Submission from the

Border, Midland and Western Regional Assembly

to the

Draft Outlook Opinion

Of the Commission for Territorial Cohesion Policy

On the

Future of EU Cohesion Policy

January 2010

Introduction

The Border, Midland and Western (BMW) NUTS II Regional Assembly in Ireland welcome this opportunity to respond to the Draft Outlook Opinion of the Commission for Territorial Cohesion Policy on the Future of Cohesion Policy.

This submission is largely framed around what we consider the context, rationale, goals (scope) and delivery mechanisms for Cohesion Policy should be, post 2013. The submission then reviews some specific features of the policy such as the territorial co-operation (INTERREG), urban and rural development dimensions, financial engineering and administrative simplification. A number of clear recommendations are then made, based on this analysis.

Cohesion Policy Context

The future of cohesion policy is being framed in the context of deteriorated public finances and greater volatility in relative GDP levels, including Ireland. The global financial crisis is having differential impacts across Europe, with depressed growth rates and a weakened public investment environment. Globalisation itself generates asymmetric effects and exposes inherent structural weaknesses across regional economies. Cohesion policy can play a role in facilitating adjustment to these circumstances but must be flexible enough to support those regions that have been worst affected by the economic crisis.

Disparities continue to exist both within and across Member States and the challenge of an integrated cohesion policy is to address both of these challenges, perhaps through differential mechanisms. The level of regional income dispersion within Member States could be used as a further criterion to determine eligibility for financial supports.

It is likely that the BMW region in Ireland will once again fall within the 75-100% EU GDP range. An appropriate transitional arrangement should be put in place for the post 2013 period in recognition of this altered economic position. There are also deprivation 'pockets' within both the BMW and S&E regions in Ireland, for which sustained multi-sectoral supports are required. There must be adequate and sufficient transitional arrangements to enable regions to adjust to their altered economic circumstances in an orderly fashion.

Cohesion Policy Rationale

Territorial cohesion is now a fundamental goal of the EU and the challenge of promoting balanced harmonious development within the EU remains. By mobilising under-utilized resources, cohesion policy can help all regions to make better use of their unexploited economic potential and build on territorial assets and locational advantages, thus contributing to overall economic prosperity. For this reason, cohesion policy must continue to support all regions in their economic and social development and renationalisation should be rejected as it would be detrimental to balanced and harmonious development across the EU.

Cohesion policy can also help to develop institutional capacity to build effective partnerships, prioritise, plan and implement complex multi-annual programmes. It provides a decentralised shared management arrangement with the capacity to mobilise regional actors to unlock endogenous potential, tailor interventions to regional needs and also to deliver EU priorities from the bottom up. This is something that funds managed centrally by the EU cannot deliver. The effectiveness of structural policies can be substantially increased if the different characteristics of regions are more effectively taken into account and if relevant local and regional actors are engaged.

There is a growing emphasis internationally on the value of place-based development policies to make the best use of territorial assets. Place-based policies can address economic inefficiencies and integrate sectoral policies through more effective linkages at city and regional levels. Recent international literature on the foundations of national and regional competitiveness stresses that regions and cities are the arenas where competitive advantages are largely built. Regional competitiveness can be considered as an aggregate of firm competitiveness, as there are common features (e.g., indigenous assets, market structures and institutional arrangements) within each region that affect the competitiveness of all firms located there.

Cohesion policy provides an invaluable mechanism through which the EU can effect several transversal and sectoral policy objectives, not least the proposed EU 2020 strategy, replacing the current Lisbon Growth and Jobs Agenda. The current policy has clearly contributed to the delivery of the Lisbon and Gothenburg goals. The EU can accelerate the transition to a knowledge-based and green economy by incentivising actions in these spheres whilst ensuring greater ownership of the EU Lisbon Agenda process ‘on the ground’. Likewise, Cohesion policy can accelerate structural reform thus enhancing competitiveness. It can also enable lagging regions to benefit from knowledge and technological spill-overs from leading regions. In order to achieve this, a sufficient EU budget is required to support the policy across all EU regions.

In addition, the EU’s Directorate General for Regional Policy (2008) has identified four priority future challenges i.e., globalisation, climate change, the energy challenge and demographic shifts (ageing and migration) which have to be faced by the regions of Europe in a manner which tailors solutions to meet the combination of these challenges within each territory. The limited resources of the EU must be channelled to the best effect to meet persistent key policy challenges (such as promoting growth and jobs and reducing disparities) and addressing these new ones.

Cohesion policy also provides a vehicle for the enhanced visibility and legitimacy of EU actions and the promotion of European interests. It is also the visible expression of European territorial solidarity, with lagging regions in particular.

Cohesion policy is ideally suited to flexibly developing locally adapted solutions and integrating them into regional and national development strategies. It cannot be replaced by sectoral policy, for example in the field of R&D policy, excellence-based EU-wide research initiatives do not enhance research capacity in all regions.

A strong justification and rationale persists in favour of the retention of a cohesion policy of benefit to all regions. This approach is based on the capacity to mobilise regional development potential tailored to territorial assets. Sustainable growth and jobs across the EU remains a policy priority. There is no workable alternative to the decentralised system of implementing the policy. However, the outcomes must be captured more effectively and the administrative procedures simplified.

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. It also reinforces the principle of solidarity between richer and poorer states and regions. Further to this is the added value and stable investment climate provided by the multi-annual programming approach.

The objective of territorial cohesion cannot be achieved through structural funds on their own. Many other policies and investment programme have a huge impact on territorial cohesion at EU, national and regional levels. For example, R&D policy, Transport, Competition, Energy, Environment, Enterprise and Agri-Rural policies all have spatial impacts which must be taken into account in order to reinforce cohesion policy goals.

Cohesion Policy Goals

The scope of EU cohesion policy must extend beyond the balanced development of lagging regions and must support continued structural adjustment in all regions, increase competitiveness and employment and support moves towards a low carbon economy and society. What is needed is a continuation of an ambitious European Cohesion Policy with regional competitiveness at the heart of the policy.

Supporting regional adaptations to EU integration and enhancing competitiveness by building comparative advantages in all regions is the most effective way to achieve cohesion, thus helping all regions to contribute to a sustainable and prosperous Europe. Cohesion policy should continue to be viewed as a regionally-based development policy and should have a clearly defined role in non-convergence and transitional regions, including regions that have suffered most from the economic crisis in terms of its intensity and the length of the recovery period. Cohesion policy post 2013 needs to deal with the economic reality of regions, not with the economic situation that pertained for the 2007-2009 reference period.

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;
- Green economy and adaptation to climate change;
- Human capital and inclusivity; and
- Institutional capital.

Cohesion Policy Delivery

In order to be more effective and to make its impacts more visible, a move towards performance-oriented and evidence-based policy making is required, consistent with Commissioner Samecki's Orientation paper. A shift from compliance to performance/delivery with a greater emphasis on performance indicators as recommended in the Barca Report will require a significant shift in the strategic capacity of DG Regio personnel whose role it will be to support programme planners in this regard. This also poses challenges for Member States whereby payments to Implementing Bodies and Public Beneficiaries would be contingent on specific targets being achieved, requiring strong performance management, project monitoring and expenditure control mechanisms to be in place to avoid the loss of EU receipts.

We support the closer integration of EU cohesion policy with national investment priorities as set out in the proposed 5 year National Reform Programmes 2010 -2020 under the EU 2020 strategy. Cohesion policy also has considerable potential to reinforce the efforts of Member States to meet challenging new EU level targets in terms of climate change adaptation measures

The key principles of shared management (partnership), concentration, additionality, subsidiarity and multi-annual programming remain valid, not just as attributes of cohesion policy, but as pre-conditions for its successful delivery. The principle of partnership could be formalised through the conclusion of formal trilateral/tri-partite agreements in future programmes and minimum standards of partnership should be enforced. The principle of stable multi-annual financial provisions is a very valuable one in the context of the current shift towards global financial instability.

The strategic nature of the programming documents introduced for the 2007-13 period should be retained. The strategic policymaking process i.e., the NSRF process should lead to the identification of core priorities for each Member State. However, 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. Regions should have the strategic capacity to identify barriers to growth, determine strategic priorities and build strategic partnerships.

Greater synergies with other policy instruments are needed, including a closer alignment between ERDF funded programmes and the activities supported under Axes 3 and of the Rural Development Programmes. EU provisions have considerable potential in terms of leveraging public and private resources and creating synergies at multiple levels through multi-annual programming, building multi-level capacities, incentivising institutional reform and partnership arrangements.

The drive of the EU research agenda towards world excellence must be counterbalanced with a greater and more effective focus on building regional research capacities. Joint programming in this domain is more likely to prove effective and will help ensure greater complementarities. Cohesion policy can play a greater role in this drive.

Financial Engineering Instruments

An evolution that continued in the 2007-13 round of funds is the increasing emphasis on financial engineering instruments as a complement to direct aid provision for enterprise investment and integrated urban development, linked with financial instruments offered by the European Investment Bank (EIB), which are available to all regions and Member States.

However, the scale of investment required to justify the establishment of holding funds and the coverage of management overheads has rendered these instruments more suited to large scale investment projects. A pilot initiative on micro-finance (JASMINE) was introduced in 2008, but is primarily aimed at building institutional capacity in Member States without existing micro-finance institutions rather than introducing a separate stream of EU-wide funding for micro-enterprise development.

Further common financial engineering instruments are likely to be rolled out, but these require greater simplification in their administrative provisions (so as to be adaptable to regional circumstances) and technical support should be provided in those cases where these instruments have not been taken up e.g. Ireland. Such Member States must be assisted to develop the capacity to manage and implement these instruments e.g., JESSICA and JEREMIE.

Urban and Rural Development

We support the new focus on integrated urban development mainstreamed for the 2007-13 period. It should be recognised that the JESSICA instrument only has a valid role where there are revenue-generating urban regeneration projects taking place to repay the revolving funds, which is not always the case.

The relationship between regional policy and rural development policy must be enhanced in future programmes. We support the closer alignment of cohesion policy with rural policy and the better co-ordination of the funds – in particular a streamlining of the delivery mechanisms with the provisions under Axes 3 and 4 of the EAFRD, perhaps through the preparation of single strategic framework, going beyond the current practice of having demarcation criteria in place. We believe that the local development methodology currently promoted in rural policy can have a valuable role to play in cohesion policy, e.g., in spurring innovation and entrepreneurship and in promoting social inclusion. Greater complementarities between these policy domains should be ensured. Demarcation of funds can be artificial at local/regional levels and creates confusion for potential beneficiaries.

Administrative Simplification

The multiplicity of actors and the complexity of EU and national regulations can give rise to uncertainty and ambiguity about the legality and eligibility of expenditures on co-financed programmes. 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.

We support the principle of reducing the administrative burden for Implementing Bodies and beneficiaries. Management and control mechanisms should be more closely tailored to the nature of interventions i.e., lighter procedures for smaller beneficiaries. There should also be greater modulation in the degree of financial management and control reflecting the level of error detected in the system previously and clearer 'tolerance of risk' parameters would be welcome. Also clearer and unambiguous norms would reduce uncertainty and complexity and reduce error risks.

One further possibility would be to base recoupments on the declaration of payments by Member States rather than on expenditure by beneficiaries.

Territorial Co-operation

Border regions represent 39.5% of the population of the EU27 and many suffer from severe and permanent handicaps and other barriers such as language, asymmetrical competences and non-harmonised legislation. In many respects they are test beds for EU integration where the untapped territorial potential can be the greatest. At the same time, there are recognised interdependencies and shared problems. Territorial co-operation can address fragmentation in border regions in terms of labour market, trade patterns, infrastructure and institutional arrangements, trans-european transport networks including external border co-operation. Cross-border spatial strategies can also provide important territorial development frameworks. EU support for cross-border co-operation should therefore be retained.

Transnational co-operation enables the development and support of sectoral and territorial strategies for functional co-operation areas. A further evolution of this macro-regional approach could be the development of integrated strategies for these macro-regions, with the focussing of EU supports on multi-partner projects that are judged to deliver the most effective outcomes with reference to the adopted strategy. Such integrated strategic frameworks would also enable the co-ordinated use of existing funding and the integration of multiple sectoral policies and actors in its area-based strategy.

The inter-regional co-operation strand (strand C) can play a far greater role in the capitalisation and transfer of experience. It provided quite limited resources for the 2007-13 period, with the practical outcome that a very high proportion of applications were not approved. This indicated that there is a high level of interest in EU-wide territorial partnerships. A high refusal rate may also be counter-productive, giving rise to frustrated demand.

It must also be recognised that the building of positive and constructive cross-border, trans-national and inter-regional relationships takes a long time period.

Recommendations made by the Regional Assemblies

Based on this analysis Ireland's Regional Assemblies wish to make the following recommendations in relation to the future of cohesion policy:

1. Cohesion policy should continue to support all regions, focused on mobilisation of their endogenous potential and building their capacity in terms of the factors of competitiveness, as per the EU2020 strategy; and, addressing the future challenges;

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. The level of regional income dispersion within Member States could be used as a further criterion to determine eligibility for financial supports. Policy consistency and continuity will be needed;

3. The core principles of partnership, concentration, multi-annual programming, additionality and subsidiarity 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. Cohesion policy is an essential tool at EU level to pursue the EU2020 Agenda. Greater 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;

6. 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; and,

7. 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.

8. The supports for territorial co-operation should be enhanced to enable the co-ordinated use of funding on a cross-border basis.

For further information, contact:

Kieran Moylan, Border, Midland and Western Regional Assembly kmoylan@bmwassembly.ie