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**"Cohesion Policy: from Lisbon Agenda to Europe 2020 Strategy: New  
Perspectives"**

*The Cohesion Policy: convergence accomplished?*

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Without any doubt the focus of today's debate should be the future. It is. However, useful to look back, to go for a while to the roots of cohesion policy to understand the reasons and justification of the evolution of this European policy. I have been touching with my own hands European local and regional reality since 2004 as Commissioner in charge of regional policy and I see convergence as a moving target, as a process of great value that triggers growth mechanisms, generates capacity to create jobs and builds sustainable competitiveness.

Cohesion policy was originally conceived (in the Single European Act and the Maastricht Treaty) as the third pillar, essential for the creation of the internal market and of Economic and Monetary Union. Its aim was to gradually help create economic and social structures which would allow the weakest regions and Member States, and regions undergoing economic and social restructuring, to reduce their development deficit, enabling them to compete fairly in the internal market and to

have the financial means to face the budgetary constraints of Economic and Monetary Union.

This justification remains valid both for the current and the coming period, since the 12 new Member States, like the southern countries before them, are confronted with the need to create economic and social structures in order to gradually benefit from the internal market and to meet the budgetary constraints of Economic and Monetary Union. With any further enlargements, of the Union and of the euro zone, disparities will only grow and convergence forces will be weaker requiring stronger cohesion policy.

However, the main change is that the processes of internal market and EMU are now taking place in a context of globalisation, which adds a new dimension to the investment, to the economic environment and human resources development. The aim of the policy is not only to help create and adapt economic and social structures in order to tackle internal market competition and EMU constraints, but those structures have also to deal with global competition, in particular from newly emerging big economies, where social and environmental conditions are so much different.

This means that this strenuous effort to adapt is not only required of the most backward regions and Member States, but also all other regions, regardless whether they are already competitive, are no longer competitive or have not achieved competitiveness.

This is the reason why, under globalisation, cohesion policy has to address two complementary aims, like two-faced Janus: gradually reducing development disparities between European regions, while also boosting the competitiveness of all

European regions to enable them to adapt permanently to the ever more demanding conditions of globalisation. Actually, sustainable growth does not occur without investment in competitiveness.

Many forces work against cohesion in Europe. There are periods when there get stronger than pro-cohesion forces. We live such period now. But there are also other challenges that influence objectives and context of the policy. In the last 20 years, job insecurity has increased considerably, with shorter, less secure and less well paid contracts, not only for uneducated people but also for young university graduates. This considerably weakens the feeling of social belonging which rapidly tips over into social insecurity and exclusion throughout Europe. This worrying situation particularly concerns young people, self-employed workers, people with immigrant roots, old people and workers at the end of their career. And this is a strong anti-cohesion force. If one looks at demographic trends, one can identify similar impacts on cohesion.

Sustainable development is no longer just an option, it is an absolute necessity for cohesion policy funded investments, both in terms of barriers to growth and cohesion and in terms of economic and social opportunities and the quality of life.. Competitiveness requirements linked to globalisation and the internal market have to take into account requirements related to energy saving, sustainable energy, environment, sustainable infrastructure, innovation and research which are necessary for sustainable development, new skills and equal opportunities.

In this context, European cohesion policy has become the means of delivery for sustainable regional competitiveness. This process is difficult because it requires a high level of coordination to achieve the integration and complementarity of its actions. It requires additional permanent effort to overcome temptation to adopt

individual, fragmented, sector-specific approach, implying great changes in national, regional and European administrative practice. This challenge of pushing Europe towards an integrated approach to development policy remains for the future high on the policy agenda and is detrimental for the effectiveness and efficiency of the future budget.

For years, there has been growing concern about the erosion of the EU's competitive position in the world, compared, for example, to the USA. Meanwhile, over recent years, competition from the emerging economies such as Brazil, Russia, India and China, has intensified. While globalisation has provided new opportunities for Member States and regions, it has also required adjustment to structural change on an unprecedented scale. There is therefore a clear need to provide the most relevant and appropriate solutions possible. One size no longer fits all, and to meet global challenges it is becoming increasingly necessary to mix and coordinate local and regional actions with national and international ones. Actually, we have to look today for new jobs and growth opportunities at local and regional level.

The awareness of the fact that competitiveness is a precondition for sustained growth has led to the Lisbonization of cohesion policy. The re-launch of the Union's Lisbon Strategy in 2005 aimed to bolster the competitive position of EU regions in the world economy by placing growth, jobs and competitiveness at the top of the cohesion policy agenda. The only clearly successful strand of the Lisbon strategy, as the last communication of the Commission proves, has been its regional strand. First and foremost, the priority has been to increase levels of innovation to help Europe's businesses move up the value chain, and, secondly, to bring more of Europe's population into productive employment. In 2004, the EU spent 1.85% of its GDP on R&D compared to 3% in the USA, while the proportion of the working age population in employment stood at 64.7% in EU15 and 56.0% in EU10 compared to over 70% in

the USA. Under the Lisbon Strategy, the EU adopted an employment rate target of 70% and a target of 3% of GDP for R&D expenditure. Meeting these targets requires sustained investment, hence the central relevance of European regional policy, and its 'financial muscle', in this effort. In particular, regional policy is no longer seen as only a means to help regions catch up with the Union's average, important as this is. Competition is increasingly taking place along regional lines in the world market. Regional economies are becoming nodes in global production networks. The aim must be to assist regions to find their place in these global markets, and ensure equality of opportunity right across the entire Union in order to achieve the principal ambition of promoting *economic and social cohesion*. It is a policy which addresses opportunities for the future, by mobilising underexploited potential and anticipating changes, rather than compensating for problems of the past.

Another big challenge for the policy has been the integration of new member states. On 1 May 2004, ten countries - Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia - joined the EU. The accession of Bulgaria and Romania followed on 1 January 2007. The successful integration of these new Member States presented one of the most important tasks the Union has faced in its history. With enlargement came increased disparities in income, bringing a 20% increase in the EU's population, but only a 5% increase in the Union's GDP. The average GDP per head in these new member countries was under half of the EU average, with only 56% of their populations in active employment, compared to 64% in the EU15. In integrating the new Member States, and bridging the gaps in levels of development, the EU's regional policy has had a key role to play. It is a long-term role requiring many years of sustained investment in infrastructure, in innovation and business development, and in upgrading human resources.

There are a number of dimensions to the territorial imbalances in the EU. That is why territorial dimension of cohesion has been added to the cohesion in the new treaty. At the level of the EU as a whole, economic prosperity remains heavily concentrated geographically with 44% of GDP being generated by 32% of the population in a pentagon whose points are London, Paris, Milan, Munich and Hamburg. Within the Member States, economic activity is, with few exceptions, relatively concentrated in capital city regions. Between 1995 and 2004, on average the capital region's share of national GDP increased by 9%, while their population grew by 2%.

The cities themselves present a particular challenge to territorial cohesion. Europe is faced by increasing urban sprawl, and in 90% of urban agglomerations, population in the suburbs grew by more than in the core of the city. Suburbanisation of population places greater strains on the urban transport system, and hence on the environment. Meanwhile, within the cities, the concentration of unemployment in particular districts is associated with multiple deprivation characterised by low quality housing, inadequate public transport and other services, and high crime rates.

In rural areas, significant outward migration remains the prevailing trend in large parts of the EU. The lack of job prospects outside agriculture and lower living standards has driven people, especially the young and qualified, to seek opportunities elsewhere. This has cumulative effects on the areas concerned, leaving them with an ageing population and shrinking basic services.

Another challenge the policy has to cope with, especially after the recent unprecedented enlargement is related to an increased number of internal borders. While considerable progress has been made in reducing the obstacles to economic and social development in Europe's territory that are presented by borders, more needs to be done in the light of enlargement. The new internal borders between the

new Member States appear to be less permeable with, for example, much lower traffic flows than across the borders inside the EU15, while the new external borders after enlargement also present a range of new challenges.

Other challenges include the need to help the areas with natural handicaps to exploit new opportunities, such as the northern periphery and the mountain areas. A particular priority for the Union is to help its regions situated at extreme distance from the Union, the seven outermost regions, to benefit fully from EU policies.

Since 2008, the intensifying financial and economic crisis in the global economy has become a particularly daunting challenge. Forecasts for 2009-2010 suggest that the slowdown will sharpen with GDP output in the European Union expected to fall by 1.8% in 2009 before recovering moderately to +0.5% in 2010. In these uncertain times, the need for adaptable, forward-looking policies is clearer than ever. Against this background, investing for the future is important through policies that are adaptable and flexible. Today, in circumstances of global recession, Europe's regional economic development is more important than ever. Europe's regional policy helps to ensure that public resources are ring-fenced for the future in the face of the growing pressures on public finance presented by the recession. It provides a stable, secure, targeted source of investment financing to accelerate economic recovery. This focus and stability also contributes to restoring confidence. In direct response to the economic crisis in the European economy, the European Commission presented a wide-ranging recovery plan for Europe in November 2008. Regional policy is a key element in it. A series of measures have been taken to accelerate payments from the EU budget, and to inject confidence and dynamism into the European economy.

The cohesion policy, in particular through its regional dimension, has responded to all these challenges, to many of them through its anticipatory approach. Regional policy

has been at the centre of the effort to improve the competitive position of the Union as a whole, and its weakest regions in particular. Many regions throughout the European Union have a strong concentration of economic activity in sectors where competition from emerging economies is high. The rapid emergence of new global players poses serious challenges for European competitiveness. This is why, in preparing the new framework for the programmes for 2007-2013, the Commission sought to lay stress on the need to support the investment effort of regions throughout the EU, including relatively prosperous regions facing problems of restructuring, while concentrating most of the resources on the weakest regions. A number of innovative features were introduced.

The modern form of EU regional policy, with its goals of reducing regional disparities and enhancing social, economic and territorial cohesion, while simultaneously accelerating growth and investment in economic change through innovation, has also attracted remarkable levels of interest from countries outside the Union. Since this landmark reform of 2006, the example of European regional policy has shown that a proactive involvement of territories and their representative authorities is necessary if economic and social development is to occur. To increase the effectiveness and credibility of the policy, the regional and local authorities have been brought into the scheme in a way that goes far beyond mere budgetary support.

The outcome can be seen in the focus achieved in the investment effort in favour of twenty-first century activities linked to the development of the knowledge economy and central to the Union's Lisbon Strategy: RTD, innovation, technological transfer, information and communication technologies, human resources development and business development. One particular policy innovation in this regard was to ensure that Member States quantified how they intended to invest in the priority areas, through "earmarking" most of the resources for spending on these

key categories. Some 60% of resources (in the poorest regions) and 75% (in all other regions in the EU) must be targeted on such strategic investments.

This equates to a massive European investment fund in support of the Lisbon priorities for the future making up € 230 billion out of the total available of € 347 billion. The initial vision of the Commission was thus translated into a three-fold increase in expenditure in these fields compared to the previous programming round, and including € 86 billion specifically for innovation-related activities, especially in the business sector.

This considerable investment has the capacity to transform Europe's regions over the medium to longer-term, especially those with the lowest initial levels of prosperity. Studies suggest that the investment undertaken under the programmes will add some 5-15% to levels of GDP in most of the new Member States. By 2015, it is also estimated that around 1.4 million additional jobs will be generated with the help of regional policy.

The regional policy pledge to deliver growth, jobs and competitiveness is also matched by a commitment to the EU's sustainable development agenda.

Sustainability - achieving a balance between economic, social and environmental concerns - has long featured as a guiding principle of EU regional development policies. In the 2007-2013 period this is marked by reinforced action, with ambitious amounts now dedicated to environmental initiatives. The total structural and cohesion funding allocated to environmental investment (direct and indirect) for 2007-2013 amounts to €105 billion or 30.4% share of the total – an absolute increase of €68 billion or almost a tripling of the spending compared to 2000-2006. Half of the total will be devoted to investment in capital intensive infrastructure (water and waste treatment, renewal of contaminated sites, pollution reduction, and support for nature

protection). The other half will go to investments with an environmental impact e.g. in areas such as transport and energy systems, ecoinnovation, urban and rural regeneration, environmental management for businesses, eco-tourism, energy efficiency and renewable energies. Some € 48 billion will be allocated to direct and indirect actions to combat climate change (including an increased emphasis on renewable energy development - with some € 4.8 billion for renewable energies and € 4.2 billion for improving energy efficiency).

Some Member States have also introduced specific tools such as carbon neutral programmes (France, Malta) and programme level indicators on climate change (England, Wales, Italy).

Another significant achievement of the policy at the initiative of the Commission has been since 2005 to accelerate moves away from traditional grant-based financing towards innovative ways of combining grants and loans with the introduction of: JEREMIE: Joint European Resources for Micro to Medium Enterprises (for SMEs); JESSICA: Joint European Support for Sustainable Investment in City Areas (for urban regeneration); JASMINE: Joint Action to Support Micro-finance Institutions in Europe (for microcredit). This is creating recyclable forms of finance, making them more sustainable over the longer term. It is also one way of helping Europe increase resources for investment, especially in times of recession. It opens new markets to different forms of public private partnership (PPP), bringing in the expertise of international financial institutions (IFIs). This should improve the quality of projects and bring new management capacity from experienced financial institutions into EU regional policy. With these measures, in many ways, the Commission has succeeded in opening up a new era for the regions with a formation of a new partnership between the national and regional authorities, the international financial institutions and the Commission, which will lead to new investment in developing Europe's businesses and urban areas.

The cohesion policy has also become a more results-oriented policy and DG Regional Policy has been working hard to put in place improved mechanisms which demonstrates the impact and the added value of the new regional policy. The result of the 2000-2006 evaluation, recently published, provide an excellent source of information on results of the policy. The achievements were evaluated in-depth through an extensive ex-post evaluation programme. This provides further evidence of the real impact of regional policy across diverse sectors such as enterprise support and innovation, transport, environment, structural change etc., and help in the design of the future policy.

Beyond the impact in economic and financial terms, regional policy has been important to the political cohesion of its diverse Member States and regions. It reaches out to Europe's citizens actively involving them in European issues and priorities. In this regard, the Commission and the European Parliament have consistently stressed the need to inform and communicate widely on the impact of the policy, and to demonstrate results. There has been a significant push to strengthen information and transparency measures for 2007-2013. In response to one of the key stipulations of the European Transparency Initiative in the Green Paper in 2006 requiring Member States to provide information on how EU funds under shared management are spent, *the publication of the lists of beneficiaries* of the structural funds in Member States has been introduced. These lists can be easily viewed via a 'clickable map' on the Commission's Inforegio website.

Improving governance is a critical element to underpin competitiveness. One of the more studied consequences of the implementation of regional policy is the effect it has had on public administrations across the Member States. Working in partnership is a cornerstone of delivery and is driven by an effective system of multi-level governance i.e. coordinated action between the EU, the Member States and local

and regional authorities. In particular, EU regional policy rules require Member States to put in place effective management, control and audit structures to ensure proper use of Funds during programme implementation.

This unique model of multi-level governance, involving local and regional actors in policy design and delivery, helps to ensure that actions are adapted to circumstances on the ground and that there is a genuine commitment to success: *the question of ownership*. It also brings in greater efficiency and local knowledge. For regions, in particular those eligible under the convergence objective, the quality and efficiency of the public sector are essential elements for the promotion of good governance.

EU regional policy rules require Member States to put in place high quality structures to implement the programmes in areas such as financial control, audit, monitoring and evaluation, public procurement and fraud prevention. It also safeguards compliance with other Community policies and legislation in fields as broad as the respect for open markets, through rules on state aid and public procurement, to the environment, equal opportunities and respect for minorities.

An important remaining challenge is to strike the right balance between insisting on the best possible controls and audits on the one hand, and ensuring that the cost of enhanced controls delivers value for money in terms of the benefits obtained, on the other.

In the period since 2004, perhaps the greatest challenge has been to ensure a smooth and successful expansion of the Union with the entry of twelve new Member States. A key priority has been to help the new Member States and their regions to obtain the full benefit of the opportunities of Europe's single market, by being able to compete successfully. A particular need has been to extend Europe's communication

networks, mobilising, in particular, the resources of European regional policy. Several of the key features of the contribution of the policy to making this happen are set out below. However, it will be a longterm task requiring many years of investment in infrastructure, in innovation and business development, and in upgrading human resources.

As a first major contribution, resources for investment of some € 22 billion were set aside to finance regional policy for the period 2004-2006 in the countries which joined the Union in 2004. This amount - corresponding to around € 100 per capita per year – allowed these countries to gradually get accustomed with the management of the policy. A learning process in terms of programming, project identification, financial management, monitoring and evaluation was set in motion in view of the new programming period 2007-2013.

In December 2005, almost € 160 billion was allocated within the new financial perspectives for regional development programmes in the new Member States (including Romania and Bulgaria) for the period 2007-2013 - equivalent to € 260 per capita. This represented an almost three-fold increase compared to the previous period and a budgetary contribution equivalent to around 3.2% of the GDP of these economies. New Member States have rapidly and successfully developed their capacity to spend these resources effectively and efficiently. With support from the European Commission, these Member States have put in place partnerships, multi-annual and strategic planning, and systems for monitoring, evaluation and audit. Though the first results of the ex-post evaluation of the period suggest some room for further improvement, the achievements of the first short programming period are nothing short of impressive.

Economic growth not only depends on investment, but also on the availability of a

reliable administrative system and a transparent legal framework. The Union has succeeded in ensuring that the new delivery system for EU regional policy for 2007-2013 is based on best practice in this regard, including supporting specific programmes for administrative reform and the development of institutional capacities.

Similarly, the availability of resources is one thing, but the capacity to use those resources by designing good programmes and preparing and realising good projects, is another. The evidence suggest that the new member states have been able to make good use of the opportunity to develop absorption capacity in the period 2004-2006. There is now a considerable similarity in absorption rates across member states.