



Ministerie van Economische Zaken

The Future of Cohesion policy

Joint position paper of the Dutch central, regional
and local government



Key messages on the Future of Cohesion policy

Introduction

In this joint position paper of 23 June 2010, Dutch central, regional and local government address five key issues considered important for the future of cohesion policy. The aim is to make a constructive contribution to the wider discussion on the future of cohesion policy and to provide input for the fifth Cohesion Report. While acknowledging that not all parts of cohesion policy have direct relevance for the Netherlands, this paper covers the full range of instruments applicable to all regions and member states that will receive funds in the next period.

This paper does not address the budgetary aspects of future cohesion policy or the allocation of funds. It does not pre-empt in any way the discussion on the Financial Perspectives for 2014-2020. The positions cited below should be considered as the basis for this position paper.

The position of the Netherlands as a member state is that structural and cohesion funds should only be allocated to the least prosperous regions in the least prosperous member states. The EU can also play a role in cross-border, transnational and interregional cooperation, carrying out projects that would not be set up if national cost-benefit analyses gave a negative result, while the cross-border cost-benefit assessment is positive. The Netherlands believes that this approach should result in a substantial cut in the share of the EU budget allocated to structural and cohesion funds. Nevertheless, the future cohesion policy has the full attention of the Netherlands, because it continues to set great store by the sound financial management of EU funds and the reduction of disparities in development between EU regions.

Regional and local governments in the Netherlands are positive about the current use of structural funds and believe that cohesion policy will remain an important instrument to contribute to the achievement of European goals at local and regional level in the future.

A. The connection between cohesion policy and Europe 2020

Cohesion policy can make a significant contribution to the challenges facing the EU in the coming years, such as globalisation, climate change, employment and a better qualified labour force. Many of these challenges are addressed in the Europe2020 strategy.

- Cohesion policy should focus on contributing to sustainable growth and employment, and thus to the goals of the Europe2020 strategy.
- Earmarking has proved successful in the current period and the Netherlands supports mandatory earmarking of all cohesion funds. The criteria should be stricter and more focused on results. Earmarking percentages should not be lower than in the current period.
- ESF should continue to focus on employment and skills, while ERDF should focus on sustainable growth, innovation and competitiveness. ERDF should leave room for other investments when these are necessary for the sustainable development of the region concerned.
- There should be a balance between a more focused use of structural funds and room for national, regional and local development policies and sectoral policies. Structural funds have the greatest impact when they are used in synergy with these policies. National and regional governments should be able to choose which Europe2020 goals to focus on when earmarking funds.
- Multi-level governance, partnership and shared management are at the heart of cohesion policy and can play an important role in securing EU goals at national, regional and local level.

- Territorial cohesion as a policy concept is important in creating a sustainable place-based development and a place-based approach to specific regional challenges.

B. Simplification of the management and control of the structural fund programmes

Simplification is essential for an effective cohesion policy, for reducing the administrative burden on businesses, governments and other institutions and for reducing irregularities in the implementation of the programmes. For the future period, the Netherlands proposes simplification of European legislation and audit practices.

The Netherlands proposes the following points for simplification:

- The Commission should resolve interpretation questions more quickly and more uniformly and improve access to its answers, possibly with an IT-system.
- Applying the proportionality-principle: finding a better balance between potential risks and audit and control, reducing the current burden of audit and controls when a relative small amount of funding is concerned. The Netherlands supports the proposal to disburse grants of up to €50,000 on a lump sum basis over the coming period.
- The SISA principle (Single Information Single Audit) should be applied in such a way that the administrative burden is reduced for both businesses and governments.
- Simplified costs should be applied more rapidly and more easily, for example by introducing a flat rate with indirect costs of a set maximum (with no prior approval necessary).
- In the current period, a solution was found for the problems with N+2 in the first year of programming: the first year tranche was spread over the other years. We propose that the Regulations for the next programming period include the conditions for applying the same rule (only for the first year of programming).
- The current article 55 results in a considerable administrative burden. Such an article should only apply to large projects (and not at all to services). The current article 57 should not apply to innovation projects and the burden should be further reduced for small business and ESF projects.
- The partial closure procedure should be changed to ensure financial corrections can be re-used and will not be lost for the operational programmes.

C. A more integrated approach to EU programmes

The various EU programmes should complement each other, resulting in less overlap and more focus. There should be clear demarcation lines between different programmes.

- Each programme should have a clear focus with a limited number of goals and actions.
- The connections and demarcations between the various programmes should be clarified to all parties during preparations for and implementation of the next period. A best practice in the current period is the Practical Guide to EU Funding Opportunities for Research and Innovation and the Commission should expand and promote this approach and ensure that information is available early in the programme period.
- The various EU programmes should, where possible, be based on the same instruments and rules. The Netherlands is in favour of more uniform rules on, for example, simplified costs, procedures and reporting.
- More synergy and cooperation between funds should be encouraged. The Netherlands is in favour of exploring opportunities to apply a single set of rules to a project that makes use of several programmes.
- The Framework Programme on R&D focuses on excellence and research, CIP focuses on innovation and valorisation, while the structural funds focus on practical innovation and on supporting clusters (for example infrastructure, local developments), using multi-level governance and an integrated approach. These varying approaches can mutually reinforce each other, and ways of connecting these programmes should be facilitated.
- Financial engineering can offer advantages such as increased leverage, instituting revolving funds and reducing administrative burdens by pooling resources and management. However, it can only support projects that generate sufficient revenue

and should only apply in the event of market failure to prevent crowding out. In view of these advantages and reservations, the Netherlands is in favour of further study of the possibilities offered by financial engineering, including examining the budgetary consequences in relation to the decommitment rule.

D. The influence of territorial cohesion on cohesion policy; the future of European Territorial Cooperation

The concept of territorial cohesion puts more emphasis on sustainable place-based development and a place-based approach. Territorial cohesion guarantees that European challenges are linked to a territory's specific spatial challenges, specific assets and governance structure.

European Territorial Cooperation should be continued in the next programming period, because it can support projects with a positive cross-border cost-benefit assessment and because it presents a platform for cooperation and the exchange of best practice across Europe.

- In the next programming period, the programme areas should be more flexible and focused on complementarities, to enable thematic cooperation and cooperation based on functional and spatial challenges. The governance structure of European Territorial Cooperation should be simplified.
- European Territorial Cooperation should contribute to the goals of the Europe2020 strategy and should have earmarking for this purpose.
- Cohesion policy in general should promote cross-border projects and networks. A true Europe without borders and a more open market for border areas necessitates a strong focus on cross-border cooperation.
- European Territorial Cooperation should support SMEs in border regions and cross-border clusters with a geographic and thematic component.

E. Governance

Good governance is necessary for an effective cohesion policy.

- Multi-level governance is a key factor for the success of ERDF programmes. The main point of multi-level governance is policy coordination by the European Union, national, regional and local governments, based on the principles of partnership and shared responsibility. The different levels of government have a joint responsibility for developing, implementing and evaluating cohesion policy and the ERDF programmes.
- Horizontal partnerships with social and economic entities (e.g. companies) should be promoted.
- Cities should continue to take part in cohesion policy and share responsibility for developing and implementing cohesion policy. This is also valuable because it connects European and national goals to regional and local strategies for development and enables synergy.

Joint position paper of the Dutch central, regional and local government on the Future of Cohesion policy

Introduction

This position paper about the future of European cohesion policy was written jointly by Dutch central, regional and local authorities and approved on 23 June 2010. The aim is to make a constructive contribution to the wider discussion on the future of cohesion policy and to provide input for the fifth Cohesion Report. This paper does not address the budgetary aspects of cohesion policy or the allocation of funds; it deals only with those EU regions and member states that will receive cohesion and structural funds in the future. This paper does not pre-empt in any way the discussion on the Financial Perspectives for 2014-2020.

The basis for this position paper is the position of the Netherlands as a member state that structural and cohesion funds should only be allocated to the least prosperous regions in the least prosperous member states. The EU can also play a role in cross-border projects in economically interconnected border regions and in cross-border, transnational and interregional cooperation, carrying out projects that would not be set up if national cost-benefit analyses gave a negative result, while the cross-border cost-benefit assessment is positive. The Netherlands believes that this approach should result in a substantial cut in the share of the EU budget allocated to structural and cohesion funds.

Even with a reduced proportion of these funds in the EU budget, the future cohesion policy has the full attention of the Netherlands, because it continues to set great store by the sound financial management of EU funds and the reduction of disparities in development between EU regions.

Regional and local governments in the Netherlands are positive about the current use of structural funds for, inter alia, the goals of the Lisbon agenda and believe that cohesion policy will remain an important instrument to contribute to the achievement of European goals at local and regional level in the future.

Dutch central, regional and local authorities have identified the following five key issues that are vital to the future of cohesion policy:

- A. The connection between cohesion policy and Europe 2020
- B. Simplification of the management and control of the structural fund programmes;
- C. A more integrated approach to different EU programmes

- D. The influence of territorial cohesion on cohesion policy; the future of European Territorial Cooperation;
- E. Governance.

These five key issues are discussed in greater detail below.

A. The connection between cohesion policy and Europe 2020

General position

The European Union is facing a number of major challenges over the next ten years, and Europe 2020 is an important strategy for tackling these challenges. The Netherlands believes that cohesion policy should concentrate more on contributing to sustainable growth and employment and, therefore, concentrate more on contributing to Europe 2020. Fostering such a link will boost the policy's impact and ensure better and more efficient use of structural funds. For that reason the Netherlands supports tighter earmarking in the coming period and mandatory earmarking for all programmes. Generally, the most logical focus for the ESF is on employment, skills and lifelong learning, and the most logical focus for the ERDF is on sustainable growth, innovation, competitiveness and entrepreneurship. In the next programme period a good balance must be struck between a more focused use of structural funds and room for national, regional and local development policies and sectoral policies. Given the major differences between the member states and regions of the European Union, future cohesion policy must provide adequate scope for national, regional and local authorities to decide about how best to pursue the objectives of Europe 2020. The goal is to enable an optimal fit between cohesion policy and national, regional and local policy, in close collaboration with actors from the private sector and civil society (including trade unions, employers' organisations, businesses and knowledge/research institutions), so as to ensure that structural funds produce maximum added value. Territorial cohesion as a policy concept is important for fostering a greater emphasis on sustainable place-based development and a place-based approach. Territorial cohesion guarantees that European challenges are linked to a territory's specific spatial challenges, specific assets and governance structure.

Detailed position

The European Union is facing a number of major challenges over the next ten years including globalisation, climate change, energy dependence, demographic changes and the associated decline in participation rates, and the need to improve competitiveness, innovation and employment. Further challenges that will have to be met by the EU in

this period are macroeconomic imbalances, such as deteriorating competitiveness and bottlenecks impeding member states' capacity for growth. These challenges manifest themselves at every level of government – European, national, regional and local – and in every sector of the economy and in every area of society. An important strategy for tackling these challenges is Europe 2020, with its central themes smart growth (innovation, education, digital society), sustainable growth (climate, energy, mobility and competitiveness) and inclusive growth (employment and skills, fighting poverty). The European Council concluded in March 2010 that all common policies, including cohesion policy, would need to support the Europe 2020 strategy.

Europe 2020

The Netherlands believes that the funds should focus more on sustainable growth and employment and, therefore, concentrate more on contributing to the goals of the Europe 2020 strategy (in those regions that will be receiving structural funds in the future). Fostering such a link also boosts the added value of cohesion policy, giving the funds with a tighter focus and greater impact. With this in mind, the Netherlands would like all types of structural funds and programmes to make a substantial contribution to achieving the goals of Europe 2020, including the future European Territorial Cooperation (ETC) programmes (Interreg). The different programme could have more or less focus on the goals of Europe 2020, depending on the specific challenges of the region in question.

Earmarking

The link between the structural funds and Europe 2020 can take a variety of forms. Given the success of earmarking in the current period and the widespread support for the practice, the Netherlands favours its further use in the period ahead. The advantage of earmarking is that it enables policy discretion and flexibility within a well-defined framework. Earmarking must be done in a meaningful way, however, governed by stricter requirements than is now the case. In the current period, earmarking is too vague, its focus too diffuse. The Netherlands calls for a stronger focus, to ensure that the projects make a demonstrable and substantive contribution to achieving the Europe 2020 goals. We favour investigating options for putting a greater emphasis on results, rather than input alone (amount of structural funds spent on the Lisbon objectives). In the case of innovation projects, it must be taken into account that success is not always guaranteed.

In the present period, approximately 80% of Objective 2 programmes have been subjected to mandatory earmarking for the Lisbon Agenda; for Objective 1 programmes,

the corresponding figure is 60% (on a voluntary basis), and for Objective 3 programmes, approximately 50% (also on a voluntary basis). The Netherlands believes that in the future, earmarking should be mandatory for all types of structural funds and that the percentages should not be lower than those of the current period. We do not advocate using structural funds solely to advance the goals of Europe 2020. Within the framework of cohesion policy, there should be sufficient scope for investments that have not been earmarked for Europe 2020, if they are necessary for the sustainable development of the region in question.

Linking structural funds to the goals of Europe 2020

In the present period, linking cohesion policy to the Lisbon strategy has proved to be a great success, with the ESF primarily contributing to the goal of employment and the ERDF primarily contributing to the goal of sustainable growth. The Netherlands favours the same division of responsibility in the period ahead. In general, the ERDF can be best used to foster sustainable growth, innovation, competitiveness and entrepreneurship. In choosing what Europe 2020 goals the ERDF should be used for, account must always be taken of the specific characteristics of the relevant member state and region, the regional economic infrastructure and the challenges that these things present.

The legal basis for the ESF, which seeks to improve employment opportunities for workers in the internal market and to contribute thereby to raising the standard of living, is article 162 of the Treaty on the Functioning of the European Union. The aims of the ESF are: promoting the employment of workers within the Union, promoting worker mobility (both geographical and occupational) and adapting to changes in industry and in production systems, especially through vocational training and retraining. The ESF can address the EU's priorities for economic and social cohesion by improving employment and job opportunities and by encouraging a high level of employment and more and better jobs. These objectives from the Treaty and Regulation EC 1081/2006 are consistent with the central goals and flagship programmes of Europe 2020, particularly the first and third priorities (smart growth and inclusive growth) and the proposed Integrated Guidelines. This is especially true for guideline 7 (increasing labour market participation and reducing structural unemployment), guideline 8 (developing a skilled workforce, responding to labour market needs, promoting job quality and lifelong learning), guideline 9 (improving the performance of education and training systems at all levels and increasing participation in tertiary education) and guideline 10 (promoting social inclusion and combating poverty).

Given its mandate and aims, the ESF can and should support the implementation of these guidelines, with a view to boosting employment rates, combating segmentation, inactivity and gender inequality, and reducing structural unemployment, especially among the most vulnerable groups in the labour market. By ensuring the availability of knowledge and skills that meet labour market demand now and in the future, inter alia by education and training that takes into account (medium) long-term developments in the various sectors, the ESF can be used to promote the employability and productivity of the labour force, in collaboration with trade unions, employers' associations, the business community and regional and local authorities. Tailoring the educational system to the labour market, creating opportunities for lifelong learning (including retraining), and helping more people obtain basic qualifications are all crucial to this objective. Long-term, paid employment is, after all, the best way of promoting social integration and combating poverty.

Policy discretion

In the next period a good balance must be struck between a more focused use of structural funds and sufficient policy discretion: room for national, regional and local development policies and sectoral policies. There are significant differences between the different member states and regions, with different social and economic infrastructures and the resulting different challenges. All levels (national, regional and local) consequently need sufficient policy discretion to identify their own opportunities and challenges and, on that basis, make joint policy decisions on development. This is also true for actors in civil society and the various economic sectors (including trade unions, employers' associations, businesses, and knowledge/research institutions). Cohesion policy should leave national, regional and local authorities sufficient room to choose how to implement the objectives of Europe 2020. The aim is to achieve an optimal fit between cohesion policy and national, regional and local policy, in close collaboration with actors from civil society and the various economic sectors (including trade unions, employers' associations, businesses, and knowledge/research institutions), thereby maximising the added value of the structural funds. The Netherlands would therefore propose that an agreement be concluded at European level that the structural funds make a substantial contribution to the goals of Europe 2020 (e.g. via earmarking) and that national and regional authorities select for which Europe 2020 goals the structural funds are used.

This balance between focus and policy discretion is also relevant to the drafting of Operational Programmes. The financial and economic crisis has shown how important it is for countries and regions to be able to respond flexibly to changing circumstances. In

the next period, the Operational Programmes should be sketched in broader strokes, and these 'broad strokes' should be the subject of the European Commission's evaluation. The Netherlands also believes in exercising restraint in imposing additional central EU priorities and strategic Community guidelines for economic, social and territorial cohesion.

In the specific case of the ESF, trade unions and employers' associations should be closely involved in drafting the Operational Programme and disbursing ESF resources. This involvement contributes to the realisation of a social policy agenda for long-term employment ('decent work') and social inclusion, with appropriate attention to equal opportunities and equal access to training for all workers.

In the specific case of the ERDF, applying ERDF resources to contribute to the goals of Europe 2020 has the advantage of embedding the strategy in regional and local policy. The Netherlands believes that, for countries that will be receiving ERDF money in the future, the goals of Europe 2020 should form an overarching strategic framework that can guide the commitment of these funds. An integrated, place-based approach and multi-level governance are needed in order to elaborate this framework.

Finally, territorial cohesion as a policy concept is important for the development of cohesion policy. Territorial cohesion means a greater emphasis on sustainable, place-based development and a place-based approach. Territorial cohesion ensures that European policy challenges are linked to a territory's specific spatial challenges, specific assets and governance structure, including a significant role for regional and local partners.

B. Simplification of the management and control of the structural fund programmes

General position

In the Netherlands' view, simplifying legislation and reducing the administrative burden for final beneficiaries and public authorities is essential to an effective cohesion policy in the period starting in 2014. The complexity of existing legislation results in high costs and aggravated irregularities and errors in implementation. The right balance must constantly be sought between accountability and simplification. In preparing for the next programming period, the Netherlands is committed to a more thorough revision and simplification of European Regulations, implementing rules and audit practices, including a broader application of the proportionality principle and the Single Information Single Audit (SISA) approach.

Detailed position

Over the past two years, thanks in part to the economic crisis, there has been more attention for the need to simplify the implementation of the European programmes and the structural funds. As a result, the issue of simplification has come to occupy a prominent place on the European agenda. The Netherlands welcomes this development. The Netherlands attaches great importance to accountability for the disbursement of European funds and has called for the introduction of a SISA approach and a reduction in the administrative burden for grant recipients and implementing organisations for years. In this connection we would refer to the 62 Dutch government proposals (10 of which directly relate to cohesion policy) to lighten the burden on business (March 2009), and to the Dutch contribution to the consultation for the triennial review of the Financial Regulation of the European Union (Dec 2009).

In preparing for the next programming period, the Netherlands emphasises the need for a more thorough revision and simplification of European Regulations, implementing rules and audit practices, including a broader application of the proportionality principle. In the past, we have experienced that complex and complicated legislation can give rise to non-compliance and mistakes, increasing the risk that policy objectives will not be met. At the same time, couching programme objectives in overly detailed language will inevitably entail higher accountability costs. In other words: well-designed rules and legislation that are simple to interpret and apply can reduce the risk of error.

With these principles in mind, the Netherlands would like to make the following specific recommendations for the structural funds.

Interpretation

The Netherlands believes it is important for legislation to be interpreted in an effective and timely manner. Under current procedures, it may take a significant proportion of the programme period before an ambiguous point is cleared up. The legal uncertainty that this engenders can impede the functioning of an Operational Programme. Therefore, effective procedures need to be established whereby the European Commission can resolve interpretation questions within an agreed, limited timeframe. By means of an electronic system, the Commissions' interpretations can then be made accessible to all programmes. The above could also be applied to audit results and the (mandatory) response to them.

Revising audit practices: a broader application of the proportionality principle

EU resources should be spent lawfully and efficiently. The importance of good financial management should be self-evident. The Netherlands is in favour of varying the intensity of audits on the basis of risk selection. A review of the current audit practice, in consultation with the European Commission, the member states and the European Court of Audit, is therefore necessary. A broader application of the proportionality principle and reducing the administrative burden are two key themes for the Netherlands. We would, for example, support retention of the current rule whereby programmes with a European co-financing percentage under 40% can apply national audit standards.

The Netherlands would like to see a broader application of the proportionality principle: the cost and intensity of the audit must depend on the amount of money and/or the percentage of co-financing involved. In March 2009 the Netherlands proposed making possible lump-sum financing of €50,000: Recent Dutch studies have shown that by allowing lump-sum payments, administrative costs could be reduced by up to 30% and compliance costs by up to 20% of the grant. It should be possible to disburse small grants (of up to €50,000) on a lump-sum basis instead of on the basis of real costs, and with explicit reference to non-interference with the internal market (i.e. state aid). This would imply that expenditure is disbursed on the basis of a budget approved by an institution issuing the funding. Afterwards, no financial accountability is required of beneficiaries. Instead, performance-based sample checks (on the basis of risk analyses) are carried out so as to ascertain whether the funded activities have in fact been accomplished. The Netherlands is pleased that the European Commission has incorporated this proposal and would like this option to be retained in the upcoming period.

Revising audit practices: SISA, Clearing House

The SISA approach also offers a number of concrete options for revising audit practices. The advantage of SISA is that fund beneficiaries are only obliged to supply information to auditors once and not over and over again. A single audit is then conducted on the basis of this information. Audits with a positive outcome are not repeated. The various levels of control need to be better coordinated. The SISA concept is already in use in the Netherlands, and has the potential to be introduced throughout Europe. The SISA principle (Single Information Single Audit) should be applied in such a way that the administrative burden is reduced for both businesses and governments.

The Netherlands is in favour of taking further steps towards developing a Clearing House system, provided this would lead to a reduction of the administrative burden for all parties involved. Such a system would make the information from the final beneficiaries accessible for all actors in the management chain (MA, CA, AA and the Commission). This reduces the time that final beneficiaries and other actors spend on providing information for audits. Therefore, a Clearing House can support the introduction of a SISA approach. The further development of a Clearing House should lead to a lighter administrative burden not only for final beneficiaries, but also for MAs. A Clearing House should not result in a heavier burden for MAs.

Simplified costs

A good start was made during the present period on simplifying costs, but there is still more progress to be made. Under the current system, when applying for a flat rate, the percentage of indirect costs must be demonstrated for various types of projects by means of complicated studies, even though in a number of current European Territorial Cooperation programmes 20% has been set as a general maximum with no prior approval or complicated studies necessary. As many member states are above the 20% threshold, introducing simplified costs would seem a logical choice, but the complicated studies in the current system form a daunting hurdle. For that reason the Netherlands would urge that, as of 2014, a general maximum flat rate be introduced for all funds in all member states without any further conditions. The benefit of this measure is a major reduction of the burden associated with evaluation, control (on the part of the implementing organisations) and accountability (on the part of the final beneficiaries).

N+2 in the first year

The principle behind N+2 is that financial resources from annual tranches that are not spent on projects within three years will revert to the European Commission ('automatic decommitment'). The Netherlands supports the principle of N+2 because it is a good way

of upholding budgetary discipline and financial accountability and ensuring that resources are not mainly spent in the final years. The biggest problem with the N+2 rule is that it does not take sufficient account of the 'teething troubles' that will occur in any new programme period: in the first year of a structural fund programme, the Operational Programmes must be approved, projects must be registered and selected, and money must be committed. Only after these actions can the money be spent. In practice, this is unlikely to happen within the first year, and thus the N+2 rule is particularly problematic for that first year.

To prevent the automatic decommitment of a large proportion of the cohesion funds available for 2007, it was decided during the current period the first year tranche was spread over the other years. The Netherlands supported this decision. If such a situation recurs in the next period, we would propose to expedite the decision-making by having the Commission set down the conditions for this scheme in the Regulation for the next period. This special scheme must only be applied to the first year of the programme period and should not erode the N+2 rule in general.

Revenue-generating projects (article 55)

The Netherlands supports limiting the rules for revenue-generating projects (currently article 55 of the General Regulation). The current legislation was conceived with major infrastructure projects in mind, but it also applies to services and even to small-scale services in a larger project). For beneficiaries working on relatively small projects, this creates disproportionately high administrative costs for the revenue generated. We believe that the rules for revenue-generating projects should apply solely to major infrastructural projects and buildings. In specific terms, the Netherlands would propose raising the applicability threshold and narrowing the scope of the article to exclude services.

Durability of operations (article 57)

In the Netherlands' view, the requirement of the existing article 57 should be restricted. Under this article, beneficiaries are obligated in the current period to refrain from any 'substantial modification' of the operation being funded within five years from the completion of the projects. Checks are carried out to ensure that they have not done so. For beneficiaries involved with small projects this represents an unnecessary administrative obligation. Moreover, in the case of a training programme or a reintegration project supported by the ESF, it is unnecessary to require notification of a bankruptcy or transfer of property from an enterprise in which training courses were held. For that reason the Netherlands would like to relax this obligation for SMEs and

ESF projects. Also, this requirement is antithetical to the very nature of innovation: it is inherent to true innovation that projects might fail and that enterprises, products and services are changed, further developed or sold. Given that innovation is a major priority of the structural funds, the Netherlands would propose excluding innovative projects from the requirements imposed by article 57.

Annual cycle and partial closure

The Commission is currently examining the pros and cons of introducing the accountability system (based on annual reports) used by DG AGRI into the structural funds: an annual cycle. Under this system an auditor's report is issued every year by the AA on the legitimacy of the expenditure, so that an annual closure can take place (resulting in less work for the CA). A huge drawback of annual closure is the problem of net corrections. In the current multi-annual system, the CA determines non-eligible costs and other financial corrections, and the money involved can be re-used for other projects. However, financial corrections in the partial/annual closure are net corrections (the money involved will be pulled out of the programme). The Netherlands would propose modifying the partial closure procedure in such a way that the money for eliminated costs is not lost. (This had previously been proposed in response to the consultation for the triennial review of the Financial Regulation of the European Union and in the 62 reduction proposals referred to above).

A further drawback of the annual cycle that must be addressed is the lack of flexibility in the implementation. For that reason, the Netherlands does not at present support replacing the current multi-annual cycle with an annual cycle. We could only agree to this if the advantages of the multi-annual, programmatic character of the structural funds were retained within the annual cycle.

C. A more integrated approach to different EU programmes

General position

For the period starting in 2014, the Netherlands believes in pursuing an integrated approach to enhancing the architecture of the EU, whereby policy instruments reinforce rather than overlap one another. Instruments like the ERDF, the ESF and the European Agricultural Fund for Rural Development (EAFRD), as well as thematic programmes and if possible national programmes, should be complementary and mutually reinforcing. We propose that, at policymaking level, each programme be given a well-defined focus and that demarcation lines be established between the various programmes, with a limited number of key objectives. Furthermore, we would stress the importance of making clear the connection between the programmes at every stage of the process (preparation,

initial phase and implementation). In this connection it is essential that the governance of the programmes is also coordinated by simplifying the rules and procedures. The Netherlands would also be in favour of exploring the usefulness and necessity of further cooperation between the various funds. One option would be combined projects, whereby different elements (or phases) would be financed under different schemes, within the framework of a single application procedure. The Netherlands supports clear demarcation lines and promoting more synergy between the structural funds, the Framework Programme for Research and Technological Development and the Competitiveness and Innovation Framework Programme (CIP). These varying approaches can mutually reinforce enhance each other, and ways of connecting these programmes should be facilitated.

Not only a more integrated approach to different EU programmes but also financial engineering could heighten the effectiveness and efficiency of the programmes supported by the structural funds. While recognising the potential benefits of financial engineering, the Netherlands also has a number of reservations and therefore supports further study.

Detailed position

The Netherlands supports the principle of 'one fund, one objective'. A limited focus and a clear delineation of tasks is preferential to general funds with broad objectives, as the latter merely defers the discussion about aims and scope to the implementation level. Programmes with too many objectives and a lack of focus also lead to fragmentation, which compromises the effective commitment of resources. A policy approach must be found in which programmes complement rather than overlap or undermine one another. A limited focus and clear demarcation lines for the programmes are an advantage for both beneficiaries and implementing bodies. This offers beneficiaries a straightforward overview of resources that may be available to support a wide range of mutually reinforcing activities. Coordination can potentially generate economies of scale for implementing bodies in the management of programmes.

Greater coherence among the various programmes is needed to promote sustainable regional growth. A European innovation policy aimed at fostering excellence in the context of the current 7th framework programmes offers no guarantee that the technologies and products that have been developed will actually be used or produced in the EU. Knowledge is footloose and can easily migrate to places far beyond the EU's borders. It is therefore necessary to embed knowledge at regional level in order to safeguard regional businesses' opportunities for knowledge valorisation and to facilitate the interaction between researchers, businesses and public authorities (in the Triple

Helix) in regional clusters. Cohesion policy is a suitable instrument for supporting knowledge valorisation at regional level.

The Netherlands would make the following general recommendations for integrated programming.

General recommendations

- Each programme should have a clear focus, with a few key objectives and a limited number of action lines.
- The connections and demarcations between the various programmes (horizontal and vertical) should be clarified to all parties during preparations for and implementation of the next period. At the start of new programme periods, the Commission should clearly communicate to EU businesses and members of the public what grants can be used for and where one programme stops and another begins. At a minimum, a clear overview of objectives, conditions and procedures should be included in the publication(s) communicating this information. A best practice in the current period is the Practical Guide to EU Funding Opportunities for Research and Innovation. This best practice should be implemented on a larger scale and continued at the start of the next period.
- Good communication between bodies that are responsible for grants at various levels of governance helps applicants submit their applications to the right place. Referring cases to one another more frequently and consulting one another about how to apply one another's instruments can eliminate obstacles to implementation. This is to the advantage of both public authorities and applicants.
- Implementing authorities currently have to contend with European, national and regional grant schemes whose conditions, procedures and rules differ sharply. This makes it difficult to achieve synergy between different schemes, which would be to the benefit of project applicants. With this in mind, the Netherlands supports a number of streamlining measures, such as trying to harmonise hourly rates, cost models (simplified costs), procedures and reporting methods, as much as is feasible. We propose making agreements about these simplification measures in the framework of the Financial Regulation.

Synergy between ERDF-ESF and ERDF-EAFRD

- Synergy must be promoted between the various funds (i.e. between the ERDF and ESF, and between the ERDF and EAFRD). Innovative projects in clusters and in fields like entrepreneurship have different aspects that can be supported

through different programmes. Synergy between the programmes can lead to greater efficiency.

- With regard to the possible synergy between ERDF en ESF, in the current period it is possible under strict conditions, to finance to a maximum of 10% actions falling within the scope of assistance of the other fund (article 34 of Council Regulation 1083/2006). The Netherlands proposes examining the usefulness of and need for further cooperation between the funds, as well as the conditions under which this could take place. One option could be combined projects, whereby different elements (or phases) could be financed by different schemes, within the framework of a single application procedure. One way of doing this would be to use the framework of the programme that provides most of the funds for the project, supplemented by the option of allowing the funds to bill one another. This could boost the impact of more complex projects and reduce the administrative burden for applicants.
- More generally the Netherlands proposes introducing conditions for such 'matching' in the new Regulations: accepting the reporting system or simplified costs and cost models from the matching programme (which provides most of the funds for the project in question). Allowing the use of implementing structures of the other programme in this way would make it easier to combine the different programmes.
- In the current period there is a certain degree of overlap between the objectives of the EAFRD, which seeks inter alia to further the economic diversification of rural areas, and the segment of the ERDF that applies to rural areas. This overlap is undesirable, as it leads to fragmentation of the funds and impedes synergy. In the next programme period, the Netherlands would propose making clear choices between objectives, to foster greater coherence between the ERDF and EAFRD. Our experience in the current period is that the division between urban projects and rural projects can be too rigid. In the next period, it should be made easier to fund projects on the borderline (physical as well as figurative) between urban and rural development.

Synergy between the Framework Programme and CIP, and ERDF

- Clear demarcation lines and more synergy between the Framework Programme for Research and Technological Development, the Competitiveness and Innovation Framework Programme (CIP) and cohesion policy would benefit all parties involved. The Framework Programme on R&D focuses on excellence and research, CIP focuses on innovation and valorisation, while the structural funds focus on practical innovation and on supporting clusters (for example

infrastructure, local developments), using multi-level governance and an integrated approach. These varying approaches can mutually reinforce enhance each other, and ways of connecting these programmes should be facilitated.

- The Framework Programme is the most appropriate instrument for more fundamental R&D, while CIP is most suited for valorisation. Projects that boost the innovative capability of a cluster (composed of businesses and knowledge/research institutes that specialise in a particular economic sector in a particular geographic area) and for which the Framework Programme or CIP would be unsuitable (e.g. small infrastructure projects, SME projects, etc.) can be financed by the structural funds. The structural funds can also be used to help less prosperous regions consolidate their knowledge base, in order to participate successfully in the Framework Programme.
- There is a widely felt need to increase the coherence between research programmes (such as those supported by the Framework Programme), and programmes that focus on innovation and valorisation (such as those supported by CIP), so as to increase opportunities for valorisation (real-world practical use of innovative research). The Netherlands anticipates a positive effect from the decision to assign innovation and research to the portfolio of a single Commissioner. Even in this new situation, however, it remains necessary to ensure that the Framework Programme, CIP and the structural funds are complementary.

Financial engineering

Not only a more integrated approach to different EU programmes but also financial engineering can also increase the effectiveness and efficiency of the structural funds programmes. Financial engineering has two components. First, a holding fund is established where financial flows from various levels of government and, where possible, from the private sector come together. (In the case of structural funds, this will only apply to those regions that will receive structural funds in the future.) Secondly, this fund does not make grants in the traditional sense, but rather provides financial engineering instruments like loans, guarantees and venture capital.

In the Netherlands' view, financial engineering has a number of advantages:

- Increased leverage: it offers an opportunity to achieve more results in practice with a smaller European budget for the structural funds. This is possible because there is more private money in the mix and there is the option of a revolving fund. As income generated from projects flows back to the fund, the resources can be used again to support new projects.

- Financial engineering reduces administrative costs and burdens for beneficiaries because different financial instruments with their own rules come together in a single fund, and thus beneficiaries deal with a single point of contact and a single set of rules.
- Because the loans have to be repaid, financial engineering generates commercial incentives, so that projects are often organised more efficiently.

At the same time, the Netherlands has a number of reservations.

- Financial engineering can only support projects that have the *potential* to generate sufficient revenue. Financial engineering must not crowd out the market or attempt to compete with the financial sector.
- Financial engineering is a new instrument, with which relatively little practical experience exists. Its advantages have yet to be demonstrated in the real world.
- Finally, given that financial engineering is still in an experimental phase and the Netherlands has little experience with it, it is necessary to study its budgetary consequences. For example, too little is known about its impact on the N+2 rule, and it is unclear to what extent resources from future years within the same programme period can be tapped into for the purpose of issuing loans. It would be undesirable to deposit cohesion policy resources in a fund without clarity about the use for projects and how the resources would flow back.

In short, while recognising the potential benefits of financial engineering, the Netherlands also has a number of reservations and therefore supports further study, including a study of the budgetary consequences and the N+2 rule.

D. The influence of territorial cohesion on cohesion policy; the future of European Territorial Cooperation

General position

There are two aspects of territorial cohesion that the Netherlands believes are important to cohesion policy. First, territorial cohesion as a policy concept, which is relevant to the whole of cohesion policy, and secondly the relevance of territorial cohesion for European Territorial Cooperation (ETC) in particular. Territorial cohesion as a policy concept means more emphasis on sustainable, place-based development and a place-based approach to specific regional challenges. Territorial cohesion ensures that European policy challenges are linked to a territory's specific spatial challenges, specific assets and governance structure, including a significant role for regional and local partners.

The Netherlands believes that ETC has significant added value and that it should be continued in the next programming period. The Netherlands advocates a more substantive and flexible approach to the concept of 'programme areas', so that it is possible to opt for a common (geographical or functional) challenge or for a common theme as the starting point of a partnership that will promote territorial cohesion. The governance structure and the conditions for partnership should also be modified. The connections with other objectives of cohesion policy and with Europe 2020 should be strengthened. In the future, ETC should focus more on supporting SMEs in border regions and on strong and promising cross-border clusters.

Detailed position

Territorial cohesion

There are two aspects of territorial cohesion that the Netherlands believes are important to cohesion policy. To begin with, territorial cohesion is a policy concept, which is relevant to the whole of cohesion policy. The Treaty of Lisbon specifically cites territorial cohesion as a goal of cohesion policy, alongside economic and social cohesion. Secondly, territorial cohesion is especially important to the third objective of cohesion policy: European Territorial Cooperation. Territorial cohesion as a policy concept means more emphasis on sustainable, place-based development and a place-based approach. Every region has its own specific assets and challenges in which various policy areas (e.g. economic development, the labour market and spatial planning) come together and where there is a need for an integrated approach. Territorial cohesion ensures that European policy challenges – which are implemented at various levels of government – are tailored to the specific spatial challenges and assets of the regions concerned and the necessary governance structure. What is needed is thus a customised approach, where European policy tasks are translated to the national, regional and local spatial and economic context. European policy must thus offer the necessary room and scope for achieving this customisation. In this way European challenges can be taken up and implemented at the appropriate level. Territorial cohesion also means better cooperation between various administrative levels (multi-level governance) and between public authorities, companies and partners in civil society. European cooperation and the associated governance structure should be flexible and challenge-oriented.

Secondly, Territorial cohesion is especially important to the third objective of cohesion policy: European Territorial Cooperation (ETC) because this is the main cohesion policy programme that specifically deals with the spatial aspect of cohesion.

European Territorial Cooperation

The Netherlands feels ETC has an important added value because it facilitates European cooperation and projects with a positive cross-border cost-benefit assessment in situations where this would not occur on the basis of a national cost-benefit analysis. ETC has proven to be a constructive platform for bringing together various parties across the continent that are facing the same European policy challenges, for the purpose of working together on Europe-wide solutions and implementing them locally (in keeping with the place-based approach). Therefore, the Netherlands believes that ETC should be continued in the next programming period.

A more substantive approach and more flexible organisation of the programme area

The Netherlands feels that a different approach must be taken to the concept of 'programme area': the scale of the problem must dictate the scale of the solution; the substance of the programme must define the programme area. The support of ETC should be based on a joint perspective on development, based on (complementary) assets and opportunities. The Netherlands believes that in the next period we should opt more frequently for a common spatial or functional challenge or for a common theme as the starting point for European cooperation. This would open up opportunities for cooperation not between regions, but also between other types of geographical entities. We also favour a theme-based approach, whereby ETC is organised not just around geographical regions, but also around a particular theme. In this way, partners from around the continent can work together on the same theme. For example, it might be useful to create more scope for knowledge-sharing on matters of EU legislation (pilot schemes).

The geographic organisation of ETC should not lead to the creation of new European borders. In the current programming period, the concept of programme areas has often been ineffective, because major economic and knowledge centres lie outside the programme area. The rigid enforcement of the borders of the programme areas for territorial cooperation should be relaxed, so that partners outside the programme areas can work together on similar European challenges. The Netherlands is of the opinion that there should be scope in the next period for comprehensive partnerships across borders. There should be an important place for cross-border problems and challenges, and for cooperation within and between strong and promising clusters across borders.

Principles governing future European Territorial Cooperation

In the Netherlands' view, the upcoming programming period for ETC should be guided by the following principles.

- The nature of the task in question should determine the nature of the partnership to be formed. In the current period, it is seen as problematic that the partnerships must involve partners from a particular territory. Dealing effectively with common challenges is complicated by the fact that a project must include partners from the entire EU in order to be approved. Project partners should be selected substantive and thematic grounds.
- The governance structure of ETC must be simplified. The governance structure in the current period is too complex to respond rapidly and flexibly to joint challenges.
- The project assessment must be conducted much more quickly. In the current period the tempo of the assessment hinders participation.
- The sharing of knowledge and best practices (and their effect in the various member states) should be promoted more actively in the next period.

Connection with other objectives of cohesion policy and with Europe 2020

The Netherlands believes that there are major similarities between the goals of Objective III (ETC) and the other objectives of cohesion policy. In the future, in addition to the specific programmes for territorial cooperation, facilities should be made available – particularly in border regions – to use the other objectives of the structural funds for the development of cross-border projects and networks. The Netherlands believes there should be a better connection between ETC and the other objectives, and a better connection between cohesion policy as a whole and initiatives like ‘regions for economic change’.

The Netherlands also supports linking the ETC programmes to the objectives of the Europe 2020 strategy, and therefore we support (mandatory) earmarking. An explicit connection to Europe2020 will lead to a greater focus, more consistency in implementing European policy at all levels of governance, and to the engagement of all levels of governance in Europe 2020. Apart from the furthering the goals of Europe 2020, ETC should offer scope for the disbursement of structural funds for other objectives and challenges if they are necessary for the development of the area in question.

An interesting topic for cohesion policy and especially for ETC is depopulation. In some areas along the Dutch-German border, the population is shrinking on one side of the frontier and growing on the other. In regions like this, the ‘barrier effect’ of the international border must be eliminated so that opportunities can be seized on the other side.

Supporting SMEs and strong and promising clusters

In a globalising economy, leading corporations, SMEs, knowledge/research institutions, and local and regional authorities must be able to survey and take advantage of the relevant international environment. Within the parameters of ETC, there must be scope for supporting SMEs in border regions. For SMEs in particular, borders can form a barrier to the natural search for markets where the right knowledge and commercial opportunities are present. Consequently, the economic performance of SMEs is suboptimal. In view of the goals of integrating European markets and promoting innovative potential, more should be done to facilitate European cross-border cooperation benefiting SMEs.

Furthermore, within the framework of ETC there should be more scope for concentrating on strong and promising clusters. This includes supporting cross-border cooperation between and within clusters (consisting of companies and knowledge/research institutions that specialise in a particular economic sector within a particular geographic area). In determining the partnerships, both the geographical area and the thematic orientation of the clusters should be a factor. This is consistent with the above-mentioned principle that ETC should have a thematic as well as a geographical component, so that partners throughout Europe can work together on a theme-by-theme basis. Multi-level governance is necessary to make transnational clusters and theme-based cooperation a success: European, national and regional support for the cluster or theme should be coordinated and used in synergy.

One major challenge for ETC is simplification. Especially cross-border cooperation is often very complex and management, control and other systems of the cross-border programmes should be simplified and streamlined.

E. Governance

General position

The effectiveness of cohesion policy depends on good governance. Governance has a horizontal effect on many aspects of policy and includes accountability for results and financial management. Our experience with multi-level governance in ERDF has been very valuable and should be continued in the future. This implies a shared responsibility in for developing, implementing and evaluating cohesion policy and ERDF programmes. Cooperation with trade unions, employers' organisations and regional and local authorities is important for the ESF as well. It is the Dutch position that the EU should be open to promoting horizontal partnerships between public authorities and economic and

civil society entities, provided they contribute to the effectiveness of the planning, governance and coherence of the various programmes and comply with the (European) financial management standards. The Netherlands believes in the new programming period cities should continue to take part in cohesion policy and share responsibility for developing and implementing cohesion policy.

Detailed position

Multi-level governance

One important element of the ERDF is multi-level governance, which the Netherlands would define as policy coordination by the European Union, member states, regions and municipalities, based on the partnership principle and shared responsibility of the governance levels concerned. This implies a shared responsibility for developing, implementing and evaluating cohesion policy and ERDF programmes. In the specific case of the ERDF, the programmes take shape by combining policy choices at local and regional level with national and European goals. Multi-level governance support the link between European objectives and regional and local development.

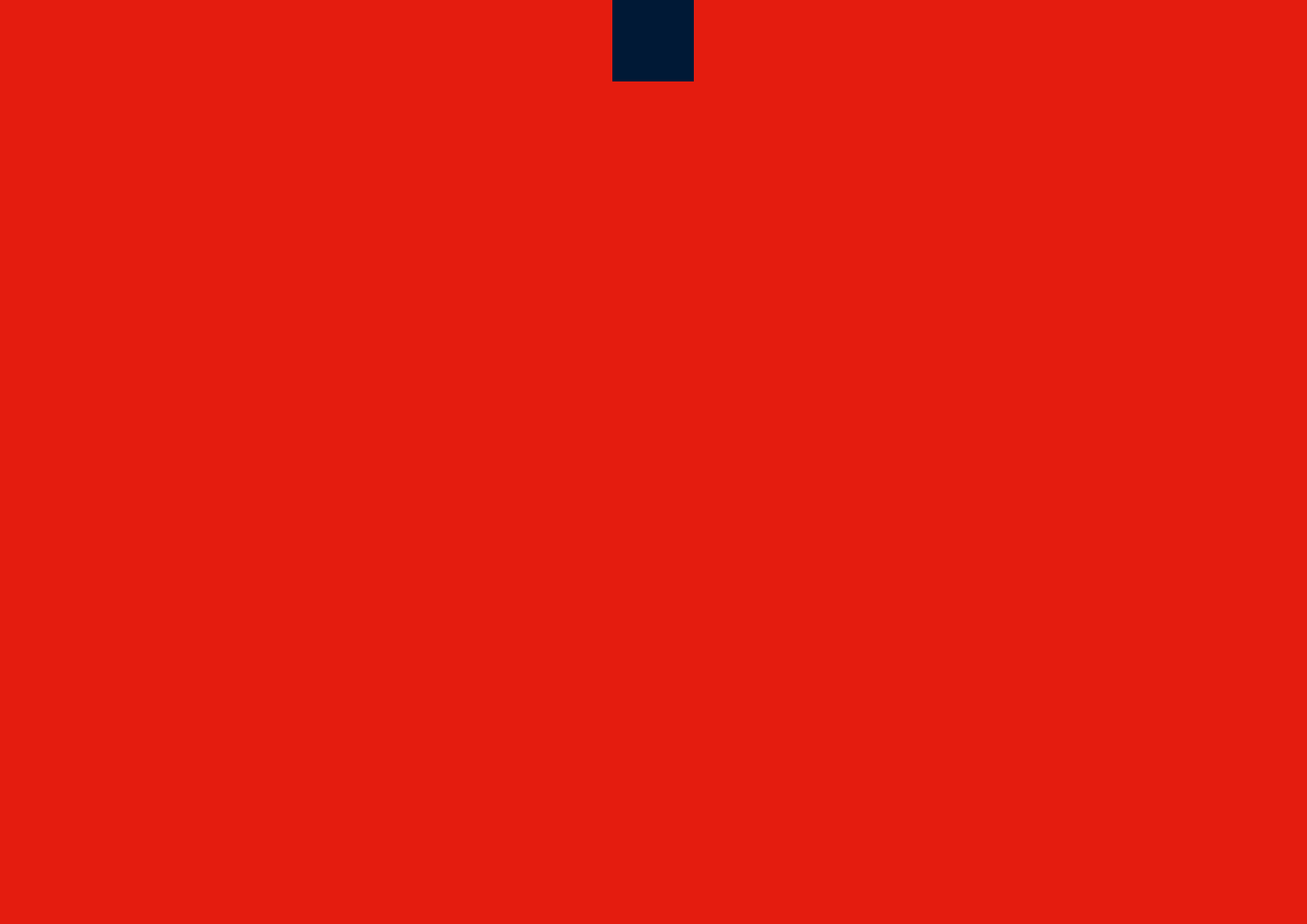
Another aspect of good governance in cohesion policy is forming horizontal partnerships between public authorities and economic and civil society entities (e.g. companies). These partnerships are an important basis for the successful implementation of the programmes and can be used for other policy programmes besides cohesion policy. Cross-border partnerships are important for the development of European clusters and other types of cooperation across borders. A good example is the cooperation between knowledge/research institutions and companies in the Eindhoven-Leuven-Aachen triangle. For the ESF, the partnership between municipalities, civil society organisations, trade unions and employers' associations is particularly important.

The role of cities

Cities and urban networks play an important role in meeting the objectives of cohesion policy. They are the engines of socioeconomic development. For that reason, the Netherlands feels strongly that there should be adequate scope for cities in the upcoming programme period. A connection should be made between local policy choices, regional programmes and national and European goals. The aim should be to achieve more synergy between European, national, regional and local policy strategies for development, growth and employment. This can be done by making regions and cities jointly responsible for implementing ERDF programmes. In the present period in the Netherlands, this shared responsibility has been given different forms in the different

Operational Programmes; one form is the policy discretion of cities in the ERDF programme "Kansen voor West".

When developing new programmes, regions and cities should jointly select the most appropriate approach, working in close consultation with European and national authorities.



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