

## III

(Preparatory Acts)

## COMMITTEE OF THE REGIONS

**69th PLENARY SESSION 23 MARCH 2007**

### **Opinion of the Committee of the Regions on the leverage effect of the Structural Funds**

(2007/C 156/01)

#### THE COMMITTEE OF THE REGIONS

- Europe is currently experiencing huge socio-economic changes and technological challenges that are central to the main objective of the 2000 Lisbon Agenda, maintaining and developing a European model able to combine prosperity and solidarity. Europe can do this only by keeping a robust policy framework which provides actors with instruments not only to seize new opportunities but also to deal with the repercussions. The regions and local communities are among the most exposed to these challenges but are also the best-positioned to translate strategic policy orientations into concrete actions, capable of mobilising social and economic actors across Europe.
- The renewed EU strategy for growth and jobs can, therefore, succeed only if it is able to mobilise its resources in all of the Union's territories. Both EU and national budgets are under pressure, however, and Europe must, therefore, attempt to find the best way of increasing the financial resources available. The CoR considers that, because of its strategic orientation and delivery mechanisms, cohesion policy is an effective lever at the Union's disposal.
- The CoR considers that the leverage effect of EU cohesion policy can be significantly reinforced in the 2007-2013 programming period. The tried and tested principles underpinning cohesion policy have been complemented by a number of measures: the adoption of a more strategic approach for cohesion policy, earmarking and a greater concentration of funds in priority sectors, an improved legal framework for adopting innovative financing schemes, the attachment of due importance to urban development programmes and upgrading territorial cooperation.

THE COMMITTEE OF THE REGIONS,

**HAVING REGARD TO** the European Commission's decision of 24 March 2006, to consult it on this subject, under Article 265(1) of the Treaty establishing the European Community;

**HAVING REGARD TO** the letter from the European Parliament of 20 July 2006 requesting the CoR to draft an opinion on the consequences of regional policy on EU cohesion;

**HAVING REGARD TO** the decision of its President of 1 June 2006 to instruct its Commission for Territorial Cohesion Policy to draw up an opinion on this subject;

**HAVING REGARD TO** its Opinion on the *Communication from the Commission to the Council and the European Parliament: Building our Common Future: Policy Challenges and Budgetary Means of the Enlarged Union 2007-2013* COM(2004) 101 final (CdR 162/2004 fin) <sup>(1)</sup>;

**HAVING REGARD TO** its opinion on the *Third Report on Economic and Social Cohesion* (CdR 120/2004 fin) <sup>(2)</sup>;

**HAVING REGARD TO** its Opinion on the Communication from the Commission *Cohesion Policy in Support of Growth and Job Community Strategic Guidelines, 2007-2013* COM(2005) 299 final. (CdR 140/2005 fin);

**HAVING REGARD TO** its draft opinion (CdR 118/2006 rev. 2) adopted on 11 December 2006 by its Commission for Territorial Cohesion Policy (rapporteur: **Mr Manuel Chaves González (PES/ES)** — President of the Region of Andalusia);

**adopted the following opinion at its 69th plenary session, held on 23 March 2007:**

## 1. Socio-economic and political background to the opinion

1.1 On 24 March 2006, in a letter signed by Commissioner Wallström, the European Commission stated that it would be interested in the Committee of the Regions drawing up an outlook opinion on ***The leverage effect of European Cohesion Policy under the Structural Funds***. The Commission is of the view that the Committee's opinion will make a substantial contribution to the Fourth Report on Cohesion, which is due to be adopted in Spring 2007.

1.2 The Committee of the Regions also received a letter, dated 20 July, from the President of the European Parliament, Mr Josep Borrell, asking the CoR to deliver an opinion on the report by the MEP Ms Francisca Pleguezuelos Aguilar (ES/PES), a member of Parliament's REGI Committee, on the repercussions of structural policy for cohesion in the EU. The COTER Commission decided that this outlook opinion would also meet the request from Parliament.

1.3 This opinion attempts to contribute to the debate on the future of cohesion policy in an enlarged Europe and its role in the Union's budget. In the Committee's view, a number of past proposals have questioned the effectiveness of cohesion policy in a European Union in need of reform as a result of enlargement and which is deeply involved in the process of globalisa-

tion. This report is primarily concerned with the underestimate of the effects of cohesion policy implied in these earlier proposals.

1.4 Europe is currently experiencing huge socio-economic changes and technological challenges that are central to the main objective of the 2000 Lisbon Agenda, maintaining and developing a European model able to combine prosperity and solidarity. Europe can do this only by keeping a robust policy framework which provides actors with instruments not only to seize new opportunities but also to deal with the repercussions.

1.5 The regions and local communities are among the most exposed to these challenges but are also the best-positioned to translate strategic policy orientations into concrete actions, capable of mobilising social and economic actors across Europe.

1.6 The renewed EU strategy for growth and jobs can, therefore, succeed only if it is able to mobilise its resources in all of the Union's territories. Both EU and national budgets are under pressure, however, and Europe must, therefore, attempt to find the best way of increasing the financial resources available. The CoR considers that, because of its strategic orientation and delivery mechanisms, cohesion policy is an effective lever at the Union's disposal.

<sup>(1)</sup> OJ C 164, 5.7.2005, p. 4.

<sup>(2)</sup> OJ C 318, 22.12.2004, p. 1.

1.7 This opinion will attempt to bring a range of elements to the debate, giving broad consideration to the leverage effect, taking account of a number of impacts that cohesion policy has throughout the Union. The methodological appendix contains the information necessary to understand the scientific methodology and the working dynamics used by the Committee in drawing up this opinion <sup>(3)</sup>.

## 2. Attempted definition of the leverage effect

In this opinion, the CoR proposes adopting a broad concept of the leverage effect, which takes account of a range of factors that are important for assessing the impact of the Structural Funds. Consequently, and in an attempt to be comprehensive, the opinion will aim to take account of the leverage effect provided by Community funds, covering the following areas:

- Financial aspects
- Political and strategic aspects of thematic concentration
- Institutional capacity building
- Increasing cohesion in Europe.

### 2.1 *Financial aspects of the leverage effect*

2.1.1 Cohesion policy offers considerable added value at European level, since Community expenditure helps to achieve better results and to secure the support of stakeholders more effectively than expenditure at the national or regional levels. According to European Commission's estimates <sup>(4)</sup>, every euro spent at EU level by cohesion policy leads to further expenditure in Objective 1 regions, averaging 0,9 euros. If we consider Objective 2 regions, the average additional expenditure generated rises to 3 euros for every euro invested.

2.1.2 This multiplier effect is a result firstly of the thematic and geographical concentration of the Structural Funds. The concentration of the Funds, in conjunction with a reasonable set of instruments, increases the chances of achieving the necessary critical mass, thus making it possible to generate further investment at a later date. The capacity for attracting investment can thus be increased through thematic and geographical concentration, because this means that investment can be made with lower costs.

2.1.3 Secondly, a leverage effect is also created as a result of the wide variety of financing instruments available, even though Member States and regions are often unable to make the best use of all the measures potentially available under cohesion policy. The study referred to in this opinion identified the global grant, for example, as a flexible instrument that can create and

enhance the financial leverage effect of many projects and programmes.

2.1.4 Other instruments that could be used to promote the leverage effect are those derived from the Structural Funds' involvement in financial engineering instruments for businesses, especially SMEs, such as risk-capital funds, guarantee funds, loan funds and urban development funds, for example. In many eligible regions considerable experience has been built up of these support instruments, particularly in the area of risk capital finance, in the course of implementing the Structural Funds. The same is true of the development of revolving funds, which can make a contribution to regional development beyond the funding period. Welcome in this context are the JEREMIE, JASPERS and JESSICA initiatives, promoted by the European Investment Bank (EIB) and the European Investment Fund (EIF), among others, which could play a significant role in implementing this type of measure.

2.1.5 This type of instrument can also increase public authorities' capacity for cooperating with the international financial institutions and with the private banking sector, which can act as sources of financing for other development projects. Other potential advantages of using these instruments are the greater flexibility that they can bring to management of the Structural Funds and greater solvency when dealing with the external agents provided by the EIB and the EIF.

2.1.6 Lastly, the leverage effect can be increased by improving a range of factors concerned with strengthening public-private partnerships. Being able to identify obstacles that put off private investors and setting up and supporting project teams and partnerships with the private sector are crucial factors for generating private investment in relatively short timeframes.

2.1.7 Because of its stable financing and multiannual programming, cohesion policy also ensures the possibility of developing solid relationships with the private sector, which has the potential to generate greater investment over a longer period of time. This defining feature of cohesion policy in relation to national policies of the same type is certainly a new and additional source of added value that should not be ignored.

2.1.8 This point should be set in context; in some Member States, especially the ten new Member States, a sharp increase in public investment might jeopardise their meeting the deficit criterion and the rules of the Stability and Growth Pact in the short and medium term. Greater use of public-private partnerships (PPP) might be a valid alternative solution to a direct increase in public investment.

<sup>(3)</sup> [http://coropinions.cor.europa.eu/CORopinionDocument.aspx?identifier=cdrcoter-iv\dossiers\coter-iv-003\cdr118-2006\\_fin\\_ac.doc&language=EN](http://coropinions.cor.europa.eu/CORopinionDocument.aspx?identifier=cdrcoter-iv\dossiers\coter-iv-003\cdr118-2006_fin_ac.doc&language=EN)

<sup>(4)</sup> European Commission: COM(2005) 299. Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013, Brussels, 5 July 2005.

## 2.2 Strategic Policy Orientation

2.2.1 Public investment must be carefully defined and properly planned at all levels. It is therefore important to emphasise that cohesion policy has a key role to play in organising regional and national priorities in such a way as to create synergy at the European level. It goes without saying that a European investment strategy must be matched by corresponding national and regional policies that should result in high-quality public investment, above all in areas relating to the Lisbon Strategy and its links to the Gothenburg strategy.

2.2.2 This investment concerns education, knowledge, innovation and research, environmental protection, social services, lifelong learning and the establishment of European bodies. This investment not only affects demand; it also has long-term structural effects on the economy, increasing economic growth and making the regions more competitive. The leverage effect created by cohesion policy is thus caused by a number of different factors.

2.2.3 First of all, by the Member States and regions incorporating new ideas and approaches into policies, in order to promote innovation in economic development. The case studies that have been analysed lead to the conclusion that cohesion policy has focused national policy priorities on areas that are important to economic growth, such as innovation, research and active policies to improve employment and social inclusion.

2.2.4 This focus has developed in particular as a result of the opportunity provided by the Funds to launch pilot projects, with new approaches and instruments, such as cluster policies for innovation or more participatory approaches. This has helped to raise awareness and to broaden the scope of the 'innovation' concept, more successfully incorporating aspects relating to organisation, finances, management, training and promoting innovation into regional development strategies.

2.2.5 Secondly, cohesion policy has led to account being taken of political areas that were previously overlooked by national or regional policies. A number of pilot-projects such as the Regional Innovation Strategies (RIS) and the ERDF's Innovative Actions have gradually established themselves as key national and regional policies. Broadly speaking, the most flexible and market-focused approaches have been the common denominator for the new approaches introduced by cohesion policy.

2.2.6 Lastly, the joint national and regional development strategies that make up cohesion policy have promoted the adoption of more strategic approaches to economic development and employment, which has in turn helped to implement concrete projects. A number of areas, such as technology, innovation, the development of human capital, equal opportunities and the environment were identified as important factors for growth and built into the relevant policies to achieve a more integrated approach.

## 2.3 Institutional Capacity building

2.3.1 Another aspect of leverage in the implementation of the Structural Funds worth highlighting is their effect on the way in which civil services operate, in other words, modernising them, improving their management and harmonising their procedures in the European context. Cohesion policy has supported the implementation of Community policies, especially environmental protection and equal opportunities, as well as economic and social restructuring, in line with the priorities set out in the Lisbon and Gothenburg strategies.

2.3.2 In this regard, it is worth highlighting the implementation of the National Reform Plans as key elements for achieving the aims of the Renewed Lisbon Strategy and the necessary coordination between these and the National Strategic Reference Frameworks 2007-2013.

2.3.3 Mention should also be made of promoting partnerships, improving institutional capacity for designing and implementing public policies and extending the culture of evaluation, transparency and exchanging good practice. These factors all form part of the system developed in the European Union for cohesion policy, thus helping to improve governance at all levels, because authorities then apply many of these approaches in other sectors. The creation of new bodies, such as the Regional Development Agencies, has also played a key development role in many of the Union's regions.

2.3.4 Cohesion policy has also made a substantial contribution to the drafting of plans and programmes in this area. There is an ever greater emphasis on rigorous diagnosis and analysis, objectives are drawn up with greater precision and plans and programmes are better supervised and evaluated, with benchmarking becoming standard practice. Designing long-term strategies for public investment has become a common feature of today's planning culture.

2.3.5 This has also increased Member States' capacity for adopting and effectively implementing Community legislation in a number of areas, such as the environment. In particular, cohesion policy has led to major changes in public procurement law in the Member States, opening up public markets to all EU companies and making access to them easier, thereby strengthening the single market. This aspect warrants particular consideration in the light of the recent rounds of EU enlargement.

2.3.6 Lastly, the European Union's cohesion policy has promoted and strengthened the role of the regions in the decision-making process when drawing up and implementing Community regional policies. Achieving critical mass in human terms to ensure the sound management of the Funds has helped to secure greater autonomy for local and regional authorities and a real increase in regionalisation and local autonomy in the European Union.

## 2.4 Cohesive building of Europe

2.4.1 Cohesion policy has also had a leverage effect on building a more cohesive Europe, as the result of a number of different factors.

2.4.2 Firstly, the principle of partnership and the active role played by leaders has encouraged cooperation between public institutions and the different sectors of society which has played a key role in finding solutions to problems.

2.4.3 Secondly, cohesion policy has helped to find multi-dimensional solutions to highly complex and diverse problems. The problems affecting the EU's different regions are undoubtedly varied and the conditions and economic situations diverse. Nevertheless, cohesion policy has led to account being taken of this diversity, especially in the Union's peripheral regions, in those lagging furthest behind and in its outermost regions. This cohesive approach has also had a marked effect on other Member State policies.

2.4.4 Cohesion policy has thus helped to create the appropriate conditions for cooperation between EU regions and local authorities, mainly through the Interreg initiative, which has helped to settle longstanding disputes or past rifts across the two sides of a border. Moreover, cooperation between municipalities and regions without a common border has developed strongly as a result of the promotion of interregional cooperation and today it makes a not insignificant contribution to the development of new regional strategies.

2.4.5 In previous Structural Fund periods, the close link between the EFRD and the EAGGF brought about considerable leverage effects in relation to integrated rural development. With a view to achieving the objective of territorial cohesion, the link between the EFRD and EAFRD must be continued at least at the level of coordination and cooperation.

2.4.6 The effects of the Urban programmes have been particularly significant in this regard: they have had a real impact in terms of both physical regeneration and social inclusion, and they have both effectively demonstrated the added value of European policy to citizens and boosted effectiveness by concentrating actions.

2.4.7 Lastly, cohesion policy has had a crucial multiplier effect on the profile of European integration. This effect has been all the greater because cohesion policy has helped to improve public services and the quality of life.

## 3. Conclusions

In the light of the factors that have been studied, the Committee of the Regions wishes to state that:

3.1 As a result of its specific features (partnership, additionality, strategic programming and multiannual funding), EU cohesion policy has had a number of significant impacts and leverage effects.

3.2 EU cohesion policy is a lever for financial pooling and public private partnership. It acts as a catalyst for national public and private funding in different sectors, due to its funding stability over a multiannual programming period and its capacity to mobilise a critical funding mass.

3.3 This leverage effect and other cohesion policy impacts occur in all types of region and in a great variety of programmes and projects, irrespective of the project's cost.

3.4 It should also be pointed out that the Funds' management must be simplified, in order to maximise partnerships' leverage effect. Furthermore, keeping eligible areas small and fragmented can hamper partnership cooperation in some regions, which has a major impact on the selection and commitment of partners. This problem will however be resolved in the 2007-2013 period, in which the new regulations have set out to abandon the present Objective 2 zoning.

3.5 EU cohesion policy is a lever for strategic policy orientation. It has the capacity and the potential to generate innovative approaches in different fields and to guide a large number of policies at national, regional and local level. Cohesion policy is a driving force, effectively linking the process of setting ambitious common EU objectives, such as the Lisbon strategy, with their successful acceptance and delivery by key players across the EU.

3.6 EU cohesion policy also acts as an instrument to lever resources to give decisive support to measures directly related to the Lisbon agenda, based on R&D and innovation, which are critical factors for growth in the medium and long term.

3.7 A critical factor in the success of the innovative programmes and projects kick-started by cohesion policy is that 'new concepts and approaches' are accepted at the highest political and administrative levels. The coherence of strategies and collaboration between administrations are equally important. These factors have stimulated the leverage effect of the Structural Funds.

3.8 EU cohesion policy has significant effects on institutional capacity building. Applying the partnership principle, it has promoted a new model of collaborative governance throughout the EU, strategically involving the different levels of government and civil society, thus ensuring greater social and economic capital in the regions and local authorities. This will be a critical factor for development in the new Member States.

3.9 In order to maximise the long-term leverage effect of the Structural Funds, account must be taken of a region's general context and its cultural identity. There must therefore also always be a balanced relationship between EU-wide requirements and regional priorities. Attempting to change the culture and mindset of a given society, by promoting innovation, education, the entrepreneurial spirit and creativity, guarantees that the changes potentially generated by the Structural Funds will be lasting.

3.10 EU cohesion policy is a lever for the cohesive building of Europe. It has the potential to integrate various types of territory across Europe, allows for the active participation of economic and social stakeholders and is visible and perceived to be inclusive by European citizens because of its tangible contribution to improving the quality of life.

3.11 Cohesion policy also provides leverage for sustainable growth that respects the environment, preventing its neglect from becoming a factor that limits growth, as well as the quality of life and conservation of natural resources.

3.12 Because it covers the entire EU, cohesion policy provides a suitable continent-wide framework for ensuring balanced economic and social development. Addressing both convergence and competitiveness factors, it creates the essential conditions for pooling experience and exchanging best practice. Furthermore, it ensures a complete and integrated framework that consolidates mutual learning, and ensures financing and the replication of successful initiatives through practical implementation methods.

3.13 The CoR considers that the leverage effect of EU cohesion policy can be significantly reinforced in the 2007-2013 programming period. The tried and tested principles underpinning cohesion policy have been complemented by a number of measures: the adoption of a more strategic approach for cohesion policy, earmarking and a greater concentration of funds in priority sectors, an improved legal framework for adopting innovative financing schemes, the attachment of due importance to urban development programmes and upgrading territorial cooperation. These changes have confirmed that, when fundamental EU policy shifts occur, cohesion policy can play a central role in giving practical inspiration and support to economic and social change throughout the EU.

3.14 The development and selection of projects has been identified as a key factor for success: the type of instrument must be chosen carefully to ensure the best match for the regional context and the objectives to be achieved.

#### 4. Recommendations

The Committee of the Regions:

4.1 Recommends that the European Commission incorporate the concept of leverage into its forthcoming evaluation of the current state and progress of cohesion policy.

4.2 Suggests that the European Commission, the European Parliament and the Council consider the leverage effect as an appropriate framework for evaluating EU policies, in particular as regards the mid-term review of the Community budget.

4.3 Recommends that the European Commission step up its efforts to raise awareness of cohesion policy and its benefits, profile and image in all Member States and in particular in local and regional authorities.

4.4 Recommends that the European Commission build on the work already undertaken to promote different financial instruments under the Structural Funds (JEREMIE, JESSICA, etc.) and in particular create the necessary competition law arrangements for the development of risk capital funds and guarantee programmes in the regions.

4.5 Recommends that the European Commission and the Member States cut red tape, establish a legal, administrative and financial framework that facilitates innovative activity and stimulate specific forms of funding for innovative companies (including risk-capital, business angels, micro-credit, etc.).

4.6 Recommends that the European Commission and the Member States evaluate progress on simplification and decentralisation of the management of the Structural Funds for the period 2007-2013. In particular, it is recommended that particular attention be paid to ensuring proportionality between administrative costs and the type and scale of the measure and to the consequences of the administrative costs for local and regional authorities.

4.7 Recommends that the Member States strengthen partnerships at all stages of the governance and management of the Structural Funds, putting into practice effective ways of involving regional and local authorities and civil society throughout the process, and recommends a thorough-going partnership with cities on account of their potential as drivers of growth and employment.

4.8 Recommends that the European Commission, Parliament, the Member States and the EIB clearly identify the obstacles that are keeping investors away from engaging with PPPs co-funded by the Structural Funds. Clear interpretation at EU level of PPP agreements and simplification of state aids regulation would thus be of considerable help. Disseminating knowledge about the potential benefits and problems of PPP among regional and local authorities is also needed.

4.9 Recommends that the European Commission and the Member States safeguard the experimental and pioneering role often played by the Structural Funds. In this respect strongly recommends that the Member States use the performance reserves and other instruments to reward and expand the most successful strategies and to consolidate the results of territorial cooperation.

4.10 Calls on the European Commission to respect the close link between Structural Fund measures and the rural development programmes, and to facilitate and promote optimum alignment and coordination of content at every level — notwithstanding the need for clearly separated accounts.

4.11 Recommends that particular attention be paid when implementing the Structural Funds to the goals set out in the Kyoto Protocol and that everyone concerned stays on track towards sustainable growth in a way that respects the environment.

4.12 Recommends that the Member States and the Commission promote the leverage effect when programming the Structural Funds so as to encourage the generation, stimulation and funding of projects with a considerable leverage effect, and when drawing up reports and in the evaluation cycle.

4.13 Notes the need also to consider particular regional features at all levels in relation to future cohesion policy, given that 'strength in diversity' is a key to the success of the leverage effect of cohesion policy.

4.14 Recommends that, in order to take full advantage of the leverage effect of the Structural Funds, the regions and Member States be rigorous in establishing adequate coherence

between regional strategies, National Reform Plans, National Strategic Reference Frameworks and Operational Programmes implemented under European cohesion policy.

4.15 Suggests addressing the benefits of the leverage effect and working on improving public awareness of the potential benefits through both specialised and large-scale publicity activities and on disseminating good practice, as the Committee of the Regions does through its Open Days.

4.16 Recommends that the Commission study and measure long-term development in the regions, focusing on the fact that changes in their culture and mindset, along with public communication that is transparent in every respect and is easy for all stakeholders to understand, are needed to ensure that these regions make real progress on their social and economic development.

4.17 Welcomes the initiative of the European Commission to establish 'Regions for Economic Change' networks and recommends a broad thematic range in order to reflect different territorial dynamics of change, making use of innovations produced during the current period and which should actively involve local and regional authorities in the process of selecting the initiative's priority fields and **expects** to be fully involved in the development of this initiative.

4.18 Recommends that the European Institutions adopt the approach of solidarity between territories as a fundamental dimension of the concept of EU cohesion. Cohesion policy must continue to be a central element of European integration policy.

Rome, 23 March 2007.

The President  
of the Committee of the Regions  
Michel DELEBARRE

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