

5. Cohesion report of the European Commission

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Introduction

A far from easy task is waiting for Europe. It has to get over the deep crisis and decrease the unemployment rate and poverty and, at the same time, switch to the Low-Carbon Economy. In order to fulfil such ambitious task, it has to act quickly in many areas and, therefore, the European Commission adopted the Europe 2020 Strategy. In order for Europe to succeed, European, national, regional, as well as local levels will have to play their parts. In this demanding period, the cohesion policy should keep playing the key task so that it would ensure intelligent and sustainable growth supporting inclusion and, at the same time, support harmonious development of the Union and its regions via decreased regional differences.

The cohesion policy significantly contributed to expansion of growth and prosperity inside the Union while, at the same time, to decrease of economic, social, and territorial differences. The Fifth Cohesion Report shows that this Policy created new jobs, increased human capital, build critical infrastructure, and improved protection of the environment, especially in less developed regions. Without the cohesion policy, the differences would be undoubtedly higher. However, persisting social effects of the crisis, demand for innovations derived from growth of problems with world-wide importance, and the necessity to utilize every euro from public expenses to its maximum require an ambitious policy reform.

As stated in Statement of the European Commission to revision of the EU budget, it is necessary to proceed especially in the following key areas: focus resources especially at fulfilment of tasks and goals from the Europe 2020 Strategy; pledge member countries to carry out reforms that are necessary for efficient policy functioning; and improve policy efficiency with increased emphasis on achievement of results. Express interconnection of the cohesion policy with the Europe 2020 Strategy offers the real opportunity: to keep helping the poorer EU regions to catch up, facilitate coordination of the EU policies, and make the cohesion policy the main motor that would enable the growth of the whole EU – even from the aspect of quality – and, at the same time, pay attention to consequential social problems, such as populations growing old or climate changes. In so doing, it is, of course, necessary to respect in detail needs of especially underdeveloped countries and regions that are still accomplishing the convergence process; such needs can be specific, and they can be perceived as preparation for solution of challenges related to the EU 2020 Strategy.

With these conclusions, the European Commission began the public consultation on the future of the cohesion policy. It will be derived from a set of questions related to the main ideas of the policy reform. In the following part of the contribution, there are parts discussing how to make the policy more effective and improve its impact so that it increases the European added value, how it is still possible to improve policy management, how is it possible to simplify execution (implementation) system, and how should the overall policy structure look like.

Increased benefit of the cohesion policy for Europe

The added value of the cohesion policy is repeatedly the subject of discussions of politicians, academicians, and other participants. Some argue that the cohesion policy is only loosely connected to the EU priorities, it waters down resources assigned to individual areas too much, and that it is possible to measure its effects only with difficulty. Even though the report shows that the cohesion policy contributed to the economic and social development of regions and prosperity of residents, the European Commission takes this criticism very seriously.

Therefore, other cohesion policy reforms should try to focus the policy on results while preserving its overall goal and carry out steps necessary for their achievement while, at the same time, limiting bureaucracy and simplifying daily management of the policy.

Strengthening of strategic planning

The cohesion policy already is significantly harmonized with the Lisbon Strategy, especially via setting apart funds. However, extent of this harmonization is not sufficient because of differences in management of these two strategic

processes. In the future, it is possible to do more so that the cohesion policy would correspond with the Europe 2020 Strategy more. That requires especially clear instructions on the European level and more strategic approach to the negotiation process and related steps.

Communication on the EU budget review laid out a new strategic program approach for the cohesion policy leading to a closer linkage of individual EU policies so that the Europe 2020 Strategy could be fulfilled and main directions integrated. Such approach would contain the following items:

- Common Strategic Framework (CSF) accepted by the Commission and transferring tasks and objectives of the Europe 2020 Strategy to the investment priorities. The Framework would include the Cohesion Fund, the European Regional Development Fund, European Social Fund, European Agricultural Fund for Rural Development, and European Fisheries Fund
- Contract on partnership for development and investments that would, based on the strategic framework, define investment priorities, allocation of national funds and funds from the EU budget for priority areas and programmes, and contain agreed terms and goals that should be achieved. Such Contract would be related to the cohesion policy. In order for economic, social, and territorial cohesion being supported in a compact and unified way, it could be useful to expand the Contract's scope to other EU policies and financial tools as well. The aforementioned Contract will be derived from discussions between the member countries and the European Commission on development strategy contained in their national reform programs. It would also contain description of coordination of utilization of EU funds on the national level;
- operational programmes (OP) that would be, just like in the current period, the main management tools and would transfer strategic documents to the particular investment priorities together with specification of clear and measurable goals, which should contribute to achievement of national goals defined within the Europe 2020 Strategy.

Timing of submitting annual reports monitoring progress in fulfillment of goals was harmonized with the managing cycle of the Europe 2020 Strategy. Based on that, there would be a regular political debate in the relevant units of the Council and committees of the European Parliament that would improve transparency, responsibility, and evaluation of effects of the cohesion policy.

Three proposals contained in the Communication on the EU budget review have special impact on the cohesion policy:

- a) Increased thematic concentration of funds,
- b) Increased performance through conditions and incentives,
- c) Improved evaluation, performance, and results

a) Increased thematic concentration

Evaluation *ex post* related to the cohesion policy lead to the conclusion that for achieving critical amount and visible effect, concentration of funds is necessary. Therefore, it will be necessary to ensure that in the future, member countries and regions would be able to concentrate the Union and national funds to a small amount of priorities that correspond with their specific problems, which they face. That could be achieved if regulations governing the cohesion policy would contain a list of thematic priorities referring to priorities, integrated main directions, and fundamental initiatives of the Europe 2020 Strategy.

Depending on a volume of invested EU funds, countries and regions have to focus on more priorities or less. Therefore, it would be required from member countries and regions receiving less funds to allocate the whole available financial amount to two or three priorities whereas those who would receive bigger financial assistance would be able to set more of them. Some priorities would be mandatory.

At the same time, thematic concentration should not prevent countries and regions from experimenting and financing innovation projects. It is also possible to consider separate funding for special target groups or experimental approaches (e.g. regional development) that could have the form of general grants.

b) Increased performance through conditions and incentives

Financial and economic crisis forced the European Commission to propose measures for improvement of administration of economic matters of the Union. Healthy macroeconomic policies, favourable microeconomic environment, and strong institutional frameworks are necessary prerequisites for creation of jobs, stimulation of growth, decrease of social exclusion, and achievement of structural changes.

It applies to the cohesion policy in even larger scale because its efficiency depends in a large part on economic environment, in which it is applied. Therefore, it is possible to strengthen connections between the cohesion policy and the Union economic policy framework.

First of all, new provisions on conditionality would be implemented to support new system of administration of economic matters, which would establish conditions for execution of reforms. It would be required from member countries to carry out reforms necessary for ensuring efficient utilization of funds in areas that are directly related to the cohesion policy, e.g. in the area of protection of the environment, flexicurity systems, education, and research and innovations. Common Strategic Framework (CSF) would set key principles for every thematic priority, which would govern funding. Such principles have to leave room for adjustment to national and regional conditions. Their main purpose rests in helping countries and regions to deal with problems that prove especially important for application of the cohesion policy in the past. These principles could apply to, for example, execution of particular EU legal regulations, funding of EU strategic projects, or administration, evaluation, and institutional capacity.

On this basis, at the beginning of a programme cycle, there would be a particular binding conditionality agreed in programme documents (i.e. in Contracts on partnership for development and investments and in operational programmes) with every member country or region (based on the institutional context) for areas directly related to the cohesion policy while, at the same time, preserving coordinated proceedings with all relevant EU policies. Their fulfilment would be the prerequisite for payment of funds for cohesion either at the beginning of the programming period or during evaluation, in which the European Commission would evaluate progress in fulfilment of agreed reforms.

Total allocation of the EU cohesion policy for 2007-2013

(in EUR bn, current prices)

Poland	67.284	Latvia	4.620
Spain	35.217	Slovenia	4.205
Italy	28.812	Estonia	3.456
CR	26.692	Belgium	2.258
Germany	26.340	Netherlands	1.907
Hungary	25.307	Sweden	1.891
Portugal	21.511	Finland	1.716
Greece	20.420	Austria	1.461
Romania	19.668	Ireland	0.901
France	14.319	Malta	0.855
Slovakia	11.588	Cyprus	0.640
UK	10.613	Denmark	0.613
Lithuania	6.885	Luxembourg	0.065
Bulgaria	6.853	EU-27	347.410

Source: European Commission

In order to strengthen structural changes, support of growth, create jobs, and decrease social exclusion, it is key to finish industrial reform, and especially decrease regulation and administrative burden for companies or improve services provided by the country. As up until now, such measures would be supplemented with assistance within the cohesion policy, with the objective to achieve administrative and institutional capacity and effective governing system. That should be accessible for all the member countries and regions.

Second of all, financial sanctions and incentives related to the Stability and Growth Pact were so far limited only to the Cohesion Fund. The European Commission proposed to expand their use also for the remaining parts of the EU budget so that they function as a supplemental tool for ensuring respecting key macroeconomic conditions within a

corrective component of the Stability and Growth Pact. For cases of non-compliance with the Pact, incentives in the form of suspension or cancellation of payment of a part of current or future funds from the EU budget should be implemented without affecting the final recipients of funding from the EU funds. Funds whose payment was cancelled would remain in the EU budget.

In larger context with administration of the EU economic matters, verification of compliance with the additionality principle in the form of its linkage to the EU economic monitoring system should be reformed. For that purpose, indicators already contained in stability and convergence programmes, which member countries submit to the European Commission every year, should be used. Co-funding is one of the basic principles of the cohesion policy ensuring responsibility for its execution directly in the place in question. Its amount should be reviewed and possibly scaled so that it would better reflect a development level, EU added value, types of measures, and recipients.

Finally, it is necessary to research even other tools that would further improve efficiency of the cohesion policy. To stimulate progress when fulfilling goals of the Europe 2020 Strategy and related national goals and tasks, there could be created funds, for example, for performance bonuses on the EU level: allocated part of the cohesion budget would be reserved and allocated during evaluation in the middle of the period to those member countries and regions whose programs contributed the most – compared to the initial status – to fulfillment of goals and tasks of the Europe 2020 Strategy. Experience gained during the current period also proves that the European Commission needs certain funds

for direct support of experimenting and establishment of networks, similarly as in case of innovation measures during the previous programming periods.

c) Improved evaluation, performance, and results

Better quality and better functioning systems of monitoring and evaluation form the basic prerequisite for transfer to more strategic and results-oriented approach to the cohesion policy. Such shift would be supported by execution of a certain amount of changes.

First of all, the starting point for the approach results oriented rests in *ex ante* specification of clear and measurable goals and result indicators. Indicators have to be clearly interpretable and statistically supported, provide relevant information, be directly connected to application of the cohesion policy, and it have to possible to collect and publish them quickly. Indicators and goals should be agreed on during discussions on programme documents above the framework of several basic indicators related to a particular fund and common for all operational programmes within the Europe 2020 Strategy framework. In addition, timely and complete sharing of accurate information on indicators and performance progress of agreed goals would be key for annual reports.

Second of all, *ex ante* evaluations should focus on improving a programme proposal so that during its execution, tools and incentives for fulfilment of tasks and goals could be monitored and evaluated.

Third of all, evaluation should utilize accurate methods corresponding with international standards, including evaluation of impact, in a much larger extent. If possible, impact would be evaluated in an early stage so that collection and spread of relevant data is ensured. On top of that, it would be mandatory to prepare plans of continuous evaluation of every programme because they improve transparency on the EU level, strengthen evaluation strategies, and improve the overall quality of evaluation. It would also be possible to consider evaluation that would be carried out after utilization of a certain part of funds was formally documented to the European Commission.

Last but not least, the member countries could produce reports summarizing results of continuous evaluations executed in the course of a programming period, for the purpose of giving a comprehensive overall evaluation of the programme fulfilment.

Support of utilization of new financial tools

Communication on the EU budget review strongly advocates the idea of increased lever effect of the EU budget. In the 2007 – 2013 programming period were developed new forms of investment funding that divert from the traditional funding based on grants, in favour of innovation methods of combining grants and loans. The European Commission would want the member countries and regions to utilize such tools more in the future.

Such financial tools help create revolving forms of funding that are more easily sustainable in a long-term perspective. This is also one of the methods how to help Europe, especially in times of recession, to increase investment funds. It opens new markets for various forms of partnership of the public and private sectors, which also brings along professional knowledge of international financial institutions.

In order to improve financial engineering tools used within the cohesion policy, several measures could be considered:

- Better clarify and logically sort rules contained in the regulation framework – rules of financing based on grants and rules modifying repayable forms of assistance – especially as for qualification of expenses and audits
- Provide companies with general financial support especially through financial engineering tools, and use grants for co-funding of areas that require targeted assistance (innovations, investments into the environment, etc.)
- Increase the scope, as well as volume of financial engineering tools: from the aspect of the scope, include new activities (e.g. sustainable public transportation, research and development, power supply, regional development, lifelong learning or activities supporting mobility, activities dealing with climatic changes the environment, information and communication technology, and broadband Internet); from the aspect of a volume of funds, combine interest grants with provision of loans or other forms of repayable funding.

In this context, there still is a lot of unanswered questions of the following type that should be answered: How to achieve closer interconnection of the Europe 2020 Strategy and the cohesion policy on the EU, national, and lower levels? Should the scope of the Contract on partnership for development and investments reach even beyond the cohesion policy framework? If yes, into which areas? In what way it would be possible to achieve a stronger thematic focus on priorities of the Europe 2020 Strategy? In what way could the system of conditions, incentives, and management results

oriented improve efficiency of the cohesion policy?. In what way it would be possible to achieve closer focus of the cohesion policy on results? What priorities should be mandatory?

Strengthening of management

Introduction of the third dimension: territorial cohesion

The Lisbon Treaty added territorial cohesion to the goals of economic and social cohesion. As a result of that, it is necessary to attend to this goal in new programmes, with a special emphasis on roles of towns, functional geographic units, areas facing specific geographic or demographic problems, and macro-regional strategies.

Urban areas could be the driving force of growth and focus points of creativity and innovations. If a critical amount of participants such as companies, universities, and research workers can be gathered, it will be possible to achieve higher levels of growth and create new jobs. Problems of towns, be it related to degradation of the environment or social exclusion, require a specific response and direct inclusion on the corresponding state administration level. In this context, an ambitious urban agenda should be created, and it would closer specify means for solution of urban problems, in which urban authorities would play more important task in proposing and executing urban development strategies. The relevant measures for urban areas, related means, and affected towns should be clearly defined in the programming documents.

A question that should be solved in the future is if the regulation framework of the cohesion policy should enable bigger flexibility in compilation of operational programmes so that they could take natural and geographical aspects of development processes in account better. Programmes then could be compiled and managed not only on the national and regional levels, but also, for example, on the level of groups of several towns or basins or coastal areas.

The report shows that in some cases, development problems can be deepened by geographic and demographic features. That applies especially to the remote regions, but also to the northernmost regions with a very low population density, and also island, cross-border, and mountain regions, as expressly specified in the Lisbon Treaty. In order to take these particularities into account, it would be necessary to adopt targeted measures; however, without necessary increase of a number of tools and programs. Territorial cohesion means paying attention also to rural-urban connections from the aspect of access to available and high-quality infrastructure and services and problems in areas with a high concentration of communities living on the edge of society.

And finally, other work for creation of new macro-regional strategies should be derived from deep revisions of existing strategies and availability of means. Macro-regional strategies should be oriented at length at integrated tools focused on key problems and supported by strengthened supranational element, even though the majority of funds should originate from national and regional programmes co-funded through the cohesion policy and from other national sources.

Partnership strengthening

Effective execution of the Europe 2020 Strategy requires a governing system that would include officials in the member countries who are able to act in support of changes and that would connect the EU level with the national, regional, and local levels of state administration.

On behalf of the complete mobilization of all the participating parties, representation of local and regional participants, social partners, and civil society should be strengthened in a political dialogue, as well as in execution of the cohesion policy. With regards to the aforementioned facts, support of the dialogue between public and private subjects, including social and economic partners and not-for-profit organizations should be preserved.

In this context, importance of local development concepts within the cohesion policy should be strengthened, e.g. in the form of supporting active efforts regarding inclusion, social innovations, creation of innovation strategies, or proposal of solutions for renewal of neglected areas. Such activities should be closely coordinated with similar activities supported within the rural development policy and the marine policy.

Even in this area, it would be desirable to answer especially the following questions in the process of creation of rules of the future cohesion policy: How could that cohesion policy better take into account the key role of urban areas and territories with special geographical characteristics in the development processes and creation of macro-economic strategies? How could be deepened partnership approach and utilization of cooperation with local and regional participants, social partners, and civil society?

The more efficient and simpler execution system

Even though it is too early for deduction of final conclusions on efficiency of the execution system of the cohesion policy in the 2007 – 2013 period, member countries oppose too frequent and radical change of rules that would complicate the policy execution. However, a certain number of carefully selected changes deserves a closer look yet.

Financial management

In accordance with the recent proposal for revision of the financial regulation, an authority responsible for governing of cohesion policy programmes would annually submit so-called statement on authenticity of the governing subject that would be accompanied by the respective Statement of Balances and a finding of an independent auditor. That would strengthen responsibility for expenses co-funded from the EU budget in any fiscal year.

Regarding the cohesion policy, the European Commission proposes implementation of periodic approval of the Statement of Balances that would be derived from the annual statement of the governing subject. Such arrangement would strengthen a process of ensuring quality of audit and enable regular partial closing of programmes.

The European Commission has to consider if payment of grants to beneficiaries and increased motivation for stronger national control would not be accelerated if national authorities received payment reimbursements only after beneficiaries were paid the relevant EU grant.

The European Commission would also address a possibility of adding motivation – result based – elements into payments of the EU grants for the operational programmes or their parts based on the action in question.

And finally, simplified methods of payment of funds, such as standard scale of unit costs and payment of flat amounts for grants implemented for the 2007 – 2013 period should be utilized more. That would also bring their increased efficiency. It would be another way how to gradually switch to a more results-oriented approach.

Decrease of administrative burden

The general approach for the 2007 – 2013 period, based on which rules of qualification on the national level are defined, should be maintained. Nevertheless, common rules for significant matters, such as overhead costs covering various EU funds, should be adopted. Unification of qualification rules for expenses in all areas of the policy, financial tools, and funds would simplify utilization of funds by users, and it would facilitate fund management for national authorities. Error risk would be decreased while, at the same time, an option of a different approach when necessary for taking specifics of the policy, tool, or beneficiaries in question into account would be maintained. In accordance with the proportionality principle, it would also be useful to address the question of how to achieve that control measures would be more economical and based on risk evaluations, which would lead to improvement of their usefulness and efficiency and, at the same time, it would duly and at a reasonable cost cover the accompanying risks, in accordance with the principle of due financial management.

Financial discipline

The purpose of the rule on an obligation cancellation rests in ensuring that projects are carried out in a reasonable time frame and supporting adherence to financial discipline. However, by focusing too much attention on quick – and, therefore, less effective – utilization of funds can lead to impairment of access of the member countries and regions.

In addition to that, application of the rule on obligation cancellation is complicated by a lot of exceptions. It is necessary to carefully balance provision of quality of investments and smooth quick execution. One of the possibilities would be to use the "N+2" system for all programmes except for the first year, and otherwise eliminate all exceptions and deviations.

Financial control

As for the governing and control systems, it is necessary to ensure not only stronger audit, but also achieve a bigger involvement of the member countries in the quality control area. That would enable the European Parliament, the European Commission, and the member countries to focus more on results and impact of the cohesion policy.

With regard to experience gained from the ex ante evaluation related to the conformity of programmes for the 2007 – 2013 period, the first proposal is to review the process of evaluation of the ex ante systems so that problems with governing and control systems are avoided. The process should be simplified while, at the same time, its benefits should be preserved. That could be achieved by focusing the evaluation on the main responsible control authority through the accreditation process and reevaluation of participation of the European Commission in this process.

The second proposal is related to increase of the safety margin through concentration of responsibility. Exclusive responsibility for due governing and control of the operational programme would be born by an accredited authority.

In this area, we should focus our attention to elimination especially of the following question marks: How could be the audit process simplified and audits executed by the member countries and the European Commission unified without decreasing a high safety margin of the audit of funds spent on co-funding? What way of applying the proportionality principle could decrease administrative burden of governing and control? Should some specific simplifying measures exist for territorial cooperation programmes? When defining qualification rules, how can be the correct balance set between the general rules common for all funds and, at the same time, differences of individual funds taken into account? How could be ensured adherence to financial discipline and, at the same time, a sufficient flexibility for compilation and execution of complicated programmes and projects provided?

The overall structure of the cohesion policy

Objective of the cohesion policy rests in supporting harmonious development of the Union and its regions through decreased regional differences (Article 174 of the Contract). The policy also supports the growth model of the Europe 2020 Strategy, including the need to find solution for serious problems in the social area and employment, which all the member countries and regions face. The cohesion policy supports such development of all regions by clear investment strategy that increases competitive advantage and employment, improves social inclusion, and protects the environment. System of multilevel management of the policy helps improve EU awareness in the eyes of its citizens.

All the regions and member countries should be entitled to utilization of the cohesion policy and in a uniform way, adjust their strategy to their individual strengths and weaknesses.

In accordance with Communication on the EU budget review, for the overall future arrangement of the cohesion policy, it is necessary to consider how could ESF orientation be modified for the purpose of ensuring fulfillment of goals and tasks of the Europe 2020 Strategy and also how to achieve bigger awareness and high-quality estimates of volumes of funds. It is no less important to examine how could ESF better serve the purposes of the European employment strategy and contribute to the comprehensive European employment initiative that is requested by Communication on the EU budget review.

The cohesion policy will keep focusing on fulfilment of integrated main directions of the economic policy and employment policy.

Member countries will be able to utilize the Cohesion Fund in the future if their per capita GNI is lower than 90 % of the Union average.

Last but not least, the cohesion policy will keep supporting territorial cooperation dimensions (cross-border, supranational, and inter-regional). That will include revision and simplification of the current adaptation of cross-border cooperation, including the NPP, ENPI, and ERF tools for cross-border cooperation on the EU external borders, and also the existing practice regarding events with a supranational nature supported from EFRR, as well as from ESF.

In this context, the next discussion should be oriented at satisfactory answer of, for example, the following problem areas: How it could be ensured that the overall arrangement of the cohesion policy would take into account uniqueness of every fund, especially the need of bigger awareness and ability to foresee the volume of ESF funds, and how to orient this fund at fulfilment of goals of the Europe 2020 Strategy? How could a new temporary category of regions, which would help regions that still have not finished catching up with other regions, look like?

Further steps

Fifth Cohesion Report indicates several key ideas of the European Commission regarding the cohesion policy reform related to a long discussion that started in 2007, at the time of issuance of the Fourth Cohesion Report. These ideas will be tuned up and consolidated within several following months. The authoritative forum that capped the current level of debates on the future cohesion policy was the Fifth Cohesion Forum that took place in Brussels, at the turn of January/February 2011. Another significant contribution for clarification of the future cohesion policy then will be adoption of strategic general conclusions regarding the new multiannual financial framework after 2014, which we should live to see in the course of 2011