

Opinion of the Committee of the Regions on the 'Fifth Cohesion Report'

(2011/C 166/07)

THE COMMITTEE OF THE REGIONS

- appreciates the fact that the future cohesion policy could cover all European regions, regardless of their level of development, and supports the creation of a new intermediate category of regions, based on the principle of equal treatment of regions;
- hopes that additional indicators to GDP can be taken into account in implementing and assessing cohesion policy, so that the development of each region is better reflected;
- reiterates its wish to keep the ESF incorporated within the Structural Funds in the context of cohesion policy and believes that it must be implemented at territorial level;
- believes that the objective of territorial cooperation should be strengthened, especially in financial terms, and recommends distributing the funds allocated for the various programmes at Community level rather than nationally;
- supports the general principle of linking cohesion policy with the Europe 2020 objectives, but highlights that cohesion policy should not serve solely to support the Europe 2020 strategy, as it has its own objectives established by the Treaty;
- calls for the territorial cohesion objective to be reflected with a territorial priority included in the EU 'menu', in addition to the thematic priorities relating to the Europe 2020 strategy;
- supports the establishment of a common strategic framework, and proposes that the 'development and investment partnership contracts' involve the local and regional authorities in each Member State, in accordance with the principles of multilevel governance;
- is opposed to the provisions on (external) macroeconomic conditionality and to the proposal to establish a performance reserve; accepts the need to establish new forms of results-based financial conditionality, provided that the criteria chosen are general, fair, proportional and based on the principle of equal treatment.

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I. POLICY RECOMMENDATIONS

THE COMMITTEE OF THE REGIONS

General comments

1. welcomes the publication of the Fifth Report on Economic, Social and Territorial Cohesion, which provides a **good basis for the discussion** of cohesion policy issues post-2013;

2. acknowledges the significant analytical work carried out by the European Commission in this cohesion report – the first to be published since the Lisbon Treaty came into force – particularly as regards its recognition of territorial cohesion as one of the key objectives of the Union; regrets, however, that the report is based mainly on statistics dating from before the **financial, economic and social crisis** affecting the European Union since 2008; therefore calls for statistics from after the crisis to be used as a basis for the next programming period and calls on the Council and the Member States to make every possible effort at political and administrative levels to achieve this goal. Furthermore, this makes it even more necessary for other, complementary, more up-to-date indicators to be used to assess the actual state of development of the regions, as GDP growth alone cannot reflect the actual impact of the crisis. The Committee of the Regions has already commented on this matter in its opinion on Measuring progress – GDP and beyond, in which it proposes two all-encompassing, indicators, which will soon be available: a comprehensive environmental index and a social survey harmonised at the regional level;

3. applauds the **progress made by cohesion policy** that has made it possible to create growth and jobs, increase human capital, facilitate the construction of key infrastructure and improve environmental protection; stresses that cohesion policy is also acknowledged for the leverage it provides for competitiveness and innovation, particularly through its capacity to mobilise the potential of the private sector;

4. points out that although cohesion policy has made progress in reducing disparities, **significant imbalances remain** between and within European regions namely differences in infrastructure development, incomes, quality of public services and access to them. These are particularly exacerbated by the varying impact of the economic and financial crisis and increasingly important challenges such as globalisation, unemployment (particularly among young

people), demographic ageing, climate change and energy dependence;

5. stresses, therefore, that cohesion policy must have the **resources** to meet its objectives, reinforcing actions at Member State, regional and local levels, so that the economic, social and territorial balance can be redressed between Europe's regions;

6. points out that the **European added value** of cohesion policy depends above all on its approach, which must be:

- **solidarity-based**, supporting balanced development across the EU;
- **strategic**, through the identification of key objectives in line with regional requirements and those of local people;
- **integrated**, based on synergy between sectoral policies in a given region;
- **cross-cutting**, including the various policies affecting the regions;
- **territorial**, based on a territorial diagnosis that highlights the strengths and weaknesses of each region;
- **multi-annual**, with the definition of short, medium and long-term objectives;
- **partnership-based**, involving European, national, regional and local levels and regional socio-economic players in the drafting and implementation of operational programmes;

7. highlights that, owing to this unique approach, cohesion policy – more than any other EU policy – raises the profile of European integration in the regions and with the public by providing an appropriate and coordinated response to their needs;

Towards a new architecture for cohesion policy

A cohesion policy for all regions, in line with their level of development

8. appreciates the fact that the Fifth Cohesion Report confirms that the future cohesion policy could cover **all European regions**, regardless of their level of development; in this regard, stresses that the Structural Funds should focus as a priority on less developed European regions, while providing essential support for the other regions in order to encourage them to boost competitiveness, employment, social inclusion and sustainable development, in order to promote the overall harmonious development of the EU;

9. suggests considering the creation of a **new intermediate category** for regions whose GDP is between 75% and 90% of Community GDP. This system is intended to limit the effect of the threshold of 75% of EU GDP (current eligibility threshold between the convergence and competitiveness objectives), and to guarantee equal treatment of these regions. Account needs to be taken both of the difficulties of those regions that from 2013 will for the first time no longer be eligible under the convergence objective, and also of those regions which, while they have been eligible under the competitiveness objective during the current programming period, continue to face structural social and economic difficulties as regards achieving the Europe 2020 strategy objectives and which suffer from internal regional inequalities. The creation of this category should not penalise regions receiving support under the convergence or competitiveness objectives or phasing-in and phasing out;

10. repeats its call for **additional criteria to GDP**, to be taken into account, particularly in the implementation and evaluation of programmes, in order to better reflect the development of each region and the specific territorial and social cohesion problems they face (sub-regional disparities, variation of income, unemployment rate, access to services of general interest (SGIs), access to and interoperability of transport modes, environmental quality, social wellbeing, education levels, etc.); the mid-term review of the programming period (5+5) must be taken as an opportunity to take account of these new additional indicators to GDP; calls on the European Commission to draw up a list of **territorial social and environmental development indicators** applicable at sub-regional level based on the work carried out by Eurostat, ESPON ⁽¹⁾ and the OECD;

Strengthening an integrated approach

11. supports the **integrated approach** followed in cohesion policy in order to encourage the complementarity of all funds (Cohesion Fund, ERDF, ESF, EAFRD and EFF) and facilitate their implementation through an integrated approach. The

⁽¹⁾ European Observation Network for Territorial Development and Cohesion (ESPON/ORATE).

Committee recommends clearly defining the areas of intervention for each fund, and how interventions from other EU funds, such as transport or environment, relate to the former, both at strategic level and at operational level on the ground. Moreover, clear guidelines must be defined at European level and coordination structures must be established at both national and subnational levels;

12. calls for clarification of the **implementing provisions of the European Social Fund**, and considers that the ESF should be incorporated as today within the Structural Funds in the context of cohesion policy; and would like to see closer cooperation between the ESF and the ERDF. In this connection the Committee advocates use of cross-financing and setting-up of multifund operational programmes (ERDF and ESF);

13. believes that if the ESF is to help achieve the objectives of the Europe 2020 strategy and the European employment strategy, it must be **implemented at territorial level** and must fall squarely within the context of cohesion policy, on the basis of the requirements identified at local and regional level ⁽²⁾; welcomes the fact that the conclusions of the Belgian Presidency following the informal meeting of ministers with responsibility for cohesion policy ⁽³⁾ recommend to 'strengthen the regional dimension of ESF, and thus increase its visibility' and hence its integration with regional socio-economic strategies;

14. hopes that the **profile of projects funded via the ESF** can be raised through more regionally-oriented implementation based on specific, practical local needs so as to make them more visible, complementing communication and awareness initiatives financed within the framework of technical assistance at EU, national and regional levels;

15. recommends that the **distribution of the ERDF and ESF** must be based on a percentage defined at national level, in order to ensure that ESF allocations are in line with the challenges of economic and social cohesion within each Member State and region. The Committee suggests that within the margins thus fixed, Member States distribute the Structural Funds (ERDF and ESF) at national level, in cooperation with local and regional authorities;

16. considers that the **flexibility between the ERDF and the ESF** should be encouraged and simplified in the future, most notably via the new Common Strategic Framework and particularly when it comes to local development approaches and the integrated plans of towns and local authorities ⁽⁴⁾; moreover, requests that in future legislative proposals the Commission provide for a similar system between the ERDF and the EAFRD, in order to guarantee a more integrated approach for rural areas;

⁽²⁾ See opinion on *The future of the European Social Fund after 2013* - CdR 370/2010 (rapporteur: Catuscia Marini, IT/PES).

⁽³⁾ Informal ministerial meeting held in Liège on 22 and 23 November 2010.

⁽⁴⁾ See Article 8 of Regulation (EC) No 1080/2006 on sustainable urban development.

Heightened territorial cooperation

17. endorses the **reference to territorial cooperation**, which would keep its current threefold structure, but regrets that this is not developed any further; believes, in this context, that this objective should be strengthened through:

- an increase to the budget devoted to it;
- specific rules that are more appropriate for territorial cooperation programmes, by increasing technical assistance at local level, simplifying audit and monitoring rules, setting an applicable, suitable flat-rate amount for indirect costs, defining eligibility rules for Community expenditure, etc.;
- proposals to improve the governance of these programmes;

18. recommends **distributing the funds allocated for territorial cooperation programmes** at Community level rather than nationally. Beneficiaries of the programmes must provide clearer proof of the results and added value generated by territorial cooperation projects in the regions by ensuring the transfer of good practices and know-how. The Committee is in favour of a strategic approach, integrated in line with the cooperation areas, avoiding all national considerations in terms of financial returns;

19. urges the Commission to include provisions in future legislative proposals that would enable the **ESF** to intervene in **territorial cooperation** programmes for the purpose of funding action that is within its area of intervention;

20. calls for **true complementarity between the three objectives of cohesion policy**. EU action at cross-border, transnational and interregional levels should complement that carried out as part of regional programmes implemented in the context of the convergence and regional competitiveness and employment objectives. The identification of territorial cooperation approaches or measures within regional programmes could be encouraged, particularly so as to enable structural programmes to be funded at cross-border or transnational level. In parallel, greater coordination between the three strands of the territorial cooperation objective should be sought;

21. highlights the need to **link territorial cooperation programmes more effectively with territorial strategies** that are based on a shared commitment from regional stakeholders⁽⁵⁾; believes, in this regard, that transnational programmes can support macroregional strategies and the integrated maritime strategies starting to be drawn up. Moreover, cross-border programmes could help to bolster current Euroregional and Eurometropolitan strategies. In the same way it calls

for the 150 km maximum distance applied in classifying islands as border regions to be increased significantly;

22. calls on the European Commission to facilitate new territorial partnerships by simplifying and improving the way in which **interregional cooperation** programmes are managed. Improved interregional cooperation ensures not only a coordinated approach to shared problems, but also recognises that innovative solutions are not delimited by existing territorial boundaries;

23. points out that the **European Groupings of Territorial Cooperation (EGTCs)**⁽⁶⁾ are a **valuable means** of facilitating cooperation, particularly at cross-border level; considers that the EGTC regulation should be simplified and adapted in the forthcoming programming period, to take account of the experience acquired during the current period. This could involve simplifying the rules governing staff and the tax arrangements for EGTCs, and reducing the duration of current procedures; also believes that global grants should be awarded more systematically to EGTCs, so that they may manage the Structural Funds directly;

24. calls on the European Commission to improve the current **cooperation on the external borders**. In particular it is necessary to simplify procedures and establish more synergies between the assistance provided through the ERDF, through the European Neighbouring Partnership Instrument (ENPI) and through the European Development Fund (EDF);

25. stresses the key importance of territorial cooperation for the outermost regions, whose location at the furthest external borders of the EU makes this issue crucial; calls for the **Wider Neighbourhood Action Plan** to be implemented with a view to integrating these regions more fully into their geographical surroundings;

Strategic priorities to meet regional requirements

Towards more flexible links with Europe 2020

26. highlights that, alongside the other activities financed by the European Union, cohesion policy can and should continue to play a critical role both in enabling the smart, sustainable and inclusive growth called for by the Europe 2020 strategy and in **promoting the harmonious development** of the Union by raising the endogenous potential of all regions and reducing disparities between European regions, as set down by Article 174 of the Treaty on the Functioning of the European Union;

⁽⁵⁾ See CoR own-initiative opinion on A Strategy for the North Sea-Channel area - CdR 99/2010 fin (rapporteur: Hermann Kuhn, DE/PES).

⁽⁶⁾ See own-initiative opinion on New perspectives for the revision of the EGTC Regulation - CdR 100/2010 rev.3 (rapporteur: Alberto Nuñez Feijoo, ES/EPP).

27. supports the general principle of linking cohesion policy with the **Europe 2020 objectives** and its flagship initiatives in order to move towards smart, sustainable, inclusive growth; believes, however, that significant efforts have already been made in this regard in the 2007-2013 period, which should be assessed before resources are concentrated further;

28. highlights, in this context, that **cohesion policy should not serve solely to support the Europe 2020 strategy and the National Reform Programmes**, as it has its own objectives established by the Treaty – namely, the reduction of economic, social and territorial disparities between the regions of the EU. Cohesion policy, therefore, must be based on the state of territories, their needs and potential for development;

29. supports the general principle of a Community ‘menu’ of broad thematic priorities to replace the current system whereby the Structural Funds are channelled towards restrictive expenditure categories; opposes, however, any **excessive restriction of the number of priorities** to be chosen in the context of the new national Development and Investment Partnership Contracts and operational programmes, so that local and regional authorities have sufficient leeway to implement the Europe 2020 objectives at regional level;

30. believes that it is not the Commission’s role to make certain of these priorities mandatory: rather, they should be defined at regional level on the basis of a territorial diagnosis that pinpoints the strong and weak points of the area; similarly, **does not believe that the Structural Funds should be concentrated solely on the thematic priorities** that the regions will be required to select from the Community menu. This would run counter to the principle of the integrated approach, whereby a development strategy is based on investment in different sectors;

31. calls on the Commission to ensure that the **list of thematic priorities** to be set out in the future regulation on cohesion policy is not too restrictive, not only so as to take the territorial, economic and social diversity of each region into account, but also to go beyond the objectives of the Europe 2020 strategy in the fields of social and territorial cohesion;

Ensuring that the territorial cohesion objective is fully taken into account

32. endorses the principle of **greater flexibility in organising operational programmes** to enable action at different levels (sub-regional, regional, multi-regional, macroregional), in line with the specific features of each region or functional area (such as river basins, upland areas, archipelagos etc.). Such action should, however, be underpinned by a shared commitment from regional stakeholders and local and regional authorities to be involved in a truly regional project, without undermining the significance of the regional level;

33. calls for the **territorial cohesion objective** to be reflected in the new cohesion policy structure, with a **territorial priority** included in the EU ‘menu’, in addition to the thematic priorities relating to the Europe 2020 strategy, so that territorial cohesion can assure a balanced spatial planning to promote interdependency between regions and overall coherence of the policies. Moreover, it supports the European Commission’s proposal to **take regions with specific territorial features into account** ⁽⁷⁾;

34. stresses that particular attention should continue to be paid to the **outermost regions**, with regard to the special status granted them by Article 349 of the Lisbon Treaty; reiterates the need to lay down financial provisions for these regions in order to mitigate various constraints such as remoteness, insularity, small size, difficult topography and climate, and economic dependence on a few products. This seems essential in order to facilitate the outermost regions’ access to the internal market on an equal footing with the other European regions;

35. endorses the **greater consideration given to the urban dimension** within cohesion policy, through greater involvement of towns and cities in all the stages of the design of cohesion policy, from the national reform programmes and the development and investment partnership contracts through to the operational programmes; in this regard, hopes that the urban dimension is given appropriate consideration within operational programmes, and highlights the need to encourage an integrated urban development approach; points out that urban areas often display major economic, social and territorial disparities, for which suitable remedies must be found. This integrated urban development approach must also take into account the work carried out under the Leipzig Charter which aims to test the new common reference framework for sustainable cities in Europe. Towns must also be seen as hubs of growth and development for their regions as a whole;

36. supports the European Commission’s proposal to give local and/or regional authorities a stronger role in designing and implementing urban development strategies in the context of operational programmes. In order to involve and increase the accountability of local and regional authorities in this way, **global grants** should be awarded more systematically to the towns, cities and regions concerned. The Committee of the Regions is in favour of retaining the urban dimension in European cohesion policy. Cities can be key drivers for growth and innovation. Moreover, more intensive urban-rural relations can be particularly favourable for the EU’s economic,

⁽⁷⁾ See Article 174 TFEU: ‘rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions’.

social and territorial cohesion while also contributing to the implementation of the Europe 2020 strategy. If cities are to fulfil this function, measures to ensure social and economic stabilisation and the sustainable development of cities and urban problem areas will continue to be needed in the future. These measures should be planned and implemented in the framework of the regional operational programmes;

37. regrets the **lack of reference to the rural dimension**, despite the fact that rural and peri-urban areas make up 80% of the EU territory, according to current definitions; calls on the European Commission to pay particular attention to the link between various types of municipalities – urban (big and small towns) and rural areas – a key component of any integrated regional development policy; furthermore, hopes that the rural dimension is given the attention it deserves in the future cohesion policy, and that a stronger link and greater synergy is found between ERDF, ESF and EAFRD actions both via the common strategic framework and at operational programme level. Also proposes that the current URBACT programme be developed into a programme entitled RURBACT⁽⁸⁾ which would encourage the exchange of good practices and networking on urban and rural issues and the way the two dimensions should be linked;

38. therefore, calls for a **territorial dimension to be identified** within operational programmes that fund projects in the context of sub-regional territorial initiatives. The new local development approach needs to become the holistic strategic framework for the sub-regional development of all concerned areas irrespective of them being urban, rural or urban-rural, and should be included in the regional programmes;

39. regrets that the Fifth Cohesion Report does not sufficiently highlight the trend towards worsening **disparities within regions**. These disparities are characterised by phenomena such as spatial segregation, which has led to certain forms of ghettoisation, and continual decline of some remote areas. A clear picture of these sub-regional disparities, with appropriate statistics and measures to reduce them would help to ensure that the territorial cohesion objective is taken into account more effectively at local level, provided that management is carried out on a regional scale;

40. agrees that **greater attention should be paid to local development initiatives**, which should be encouraged through more systematic Community co-financing. Where applicable, part of an operational programme should be devoted to local development initiatives (e.g. partnership, etc.). This might

⁽⁸⁾ The RURBACT programme would be based on the development and reinforcement of the URBACT programme, harnessing the experience of the RURACT network in order to effectively take into account the link between the urban and rural dimensions.

involve calls for regional or multi-regional projects⁽⁹⁾ designed to encourage public stakeholders (local elected representatives or representatives of public bodies, etc.) and private stakeholders (businesses, chambers of commerce, social enterprises, cooperatives, associations, etc.) to draw up and implement a local development strategy based on an integrated approach⁽¹⁰⁾. Local development initiatives can make a significant contribution to the institutional development of local authorities and should be provided with financial support, including technical support programmes;

41. believes that the **territorial cohesion objective applies to all EU policies** and should involve bringing sectoral policies and cohesion policy into line with each other, taking better account of the territorial impact of all EU policies when they are drawn up; regrets, in this context, that the European Commission has not yet followed up the Committee's request to issue a White Paper on territorial cohesion⁽¹¹⁾;

42. regrets that the Fifth Cohesion Report **fails to mention Services of General Interest (SGIs)**, even though the intrinsic link between their work and territorial cohesion is explicitly recognised in Article 14 TFEU and Protocol 26 appended to the Lisbon Treaty; reiterates its request that the territorial impact of EU policies on SGIs be subject to ex-ante and ex-post evaluations;

Implementation of cohesion policy

Strategic approach

43. supports **the establishment of a common strategic framework (CSF)** covering the Cohesion Fund, the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund. However, this strategic framework should be jointly agreed by the Council and the European Parliament, in partnership with the Committee of the Regions. The CSF should clarify the scope and thus the respective roles and linkages between these EU funds in the EU's regions, as well as those with other EU funds with a clear territorial dimension and a close relationship with the Structural Funds, such as the Trans-European Networks funding or the future possible environment and climate funds among others;

⁽⁹⁾ For example, the way that territorial cohesion is taken into account in the integrated approach for the programming of the Structural Funds in Italy (2000-2006), where the integrated territorial projects cover seven NUTS II regions with sub-regional implementation.

⁽¹⁰⁾ For example, the Local Action Group in the context of the LEADER+ programme.

⁽¹¹⁾ See the CoR opinion on the Green Paper on Territorial Cohesion (rapporteur: Jean-Yves Le Drian, FR/PES), CdR 274/2008 fin.

44. believes that the existing macro-regional strategies could act as **'strategic reference frameworks at macro-regional level'**. The regional strategies established in the context of the operational programmes (deriving from the three objectives of cohesion policy) could draw on the priorities of the aforementioned macro-regional strategies;

45. calls on the **Commission to clarify the content and terms of the 'development and investment partnership contracts'** to be negotiated between the Commission and the Member States. Stresses the need to put in practice the principles of partnership and multilevel governance and thus proposes that local and regional authorities have to be involved in drawing up, negotiating and implementing these contracts, insofar as they are directly involved in the operational programmes that such contracts provide for. Local and regional authorities must be part of the decisions to be taken at the level of a national contract on the thematic priorities and financial commitments applicable to the operational programmes in which they participate;

46. proposes that the 'development and investment partnership contracts' and the 'territorial pacts for implementing the Europe 2020 strategy' should introduce for each Member State a **system of multilevel governance** involving the various tiers of authority (EU, national, regional and local) as part of an enhanced partnership with local and regional authorities. Calls for local and regional authorities (in their capacity as co-financers and/or co-managers of public services) to be signatories to these territorial pacts⁽¹²⁾ and fully involved in their framing, negotiation, implementation and follow-up. Just as in the case of the Common Strategic Framework, these territorial pacts should encompass the Cohesion Fund, ERDF, ESF, EAFRD and the EFF and be consistent with the National Reform Programmes, facilitating their implementation on the ground;

47. welcomes the plan for **operational programmes to be the main implementation tool** for cohesion policy, as in the current period; points out, in this regard, that the Commission should ensure that local and regional authorities can participate fully in devising, negotiating and implementing these programmes;

48. endorses the use of **annual implementation reports** monitoring progress towards the targets throughout the programming period, as is currently the case. On the other hand, the Committee does not see the need to introduce a new requirement for ongoing programme evaluation, once a certain amount of the funds has been certified to the Commission;

49. supports the Commission's proposal for **regular political debates** within the relevant forums of the EU insti-

⁽¹²⁾ Each Member State should identify the local and regional authorities to be signatories, in line with their State's division of sub-national powers.

tutions. To this end, the Committee is happy to liaise with the Commission to organise debates with its members in conjunction with plenary sessions or COTER commission meetings;

50. like the Commission, considers it vital that **ministers with responsibility for cohesion policy meet regularly within a formal Council formation**⁽¹³⁾ in order to discuss the state of play in respect of programming and to assess the progress made on the targets set;

Partnership and governance

51. believes that the success of the Europe 2020 strategy hinges on involving the relevant players at EU, national, regional and local levels in its implementation by means of a **system of multilevel governance**; highlights again, to this end, the need to establish territorial pacts that more directly involve local and regional authorities;

52. stresses again the importance of stronger and more **detailed criteria enabling the implementation of the principle of partnership** with local and regional authorities in the drafting, negotiation and implementation of EU and national strategic objectives and operational programmes; welcomes the fact that the Commission's evaluations highlight that the involvement of local and regional authorities as well as socio-economic players on the ground constitutes a key factor in the success of cohesion policy;

Performance, conditionality, incentives and sanctions

53. strongly encourages regional and local authorities to ensure the highest performance of their **administrative and institutional capacity** as well as to develop appropriate financial and human resources to cope with the complexity of EU funded projects, mainly in terms of administrative burden and red tape; stresses the need for appropriate levels of financing to be ensured in order to properly enable regional and local authorities to take part in major projects financed through Structural Funds;

54. **is firmly opposed to the provisions on** (external) **macroeconomic conditionality** i.e. withholding Structural Funds available to regions and cities for errors and shortcomings of their national governments or if their national governments do not respect the stability and growth pact. There is a danger that financial sanctions and incentives linked to the Stability and Growth Pact, aimed at ensuring compliance with macroeconomic conditions, will primarily penalise local and regional authorities that are not responsible for the failure of Member States to fulfil their obligations in this area⁽¹⁴⁾;

⁽¹³⁾ This could be a specific cohesion policy formation, or else sessions of the General Affairs Council devoted to cohesion policy, attended by the ministers with responsibility for cohesion policy.

⁽¹⁴⁾ CoR opinion of 1 December 2010: *Reinforcing economic policy coordination*, rapporteur: Mr Tatsis (EL/EPP) CdR 224/2010 fin and CoR resolution on the priorities for 2011, adopted on 2 December 2010, CdR 361/2010 fin (and in particular point 10 thereof).

55. supports the establishment of **(internal) conditionality** aimed at improving the effectiveness of cohesion policy. Such conditionality should be closely related to the thematic priorities of cohesion policy and not attempt to establish links with wider structural reforms loosely linked to the operation of the policy. It should focus on those structural and institutional conditions needed to ensure the best utilisation of cohesion resources. It should be simple, enforceable, proportional, and verified ex-ante;

56. supports **retaining EU co-financing** that ensures ownership of and accountability for the policy on the ground. As in the current period, EU co-financing levels should be differentiated per target in line with each region's level of development. However, the Committee is opposed to any downward revision of co-financing levels, which should not be used as adjustment variables in the event of budget cuts ensuing from the inter-institutional agreement on the forthcoming financial perspectives. It also queries the Commission's proposal to differentiate co-financing levels to reflect the EU added value, types of action and beneficiaries. The danger here is that this could create complexities that may lead to irregularities and further complicate the task of managing authorities. Finally, the Committee points out that co-financing rates per priority should be established for each operational programme, so that they are appropriate to the priority targets set;

57. **opposes the proposal to establish a performance reserve** based on the Europe 2020 targets, for which it would be difficult to define objective allocation criteria. The danger would be that this would benefit the best-performing regions without taking account of the efforts made by other regions that may not enjoy favourable territorial, economic or social conditions. Nor would it take into account the nature of some particularly complex integrated solutions that require lengthy preparation. Performance reserves could also result in Member States setting less ambitious goals. Furthermore, establishing a performance reserve, whether at EU or national level, would not guarantee more effective investment. However, it could support the creation of a flexibility reserve (which would not be performance-based) established on the basis of appropriations automatically de-committed during the programming period, and aimed at:

— funding pilot initiatives on smart, sustainable or inclusive growth;

— or triggering the Structural Funds in an economic, social or environmental crisis in conjunction with the Globalisation Adjustment Fund and the European Union Solidarity Fund;

58. **accepts the need to establish new forms of results-based (internal) financial conditionality**, but in order to ensure consistent implementation of the system of structured conditions feels it is essential to define criteria which can be used to establish whether a particular condition has been met. Such criteria must be general, fair, proportional and based on the principle of equal treatment. Quantified targets should serve for strategic programming management, without generating disproportionate additional costs. Defined using a limited number of implementation and results indicators, they enable progress to be measured in relation to the baseline and in achieving the priority targets. Thus there should be no question of sanctions if the expected results are not fully achieved. As stated by the cohesion policy ministers, meeting in Liège on 22 and 23 November 2010, substantial conditionality is already in place and has proven its effectiveness. This includes the automatic de-commitment rule, the rules on closure, on approval of the control and audit systems, the additionality and co-financing principles, etc. This internal conditionality could thus be pursued and enhanced;

59. points out that given the payments made by local and regional authorities under the co-financing policy, the Committee of the Regions should rightfully participate in the constructive dialogue called for by the Commission with a view to further exploring the various conditionality provisions proposed in the Fifth Cohesion Report, in the context of a **'conditionality task force'** alongside the Member States and the European Parliament;

Evaluation and expected results

60. supports the Commission's proposal to move towards a **more results-oriented approach** by using clear and measurable targets and outcome indicators agreed in advance in line with the specific objectives of each region, but warns the Commission against assessing performance solely in terms of progress towards Europe 2020 targets. It should be pointed out that progress has been made here in the 2007-2013 programming period with the inclusion of ex-ante, ongoing and ex-post evaluations; this should be reviewed before going further down this road;

61. endorses the use of a **limited number of common indicators**, linked to the economic, social and territorial cohesion targets as well as the objectives of the Europe 2020 strategy, to enable the Commission to conduct a comprehensive and continuous evaluation throughout the programming period. However, most of the indicators should be established at regional level taking into account the specific nature of each region and the priorities set. They must also reflect how necessary any proposed approach is for the region's development;

Financial engineering instruments

62. **supports the use of financial engineering instruments** to increase the leverage effect of the EU funds, but disagrees with the Commission's use of thematic restrictions on entitlement to grants, and feels it is essential to let Member States decide at which level (national, regional) financial instruments can be implemented most effectively. However, the implementation of these instruments should be simplified and clarified, in order to:

- facilitate the participation of the EIB and other banking institutions at national, regional or local levels;
- encourage local and regional authorities to make greater use of these instruments and to ensure their implementation; and
- match the needs of all regions, large and small, as the current instruments are configured for large-scale actions only;

63. questions the Commission's proposal to channel **financial support to firms** mainly via financial engineering instruments, while using grants to co-finance targeted support schemes in respect of innovation, environmental investments, etc. Financial engineering should not be the sole means of providing support to firms under cohesion policy and does not remove the need for grants, as not all activities can be funded by loans. Nor are all bodies in a position to run loan-funded projects. The crisis has shown that in a recession period market-based instruments are not viable. It is up to local and regional authorities to determine the most appropriate form of aid, with regard to the economic and enterprise environment in the relevant region, and taking account of competition policy and regional aid;

Simplification

64. **opposes any radical change to the current system of managing** the Structural Funds as proposed by the Commission under the revision of the Financial Regulation. The Committee therefore calls on the Commission to maintain the current system, which is beginning to bear fruit as regards reducing the rate of errors and irregularities; it is to this system that the necessary improvements and simplifications should be made;

65. stresses that the effectiveness and efficiency of cohesion policy hinge on striking a **balance between the simplicity and efficiency of procedures and financial management** in order to make cohesion policy more user-friendly and transparent. Recognising the full powers of the regions in the management and control of the regional operational programmes would form part of this balance. Furthermore, the Committee of the Regions should put forward solutions aimed at further

simplifying the rules on both the implementation of the funds for the managing authorities, and on obtaining funding for the beneficiaries. It also calls on the Commission to explore further the issue of simplification, with a view, inter alia, to reducing the time period for reimbursement for the beneficiaries;

66. encourages the Commission to use a simplified **lump-sum cost system** for reimbursing beneficiaries both for the ERDF and the ESF; calls on the Member States to support local and regional authorities to enable a swift implementation of these provisions, which will help to more sharply focus programming on the desired results;

67. would welcome a **review of procedures** relating to **territorial cooperation** programmes with a view to establishing common rules across programmes so that nationally accepted audit procedures can apply to partners and thus removing the need for lead partners to verify audits from other Member States;

68. would caution the Commission as regards its proposal to introduce **management declarations** issued by managing authorities and the Court of Auditors. The effect of this proposal should not be to increase the workload of local and regional authorities as regards control and audit rules, while diminishing the Commission's responsibility here in respect of its interpretation and support role;

69. underlines that **financial control** and **audit** practice must be clearly based on regulatory compliance and should be proportionate, and strongly opposes the process of 'creeping regulation' whereby Managing Authorities are 'encouraged' to undertake certain evaluation plans where there is no requirement to do so and whereby the standard checklists used by auditors, provided by the Coordination Committee of the Funds, contain items that are not in the EU Regulations nor a requirement of national regulation;

70. welcomes the Commission's proposal that the **automatic de-commitment rule** should not apply in the first year of programming, and calls for the first year to be accounted for only at the closing of the operational programme, which would help overcome the delays incurred at the beginning. However, the Commission and the Member States should ensure that operational programmes are adopted as early as possible in order to reduce the risk of delays at the beginning of the period;

71. regrets that the Commission has not made any proposal to simplify **revenue-generating projects**; the complexity of the method of calculation for such projects seems counterproductive and discourages potential project promoters. The Committee also encourages the Commission to simplify and speed up the approval system for major projects;

72. supports the alignment of the **rules on eligibility of expenditure** across policy areas, financial instruments and funds, via detailed provisions contained in the common strategic framework and implementing legal provisions directly emanating from it, in order to simplify the implementation procedures and minimise the risk of irregularities. It must be ensured that local and regional authorities play a full role in establishing these eligibility rules with the Member States in order to ensure that EU rules are interpreted and applied in a consistent manner at national and regional levels.

Brussels, 1 April 2011.

The President
of the Committee of the Regions
Mercedes BRESSO
