

Danish comments on the Conclusions of the fifth report on economic, social and territorial cohesion: the future of cohesion policy

Denmark warmly welcomes the fifth report on economic, social, and territorial cohesion. It is timely and pertinent that the Commission not only highlights the positive results achieved with the support of the European cohesion policy but likewise asks about the core elements of the future cohesion policy. To this regard, Denmark acknowledges the importance of a regional approach as a complement to a European and national strategy in order to implement the Europe 2020 strategy. In light of the ongoing serious economic challenges which the EU is facing, the importance of European policies generating sustainable growth and long term economic development is larger than previously.

For more than two decades the European cohesion policy has helped to fund the economic and social development of European regions. The fifth cohesion report clearly confirms that the European cohesion policy can have a very positive influence on the economic and social situation of the recipient regions. Jobs have been created; important private and public investments have been facilitated. At the same time, the cohesion report confirms that significant differences between various European regions remain. In light of the overall economic situation, the European Union has to endeavour how to achieve more value for money within all policy areas, including the cohesion policy. Ways of improving the cohesion policy and increasing its effectiveness have to be identified. The report highlights different approaches in order to increase the effectiveness of the cohesion policy. To this regard Denmark wholeheartedly concurs with the assessment of the report that “cohesion policy needs to cultivate a focus on performance”.

It should be mentioned that the current note does not prejudice the Danish position as regards to the multiannual financial framework.

Enhancing the European Added Value of Cohesion Policy

- How could the Europe 2020 Strategy and cohesion policy be brought closer together at EU, national and sub-national levels?
- Should the scope of the development and investment partnership contract go beyond cohesion policy and, if so, what should it be?
- How could stronger thematic concentration on the Europe 2020 priorities be achieved?
- How could conditionalities, incentives and results based management make cohesion policy more effective?
- How could cohesion policy be made more results oriented? Which priorities should be obligatory?

Denmark believes that the Europe 2020 strategy should be an important guide for the content of the future cohesion policy. Focusing on smart, sustainable and inclusive growth is a correct answer to the economic challenges of Europe. With the European cohesion policy aiming at furthering long term economic growth and employment, the cohesion policy will be a natural contributor to the implementation of the Europe 2020 strategy bearing in mind the specific convergence objective of cohesion policy, i.e. EU 2020 should guide how the structural and

cohesion funds are spent, but not how they are distributed among regions and countries. The latter should continue to depend primarily on GDP-levels. Likewise, the Europe 2020 strategy could act as an insulation of the cohesion policy against mission creep due to the pursuit on objectives which are not directly linked to cohesion. Instead, focusing on a limited number of objectives derived from the Europe 2020 priorities would constitute an important step towards enhanced effectiveness and increased performance of the cohesion policy. Further, the European cohesion policy should be able to react in a flexible manner to new challenges. For this purpose it would be important to reinforce successful policies and avoid the continuation of inefficient practices. Likewise, co-ordination with other relevant European policies needs to be strengthened. Cohesion policy is but one vehicle to obtain the Europe 2020 priorities. Finally, Denmark would like to draw the attention towards the importance on combating and adapting to climate change. Developments in the last years have clearly demonstrated the growing importance of this question; not only as a means to avoid significant costs but also as a growth driver. To the extent that it furthers economic growth in a region or country already entitled to receive means from cohesion policy, cohesion aid may be used to improve the energy infrastructure and increase energy efficiency. This is particularly relevant for the least prosperous member states.

The proposed investment partnership contracts can potentially be a decisive factor in improving upon the results of the current cohesion policy. Denmark is ready to discuss various ways of doing this, including the Commission's proposal to link these contracts – where appropriate – with the results of the annual National Reform Programme cycle. In this sense the scope of the contracts could also be extended. Ideally, this could significantly increase the accountability of the cohesion policy. Accountability for the effectiveness and efficiency with which structural funds are spent will be a key requirement in period of budgetary challenges and a guiding principle for cohesion policy during the next programme period. Denmark therefore supports the considerations of the cohesion report on structural conditionality. Implementing conditionality would happen in a series of consecutive steps: Hindrances towards achieving economic and social cohesion have to be identified. Based on this analysis, the proposed conditionality should encompass all the relevant success factors. As a possible way to implement this conditionality would be to yield to the Commission the necessary authority and the capacity to screen whether proposed cohesion policy programmes are likely to achieve their aim. Further, the Com-

Example of structural conditionality

Possible questions to raise could be to assess whether the capacity and location proposed are based on a rigorous analysis of prioritised needs taking into account, e.g. the foreseen demographic development, the trends and density of traffic, energy security, population and necessary network factors such as the existence of enterprises, research institutions or funds for investment in related infrastructure (roads, pipes or other connectors) without which the effectiveness of the investment proposed would be impaired. It should also be clarified whether the planning documents show that the proposed programme addresses the most urgent needs, e. g. in terms of reducing travel time, congestion and emissions; improving energy efficiency; interconnecting infrastructure networks or getting the unemployed into work according to a proven method? Is the commercial potential of the innovative project properly demonstrated? Is it clearly argued why there are no available funds on commercial conditions for the kind of operation concerned?

mission should be enabled to enforce conditionality of direct relevance to the effectiveness of structural funds programmes. To ensure that the relevant preconditions for effectiveness and efficiency are verified, legal provision should be made to this effect, e.g. by identifying the main preconditions and the modalities for their verification in the regulations.

For reasons of legal certainty the proposed competency of the Commission and the member states on the other hand should be determined as precisely as possible in the main regulation. In order to ensure proportionality and value for money it would be advisable to concentrate particular efforts on larger programmes or programmes which previously have incurred problems.

Where appropriate, one might consider authorising the Commission to reinforce their assessments of larger programmes by the use of professional consultants, provided they are not subject to any conflict of interests and have a proven track record in the field concerned. Further, for these consultants contractual incentive structure could be established which would be directly linked to the achieved improvements in effectiveness and efficiency. To ensure a timely implementation for recipients, a predetermined maximum duration for the entire procedure, including a time span for possible dispute arbitration mechanisms, could be considered.

In designing and assessing a proposed programme, it has to be demonstrated how the programme furthers or at least facilitates achieving economic and social cohesion and – where relevant – the Europe 2020 objectives; as well as the mechanisms for generating EU-value added in terms of results that would not to the same degree have been achieved by regional or national financing alone. For this purpose the aspirations of a programme have to be defined with the necessary specificity such that it is possible with certainty to determine whether a proposed programme is indeed furthering economic and social cohesion and is focused on Europe 2020. This process should also facilitate the concentration on a limited number of Europe 2020 priorities, consequently enhancing the effectiveness of the proposed programmes.

Denmark believes that the cohesion policy could become more result oriented – and thereby more efficient – by clearly defining the economic and social aims and aspirations of any cohesion programme, based on a needs analysis of the recipient region. These aims and aspirations should lead to agreeing upon tangible success indicators, both programme specific and from a common list of core indicators; a process which has to happen in partnership between the recipient state and the Commission. The success or failure of a programme should continuously be monitored in comparison with the agreed indicators. Deviations from the foreseen values should not only be subject to stringent analysis but also enable the recipient state to take the required action to ameliorate the problems. To this regard, general priorities do not seem to be required. Rather, the priorities of a given programme should correspond to the aims and aspirations of the particular programme.

The greatest challenge for the cohesion policy remains to find ways to integrate and properly incentivise performance and cost effectiveness into the decision-making processes. It has to be made sure that lessons learned from Court of Auditors' performance audits are translated into tangible improvements on the ground. The development of project relevant core outputs and

result indicators with a view to cost-effectiveness and integration into the decision making process should be prescribed in the regulation and seen in this context. Such indicators should be based on current data, well measured, relevant and last but not least feed back into the decision-making process. Without greater transparency and accountability as regards to obtained results, effectiveness, and efficiency, the European cohesion policy ultimately runs the risk of losing both legitimacy and public support.

Strengthening Governance

- How can cohesion policy take better account of the key role of urban areas and of territories with particular geographical features in development processes and of the emergence of macro-regional strategies?
- How can the partnership principle and involvement of local and regional stakeholders, social partners and civil society be improved?

Denmark acknowledges the importance of urban areas and of territories with special features for the overall growth of the whole EU area. For this reason Denmark supports the inclusion of urban questions in the framework of the current cohesion policy. If required, it is already today possible for recipient states to place special emphasis on support for urban areas which face severe social and economic challenges. Member states can also decide to support selected urban areas as regional or even national growth centres. Experiences show that micro zoning in support of selected sub areas in a given region should be avoided. Consequently, Denmark would not be in favour of ring-fencing or earmarking means for urban purposes.

Cohesion policy should be closely co-ordinated with the other EU-policies addressing regional matters. This co-ordination not only applies to a closer alignment of administrative matters, but also regarding the content and programming of the various funds.

It is the impression of Denmark that the partnership principle is working very well within the current framework of the cohesion policy. Still, in establishing a viable partnership between the Commission, the recipient state and local and regional stakeholders, social partners and civil society, one has to take into account the specific situation, interests and capacity of the various partners. A standardised involvement of a certain number of local partners implies a risk of weakening the concept of focus. Consequently, a standardised approach towards stakeholders and partners seems in general unwanted. These considerations should also form the basis for defining the role of the various actors and stakeholders in any cohesion policy programme. Where required, it might be helpful to monitor the performance of stakeholders and partners in order to support them in conducting their functions.

A Streamlined and Simpler Delivery System

- How can the audit process be simplified and how can audits by Member States and the Commission be better integrated, whilst maintaining a high level of assurance on expenditure co-financed?

- How could application of the proportionality principle alleviate the administrative burden in terms of management and control? Should there be specific simplification measures for territorial co-operation programmes?
- How can the right balance be struck between common rules for all the Funds and acknowledgement of Funds' specificities when defining eligibility rules?
- How can financial discipline be ensured, while providing enough flexibility to design and implement complex programmes and projects?

A shift towards a stronger result orientation and the implementation of the Europe 2020 strategy does not imply that the financial controls and audit processes should be weakened. Notably in times of limited resources, it is important to assure that tax payers' money is well spent. In order to improve upon the record of financial control of the European cohesion policy, control procedures of member states and the Commission should also be subject to the aim of increased efficiency. The proportionality principle justifies the alleviation of administrative burdens in terms of management and control for management authorities with a proven track record. Consequently, verification resources could be concentrated in areas where the biggest improvement potential would be achieved. In practical terms, this implies that priority should be given to the largest programmes and such programmes and regions where problems have occurred previously. Further, cohesion funding could also be available for strengthening the capacity of national audit and managing authorities.

Where ever possible – without violation the basic principles of sound financial management – cohesion policy should pursue a flexible approach as regard to administrative and management procedures. This approach should be based on the objectives of a given programme and the administrative capacity of the managing authority. Administrative rules and guidelines should be defined sufficiently broad, such that they can be applied by all programmes, including programmes of territorial co-operation. Further, existing administrative rules and guidelines should be subjected to the test of whether they facilitate or hinder the results oriented implementation of the Europe 2020 priorities and an increased efficiency. Notably, it has to be made sure that rules and regulations do not deter dynamic and innovative programme partners such as SME's or research institutions. Regulations which fail this test have to be amended accordingly. Also, Denmark believes that there still exists a large potential for simplifications whilst maintaining a high level of assurance on expenditure co-financed. At the same time, changes in the administrative rules and guidelines should be kept to the necessary minimum in order to provide a basis of continuity and applying lessons learned. This is particular important for managing authorities with limited administrative capacity.

It would be an important precondition for alleviating the administrative burden of cohesion policy to clearly define the aims and priorities of the various funds. Ideally, this would allow for determining common eligibility rules for the various funds without disregarding the specific circumstances of the three different funds. Any deviation from this basic principle by establishing fund specific eligibility rules has to be well justified.

Experiences from the current and past programming periods have underlined the importance of maintaining financial discipline with the cohesion policy. Consequently, Denmark would

oppose any measures which could undermine the aim of upholding financial discipline, including compromising the automatic de-commitment rule. It remains a challenge for many member states to design complex programmes such that they can be implemented as foreseen. However, this problem is not solved by weakening financial discipline but by improving upon the administrative and planning capacity of the implementing agencies to a sufficient degree. Technical assistance should continue to be available for this purpose.

The Architecture of the Cohesion Policy

- How can it be ensured that the architecture of cohesion policy takes into account the specificity of each Fund and in particular the need to provide greater visibility and predictable funding volumes for the ESF and to focus it on securing the 2020 objectives?
- How could a new intermediate category of regions be designed to accompany regions which have not completed their process of catching up?

To the degree necessary in order to improve the effectiveness of the cohesion policy Denmark is willing to look into possible adjustments of the architecture of the cohesion policy. This may in particular include changes in order to facilitate the implementation of the Europe 2020 strategy. Still, the most important way to increase the visibility of the European cohesion policy would be to improve upon the results achieved by the support of the European cohesion policy. All too often evaluation and reporting on cohesion policy focuses on money spent instead of highlighting the underlying objectives and results of a given programme. Planning of and consequently reporting on cohesion programmes should in principle be more output oriented than hitherto.

The EU's cohesion policy should to a larger degree than today focus on the least developed regions and member states. Support to regions that do not qualify for convergence support could be reduced. However, Denmark understands the need for limited transitional aid for regions moving from a high to a low support regime within the cohesion policy. Compared with the present systems for phasing in and phasing out a future transitional support could be reduced as regards the level of support and the time-span, while continuing to provide sufficient basis for supporting the economic and social development of regions of intermediate wealth. It remains the primary responsibility of each member state to take adequate steps in order to further the process of catching up of the affected regions. By strengthening the performance focus, monitoring and evaluation systems, adjusting programmes in accordance with the Europe 2020 strategy and exchanging best practices and evaluation reports, it would in many regions of intermediate wealth be possible to improve the effectiveness of the of cohesion policy. Thereby better results could be generated without employing additional resources. Further, the fifth cohesion report lacks any data which might justify the need to allocate additional resources for regions of intermediate wealth.

The European Social Fund should continue to be an integrated part of the cohesion policy in a manner which ensures that the administrative set up for the funds still remains common, thereby allowing member states to establish common management systems for both funds. Furthermore, funding from the European Social Fund should – like the other funds – be allo-

cated primarily according to GDP. In this regard, it should be looked into ways of applying more updated data in order to avoid e.g. that structural fund allocations in 2020 are based on wealth levels which are 10-13 years old.

The cohesion policy should continue to be the main instrument which promotes the overall harmonious development and convergence within the EU, notably by supporting the economic and social development in the Member States lagging behind. It is therefore important that the cohesion policy regulations allow in particular regions and member states lagging behind to spend their allocations in ways which help to enable them to compete on equal terms with the rest of the EU, e.g. research support under heading 1A which should be allocated according to excellence and not levels of wealth.