

Ladies and Gentlemen, dear participants,

It is a great pleasure for me to be here today.

I would like to thank the organisers for inviting me to this plenary session.

I am truly convinced of the need of open and regular exchanges between researchers and policy makers.

That is why I am so pleased with the close cooperation between the Regional Studies Association and my services.

The joint conference in Bled last month; the reaction of RSA on the 5th Cohesion Report; and the organisation of several Open Days University sessions by the RSA are three excellent examples of joining forces.

In my speech today, I would like to touch on three issues and conclude with an invitation.

– **The first issue concerns the benefits of an integrated and place-based approach.**

Public investments in one sector often have an impact on other sectors.

For example, a highway can improve the access of a region to the rest of the EU. It reduces travel time, but also provides firms in the region with a better access to the internal market and exposes them to more competition.

This is highlighted by the new economic geography, which Philip McCann knows very well as does the Centre for Urban and Regional Development Studies here in Newcastle University. This is part of recent and important work by OECD, thanks to the excellent work of Enrique Garcilazo.

These linkages or externalities, however, are ignored in sectoral and spatially blind policies.

An integrated and place-based approach takes these externalities into account. It seeks to remedy the negative ones and takes advantage of the positive ones.

This leads to a better aggregate outcome of the same amount of public investments; in other words it is a more efficient approach. Combining the building of a highway with a smart

specialisation strategy will ensure that the firms in the region can benefit from the improved market access.

Of course, not all firms in the region will be strong enough to withstand this increased competition and a policy to provide the people with the skills the competitive firms in the region need will smooth the transition to a more competitive regional economy.

I believe that this shows exactly the advantage of an integrated and place-based approach.

- ✓ Integrated: because it combines investments in infrastructure with innovation and training.
- ✓ Place-based: because it is only at the lower levels of geography that the strengths and weaknesses of an economy become apparent.

Developing an integrated and place-based policy, however, is not simple: it requires strong regional institutions and a high-level of administrative capacity.

Fabrizio Barca identified this very clearly in his report two years ago.

This report also strongly argues that there is a need for a multi-level governance system to address institutional weaknesses. Without a higher level constraint, regional institutions may become captured by local interests and resist necessary changes.

At the same time, these changes cannot be imposed from above.

That is why a constructive dialogue between the Commission, the national and sub-national public authorities is needed on how to improve administrative capacity and institutions.

Such improvements would strengthen the capacity to design and implement investment strategies, including Cohesion policy. They would contribute to modernising administrative procedures to ensure both greater transparency and more efficient public services.

- **The second issue concerns the increased use of integrated and place-based approaches within and outside the EU**

- Sectoral and spatially-blind policies have been in use for at least one hundred years. This gives them more name recognition. They are fairly easy to understand, to implement and to evaluate. As a result, such policies tend to be the preferred option. Some academics and organisations, such as the World Bank, have argued that spatially-blind policies are the only option, because they are supposedly more efficient.

However, this is misleading. I believe that an integrated, place-based approach can be more efficient than a spatially-blind one and I am not alone in this conviction.

Many EU Member States have been moving towards a more integrated and place-based approach precisely because of its stronger impact and higher efficiency, an important argument during these times of strong fiscal constraints on public investments.

We are completing a study on the use of such an approach: it shows that the top performing Member States have moved in the direction of stronger integration and stronger involvement of regions and cities in policy design and implementation. Allow me to give you a few examples.

In the domain of innovation, the triple-helix model is well known. It combines the strengths of private firms, universities and research centres in a region or a city to create innovations which firms in the region can sell across the globe. This model originated in Sweden and Finland, two global leaders in innovation. This is a perfect example of the shift towards more integration and regional and urban involvement.

Over the past two decades, labour market policies have extended from providing only passive support, such as providing unemployment benefits, to a more active approach, including providing training and helping with the job search and application process. The design and implementation of these active labour market policies became more decentralised because that is the only way such a policy can match training provided with the skills needed in a region. The Austrian territorial employment pacts are a good example of this approach.

Transport policy is traditionally a sectoral policy, designed and implemented by engineers in the national ministry for transport. Their goal is to reduce travel times and improve safety in the most cost-effective manner. As a result, the main guide as to where to locate a new highway or railway is the estimated efficiency of travel time reduction. In that sense it is a spatially-blind policy. But

obviously a highway has to be put somewhere and the externalities of such an investment will be felt more in some places than in others.

These externalities are being taken into account in more and more countries. Take France as an example. France is world leader in high-speed rail. Since the first high speed railway line was built in the 1960s, regional and city governments have become increasingly involved in the decision making process of where to locate new lines and stations. In addition, regional and city governments have adjusted their own policies to take advantage of the positive externalities and address the negative ones arising from these investments. This again is a shift towards more integrated and place-based policy to capture more of the externalities.

We can conclude from these examples that many Member States, and especially the Member States that are frontrunners, are increasingly relying on more integrated and place-based policies to ensure the highest return on public investments.

This shift towards integrated and place-based policies is not limited to Europe. Over the past decades several large developing countries have turned to the EU to learn about how cohesion policy taps into underutilised resources in cities and regions. Brazil, Russia and Ukraine are

interested in our policy. China has been talking both to the OECD and to the Commission to learn more about how to set up a regional development policy.

More impressive is the recent change in the United States. The new administration has strongly promoted effective place-based policies.

I believe this quote from a policy document signed by Lawrence Summers, among others, highlights the close connection between their and our ideas:

*Our goal is to continue applying place-based principles to existing policies, potential reforms, and promising innovations, with a particular focus on **strengthening economic growth and achieving greater cost effectiveness.***

The new US administration also emphasises the importance of 1) more integration and better coordination and 2) the role of regional and city authorities. Both elements are centre pieces of cohesion policy. They also underline the metropolitan level as critical to the success of place-based policies, an approach I want to promote within cohesion policy.

The third and last issue is how I intend to reform Cohesion policy building on this approach.

First of all, let me clarify what it is my understanding of Cohesion policy.

I think it is high time to move away from the traditional view of Cohesion policy as a redistributive instrument, as a simple transfer of financial resources from rich to poor regions.

I am convinced that the essence of Cohesion policy is to promote the development of regions and countries and to improve the quality of life of EU citizens through investments in people, in basic services, in key infrastructures, in innovation and R&D, and in a better environment.

These are also the key objectives of Europe 2020. This is why there is no conflict between Europe 2020 and Cohesion policy and the two can and should work together.

Yet, there is scope for improving the operation of Cohesion policy; its strategic direction; its internal coherence.

This is why I have proposed that – through an EU level strategy (the Common Strategic Framework) – more coordination and better coherence is ensured between actions funded by different policies (Cohesion policy as well as rural development and fisheries policies) not only at the EU but also at Member State level.

An integrated approach does not mean however that a programme should invest in everything. In these difficult times, public investment should be aimed at a small number of growth-enhancing investment priorities. We have called this thematic concentration.

We are currently discussing with Member States the list of these themes and – believe me – it is not an easy task. The appropriate themes will be determined through a dialogue with the Member States and regions. My services are preparing an analysis of the strengths and weaknesses of each Member State and their regions to support this dialogue. The result of this dialogue will be included in the new partnership contract.

But this is not enough. During our discussion on the strengthening of economic governance, we agreed that the EU needs to address more strongly concerns over stability, structural reforms, and competitiveness. Financial support from the EU, including Cohesion policy, therefore has to become more conditional.

These conditions should be universal, transparent, and proportional. They should encourage reforms by 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. This should help create the right framework to make Cohesion policy more effective. This dialogue on thematic priorities and conditions is directly related to the recommendations of the Barca report.

Cohesion policy has a key comparative advantage through its close link to regions and cities. It can create local ownership of European strategies. One of the key lessons we learnt from the Lisbon strategy is that policies designed far away from people and firms face problems of implementation.

One of my political priorities is to promote the stronger involvement of cities in regional policy. Cities are at the forefront of innovation, but also of poverty and exclusion.

Cities are one of the answers to climate change due to their higher eco-efficiency, but issues such as crime and pollution undermine the appeal of urban living.

Cities also have strong ties with their surroundings and other cities. Therefore, I want to promote a stronger involvement of cities in cohesion policy, more cooperation between cities and their surroundings and better networking between cities.

Finally, 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 and Fabrizio to develop a list of outcome indicators that programmes can use. Some are already available through Eurostat, others will have to be collected by the programmes and projects.

In addition to a stronger targeting and monitoring of the policy, this approach helps to clarify 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 rate of returns and that these returns can be demonstrated.

Conclusion

Let me conclude with an invitation.

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 progress of programmes;

- ✓ to discuss with Member States and convince them sometime that their strategies need to be reformulated; and
- ✓ to negotiate precise conditionality linked to programmes and priorities.

In a nutshell, the Commission needs to become 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 develop 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 to make a success of Cohesion policy and of its integrated and place-based approach.

I invite you to follow closely developments in field of EU Cohesion policy over the next months.

Thank you for your attention.