# EXECUTIVE SUMMARY

There is a consensus that the European Union should modernise its budget, tackling the new challenges and breaking away from bureaucratic inertia and the *juste retour* logic that hitherto have prevented change. The decision to undertake a budget review has provided the opportunity for doing so. This opportunity is still available. Cohesion policy is part of the review, but there are conflicting views on its rationale, its results, and the need and scope for reform. The risk of wrong changes is high. The risk that no change will take place is also very high.

The purpose of this Report is to help avert these risks by setting an agenda for reform and seeking to initiate a frank, informed and timely debate on conceptual, political and operational aspects. A start has been made with the consultation undertaken for preparing the Report.[1] On the basis of this consultation, and a review of the economic literature, empirical evidence and a comparative and historical perspective, the Report argues that:

- there is a strong case, rooted in economic theory and in a political interpretation of the present state of the European Union, for the Union to allocate a large share of its budget to the provision of European public goods through a place-based development strategy aimed at both core economic and social objectives;

- cohesion policy provides the appropriate basis for implementing this strategy, but a comprehensive reform is needed if present challenges are to be met;

- the reform requires the adoption of a strong policy concept (renewing the original ideas of EU founding fathers), a concentration of priorities, key-changes of the governance, a new high-level political compromise and an appropriate adjustment of the negotiation process on the budget;

- current economic and political events have increased the urgency for change: some of the reform proposals can and should be anticipated in the current programme period.

The policy model is the starting point of any change. Indeed, as the Report argues, without such an initial discussion to establish a mutual understanding of the rationale of a place-based development policy, there can be no meaningful debate on reform. A *place-based policy* is a long-term strategy aimed at tackling persistent underutilisation of potential and reducing persistent social exclusion in specific places through external interventions and multilevel governance. It promotes the supply of integrated goods and services tailored to contexts, and it triggers institutional changes.

In a place-based policy, public interventions rely on local knowledge and are verifiable and submitted to scrutiny, while linkages among places are taken into account. The Report argues that this strategy is superior to alternative strategies that do not make explicit and accountable their territorial focus, or even hide it behind a screen of self-proclaimed space-blindness, fail to integrate services, and either assume that the State knows best or rely on the choices and guidance of a few private actors. The lessons of the recent crisis reinforce this argument.

There is a strong case for the EU to allocate a large share of the Community budget to a place-based strategy. It is an essential complement to the unification of markets, the creation of a single currency and the general erosion of national influence over economic developments. It can enable the EU to respond to the expectation of the European citizens that everyone, irrespective of where she/he lives, is able to benefit from the economic gains from unification, to have equal access to

[1] In the course of preparing this Report, 3 Hearings, 1 Workshop, and 5 Policy Seminars were organised involving some 80 academic experts and policy-makers, and a group of Working Papers was commissioned. This material is available at http://ec.europa.eu/regional_policy/policy/future/barca_en.htm.

the opportunities so created as well as an equal possibility of coping with the risks and threats. And it can do so by using a modern governance and by relying on the responsibility of Member States, which retain the power to adapt interventions to contexts.

There is in particular a strong case for building a *territorialised social agenda* as part of cohesion policy, aimed at guaranteeing socially agreed standards for particular aspects of their well-being which people attach high priority to. This would represent a kind of social contract between the EU and its citizens and a means, in the longer-term, of encouraging mobility by reducing fears about it.

There is also a clear advantage of the EU rather the Member States running such a policy since it is better able to take account of over-the border interdependencies, which are of increasing importance for the growth of the EU as a whole as closer integration occurs. Moreover, it is further removed from the pressure of local interest groups which can distort or obstruct the development path pursued.

The review undertaken by the Report shows the severe limits of the quantitative evidence available on policy performance. However, a tentative analysis of strengths and weaknesses leads to two conclusions. First, the current architecture of cohesion policy represents the basis for implementing the place-based strategy needed by the Union. Second, cohesion policy must undergo a comprehensive reform for it to meet the challenges facing the Union.

**In short, the Report argues that:**

There needs to be a clear and explicit distinction between policy interventions aimed at increasing income and growth ("efficiency" objectives in the terminology of the Report) and those aimed at reducing inequalities ("social inclusion" objectives in the Report), not least in order to be able to monitor and evaluate the results.

There needs to be a greater coherence with the place-based or territorial policy concept. And a true concentration on a few issues of key importance for the EU and its people. This would create a Europe-wide critical mass of interventions on commonly agreed priorities, attract political and public attention to the measures implemented and enable the Commission to better focus its human resources and efforts and play a more strategic role.

There needs to be a reform of governance based on ten "pillars".

*Pillar 1: An innovative concentration on core priorities and a conservative territorial allocation*

The concentration of 55-65% of funding on 3-4 core priorities, the share varying between Member States and Regions according to needs and strategies, with the criteria for the territorial allocation of funding, and the distribution of funds between lagging and non-lagging and for "territorial cooperation" remaining much as now.

The choice of the core priorities should result from a high-level political debate, but six possible candidates, discussed in some detail in the Report, are: *innovation* and *climate change*, with a largely economic ("efficiency") objective; *migration* and *children*, with a predominantly social ("social inclusion") objective and *skills* and *ageing*, where the two objectives are of similar importance. For most of these, the EU has already developed a body of knowledge and expertise for setting the institutional principles and the indicators for policy implementation.

*Pillar 2: A new strategic framework for cohesion policy*

An enhanced strategic dialogue between the Commission and Member States (Regions), based on a *European Strategic Development Framework*, setting out the major policy innovations clear-cut principles for the core priorities and a set of indicators for assessing performance

*Pillar 3: A new contractual relationship, implementation and reporting aimed at results*

A new type of contractual agreement (a *National Strategic Development Contract*) between the Commission and Member States, based on the above and focused on performance and on the institutional requirements for intervention, covering all cohesion policy resources and specifying verifiable commitments, coupled with the preparation of an *Implementation Assessment* (where required) by the Commission and of a *Strategic Report on Results* by Member States annually after the third year.

*Pillar 4: A strengthened governance for the core priorities*

The establishment of a set of ex-ante conditionalities on the institutional framework required to be in place in order to pursue each core priority and a system for assessing progress in meeting targets.

*Pillar 5: Promoting additional, innovative and flexible spending*

The strengthening of the principle of additionality through linkage to the Stability and Growth Pact, plus a contractual commitment and an assessment of how the policy is delivering the value added for which it is justified, and the option of implementing the de-commitment rule over the entire country rather than at programme level.

*Pillar 6: Promoting experimentalism and mobilising local actors*

The development of a better balance between creating an incentive for local agents to risk and invest and preventing policy from being "captured" by local interest groups, through encouragement for experimentalism and a direct role of the Commission based on the establishment of a small fund for Innovative territorial actions and on the involvement of international expertise at local level.

*Pillar 7: Promoting the learning process: a move towards prospective impact evaluation*

Encouraging the design and implementation of counterfactual methods for assessing the impact of policy interventions, to improve understanding of what works, especially in a prospective sense, so that evaluation is designed together with the intervention and can have a disciplinary effect by focusing attention on objectives and on the criteria for the selection of beneficiaries.

*Pillar 8: Refocusing and strengthening the role of the Commission as a centre of competence*

A significant investment in human resources and organisational changes in the Directorates-General of the Commission which have a overall responsibility for cohesion policy, together with much-improved coordination among Directorates in charge of cohesion policy.

*Pillar 9: Addressing financial management and control*

The assumption that recent changes introduced in this area, and further measures that might be taken on the basis of current debate, will allow a greater efficiency to be achieved and space to be made in the Commission for the above additional investment in human resources.

*Pillar 10: Reinforcing the high-level political system of checks and balances.*

A much improved high-level political debate, fuelled by the new information on performance produced by the previous changes, together with a renewed system of checks and balances among the Commission, the European Parliament and the Council, strengthened by the creation of a formal Council for cohesion policy, assessing decisions and results and issuing recommendations.

The implementation of this reform would require a strong political compromise to take place during 2010. It would also require some changes to be anticipated in the current programme period and the structure of the budget negotiation on cohesion policy to allow for simultaneous agreement on resources, governance and goals.