

Commissioner Hahn's speech
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Ladies and Gentlemen,

Dear participants,

It is a great pleasure for me to be here today in this truly global city.

I would like to thank the European Regional Science Association for inviting me to address you in this session.

As many of you know, the Commission is currently preparing the legislative proposals for European regional policy after 2013. We hope to adopt the proposals in early October.

What I would like to do today is to give you a flavour of some of the thinking that went into drafting the proposals.

I. Regional Policy is an investment policy

Since the beginning of my mandate, I have concentrated on shifting the debate about EU regional policy from a discussion about solidarity with poorer Member States into one about the role that regional policy plays in generating growth and creating jobs – consolidating EU regional policy as **THE investment policy of the EU**.

The policy is still perceived by many as a simple transfer of resources with few strings attached. It is "easy money" contributing to nurture a culture of entitlement and rent-seeking. Resources are loosely related to the main EU priorities, which would be better served by programmes centrally managed by enlightened supranational technocrats.

To many, it is a policy which prevents labour mobility and diversification, maintains ailing industries and provides subsidies to uncompetitive firms. A policy which prevents inefficient administrations and institutions to truly change and modernise.

You will be surprised to see how engrained this vision is even, and possibly in particular, in Brussels.

This is a caricature. Regional policy is something else.

It is first and foremost an investment policy which contributes to changing the way in which regions think of their future; it helps modernising and diversifying regional economies; it promotes innovations; it helps connecting regions and providing better services to EU citizens.

In a nutshell, it is a system of **conditional grants** supporting investments in regions and **inducing institutional and administrative changes**.

It may have escaped to some that over the past 20 years the policy and its objectives have fundamentally evolved.

This is not to say that the policy is perfect. Successive reforms have tried to address weaknesses and make the policy more strategic, more conditional, and more accountable. More can and should be done.

II. Multi-level governance as a key factor of regional policy

But I remain convinced that **EU regional policy is the main way today to secure growth and create jobs**. And this, because its governance model is the only one which allows investing significant amounts of EU resources in Member States and regions.

We learned through the years that the world is not flat and disparities remain; we learned that institutions are not unique and need to be tailored to different contexts; we learned that multi-level governance is difficult, but necessary to combine bottom-up knowledge with top-down policy principles. We also learned that we need a new metric for assessing progress, adjusting strategies, and evaluating outcome and results.

But we also learned that multi-level governance cannot mean that we discuss general strategies at the beginning of the programming period and then we meet after seven years to see what has happened. Multi-level governance is a learning process which requires rigour, transparency, and constant review.

III. New key elements of the policy post 2013

You have probably heard about the main elements of the reform of the policy which I will present in a few weeks.

First, public investment should be aimed more than ever at a small number of growth-enhancing investment priorities. We have called this **thematic concentration**. For me, growth-enhancing covers both quantitative and qualitative aspects of growth. We have enormous potential in our regions for genuine sustainable growth, for developing not only more products and services but better ones.

Second, during our discussion on the strengthening of economic governance, we agreed that financial support from the EU, including cohesion policy, has to become more **conditional**.

These conditions should be universal, transparent, and proportional. They should encourage reforms in Member States by linking disbursement of funds to progress in areas directly linked to the operation of the policy, for example in the area of environmental protection, business environment or administrative capacity.

Let me give you an example: we should use financial resources in a much smarter way when it comes to assisting small companies develop and introduce new products on the market – we have developed expertise in cluster management, but I believe there is still much more that can be done to avoid a piece-meal approach. Developing high quality, effective and relevant clusters could be a condition for financial support.

Third and last, I want programmes to explain what they want to change and **monitor these changes**. This means that regions and countries have to identify the indicators that will measure these changes. To facilitate this process we are working (with Philip McCann among others) to develop a list of outcome indicators that programmes can use. In addition to a stronger targeting and monitoring of the policy, this approach helps to measure the contribution of cohesion policy to development. To justify the continuation of the policy in a time when all Member States are under severe fiscal pressure, we must ensure that the policy produces good rates of return and that these returns can be demonstrated.

IV. Analyses and institutional capacity

I would like however to focus today on **two other, important elements**, which are linked to the role of the Commission.

The first concerns the need to base our investment strategies **on better and more precise analyses**.

Along with the OECD and the World Bank, we have studied the factors that generate growth at regional level. We want to know how regions can best promote their own economic growth and how our policy is best placed to help. We will ask countries and regions to justify their investment strategies; we will be ready to challenge them, if necessary.

Particularly in times of fiscal constraints, choices need to be made. We need to ensure that the EU budget finances European public goods and actions that Member States and regions cannot finance themselves, or where it can secure better results.

We intend to produce by the end of the year a first draft of the so-called **Common Strategic Framework**. This document will outline the main territorial challenges the policy should address; the investment priorities by thematic domain; the policy principles which programmes and strategies will have to comply with; the mechanisms for coordinating instruments and policies.

But we want to move **a step further**. This general document will be the basis for developing 27 detailed analyses of countries' structural challenges and of related investment priorities. We expect countries and regions to carry out similar rigorous work; to engage in an honest discussion with us; and to commit politically to the strategies which will eventually be approved.

We do not start from scratch. The European Council has agreed the broad lines of these strategies: investment in education; innovation and R&D; clusters and technological specialisation; energy efficiency and sustainable modes of transport. The challenge will be to find the exact combination of these elements to adapt to different economic and institutional contexts. Again, solid analysis will be essential.

The second element has to do with **institutions**. If there is something we in regional policy learned from the current crisis is that often the real problem is not the lack of money, but **the lack of institutional and administrative capacity**. We learned that institutions can be very resistant to change.

Institutions and the quality of governance are crucial conditions for regional economic growth. Too often, we have seen the potential impact of our policy compromised by a lack of institutional capacity and poor

governance. By institutions, I mean everything from the rule of law, to administrative capacity in strategic planning, to the fight against fraud and corruption, and to accountability and sound public finances. For many Member States and regions, the quality and productivity of the public sector are essential in order to embrace reforms and good governance. Study after study has shown that there is significant variation within the EU with respect to quality of governance.

I think this is an area where the Commission should become much more active than in the past. Real change often requires an external agent to break entrenched ways of doing things; habits that have been there for years; and, let's face it, rent-seeking positions which consider EU resources as a given.

I am of the opinion that institutional and administrative issues should be part and parcel of the negotiations with countries and regions on the next generation of programmes.

V. Invitation to work together

Let me conclude with an **invitation**. It is the same invitation I gave to participants at the Regional Studies Association conference in Newcastle in April.

For the new Cohesion policy to work, Europe will need a large mobilization of expertise, knowledge, and analysis. We will need this:

- to develop outcome indicators and monitor them;
- to assess the quality of Member States' strategies and programmes;

- to evaluate the capacity of institutions to effectively implement programmes;
- to negotiate precise conditionalities linked to institutions, programmes and priorities.

In a nutshell, the Commission needs to strengthen **its role as a credible, competent and reliable partner**. Some of those capacities exist today within the institution; some do not and need to be developed in the months to come. I intend to establish platforms and tools, which would allow the Commission to tap into the skills and expertise which exist in Europe – and many of which are represented here today – to help us make a success of EU regional policy and of its integrated and place-based approach. I am thinking, for example, of creating pools of country and regional experts to accompany and support the Commission during the negotiations. Let's think together about it.

I invite you to follow closely developments in the field of EU regional policy over the next months. It is an invitation for you to **help us broaden our expertise, knowledge and analysis of the policy**. This will be particularly important when we negotiate the next generation of programmes with the Member States and regions.

We want to be able to say to them: look at the challenges you face today; tell us where you want to go and then tell us how you plan to get there. Call it our own theory of change. But in order for us to be able to elaborate on this theory of change we need your input, your research and your analysis.

Thank you for your attention.