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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN INVESTMENT BANK

Conclusions of the fifth report on economic, social and territorial cohesion: the future of cohesion policy

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1. INTRODUCTION

Europe faces a daunting task. It must exit from a deep crisis and reduce unemployment and poverty, while switching to a low-carbon economy. Such an ambitious task requires swift action on many fronts, which is why the European Council adopted the Europe 2020 Strategy[1]. For Europe to succeed, European, national, regional and local levels all need to play their part. Cohesion policy should continue to play a critical role in these difficult times, in order to deliver smart, sustainable and inclusive growth, while promoting harmonious development of the Union and its regions by reducing regional disparities.

Cohesion policy has made a significant contribution to spreading growth and prosperity across the Union, while reducing economic, social and territorial disparities. The fifth report on economic, social and territorial cohesion shows that the policy has created new jobs, increased human capital, built critical infrastructure and improved environmental protection, especially in the less developed regions. Undoubtedly, without cohesion policy, disparities would be greater. Yet the lasting social effects of the crisis, the demand for innovation arising from increased global challenges and the imperative to make the most of every euro of public expenditure call for an ambitious reform of the policy.

As indicated in the EU budget review[2], in particular progress needs to be made in the following key areas: concentrating resources on the Europe 2020 objectives and targets; committing Member States to implementing the reforms needed for the policy to be effective; and improving the effectiveness of the policy with an increased focus on results. The explicit linkage of cohesion policy and Europe 2020 provides a real opportunity: to continue helping the poorer regions of the EU catch up, to facilitate coordination between EU policies, and to develop cohesion policy into a leading enabler of growth, also in qualitative terms, for the whole of the EU, while addressing societal challenges such as ageing and climate change.

With these conclusions, the Commission opens a public consultation on the future of cohesion policy. This is organised around a series of questions on the main ideas for its reform.

The following sections look, in turn, at how the policy can be made more effective and its impact improved so as to enhance the European added value (Section 2), at how governance of the policy can be further strengthened (Section 3), at how the delivery system can be streamlined and made simpler (Section 4) and at the architecture of the policy (Section 5).

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1 'Europe 2020: A strategy for smart, sustainable and inclusive growth' - COM(2010) 2020, 3.3.2010.
2 'The EU Budget Review' - COM(2010) 700, 19.10.2010.

2. ENHANCING THE EUROPEAN ADDED VALUE OF COHESION POLICY

The added value of cohesion policy is recurrently debated by policy-makers, academics and stakeholders. Some argue that cohesion policy is loosely linked to EU priorities, that it spreads resources too thinly across policy areas and that its impact is often difficult to measure. Though the report shows that cohesion policy has contributed to economic and social development of regions and to the well-being of people, the Commission takes these criticisms very seriously.

Further reforms of cohesion policy, while preserving its overall objective, should therefore aim to steer the policy decisively towards results and enact the reforms needed in order to achieve results, while cutting red-tape and simplifying the daily management of the policy.

2.1. Reinforcing strategic programming

Cohesion policy has already been substantially aligned with the Lisbon Strategy, in particular by earmarking financial resources. However, this alignment is not sufficient due to a governance gap between the two strategic processes. More can be done in the future to further alignment of cohesion policy with the Europe 2020 Strategy. This requires, first of all, clear guidance at European level and a more strategic negotiating process and follow-up.

The EU budget review outlined a new strategic programming approach for cohesion policy with a view to closer integration of EU policies to deliver the Europe 2020 Strategy and the Integrated Guidelines. This approach would consist of:

– a **common strategic framework** (CSF) adopted by the Commission translating the targets and objectives of Europe 2020 into investment priorities. The framework would cover the Cohesion Fund, the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund;

– a **development and investment partnership contract** which, based on the common strategic framework, would set out the investment priorities, the allocation of national and EU resources between priority areas and programmes, the agreed conditionalities, and the targets to be achieved. This contract would cover cohesion policy. In order to promote economic, social and territorial cohesion in a coherent and integrated manner, it might be useful to extend its scope to other policies and EU funding instruments. The contract will be the fruit of the discussions between Member States and the Commission on the development strategy presented in their National Reform Programmes. It would also describe the coordination between EU funds at national level; and

– **operational programmes** (OPs) which, as in the current period, would be the main management tool and would translate the strategic documents into concrete investment priorities accompanied by clear and measurable targets — which should contribute to reach the national targets set in the framework of Europe 2020.

The timing of the **annual reports** monitoring progress towards the targets would be aligned with the Europe 2020 governance cycle. On this basis, a regular **political debate** in the relevant Council formations and European Parliament committees would improve transparency, accountability and assessment of the effects of cohesion policy.

Three proposals in the EU budget review have a particular impact on cohesion policy: concentrating financial resources, the system of conditionality and incentives, and focus on results.

2.2. Increasing thematic concentration

The *ex-post* evaluations of cohesion policy concluded that greater concentration of resources is required to build up a critical mass and make a tangible impact.

In the future it will therefore be necessary to ensure that Member States and regions **concentrate EU and national resources** on a small number of priorities responding to the specific challenges that they face. This could be achieved by establishing, in the cohesion policy regulations, a list of thematic priorities linked to the priorities, Integrated Guidelines and flagship initiatives of Europe 2020.

Depending on the amount of EU funding involved, countries and regions would be required to focus on more or fewer priorities. Thus, Member States and regions receiving less funding would be required to allocate the entire financial allocation available to two or three priorities, whereas those receiving more financial support may select more. Certain priorities would be obligatory.

At the same time, thematic concentration should not prevent Member States and regions to experiment and fund innovative projects. Ring-fencing expenditure for specific target groups or experimental approaches (e.g. local development) might also be considered, possibly in the form of global grants.

2.3. Strengthening performance through conditionality and incentives

The financial and economic crisis has already compelled the Commission to propose measures to improve the economic governance of the Union[3]. Sound macroeconomic policies, a favourable microeconomic environment and strong institutional frameworks are preconditions for creating jobs, stimulate growth, reduce social exclusion and bring about structural changes.

This is even truer of cohesion policy, since its effectiveness largely depends on the economic environment in which it operates. It is therefore possible to strengthen the links between cohesion policy and the economic policy framework of the Union.

First, to support the new economic governance system new conditionality provisions would be introduced creating incentives for reforms. Member States would be required to introduce the reforms needed to ensure effective use of financial resources in the areas directly linked to cohesion policy, for example environmental protection, flexicurity policies, education or research and innovation.

For each thematic priority the CSF would establish the key principles which interventions should follow. These principles must leave room for adaptation to national and regional contexts. Their main purpose would be to help countries and regions to tackle the problems that past experience has shown to be particularly relevant to policy implementation. These

[3] 'Enhancing economic policy coordination for stability, growth and jobs — Tools for stronger EU economic governance' - COM(2010) 367.

principles could be linked to, for example, transposition of specific EU legislation, the financing of strategic EU projects, or administrative, evaluation and institutional capacity.

On this basis, specific binding conditionality in the areas directly linked to cohesion policy would be agreed with each Member State and/or region — depending on the institutional context — at the beginning of the programming cycle in the programming documents (i.e. the development and investment partnership contracts and the operational programmes), in a coordinated approach with all relevant EU policies. Their fulfilment could be a prerequisite for disbursing cohesion resources either at the beginning of the programming period or during a review in which the Commission would assess progress towards completing agreed reforms.

Achievement of institutional reform is critical to underpin structural adjustment, foster growth and jobs and reduce social exclusion, notably by reducing regulatory and administrative burdens on businesses or by improving public services. As now, these would be complemented by support under cohesion policy to develop administrative and institutional capacity and effective governance. This should be available to every Member State and region.

Second, financial sanctions and incentives linked to the Stability and Growth Pact have been so far limited to the Cohesion Fund. The Commission has proposed to extend it to the rest of the EU budget as complementary leverage to ensure the respect of key macro economic conditions in the context of the corrective arm of the Pact. In cases of non-compliance with the rules of the Pact, incentives should be created by suspending or cancelling part of current or future appropriations from the EU budget without affecting end-beneficiaries of EU funds. Resources cancelled would remain within the EU budget.

Still in the context of the wider economic governance of the EU, the verification of the **principle of additionality** should be reformed by linking it to the EU economic surveillance process, using indicators already provided in the Stability and Convergence Programmes which Member States submit to the Commission every year.

Co-financing is one of the fundamental principles of cohesion policy ensuring ownership of the policy on the ground. Its level should be reviewed and, possibly, differentiated to reflect better the level of development, EU added value, types of action and beneficiaries.

Finally, other instruments which could further strengthen the effectiveness of cohesion policy also need to be explored. For example, a **performance reserve** could be established at EU level to encourage progress towards Europe 2020 targets and related national targets and objectives: a limited share of the cohesion budget would be set aside and be allocated, during a mid-term review, to the Member States and regions whose programmes have contributed most – compared to their starting point – to the 2020 targets and objectives. Also, the experience gained over the current period has demonstrated that the Commission needs some resources to support directly **experimentation and networking**, along the lines of the innovative actions of previous programming periods.

2.4. Improving evaluation, performance and results

Higher-quality, better-functioning monitoring and evaluation systems are crucial for moving towards a more strategic and results-oriented approach to cohesion policy. A number of changes would support this shift.

First, the starting point for a results-oriented approach is *ex-ante* setting of clear and **measurable targets and outcome indicators**. Indicators must be clearly interpretable, statistically validated, truly responsive and directly linked to policy intervention, and promptly collected and publicised. Indicators and targets should be agreed in the discussions on the programming documents in addition to a few core Fund-specific indicators for all operational programmes linked to the Europe 2020 framework. Moreover, timely and complete submission of accurate information on the **indicators** and on the progress towards the agreed targets would be central to the annual reports.

Second, ***ex-ante*** **evaluations** should focus on improving programme design so that the tools and incentives for achieving objectives and targets can be monitored and evaluated during implementation.

Third, evaluation should make much greater use of rigorous methods in line with international standards, including **impact evaluation**. Whenever possible, impact evaluations would be designed at an early stage to ensure collection and dissemination of the appropriate data. Moreover, plans for **on-going evaluation** of each programme would become an obligation, since they facilitate transparency at EU level, foster evaluation strategies and improve the overall quality of evaluations. Evaluations could also be envisaged once a certain amount of the funds has been certified to the Commission.

Finally, Member States could prepare a report synthesising results of on-going evaluations they conduct during the programming period with a view to giving a comprehensive summative evaluation of programme performance.

2.5. Supporting use of new financial instruments

The EU budget review makes a strong case for increasing the leverage effect of the EU budget. New forms of finance for investment have been developed in the 2007-2013 programming period, moving away from traditional grant-based financing towards innovative ways of combining grants and loans. The Commission would like Member States and regions to make a more extended use of such instruments in the future.

Financial instruments help to create revolving forms of finance, making them more sustainable over the longer term. This is also one way of helping Europe to increase resources for investment, especially in times of recession. It opens new markets to different forms of public-private partnership, bringing in the expertise of international financial institutions.

To improve financial engineering instruments within cohesion policy, a number of measures could be examined:

– Provide greater **clarity and differentiation between rules** governing grant-based financing and rules governing repayable forms of assistance in the regulatory framework, especially on eligibility of expenditure and audits;

– Channel **generic financial support to firms** mainly via financial engineering instruments and use grants to co-finance targeted support schemes (innovation, environmental investments, etc.);

– **Extend both the scope and scale of financial engineering instruments:** in terms of scope, to encompass new activities (e.g. sustainable urban transport, research and development, energy, local development, lifelong learning or mobility actions, climate change and environment, ICT and broadband); in terms of scale, to combine interest subsidies with loan capital or other forms of repayable financing.

- How could the Europe 2020 Strategy and cohesion policy be brought closer together at EU, national and sub-national levels?
- Should the scope of the development and investment partnership contract go beyond cohesion policy and, if so, what should it be?
- How could stronger thematic concentration on the Europe 2020 priorities be achieved?
- How could conditionalities, incentives and results-based management make cohesion policy more effective?
- How could cohesion policy be made more results-oriented? Which priorities should be obligatory?

3. STRENGTHENING GOVERNANCE

3.1. Introducing a third dimension: territorial cohesion

The Lisbon Treaty has added territorial cohesion to the goals of economic and social cohesion. As a result, it is necessary to address this objective in the new programmes, with particular emphasis on the role of cities, functional geographies, areas facing specific geographical or demographic problems and macro-regional strategies.

Urban areas can be the engines of growth and hubs for creativity and innovation. Higher growth levels and new jobs can be created provided a critical mass of actors like companies, universities and researchers is established. Urban problems, whether related to environmental degradation or to social exclusion, call for a specific response and for direct involvement of the level of government concerned. Accordingly, an ambitious **urban agenda** should be developed where financial resources are identified more clearly to address urban issues and urban authorities would play a stronger role in designing and implementing urban development strategies. Urban action, the related resources and the cities concerned should be clearly identified in the programming documents.

For the future, one aspect which should be examined is whether the regulatory architecture of cohesion policy should allow **greater flexibility** in organising operational programmes in order to reflect the nature and geography of development processes better. Programmes could then be designed and managed not only at national and regional levels, but also — for example — at the level of groups of towns or of river and sea basins.

The report has shown that in some cases **geographical or demographic features** could intensify development problems. This is particularly true of the outermost regions but also of northernmost regions with very low population density and island, cross-border and mountain regions, as explicitly recognised by the Lisbon Treaty. It will be necessary to develop targeted provisions to reflect these specificities, without unnecessarily multiplying instruments and programmes. Territorial cohesion also means addressing urban-rural linkages in terms of access to affordable and quality infrastructures and services, and problems in regions with a high concentration of socially marginalised communities.

Finally, further work on new **macro-regional strategies** should be based on a thorough review of existing strategies and the availability of resources. Macro-regional strategies should be broad-based integrated instruments focused on key challenges and supported by a reinforced trans-national strand, although the bulk of funding should come from the national and regional programmes co-financed by cohesion policy and from other national resources.

3.2. Reinforcing partnership

Effective implementation of Europe 2020 requires a governance system that involves the actors of change in Member States and that links the EU, national, regional and local levels of administration.

In order to mobilise fully all involved, representation of local and regional stakeholders, social partners and civil society in both the policy dialogue and implementation of cohesion policy should be strengthened. With this in mind, support for the dialogue between public and private entities, including socio-economic partners and non-governmental organisations, should be maintained.

In this context, the role of **local development approaches** under cohesion policy should be reinforced, for example by supporting active inclusion, fostering social innovation, developing innovation strategies or designing schemes for regeneration of deprived areas. These should be closely coordinated with similar actions supported under rural development and maritime policies.

- How can cohesion policy take better account of the key role of urban areas and of territories with particular geographical features in development processes and of the emergence of macro-regional strategies?
- How can the partnership principle and involvement of local and regional stakeholders, social partners and civil society be improved?

4. A STREAMLINED AND SIMPLER DELIVERY SYSTEM

Although it is too early to draw final conclusions on the effectiveness of the delivery system of cohesion policy in the period 2007-2013, Member States have argued against too frequent and drastic amendments of the rules that could hamper implementation. Nevertheless, a number of targeted changes deserve to be examined.

4.1. Financial management

In line with the recent proposal for revision of the Financial Regulation[4], each year the authority responsible for managing cohesion policy programmes would present a management declaration accompanied by the annual accounts and an independent audit opinion. This would strengthen the line of accountability for expenditure co-financed by the EU budget in any given financial year.

On the basis of the annual management declaration, the Commission proposes to introduce a periodical clearance of accounts procedure for cohesion policy. This would reinforce the assurance process and also allow regular partial closure of programmes.

[4] 'Proposal for a Regulation of the European Parliament and of the Council on the Financial Regulation applicable to the general budget of the European Union' - COM(2010) 260.

The Commission has to consider whether not reimbursing national authorities until the corresponding EU contribution has been paid to beneficiaries would speed up payments of grants to beneficiaries and increase the incentive for strong national control.

Also, the Commission will examine the possibility of introducing output- or results-based elements for disbursement of the EU contribution to operational programmes or parts of programmes, depending on the type of action.

Finally, simplified methods of reimbursement, such as the standard scale of unit costs and lump-sum payments for grants introduced for 2007-2013, should be further promoted, thus increasing their impact. This would be another way of moving towards a more results-based approach.

4.2. Reducing the administrative burden

The general approach for 2007-2013, under which eligibility rules are set at national level, should be retained. However, common rules should be adopted on key points such as overheads covering different EU Funds. Alignment of rules on eligibility of expenditures across policy areas, financial instruments and funds would simplify use of funds by beneficiaries and management of funds by national authorities, reducing the risk of errors while providing for differentiation where needed to reflect the specificities of the policy, the instrument and the beneficiaries.

In line with the proportionality principle, it would also be useful to examine how control measures could be made more cost-effective and risk-based to improve their effectiveness and efficiency while ensuring adequate coverage of the inherent risks at a reasonable cost, in accordance with the principle of sound financial management.

4.3. Financial discipline

The de-commitment rule aims to ensure that projects are implemented within a reasonable timeframe and to encourage financial discipline. However, it can distort the behaviour of Member States and regions by concentrating too much attention on quick, and less on effective, use of resources. Furthermore, application of the de-commitment rule has been complicated by a number of derogations. There is a need to strike a careful balance between ensuring the quality of investment and smooth and rapid implementation. One possibility would be to apply N+2 with the exception of the first year to all programmes and remove exemptions and derogations.

4.4. Financial control

With regard to management and control systems, there is a need not only to deliver stronger assurance but also to achieve greater commitment, on the part of Member States, to quality control. This would allow the European Parliament, the Commission and Member States to focus more on the results and impact of the policy.

The first proposal is to review the procedure for *ex-ante* assessment of the systems, taking account of the experience gained from the *ex-ante* compliance assessment for 2007-2013 programmes in order to prevent problems in management and control systems. The procedure should be streamlined whilst retaining its benefits. This can be achieved by targeting the assessment on the main management body responsible by means of an accreditation process and by reviewing the Commission’s involvement in this process.

The second proposal is to reinforce assurance by concentrating responsibilities. An accredited body would assume sole responsibility for proper management and control of the operational programme.

- How can the audit process be simplified and how can audits by Member States and the Commission be better integrated, whilst maintaining a high level of assurance on expenditure co-financed?
- How could application of the proportionality principle alleviate the administrative burden in terms of management and control? Should there be specific simplification measures for territorial cooperation programmes?
- How can the right balance be struck between common rules for all the Funds and acknowledgement of Funds' specificities when defining eligibility rules?
- How can financial discipline be ensured, while providing enough flexibility to design and implement complex programmes and projects?

5. THE ARCHITECTURE OF COHESION POLICY

Cohesion policy aims to promote harmonious development of the Union and its regions by reducing regional disparities (Article 174 of the Treaty). It also underpins the growth model of the Europe 2020 strategy including the need to respond to societal and employment challenges all Member States and regions face. The policy supports such development with a clear investment strategy in every region by increasing competitiveness, expanding employment, improving social inclusion and protecting and enhancing the environment. The multilevel governance system for the policy helps to make the EU more visible to its citizens.

All regions and Member States would be eligible to cohesion policy and able to tailor their strategy in an integrated manner to their specific strengths and weaknesses.

As today, support would be differentiated between regions based on their level of economic development (measured by GDP per capita), drawing a clear distinction between ‘less’ and ‘more’ developed regions. To soften the transition between these two categories and ensure a fairer treatment for regions with similar level of economic development, the question could be asked as to whether a simpler system with a new intermediate category of regions could replace the current phasing-out and phasing-in system. This category would also include regions currently eligible under the ‘convergence’ objective but whose GDP would be higher than 75% of the Union average according to the latest statistics.

At the same time, and consistently with the EU Budget Review, there is a need to consider for the future architecture of cohesion policy, how the ESF could be refocused on securing the 2020 targets and objectives and how to achieve greater visibility and predictable funding volumes. It is also important to examine how the Fund could better serve the European employment strategy and contribute to the comprehensive European employment initiative called for by the EU Budget Review.

The policy will continue to focus on implementing the Integrated Guidelines for economic and employment policies.

The Cohesion Fund would continue to benefit Member States whose GNI per capita is lower than 90 % of the Union average.

Finally, cohesion policy would continue to foster territorial dimensions of cooperation (cross-border, transnational and inter-regional). This would include a review and simplification of the current arrangements for cross-border cooperation, including IPA, ENPI and EDF cross-border cooperation at the EU's external borders, and also of current practices in transnational action supported both by the ERDF and the ESF.

- How can it be ensured that the architecture of cohesion policy takes into account the specificity of each Fund and in particular the need to provide greater visibility and predictable funding volumes for the ESF and to focus it on securing the 2020 objectives?
- How could a new intermediate category of regions be designed to accompany regions which have not completed their process of catching up?

6. NEXT STEPS

The fifth cohesion report sets out some of the Commission's key ideas for the reform of cohesion policy following a long discussion which started with the fourth cohesion report in 2007. These will be fine-tuned and consolidated in the next few months.

The Commission invites all stakeholders to give their responses to the questions presented in this Communication. Comments can be posted until 31 January 2011 on:
http://ec.europa.eu/regional_policy/consultation/index_en.htm.

Due account will be taken of the responses received when drafting the legislative proposals to be presented immediately after the adoption of the new Multi Annual Financial Framework in 2011.

The Fifth Cohesion Forum which will take place in Brussels on 31 January and 1 February 2011 will provide a good opportunity to discuss these ideas.