

UNICE POSITION PAPER

**ON THE COMMISSION'S SECOND REPORT ON
ECONOMIC AND SOCIAL COHESION
IN THE EUROPEAN UNION (JANUARY 2001)**

UNICE read the second report with great interest. It appreciates the vigorous efforts made to glimpse into the future and assess the likely effects of enlargement, thereby opening an essential debate for the Union's future at an opportune moment. UNICE applauds the overall quality of this report which, with its scope, relevance and the depth of its analyses, broadly covers its subject and as such shows marked progress as compared with the 1996 document.

In general terms, UNICE notes good continuity in the direction, the principles and the priority areas of the proposed cohesion policy, whose effects have so far proved positive between Member States.

Only the major question of its magnitude in the future and the criteria and conditions for grant allocation remains unanswered, as the report points out. The response depends entirely on the cohesion policy that the European Union decides to adopt, which fully justifies opening the debate.

As affirmed in its earlier positions, UNICE reiterates its firm support for pursuit of an EU economic and social cohesion policy which is easy to understand and effective as one of the cornerstones of its economic development and, hence, the quality of life of its citizens.

UNICE notes that the fundamental challenges of cohesion policy are:

- To enable lagging regions in the present-day 15 Member States to catch up – and adopt phasing-out periods for regions no longer regarded as having a relative development lag.
- To enable Member States acceding in the framework of enlargement to close their development lag by providing effective flanking for the tangible and intangible infrastructure strategies (including high-level training) to ensure that they are accessible at all levels and have the capacity to act.
- To avoid operational aid, which often causes many difficulties when the aid is withdrawn. Aid must be firmly targeted at investment. It is important not to encourage national and / or regional commitments which are incompatible with non-inflationary development. Therefore, the level of annual payments must reflect the real absorption capacity of each new entrant.
- To ensure the reliability of statistics systems so that the effectiveness of aid can be evaluated.

1. Background

UNICE would like to recall that:

- The purpose of European (and indeed national) aid is to allow regions and/or countries with a development lag to improve their competitiveness. Thus, such aid must be maintained over a sufficient period to enable them to achieve their objectives for major infrastructure and suitable training. Nevertheless, they should not become part of a perennial redistribution system which holds them in a poverty trap.
- Conditions which guarantee fair competition must be strengthened, in particular through ongoing and active reduction of state aid.
- If European aid supplements national aid, it is still Member States that hold the great majority of resources for fostering their own internal regional cohesion. The adage "Europe helps those who help themselves" is more pertinent than ever. Incidentally, this is illustrated remarkably well by a number of examples in the previous period.
- While economic and social cohesion is a fundamental tenet of European policy, it cannot be dissociated from the need to strengthen Europe's global competitiveness as a location for investment, from which stem improved quality of life and increased prosperity. In other words, cohesion policy should under no circumstances hold back the most dynamic, but rather stimulate the others and concentrate support where economic and social environments offer potential for performance and excellence, bearing in mind the limits of what can be done with cohesion policy.

Along the same lines, UNICE completely agrees with what is set out in chapter I.4 "Factors determining real convergence" but regrets that there is no benchmarking against the European Union's main global competitors.

2. Some malfunctions need to be corrected

Experience from earlier periods and the first results for the period 2000/2006 highlight a whole range of poor practices that need to be avoided or remedied, in particular in view of enlargement, as follows:

- The multiplication of approaches, measures and sub-measures within programmes. This situation makes it impossible to carry out proper evaluation because of their volume and small size. Another shortcoming due to the proliferation of actions: the bureaucratic cost for prior examination and supervision.
- Non-existence of a real partnership with economic circles for definition of actions which deserve support. This situation has a negative effect on the effectiveness of aid and is to blame for the very general absence of motivation among companies.
- Multiplication of national eligibility requirements superimposed on increasingly strict European criteria, making action virtually impossible.
- The absence of decentralisation plus compartmentalised circuits for examination of proposals and payment procedures resulting in harmful delays and lack of motivation.

- Absence of genuine conditionality imposed on Member States, making aid subject to the results achieved.
- The “renationalisation” effect should not result in some Member States merely being paid back part or all of the amount they have committed, without ultimately adding any real value in terms of European cohesion.

3. Promote good practice

By contrast with the above, UNICE would like a number of good practices to be resolutely implemented in order to optimise the effectiveness of European aid in the future Union of 27 Member States, all the more since 12 new entrants will require priority and substantial solidarity efforts. UNICE would like cohesion policy to promote:

- Generalisation of the architecture of the cohesion fund or ISPA to the structural funds for objectives I, II and III and CIPs excluding INTERREG. It would be beneficial for future policy to support significant, well thought-out, closely monitored and carefully evaluated projects relating to large-scale basic infrastructures: transport, environment and water resources, energy networks, IT networks (including access to RTD centres where these can be effectively developed), waste treatment, targeted training programmes with high value-added.
- A shortening of the supply lines from the centre to the regions through direct payment of European funds at the relevant local level, i.e. without the systematic need to transit through national budgets.
- Development of a genuine culture of partnership with organised civil society including consultative cooperation with non-institutional players, in particular from the economic sphere.
- Genuinely independent evaluation by the institutional players in charge of design and implementation, for clearly defined projects, in order to verify their overall cost-effectiveness and adjust programmes as a function of the results as and when necessary.

Bearing in mind the extent of requirements due to enlargement of the Union and the need for sustained financial rigour in Member States’ public spending, it is therefore essential to work towards a major overhaul of the structural funds after 2006, seeking:

- To give significant support to new Member States’ major infrastructure investments, be they tangible or intangible (including high-level qualifications training) in order to bring them up to European level within timeframes compatible with Europe’s competitiveness and without stoking inflation that would undermine their overall development.
- To develop all the possibilities of public-private partnership in all areas where it has already proved its effectiveness and in order to provide financial gearing.
- To envisage very long-term financing for infrastructure that needs to be depreciated over more than one generation.

- To promote inclusive partnership in order to motivate economic players in present-day and future Member States, to take part in definition and implementation of projects. Among other things, it is important to define clear conditions for the grant of aid which reflect a shared commitment by parties in a balanced partnership, and not the grant of aid which lacks value-added and fails to motivate.
- To establish strict, objective and independent evaluation of completed projects, ensuring that all the relevant statistical series are firmly in place and reliable.
- To leave to Member States the subsidiary task of organising their own internal cohesion as they wish, without interference. It is also important to avoid fragmented financial assistance on a multitude of small projects with heavy bureaucratic costs which are ultimately ineffective because they are not conceived close to the ground. Action on this point would make it possible to transform an objective seen all too often in terms of credit allocation into an objective that projects should be useful and effective.
- Generally to promote, vis-à-vis Member States, the culture of consultative partnership with the living forces constituted by the economic and social partners in revitalised governance, a powerful factor for bringing Europe closer to its citizens.
- To maintain the Commission's role as engine in regional economic and social cohesion policy, a major incentive for good motivation of all players.

Against the background of so many wide-ranging challenges, UNICE, while recognising the interest of some focus and the relevance of the ten proposed questions, would like the scope for exploration to remain as open as possible at this stage of the debate.

UNICE expresses its great willingness to take part in the proposed debates, and to provide useful input on the basis of its expertise.

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