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## BUSINESS PRIORITIES FOR EU COHESION POLICY

### RESPONSE TO THE CONSULTATION ON THE CONCLUSIONS OF THE 5<sup>TH</sup> ECONOMIC, SOCIAL AND TERRITORIAL COHESION REPORT

#### KEY RECOMMENDATIONS

- Concentrate resources in a few priority areas aligned with Europe 2020 and clearly helping to improve regional competitiveness. Implementation should be geared towards growth-driving and value-adding activities such as innovation, business development, employability and trans-European networks;
- Progressively move away from a one-off grant culture and enhance the leverage of structural funds by further developing financial instruments with revolving effects and building up effective public-private partnerships;
- Introduce a results-oriented approach, with independent evaluations and effective monitoring, rewarding best performing programmes;
- Enhance business participation by further simplifying procedures and reducing administrative hurdles;
- Increase structural conditionality in the partnership contracts to strengthen institutional capacity, ensure a proper transposition of European legislation, and meet underlying conditions that ensure the success of projects;
- Launch development and investment partnership contracts between the Commission and the member states for better coordination of regional and national programmes;
- Further promote the importance of a real process of consultation of business and social partners.

## INTRODUCTION

The future of cohesion policy is being decided amid wrecked public finances in most member states and difficult discussions on the EU budget. EU and national decision-makers, together with the regional authorities and social partners, now have an important task ahead. Difficult reforms of the current cohesion policy architecture should be undertaken, setting a new basis for the next multi-annual financial framework.

BUSINESSEUROPE recognises the importance of cohesion policy and its results. According to the European Commission, cohesion policy led to an increase of the GDP per capita in lagging regions from 66% of the EU-25 average in 2000 to 71% in 2006, and created approximately 1.4 million jobs. Impact results in terms of research and innovation, business development, environment and transport infrastructures corroborate the benefits brought by the EU regional policy.

Cohesion policy has also led to a clear change of mind set on how to drive regional development being a model for many other regions outside the EU. Beyond the financial help, cohesion policy has led to a more integrated process involving several actors at different levels, incentivised cross border cooperation and focused on key objectives of European interest which helped to maintain its European added value.

The current context reinforced the importance of this policy. The consequences of the crisis have been markedly felt throughout Europe but certain regions have been more affected. While difficult to quantify at present, exceptional measures taken during the crisis were swiftly implemented and helped cushion its impact.

Yet, cohesion policy is clearly falling short of its potential. Benefits are difficult to demonstrate, and the added value of some projects is questionable. A lack of strategic approach to all European policies and programmes financed by the EU budget (including the Common Agriculture Policy and the 7<sup>th</sup> Framework Programme), heavy administrative procedures, and little focus on project performance, undermine the credibility of this policy. The fragmentation of funds is conducive to a piecemeal approach without guaranteeing that funds are properly used to address national growth bottlenecks and improve the competitiveness of European regions.

While the business community remains supportive of cohesion policy, it calls for an important reform to be taken forward. Cohesion policy must be about unleashing the growth and jobs potential of each territory and facilitating mobility and adaptability to make full use of all the advantages brought up by the single market. It requires greater concentration of funding in key priorities linked to competitiveness, such as research and innovation, business support, employability and trans-European networks. Increasing the focus on the real impact of projects and a progressive shift from grants to loans and other revolving instruments are necessary developments.

BUSINESSEUROPE therefore welcomes the conclusions of the 5<sup>th</sup> report on economic, social and territorial cohesion presented by the Commission in November

2010. We believe that it contains important orientation messages that, if properly implemented, have the potential to contribute significantly to meeting Europe 2020 objectives and bolstering the development of all European territories.

Yet, the orientations put forward by the Commission will need to ponder their practical implications to end-beneficiaries and ensure increased transparency and simplification. The Commission must be attentive when developing the details of its proposals while making the most of this important moment to reform cohesion policy for the next financial period. The business community therefore expects further clarification from the Commission as proposals mature and calls for being closely involved in the process.

## **1. A RESULTS-ORIENTED APPROACH LINKED TO EUROPE 2020 OBJECTIVES**

### **Resource concentration in Europe 2020 objectives**

Europe 2020, the newly defined growth strategy for the EU, must avoid past mistakes and ensure that all actions are implemented in a coordinated way in order to achieve its objectives of smart, sustainable and inclusive growth.

With more than 65% of total public investment implemented by regions, cohesion policy can clearly contribute to achieving these objectives. Yet, to ensure successful results, the architecture of cohesion policy must be updated and better coordinated with other actions at EU and national level.

The business community has repeatedly asked for a greater concentration of resources on key priorities capable of boosting the competitiveness of European regions. Only by reducing the number of regional objectives will it be possible to reach the necessary critical mass of investment for a real impact on the ground. We are therefore very supportive of the proposal put forward by the Commission to concentrate structural funds into two or three core priorities while allowing the possibility of enlarging the number of priorities for lagging regions.

Priorities should be clearly linked with Europe 2020 objectives and allow regions to develop a smart strategy that focus on their comparative advantages. The ESF can play a key contribution to Europe 2020 helping Europeans to improve their employability and adaptability. Support must be targeted at active measures like education and training focusing resources on measures that will have long-term effects on the development of the country and region, including supporting reforms and capacity building necessary to create the proper environment for the creation of new jobs.

But it is crucial to ensure that priorities are fully aligned with the objectives of the National Reform Programmes (NRP) to address growth bottlenecks and progress

towards the same overarching goals. The forthcoming development and investment partnership contracts must clearly reflect these aspects.

### **Results-oriented policy: the role of evaluations**

Cohesion policy has so far focused too much on the allocation of funds and too little on impact results and its contribution to regional growth and development.

The current rules incite funds to be spent as fast as possible providing no real incentives for efficient spending. In addition, the actual impact of projects on regional development and their contribution to the overall goals set by the operational programmes is often disregarded.

This rationale of cohesion policy must be urgently amended to ensure that performance is taken into consideration and that every single project provides a contribution to achieving regional ambitions.

While the 5<sup>th</sup> cohesion report proposes a results-oriented approach, it lacks specific proposals on how to make it possible. This can only be effectively implemented if programmes are better evaluated and we ask the Commission to work further on concrete and detailed proposals that are in line with and promote such an approach at all levels.

Ex-ante studies should clearly state the objectives of the programmes, how it can contribute to improving competitiveness and its link to the Europe 2020 objectives. The Common Strategic Framework could define the results to be achieved in order to guarantee that the core defined priorities are met.

Evaluations must be made more objective, transparent and independent. Progress is also needed in better linking evaluation results to program management and enabling a well-informed steering of the Operational Programmes based on results. The Commission could, for a start, collect best practices in this respect and disseminate them among member states.

Clear indicators highlighting the impact (or lack of impact) of the programmes must be set in order to monitor progress throughout implementation. The monitoring process should ensure consistency with the criteria defined in the preparatory phase of programmes, with all relevant stakeholders.

To increase flexibility is of great importance in order to reallocate resources from non performing programmes towards those clearly meeting defined targets and expected impact. We are also supportive of the creation of a performance reserve to be allocated to best performing programmes provided that clear criteria are defined to guarantee a transparent decision. Proper implementation of this idea will thus only be feasible if the independence of evaluations is warranted and results can be made comparable across projects.



A detailed analysis pin-pointing the factors behind the success or failure of a project is also necessary to withdraw the necessary conclusions from previous experiences and transferring best practices. However, it is necessary to ensure that administrative requirements do not increase to prevent hindering companies' participation, SMEs in particular.

For this, good coordination between all evaluators at all levels and introducing different requirements in line with the size of the project are fundamental. In the case of ESF in particular, the many levels of audit control and the lack of coordination between them has led to a complex and burdening delivery system of the funds. Shifting towards a results-oriented approach must therefore be accompanied by stepping up efforts to minimise administrative burdens on end-users.

### **Introduce carrots and sticks for better results**

The current crisis has demonstrated important failures in the EU governance architecture and recent decisions have pointed on the direction of stricter fiscal rules. BUSINESSEUROPE has developed its position in the report "Improving euro-area governance, securing the long term sustainability of the Euro" and we have clearly stated our support for more prudent fiscal rules and the need to extend the monitoring to macroeconomic and competitiveness developments.

We have also expressed our support for further development of macroeconomic conditionality rules related to the EU budget, beyond existing ones. Yet, the incentives structure must address the proper level of administrative responsibility and it remains essential to ensure that end-beneficiaries are not unduly affected by such measures. We call for the working group set up by the European Commission to properly assess the possibilities and provide clear details on how to make this possible.

The business community is supportive of introducing stricter structural conditionality in the partnership contracts. This should be about strengthening institutional capacity, ensuring a proper transposition of European legislation adopting the necessary reforms at national level, and meeting underlying conditions that ensure the success of projects.

The difficulty of properly implementing operation programmes is more evident when the necessary institutions are not in place. While extraordinary progress has been achieved in recent years, in particular in central and eastern European countries with positive results being demonstrated in terms of project implementation, cohesion policy is becoming increasingly complex and demanding. Instruments inspired on JASPERS could be developed to provide technical assistance for a broader range of projects and member states, and incentives should be introduced for regions to continue investing in strengthening their capacity building.

Still, structural funds cannot be reduced to a mere tool to enforce proper transposition of EU legislation or adoption of structural reforms by Member States. Furthermore, conditionality should be defined in the NRP to ensure its relevance and specificity. It is

also important to make sure that conditionality is clear, transparent and as unambiguous as possible.

## **2. GREATER INVOLVEMENT OF BUSINESSES FOR AN EFFECTIVE IMPLEMENTATION**

### **Enhance business participation**

A dynamic business environment is fundamental to improve regional economic performance. Cohesion policy provides its contribution to SME creation and business development through direct support to companies; investment in workers employability and training; and encouraging the use of financial instruments with revolving effects for SMEs.

According to the Commission estimates, business support will represent 20.3% of the total cohesion envelope for the period 2007-2013, summing up to almost €70 billion. Convergence regions are expected to allocate 17.7% of its funding to business support, competitiveness regions 33.7% and territorial cooperation 17.6%.

For convergence regions, this represents almost €50 billion for the current programming period. Yet, it is important to understand that almost half of this envelope concerns “other support to both large and small businesses”. 17% is for firm restructuring and workers adaptability. Only 38% is directly channelled into SMEs support.

While this envelope is not negligible, it should be considerably topped-up in the upcoming programming period. Only what is considered to be *enterprise support* within operational programmes has generated more than 70% of the 1.4 million jobs created during the period 2000-2006 with the support of structural funds. Boosting growth and employment are ultimate priorities for Europe, particularly in the current context, and efforts to incentivise entrepreneurship and support business development should thus be made ultimate priorities.

Strengthening the “business profile” of the ESF could be an important development. Adaptability of entrepreneurs is a real issue and should be properly addressed. ESF must recognise entrepreneurs’ role in employment creation and provide for their needs.

Then again, enhancing business participation must go beyond the amount of funding provided. Administrative procedures must be urgently simplified; financial instruments must be further improved and respond to the real needs of companies and SMEs in particular; and real partnerships and consultation procedures must involve business representatives. These are of prime importance to improve business involvement in the next financial period and to help developing a dynamic and entrepreneurial environment in Europe.

### **Introduce development and investment partnership contracts**

BUSINESSEUROPE is supportive of the proposal put forward in the conclusions of the 5<sup>th</sup> cohesion report to establish *development and investment partnerships contracts* between the Commission and the member states.

It is supposed to set allocations by investment priorities, targets and conditions, based on the National Reform Programmes. It therefore allows a better coordination between initiatives at different levels and ensures that structural funds contribute to achieving the objectives of a broader national strategic plan.

The role of the regions in the process is, however, not specified. While ignoring their involvement would be contrary to the underlying principles of the European cohesion policy, it is important to ensure that it does not develop into an overburdening bureaucratic process. The Commission will need to find a fine balance between safeguarding regional ownership and avoiding further delays in the implementation of the policy.

### **Consultation for a real partnership**

The consultation process with EU social partners on Structural Funds is clearly recognised in the European legislation. Consultations should provide a platform to discuss the different problems identified in the implementation of the policy as well as helping to define the strategic orientations of EU cohesion policy. While significant improvement has been witnessed in recent years, experience thus far shows that consultation processes remain a mere formal exercise in many countries without real impact in the design and implementation of cohesion policy.

Partnerships are consequently not yet running as expected despite being a key principle of the European regional policy rationale. Given its clear benefits in terms of accountability, responsiveness of programmes, and effective implementation, further progress in this area remains important. Companies must be understood as crucial actors in the process given their capacity to create innovative solutions and identify opportunities for development. One idea could be to establish a code of conduct for the managing authorities.

The Commission should ensure that member states continue stepping up their effort for an inclusive consultation process at all stages. In order to make the involvement more effective and binding, proposals could be made in the framework of the new regulations. In cooperation with the social partners, the Commission should gather and disseminate countries' best practices related to the implementation of the partnership principle. The *development and partnership contracts* could provide a good platform to guide countries on how to spur a real partnership both horizontally, involving the different social partners, and vertical for a real system of multi-level governance. Specific technical assistance to socio economic partner should be provided.



### **3. LEVERAGE, GOVERNANCE AND ARCHITECTURE**

#### **Enhance leverage effects of EU structural funds**

More than ever, it is important to facilitate the private sector participation in the funding of projects. Financial instruments developed by the Commission in coordination with the European Investment Bank (EIB) and other international organisations have made it possible to move away from a one-off grant culture and to have greater use of recyclable forms of finance.

These innovative financial instruments increase the leverage effect of the structural funds by attracting private capital while ensuring a revolving effect of the funds. It also permits risk-sharing with the private sector and brings about the expertise of the EIB in dealing with these types of instruments. Well designed instruments can respond to the needs of companies, enhance the performance of projects, and stimulate the will to thrive, reducing dependency on EU grants.

The JEREMIE initiative which provides access to finance for the development of SMEs has been warmly welcomed by the business community. But several shortcomings have been identified during its implementation explaining the poor uptake of this instrument.

According to the Commission, €3.5 billion are legally committed to 30 holding funds in 15 member states in addition to €2.8 billion without any holding fund in 8 additional member states. Yet, so far only 0.3 billion have reached the final beneficiaries. Problems often identified relate to the dependency on the managing authorities to first decide to allocate part of their funds to this initiative; difficult access to the instrument; time consuming and bureaucratic procedures. It is now fundamental to carry out an in-depth analysis to understand the causes leading to such weak results and urgently revise the management of this fund. As long as these issues are not addressed, the effectiveness of this instrument will remain undermined and funds will not reach SMEs.

Public-private partnerships (PPPs) are being encouraged for the period 2007-2013 to increase the leverage effect of EU spending by attracting more private investment. Stronger partnership between the public and private sectors will not only make new sources of financing available, it will also help generate added value for society in the form of wider choice, innovative solutions and better value for money.

To benefit fully from the potential to put in place partnership approaches, the administration of structural funds and the procedures for analysis of potential projects as well as the commitment of funding should be simplified and made more compatible to support PPP structures.

In this context, fair treatment of the private sector in the delivery of public services and infrastructure is key. It must be clear that it is exclusively for public authorities to design policies for the delivery of public services and infrastructure projects and to put in place the right objectives and performance targets. Moreover, the choice of the mode of delivery, either by contracting out or in-house delivery, is for local authorities to make.



### **Implement further simplification measures**

Improvements are badly needed to improve the efficiency of cohesion policy procedures and, consequently, the efficacy of its implementation. Yet, the 5<sup>th</sup> cohesion report contains very little on simplification. We must go beyond small amendments if we want cohesion policy to take advantage of its full potential. This is also vital to succeed in a more results-oriented cohesion policy.

The Commission should propose a working plan, involving partners from the ground to identify and analyse new ideas. A separate paper presenting different options and their consequences would also be welcome. It should tackle the issues of lump sums, overheads, and single unit cost clarifying the concepts to avoid ambiguities or contradicting interpretations during the implementation stage.

Priority should be given to the simplification of reimbursement methods. Payments must be made available faster, limiting to a minimum the stages between the moment a beneficiary is designated and the effective receipt of the funds.

It is also necessary to simplify project applications. Often, companies and SMEs in particular, cannot afford the investment in terms of time and resources to apply for European funding as a non-negligible share of the funds received are lost in administrative procedures.

Some exceptional measures put in place to cushion the impact of the crisis should be made permanent, increasing the flexibility in programme management and extending the scope of eligible expenditure in strategic areas. Simplification in the use of technical support for programme implementation and facilitating the implementation of financial instruments should be continued.

Finally, territorial management procedures should also be revised. Public authorities at all levels can do much in this field by reducing the regulatory burden that slows down the responsiveness of firms.

### **Reform the architecture of the policy**

BUSINESSEUROPE shares the proposals of the report with reference to the objective of cohesion policy, which must continue to promote harmonious development of the Union and its regions by reducing regional disparities. But, at the same time, we also know that a reform of the policy's architecture is needed.

The additionality principle is, and should remain, a clear requirement and precondition for cohesion policy funding. It should offer resources for doing something that would not be possible otherwise, and not be a replacement for national investments. Assessment of additionality has to be evidence-based and be measured more effectively.

While the separation of the different funds is justified, very good coordination under a single strategy is necessary. The European Regional Development Fund (ERDF) and the European Social Fund (ESF) should be seen as complementary and their link should be enhanced at all levels, especially at strategic planning and programming level. It is of fundamental importance to think of effective coordination of support.

Moreover, more focus and more funds for research, development and innovation in Europe, requires appropriate coordination vertically and horizontally to be put in place. Different DG's and EU, national and regional policies need to be smoothly coordinated in this respect.

We also welcome the idea of developing an urban dimension within cohesion policy. City planners are confronted with complex challenges to renovate public infrastructures in various domains and revitalise urban centres. The role of cities could be improved in implementing urban development strategies.

Finally, it is important to revise the system for transition regions making it more transparent, fair, and simple. A possibility could be to create a system of decreasing assistance to all regions between 75% of EU GDP and, say, 85% ensuring that this is applied equally to all regions.

## **4. UNLEASH THE POTENTIAL OF THE SINGLE MARKET**

### **Territorial cohesion**

EU cohesion policy should take into consideration the territorial dimension and encourage regions to invest in their endogenous assets. BUSINESSEUROPE believes that greater territorial cohesion is fundamental to improve the territorial competitiveness of the single market. This should not imply an assessment of every single EU policy from a territorial perspective or a spatial planning that prevents the development of the core. Otherwise, it would risk artificial distortions of competition and ultimately to a negation of the single market itself.

Territorial cohesion should rather be about closing the missing links through the development of trans-European networks; promoting the attractiveness of the European territory based on smart specialisation of the regions; and strengthening cross-border cooperation.

Accessibility must be improved within the single market. This implies not only the development of physical infrastructures, promoting the completion of a competitive and effective internal transport market, but also intangible infrastructure providing EU citizens with access to services such as education, health and knowledge. European energy infrastructure projects also need to be addressed for the promotion of an internal energy market.

Creative thinking that makes the most of the endogenous resources of each region should be encouraged. We are therefore supportive of smart regional specialisation, in which regions focus on their comparative advantages for a sustainable development strategy.

### **Cross border cooperation**

Cross-border cooperation is another key aspect of territorial cohesion and is an area where the EU added value is evident. Neighbouring regions can create immense synergies if complementarities between their centres of research, universities and businesses are established and cooperation is cultivated.

However, existing programmes of territorial cooperation are clearly insufficient. Stronger cross-border cooperation is needed, going beyond the marginal role that these programmes represent today and promoting a change of mentality of the regions in the direction of more cooperation. Moreover, cooperation programmes have to be simplified, and should gain in visibility.

It is also crucial to redefine the participants in territorial cooperation programmes. All the fundamental actors in defining local priorities should be able to participate in these programmes, which is currently not always the case.

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