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**in the European Parliament**

**OPEN DAYS**  
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**on the present and the future benefits of cohesion policy**

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Ladies and gentlemen,

Nearly two years ago, the launching of the 4<sup>th</sup> Cohesion Report marked the beginning of a reflection process on the future Cohesion policy. This has been followed by a number of informal ministerial councils, the work on Regions 2020 and the debate on territorial cohesion. These discussions have been rich and stimulating and have given us much food for reflection.

At the same time, today's global economic turmoil reminds us all how important cohesion policy is as a key factor of financial stability and long-term investment in sustainable growth.

***Meeting the challenges***

The report "Regions 2020" provided a first assessment of the new regional disparities to be created by globalisation, climate change, demographic change and energy supply in the medium term. Today we need a thorough analysis of how financial and economic crisis influences economic and social situation in the regions and what is its impact on their development capacity.

The real question today is therefore what sort of policy is needed to address the problems of tomorrow.

The role of Cohesion policy has, since its introduction, been to ensure that Europe's project of economic integration is for everybody. This integration, driven by the single market and common currency, can only work if all can contribute and all can benefit. In the context of the challenges we face, we need more than ever to be able to unlock the potential of every region and each individual to contribute to the EU development.

European single market, competition and trade policies touch every member of the EU. We also know how important it has been for Lisbon agenda to mobilize all regional and local actors. Back in 2005 we decided to take Lisbon agenda down to regions and cities and only then it has become a truly European development agenda. Through its role in promoting competitiveness and sustainable growth in all areas, cohesion policy supports legitimacy, or even more - equity and efficiency goals - of the European Union.

Mobilising the full potential of Europe's regions requires territorial policies that help people and businesses to make the best use of the resources that are at hand. This approach commands a growing consensus. Academics point to the role of regional assets in the development of innovation, the OECD has highlighted the role of integrated place-based policies. But perhaps most importantly when we talk to businesses and citizens they increasingly see the challenges confronting them in territorial terms, whether at local, regional or cross-border level.

For these reasons, Cohesion Policy must remain a policy for all regions. It is the only EU policy with a strong territorial dimension, with a clear focus on integrated solutions and the capacity to mobilise actors across all EU boundaries. We should build on these strengths to establish a Cohesion Policy for the 21<sup>st</sup> century.

### ***Meeting the challenges***

I am convinced that we can be proud of what Cohesion Policy has achieved over the last 20 years. But the world is moving quickly and we cannot rest on our laurels. With all the challenges on the horizon, cohesion policy must become more effective. We therefore need to reflect whether the tools we have at hand are sharp enough for the purpose of building a sustainable and prosperous Europe and whether we use those tools to their full capacity.

In my view, it is necessary to focus more clearly on our key goals – improving the competitiveness of all regions, removing barriers to growth where they exist and exploiting the potential of territorial cooperation.

The key drivers of regional growth are linked strongly to territories. We have supported regional competitiveness by helping local businesses, local communities and individuals to mobilise their territorial assets and make the territory more attractive to investors. We need to be more effective in this. In all regions, this calls for a stronger focus on know-how, on capacity building, on strategy development and networking. Local communities, particularly in cities and rural areas, should play a more important role in delivering priorities on the ground. We heard it yesterday from the mayor of Malaga, when he spoke on subsidiarity.

The reduction of disparities between regions and removing the barriers to growth in the poorest parts of the EU command a strong consensus in both policymaking and academic circles. And this is not about charity. Poor regions are underutilised resources that could be contributing to overall EU growth. However, to achieve their full potential and make full benefit of the single market, many regions need support to close the infrastructure gap in transport, ICT, environment, energy, human capital, education and research. In these regions, it will be essential to address the key bottlenecks.

There is an equally strong consensus on the EU added value associated with territorial cooperation. Here, there is an increasing demand for shared implementation mechanisms in the context of concrete cross border and network interconnection projects. The Baltic Sea Strategy illustrates a common desire to go beyond pure cooperation and to explore stronger commitments. Finding common solutions to shared problems will require

a reinforcement in scale and a shift in the nature of territorial cooperation both within Europe and with neighbouring countries.

Cohesion policy is an effective and, in fact, the only available policy instrument to deliver in an integrated way a number of key EU priorities. However, there is a risk of overloading the policy with fragmented objectives. Cohesion policy must remain a development policy with clear development goals. It will be necessary to focus on a more limited number of core EU priorities that offer the greatest growth potential and allow to target opportunities created by new challenges. For example, we see today clearly that there is considerable potential for growth and jobs from green businesses, creation of local services for ageing populations or production of renewable energies.

The selection of these core priorities should be the subject of a strategic political process involving the EU and Member States. Two areas are of particular importance for Cohesion policy.

First, stronger links must be built in the future between Cohesion policy programmes and the Lisbon Strategy. This could be achieved by a stronger integration of national Lisbon objectives in programmes, and greater involvement of local and regional partnerships in the national Lisbon coordination structures and national employment strategies. The role of the Committee of the Regions has been fundamental in enhancing these links. It might be necessary to review the earmarking mechanism.

Secondly, sustainable development will become an ever more important horizontal challenge and opportunity. In particular, the fight against climate

change and its impact on Europe have become central to all policy agendas. Cohesion policy can contribute both to mitigation and adaptation at the same time supporting sustainable development, generating growth and business opportunities.

Thirdly, we have to anticipate today, as a post-crisis challenge, the regional reconversion processes linked to economic and social restructuring. Many of the challenges facing Europe cannot be addressed without the active involvement of actors on the ground. This does not mean that Cohesion policy must directly address all the needs arising from these challenges. Rather, it can play a strategic role as a catalyst in developing integrated solutions. Cohesion policy can play a central role in delivering EU priorities by actively mobilising territorial actors, including civil society, across Europe.

### ***Responding to the crisis***

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, 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.

### ***Simplifying delivery mechanism***

Regarding the delivery system of cohesion policy, my message has always been one of continuity and change. We need to build on partnership, multi-level governance, additionally, and multiannual programming. We understand the benefits of these unique features of the cohesion policy.

But we all know that Cohesion policy delivery also needs to evolve. One thing is already clear to me. We cannot shoehorn interventions as different as cross-border cooperation, the construction of waste-water plants or the risk taking associated with innovation into a one size fits all delivery mechanism. We need a more differentiated approach to delivery systems and performance. This could take different forms ranging from a more differentiated approach to management of risk, to delivery mechanisms tailored by broad type or size of intervention. This approach would lead to a reduction of administrative burden.

The best elements of the existing delivery system must be retained while putting in place simpler, more efficient and more effective mechanisms. There are a number of concrete areas to work on and we will not be starting from scratch:

First, the major objective is to reduce the administrative burden for implementing bodies and beneficiaries while ensuring effective and proper use of the EU budget. In the new Treaty responsibility for the EU budget execution is shared between the Commission and the Council, which can be conducive to the simplification effort.

Second, an increased focus on performance may need to be linked to incentives and conditionality to encourage quality. Performance related contracts may play a role in this respect.

Third, the strategic dimension of the policy and its focus should be reinforced through the introduction of a high level annual political debate involving all Member States to discuss policy achievements. We need regional policy council. I find this stronger political dimension of cohesion policy a necessary element from the visibility and effectiveness perspective.

Fourth, it is necessary to provide greater scope for innovation, policy risk and experimentation, particularly in the business and local development sectors. We are preparing now exit strategies to take us safely out of the crisis and make EU economy stronger. Crisis will increase risk aversion and will reduce interest in innovation. This trap must be avoided. Cohesion policy has the capacities to build confidence, it has already invested in innovative forms of financing and innovation is its flagship objective.

Fifth, the role of financial engineering in increasing leverage and impact of cohesion policy should be enlarged. This could strengthen the role of the policy in attracting private capital.

Crisis cannot be disconnected from long term development. That is why the role of cohesion policy in exit strategies is fundamental. Regions will be asymmetrically affected by the crisis. That is why it is rather obvious that the threshold effect and transition mechanisms (phasing in and phasing out) within the policy, already highlighted by many regions as a major

dilemma for the post - 2013 policy, will have to be addressed in the new design of the policy.

Fabrizio Barca has prepared at the request of the Commission an independent report assessing the effectiveness of cohesion policy and providing policy recommendations for the period post 2013. We just had its presentation in the REGI Committee. There are many ideas worth reflection.

We have to continue to closely cooperate with the academic community, Member States, regions and stakeholders to develop a shared vision for the future direction of cohesion policy.

Since its inception Cohesion policy has been an essential element in the successful realisation of the European project. It supports the necessary processes of structural change, but also ensures that the costs of adaptation as well as the benefits of participation in the single market are shared. This principle of solidarity remains at the heart of the European project. It is in this spirit that the development of the policy must be pursued. We can remain faithful to the founding principles of the policy and modernize it to make it more efficient and effective when it comes to its governance.

Thank you for your attention!