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The crisis and beyond: can cohesion policy enhance citizens' long term well-being?

European Policy Center, Brussels, 24 September 2009

The crisis cannot be disconnected from the long-term development agenda. The financial crisis hit structurally weak economies and it is clear that the long-term performance of the European economy depends on the choice of anti-crisis instruments and on investment patterns emerging from the implementation of fiscal packages.

There is a risk – if we do not handle properly the exit policies – of structural after-shocks. To reduce or avoid this risk, focusing the exit strategy on long-term sustainable growth should be the leading criterion for policy choices. The content of fiscal packages is from this perspective essential.

An opportunity for deep economic restructuring will be missed if policies responding to the crisis aim only at eliminating production gaps generated by the crisis and do not keep the productivity gains on track. For the latter, the composition of stimulus matters. Policy choices should be made in accordance with medium to long term strategies which implies that public investment must be properly targeted, aiming at medium to long term impacts. Public investment in innovation, research, education, energy efficiency, green technologies is the way to go.

The question whether the fiscal stimulus has been sufficiently targeted is legitimate. Trillions of euros out of the public pocket went to bail out banks judged too important to fail. It is not at all clear to what extent this undermines or is going to support funding of climate change related measures, estimated by the European Commission to cost the world up to 118 bln euros per year by 2020, or other type of smart investment in the manufacturing sector. This is yet to be seen.

Many measures within the fiscal packages have focused on boosting demand in a rather conservative way (scrapping old cars premium, tax reductions, automatic stabilizers), not really enhancing long term structural transformation.

There is rather little evidence of structural transformation ensuring through fiscal stimulus long term competitiveness, productivity gains and sustainable growth.

Fiscal measures are judged against the backdrop of their direct impact on public budgets and deficits. We seem to care less about growth patterns to which the stimulus is to contribute. Long term sustainable growth could make paying back borrowing possible if growth based on fiscal stimulus were sustainable. This is rather unlikely unless new investment is a smart one, triggering structural transformation in manufacturing, bringing green technology, eco-innovation, low carbon and knowledge based society.

It would be very useful to come as soon as possible with an assessment of investment pattern changes related to public anti crisis interventions, so that we could see whether EU is using the crisis opportunity to lay the foundations for sustainable growth and jobs.

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 five 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 a 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 favor 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 above, 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.

These programs have been designed to contribute to medium term economic performance. 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 labor markets and help companies to retain employees.

Fourth, in many respects this crisis provides countries with the opportunity to reconsider their development trajectories and devise new policies and instruments to accompany the change. Then the question is how can we devise interventions striking the right balance between sheltering existing jobs while creating new ones. How can we help firms to face the crisis and prepare to go the distance. Many of these issues can be best addressed through place based policy approach. It is legitimate to ask whether central governments know enough, whether we can target investment from policies decided and designed in the capitals. How can we adjust policy priorities to reflect local preferences. The reality is that we do not know enough and it is essential to understand local preferences and use local knowledge in order to channel public resources towards the most productive investment. That is why the regional dimension of the cohesion policy can allow to better target public resources on growth enhancing investments.

Fifth, to facilitate the contribution of cohesion policy to crisis exit strategy, the European Commission has proposed to address specific concerns related to the implementation of programs. Measures that have been introduced by the European Commission through amending cohesion policy financial management since November 2008 have aimed at speeding up the implementation of the policy programs on the ground with a view to ensure that all available policy resources are fully mobilized to support recovery efforts of the member states. These are important resources. While during the financial perspective 2007-2013 negotiations cohesion policy funding available to individual member states has been capped, at local and regional level structural funds are often the major source of public investment funding. This is very much in line with observed trend of growing public investment at sub-national level accompanying declining public investment at national level.

The crisis related amendments to cohesion policy management system include recommendations and legislative instruments designed to accelerate investment and simplify the implementation of more than 440 policy programs. The idea is to offer greater flexibility, give regions a head start and target expenditures on smart investment with a view to lead and facilitate the structural transformation through new investment patterns.

When proposing those measures, we benefited from the fact that cohesion policy programs have already had a strong strategic focus on what we see today as smart investment: sustainable jobs and businesses, infrastructure and energy, research and innovation. This was

achieved thanks to the reinforced strategic approach in regional policy taking into account the reality of multi level governance in the EU of today.

More flexibility has been provided through :

- possibility of modifying cohesion policy programs and simpler rules for the revision of programs
- extension of the final date of 2000-2006 programs with a view to ensure the maximum use of resources allocated for that period
- greater flexibility introduced to the calculation of the final EU contribution at closure
- simplification of financial management aiming at reducing the administrative burden. That is facilitated by the introduction of lump sum or flat rate payments, by facilitating contracting with EIB and EIF (direct contracts possible) or through simplifying management of projects generating revenues, including simpler monitoring .
- simpler reporting on financial progress
- more incentives for use of partial closure

Giving regions a head start has been addressed by:

- increasing cash flow through increased advance payments to 2007-2013 programs. As a result, in 2009 an additional 6.25 bln euro for investment was provided. The entire advances paid in 2009 rose to 11.25 bln euro and those paid since 2007 to nearly 30 bln euro.
- helping with major projects through increased resources (by 25%) to Jaspers (Joint Assistance in Supporting Projects in European Regions) to help member states to prepare major projects.
- Facilitating the management of and accelerating intermediate payments for major projects
- simplifying state aid rules allowing to make advances to state aid schemes eligible up to 100%, as well as clarifying admissible guarantees in case of advanced payments to state aid schemes
- putting in place a temporary framework under the state aid rules, providing for 2009-2010: a lump sum of aid up to 500 000 Euro, state guarantees for loans at a reduced premium, subsidized loans for green products, risk capital aid up to 2.5 mln euro per SME per year (instead of current 1.5 mln euro) in cases where at least 30% (instead of 50% now) of investment cost comes from private investors.
- Simplification of the rules on the durability of investment

Putting greater emphasis on smart investment through:

- modifying, where needed, programs with emphasis on energy efficiency, clean technologies, environmental services, infrastructure and interconnections, broad band networks, new skills and new form of funding for smes
- encouraging more energy efficient investment and supporting renewable energy schemes in housing
- encouraging more investment in Jeremie (Joint European Resources for micro to medium enterprises), including guarantees, debt and equity instruments, improving business environment for micro credit through Jasmine (Joint Action to support micro finance instruments in Europe)
- enhancing the use of financial engineering instruments, especially in the sectors of energy efficiency and renewable energy

The world emerging from the crisis is certainly an interesting place in which preconceived ideas are being challenged. We are forced not only to ask fundamental questions about our priorities but there is a growing recognition that the appropriate responses are increasingly at local and regional level of European governance even if challenges and opportunities may spring from further afield than 20 or 30 years ago. It is not possible to leave the design and implementation of economic strategies to London, Warsaw or Brussels only. When it comes to questions like developing new poles of attraction that will retain skills and knowledge or promote new opportunities for areas affected by restructuring, it is perfectly clear that effectiveness depends critically on local and regional involvement.

This does not mean at all that London, Warsaw or Brussels have no role to play. Of course they do but each level of governance has to recognize its strengths and weaknesses, and, most importantly they have to work together.