ORIENTATION PAPER ON FUTURE COHESION POLICY

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1. INTRODUCTION

Today's world is undergoing rapid changes with the global economy becoming increasingly interdependent and a multiplicity of actors interacting in a myriad ways. The financial and economic crisis has shown that global interdependences generate asymmetric effects and offer a new set of constraints and opportunities for development. Against the background of rapidly changing circumstances, it is essential to ensure that public policies continuously evolve and effectively address market failures. A distinct challenge for public policy in Europe will be to make a successful exit from the extraordinary measures undertaken in response to the crisis and ensure that the necessary preconditions for long-term sustainable development across Europe are in place.

The reflection process on the future cohesion policy takes place in an evolving European policy context. A fundamental review of the Union's policies is underway with the aim to establish the vision of an integrated EU2020 strategy. The Lisbon Treaty gives explicit recognition to territorial cohesion as a fundamental objective of the Union in addition to economic and social cohesion implying that territory matters and Community policies should ex-ante give more consideration to their territorial impact. The Treaty also introduces a new definition of subsidiarity providing the opportunity to strengthen the role of regional and local actors.

Danuta Hübner's Reflection Paper of April 2009 launched a discussion about the rationale, goals and delivery system of European cohesion policy. The present paper takes stock of the current debate and puts forward concrete orientations towards increasing the effectiveness of cohesion policy. It aims to serve as a reference paper for the work of the next Commission which will prepare the legislative and financial package for the period post-2013.

The paper draws from the lessons learnt from studies and consultations with stakeholders (Chapter 2); it formulates the mission and goals of cohesion policy in a changing economic, social and environmental context (Chapter 3); it identifies a number of key issues to enhance the performance and impact of cohesion policy (Chapter 4); and it presents a series of proposals to simplify programme management and control processes (Chapter 5).

2. DRAWING LESSONS

The reflection process on the future cohesion policy has greatly evolved over the past two years. A series of studies have been commissioned and consultations with Member States, regions, stakeholders, academic experts and international institutions have provided a wide range of inputs to the process. The consultations confirmed that territory and place increasingly matter in delivering public policies that aim to allow the Union and its regions to fully exploit their endogenous development potential.

The past few months have been particularly rich in discussions. The communiqué signed by ministers in charge of regional policy in Mariánské Lázně in April 2009 underlined the contribution cohesion policy makes to European integration and stressed the need for cohesion policy to 'continue to promote its basic objectives as laid down in the Treaty'. Ministers endorsed shared management, multi-annual programming and multi-level governance as key assets and 'preconditions of the success of cohesion policy on the ground'.

Resolutions adopted by the European Parliament in early 2009 underlined the need for cohesion policy to evolve in the context of global challenges which will have a differentiated impact across Europe and called for enhanced policy coordination at EU level. The complexity and rigidity of rules and procedures were considered as major obstacles hindering cohesion policy to fulfill its potential.

The Committee of Regions, in its White Paper of June 2009, called on the Union to strengthen mechanisms of multi-level governance in the delivery of European priorities. It pointed to the leverage effects generated by cohesion policy in terms of financing and institutional capacity-building, which contributed to the implementation of other Community policies as well.

The report of Fabrizio Barca 'An agenda for a reformed cohesion policy' made a strong case for a place-based European development policy aiming at addressing market failures through mobilising territorial potentials and providing bundles of public goods. The report put forward a number of concrete proposals to increase the effectiveness of cohesion policy, including amongst others concentration on core priorities; stronger focus on performance and evaluation; simplification of management and control systems and introduction of a high-level political debate on results.

The public consultation on territorial cohesion synthesized in the Sixth Progress Report on economic and social cohesion concluded that territorial cohesion should be considered as an umbrella concept complementing and reinforcing economic and social cohesion. A clear consensus emerged that public policies at different levels need to take into account their territorial impact to avoid contradictory effects. All contributions agreed that coordination and complementarity between policies should be improved both at EU and national level. The three strands of territorial cooperation were unanimously recognised as key for territorial cohesion and clear examples of EU value-added.

The emerging findings of the ex-post evaluations of the 2000-2006 period suggest that cohesion policy brings about improvements in the economic situation of the regions supported and generates output gains that continue even when the programmes are terminated. The evaluations underline, inter alia, the success of the Member States which joined the Union in 2004 in taking up the financial support and adapting their administrative systems. Besides these positive results, the evaluation finds that a stronger concentration on selected intervention areas is desirable. Performance oriented policy formulation and delivery is developing in some Member States however there is still significant room for improvement.

3. Mission and Goals of European Cohesion Policy

Changing social, economic and environmental context in the 21st century

Europe faces a number of long-term challenges which will have a profound impact on the process of European integration in the coming years and decades. Global economic integration and interdependence, the emergence of China, India and Brazil as economic powerhouses and competition in the knowledge-based economy will be a substantial test for European societies. At the same time, the necessity to incur high investment outlays to fight climate change, diversify channels of supplies and sources of energy, increase energy efficiency, address demographic change and its implications for public finances and growth potential and tackle rising unemployment and the risk of poverty and social exclusion will increasingly shape the policy agenda.

These challenges will generate further pressures for structural change across Europe. Some regions of Europe are likely to benefit, while others face the risk of losing out. This may exacerbate existing economic and social disparities in the Union and result in new patterns of winners and losers.

The financial crisis and subsequent economic recession has revealed inherent structural weaknesses in many countries and regions in Europe regardless of their level of economic and social development. Processes of convergence between Member States and regions could be slowed over the coming years by lower growth rates, weaker public investment and fiscal retrenchment. This will put further strain on the capacity of national and regional authorities to deliver public services and on economic and social cohesion. It will be essential to find the right exit strategies from the crisis and position European economies for the long-run, to ensure that the full benefits of economic integration are reaped over the coming years.

However, the new context outlined above also presents opportunities to implement structural reforms, reassess comparative and competitive advantages, identify new sources of growth and design development strategies with accompanying policy instruments. In this respect, Member States and regions are essential actors in providing structural responses to these challenges in the changing context.

Cohesion policy will continue to play an important part as a pillar of European integration by facilitating adjustment to new circumstances. Its role in promoting overall harmonious development and addressing regional imbalances will be more relevant than ever in the post-crisis period. In particular, cohesion policy can help address these challenges by:

- Supporting the development and structural adjustment of regions through investments of the European Regional Development Fund; and
- Improving employment opportunities, facilitating adaptation to industrial changes and fighting social exclusion through the European Social Fund;
- Improving connectivity and environmental sustainability through the Cohesion Fund.

European cohesion policy, with its strong focus on social, economic and environmental development, is the clearest expression of Europe's commitment to solidarity, which should remain at the heart of European integration.

The mission of European Cohesion Policy

The original political vision, which gave rise to cohesion policy, is nowadays often forgotten. This vision was based on the political conviction that a strong Union needs policies that facilitate integration and policies that ensure everyone can benefit from integration. This vision is still valid today. In order to provide a new dynamics for integration, the EU needs a strong development policy which enables all EU citizens, independently of where they live, to reap the benefits and mitigate the negative side-effects created by the unification of markets.

The mission of cohesion policy is defined in the Treaty without ambiguity; to promote balanced and harmonious development, in particular by reducing social and economic disparities between regions. Cohesion policy is a development policy aiming at promoting long-term sustainable growth and prosperity in European regions through removing barriers to growth and facilitating processes of structural adjustment. A further motivation behind a development policy run at EU level lies in the existence of strong cross-border interdependencies and the need for reinforcing linkages between leading and lagging areas, maximising cross-border spill-over effects and gearing investments towards EU priorities.

Cohesion policy is the primary EU instrument for mobilising territorial assets and potentials and addressing the territorial impacts generated by European integration. The strong territorial dimension of the policy has been recognised in the Lisbon Treaty with the introduction of the concept of territorial cohesion. It is a policy that mobilizes endogenous potentials across Europe and facilitates finding new innovative solutions to improve competitiveness and to effectively respond to pressing challenges.

Through its territorial approach, cohesion policy offers a unique and modern governance system which values and exploits local and regional knowledge, combines it with strategic direction, and coordinates interventions between levels of government. Through place-based approaches it provides the framework for integrated solutions tailored to people's knowledge and preferences avoiding a one-size-fits-all approach. It invests in improving the capacity of national and regional administrations and it is the only Community policy which has the capacity to mobilise actors across all EU boundaries.

Cohesion policy is an essential part of the economic policy framework of the Union alongside macroeconomic and micro-economic policies. For this reason, the policy must be strongly linked to the Single Market and key Community priorities, in particular those of the EU2020 strategy. Cohesion policy can facilitate transition to a smarter and greener economy across Europe. By mobilising territorial potential and complementing EU policies, cohesion policy can contribute to maximise the impact of other EU priorities.

The goals of European Cohesion Policy

To achieve its overall development goals, cohesion policy must address three key territorial issues in maximising the benefits of European integration – the failure of lagging regions to fulfil their development potential, the need for continued adjustment at regional level to increase competitiveness and employment in the context of a low carbon economy, and the need to address cross-border barriers to integration.

Cohesion policy must ensure faster convergence through economic and social integration and greater connectivity in the Single Market. To achieve this, the policy should continue to focus on addressing market failures and ensure that regions make full use of their development potential in the context of European economic integration.

In this respect, the objectives cohesion policy has set itself are the right ones. They, however, need to be clarified in the context of the challenges the Union is facing in the 21st century.

(i) To enhance competitiveness and employment at the regional level

Regions throughout the EU are confronted with the need to adjust to global challenges which often result in losses of competitiveness, employment and social cohesion. The low-carbon, knowledge-based economy represents new constraints and opportunities for competitiveness.

It is important to assist regions undergoing structural adjustment no matter where they are located. Although some are well endowed with physical infrastructure, there remains a need for support to fully exploit their endogenous growth potential and strengthen their competitiveness. Long-term competitiveness and the capacity to create and sustain employment will depend on the strength of regional innovation systems based on region-specific assets, such as knowledge, skills and competences.

Cohesion policy support provides a real added value to national and regional policies, due to a focus on the promotion of innovative approaches, the reorientation of public and private investment towards priorities of Community interest and the exchange of best practice. Cohesion policy is an instrument for levering change and mobilising regional and local actors around EU priorities, ensuring that the benefits of European public goods such as research and innovation are broadly shared. It provides incentives for change and adjustment.

(ii) To facilitate growth in the lagging areas of the Union

Removing the barriers to growth in the lagging regions of the EU must remain a central priority of cohesion policy. This is more than just a question of solidarity. Lagging regions represent underutilised resources that could be contributing to overall EU growth. To achieve their full potential and make full benefit of the Single Market, they need additional EU support to create the conditions for growth, strengthen their industrial base, unlock the full potential of SMEs and close the infrastructure gap in transport, ICT, environment, energy, human capital, education and research. In these regions, cohesion policy will have to ensure full connectivity to the Single Market and provide public goods necessary for growth that could not be financed without EU support.

(iii) To foster integration across borders

Many challenges cut across administrative boundaries calling for the need to find common solutions to shared problems. There is an increasing demand for shared implementation mechanisms in the framework of concrete cross border and network interconnection projects. In the context of the Single Market border regions still offer high unexploited potential. Exploiting this potential will require reinforcement in scale and a shift in the nature of territorial cooperation. The approach of functional macro-regions, like the example of the EU Baltic Sea Strategy and the Danube basin will be an avenue which deserves further examination.

The growing challenges of migration and security, and the need to promote economic integration, while addressing shared environmental concerns, calls for increased cooperation with Europe's neighbourhood. Cohesion policy can play an important role in encouraging coordination and the provision of public goods (e.g. energy and transport interconnections) that will not be provided at the national or local level.

4. A More Effective Policy

In achieving its development objectives assigned by the Treaty, cohesion policy should focus on activities that foster development, provide high European added value and are directly linked to key EU policy priorities.

Policy effectiveness is determined by a complex interplay of factors arising from many areas.

Cohesion policy operates in the context of broader social, economic and political realities. Strategic choices, spending priorities, delivery systems and administrative capacities are key determinants of policy effectiveness along with socio-cultural values, governance arrangements and national policy contexts.

The effectiveness of cohesion policy needs to be increased. The emerging results of the ex-post evaluation of the programming period 2000-2006 show that the performance of cohesion policy varies widely between countries and regions. Sound macroeconomic conditions, a favourable microeconomic environment, strong institutions and experience in management of development programmes are conducive to the success of the policy. The evaluations also demonstrate the need for use of more rigorous methods, in order to generate more credible evidence on the performance of the policy.

The preparation of the next generation of programmes will provide the opportunity to increase the effectiveness and the quality of delivery of cohesion policy. It is important to seize this opportunity to review cohesion policy in order to increase its focus on results and impact.

Increasing the effectiveness of cohesion policy requires (i) a concentration of the policy on a limited number of priorities in line with the future EU 2020 strategy, (ii) a stronger link between performance/results and incentives/conditionalities (iii) a strengthened strategic dimension of the policy including the introduction of a high-level debate, (iv) increased coherence and coordination with sectoral policies at national and EU levels to achieve greater synergies and (v) a decisive move toward a simpler, more efficient and transparent management and control system.

The financial and economic crisis has also shown the necessity to examine new ways to react swiftly to shocks in close coordination with existing instruments.

Concentration of the policy

In order to maximise the impact of the policy, it will be necessary to focus cohesion policy support on a limited number of commonly agreed priorities. This will create a European-wide critical mass of interventions, and focus political and public attention on clear objectives. Focusing funding on selected priorities is conducive to setting clearly defined objectives, targets and intervention logics.

The selection of the priorities should be subject to a strategic political process comprising the EU and Member States. Without prejudging the outcome of this process, strategic choices should be in line with the following priorities. The policy mixes should be adapted to specific national and regional contexts.

Strengthening the knowledge base for growth

Strengthening the competitiveness of European regions in the context of the global knowledge based economy will require significant investments in research, technological development, innovation, knowledge and skills development and improvements in access to finance. Cohesion policy should also foster knowledge spill-overs and facilitate better linkages and interactions between technologically leading and lagging regions.

Enhancing conditions for a connective and green economy

Cohesion policy has a key role to play in smoothing transition to a low-carbon economy and enhancing environmental quality. The policy should support sustainable transport and ICT infrastructure, ensuring greater connectivity of lagging to leading areas and improve environmental infrastructure. Cohesion policy investments should be climate proofed. Competitiveness measures will need to take into account constraints and opportunities of a low carbon economy.

Promoting employment and social cohesion

Global economic, social and environmental changes will have profound effects on the labour market and social situation in the Union. Cohesion policy has a key role to play in increasing employment, finding new ways to tackle rising unemployment, promoting self-employment, acquisition of new skills, social inclusion and the economic and social integration of migrants and vulnerable populations. Empowering people to effectively engage in transformation processes will be essential.

Strong and sound institutions at national, regional and local levels, which are capable of identifying development potential and implementing complex investment programmes, are an important measure for the success and lasting effect of cohesion policy. They will continue to deserve particular attention, including through know-how capacity building, strategy development and networks.

Stronger focus on performance and results

A stronger focus on results and evidence-based policy making will increase the impact and value-added of the policy. This requires improved monitoring and evaluation systems. The starting point must be clearly defined objectives, targets and intervention logics. Programmes need to define a clear strategic vision of what they aim to achieve and how success will be recognised. Evaluation at ex ante stage can help this process. Assessment of performance is highly dependent on the quality of this programming stage.

Making cohesion policy more performance-oriented will also imply strengthened conditionality within the policy, based on the attainment of measurable objectives. The failure of the performance reserve in the 2000-2006 period demonstrated the importance of designing such instruments correctly, both in terms of avoiding perverse effects and ensuring that the focus remains on performance. A new and effective performance reserve would be dependent on the quality of targets set. A question to be considered is whether such instrument should focus on all indicators of the programmes or only on selected priorities.

For selected priorities, the Commission and Member States could link part of the payments to the attainment of objectively verifiable targets. Both policy conditionalities (achieving certain targets in the broader external environment of the programme) and performance conditionalities (achieving the programme targets) could be envisaged in this context.

Core-indicators, introduced in the 2007-2013 period, should be made obligatory. This would allow comparability between Member States and programmes. They could also allow for assessment of their cost-effectiveness. Core indicators should become an instrument for peer review through the high level political debate as proposed hereafter.

Moving towards more evidence-based policy-making requires a commitment to collect data in view of particular evaluation methods and increased use of more rigorous methods – both quantitative and qualitative. Evaluation serves inter-linked purposes; to improve programme design, enhance the quality of implementation and to provide evidence on the effects of the policy. All three are important. Evaluation plans should become an obligation for all programmes and the results of the evaluations should be made available for policy-makers at European, national and regional levels in order to improve programming and resource allocation. Evaluations undertaken during the programme period should be targeted on different areas of intervention using appropriate methodologies. Summative evaluation should be carried out towards the end of the programme period, in order to provide evidence for a synthetic evaluation at EU level.

Stronger focus on performance and results will necessitate significant capacity-building both within the Member States and the Commission.

Experience shows that merit-based incentives such as awards, publication of good practices or public ranking of projects contribute to enhance the quality of cohesion spending. Extending the obligation to publish final beneficiaries to cover the associated costs and benefits of major projects could also result in improved project quality.

Generating high-level political debate on policy effectiveness

Strengthening the strategic dimension of cohesion policy could be achieved through introduction of a high level political peer review mechanism for debating and reporting on policy outcomes. So far, debates about cohesion policy focused extensively on financial absorption and irregularities. Debates about the performance of the policy remain limited.

In the future, high-level political debates should be generated focusing on policy effectiveness and on the reasons behind successes and failures. Such debates have the potential to shift attention to performance in the various stages of the policy process, allow Member States to identify common problems, solutions and good practice, promote mutual policy learning and increase the visibility of cohesion policy.

An annual high level debate on the performance of cohesion policy should therefore be held within the General Affairs Council, given its horizontal function under the EU Treaty. A similar debate should be held in the European Parliament.

The strategic reporting introduced in the current period about the progress towards achieving EU priorities of promoting competitiveness and jobs could form a good basis for the political debate. In this context, the role of the national strategic reports should be strengthened. They should report on the attainment of the obligatory core indicators, which would allow for comparisons of performance across Member States over time. In the early years of implementation, debates could focus on the results of the past programming period. The evaluations undertaken by Member States would also provide valuable inputs.

Responding to unexpected economic and social change

The financial crisis and subsequent economic recession has shown that even a huge change cannot always be anticipated. The EU should be able to complement its long-term, structural action with swift responses to local/regional or sectoral shocks resulting from economic and social restructuring.

Responding effectively to regional asymmetric shocks may require a specific mechanism ensuring a timely and straightforward response to the crisis. One option would be to broaden the scope of the Globalisation Adjustment Fund to allow Member States and regions to tackle areas affected by the shock with a comprehensive package of measures combining labour markets measures with positive job creation measures such as business start-ups, technological support for the suppliers to move up the value chain, and business services. Alternatively or in complement, it should be considered to set aside part of the cohesion policy allocation for unforeseen circumstances based on the example of the national contingency reserve in the current programming period.

5. A SIMPLER AND MORE EFFICIENT POLICY

Effective responses to challenges facing Europe require co-ordinated and coherent policy approaches and instruments acting at different levels - European, national and sub-national. In this context, cohesion policy has a unique (and irreplaceable) role to play in the delivery of integrated development strategies that link interventions in different fields - infrastructure, human resources development and business environment - into a coherent policy package that fits the regional or local context. Evidence however increasingly suggests that the potential dividends between cohesion policy and other Community and national policies are not being fully realized. It is therefore necessary to review existing coordination mechanisms and overcome divisions between functionally divided systems in order to ensure adequate policy coordination among a multiplicity of actors and institutions.

Cohesion policy is delivered under shared management. One of the key strengths of the policy is the specific delivery system which has been reinforced over the past 20 years and has generated positive spill-overs to domestic policies. There nonetheless remains scope for examining how management and control mechanisms could further evolve to become more efficient, simpler and appropriate to different types of risk. A better balance should be found, on the one hand, between the rules and procedures required for ensuring the legality and regularity of EU expenditure and on the other making cohesion policy more performance-oriented and cost-efficient.

Increased coherence in the delivery of strategic priorities

Coordinated strategy definition

The Community Strategic Guidelines and National Strategic Reference Frameworks have reinforced the strategic dimension of cohesion policy and strengthened integration of EU priorities and linkages between EU, national and regional levels. Cohesion Policy has been strategically aligned with the Lisbon process through earmarking of funds, monitoring and reporting mechanisms. At the same time, although the Strategic Guidelines and the regulations aim at concentration on strategic priorities, they identify a broad range of areas for intervention without providing sufficient policy content focus.

The establishment of a *Single Strategic Framework* could be considered in order to provide strategic orientations for all Community funds under shared management and possibly partly under direct management (e.g. transport, energy, research, innovation and support to enterprises). Such a framework has the potential to increase the leverage effect and efficiency of EU funds and ensure that Community funds are geared towards key strategic priorities. The Strategic Framework would be explicitly linked to the future EU 2020 strategy and would be subject to a strategic political process involving the EU and Member States.

For the benefit of territorial cohesion, policies impacting on territories should be positively correlated and achieve greater synergies. This is particularly true for European policies with a differentiated territorial impact, such as cohesion, transport, energy, environment, agriculture, maritime, research and competition policies. Taking the territorial impact as well as territorial specificities into account during the phase of policy formulation would improve policy effectiveness. The Single Strategic Framework may in this respect provide a useful instrument to enhance the territorial coherence of European policies. Testing ways to strengthen the territorial dimension of existing impact assessments should also be considered.

Better alignment of funding instruments

There is broad consensus for the need for better integration between Community funds. Current practices often led to artificial delimitations of intervention areas and to fragmentation and duplication of EU funding. Stakeholders underline that differences between the rules, procedures and practices for different funds hinder effective implementation.

There is considerable scope for a better division of labour between shared managed funds and closer alignment of programming and implementation systems. Harmonisation of rules and procedures may lead to simplified delivery systems and may encourage participation of potential beneficiaries in EU co-funded programmes.

Increasing the flexibility to support ESF-type of actions in ERDF programmes and vice versa could be considered with a view of ensuring strong complementarity between key ingredients of comprehensive development strategies.

It is also necessary to enhance complementarity between rural development and cohesion policy. A strategic vision for the coordinated use of the funds is often missing. The common part of the intervention logic of ERDF and EAFRD (related to economic diversification, improvement of quality of life in rural areas and local development) increased the risk of overlap between funds and led to the emergence of 'grey areas' not supported by either fund.

Cohesion policy plays a vital role in the development of rural areas through a wide spectrum of infrastructure and productive investments. Shifting axis 3 and 4 of EAFRD (supporting 'quality of life in rural areas and diversification of the rural economy' and 'Leader' respectively) to cohesion policy would allow for comprehensive development approaches and more effective interventions in terms of integrated sustainable development of rural areas. It would also allow for enhanced urban-rural linkages and interactions.

Integrating the Cohesion Fund into the Structural Funds framework in the 2007-2013 period has allowed for greater coherence in ERDF and Cohesion Fund interventions in infrastructure and environmental programmes. With regard to the period post 2013, the possibility of merging the ERDF and the Cohesion Fund should be explored.

With regard to *other Community funding* providing joint guidance on funding opportunities under Community funds should continue. Some good practices exist, for instance in the area of research and development and innovation. Guidance notes on the use of funds however should be prepared ex-ante rather than during the programming period.

Strong joint programming and closer alignment of rules and procedures of TEN-T funding instruments should be ensured. There is also scope for better alignment between cohesion policy and the instruments of the European Neighbourhood Policy.

More efficient and simpler management and control systems

The delivery system for cohesion policy in place today has been developed on the basis that this important part of the EU budget is subject to shared management. The system which has evolved effectively ensures that funding under cohesion policy is programmed, implemented and undergoes control and audit in a partnership including EU, member state, regional and local levels. Successive reforms of cohesion policy have also rendered management and control systems more effective, clarified the division of tasks between the different levels and simplified some elements. However, there is a need to address the complexity of cohesion policy delivery through simplification, without weakening the measures which give assurance on the regularity of spending.

The trienniel review of the Financial Regulation in 2010 provides an opportunity for simplifying financial rules and streamlining modes of management prior to agreement on the next financial framework. One key area for simplification relates to the rules and procedures governing financial engineering. Work has also started towards a common understanding of the tolerable risk of error for different policy areas. It would be desirable for cohesion policy if this could lead to an acceptance of a differentiated level of tolerable error year on year during programme implementation and at programme closure, to reflect the multiannual governance arrangements of the policy. Furthermore, all audit bodies involved in auditing structural actions should apply a common approach to determining errors and error rates. Better coordination between different levels of controls will be essential as well.

There is also scope to review and possibly adjust certain elements of the cohesion policy implementation system to ensure greater efficiency and effectiveness in the use of EU funds. This concerns in particular: (i) management and control systems (differentiation), (ii) financial flows, (iii) eligibility rules, (iv) co-financing, (v) the de-commitment rule, (vi) verification of additionality and (vii) the role of the private sector and financial engineering.

Greater differentiation

There are great variations between Member States in terms of financial allocation, institutional arrangements and administrative capacities for the implementation of the funds. There is scope for examining how to apply more differentiation in management and control requirements. Member States fulfilling certain criteria would not be obliged to carry out controls according to detailed prescription in the regulations. They would have to comply with internal control standards set out in the Financial Regulation, and they would have to be able to provide evidence of the effectiveness of their systems (e.g. by low error rate). Ex-ante criteria could be based on the relative volume of funds and percentage of EU contribution. There could also be an application of "contract of confidence" type conditions for Member States or regions with an initial higher level of involvement of the Commission services in relation to audit or monitoring, which would be reduced after the provision of evidence of sufficiently strong domestic administrative capacities. In this context, also the treatment of major projects could be differentiated with the option to submit them to the Commission for information only.

The use of standard unit costs and lump-sums introduced for the 2007/13 programmes as well as of global grants should be further developed in order to provide the necessary flexibility to efficiently deliver certain types of interventions (e.g. innovation, local development).

Financial flows

EU reimbursement should be linked to public contributions only to achieve greater financial transparency and simplification. A possible more radical change would be for the reimbursement to be triggered by the declaration of payments made by Member States rather than declaration of expenditure incurred by beneficiaries. This would increase the incentive for strong national controls and provide the basis for a regular clearance of accounts procedure.

Consideration should also be given to changing from the system of programme closure after 9 years of implementation to an interim closure of accounts, at least every 2 years. Closure of accounts would thus not take place only at the end of the programming period (i.e. more than 10 years after some of the expenditure) and would be more in line with the annual discharge procedure.

Harmonisation of eligibility rules

The eligibility rules applying to cohesion policy have been significantly simplified in the current programming period, with eligibility being determined principally by national rules. However, the restricted list of ineligible expenditure varies depending on the Fund (e.g. land acquisition, purchase of equipment). There are even wider differences when cohesion policy is compared with other policy areas such as rural development or research (e.g. treatment of VAT). Such differences increase complexity and generate administrative burden in the implementation system.

A more harmonised approach could be applied for eligibility rules for all Community instruments which involve the disbursement of funds to beneficiaries. Harmonisation of the rules on VAT and land acquisition could bring particular benefits.

Reviewing co-financing

Co-financing is one of the fundamental principles of cohesion policy underpinning the complementary nature of Community funding and ensuring ownership of the policy on the ground. The obligation for co-financing at the programme level (and by priority) should be retained. Co-financing rates should be calculated in relation to public expenditure. The methodology for the calculation of revenues could be re-assessed (e.g. reconsideration of 'reduced flat co-financing rates' in cases of substantial revenues). The level of EU co-financing rates should be carefully reviewed and possibly correlated to the GDP per capita in PPS of the Member States concerned.

Possible adjustment of the de-commitment rule

The de-commitment rule aims to ensure that projects are implemented within a reasonable timeframe and to encourage financial discipline. However, the application of the de-commitment rule has resulted in increasing concerns with financial absorption often limiting the propensity to risk-taking and policy experimentation. The application of exceptions to the rule has also introduced greater complexity in the system. A possible adjustment of the de-commitment rule could be considered; either more differentiated de-commitment rules tailored to the type of investment or a blanket rule with a longer time-period but covering all types of expenditure and providing for no interruptions or exceptions. The application of the de-commitment rule at national level, as proposed by the Barca report, could also be considered.

Reviewing the mechanism for the verification of additionality

The additionality of Community funding is a key principle of cohesion policy, which underpins its structural function. It should therefore be maintained in the future period as well. The system for its verification however needs to be reviewed. Currently, the system is often contested on grounds of reliability and full comparability between Member States, in view of its ad-hoc nature and complexity. An overhaul of the system is therefore necessary with a view to make it more reliable, transparent, simple and proportional.

In this sense, it is worth examining how the system can be based in the future on existing systems of reporting (ESA-95) of national accounts data by Member States to the Commission. Such a system would (a) eliminate the current need to set up a parallel, burdensome, ad hoc system and (b) base the verification of additionality on official statistics.

Increasing the role of the private sector and financial engineering

The role of the private sector in increasing leverage and impact of cohesion policy should be enlarged. The potential for involving private sector finance and spreading the use of instruments typical for that sector such as revolving funds should be fully exploited. A more comprehensive framework for financial engineering should be developed within cohesion policy combined with a further enlargement of its scope. The possibility of using a broader variety of financial vehicles including risk capital and new types of combinations of grant and loan financing should be explored. Extending the scope of financial engineering beyond SME support and urban development to encompass new activities (e.g. research and development, local development, rural development) may offer potential benefits as well.

Greater use of public-private partnership schemes has the potential to leverage public resources and increase efficiency and cost-effectiveness.

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A more radical approach to establishing a performance-based delivery system, whilst retaining the strategic programming framework would consist of:

- agreeing with Member States a schedule of implementation of programmes for whose implementation and control they would be fully responsible, together with pre-established performance targets;
- Making payments in instalments in line with pre-determined tranches according to the fulfilment of the agreed schedule of implementation and performance targets;
- Providing for ex post control by the Commission.

Such a system would ensure clear division of management responsibilities between the Commission and Member States, simplicity in the disbursement system and smooth financial flows provided that conditionalities are met.