

Submission
on the
Future of EU Cohesion Policy

Border, Midland and Western
and
Southern and Eastern Regional Assemblies

November 2008



Ireland's EU Structural Funds
Programmes 2007 - 2013

Co-funded by the Irish Government
and the European Union



EUROPEAN REGIONAL
DEVELOPMENT FUND

Introduction

The Irish Regional Assemblies welcome this opportunity to make a detailed submission on the future of EU Cohesion Policy and on the administrative arrangements for the implementation of EU co-financed programmes in Ireland, post 2013. In preparing this submission, the Regional Assemblies have drawn on their wide experience in the preparation, management and monitoring of a range of EU programmes including the Regional Operational Programmes 2000-06 and 2007-13, Interreg programmes 2000-06 and 2007-13 (across all 3 strands), Innovative Actions Programmes 2002-04 and 2006-2008 and cross-border PEACE programmes.

The Irish regions' have a positive view of cohesion policy, which is in line with the supportive position of regions across Europe. There are many reasons for this, including the following:

- cohesion policy gives regions a significant input into investment planning, implementation, management and monitoring;
- it strengthens regional governance through partnership arrangements, giving regional bodies a place alongside the Member State, in the preparation and negotiation of investment programmes – a form of multi-level governance;
- cohesion policy leads to the visible delivery of projects on the ground, attributed to EU co-financing; and
- the delivery of cohesion policy and the principle of partnership provides a direct link between regions and EU institutions.

Structural funds are a multi-annual guaranteed source of funding, thus enabling a stable investment environment. In addition to the transfer of substantial resources to Ireland, Cohesion policy has also enhanced the policy planning process in public administration and strengthened institutional capacities across many spheres. In particular, the implementation of EU co-financed programmes has enabled regional administrative capacities to evolve and the competences of regional administrations to expand in a context in which they have had limited competences and the territorial dimension of public policies has also been quite weak.

Regional Policy and Competitiveness

The Community Strategic Guidelines for the structural funds programmes 2007-13 placed competitiveness at the core of EU regional policy, consistent with the Lisbon Agenda on growth and jobs. The reinforcement of the competitiveness agenda within EU Regional policy recognises that the foundations of competitiveness are at regional level¹. The structural funds prioritise investments that are considered the building blocks of competitiveness:

- attractive city and regional locations;
- regional labour force and knowledge base;

¹ Ron L. Martin (2003) A study of the factors of regional competitiveness: Report for the EU Commission, Cambridge Econometrics

- accessibility – ICT & transport; and
- innovation and entrepreneurship.

Cohesion policy reinforces the regional dimension of entrepreneurship, innovation, ICT, employability, renewable energy and the knowledge economy. However, many national policies (e.g. Strategy for Science, Technology and Innovation 2006-2013) have had, thus far, a weak territorial dimension and there has been a limited acknowledgement of the regional dimension of national competitiveness in Irish public policy to date². A concern therefore for the Irish regions is that a retreat from cohesion policy by Ireland (a re-nationalised regional policy) could be detrimental to both national and regional interests.

European Union Context

The framing of EU regional policy takes place within a particular EU context:

1. Budgetary Review – reconciling interests of net contributors and net recipient Member States;
2. Balancing cohesion policy budgetary objectives with other EU budgetary priorities (e.g agriculture);
3. The outcomes of the Green paper on territorial cohesion;
4. Continued strong endorsement for Convergence regions (Objective 1) on grounds of solidarity, stabilisation and addressing wide disparities;
5. Ongoing debate re: rationale for Objective 2 and Objective 3 (Interreg) programmes;
6. New emphasis on addressing future challenges identified by DG Regio³ as globalisation, climate change, the energy challenge and demographic shifts (ageing and migration); and
7. Potential further enlargements.

The Lisbon Agenda (competitiveness) and perhaps to a lesser extent, the Gothenberg Agenda (sustainability), are likely to remain key priorities of the Union and these provide a continued and strong rationale for an EU-wide regional policy that goes beyond the priority concern of concentrating on convergence (Objective 1) regions. There is an explicit focus in the 2007-13 round on innovation, competitiveness and employment. Cohesion policy is thus seen as reinforcing the delivery of EU-wide objectives e.g., Lisbon and Gothenberg Agendas, and facilitating the enhancement of the endogenous potential of all regions to raise the competitiveness of the EU overall. Further to this is the added value and stable investment climate provided by the multi-annual programming approach. Cohesion policy also contributes to the visibility and legitimacy of the EU in all regions. The regional competitiveness and employment objective also represents a form of ‘pay back’ to Member States that are net contributors to the EU budget and retains their support for the policy overall.

² NESAC (2008.) The Irish Economy in the 21st Century, alludes to regional competitiveness as being constitutive of national competitiveness

³ DG Regio (2008) Regions 2020: An Assessment of future challenges for EU regions, Commission staff working document SEC(2008) 2868 final

The Objective 3 programmes (Territorial Co-operation) promote inter-regional co-operation and in an Irish context, these programmes have been very beneficial in addressing common challenges and mitigating the effects of borders. Objective 3 programmes confer added value at EU level as they facilitate the pooling of resources, development of joint solutions to common issues and exchanges/diffusion of best practice. One possible off-shoot of territorial co-operation is the proposed PEACE network to be led by the SEUPB, based on its experience gained in the management and implementation of the PEACE programmes. Ireland's Regional Assemblies strongly support the continuation of these programmes. However, in Ireland, central government Departments and Agencies have not been active participants in many of these initiatives, thus diminishing the potential for policy learning by Irish central policymakers. This provides a rationale for participation in EU initiatives such as the Regions for Economic Change, through the piloting of good practice, introduction of innovative approaches and mainstreaming of results.

While cohesion policy has been the primary instrument of the EU to achieve economic and social cohesion, there is a potential tension between the objective of competitiveness on the one hand and territorial cohesion on the other. Providing all EU citizens with equal opportunities to benefit from economic and social progress implies higher investment in lagging regions, while promoting competitiveness implies a more focussed investment in productivity-enhancing activities, building on success in regions/sectors with the greatest growth potential. Cohesion policy is intended to facilitate the growth of lagging regions, but in so doing, it is seeking to counter market forces and agglomeration effects that would otherwise cause a widening of disparities between regions. Addressing disparities remains a challenge, including in Ireland as the inter-regional GDP per capita disparities that widened in the early years of the Celtic Tiger era, have remained wide ever since and regional rates of unemployment are once again showing signs of divergence following the rapid slowdown in the economy this year. National and EU policies should reinforce each other in mitigating the factors that give rise to such internal disparities in Ireland. The focus of future programmes should therefore be on building the capacity of regions in terms of the factors of competitiveness and addressing the future challenges identified earlier:

- Accessibility and connectivity infrastructure (including ICT);
- Entrepreneurial capital;
- Building a regional research base and regional innovation systems;
- Human capital and inclusivity; and
- Institutional capital.

Irish National Context

From the perspective of the Irish Government, the debate on the future of EU Cohesion Policy has to take a number of factors into account. The loss of Objective 1 status for the BMW Region at the end of 2006 has led to a significant reduction in Ireland's entitlement to EU Structural Funds receipts. This also follows the expiry of Ireland's entitlement to Cohesion Funds in 2004. Overall, there has been a 75% reduction in Structural Funds

receipts for the 2007-13 period compared with the 2000-06 period. Both NUTS II regions are now funded under the Regional Competitiveness and Employment objective (Objective 2). The BMW Region qualifies as a phasing-in region with a frontloading of structural funds allocations over the 2007-2010 period and a much lower allocation over the 2011 to 2013 period.

For the post 2013 period, the Irish Government will be faced with the choice of supporting a continuation of the financial perspectives that apply for the 2007-13 period, or a possible reduction in Objective 2 programme allocations, which would result in the level of entitlement to Structural Funds diminishing further. As of the end of 2010, the differential level of EU funding available to the BMW Region will disappear. This had been an important factor that had led to the decision in 1999 to divide the country into two NUTS II regions for Structural Funds purposes. Also, as of 2011, the gap in the permitted levels of regional aid under the EU state aids regime will also narrow considerably. This coincides with Ireland becoming a net contributor to the EU budget. Another factor that has to be taken into consideration is the level of EU receipts of CAP and Rural Development funding, which now exceed the receipts from Structural Funds receipts.

Cohesion Policy has been a strong influencer of Irish regional policy over 20 years and it has been a major contributor to the growth in investment (infrastructure, productive sector, education and training) which has been acknowledged as one of the key ingredients for the unprecedented economic growth that took place through the Celtic Tiger period. Cohesion Policy has also had positive effects on programme management, monitoring, evaluation and project appraisal expertise in Ireland.

In giving effect to the principle of partnership over several programming periods, EU Cohesion Policy led to the establishment of new tiers of regional 'political' structures: Regional Review Committees (1989); Regional Authorities (1993); and Regional Assemblies (1999). There has been an incremental increase in the responsibilities for the preparation, management, monitoring and evaluation of Structural Funds programmes assigned to regional bodies over successive programming periods. Cohesion policy therefore established a form of multi-level governance in Ireland, although the role of regional bodies outside of Structural Funds administration is limited to the preparation of Regional Planning Guidelines (Regional Authorities) and a general co-ordination function. In addition, the provision of regional financial profiles in the NDP 2000-06 enabled tracking of expenditure at regional level, although this has been withdrawn for the 2007-13 period.

A further issue from an Irish perspective is that the management and monitoring of EU programmes constitutes the main role of the NUTS II Assemblies and to a lesser extent the NUTS III Authorities. A 're-nationalisation' of cohesion policy could lead to the dissolution of the former and the downgrading of the latter, with a consequent weakening of regional governance in Ireland.

The Administration of Structural Funds in Ireland:

Irish public administration has a well-deserved reputation for the effective management of EU co-funded programmes. This is largely due to the coherence achieved between national investment strategies, budgetary processes and EU expenditure priorities, by the Department of Finance. There has been a high absorption rate of funds across several programmes. Under the Irish system, most co-financed operations are pre-financed by exchequer funding and EU eligible expenditure is subsequently certified to the EU and recouped for the benefit of the exchequer. This system has served Ireland well when EU receipts were high and when Departments and Agencies were directly dependent on EU co-financing for much of their investment budgets. However, co-financed expenditure is no longer perceived as additional by Departments and Agencies and the financial leverage of EU funds is diminishing (despite the fact that multi-annual funding gives greater budgetary guarantees). Departments and Agencies are now reluctant to have their investment programmes co-financed due to the onerous additional administrative burden and the fact that no additional funds are available directly to them from EU funding.

Unlike most other states, Managing Authorities in Ireland are not directly involved in budgetary allocations, project selection/approval or for making payments to beneficiaries. These tasks are effected by a wide array of Departments and Agencies who are required to be familiar with and comply with all applicable EU and national regulations and processes for the administration of EU co-financed programmes.

Ireland operates a complex multi-level cascade structure that may no longer be the most cost effective means of administering EU co-financed programmes in the context of further reduced EU receipts overall. In addition, achieving the visibility of EU funded operations is becoming more difficult as these are 'lost' among the exchequer-funded activities within the same Departments and Agencies. Structural Funds are a tangible manifestation of Ireland's membership of the EU and can be a potent communications tool for the Irish Government.

It is also proving difficult to assure the EU of Ireland's compliance with the principle of 'additionality' when all allocations have already been provided for within the NDP expenditure envelopes. Gaining the co-operation of Departments and Agencies to undertake the additional administrative burdens is proving to be a challenge for the 2007-13 period. Furthermore, co-financed programmes are generally operated as undifferentiated national schemes with limited regional differentiation. This has been highlighted by the ESRI in their evaluations of the 2000-06 programmes.

An Alternative Administrative Framework

The Regional Assemblies propose that an alternative framework should be introduced for the post 2013 period to address these weaknesses. Under this framework, national priorities would continue to be agreed at national level, but Managing Authorities would become directly responsible for programme design, and for making allocations, project selection and

issuing payments to beneficiaries. This would be similar to the current administrative arrangements for the PEACE and INTERREG programmes managed by the Special EU Programmes Body. Under this new arrangement, Departments and Agencies could 'bid for' or negotiate additional resources from Structural Funds to meet agreed priority objectives or to fund what would clearly be additional activities. Some measures could also be delivered by way of open calls by Managing Authorities, with selected project promoters (public and private) putting up the necessary match funding.

The Regional Assemblies believe that this alternative framework would have several advantages.

- It would enable a greater degree of financial control and a simpler financial cascade (possibly a two level cascade) to be put in place;
- It would ensure the visibility and additionality of Structural Funds programmes;
- It would provide greater continuity and a strategic focus for the mainstreaming of regional priorities;
- It would also provide a better structure in which the specific needs and potential of each region could be addressed and pilot actions could be re-introduced with a greater scope for policy innovation and practice, thus facilitating a more pro-active and focused response to regional issues;
- It would have the potential to act as a catalyst for regional partnership and further capacity building; and
- This framework would also provide a positive incentive for Departments and Agencies to seek/negotiate additional co-financing.

From a beneficiary and public awareness point of view, what is proposed would entail a single point of application for EU Structural Funding in each NUTS II region. It would build on the expertise already in place in each of the Regional Assemblies. A higher level of compliance with EU regulations could be attained through the simplification of the cascade structure and the imposition of direct grant conditions on beneficiaries by the Managing Authorities. Moreover, such an arrangement would confer a more meaningful role for regional bodies and would confer a more meaningful role on the Regional assemblies resulting in simplification, improved financial control and greater adherence to the principle of subsidiarity.

The Regional Assemblies recognise that a shift to a new administrative framework for Structural Funds in Ireland would require that new arrangements be put in place for the co-ordination of co-financed expenditure with exchequer budgetary allocations. It is also recognised that where irregularities may occur giving rise to a recovery of co-financed expenditure paid, this would have to be recouped from beneficiary budgets and reimbursed to the EU Commission. There would also be some potential for delayed payments to project promoters if EU receipts were delayed, although this system has worked successfully under Interreg III.

Complementary Regional Policy Measures

In order to strengthen regional policy within Ireland, there are a number of complementary measures that should be taken by the Irish Government. The implementation of the NDP 2007-13 and future programmes should be consistent with the National Spatial Strategy framework. There has been little evidence of this to date. The territorial dimension of national sectoral policies should be enhanced with a greater regional engagement. Consideration should be given to the establishment of a regional policy co-ordination unit within a central government Department, possibly through an enhancement of the role of the Spatial Planning Unit within the Department of the Environment, Heritage and Local Government.

The use of narrow-based cost-benefit analysis for investment decisions ensures that only direct monetised benefits are taken into account. Such an approach leads to a preference for infrastructure in developed regions rather than underdeveloped regions. A move to a broader-based multi-criteria cost-benefit analysis would address these imbalances.

A major challenge for Ireland's competitiveness is how to exploit untapped potential at regional level. EU Cohesion Policy is only one source of support to address this challenge. The Regional Assemblies believe that the implementation of cohesion policy as recommended in this submission, combined with a strengthened regional governance are the most effective means of addressing this challenge. The administrative capacity of region-level institutions is a key factor determining the success of regional policy.

Financial Management and Control

Financial management and control prerogatives have begun to take precedence over broader strategic programme management and monitoring issues. This arises from the Court of Auditors' persistent non-approval of the Commission's financial control arrangements. Member States are required to provide additional detailed information on an ongoing basis which is distracting resources away from other programme management activities. There appears to be a withdrawal of DG Regio geographic desk staff from intervening in relation to audit issues. Consequently, the Commission staff are not familiar with the nature of the difficulties being encountered by regions in dealing with the ever-increasing financial management and control burden. The principle of simplification needs to be given practical effect. New arrangements are required, possibly based on 'contracts of confidence' so that Member States control and audit arrangements are considered sufficient, with the Commission intervening only to deal with interpretation of regulations arising from national audits.

A large proportion of limited Managing Authority time is taken up addressing financial management and control issues that go beyond the regulatory requirements. Satisfying the Court of Auditors appears to supercede all other regulatory requirements. Delivery of

programme outcomes should be on a par with compliance with financial control requirements, not subsidiary to it.

Setting of Priorities

While the EU Commission is strongly reinforcing the need to concentrate co-financed resources on Lisbon-related objectives, Member states and regions should be allowed the flexibility to co-finance activities that are consistent with the Community Strategic Guidelines. There is a risk of policy isomorphism whereby similar initiatives are pursued in a wide range of contexts, which are not all appropriate. In Ireland's case, the co-financing of key secondary transport links between the designated growth centres was prioritised at national and regional level, and secondary transport links are eligible in phasing-in regions, but the Commission is reluctant to allow significant co-financing of these.

Recommendations for the future of Cohesion Policy

Based on the foregoing analysis and discussion of issues pertinent to Ireland, the following recommendations are made:

1. Cohesion policy should continue to support all regions;
2. The resources for cohesion policy should be retained at least at their current level with sufficient resources allocated to Objective 2 programmes in order for them to be viable and to make a visible impact. Policy consistency and continuity will be needed;
3. The core principles of partnership, multi-annual programming, additionality, evaluation should be maintained;
4. The EU should not be too prescriptive on how regions and Member States prioritise actions based on regional specificities within the agreed focus of future programmes. Regions should be enabled to pursue their own specific strategies within a broad EU and national framework;
5. Programme outcomes should be accorded the same priority as financial control, by the EU. The burden of financial control is diminishing the value of the funds. A contract of confidence may be a better mechanism to allow programme managers get on with the delivery of the most effective programmes;
6. Financial engineering instruments offered for the 2007-13 period did not suit small scale or micro-investments resulting in SMEs not being able to partake. Risk capital instruments e.g. JEREMIE, are not geared towards small scale investment funds in under-developed regions and should be reviewed;

Recommendations for administration of programmes in Ireland

1. In the context of limited funds due to loss of transitional (phasing-in) status and to meet the requirements of visibility and additionality, the funds should be channelled directly through the Regional Assemblies, recognising the proven capacity of the Regional Assemblies to effectively manage complex EU programmes;
2. The focus of Cohesion Policy in Ireland post 2013 should be on building regional capacity (accessibility, human capital, innovation) and on addressing common challenges e.g. globalisation, energy efficiency, demographic challenges, rather than concentrating resources in high growth sectors and locations;
3. Cohesion policy is an essential tool at EU level to pursue the Lisbon and Gothenberg agendas. Better integration with the National Reform Programme and other national policies and programmes is required. The potential for a peer review of national cohesion policies through the National Reform Programme process should be considered;
4. Ireland should support the retention of territorial co-operation programmes. Additional resources for the C strand (EU-wide co-operation) are needed; and
5. A more strategic approach to territorial co-operation programmes in Ireland is required. Ad hoc applications by a multiplicity of actors may not generate the best outcomes from an Irish policy perspective.