POSITION PAPER

BUSINESSEUROPE

February 2012

BUSINESS VIEWS ON THE FUTURE OF COHESION POLICY

KEY MESSAGES

1 BUSINESSEUROPE supports the Commission's legislative proposals for a revision of regional policy, in particular those measures that will improve its efficiency by focusing on performance and results.

2 Structural funds should focus on priority areas with a clear impact on growth and jobs, and be subject to a results-oriented approach, with independent evaluations and effective monitoring. Regional development programmes should be clearly aligned with national reform programmes and contribute to addressing structural weaknesses and meeting Europe 2020 objectives.

3 Cohesion policy should maximise its impact on local development and job creation by supporting investments by companies irrespective of their size depending solely on the quality and impact of funded investments.

KEY FACTS AND FIGURES

Resources foreseen for Cohesion Policy 2014-2020	€376 billion (including €40 billion allocated to the "Connecting Europe Facility" fund)	Three categories of regions supported. Less developed regions: GDP per capita < 75 % of the average EU27 GDP. Transition regions: between 75% and 90%. More developed regions: > 90%
Impact of cohesion policy on growth and jobs	increase of GDP per capita in lagging regions from 66% of the EU-25 average in 2000 to 71% in 2006	1.4 million jobs created, around 1 million of which by companies

WHAT DOES BUSINESSEUROPE AIM FOR?

- Well designed mechanisms of ex-ante and ex-post conditionality can improve the efficiency of EU expenditure. The Commission has an important role to play in this regard by providing assistance to Member States and regions to enhance the capacity to manage and to make good use of EU funds.

- Rewarding best performers offers Member States and regions the right incentive to maximise the impact of funds. However, we are cautious regarding the practical implementation of the performance reserve. The allocation criteria should be made simple and straightforward and depend on the achievement of goals set for these funds.

- Macro-economic conditionality can create useful incentives in the context of the stability and growth pact and should be applied in a multiple-step process, which should function under clear rules. The suspension of structural funds should not be applied only on the basis of an excessive deficit, provided that these funds are being properly managed with regard to strengthening growth and employment.

- EU structural and cohesion funds must support the structural reforms and the fiscal adjustments needed in some Member States, in order to firmly contribute to restore growth, job creation and financial stability.

- BUSINESSEUROPE strongly disagrees with the decision to exclude large companies from direct support under the European Regional Development Fund. Given the negative impact this proposal is likely to have in terms of competitiveness and employment, this should not be considered in absence of a quantitative impact assessment. The upcoming revision of the European Union rules on regional state aid for 2014-2020 should also recognise the fundamental role of large enterprises in supporting economic development of European regions.

- Business participation should be enhanced by further simplifying procedures and reducing administrative hurdles at all levels.

- The role of social partners should be better integrated in the legislation in terms of their involvement in both the definition and implementation of the strategy.

- We support a greater use of financial instruments in projects that can have a financial return and a relatively low level of risk involved. This must be complemented by a simplification of rules in existing financial instruments, to increase the leverage effect of structural funds.

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THE FUTURE OF THE COHESION POLICY

BUSINESSEUROPE POSITION ON THE PROPOSED REGULATION FOR COHESION POLICY 2014-2020

INTRODUCTION

The future of cohesion policy for the 2014-2020 period is being shaped alongside an intense debate on the upcoming multiannual financial framework. Decisions on these crucial dossiers will take place at a moment of fragility for most European economies. All efforts should therefore focus on ensuring that EU funds are better spent and that selected projects can contribute to strengthening Europe's competitiveness by the end of the next financial period.

While supportive of EU regional policy, weaknesses in the architecture of this policy have undermined its capacity to deliver more robust results. A lack of strategic approach, with an insufficient focus on performance and lack of coordination with the national reform programmes has impacted negatively on the effectiveness of cohesion policy as a whole.

Simplification, assessment based on results and increased use of conditionality are key principles driving the EU expenditure reform, and welcomed by BUSINESSEUROPE. These principles should be reflected in the entire financial framework for 2014-2020.

We trust that the Council and the European Parliament will play an important role in confirming such a shift in the approach to structural funds and ensure that we build a more competitiveness-friendly policy.

A RENEWED FOCUS ALIGNED WITH EUROPE 2020 STRATEGY

Europe 2020 sets a renewed growth-strategy for the EU, by defining common objectives and a clear framework for identification of funding priorities based on the principles of sustainable, smart and inclusive growth. Cohesion policy should provide a significant contribution to the implementation of this strategy, by addressing resources to appropriate investment priorities

BUSINESSEUROPE is supportive of defining a **reduced number of priorities** aimed at supporting competitiveness, with a stronger emphasis on human capital and innovation. The business community has repeatedly called for a cohesion policy which

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is oriented towards boosting regional growth and development rather than redistribution of funds. Support must be targeted to key drivers of long-term development in the EU regions, like innovation, business start-up, apprenticeship and long-term employment, transport and infrastructures. Improving monitoring and evaluation systems of performances is crucial, and should be pursued with the aim of improving long-term growth potential of regions.

EU structural and cohesion funds must **support the structural reforms** and the fiscal adjustments needed in some Member States, in order to firmly contribute to restore growth, job creation and financial stability.

The principle of multi-level governance is particularly important for effective implementation of programmes. **Social partners** should therefore be properly involved in terms of their involvement both in the definition and implementation of the strategy. We therefore call for their involvement to be more clearly addressed in the legislation.

BUSINESSEUROPE supports the **realignment of region categories** along the thresholds of 75% and 90% of EU average per capita GDP into less developed, transition, and more developed regions. In particular, the transition regions category plays a crucial role, as to avoid sudden negative impacts for regions that have only recently advanced to a more developed status. However, in the future, the Commission should concentrate its funding on less developed regions in order to encourage further economic growth and necessary structural reforms.

THE NEW SYSTEM OF CONDITIONALITY AND PERFORMANCE RESERVE

It is crucial that the **investment and partnership contracts**, establishing a firm agreement between the Commission and Member States regarding the use of funds, clearly reflect the new strategic approach based on performance. The proposed system of monitoring and evaluation, if properly implemented, can provide a real boost to the implementation of structural funds. It is also important that economic and social partners will be involved in the definition of the partnership contracts.

Ex-ante and ex-post evaluation should assess regions' ability to handle funds, aiding them to better achieve objectives, taking into account the impact of exogenous factors into final results.

In particular, **ex-ante conditionality** should ensure that adequate institutional conditions are in place to guarantee funds are well spent. The Commission should play an active role to assist beneficiaries implementing the necessary actions to improve their institutional capacity.

Proper implementation of ex-ante conditionality should imply that **ex-post conditionality** mainly focuses on performance review. The ex-post conditionality should make the release of additional funds contingent on performance, and non-compliance with the objectives should lead to a re-evaluation of projects with the Commission.

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The decision to set aside 5% of national allocations to **reward best performing programmes** within each Member State offers a good incentive to make an appropriate use of the European structural funds. However, we call for shorter and simpler procedures and for straightforward criteria in the allocation of the award. The allocation criteria should be set in a manner to strike the right balance between awarding the best regions while consulting the national authorities, which are better placed to regularly assess the impact of projects to their own territories. The criteria and milestones to attain should be clearly defined in the partnership contracts ensuring that rewards match performance and outcomes rather than strictly financial criteria that focus on speedily spent money rather than quality. Finally, we believe that territorial cooperation programmes should take part in this competition.

The strengthened **macro-economic conditionality** will have to ensure coherence between macroeconomic policies at national level and investments through European programmes. Macro-economic conditionality can create useful incentives in the context of the stability and growth pact and should be applied in a multiple-step process: in case of non-compliance, regions should redesign their projects in collaboration with the Commission to address macro-economic problems.

The redefined partnership programme would allow regions to readdress their investments according to the macro-economic priorities of the country. However, the suspension of structural funds should not be applied only on the basis of an excessive deficit, provided that structural funds are being properly managed with regard to strengthening growth and employment.

The business community calls for greater clarification of this mechanism in the final legislation. This is fundamental for end beneficiaries to properly implement and comply with the new rules.

IMPROVING ABSORPTION CAPACITY

The current period reveals that some Member States have difficulties in absorbing large volumes of EU funds over a limited period of time. BUSINESSEUROPE is supportive of addressing this issue in order to help Member States improve their capacity to spend EU funds adequately and reduce the amount of unspent funds returned to Member States every year.

Therefore, in the elaboration of Operational Programmes, a special attention should be given to the preparation of projects and a specific instrument in the spirit of the existing JASPERS should be put in place. We also agree to include in the partnership contracts, conditions regarding the improvement of administrative capacity, particularly in the area of public procurement.

Nevertheless, setting a maximum cap rate in relation to the country's GNI will have a negative impact in some countries, as it could reduce investments in economic and social cohesion in those regions that have shown an adequate absorption capacity. We thus believe a differentiated and tailored approach is required to reflect the absorption capacities that each Member State has shown in the current period, provided it has demonstrated an efficient use of funds.

ROLE OF BUSINESS IN REGIONAL DEVELOPMENT, SIMPLIFICATION OF PROCEDURES

In line with the ultimate goal of the European Union to boost growth and employment, structural funds should **increase support to entrepreneurship** and business development. The category of enterprise support within operational programmes alone has generated more than 70% of the 1.4 million jobs created during the period 2000-2006 with the support of structural funds.

Enhancing business participation, by **simplifying administrative procedures** is also essential. In particular, further harmonisation of eligibility rules related to the different EU funds, digitalisation of procedures, simplification of procedures to calculate some categories of costs, and an easier application system for projects whose total funding is relatively small are improvement that should be introduced to a maximum extent. Any measures aimed to simplify rules will have to avoid focusing merely on formal compliance and fast absorption, with a view to facilitate the achievement of strategic objectives. In this respect, business community calls for a stronger and clearer commitment to simplify procedures between European Commission and Member States. This is key as simplification at final beneficiaries' level might never come into force, if not properly reflected at European Commission and Member States level.

ROLE OF LARGE ENTERPRISES IN ACHIEVING ECONOMIC AND SOCIAL COHESION

Regions should continue to leverage structural funds strategically to attract investments and stimulate job creation by **SMEs and large enterprises**. Access to structural funds should be granted on the quality of the investment and the economic impact that the investment is expected to have, not on the size of the enterprise. Large enterprises play a crucial 'anchor' role in local and regional economic development. This is especially true for SMEs, which often exist primarily as part of the value chain of large enterprises[1]. Furthermore, SMEs often lack absorption capacity necessary to retrieve funds with the risk of funds being left unspent.

Large companies face the same cost pressures as small companies in choosing their locations, and direct financial supports continue being an important tool for regions to use in trying to attract large globally mobile investments. Yet, by the application of regressive aid intensity funding for investments by large enterprises is already to a large degree subject to limitations. The impact assessment carried by the Commission on the Regional Development Fund is not satisfactory with regard to assessing potentially negative impact of the proposed measure, since it does not rest upon a quantitative approach.

[1] In the case of Austria the top 150 so-called "leading competence units" (LCUs) are large enterprises accounting for 23% of industrial production, 18% of total added value and 37% of total R&D investments in Austria. Around 122,000 SMEs operate in networks with these 150 LCUs.

Therefore, we believe that excluding large enterprises from direct support for productive investment under the European Regional Development Fund would represent an unnecessary, self-inflicted wound to Europe's near and long-term competitiveness.

The upcoming revisions of the European Union rules on regional state aid for 2014-2020, which form the legal basis for many types of funding, whether from EU structural funds or of Member State origin, should also recognise the role of large enterprises in supporting economic development in European regions.

INCLUSION OF UNDERTAKINGS IN DIFFICULTIES

The recovery schemes for undertakings in difficulties should be included in the ERDF eligibility since these recovery schemes are of utmost importance to avoid economically viable firms in temporary financial distress from having to shut down unnecessarily, with consequent loss of productive capital, and jobs. This is particularly important in the present context of global financial and economic distress. In regions eligible for ERDF support, such loss of productive capital and jobs could also, unjustifiably, limit the ERDF´s ability to support regional cohesion.

USE OF FINANCIAL INSTRUMENTS

Enhancing the use of financial instruments has always been regarded as a key priority for the business community, with the aim of increasing the leverage effect of structural funds. Well designed instruments can respond to the needs of companies, increase the performance of projects, stimulate the will to thrive, and reduce dependency on EU grants.

Thus, we welcome the proposal from the Commission to keep using similar financial instruments to those employed in 2007-2013, concentrating efforts on simplification through a further standardisation of conditions, clarifying the implementation framework of these instruments, and increasing legal certainty for all parties. We also support efforts to widen the use of financial instruments for broader types of investment and beneficiary. Translating theses decisions, which mean moving further away from a one-off grant culture and greater use of financial instruments, into clear provisions and providing assistance to the beneficiary would greatly improve the efficiency of cohesion policy. This shift should be gradual until the point when effective simplification will allow an easy use of financial engineering instruments all over Europe.

EUROPEAN SOCIAL FUND

BUSINESSEUROPE can only welcome the increase of the envelope for the European Social Fund (ESF) put forward by the Commission if money is used in a more effective way. To achieve that, the ESF must become more clearly oriented towards active measures such as education and training that actually meet market and employers' needs.

In this respect, BUSINESSEUROPE recommends to the European Commission to allocate a share of ESF funding to promote the expansion of dual learning apprenticeship systems in the EU[2].

A good way of ensuring high return on investment would be to encourage Member States which so wish to establish, reform, or expand dual learning apprenticeship systems. This is particularly the case in countries where there is no apprenticeship system or where existing systems need improvements.

By contrast, we are not convinced with the proposal to earmark a share of the total ESF resources in each Member State around the thematic objective of social inclusion and combating poverty.

Finally, BUSINESSEUROPE welcomes the proposal to ensure that Member States allocate an appropriate amount of ESF resources to reinforce the capacity of social partners.

[2] See BUSINESSEUROPE declaration on "Creating Opportunities for Youth"

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