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The Future of Cohesion Policy – Evidence from Patrick Brière, Chairman of BUSINESSEUROPE's Regional Policy Working Group

BUSINESSEUROPE

THE FUTURE OF COHESION POLICY

BUSINESSEUROPE reflections on:

The priorities

- Foster innovation and productivity
- Contribute to the development of a business-friendly climate
- Support the adaptability of workers, and companies
- Adapt education and training systems
- Encourage cross-border cooperation

The means

- EU budget
- Public-private partnerships
- Involvement of business in EU programmes
- Financial engineering for regional development

The future: European regions in 2020

- Post-2010 Lisbon Strategy
- The new concept of territorial cohesion
- Cohesion policy in the Competitiveness Council

THE PRIORITIES

The diversity of living standards, capital, technological and skills endowment across Member States and European regions is a major challenge for the EU but also an opportunity for further integration and rising prosperity. At the same time, regions are faced with common pressure from global competition, demographic ageing, energy and climate change and a rapid development in technologies and skills. EU cohesion policy must help Member States and regions, their companies and their citizens to adapt to these challenges and turn them into opportunities for sustainable convergence towards the highest European living standards.

EU regional policy must concentrate on improving the conditions for innovation, upgrading of skills, and entrepreneurship.

Foster innovation and productivity

The wealth of Member States and regions will increasingly depend on the development of appropriate framework conditions for innovation and higher productivity. This is one of the main priorities in the use of the European Regional Development Fund (ERDF). Here the involvement of companies and effective implementation of the partnership principle is crucial for success.

The need for sustainable regional infrastructure to underpin innovation or the existence of company concentration for cluster development should be checked first. The Trans-European Networks (TENs) should be better linked to initiatives in the convergence regions. Essential concentration of funds for competitiveness and innovation should be matched with good accessibility conditions for SMEs.

Encouraging innovation in the area of energy-efficient technologies and renewable energy could also be encouraged as a positive response to EU-wide energy and climate change objectives.

Contribute to the development of a business-friendly climate

Boosting growth and jobs in the regions is not limited to earmarking EU cohesion funds towards competitiveness and innovation. Regulation is a particularly important area for the development of firms and improvements are badly needed. A reduction in the overall administrative burden is a must and we expect efforts from all actors involved, including regional and local actors.

Companies will adjust better to new market conditions and to become more competitive if cohesion policy funds focus on the improvement of training for workers and entrepreneurs, services for companies and the interfaces between universities and companies, completed by the simplification of bureaucracy that impedes business development.

Support the adaptability of workers and companies

This is one of the priority actions of the European Social Fund (ESF). Anticipation of economic changes is essential but so far this objective has not been achieved. Only 17.8% of ESF resources are applied in this direction. Regions tend to invest more in other ESF priority actions such as social inclusion, which could be considered "ex-post measures", instead of focusing more attention on upgrading labour skills and thereby enhancing the employability of workers.

Adapt education and training systems

ESF should also encourage entrepreneurship education in schools, help improve management skills, particularly for small businesses, and facilitate an update of skills on the knowledge economy.

The development of lifelong learning is crucial. Occupational qualification and training are means to increase the working life of employees, address the widening skills gap in an ageing society and respond to the pace of technological transformation.

Encourage cross-border cooperation

While representing only 2.5% of total cohesion policy funds, cross-border cooperation between regions is an area where EU added value is evident, and where companies will often find their first opportunities to operate abroad, hence reinforcing the internal market.

Cross-border cooperation means going beyond the short-sighted "competitive threat from the neighbour" to create strategies that contribute to the development of a whole geographical area. The private sector's involvement in the definition of local priorities for cross-border cooperation is crucial. Companies should be allowed to participate actively in the governance of the European Grouping for Territorial Cooperation (EGTC).

Traditional shortcomings to be addressed are cultural and language barriers, administrative obstacles, difficulties to develop cross-border public-private partnerships (PPPs).

Companies' participation is still largely missing in INTERREG programmes. Among the three strands of INTERREG, companies are only eligible for INTERREG 4A (cross-border cooperation) but not in interregional cooperation or transnational cooperation. In these programmes, projects have to be carried out by public authorities for a company to be able to participate.

Territorial cooperation: collective actions in key areas

- **Training:** the needs for skills are often similar in cross-border areas, where employment basins and industrial structures have developed in parallel. Cooperation can be built up between companies, workers, public authorities, employment services and training centres to meet needs in terms of vocational training. Then the workers can be employable on both sides of the border to the benefit of the local economy. Any language obstacle should be addressed in training programmes.
- **Financial engineering for local development**: the INTERREG programmes offer the opportunity to set up cross-border investment funds dedicated to local SMEs. EU regional policy, closely linked to the Lisbon strategy, now offers new opportunities with new financial instruments and new types of financial engineering to address regional development policies. It is possible to take the opportunity of using resources from the ERDF to co-finance cross-border investment funds (financing of start-ups, of innovation in SMEs, venture capital or guarantee funds, etc.) to boost the local economy by doing more with less risk.
- **Complementarities between local clusters in the border area**: linking SMEs and big companies, common use of laboratories and universities. The idea is to enhance coherence in the public and the private sector in the field of R&D and innovation to generate development on a new basis at the local level.
- **Exchange of experiences** between enterprises on management for economic change, cross-border approach to foreign markets and sustainable development.

THE MEANS

EU Budget

Cohesion policy is the second largest spending item in the EU budget, representing 35% of total expenditures. For the current financial perspectives, cohesion policy funds must meet a Lisbon earmarking requirement[1], focusing investment on infrastructures, education and training, networking or research. This is a step in the right direction, which has helped to develop more strategic regional thinking, and it should be applied to all EU Member States in the future. However, cohesion policy should not be overloaded with too many targets. Where earmarking applies, the wide scope of eligible activities may imply a limited effect on allocation decisions.

The importance of enhancing the capacity for fund absorption

Support from the EU budget to low-income regions is sometimes considerable as a ratio to their GDP. The absorption capacity of Member States and regions must be considered carefully, in terms of administrative resources but also as regards the wider macroeconomic consequences of EU funding:

- The commitments allocated to Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania and Slovakia correspond on average to around 2.5% of GDP a year for the period 2007-2013[2].
- Administrative capacity is crucial and must be carefully evaluated. Transparency must be guaranteed with clear criteria in awarding procedures, easy assess to information and efficient auditing. The participation of relevant stakeholders in the definition of awarding criteria is essential.

Clear priorities and good partnership

The great variety of objectives dilutes the effectiveness of the EU budget as available funds are scarce. The list of objectives should be shortened and linked to the priorities identified for each member state in the context of the Lisbon strategy.

EU Instruments for competitiveness and innovation		
Cohesion policy funds (earmarked towards Lisbon goals)	€216 billion (if all Member States commit to the Lisbon targets)	Promote joint programming to increase pooling of public and private efforts in key areas
Framework Programme (FP) for Research and Technological Development	€53 billion	
Competitiveness and Innovation Programme	€ 3.6 billion	

1 60% for the Convergence Objective and 75% for the Regional Competitiveness and Employment Objective. The earmarking of the Lisbon expenditure is compulsory for the 15 Member States of the EU as constituted before 1 May 2004.

2 ECB, Monthly Bulletin March 2008

Public-private partnerships are being encouraged for the period 2007-2013 to increase the leverage effect of EU spending by attracting more private investment. Involving businesses should make it easier to identify innovative solutions. Public procurement rules should be better applied.

The involvement of business representatives is crucial particularly in areas such as employment, human capital, entrepreneurship, cluster development and support for small and medium-sized enterprises.

Effective evaluations

Mid-term reviews have to be effective and based on an objective and transparent evaluation process. The administrative burdens implied by such evaluation process should be minimal, in order not to deter participation of companies and in particular SMEs which are disproportionately affected.

The following criteria should be carefully taken into account:

1. The monitoring process can function better if it is based on clear and fixed performance criteria defined in the preparatory phase of programmes, with all relevant stakeholders. At this point it is vital that business representatives are involved so they can explain their experience and shortcomings in the process.
2. The evaluation should be carried out by bodies completely independent of the institution ordering the evaluation. The role of the Monitoring Committees should be strengthened in this respect. The results of the evaluation should lead to a re-allocation of resources from non-performing to better performing programmes.
3. It is essential to ensure a good coordination between all evaluators. The administrative burden on the beneficiaries of EU funds increases dramatically due the multiplication of regional, national and European evaluation processes.
4. Evaluation should be proportional to the size of the project. Currently, the number of pages to fill out is the same for a project involving 20,000 euros as it is for one involving 20 million euros.

More flexibility

Regions that do not achieve measurable performance criteria in specific programmes should ensure that funds are reassigned to more performing projects. The Commission's role in the relocation of funds should be clearly defined, and should ensure that Member States' actions are conducive to achieving country-specific objectives in the context of the Lisbon strategy.

More generally, the EU budget should adjust to changing circumstances and, for instance, allow unspent CAP funds to be used in other areas where funds are lacking, such as CIP or FP7.

Simple use of EU funds

- *Easier access to funds:* payments should be made available faster, limiting the number of stages between the moment a beneficiary is designated and effective receipt of the funds.
- *Simplify territorial management procedures:* public authorities at all levels can do much in this field by reducing the regulatory burden that slows down the responsiveness of firms. Improvements are badly needed. We are still waiting for more concrete results of the decision to reduce the overall administrative burden by 25% in Europe in the next five years.

Public-private partnerships

This is BUSINESSEUROPE's view of what a PPP should be for regional development

Public sector
- National, regional and local administrations

Private Sector
- Companies
- Business representatives
- Financial instiutions
- Universities

Results
- Strategic thinking for regional development
- Additional funds, expertise and risk-sharing from the private sector
- More investment in higher-risk activities in innovation and research
- Better absorption of EU funds
- Enhanced public service innovation and performance

Steps to make PPPs function for regional development:

Problem: lack of a clear definition of the project

Solutions

- Companies should be consulted and their concerns listened to before priorities are set. Once the priorities have been set, they should remain uncontested.

Problem: badly applied public procurement rules: the price paid is around 40% higher when public procurement rules are not applied

Solutions

- There must be more calls for tender in respect of public procurement rules.
- Avoid 'cronyism' and local cartels: if expertise is not there, it is better that local companies work together with other European enterprises.
- Faster litigation systems: unclear contracts may lead to litigation in court and delays in court sentences can paralyse a project for months.

Problem: lack of public administrative capacity

Solutions

- Use technical assistance and better train staff dealing with public procurement. This is especially important in the new Member States where the turnover of public administration staff is up to 30%.

Involvement of Business in EU programmes

Consultation at the European level:

The consultation process with EU social partners on Structural Funds is clearly recognised in the European legislation. These consultations provide a platform to express views on the strategic orientation of EU cohesion policy and on implementation problems, but they remain formal exercises failing to deliver clear action points for future work.

Consultation at the national level:

Implementation of the partnership principle in preparation of National Strategic Reference Frameworks (NSRFs) and Operational Programmes (OPs) for 2007-2013: results of BUSINESSEUROPE survey among its national member federations.

Significant improvement from the 2000-2006 programming period

- Improvements in the implementation of the partnership principle are due to more experience from authorities and social partners in dealing with cohesion programmes, more transparency in discussions and better organised consultation and implementation procedures.
- However, not all business representatives feel well included in the process. Improvements are still lacking even in countries with long membership in the EU.
- The partnership principle should improve if it develops from a mere formality into a real exchange of views and active participation of social partners at all stages of the programming process.

Uneven involvement in stages of the programming process

- Social partners' involvement in all stages of the programming process has not been achieved in all member states. While involvement in preparation and implementation seems well established in certain countries, in others involvement in the process appears to be rather weak and not systematic as it seems to have been achieved by federations' tenacity to participate rather than through formal partnership mechanisms.
- Business federations' involvement is generally more satisfactory at national level than at regional level, where problems are more significant.

Obstacles for participation in the process

According to BUSINESSEUROPE's national federations, problems lie in:

- Too short consultation process. Lack of coherence between short time given to social partners and long delay in programme implementation.
- Lack of coherent and transparent participation mechanisms.
- Lack of feedback from the consultation process, without clear indication of reasons behind changes in the draft proposal.
- Lack of experience, knowledge and expertise of social partners in cohesion policy compared with public institutions.
- Lack of formalised partnership arrangements, particularly at the regional level.
- Lack of interest from governments to involve social partners in the process.
- Consultation through conferences where no real discussion is possible when meetings are overcrowded by groups of no significant representativeness. In this context it is difficult to make your voice heard.
- Ex-post consultation when the draft is at a very advanced stage and it is less flexible.

Financial Engineering for regional development

The Commission, in cooperation with international financial institutions such as the European Investment Bank (EIB) or the European Bank for Reconstruction and Development (EBRD), has developed innovative financial instruments to complement European grant financing through the promotion of PPPs[3].

Applying "financial engineering" techniques to EU Structural Funds seeks to facilitate private sector participation in the funding of projects.

This has several advantages:

- Sustainable financing over the long term: it transforms grants into recyclable forms of finance (revolving funds with snowball effect).
- Higher leverage effect brought about by using such grants to attract and combine with private capital.
- Risk-sharing with the private sector: this permits a high impact on local economies, allowing investments with a higher risk for the development of SMEs (creation of new businesses, investment in innovation, launch of new products on the market, financing of new processes for more sustainable production, etc.).
- Diversification of activities: creation of businesses, risk capital, venture capital, every type of loan, SME financing, housing, urban regeneration, etc.
- Stronger incentives towards better performance: mechanisms of this kind can be more easily evaluated because one can measure objectively the number of enterprises created and developed, the number of new jobs (self-financing jobs, not-public jobs) and the increase of local taxation for the benefit of the whole community.

And a few drawbacks:

- The use of these instruments may depend on how "business-friendly" a public authority is.
- Some public authorities may be reticent to use their operational programmes to finance these techniques.

Coupling access to finance and public procurement with SME development: think small first

It is crucial for SME development to ensure simplified procedures and an opening of the financial ceilings for small projects, with a widening of the "de minimis" rule and a definition of coherent rules for SME – tailored financial engineering.

There is still much to do to foster SMEs' access to public procurement in order to establish a level playing field. Smaller contracts, centralised tender information, lighter financial guarantees and simpler information requirements are ways to achieve this.

3 JASPERS - technical assistance for project preparation, JEREMIE - initiative supporting improved access to finance for SMEs, JESSICA - Joint European Support for Sustainable Investment in City Areas

THE FUTURE: EUROPEAN REGIONS IN 2020

Post-2010 Lisbon Strategy

The Lisbon strategy offers an overarching theme to align policy efforts and ensure an effective coordination of all resources.

The strong link between regional development policy and the Lisbon priorities has allowed an interesting approach linking regional development and competitiveness. This has led to the definition of regional strategic plans for economic and social development in the programmes, and it can be considered a real improvement compared with the way the structural funds were managed in prior programmes.

A post-2010 agenda focused on competitiveness, innovation and skills development should continue influencing and guiding cohesion policy efforts. Evidence from the analysis of the programmes 2007-2013 shows that programmes are better targeted and ownership by economic actors has improved. This approach should therefore continue.

The new concept of territorial cohesion

The concept of territorial cohesion offers new opportunities for regional development.

For BUSINESSEUROPE, this concept embraces:

- Regional strategic planning, taking into the potential and current infrastructure facilities of a region.
- High quality partnerships with local businesses. This is essential in order to set a comprehensive strategy for development, embraced and supported by all economic stakeholders.
- The interconnection of territories for harmonious development.
- Effective coordination of resources.
- Cooperation between clusters: a new vision of collective and cross-cutting actions.
- Regions that go beyond their borders in enhanced cross-border cooperation.

Cohesion policy in the Competitiveness Council

Regional policy should cease to be isolated from the main policy streams of the Lisbon strategy. It should be discussed in the framework of the Competitiveness Council so actions on research, training and innovation are better coordinated in the field with the support of the Structural and Cohesion Funds.

This coordination should enhance the EU's capacity for action and focus on key projects.