

***Speech by Professor Danuta Hübner  
Commissioner for Regional Policy***

***COHESION POLICY RESPONSE  
TO THE FINANCIAL CRISIS***

***Exchange of view with  
Committee on Regional Development  
European Parliament  
Brussels, 2<sup>nd</sup> December 2008***

Mr President, Honourable Deputies and members of the REGI Committee,

**1. Introduction**

The current economic slowdown is a complex process which combines the impact of the global financial crisis, cyclical adjustment but also reflects structural weaknesses of European economy. Mobilization of all available means at all levels – European, national, regional and local – in a well orchestrated way can help European economy to come out of the crisis strengthened. The European Union must act in a coordinated

way to reduce the impacts of the economic downturn. Cohesion Policy plays an important role in this aspect and it is a key part of the European Economic Recovery Plan announced by President Barroso last week. Today, I would like to outline how Cohesion Policy can help Member States and regions to drive the recovery from the current crisis. I would like to use this occasion to present the concrete steps that the Commission proposed last week to accelerate the implementation of the cohesion programmes.

What we need in Europe is to boost investment and guaranteed stream of development funding over 7 years, high leverage.

## **2. Role of the cohesion policy in the current financial crisis**

Cohesion Policy invests in the real economy. Within the overall budget of 347 billion euro for the 2007-2013 period, some 70% of this amount (or 250 billion euro) is allocated to the priorities of the Lisbon agenda. **Cohesion Policy can play an important role in restoring confidence in the real economy** by supporting investments in innovation, infrastructure, SMEs, the knowledge economy and human capital. These investments can boost short-term internal demand while preserving the sustainable focus on agreed priorities in the medium term.

Therefore in the current financial crisis and upcoming economic downturn, **Cohesion Policy is a powerful instrument of stability** as it provides secure source of financing and it invests into coherent strategies in the medium to long term upon which the regional and local partners can rely.

### **3. Mobilisation of Cohesion Policy resources: Changes in the legislative framework**

I proposed actions with regard to 2000-2006 period and 2007-2013. In the latter case of actions exploring possibilities under the existing legal framework, the Commission adopted on 26 November a proposal for **limited but important amendments to the legislative framework in order to further mobilise European resources** with a view to ensuring maximum efficiency towards our common goal for more growth and jobs.

The targeted changes in the legislative framework relate to **six main areas**: 1) pre-financing, 2) accelerating intermediate payments to major projects, 3) accelerating support for SMEs through state aid schemes, 4) simplifying eligibility of expenditure, 5) facilitating the management of financial engineering instruments, and 6, to enlarge the scope of actions in energy efficiency and renewable energies in housing.

Let me explain these modifications in more detail:

First, in order to increase cash flow to national, regional and local authorities, the Commission proposes to increase **pre-financing** of the programmes co-financed by **ERDF and ESF** by 2% for EU 12 Member States in 2009. For EU-15 Member States, the Commission proposes to pay a third tranche of 2,5% in 2009. These steps would provide an immediate cash flow of 6,25 billion euro in 2009 for public investments within the financial envelope agreed for each Member State for the 2007-2013 period. These resources, which would be made available as soon as the regulations are adopted, should be rapidly transferred to the beneficiaries while respecting the sound financial management rules. This means that total advances in 2009 will amount to 11,25 billion euro.

Secondly, in order to accelerate the reimbursements of expenditure related to **major projects**, the Commission suggests deleting the provision in Article 78 of General Regulation which foresees that expenditure for major projects can be declared only after the major project has been adopted by the Commission. Instead, the Commission proposes to allow reimbursement of expenditure on major projects which are yet to be formally adopted by the Commission. Experience of Jaspers has had to substantial improvement of projects. This

will significantly reduce the financial burden for the beneficiaries of major projects. Naturally, the programme authorities will still have to ensure that the expenditure is compliant with all the Community and national rules, and the approval of the major projects by the Commission is still requested. (Otherwise, the expenditure made and declared would have to be withdrawn from the payment claims.)

Thirdly, as regards **state aids**, the Commission proposes to amend advances paid by Member States to the beneficiaries which currently can be reimbursed up to only 35% of the total amount of the aid. After the change state aid advances paid to the beneficiaries could be reimbursed fully by the EU to public authorities, while respecting other existing conditions. This change will help SMEs – the primary beneficiaries of these schemes – address the credit crunch and maintain liquidity while spearheading the projects for which the aid is granted. Clearly, the advances still have to be subject to a bank guarantee and they have to be covered by expenditure paid by beneficiaries within the eligibility period.

Fourthly, in response to the request of Member States, the Commission proposes a widening of the possibilities in Article 56 of the General Regulation, to include an option to declare **overhead costs on a flat-rate basis for all the Funds**. This

step would also lead to an important simplification of the financial management of projects and decrease the burden on beneficiaries.

Fifth, the Commission also proposes changes to the legal provisions relating to **financial engineering instruments** in order to facilitate contracts with financial institutions, including the EIB and EIF. In addition, in-kind contributions could be declared as eligible expenditure in all cases, either when creating or contributing to a financial engineering instrument. (e.g. land in the context of urban regeneration project financed through a JESSICA fund).

Finally, tomorrow the Commission will put forward another proposal to modify legal provisions relating to the ERDF Regulation, to enlarge the scope of actions in energy efficiency and renewable energies in existing housing in favour of low-income households in the 27 Member States. This would, for the first time, enable the ERDF to be used to co-finance double-glazing or solar panels.

#### **4. Accelerating implementation by maximising existing tools**

In agreement with Commissioner Spidla, I am also proposing **concrete actions** on the ground which will not require legislative modifications.

Firstly, in order to address the bottleneck in preparation of major projects in EU-12, the Commission wants, together with EIB and other partners, to significantly expand the use of the **Jaspers** facility thanks to a 25% increase in resources for technical assistance from 2009. As a result, it is expected that more than 70 expert staff will be available to assist Member States in the technical preparation of major projects in order to speed up their implementation.

Secondly, the Commission will continue to work closely with the EIB and EIF to assist Member States and regions in **promoting entrepreneurship** by fully exploiting the potential of the JEREMIE initiative. These possibilities enlarge the spectrum of financial engineering products for SMEs, including guarantee, debt and equity instruments. Furthermore, the Commission, in close partnership with the EIB group, encourages Member States to strengthen the business environment for micro-credits.

In order to facilitate and enhance implementation of both the JEREMIE and JESSICA schemes, the Commission, in co-operation with the EIF and EIB and the Member States, will launch two specific networking platforms early next year as a forum for exchange of information, guidance and good practice.

My services are also in close dialogue with the programme authorities to identify how **the existing programmes can be further exploited to address immediate needs**. The current legal framework already provides a lot of flexibility. For example, programme managers can modulate actual rate of the European contribution to projects (up to 100% of the eligible costs), provided that, on average, the actions supported by the programme remain within the co-financing rate set in the regulation and in the programmes over the programming period.

The Commission is also ready to examine possible **changes in priorities and objectives of operational programmes** with a view to accelerating investment in areas with more growth potential.

In relation to the programmes under the **previous programming period 2000-2006**, I am aware of serious liquidity problems in some cases which put at risk the delivery of the objectives set at the outset. In this context, the Commission

is willing to examine **the possibility to extend the final eligibility date** of the programmes in those cases in which there is a significant change in the socio-economic situation and the labour market, as established in the regulation. The Commission will look favourably at such requests, given the exceptional situation. As Mr. Barroso said last week, "exceptional times call for exceptional measures". The extension would be of maximum up to the end of June 2009.

## **5. Conclusions**

I count on your support in these difficult weeks and months. I believe that maintaining our agreed priorities to deliver medium and long term Cohesion Policy strategies will bring benefits that can contribute to realising a quicker recovery when the current economic shock begins to recede.

I also strongly believe that the legislative changes proposed by the Commission will largely facilitate the implementation of the programmes and help boost much-needed public investments. I therefore count on your support as well as on a constructive co-operation with the Council to ensure the smooth and prompt adoption of the necessary changes without delay. I, with my services, remain at the disposal of the rapporteur. We have in the pipeline the Art. 55, on which it would be good to have a

plenary vote before the Council on 17<sup>th</sup> December. Proposed amendments are, in their majority, General Regulation amendments except for energy efficiency (ERDF Regulation) if he/she she requires further information about the proposed modifications.

The legal changes which aim to provide a helping hand in the recovery process are the first step in accelerating the implementation of the programmes and projects. I am sure that we all agree that our policy can bring tangible results only if unnecessary burdens are avoided and I know from the feedback I receive from my daily contacts with the national and regional authorities, that the existing rules do not always facilitate prompt implementation. I therefore believe that we **need to reflect further on how to make the delivery mechanisms of the European cohesion policy simpler.** In the coming months, the Commission will come up with distinct proposals for more simplification and I can assure you that we will stay in close contact with you in order to find the best possible solutions.

I will be happy to be back to you on January 19th.

A working group with the participation of MSs has already begun to work. We have agreed with the Czech Presidency to come during their period in office with a new package.

Thank you for your attention.