

Speech of Professor Danuta HÜBNER  
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Joint Seminar of PES members of the COTER Committee (CoR)  
and REGI (EP)

"The leverage effects of Cohesion Policy: added value for the Europe of  
the future"

1<sup>st</sup> Round Table: Impact of Cohesion Policy: how to make the best of it  
for the future

Committee of Regions, November, 8<sup>th</sup>, 3 pm

Mr President, Mrs Krehl, Mrs Bresso, Ladies and Gentlemen,

I shall start by welcoming your initiative which led to the today's seminar. The coalition between our institutions was one of the key elements in achieving recent reform of the cohesion policy and in securing its resources for the next financial perspectives. Now, the time came for all of us – Commission, European Parliament, and Committee of Regions - to sit together and to reflect upon cohesion policy in the longer term perspective, up to 2013 and beyond.

Since the major topic of the seminar is the leverage effects – seen, as I understand, in a broader context of the policy value added – I would like to say some words about the relevant experience we gathered during the current programming period 2000-2006. Then, I shall move on to the approach we intend to follow in order to mainstream the best of this experience into 2007-2013 period. Finally, I would like to conclude with some remarks on the forthcoming Cohesion Report, to which this seminar can bring also a valuable input.

Let me begin with the effects on the public finances of the Member States implementing cohesion policy. While public budgets represent between 30% and 60% of GDP of Member States, only 2% of GDP is invested in physical and human capital. Since cohesion policy does not substitute but adds to the investment effort of the Member States and regions, it tends to increase the share of public finances allocated to productive investment. That is why total public investment (without the support of the cohesion policy) has clearly increased in Ireland (+66%), Greece (+24%) and in Portugal (+18%) in the two last programming periods. In addition, the requirement to provide national co-financing has “protected” expenditure for economic development from budgetary pressures.

In more developed Member States, the availability of the cohesion policy has influenced the pattern of national public expenditure. For example, in Austria regional policy has acquired a higher profile and the public contribution for regional policy has grown significantly over the last decade – by 36%.

The other type of leverage concerns private investment, mostly (but not uniquely) under the form of Public Private Partnerships. Here the cohesion policy acts as a catalyst for private investment, which may eventually exceed two or three fold the size of the original project. As you probably know, it has been calculated that, on average, each euro spent in Objective 1 regions in the current financial perspective leverages 1,5 euro of private capital, while for Objective 2 the relevant figure is 3 euros.

The importance of these two types of leverages effects – on public finances and on private capital – can be seen quite clearly if we do some simple calculations. The policy resources for 2007-2013 are almost 350 billion euro. Including co-financing pushes this figure up to around 500 billion euro. If now, on the top of this, we adopt a conservative assumption that the cohesion policy will continue to leverage private capital at the currently observed rates, we shall talk about 800 billion investment effort – not far below 1% of the EU-27 GDP or half of the EU current volume of public investment!

But in the years to come we shall and can do more than this - which brings me to the second part of my speech. It was with this view in mind that, for 2007-2013 period, we made the rules on private co-financing and public-private partnerships more flexible, opening to the private sector an opportunity to play a greater role where it can add most value. We have also introduced new initiatives which aim at wider use of PPP schemes and at attracting private financial investors.

Importantly, these new initiatives have not been developed on the ad hoc basis but are closely linked to the current experience. Let me quote here two concrete examples which you can find in the excellent study prepared for the Committee of the Regions. In Andalucía public agency dealing with innovation – IDEA - blended cohesion policy and EIF support to provide a venture capital fund, offering micro-credits for young entrepreneurs and guarantees for bank loans. As the loans are repaid, the funds are recycled.

This is precisely the philosophy behind JEREMIE, our new initiative developed with the European Investment Fund. It will provide a turnkey solution for regions wishing to establish funds to provide venture capital, loan guarantees, micro-finance and other forms of financial engineering. It will allow regions to combine loan capital with regional development funds in order to support innovative small enterprises at stages of their development where they may find it difficult to secure finance from traditional sources. And this support will operate on the revolving basis meaning that it may function well beyond 2013. We have also designed a similar initiative – JESSICA – aiming at providing financing and attracting private investors to urban development integrated projects.

The second example is a large infrastructural project – Rio Antirio Bridge in Greece, inaugurated in 2004. This project has been implemented by an international PPP consortium involving cohesion policy support, Greek public authorities, European Investment Bank and private companies. In this case, PPP scheme was essential in meeting the high cost of the project and designing cost effective financial arrangements.

This type of experience gave rise to our third major initiative developed with European Investment Bank and called JASPERS. The main aim of JASPERS is to provide assistance to the design of large projects and to assess their maturity for PPP solutions, which also may involve EIB loans.

However, the leverage effects of the cohesion policy should be seen in a larger context than the one related to the investment size or project quality. I do not want to repeat here usual clichés about challenges posed to EU regions by market liberalisation, technological change and globalisation. Let me just say that all these changes taught us one lesson – today, in order to be able to fully benefit from the global market, innovation is a critical competence for both national and regional economies.

This has a number of consequences for the cohesion policy. If innovation is to become a real driver of growth and competitiveness, co-operation and involvement of the relevant partners is essential. No one can take up the globalisation challenges on his own. Innovation is a particularly complex issue which requires the mobilization of all the resources - regional technology centres, research institutes, innovative SMEs, financing bodies. Since most of them interact at the local and regional levels the development strategies designed by the latter have a clear comparative advantage over top-down strategies managed by capitals.

Within this view leverage effects mean effective co-operation between public and private partners, which is one of the key elements of the recently reinforced partnership principle. This principle produces a strong added value in terms of better targeting of interventions on regional needs, greater participation of the partners, stimulation of development projects and the exchange of information and experience.

The best example which may be quoted here is the case of the Regional Innovation Strategies (RIS): their establishment has led, in particular in new Member States, to the integration of many actions into programmes. In this way the policy enlarged partnership to new organisations previously little involved in economic development programmes.

The partnership and co-operation principle takes also form of regional networks spreading best practices and sharing experience. With this objective in mind I presented today to the Commission a new initiative focusing two existing instruments of European Cohesion Policy – the Inter-regional Co-operation programme (INTERREG IIIC) and the Urban development network programme (URBACT) – around development themes set by the Commission and by the regions themselves. This new initiative called "Regions for Economic change", with a total budget of €375 million, will promote best practices in economic modernisation or regional innovation and spread them to less experienced regions in order to stimulate their regional growth.

My intention is to launch the first network dedicated to priority theme "Bringing innovative ideas faster to the market" before Christmas. Under this theme we will be working on ways to facilitate knowledge transfer from research to innovative products and services, including the possibilities which might flow from projects like GALILEO. The exchange of best practice will also include the use of risk capital to finance the proof-of-concept stage of the innovation process.

Ladies and Gentlemen,

When regional policy was created, Jacques Delors said that decision-making on investments and economic development is best done at regional level. This sounds today more true than ever - as we increasingly recognize the role of regions and cities in the economic development. Economic pressures coming from globalisation need quick decisions, capacities and skills which very often can be found at the regional rather than national levels. Regional policy, which has been driving for more than three decades regional growth and convergence in the Union, has paved the way for this understanding.

I spoke to you today about leverage effects, innovation, partnership and governance. These, in my view, are key words for both, economic development and the cohesion policy of the 21<sup>st</sup> century. And that is why we put them on the forefront of the recent policy reform.

I firmly believe that time will play our game. The importance of local and regional economies for Europe's growth will be inevitably increasing, putting more pressure on the need for synergies in multi-level governance – entailing more focus on the role of regions in economic policy governance. In a recent years we have been constantly moving away from the development based on the notion of the government towards development based on the notion of governance. And as growth and jobs become a more complex issue, which need to be driven in a

sort of polycentric way – through a mix of national, regional and local strategies - I see this evolution as inevitable.

There is also a democracy angle as our citizens increasingly prefer to see the solutions to their problems being decided close to them, at local and regional levels. There is too much frustration with the centralized decision making process to be ignored.

These are some considerations which, in my view, should be reflected in the forthcoming Cohesion Report. The final point I would like to make in this respect is that we have come to the point where cohesion and competitiveness should be put on the same track. Our regions should continue to measure their strengths and weaknesses within European framework of reference; this is the imperative of convergence. On the other hand, however, we cannot ignore the fact that European regions and cities are increasingly linked to global economy. This means more emphasis on regions' position in key global networks, clusters and chains. This is the imperative of competitiveness in global economy.

Thank you for your attention.