



THE FUTURE OF COHESION POLICY

BUSINESSEUROPE'S ANSWERS TO THE EUROPEAN COMMISSION'S CONSULTATION BASED ON THE 4TH REPORT ON ECONOMIC AND SOCIAL COHESION FOR A WIDE DEBATE ON THE FUTURE OF COHESION POLICY

Cohesion policy has contributed to successful economic integration as the European Union has progressively enlarged. But there is still much to do in a context where Europe and its regions have to come to grips with increasing global competition and demographic ageing, which requires adaptability and the capacity to react. Therefore, BUSINESSEUROPE calls for a Community cohesion policy more supportive of a competitiveness-enhancing process.

This paper puts together the views of BUSINESSEUROPE member federations on the present and future of cohesion policy. European businesses are committed to work closely with the EU institutions to shape a more effective regional policy.

1. What lessons can be drawn from the experience of preparing the 2007-2013 programmes? How far is cohesion policy adapted to the new challenges European regions will face in the coming years? For example:

1.1. How can the regions react to restructuring pressures from dynamic competitors in low and medium tech sectors?

In the framework of globalisation, specific attention should be devoted to the needs of manufacturing industry in Europe, in order to preserve its competitiveness notably through the promotion of investments in research and innovation. EU cohesion policy can also play a role by sustaining clusters of innovation in the regions

Cohesion policy constitutes a major channel to support structural changes in regions where the costs of restructuring are concentrated by strengthening regional competitiveness, improving human and physical capital as well as fostering innovative capabilities. In our view, the best way to alleviate workers' concerns lies in promoting growth and employment.

There are three main priority actions in the light of restructuring pressures:

- 1. Increase the adaptability of workers, enterprises and entrepreneurs.** This is one of the priority actions of the European Social Fund. Anticipation of economic restructuring is essential but so far this objective has not been achieved. We have observed a tendency in regions to invest more in other ESF priority actions such as social inclusion, which could be considered as "ex-post measures", instead of focusing more attention on upgrading labour skills and thereby enhancing the employability of workers. We have already expressed our doubts about the rationale of the Globalisation Fund, which could be used wrongly as a substitute to necessary reforms to labour markets in Member States.

2. **Development of a business-friendly climate in the region.** Cohesion policy must focus on the improvement of the economic framework conditions of a region, in order to allow companies to adjust to new market conditions and to become more competitive. We would like to recall that the role of authorities in boosting growth and jobs is not limited to earmarking financial allocations towards competitiveness and innovation. The business climate can also be improved through a coherent reform agenda, which includes cutting red tape.
3. **Adapt education and training systems in response to new competence requirements.** Also one of the priorities of the ESF. Entrepreneurship education should be encouraged at schools and rapid technological development should be taken into account for updating skills in the knowledge economy. Improvement of management skills should also be facilitated, particularly for small businesses.

Adjustment and restructuring measures do not only concern sectors in difficulty but is a permanent process which makes it possible to move out of unprofitable activities and to develop more productive ones. Trying to prevent or limit restructuring by tightening the regulatory burden on businesses would be counterproductive.

1.2. Given wide differences in birth rates, death rates and migratory flows at regional level, what is the role of cohesion policy in responding to demographic change?

BUSINESSEUROPE broadly agrees with the Commission's analysis in the 2006 communications "The demographic future of Europe-from challenges to opportunity" and "The long-term sustainability of public finances in the EU". Demographic ageing is one of the biggest challenges facing European economies and societies today, and it needs to be urgently addressed.

In the long run, member states will only be able to meet the demographic challenge through coherent reform strategies that involves a broad range of areas such as a combination of more flexible labour markets, effective active labour market policies, labour mobility and sustainable social security systems. These are the basis of the flexicurity approach, which should also be reflected in the formulation of cohesion policy.

We would like to highlight the following issues:

Foster innovation and productivity

Social systems will only be sustainable in an ageing society if innovation and productivity are enhanced through appropriate framework conditions. This is one of the main priorities in the use of the European Regional Development Fund (ERDF).

Lifelong learning

The development of lifelong learning is of vital importance. We are concerned that in an ageing society the skills gap may widen. The pace of technological development will increase while the process of skills renewal through the entry of young people into the labour market will slow down. This has important implications for the ability of companies to compete.



The ESF rightly focuses on occupational qualification and training as a means to increase the working life of employees. Individuals should be encouraged to take responsibility for upgrading their competences throughout their working lives. Constant dialogue with companies is crucial to determine the best training of jobseekers.

Active ageing

Increasing the employment rates of older workers is essential. Cohesion policy should support initiatives aimed at active ageing. However, it is important that these initiatives are part of an intergenerational approach aimed at improving the overall functioning of the labour markets for the entire workforce. Failing that, any measure targeted at a particular group will be detrimental to other categories of workers. Keeping workers longer in employment requires initiatives to be taken throughout the working life, starting when workers are in a young age. The long-term programming perspective should ensure a proper follow-up of such initiatives as the worker gets older

Wages in line with productivity

It is crucial to ensure that Community funds do not push up wage inflation in recipient regions out of line with productivity gains. Otherwise, the catching-up process of these regions may be affected. BUSINESSEUROPE is already concerned that the ageing of the labour force might increase the discrepancy between the evolution of labour costs and the evolution of productivity and calls for responsible behaviour by social partners on this issue.

Geographical mobility

Geographical mobility is very important to better match labour demand and supply and address the diversity of regional development. BUSINESSEUROPE has already let member states know that the application of transitional measures restricting the free movement of workers in the enlarged EU should be kept as short as possible. Cohesion policy could contribute to develop key skills for geographical mobility such as language learning.

1.3. To what extent is climate change a challenge for cohesion policy?

Cohesion policy should not be overloaded with too many targets. In any event, environmental protection is already an overarching issue in all policies, i.e. projects have to meet environmental standards.

Before imposing any technical environmental condition on companies, it is crucial to check that all possible means and expected outcomes are durable and relevant.

Due to the fact that environmental standards have an economic impact on a company's activity, enterprises and in particular SMEs should be closely involved in the programming process to ensure that their needs are taken into account. Regrettably, some of our federations report that such involvement has been weak and not systematic in certain cases. There is therefore scope for improvement.

New economic incentives in order to fight against climate change and favour the compliance with emission reduction targets should foster regional innovation in the field of renewable energy.



2. How can cohesion policy further develop an integrated and more flexible approach to development/growth and jobs in this new context?

2.1. How can cohesion policy better promote harmonious, balanced and sustainable development taking into account the diversity of EU territories, such as least favoured areas, islands, rural and coastal areas but also cities, declining industrial regions, other areas with particular geographic characteristics?

The budget for cohesion policy will never be sufficient on its own to achieve a harmonisation of living standards. Therefore, funds should be used in objectives with a strong leverage effects on private investment, growth and job creation.

Cohesion policy can help to kick off regional development. The preparation of the programmes makes all stakeholders think in terms of regional potential and competitiveness. Cohesion policy can facilitate structural change in a way that opens up new opportunities for regions, for example through investment in the adaptability of workers and enterprises and support for company founders.

Work ultimately has to be done by the regions themselves. The key is to develop the right strategy for a region. As resources are finite, the specialisation and potential of the territory should be taken into consideration when a regional strategy is developed. Initiatives more likely to be successful, such as cluster development, should be based in a public-private partnership. Following a mere political desire is a mistake.

The involvement of business is crucial in particularly in areas such as employment, human capital, entrepreneurship and support for small and medium-sized enterprises. The Structural Funds and the Cohesion Fund can be used to leverage up investment to a much higher scale than is envisaged by public policy-makers.

2.2. What are the impacts of the challenges identified (global pressure to restructure, climate change, higher energy prices, demographic change) for key elements of social cohesion such as inclusion, integration and opportunity for all? Are further efforts needed to anticipate and counteract these impacts?

Measures improving core skills and adaptability of workers will contribute to increasing employment and strengthening regional competitiveness. Please, refer to answers 1.1 and 1.2.

2.3. What are the key future skills that are essential for our citizens in facing new challenges?

Skills development is a bottom-up process and must be consistently aligned on labour market needs and practical requirements. Lifelong learning has to become self-evident for an individual in order to enhance his employability, especially at an older age.



Companies already contribute to lifelong learning, e.g., through investment in continuous vocational training, the provision of apprenticeships.

As already stated in question 1.1, it is crucial to adapt education and training systems in response to new competence requirements. As a more concrete example, businesses consider that some of the key future skills are the following: self-organisation and self-initiative; responsibility and autonomy; listening and reading comprehension; e-learning, private study and working with others; ICT certification and turning information into knowledge; learning foreign languages and interest in other cultures to communicate and work better in an international environment.

2.4. What are the critical competencies that should be developed at the regional level to make regions globally competitive?

Regional authorities should ensure the regions' attractiveness for investment and living to guarantee the long-term future of the territory.

Concerning regional administrations and from the point of view of businesses, the critical competencies that should be strengthened at regional level are:

1. **Do strategic planning with the real involvement of local partners:** failing to take the business views into account will lead to limited interest in measures that are actually aimed at enterprises.
2. **Simplify territorial management procedures:** a reduction of the overall administrative burden by 25% at both European and national level in the next five years is a must and we expect efforts from all actors involved, even regional and local actors. Regulation is a particularly important area for the development of firms and improvements are badly needed
3. **Train administrators in the business thinking:** lack of a forward-looking and competitive vision among administrators has slowed down the development of projects.
4. **Exploit complementarities and create synergies in the region and with other regions, seeking more coordination with the national level:** lack of coordination in the past has acted as a major obstacle to the effective implementation of funds and has prevented projects from achieving a much needed critical mass of finance or skills to be efficient.

3. Following the appraisal of the previous questions, what is the assessment of the policy management system for the period 2007-2013?

3.1. Given the need for efficient management of cohesion policy programmes, what is the optimum allocation of responsibility between the Community, national and regional levels within a multi-level governance system?

Support should be provided on the ground. Responsibility for exploiting a region's potential should lie with local and regional actors. Why? Because businesses operate locally and networks and clusters of inter-related companies develop first in a particular area.



Local authorities are the ones in charge of providing the facilities. They are best placed to elaborate measures adapted to regional specificities and it is at the regional level where more structured and permanent forms of collaboration can be developed to achieve critical mass. Local governments should bear responsibility for projects by contributing to their financing from their own resources

Regions and member states need room for manoeuvre in order to operate the programmes effectively accordingly to their respective circumstances. The role of the Commission is to ensure that member states' actions are in line with the Lisbon targets.

Coordination between national and regional policy-makers and between regional authorities themselves is crucial. Only effective coordination of all resources can offer good opportunities for synergies. Otherwise a project might not achieve the critical mass of finance or skills needed to be efficient. Some priorities can best be dealt with at national or multi-regional level. EU regulations could foresee the allocation of specific resources in each Member State for National or Multi-Regional Operative Programmes (which already exist on a voluntary basis but are sometimes difficult to implement).

Better regulation is a cross-cutting issue from the local to the Community level. European businesses are obliged to spend considerable amounts of time filling in forms and reporting on a wide range of issues, which does nothing to boost entrepreneurship, especially at an early stage. Cohesion policy is one of the priority areas of the Action Programme for Reducing Administrative Burdens in the EU. BUSINESSEUROPE calls on the Commission to advance its analysis in the administrative requirements for all beneficiaries of the cohesion policy. Procedures that are needlessly time-consuming, excessively complicated or obsolete should be eliminated.

It is very important to involve businesses in the programming process at local, regional, national and Community level. The partnership principle has not been well achieved in certain countries as reported in a survey on the functioning of the partnership principle that BUSINESSEUROPE ran among our national federations.

3.2. How can cohesion policy become more effective in supporting public policies in Member States and regions? What mechanisms of delivery could make the policy more performance-based and more user-friendly?

Evidence shows that some countries have been better than others at spending EU funds wisely. This raises doubts about the effective absorption of fund transfers. This suggests that Community funds do not always contribute to an increase in the production capacities in the recipient countries, being used for investment in unproductive activities. Regional development is being held back not only by a lack of funds but by regional and national policies including labour market, welfare and regulatory policies.

Given the importance of cohesion policy in the EU budget, these absorption problems should be avoided. Cohesion policy could be more effective if the following points are respected:

**Earmarking**

The Lisbon earmarking requirement is a step in the right direction to focus spending on areas that can help kick off endogenous growth. It should have been applied to all countries that joined the EU after 2004. We are pleased to observe that they have voluntarily adhered to the requirement. In EU-15, where earmarking applies, the wide scope of eligible activities may imply a limited effect on allocation decisions.

Simplified access to funds

Access to the funds must be simplified by non-bureaucratic and simple procedures.

Payments should make available faster, limiting the number of stages between the moment a beneficiary is designated and effective receipt of the funds

Evaluation and transparency

Efficiency and effectiveness should be improved by high quality standards as well as consequent evaluation processes. Transparency has to be improved.

Although the new implementing regulation has seen an improvement in terms of simplification of the regulatory framework, it still contains procedures open to interpretation, and therefore carries a certain juridical uncertainty in the control and audit aspects.

The subsidiarity principle should apply not only to planning and selection, but also to audit and control.

According to the experience of our national federations, business representatives' participation in the programming process has helped to improve the focus on the Lisbon goals as well as transparency in the allocation of funds.

Shutdown non-performing programmes

Programmes that do not perform must get shut down. Programmes should be time-limited and should be carefully evaluated against objective criteria, preferably by an independent agency. Regions that do not achieve measurable performance criteria such as an increase in employment rate or GDP per capita should see their funds set aside. Remaining funds should be redirected to well-performing programmes.

Clarify restrictions to the use of funds

From the point of view of a company and regarding cohesion policy and other Community policies, it is not always clear neither the funding opportunities to undertake for example research and innovation activities and nor the legislative arrangements on the use of funding from different Community sources for the same project.¹

State aid rules are subject to the Union's competition policy requirements and should be respected. However, state aid zoning complicates the coordination between investments through the Structural Funds and regional state aid.

¹ Council Regulation 1083/2006

3.3. How can we further strengthen the relationship between cohesion policy and other national and Community policies to achieve more and better synergies and complementarities?

The Lisbon strategy offers an overarching theme to align all policy efforts and ensure an effective coordination of all resources. The approach of the EU-Commission, to bring cohesion policy and Lisbon Strategy into line, was the right decision. This approach has now to be implemented into the national operational programmes.

Effective spending can only be achieved if coordination between national and regional policy-makers and between regional authorities themselves works. Regional and national authorities should also look to guarantee that the regulatory framework ensures innovation and competitiveness.

The Structural Funds present a clear link with the new policy frameworks for innovation and research policies², the European Institute of Technology and efforts to strengthen European clusters to compete at global level.

In any case, only clarity of objectives, clear participation rules and effective coordination amongst all these resources can offer good opportunities for synergies. Clear participation rules should encourage companies to engage in public-private partnerships to fostering economic growth and jobs.

The successful implementation of cohesion policy depends on macroeconomic stability and the needed structural reforms at national level.

3.4. What are the new opportunities for co-operation between regions, both within and outside the EU?

Cooperation within the EU

The INTERREG programmes offer an interesting basis for territorial cooperation and networking within the ERDF. This could be used to promote innovation clusters and centres of excellence further.

While EU regional funds have helped, freer trade and economic integration with the rest of the EU have also been main drivers of regional convergence. In particular, cooperation should focus on eliminating the obstacles to the deepening of the internal market.

Cooperation outside the EU

Cooperation with pre-accession countries and EU' neighbours can facilitate a sustainable development on both sides of the border and this should be strengthened within the European Neighbourhood policy. The development of infrastructure projects such as well-functioning transport systems is an example of beneficial cooperation.

We have noted with interest the Commission's efforts in setting up a structured dialogue on regional policy with China, Brazil and Russia.

² The Competitiveness and Innovation Programme –CIP- and the 7th Research Framework Programme – 7FP