority of its members sharing a single currency since 1 January 2002, the Union should be able to assert itself as a major player on the world stage, able to build growth from its own resources.

2.2 The lack of cohesion within the Union is clearly a source of weakness. The Italian Mezzogiorno, the rural and outlying regions of France, and, more recently, Germany's new Länder have all shown how a lack of cohesion can impede a country's economic and social progress. The same is true of the Union as a whole. For the last five years the acceding countries have had the highest growth rates in Europe and the best development prospects, but their accession will widen regional development gaps within the Union. EU cohesion policy must thus be continued and reinforced. In its twenty years of existence this policy has achieved very encouraging results, enabling the cohesion countries to close the economic gap. It has been less successful for lagging regions within individual countries, and in some cases subnational disparities have actually worsened. The Commission should devise innovative arrangements to meet the challenges posed by enlargement, for example by exploring synergies between the measures undertaken through the Structural Funds, investment loans from the European Investment Bank and capital available from the private sector. Such synergies have considerable potential to boost productive investment, not least in the acceding countries.

2.3 The experience of past years shows that the countries and regions which succeed are those which manage to harness and exploit their assets – first and foremost, their human resources, but also their natural heritage and their geographical situation. There is no "magic formula" for this, just a spirit of social consensus in support of ambitious goals and targeted investment to create a level playing field for these countries and regions when it comes to sustainable development. Education/training and research, and high-quality infrastructure, are the keys to this. The majority of people in the Member States and the candidate countries aspire to a European model of society that is typified by the fight against poverty and social exclusion and better use of the potential of the least

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See the following opinions in particular:

- Second report on economic and social cohesion – OJ C 193 of 10.7.2001, p. 70.
- The EU's economic and social cohesion strategy – OJ C 241 of 7.10.2002, p. 151.
- The future of cohesion policy in the context of enlargement and the transition to a learning society – OJ C 241 of 7.10.2002, p. 66.
- Second progress report on economic and social cohesion – CESE 494/2003.

developed regions. There is a danger that any system that did not strengthen this approach would weaken cohesion and aggravate the constraints on structural measures. Further steps must be taken to strengthen this model of society, the key political tenets of which are public participation in the democratic process, the development of competences, access to general interest services, equal opportunities and the provision of basic social guarantees.

2.4 EU aid should be proportional and should be tapered in the light of the results achieved. It should be targeted on priorities defined under EU auspices by local stakeholders (including the private sector) acting jointly. The future cohesion policy should draw on past experience and incorporate best practice. This should be a basic tenet of future cohesion policy regulations. In this context, the techniques for assessing the effectiveness of Structural Fund measures need to be developed and improved.

2.5 Direct subsidies for businesses severely distort competition between regions. However, more general support may be necessary – in ways that do not disrupt the market – in order to foster entrepreneurship. It could take the form of support for the creation of new activities or assistance with development strategy, research and training for small businesses.

2.6 The Committee therefore calls for an active policy to help the least developed countries and regions (Objective 1 of cohesion policy) become more competitive. This policy should be provided with significant resources, which should be targeted on education and training, infrastructure, sustainable development, enterprise and SMEs, and the capacity of civil society organisations to mobilise local players. It must respect certain basic principles which must continue to underpin cohesion measures as they have done since 1988, namely concentration, programming, additionality and partnership.

2.7 The Committee calls for EU aid to be given further to EU regions which cease to qualify for Objective 1 because of the statistical effect of enlargement, with the focus on measures for skills development, promoting entrepreneurship and job creation. It considers that some of the current Objective 1 regions will continue to need support after 2006, and that they should not be denied it merely because enlargement will bring down the Union's average per capita GDP. The Committee stresses that this historic enlargement must be backed by measures to boost cohesion, as part of a regional policy which embraces the whole EU area.

2.7.1 The current distribution between Objectives 1, 2 and 3, where support levels and activity focus vary, should be replaced with a more flexible system. Three different support levels should be maintained, with the highest level of support going to remaining and new Objective 1 areas. A lower per capita support level should be provided for remaining Objective 2 and previous Objective 1 areas. An even lower level of support should be provided for remaining areas within the enlarged EU. As regards the latter, the focus should be entirely on skills development and experience-swapping between regions.

2.8 The Committee thinks that the Union and its Member States must continue to show solidarity towards regions with serious structural problems (the outermost regions, islands, upland

areas, landlocked regions, sparsely populated regions, etc.) which need specific support for the provision of services of general interest, especially communication and transport networks (including broadband). Reform of cohesion policy in the wake of enlargement must not weaken support for these extremely vulnerable communities. In this area too, action is needed to encourage the development of human resources. This must remain a key priority and must receive additional EU support. Community solidarity would produce added value by tapping into successful experiences and enabling these regions to play their part in the major EU policies.

3. Governance

3.1 Better governance of cohesion policy is vital: the added value of Community cohesion policy depends on it. An effective cohesion policy must be clear and transparent and must enjoy the support of its beneficiaries, who should also play an active part. Above all, it must encompass all the various factors that can generate economic, social, cultural, environmental and human development. These factors appear increasingly interlinked.

3.2 The Committee would first reiterate its call for real simplification of cohesion policy procedures. This vital EU policy needs root-and-branch reform if it is to remain fully credible. Alongside this essentially operational concern, a forecasting instrument should also be put in place to study trends and track the parameters that govern real convergence and dynamic competitiveness factors.

3.3 The Committee has stated on a number of occasions that the principles underpinning the Structural Funds should be retained and developed after 2006. Aside from the debate (already mentioned) on the future of the concentration of support, steps must be taken to ensure that Structural Fund programmes are devised and managed with due respect for the subsidiarity principle. This means establishing a policy for the full and active involvement of local authorities and socio-economic partners, in contrast to initiatives that simply increase the role of national governments. The Committee could see no merit in a proposal which effectively put the monitoring of the Structural Funds into the hands of national governments.

3.4 To ensure a better distribution of roles between the several levels of decision-making, one of the most critical steps (if not the most critical) is that the European Union should take radical steps to follow through the principles of subsidiarity in decision-making. A better distribution of roles between the EU, the Member States and the regions is vital in order to avoid overlapping and excessive delays. The Union should set the main priorities – based on the Lisbon objectives – and the regions should be responsible for implementing them. The role of the Member States should be to check that this is done properly.

3.5 Good EU governance is based on representative and participatory democracy. The role of the socio-economic partners should be reviewed and strengthened. Socio-economic organisations should be directly involved in the establishment of priorities, on the basis of EU priorities and in partnership with the local authorities. They should also be involved in the monitoring and evaluation exercises conducted by local and regional steering committees. This partnership

approach has proved crucial to the success of cohesion measures and should be made a key instrument of cohesion policy. A genuine partnership that involves all the socio-economic partners at all stages of the programming is vital if this policy is to be implemented more effectively. Any move to downgrade the role of the partnership in cohesion measures is bound to limit their usefulness and scope. The Committee is currently drafting a separate exploratory opinion which contains practical proposals for enshrining these principles in new regulations³.

3.6 The rigid programming system based on Single Programming Documents (SPD) should be replaced by contracts with specified objectives. A significant proportion of the programmes should give local organisations or socio-economic representatives global grants, which should be used to manage small-scale projects. Systematic use would also be made of new financial engineering formulas for SMEs.

3.7 The additionality requirements should be made more flexible, tying them to the achievement of objectives rather than to each individual project. The EU could thus become the sole public source of support for the target priorities stemming from the Lisbon objectives.

3.8 A single Structural Fund should be set up, operating on a multiannual basis but with an indicative budget and flexible provisions so that the regions or countries which prove the most able could receive funds from a performance reserve. This reserve could also be used for formulating innovative projects, implementing them on schedule but also authorising emergency funding in particularly difficult situations.

3.9 The Committee thinks that the discussions on the future cohesion policy should be launched as soon as possible. Sufficient time must be devoted to this to ensure that the debate does not merely look at financial considerations and neglect the socio-economic implications, as the latter are vital in the context of enlargement and increasing globalisation. The debate must be thorough and transparent, and civil society players must be given a central role in it.

4. Cooperation between regions

4.1 There is broad consensus on the importance of cooperation between regions and on the Community added value of EU action. This was reaffirmed at the informal EU council meeting in Chalkidiki on 16 May.

4.2 Given the effects of enlargement and globalisation, cohesion policy must promote a more polycentric development within the EU. This approach requires not only shared objectives, but also a recognition of Europe's diversity. Despite implementation difficulties, crossborder, transnational and interregional cooperation within the EU are recognised as essential instruments for the integration of regions which for years have lived "back to back". Internal border regions which have often been marginalised are now finding new vigour through new links and forms of solidarity.

³ Partnership for implementing the Structural Funds – CESE 1179/2003.

After 1 May 2004 the EU will have some large new internal border regions. The Interreg programme must thus be continued and extended, albeit with new priorities and significant streamlining of its governance: procedures must be radically simplified.

4.3 Aid for previous programmes has been spread too thinly, and this has undoubtedly made them less effective and less high-profile. The Committee recommends that priorities be limited to fields which would help crossborder regions to become competitive, such as the university network, research facilities, shared facilities for supporting small businesses, improvement of transport and communications, and a joint programme for sustainable development.

4.4 Cooperation along borders with third countries (including the "new neighbours" to the east and non-member Mediterranean countries) must also be stepped up, as the enlarged Union cannot accept the creation of a new Berlin wall. The aim must also be to instil a spirit of cooperation in these border regions, encouraging them to get to know each other and exploit potential synergies.

4.5 To ensure that the Lisbon objectives are implemented effectively, the Committee recommends programmes for exchanging best practice, involving EU regions and the socio-economic players. These could focus on the following: the fight against exclusion, equality between men and women, boosting employment levels, spreading the knowledge-based economy, stepping up research, the quality of training, entrepreneurship, and the application of the Charter for Small Enterprises.

4.6 The Committee advocates a non-bureaucratic method for supporting cooperation between regions. This means that management should not be left solely to the Member States. The Committee therefore calls for the establishment of an EU cooperation facility which regions and socio-economic operators could access directly, providing co-funding with Member States (and in third countries). The facility could be managed by a special European agency which would also organise meetings to promote experience-swapping.

5. Conclusions

5.1 The Community's regional cohesion policy should undergo radical reform and aim to increase the competitiveness of EU regions that under-use their own resources, rather than using public aid to compensate for development disparities. EU intervention should provide real added value and should draw on successful experiences and cooperation between regions. This added value will help the least developed regions to play their part in the major Community policies.

5.2 The Committee calls for a radical reform of economic and social cohesion policy methods and priorities to meet the challenges posed by enlargement and the knowledge-based economy. The new cohesion policy for 2007-2013 must tie in with the Lisbon strategy as a matter of priority, in order to make the EU the most competitive knowledge-based economy in the world and allow all regions to play a full part using their own particular assets.

5.3 This reform should be built on the principles of competitiveness and cooperation between regions. Its success will be secured through new methods of governance based on

transparency, simplification of procedures and a genuine partnership with the local and regional socio-economic players.

Brussels, 25 September 2003

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