

**Professor Danuta Hübner**

**Chair of the Committee on Regional Development in the European  
Parliament**

**Open Days 2009: "Global crisis, regional responses"**

**European Parliament, Brussels**

**5 October 2009**

We do not know much, certainly not enough, about impacts of the current crisis on regional performance. There is certainly a need to investigate these impacts and draw conclusions. Some regions are more affected than others. We do not yet see the full impact of the crisis on the labour market. This impact will surely vary across Europe. What is important is to take note of the fact that the crisis hit regional economies that had already been subject to subsequent shocks related to climate change, the energy security challenge, and demographic trouble. To understand the combined effects is essential if we want to avoid structural aftershocks once we get out of the crisis. Regional ability to respond to the crisis varies greatly across Europe. And there is not a simple correlation or linkage between the development level and capacity to absorb crisis related shocks. Regions' ability to respond also depends on national policies. It is not at all unlikely that a new regional map of Europe will be drawn by the crisis which takes into account the future European regional policy.

In this context, I feel tempted to say that fortunately, as Europe, we have cohesion policy. The European cohesion policy plays a role of a restructuring focused

investment policy. It represents a combined effort of European public investment funding and that from national – public and private – source. It has the potential to influence investment patterns at all levels of the economy.

Cohesion policy is an important public policy instrument which can be turned against the crisis and address the short term demand stimulation concerns while at the same time investing in the long term competitiveness.

This role can be played by the cohesion policy due to its strategic approach, its financial instruments, its EU-wide presence as well as due to its specific characteristics. In this context let me comment on three issues.

First, on adequate priorities. Cohesion policy long term programs have been fixed with a strong focus on what is today seen as priorities in the context of opportunities created by the crisis. This includes: investment in development of green skills, energy efficiency and renewable energy, investment in public works such as transport infrastructure but also smart infrastructure – broad band, sustainable urban transport, investment in sustainable economy at all levels of European governance, investment in measures supporting smes and eco-innovations , investment in water efficiency and in new forms of funding for smes, including risk capital schemes and new forms of guarantee schemes.

Second, let me say that the role the European cohesion policy can play now among all other policy measures in getting European economy out of the crisis in a better shape,

is to a large degree determined by the very nature of this crisis and in particular its financial dimension, translating into a general funding failure.

This time, European banking sector does not have the capacity to play its supportive countercyclical function vis-à-vis companies. Financial sector does not provide credit and when it does, there is no guarantee for efficient reallocation of capital.

Companies with good growth potential, innovative, future oriented do not appear attractive to banking sector contaminated by risk aversion. Banks would rather favour politically protected sectors and companies.

Victims of this approach are exactly those companies which Europe needs most to generate long term sustainability of growth, jobs and competitiveness.

These distortions in funding growth can cost Europe a lost decade which Europe cannot afford. That is why the cohesion policy financial instruments can play both a catalyzing and funding role in reshaping investment patterns. The use of those instruments is based on strong conditionality with regard to areas eligible for investment. They guarantee durability of funding. They enhance cooperation and use of good practice. They offer new forms of financial engineering, extending entrepreneurs capability to finance innovation. They also help preserve a higher level of R&D intensity despite the crisis. Medium term operational programs with secured funding allow economies to invest in high risk activities avoiding collapse of innovative activities.

Third, as I said before, cohesion policy has the capability to respond to the major challenge of the exit strategy which is the medium to long term focus of anti-crisis growth policies. Cohesion programs are not short lived and ad hoc investment focused but long term sustainable development policy programs. They are based on European priorities but at the same time tailor made and place based.

They attract private investors rather than crowd them out. They are consistent with Lisbon strategy. They mobilize growth potential at local and regional level. They contribute to confidence building between companies and local financial institutions, providing guaranteed part funding to investment projects. They allow to keep workers in the labour markets and help companies to retain employees.