

Commissioner Danuta Hübner
**European Regional Policy: the contribution to social
cohesion**
**2nd Convention of the European Association of
Co-operative Banks**
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The economic reforms of the Lisbon Agenda are essential for social cohesion. There is no trade-off between economic policies and social policies, and no question of promoting the functioning of our economies without the well-being of our citizens. Our overall aim is to make Europe a modern, competitive, outward-looking economy which is socially cohesive. To do so we must create an economy which produces high quality jobs, and we must put in place policies that allow our citizens to adapt to changing circumstances. The very nature of cohesion policy is to promote economic and social cohesion. It aims to do so by dynamising regional and local economies, and allowing them to unleash the comparative advantages which they possess. Cohesion policy is based on the full mobilisation and involvement of regional and local actors, including the private sector and the banking sector. This makes available to those involved in regional development the skills, the expertise and the rigour of the banking sector, and increases the availability at regional level of financial instruments to SMEs whose entrepreneurial energy is still often frustrated by an inability to access funding. Co-operative banks, with their decentralised networks which function at local level, play a key role in the process of regional and local development.

Ladies and Gentlemen,

This has been a busy and exciting month for the process of European integration. It has been marked by two key events – the Spring Council, and the adoption in Berlin of a declaration marking the 50th anniversary of the signature of the Rome Treaties. Both events will have far reaching consequences. The declaration not only celebrates the tremendous achievements of 50 years of integration, but looks forward to the challenges which we are all aware can only be effectively dealt with if we act together – globalisation, terrorism, organised crime, illegal immigration, energy and climate change. And on energy and climate, the Spring Council already set the scene with the adoption of a package of

measures, unprecedented in their scope and ambition, which keeps the Union at the forefront of policy developments in these fields.

But both events also put the citizen firmly at the heart of what we do. The declaration makes clear that our economic model is based on economic success and social responsibility, and it stresses that the key to growth, employment and social cohesion lies in the knowledge and ability of our citizens. And the European Council reaffirms the need to strengthen economic and social cohesion throughout the Union. This takes me to the subject of our discussions today. I want first to make some comments on the issue of social cohesion, before turning to the role of European cohesion policy and to the contribution which you make as co-operative banks.

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The first message I want to give you today is that the economic reforms we are pursuing with the Lisbon Agenda are essential for social cohesion. There is no trade-off between economic policies and social policies, and there is no question of promoting the functioning of our economies without the well-being of our citizens. Let me explain what I mean by this.

We are currently living in a period where globalisation is advancing with unprecedented speed. And globalisation is not an abstract phenomenon. It is a combination of economic and technological changes which are having a direct impact on how our economies function, on how our

societies are structured, and on how our cultures interact. In short it is having a direct impact on how our citizens are living their lives.

I am among those who consider that globalisation brings tremendous benefits and that it is neither possible nor desirable to try to resist it. But I am also acutely aware that the benefits which globalisation brings are not evenly spread across our economies and societies. We therefore need policies to manage globalisation. This is not new – in the past we have had to manage the processes of industrialisation and internationalisation of our economies. But today, when the changes are so intense, we have to ensure that the benefits are widely shared, and that those who are negatively affected are given support. What is clear is that we cannot accept a fracture in our society which excludes whole sections from productive employment. Our economies will not be sustainable if they are based on two distinct categories of citizen: what the Polish sociologist Zygmunt Bauman has called the "global" citizens who are highly skilled workers in the knowledge economy, and "local" citizens who are unskilled workers and are excluded from it.

Our overall aim with the economic reforms we are pursuing with the Lisbon Agenda is therefore to make Europe a modern, dynamic, competitive and outward-looking economy which is socially cohesive. And we will only succeed in doing that if two conditions are in place: first, we must create an economy which is capable of producing high quality jobs for our citizens. And second we must put in place policies that allow our citizens to adapt rapidly and flexibly to changing circumstances. We need to offer them the security that they have the skills to move from one job to another. And we also have to ensure that the market is sufficiently flexible to offer them new possibilities. In short we must promote

flexibility and adaptability, by seeking to protect people and employment rather than protecting jobs. The reality is that economic restructuring is a continuous part of our lifestyles. We cannot shield ourselves from it, and indeed social cohesion can only be strengthened if we promote our capacity to adjust to it. And in order to do that we need precisely the reforms which are at the heart of the Lisbon Agenda. I want to mention just two which are closely linked to one another.

First, we need to continue the emphasis on developing labour potential and human capital. Equity can no longer be considered in terms of income distribution. It must be considered in terms of opportunity. Education is essential. In my trips to the regions, businesses frequently tell me that the decisive factor for their investments is that there should be a strong education system, right through from the primary and secondary to the higher education level. Indeed if we want to be at the frontier of technological innovation – producing rather than absorbing inventions – then we will have to focus to a much greater extent than before on our universities.

Second, we need to improve our performance on research, development and innovation. Currently we spend 1.8% of our GDP on R&D while in the US the figure is 2.7% and in Japan it is over 3%. Our aim is to increase our expenditure to 3% of GDP by 2010. This is a significant challenge, but in a way it is the easy part of the task. R&D is not an end in itself, and on its own will not guarantee improved economic performance. We must convert R&D into concrete reality, into new products, services, patents. We must innovate, and we must above all and enhance co-operation between universities and businesses.

Let me turn to the role of cohesion policy. The very nature of cohesion policy, as its name suggests, is to promote economic, social and territorial cohesion. But I want to stress that this policy is far from being an instrument of redistribution or support. Rather it is a policy which is designed to dynamise regional and local economies, to allow them to discover or to unleash the comparative advantages which they possess, and to put themselves on the path of sustainable development. This is reflected in the priorities which Member States have identified for their investments in the period 2007-2013. €200 billion of the total EU funding of €350 billion will be invested in those areas most relevant for the modernisation of our economies - clusters of activities covering innovation, RTD and the knowledge economy, and on efforts to promote entrepreneurship and the growth of innovative businesses. €40 billion will be invested specifically in the core sectors of innovation and R&D. In all of these areas we will continue to invest in education and training systems.

The aim of dynamising our economies and of unleashing the full potential of our businesses – and of our individual citizens - is also reflected in the very philosophy of European regional policy and in the instruments which we use to promote economic development. There are two points which I want to emphasise here, points which are of direct relevance to you as Co-operative Banks.

First, regional policy is based on partnership. Our approach to this partnership principle is two-fold. On the one hand, there is the multi-level involvement of all relevant decision-makers – public authorities at EU, national, regional and local level. On the other hand, there is also a horizontal partnership, which includes the economic and social partners

and other bodies representing civil society. In short, policy design and implementation is firmly rooted in a regional and local context. This is very much in line with your approach as co-operative banks with your decentralised networks which function at local level.

This decentralised approach is essential because we know that the main growth drivers are to be found at regional and local level. It is at these levels that we find the essential knowledge and expertise for identifying strengths and weaknesses and appropriate policy responses. Proximity is essential, and partnership of all relevant players in the process of establishing regional economic development programmes fosters consensus building and helps to tailor strategies to the needs of regions and provides legitimacy.

My second point is that when we talk about cohesion policy being based on the full mobilisation and involvement of regional and local actors, we include among these actors the private sector and in particular of the banking sector. And in order to do so we have introduced new instruments together with the European financial institutions: the European Investment Fund of the EIB, the European Bank for Reconstruction and Development and the Council of Europe Development Bank. The new instruments – JEREMIE, JASPERS and JASPER – will bring the banking sector to the heart of cohesion policy. This is essential for two main reasons.

First, it brings expertise, efficiency and stronger incentives for the beneficiaries of EU funds to succeed in the major challenge of investing the largest amount of European cohesion funding ever: €350 billion of

Community contribution and a comparable amount of national, public and private contributions. We need to make available to those involved in local development the skills, the expertise and the rigour of the banking sector. This will improve the efficiency and management culture of local and regional development.

Second, we all know that despite increasing global flows, access to finance for new firms or business services catering for the needs of SMEs is also essential at local level. Small and medium enterprises, and micro enterprises are significant providers of jobs. They have a key role to play in driving forward the growth and jobs agenda. In many regions of the Union, access to finance is still extremely difficult, the barriers are numerous, and the lack of mutual understanding between financial institutions and potential entrepreneurs from the local community is great. This inability to access funding is a major brake on the creativity of our citizens and the dynamism of our economies. We need to unleash the entrepreneurial energy which exists in our economies, and unlock the business potential of our SMEs by improving their access to financial products.

In this context, I want to mention in particular JEREMIE which aims to enhance support for start-ups micro enterprises and SMEs through technical assistance, grant instruments, and in particular non-grant instruments such as loans, equity, venture capital and guarantees. And it will also aim to promote the development of financial intermediation at local level on a sustainable basis. We are advancing rapidly with implementation of this new instrument. 16 interim reports have been drawn up at national or regional level analysing gaps in the provision of

financial products to SMEs, and a further 10 regional reports are underway. Three Member States – Slovakia, Greece and Romania - have signed a Memorandum of Understanding with the EIF to use JEREMIE, four regions – Guadeloupe, Auvergne, Galicia, and Lombardy – have also done so, and we have significant interest from other Member States and regions. Philippe de Fontaine Vive Curtaz of the EIB will, I am sure, provide you with further information in the discussion later this afternoon.

Much of what I have just said will be familiar to you as Co-operative Banks. Because of your structure, social cohesion is at the heart of what you do. Your approach to banking is strongly local in nature. Your presence in local communities gives you a thorough knowledge of their needs, the challenges they face, and of how best to respond to them. You have a long tradition of providing financial services which respond to the needs of small and medium sized enterprises which might otherwise find it difficult to access mainstream credit organisations. And as a result of this, by empowering local entrepreneurs and dynamising them to do new and innovative business, you are directly involved in promoting local development.

The Commission's Annual Progress Report on the Lisbon strategy which was discussed at the European Council earlier this month, made clearer than ever before that this regional policy approach – bottom-up and based on partnership – is essential if we are to meet the Lisbon goals. This is reflected in the conclusions of the Council which stress the importance of a sense of ownership of Lisbon by regional and local authorities, civil society, and social partners, and which recognise that

they are key elements in achieving the objectives of the strategy. Bringing Lisbon to the regions, and empowering regions to contribute fully to economic reform process are key aims for me as Commissioner for Cohesion Policy, and I am delighted that we are on the right track and advancing well. By their origin and nature, co-operative banks have a central role to play in this process of developing regional and local economies and of promoting social cohesion. This Second Convention is a testament to your commitment to these goals and to the Lisbon Agenda. I wish you well with it.