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Directorate General Internal Policies of the Union

Policy Department Structural and Cohesion Policies

REGIONAL DEVELOPMENT

ADAPTATION OF COHESION POLICY TO THE ENLARGED EUROPE AND THE LISBON AND GOTHENBURG OBJECTIVES

STUDY

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EUROPEAN PARLIAMENT

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Abstract:
Faced with the challenge of enlargement and increasing regional disparities, the European Commission proposed a restructuring of cohesion policy with the aim of adapting it to current needs. The purpose of the study is on the one hand, to identify the problems faced by cohesion policy, in the light of the financial perspectives, and on the other hand to assess the coherence of the proposed reforms with regard to current and future challenges and with the Lisbon and Gothenburg objectives. The last part of the study formulates recommendations for decision-markers.

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EXECUTIVE SUMMARY

The accession of ten new Member States, soon to be joined by two others, and the further enlargements still to come mean that cohesion policy is faced with a fourfold challenge; growing social and regional disparities, the emergence of new territorial inequalities, the continuing problem of social exclusion and the public's lack of involvement in the European project.

The contribution made by cohesion policy to the Lisbon and Gothenburg objectives is already a substantial one. Although the regions must be encouraged to participate more in efforts to increase competitiveness, and although there needs to be a greater consistency of measures at European, national and regional levels, the priorities of cohesion policy ought not to be identified entirely with those of Lisbon, and use of the open method of coordination should be avoided.

Constraints on public funds are often put forward as a justification for cuts to the cohesion budget. Although such constraints mean that greater efforts must be undertaken to achieve efficiency and results, their significance should not be underestimated, as they are often conceal attempts at renationalisation which are mainly motivated by self-interest. New avenues of funding, in particular loans and increased involvement of the private sector, must be explored in order to respond positively to such problems.

Cohesion policy offers a broad array of instruments and a method which is widely acknowledged as useful by the least advanced regions. In other areas, the complexity of the procedures, in relation to the sums of money available, is often a root cause of inefficiency. However, cohesion policy has the enormous advantage of being visible and tangible to Europeans, and its added value cannot therefore be calculated merely in terms of percentage points of GDP. The provisions introduced in 2000 are far from satisfactory, with the exception of the strengthening of links between the ESF and the European Strategy for Employment, and of the widening of the partnership in programmes.

The aim behind the Commission's proposal for a major restructuring of cohesion policy around three priorities, namely convergence, competitiveness and territorial cooperation, is to bring it more into line with current needs, although a question mark stills hangs over the issue of whether sufficient preparation has been made for the changing needs of the new Member States. The Commission's proposal also includes major efforts to simplify and decentralise the management of the Structural Funds. Nevertheless, in terms of goals and expertise acquired on territorial, social and economic development, it is abandoning a number of instruments which have helped establish Community added value, such as the integration of funds, Community Initiative Programmes and the mobilisation of private funds.

As far as financial issues are concerned, and on the basis of the reactions of not only the Member States, but also the regions, municipalities and social partners, the Commission's proposal seems reasonable. A number of modifications would appear to be necessary, mainly to avoid any negative impact on regions affected by the statistical effect and to consolidate development progress. However, it should not be forgotten that the debate on cohesion policy has now been cut short to a certain extent, because of the transfer of certain policies into other budget headings such as rural development. An overall view must therefore be taken when analysing any potential gains or losses.

By way of a summary of the lessons to be drawn from the foregoing analysis, the following are ten practical recommendations for action and four calls for increased vigilance:

1. Reinstate Community Initiative Programmes under the territorial cooperation objective, to be included in a pillar on interregional cooperation conducted at European level, with EUR 4.3 billion in funding. New subjects for cooperation adapted to an enlarged EU could include the modernisation of public institutions, urban regeneration and town-country relations. This measure could be made financially neutral by means of adjustments downwards to the pillar on transnational cooperation.

2. Extend the same treatment to regions affected by the statistical effect as to those which are fully eligible. Such a measure would only cost EUR 6 billion, and would make it possible to offset the effects of enlargement suffered by many countries, especially those most severely affected, in terms of reduced grants.

3. Maintain synergy between the objective of competitiveness in rural areas and the EAFRD, by drawing up appropriate strategic guidelines.

4. Restore the possibility of mobilising the private sector by setting up programmes in terms of overall expenditure. The Commission's proposal is to set the Community contribution at the level of public expenditure, excluding private co-financing, for the sake of simplification. However, this rule, suitable for the convergence objective, leaves the other objectives without a significant means of leverage.

5. Extend the deadline for automatic decommitment to n+3, especially as the NMSs are likely to have further absorption problems during the first few years.

6. Allocate budgets for cross-border cooperation by border and not by country, in order to encourage innovation and breathe fresh life into cooperation. The proposed EGCC will give rise to interesting opportunities in this respect.

7. Reinstate interim evaluations of programmes in converging regions, in order to monitor the development of programmes at a sufficiently expert level.

8. Issue reports on national progress every two years, to avoid putting in place new bureaucratic procedures.

9. Set up a genuine mid-term review after four years in order to review the Community’s priorities and the regional strategies in the light of progress made or problems encountered. It is difficult today to predict social and economic developments in the new Member States and their ability to derive benefits from the Structural Funds. At the same time, it would be a good idea to make provision for the development of appropriations which are differentiated between regions of the old and new Member States. The former will have greater opportunities to get their programming under way, whereas there is a risk that the latter will lag behind.

10. Increase conditionality on the results of structural interventions instead of on macro-economic developments, which do not necessarily bear any relation to programmes.

The calls for increased vigilance relate to a number of risks associated with the outcome of negotiations on the Financial Perspective;

A. Integrity of the EAFRD budget (at the level proposed by the Commission), as the EAFRD acts as a necessary complement to European territorial development in rural areas

B. Integrity of the budget for the competitiveness objective (at the level proposed by the Commission). Abolishing ERDF measures throughout the EU or cutting them back as far as possible would deprive the EU of a major instrument ensuring visibility to Europeans.

C. An increase in the pre-accession budget to bring it up to a level comparable to that in 2000-2006.

D. The continued existence of the *acquis communautaire* relating to the Structural Funds. It must be ensured that the new programming system proposed by the Commission for 2007-2013, which provides for Community strategic guidelines and national reference frameworks accompanied by annual reports, does not result in a gradual shift in cohesion policy towards the open method of coordination.

In conclusion, if the European Union were no more than a free-trade zone, cohesion policy could be confined to a redistribution of funds benefiting the least advanced regions or countries in order to offset income differences. As it stands, however, cohesion policy has very different aims; it is as much a political project as a social and economic one. As a result, cohesion policy is understood as an instrument geared to the needs of a development model in which solidarity and cooperation play an active role.

GLOSSARY

BEPG: Broad economic policy guidelines
CAP: Common agricultural policy
CIP: Community initiative programme
EAGGF: European Agricultural Guarantee and Guidance Fund
EMU: European Monetary Union
EU: European Union
FDI: Foreign direct investment
EAFRD: European Agricultural Fund for Rural Development
EFF: European Fund for Fisheries
EGCC: European grouping of cross-border cooperation
EQUAL: Name of a Community initiative programme for social equal opportunities
ESF: European Social Fund
ERDF: European Regional Development Fund
ESDP: European spatial development perspective
ESPON: European Spatial Planning Observatory Network
FIFG: Financial Instrument for Fisheries Guidance
GDP: Gross domestic product
GNI: Gross national income
INTERREG: Name of a Community initiative programme for cross-border, trans-national and inter-regional cooperation
IPA: Instrument of pre-accession assistance
ISPA: Pre-accession Structural Instrument
LAG: Local action group
LEADER: Name of a Community initiative programme for rural development
Objective 1 regions: regions lagging behind
Objective 2 areas: areas under economic restructuring
Objective 3 programmes: programmes for improving human resources
OMC: Open method of coordination
NGOs: non-governmental organisations
PHARE: Name of one of the pre-accession instruments for institutional capacity building and small business projects
R & D: Research and development
SAPARD: Special Accession Programme for Agriculture and Rural Development
TACIS: Name of one of the instruments for external cooperation with the former countries of the Soviet Union
USA: United States of America
URBAN: Name of a Community initiative programme for urban regeneration

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Europe has already experienced three historic challenges: the accession of the United Kingdom, that of the young democracies of Greece, Spain and Portugal, and subsequently the collapse of Communism, whereupon we opened our arms to the countries of the East. Our challenge today is to see whether Europe is capable of offering the world an alternative to the American model.[2]

INTRODUCTION

If the European Union (EU) were no more than a free-trade zone, cohesion policy could be confined to a redistribution of funds benefiting the least advanced regions or countries in order to offset income differences. All experts and governments broadly accept the need for such transfers of funds, in order to pre-empt the most severe tensions due to disparities that are on a larger scale than at any time since the last enlargement.

The EU has other ambitions, however; it is as much a political project as a social and economic one, and forms part of a European tradition of shared democratic values. It strives for sustainable development within the framework of a social market economy, in which the fight against social exclusion and discrimination, and respect for diversity and solidarity between Member States are key components. Accordingly, cohesion policy is understood as an instrument geared to the needs of a development model that goes way beyond mere transfers of funds and in which solidarity and cooperation play a central role.

Since it was introduced in 1988, cohesion policy has been based on the Treaty, which acknowledges that the EU must pursue the aim of reducing disparities between regions. At each stage of the European Project, cohesion policy has endeavoured to offset the effects that other decisions, such as the opening up of the single market and preparations for economic and monetary union (EMU), may have had in terms of widening development gaps. Preparation for the EU’s biggest enlargement was also the subject of careful attention, bearing in mind that regional disparities had gradually been narrowing. Today, in yet another fresh context, cohesion policy must adapt again.

On the basis of a diagnosis of the expected changes in cohesion policy (Part 1) and the state of play of discussions on the proposed reforms (Part 2), the purpose of this study is to draw conclusions and to make recommendations (Part 3).

As regards the required adaptations, it is clear that the nature of the challenges and the opportunities has changed in the enlarged EU (Part 1, Chapter 1); a greater contribution is also required of the policy in order to achieve the Lisbon and Gothenburg Strategy objectives (Part 1, Chapter 2); indeed, whilst cohesion policy is hampered by new financial constraints (Part 1, Chapter 3), taking stock of the strengths and weaknesses of the current policy (Part 1, Chapter 4) can help us to redraw the outlines.

The current state of the debate on the proposed reforms will help us to identify the basis for reaching a compromise in talks over previous cohesion policy ‘packages’ (Part 2, Chapter 1). Analysing the Commission’s proposals (Part 2, Chapter 2) and counter-proposals in terms of their financial consequences (Part 2, Chapter 3) will enable us to take stock of all of the component parts of the debate.

The third part sets out conclusions and recommendations on what may constitute the basis of an acceptable compromise.

[2] Delors, J., "Ce que la France doit faire, l’Europe ne le fera pas" [What France must do, Europe will not do], in *La Croix* magazine, 17 December 2004.

PART 1: DIAGNOSIS OF THE EXPECTED CHANGES IN COHESION POLICY

Chapter 1: Challenges and Opportunities for Cohesion in the enlarged Union

1. Challenges

The EU is facing the most significant enlargement in its history. Whilst this is certainly the biggest challenge facing EU cohesion, it is not the only one. Broadly speaking, according to the Third Report on cohesion[3] and extensive scientific literature on the subject, the EU will, in the near future, face four major problems: an increase in regional and social disparities, new territorial inequalities, persistent or worsening social exclusion and the public's lack of involvement in the European Project.

- **Regional and social disparities:** As a result of enlargement, the gap in prosperity between regions has doubled and the average income per inhabitant expressed in GDP has fallen by 12.5%. In the Union of 25, 123 million people live in regions in which the GDP per inhabitant is less than 75% of the Community average and, with the accession of Romania and Bulgaria, that figure will rise to 153 million.

Although not homogenous, the economies of the new Member States are all characterised by weaker work productivity and slower technological progress than the old Member States, and regional differences are probably greater than those of the old Member States[4].

Whilst the negotiations focused mainly on the adoption of the *acquis* and candidate countries were required to undergo a major economic transition, the phase of actual accession remains an unknown. Even though the process might take a long time, we have successfully managed to meet the challenge of encouraging new accession countries to catch up, a challenge that we have been facing since Ireland joined in 1972. For new Member States from the old Communist Bloc, the challenge of opening up completely to the single market is coupled with an obligation to upgrade their public institutions. Bulgaria and Romania, whose socio-economic situation and state of readiness are clearly less favourable, are in danger of experiencing even more difficulties.

- **New territorial inequalities**: Whilst eastward enlargement exacerbates the peripheral status of regions on the Atlantic, the easternmost regions of the EU of 25 have the lowest income per inhabitant. In the new Member States, during the last ten years, growth has mainly benefited the cities, to the detriment of rural areas that are less accessible and that have a less well-educated population. On a more general level, communication infrastructure in the new Member States is often dilapidated or incapable of keeping pace with economic development[5].
Statistical analysis of the economic characteristics of the production apparatus of the 25 Member States and the two candidate countries shows very clearly a new European division of labour, with a centre, the 'pentagon', which goes from Manchester to Hamburg, Milan and Paris,

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[3] *A new partnership for cohesion: convergence, competitiveness, cooperation*, Third report on the economic and social cohesion, European Commission, Brussels, 2004.

[4] *Needs of objective 1 regions in the accession countries ands in existing EU 15 Member States in areas eligible for Structural Funds*, Alphametrics et Applica, Report, Commission européenne, DG Regio, 2004, p. 177.

[5] Jouen, M., *La coopération trans-européenne, esquisse pour la nouvelle Europe*, Budapest, 2004, (http://www.notre-europe.asso.fr).

surrounded by two peripheries. At the same time, a study into bilateral trade relations in the EU of 25[6] points up five intensive trade zones: Northwest Europe, the Baltic Sea, the Western Mediterranean, Central Europe and, lastly, the Eastern Balkans. This shows that development opportunities vary enormously from region to region.

- **Persistent or worsening social exclusion**: Contrary to what the EU's overall development might lead one to expect, poverty still affects 55 million people, especially in the countries of Southern Europe, in Ireland and in the new Member States. The most vulnerable sections of the population are the elderly living alone, single mothers and the unemployed. Certain ethnic minorities, such as the Roma, are particularly at risk of social exclusion. These profiles demonstrate how society has developed, how modes of production have changed and how our economies function. We are, moreover, seeing a deepening of inequality in ever-smaller territories, such as urban areas, a phenomenon that contributes towards social tensions.

- **The public's lack of involvement in the European Project**: It may seem obvious to point out that, since 1992, the gap between Europeans and the European Project has been growing. The turnout in the last elections to the European Parliament illustrated the size of the problem and in particular the discrepancy between the old and the new Member States. The lack of interest in Europe can be explained by shortcomings in communication between public institutions and by the shortfall of education accompanying the enlargement negotiations. Because Europe's citizens do not participate in European projects and cannot see Community actions being implemented in practice, they view Europe as a distant and bureaucratic project. The fact that projects from pre-accession instruments started late and that the Commission chose not to launch projects under the URBAN and LEADER programmes for 2004-2006 is indicative of the many missed opportunities to raise awareness among the citizens of the new Member States. Let us not forget that in the past the large number of opportunities for actors on the ground to take part in cooperation networks made a major contribution towards the EU's popularity in Portugal and Spain.

2. Opportunities

An overview of the perspectives available to the enlarged EU must include the opportunities for growth presented by access to new markets, by preparing future enlargements and by the draft constitutional Treaty.

- **New opportunities for growth and trade**: The opening of trade in industrial products with candidate countries since 1996 has given a major boost to foreign direct investment (FDI) in Eastern Europe and to bilateral trade. Accordingly, the amount of trade done by Central and Eastern European countries with the EU has more than trebled[7] in ten years. The Commission has calculated that the Structural Funds will bring the new Member States increased growth of 8% to 16% in 7 years[8]. It is therefore probable that the old Member States will also benefit, not only in the form of public markets, as in the case of the Objective 1 regions of the old Member

[6] Jouen, M., Moutier, S., Welsch, K., "Cinq petites Europe, des flux commerciaux recomposés", *Le courrier des pays de l'est*, La Documentation française, n°1039, 2003.

[7] DREE-Dossier, *Elargissement de l'Union européenne: un nouveau marché [European Union Enlargement – a new market]*, (www.commerce-exterieur.gouv.fr/publications - 2004).

[8] *Comprehensive impact analysis of the legislative paquage on the revision of the financial regulation on the Structural and Cohesion Funds – COM (2004)492 - 496,* SEC(2004)924, European Commission, Working Paper, Brussels, 2004.

States[9], but also in terms of demand for top of the range consumer goods, due to higher salaries. Conversely, the foreign direct investment that has already taken place will begin to act as a basis for exporting products – especially cars – for which demand is high in the old Member States, due to pan-European investment strategies pursued by the large corporations. Besides, in a near future, the fact that new Member States will eventually join the euro and that restrictions on the free movement of workers have been abolished could have a positive effect on the economic development of border regions between new and old Member States.

- **Preparation for future enlargement**: Croatia is top of the list, but in economic and social terms Turkey represents a far more important issue. Currently accounting for only 2.3% of the EU's GDP, Turkey is being asked to catch up extremely quickly, provided that public external debt is reduced. As with the new Member States, large European companies are already in position to invest massively in the country. The existence of a potential market of 70 million consumers undoubtedly offers significant outlets for low- to medium-range European products in the short term, provided that the 1996 customs agreement is put in place. The preparation for this enlargement, which will be bigger than the recent fifth enlargement, must be carried out in time to allow the necessary adaptations, both legal and economic. As regards the social and human spin-offs, it is not impossible that progress in negotiations will have a positive effect in forging a policy on more effective integration, or will at least lead to immigrant populations in the EU suffering less exclusion.

- **The draft constitutional Treaty**: This offers a new framework for action in the area of security, justice and foreign affairs. In terms of cohesion policy, however, the main innovation concerns the restoration of territorial cohesion as an EU objective, under the same heading as economic and social cohesion[10], under Article II. This change should justify increased EU intervention to offset certain geographical handicaps or, more likely, to ensure that certain legislation does not exacerbate the situation of the most disadvantaged territories. New interinstitutional perspectives are also opened up by monitoring subsidiarity, by immediately extending qualified majority voting to certain policies and by doing so at a later date for others, by increasing the European Parliament's role in budgetary matters and by removing the distinction between obligatory and non-obligatory expenditure.

[9] Beutel, J., *The economic impact of objective 1 interventions for the period 2000-2006*, European Commission, Final Report, DG REGIO, Constanz, 2002.
[10] *Exploiting Europe's territorial diversity for sustainable economic growth*, Discussion paper, EU informal ministerial meeting on territorial cohesion, Rotterdam, 29 November 2004.

Chapter 2: Challenges relating to the Lisbon and Gothenburg Objectives

1. The Lisbon and Gothenburg Commitments

During the Lisbon European Council of March 2000, the EU set itself the objective of 'becoming the most competitive and most dynamic knowledge-based economy in the world, capable of sustainable economic growth accompanied by quantitative and qualitative improvement of employment and greater social cohesion'. The Gothenburg European Council of June 2001 subsequently approved the adoption of a sustainable development strategy, 'which furthers the Union's political commitment to economic and social renewal [and] adds a third, environmental dimension to the Lisbon strategy'.

Quantitative targets were set as follows: employment to reach 70%, female employment to reach 60%, unemployment to be reduced to 4% and investment in human capital (education, training, health, etc.) to rise to 50% of GDP by 2010. In its Spring 2004 report[11], the Commission noted that progress had undeniably been made in four years, but it highlighted major problems that were hindering a return to strong growth.

A high level group led by Mr Wim Kok drew up a report[12] for the March 2005 mid-term review, which called in particular for greater involvement of regional and local levels in implementing the Strategy.

The aim of the Strategy is to enable the EU to address external challenges such as globalisation and technological progress. Indeed, we cannot react to competition from countries with low labour costs and, more importantly, with rapid growth, such as China and India, by reducing salaries or by closing our borders. The impact on jobs calls for a cohesion policy response, particularly its social component, entailing the implementation of pre-emptive strategies in R&D, innovation and improvement in company competitiveness, and rapid responses so as to press ahead with the necessary economic restructuring in the event of unforeseen sector-wide or local crises.

2. The contribution of cohesion policy towards achieving the Lisbon and Gothenburg objectives

There is substantial overlapping between the objectives of cohesion policy and of the Lisbon Strategy. They contain the same themes of jobs, entrepreneurship, social inclusion and sustainable development, as well as investment in infrastructure, in information technology, in R&D and in human resources.

Analysis of the Structural Funds programmes of the EU of 15 demonstrates that there is greater overlapping in regions undergoing conversion than in regions whose development is lagging behind. According to the Commission's analyses of this issue, 80% of the actions of the Objective 2 programmes would coincide with the priorities of the Lisbon Strategy, whilst in Objective 1, the situations would be more divergent – 30% in cohesion countries and 60% outside. For Objective 3, there would be almost total convergence. Situations would vary from country to country, depending on government efforts to implement the Lisbon Strategy and to encourage the participation of the regions and the economic actors. Ultimately, they would

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11 *Commission report to the European Spring Council – Achieving Lisbon – Reforms for an Enlarged Union*, European Commission, COM (2004)29 final/2, Brussels, 2004.

12 Kok, W., (Report of the high-level Group, chaired by), *Facing the challeng. The Lisbon strategy for growth and employment*, Brussels, November 2004.

depend on the financial and legislative competences at the regions' disposal (Spain or Germany *versus* Portugal or Ireland).

For 2000-2006, the Cohesion Fund and the Structural Funds have invested some EUR 9 billion in research, technology and innovation, around EUR 21 billion in modernising and developing small- and medium-sized businesses and EUR 6 billion in information society infrastructure[13].

As regards sustainable development, the Gothenburg Council has retained a reduced number of environmental indicators, making it difficult to assess the contribution of the Structural Funds on the Gothenburg Strategy and to take steps to divert cohesion policy interventions towards it.

Nevertheless, from a broader perspective, cohesion policy has played a major role in fostering sustainable development. Of all the European financial instruments supporting environment, the European Regional and Development Fund (ERDF) and the Cohesion Fund have contributed the most, with the LIFE instrument a long way behind. For 2000-2006, the ERDF accounts for 79% of all structural funds used to promote environmental protection, with the European Agricultural Guarantee and Guidance Fund (EAGGF) contributing 19%. Furthermore, due to cofinancing, European actions have had a strong influence on Member States' actions in the area of the environment; and this is without mentioning private investment. It is estimated that, for 2000-2002, structural financial support for environmental projects reached EUR 3 billion per year, two thirds of which came from the ERDF and one third from the Cohesion Fund. Spain was the biggest beneficiary, followed by Italy, Greece, Germany and Portugal. It is therefore true to say that, whilst environmental policy has proved expensive, the Structural Funds and the Cohesion Fund have lightened the load considerably for the less wealthy countries[14].

As far as the Kyoto commitments are concerned, the work that needs to be done varies considerably from country to country, as they depend on past decisions on energy production and on available natural resources. Broadly speaking, less developed countries, with lower industrial liability, have a less arduous task to comply with the requirements on greenhouse gas emissions. This is not the case in Spain and Italy, which continue to have a significant liability. The situation is appreciably different for the new Member States, in particular for Romania and Bulgaria, which fall under a special scheme as regards the Kyoto Agreement. The overall cost of complying with the commitments undertaken in the Kyoto Protocol has been calculated[15] as being between 0.06% and 0.3% of EU GDP by 2010, provided that priority is given to more cost-effective measures. The European Commission[16] feels that the Structural Funds can make an annual contribution to this effort of 0.02 % of GDP, meaning a cumulative effort of 0.08 % by 2010, which is not negligible.

3. Possible improvements

One of the Lisbon Strategy's weaknesses is that it has been unable to benefit from regional dynamism, or to make use of the cohesion policy's expertise in matters of governance (partnership, strategic programming, and active complementarity between the different levels). By comparison with Objective 92 – the completion of the Single Market – and with Economic

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[13] Hübner, D., *Lisbon and cohesion policy: complementary objectives*, UNICE, Competitiveness day, Speech 04/535, Brussels, 9 December 2004.

[14] *Impact of Community policies on social and economic cohesion*, Labour Associados SLL, Report to the European Commission, DG REGIO, 2003, p. 425.

[15] *Economic evaluation of quantitative objectives for climate change*, COHERENCE, Report to the European Commission, 2004.

[16] European Commission, SEC(2004)924, dit.

and Monetary Union (EMU), the 'roadmap' drawn up for the Lisbon Strategy is indeed operational to a lesser degree. It has nonetheless been recognised that 'the regions need Lisbon, and Lisbon also needs the regions'[17].

There is the possibility of certain reforms to make the Lisbon Strategy more congruent with cohesion policy, such as making the grant of Structural Funds subject to tighter conditions in relation to the organisation of institutions and the projects' 'social return', the imposition of limits on financial obligations in order to obviate the taking of risks, and preferential treatment for measures to improve the environment taken by businesses rather than by individuals. (Annex 5)

Ultimately, cohesion policy can constitute the financial incentive suggested by the Kok Report, making it possible both to encourage the regions to actively participate in achieving the Lisbon targets and to make these more visible, provided the national authorities are favourably disposed.
A more fundamental alignment of cohesion policy with the Lisbon Strategy's objectives and methods does not, however, appear desirable. The fact is that the approach derived from the Lisbon Strategy is not totally compatible with the convergence that is the main aim of cohesion policy; they may even conflict with one another.

Although the Lisbon Strategy aims to advance the European social model and to maintain a balance between growth, cohesion and the environment, it focuses on excellence as a motor of European growth. The thinking underpinning this choice, which takes as its starting point a comparison with American performance,[18] is sometimes called into question[19] for taking insufficient account of such structural factors as population growth, collective work preferences[20] and the limits associated with the European Stability and Growth Pact.

Recent analyses of growth factors and of productivity indicators provide evidence of different combinations of factors, dependent on the extent to which individual regions in a growing economy have advanced. They provide justification for a nuanced approach, which would feature public-sector intervention concentrating on infrastructures and the modernisation of the production system, modelled on the present Objective 1, for the less advanced production regions; public-sector support focused on entrepreneurial activity and innovation, modelled on Objective 2, for developing regions; and strategies for excellence in education and technological research for those zones competing in world markets[21].
It should also be noted that the objective of convergence and equal distribution, including across under-performing areas, can hinder efforts to generate growth. Contrariwise, the objective of competitiveness can exacerbate regional and social inequalities, by targeting efforts on zones of excellence where projects achieve greater returns (dynamic major cities, higher levels of general education, the most advanced projects, infrastructures with the heaviest traffic, and so on). If cohesion policy and the Lisbon Strategy come into conflict, it must be borne in mind that the former, for the moment, is founded on a rather more solid legal basis than the latter.

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[17] Hübner, D., dit.
[18] Sapir, A., et al., *An agenda for a growing Europe: making the Eu system deliver*, Report of a high-level study group, Brussels, 2003.
[19] Dunford, M., Growth, Inequality and cohesion: a comment on the Sapir Report, *RSA papers*, Angers, 2004.
[20] Blanchard, O., *The economic future of Europe*, Working paper 10310, National Bureau of Economic Research, Washington, 2004.
[21] Cambridge Econometrics, ECORYS-NEI, and Martin, R., *A study on the factors of regional competitiveness*, Final Report to the European Commission, DG REGIO, 2004, p.184.

Differences are also to be found as regards implementation: the Structural Funds are implemented within a decentralised and, in part, 'bottom-up' framework, whilst the Lisbon Strategy is 'top-down', being centralised at the level of the nation state or the Council. The Structural Funds are intended to promote recovery by upgrading physical infrastructures, whereas the Lisbon Strategy puts greater emphasis on regulation. Cohesion policy manifests itself as a variety of operational interventions aimed at developing regions or sectors, taking as their starting points the very varied needs and opportunities to be found across an area, whilst the Lisbon Strategy merely sets out the final operational objectives to be achieved.

4. The open method of coordination

One of the innovations introduced by the Lisbon Strategy was the open method of coordination (OMC)[22]. It is a halfway house between the Community method on the one hand – in which the Commission plays a major part, directing, initiating and coordinating the measures leading to the ultimate goal of harmonisation – and the intergovernmental method on the other.

What was formalised at Lisbon has to be seen in its historic context, which was one of growing euro-scepticism. It represents an attempt at greater integration in areas where national influence is still strong (budget, employment, education, social protection, the combating of exclusion, etc.) or those for which the Treaties do not provide for a more common method to be used. In the policy spheres in question, it must be understood as a transitional stage, preceding a more advanced stage of coordination, which could, if need be, take the form of the adoption of decisions by qualified majority. It follows that the use of the OMC does not address concerns about efficiency, but it does have a political objective; it is meant to develop the policies to which it is applied[23].

At the time of the mid-term review of the Lisbon Strategy, it was noted in the Kok Report and by a number of the Member States that the OMC had not proved satisfactory. However, those solutions that have been proposed and which aim either to make the process even more restrictive or to give the Commission greater coordinating power have met with quite vigorous opposition from the Member States. The question can also be asked as to whether making the OMC more sophisticated would be likely to facilitate escape from the current blockage resulting from the imbalance between the EMU's monetary and economic pillars. In the absence of closer "Europeisation" – to which the Member States have repeatedly expressed their opposition – as part of inter-institutional reforms[24], tensions are more accentuated at regional level. In fact, unless the retrograde solution of re-nationalisation is opted for, the only possible way out is to be found in greater integration and more coordinated policies, for example on fiscal matters.

As regards the possible future extension of the OMC to cohesion policy, it should be noted that, although the OMC can be useful in reforming regulations or defining shared policy objectives, it is not suited to the management of the Structural Funds or to the conduct of common policies. It could, however, prove useful as a means of advancing the coordination of national spatial planning policies (Annex 3).

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[22] Rodriguez, M.J., *Vers une société européenne de la connaissance: La stratégie de Lisbonne (2000-2010)*, Editions de l'Université de Bruxelles, January 2004.

[23] Jouen, M., La stratégie européenne pour l'emploi local, *L'Europe sans Bruxelles? La méthode ouverte de coordination*, Dehousse, R., ed. L'Harmattan, Paris, 2004.

[24] du Granrut, C., *Une constitution pour l'Europe*, LGDJ, Paris, 2004, p. 174.

Chapter 3: The new financial Constraints on Cohesion Policy

1. The requirements of the Stability and Growth Pact

Following the implementation of the Stability and Growth Pact, the Member States have been required not to allow their public-sector deficit to exceed 3% of their GDP and not to incur debts totalling in excess of 60% of their GDP, constraints which have proved particularly stringent with regard to their spending capacity. This has resulted in demands from six Member States, among the major contributors, that future European budgets be limited to 1%, instead of 1.24%, of GNI.

They have also spoken of their fear of not being able to participate fully in co-financing, and this restriction in fact severely hampered the Portuguese government's ability to manage its investment programme early on in the period 2000-2006. Nevertheless, even though all the countries – including those that are not members of the EMU – are required to submit a convergence programme, this constraint must not be overestimated. In fact, it may only be taken on board if the discourse on net contributions is fully accepted; but the economic basis for this reasoning is very debatable. On the one hand, it leads to neglect the regional financial contributions and the private co-funding investments, and focuses on the national public budgets. On the other hand, it does not take into account the positive impact on growth for all the Member Sates, since they are joining the single market (Annex 6). Moreover, the revision, currently underway, of the Stability and Growth Pact could introduce a certain flexibility.

2. Other demands on the Community budget

It would appear that there are more serious grounds for concern about the better balancing of the Community budget, bearing in mind the fact that it took nearly ten years, and successive doubling of the Structural Funds, until these Funds constituted more than a third of the EU's Budget. As European integration has progressed, greater demands have been made on the EU's budget. Without entering into the broader debate on the financial perspectives – this study is limited to cohesion policy – it should be borne in mind that certain concurrent demands are quite legitimate.

Firstly, prompted by the demands of competitiveness and the need to pursue the Lisbon and Gothenburg targets at macro-economic level, the Commission has proposed the reorganisation of the Budget framework, with the creation of Heading 1A 'competitiveness for growth and employment' and its doubling. Next, in anticipation of the future institutional framework, the fact that new powers and objectives have been allocated to the EU, mainly in the field of justice and security and in the field of external policies, must also result in additional collective resources being allocated to posts that formerly had only minimal existence or none at all[25]. Finally, the decision, taken at the last European Council, to commence negotiations with Turkey, makes it necessary to prepare for that country's accession and to set aside sufficient financial resources for it. Although arbitration will be needed, it will in any case be necessary to seek closer coordination between what is decided and applied under Heading 1A and the programmes under Heading 1B, even though there is no support from the Council for the Commission's proposal that not-yet-used credits from Heading 1B and submitted to de-

[25] Jouen, M., and Navarro, L., *Les implications financières de l'élargissement et des réformes des politiques de l'UE*, Seminars, Notre Europe, 2003, (http://www.notre-europe.asso.fr).

commitment regulations should be reallocated to a reserve for unforeseen sectoral and local crises.

3. The threat of renationalisation

There is increasing hesitation on the part of net contributor countries in relation to the Community budget and to certain aspects of cohesion policy, the reason underlying which is that certain results of EU interventions are regarded as not totally good. These opponents see the associated costs as too high in terms of the result achieved and the ‘detour’ via Brussels as unsatisfactory.
Renationalisation has, in its time, been considered as a course of action by the British government[26] and by certain experts[27][28]. Their argument is critical of the Structural Funds, which, it alleges, are inefficient, encourage laxity on the part of certain Member States and accustom the regions to dependency. They advocate regular reforms in order to avoid processes becoming merely routine and the establishment of real policies of internal cohesion within the Member States. What makes this proposal likely to receive widespread support is the fact that it reflects to some degree the circumstances of the Nordic countries, which are sparsely populated and in which there are minimal disparities between regions and little sense of regional identity. It may also be overpoweringly attractive to those new Member States which share the same demographic profile, and which are, above all, highly protective of the national sovereignty that they have recently regained. It does not, however, offer any attractive prospects to the larger countries where regional disparities are significant and identities more diverse.

Those who depict a return to national solidarity as a sensible and efficient solution forget that, today, such solidarity is handicapped both by budgetary constraints and by the prospect of increasing tensions between various communities in some countries. This approach disregards the role played today by the regions or capitals which are increasingly gaining strength as territorial economic players on the global stage, more so than their own country[29].

Although it is of short-term interest to the national budget, it follows that the idea of renationalisation lacks consistency. It is vital, however, not to lose sight of the fact that it will gain acceptance in the minds of Europeans if there is continued denigration of the results achieved through the Community budget, whether because of cold economic calculations that leave aside social and political benefits, or the use of false arguments which allow people to hope that the all-providing State of the past will return.

4. The duty of efficiency

This debate can, however, help to bring about improvements, for it can, eventually, focus contributions on what the EU does best, both in its methodology and in the sort of problems it addresses. In fact, Community added value brings the maximum returns in the countries in which practice is at its most outdated, but this return is less important in the more advanced countries, which have already taken on board the programming methods, good governance and

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26 United Kingdom, *A Modern Regional Policy for the United Kingdom*, HM Treasury, Department of Trade and Industry, and Office of the Deputy Prime Minister, March 2003.

27 Sapir, A., dit.

28 Tarschys, D., *Reinventing Cohesion – The Future of European Structural Policy*, Swedish Institute for European Policy Studies, Stockholm, 2003, p.106.

29 Jouen, M., "Le futur budget européen: la renationalisation est-elle évitable?", *Pouvoirs Locaux* n°60, Paris, 2004.

project management. Consequently, one can understand why the new Member States have to be the priority of the cohesion policy.

This reasoning can also lead to the abandonment of certain types of intervention, either because they would not be made without the cofinancing of national measures already decided upon, because the amounts they involve are too small to influence decisions by the national or regional authorities, or because they are too thinly spread over an area.

Certain Member States are contemplating the introduction of tighter conditions, relating either to the proper management of appropriations or to the duration of aid, which would be reduced in the event of the country not making progress in terms of its rate of development.

It is often said that there is a need for greater synergy with national policy, in particular as regards sectoral policies with a major impact on regions, but, apart from making verbal commitments to it, the Member States are a long way from putting it into practice. One way ahead might be to put in place national strategies for domestic cohesion, whether social, economic or territorial. Certain countries have done this and it has, in most cases, brought about improved results.

In more general terms, the EU must explore new ways of freeing itself from the financial constraint imposed by the Member States' contributions, which results in increasingly fierce bargaining. The solution of allowing the EU to fund a certain number of major projects by taking out loans, as does the USA on the global market, cannot be excluded, and would provide significant room for manœuvre in better meeting the Lisbon commitments. As for cohesion policy, the raising of private capital for programmes, in parallel with public funding for them, needs to be further examined, and more frequent use needs to be made of public/private partnerships.

Chapter 4: The Advantages and Weaknesses of current Cohesion Policy

1. Principal lessons of evaluations

The efficiency and effectiveness of cohesion policy are the subject of abundant literature (Annex 1), which generally recognises the amplifying effect of discipline linked to the management of the Structural Funds, in particular in less wealthy regions and countries, in relation to subsidies paid. The difficulty, however, of measuring exactly the progress made and of collecting rigorous statistics leads to cautious conclusions being drawn regarding the exact causes of national failures and successes. During the long public debate that has been taking place since 2001, following the publication of the Second Report on cohesion[30], each instrument was evaluated, assessed and proposals for improvement were formulated (see Annex 2). There is much to learn from this analytical work.

It is generally accepted that Structural Funds[31] are not purely financial grants used more or less well in order to build roads or to tool up industrial estates. They allow the local productive fabrics to be strengthened, areas to be provided with modern public transport and waste management systems and facilitate access to education and health. They have also promoted exchanges of experience, experience of local development in certain countries and the dissemination of methods for fighting social exclusion, in order to revitalise rural areas or to organise collective services jointly on both sides of a border. Admittedly, this is not necessarily calculated in percentage points of GDP, but is a reality that can be perceived directly by several million people in Europe, led by a few thousand project leaders.

The contribution of the Structural Funds to the strengthening of cohesion is as much due to the amounts distributed as to the fundamental principals set in 1988: the concentration of aid, additionality, multi-annual programming and partnership. These conditions imposed for the granting of funds have played an essential role in the changing of public management methods of the Member States and the regions, in the evolution of mentalities and finally in the performances obtained[32]. Thus, the recourse to ‘institutional’ partnership in the development and execution of regional development strategies and for the multi-annual management of programmes has led to increased participation by actors on the ground. New ways of governance, affecting public services as much as politicians, have also been learned in some countries with the implementation of the Structural Funds programmes, Ireland[33] being the best-known example.

Initiated with the obligation of making combined use of the three Structural Funds in order to finance the regional development programmes, integration enabled the yoke of sectoral policies to be broken. It became a classic approach for resolving social problems, problems of unemployment, the struggle against social exclusion, and for leading to operations involving urban renewal, rural development or treatment of industrial wasteland.

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30 *Second mid-term Report on economic and social cohesion*, COM(2003)/4, European Commission, Brussels, January 2003.

31 Bachtler, J., and Taylor, S., *The Added Value of the Structural Funds: a Regional Perspective*, EPRC, University of Strathclyde, 2003, p.49 (www.epcr.strath.uk/epcr).

32 Beate Kohler-Koch, *Recognition of the territorial dimension in Europe: between illusion and reality*, RSC-EUI Florence, working paper RSC, n°98/38.

33 Sabel, C., *Irlande - Partenariats locaux et innovation sociale*, Publications, OCDE, Développement territorial, 1996.

Network cooperation is particularly embodied in the Community Initiative Programmes (CIPs), such as INTERREG, EQUAL, URBAN and LEADER. In order to stimulate innovation, the Union encourages regions or towns faced with similar problems to exchange experiences and to use their diversity and their complementarity in order to make progress. It provides them with methodological support in the shape of technical assistance. Recourse to "calls for projects" rather than to administered management of measures also gives more dynamism to local projects that are opened up to competition. Today, through numerous networks and associations, this cooperation is a significant and informal factor of European cohesion. It relies on multiple links between regions, towns, businesses, trade unions and associations arising from civil society. It has already discovered a natural extension through twinning, which is intended to strengthen institutional capacity in the new Member States and the candidate countries.
Finally, the obligation to formulate multi-annual regional development programmes introduced a certain discipline and stability into political choices. In addition, this modern way of planning is linked to an obligation to carry out prior diagnosis of the advantages and weaknesses of an area, to rationalise choices, to prioritise allocation of funds and to evaluate.

Beyond the experience specific to certain countries, the Structural Funds may be considered to have permitted the development of 'models' peculiar to the EU – some of which have also been exported to other parts of the world. Therefore, surely, without this list being exhaustive, there are the local action groups (LAG) of LEADER CIP for rural development[34], URBAN CIP projects in urban areas in crisis, Territorial Employment Pacts that represent tools for creating jobs and fighting unemployment through local mobilisation. With certain nuances, the Euroregions that offer a sophisticated and very advanced framework for cross-border cooperation may also be mentioned. These territorial management 'models', prompted by the EU's structural interventions, have often developed according to their own dynamics, thanks to a specific appropriation phenomenon in the regions.

More precisely, irrespective of its distribution according to priority objectives and of the use of different funds according to the spheres of intervention, the EU has three instruments at its disposal: beside the mainstream of the regional and national programmes of Objectives 1, 2 and 3 and of the Cohesion Fund, are the CIPs and the innovative actions, to which are allocated 5.3% and 0.6% of the budget respectively. The innovative actions authorise the Commission to carry out experiments directly with the regions and other local actors in order to find new methods of public management. The lessons drawn from these pilot projects are then tested within the framework of the CIPs, whose main function is to facilitate experiments on a larger scale and the dissemination of good practices through trans-European cooperation networks. Subsequently, the positive results gathered in the context of these programmes will enrich the regional and national programmes cofinanced by the European Union.

These innovative measures and the CIPs are of double importance, methodologically and politically. First, they save precious time for public decision-makers, who have access to analytical elements and neutral comparisons as well as to a more extensive range of methods than they would have available to them when applying measures within a purely national framework. Second, they provide an unequalled contribution to bringing the EU closer to its European citizens. URBAN, LEADER and INTERREG are probably the European programmes that are most symbolic of cohesion policy and their reputation has no possible comparison with the sums in question. Aside from their participation in the renewal of the contents of cohesion

[34] Van der Ploeg, J., 'Rural mobilisation and the mobilisation of local actors', *European Conference on rural development*, Salzburg, 12-14 November 2003 (http://europa.eu.int/comm/agriculture/events/salzburg/panels/ploeg.pdf).

policy, the innovative actions and CIPs lead to an extensive mobilisation of Europeans on local projects and contribute to the strengthening of the feeling of belonging.
It is clear that Community added value is not limited only to the projects that cross national borders or are of European size, but that Community intervention can create its own synergies. The role played by the Commission in leading, guiding, providing advice on projects and analysing measures is a determining factor.

2. Varying success of new measures in 2000-2006

Several changes made in 2000 were welcomed, as they strengthened the quality of the regional development process. The first innovation related to compulsory consultation during programming, follow-up and evaluation of not only socio-economic partners but also representatives of organisations concerned with environmental protection and gender equality. The broadening of the circle of partners has contributed notably to an improvement in the quality of the programmes with the aim of sustainable development and to rallying more project leaders.

The second change was brought about by the introduction of a closer link between the use of the European Social Fund (ESF) and national employment plans within the framework of European Employment Strategy. This reform contributed to an improvement in the efficiency, consistency and visibility of the ESF. In addition, use of the ESF has been linked with decentralisation.

Conversely, the introduction of the programming complement was almost unanimously criticised as an additional bureaucratic practice that had contributed to the programmes being slow to get off the ground and to low consumption of appropriations in the first years. It did not, however, bring about any improvement in strategic programming.

In order to promote efficiency and encourage the programme managers to speed up consumption of appropriations after the first years, a rule was introduced regarding automatic de-commitment of appropriations that have not been used after two years (n+2). Admittedly, it represented a real threat for some countries that were obliged to simplify national rules regarding function in order to reach a satisfactory level of consumption of appropriations and not to 'lose' their allocation. It did not, however, fulfil its role when delays were due to a real shortcoming in institutional capacity, which is difficult to put right within a few months. The result of this was the cancelling of commitment appropriations relating to the first financial commitments for particular countries (in particular, the UK and the Netherlands for ERDF appropriations in 2001). The phenomenon was accentuated by the lowering profile of the multi-annual financial framework decided at the European Council in Berlin for the Structural Funds. The delay introduced by this rule is generally considered to be short, even too short, as far as regional and local development rhythms are concerned. This rule has also had a tendency to encourage the financing of more expensive projects, such as infrastructures, and those less complicated to carry out. Thus, the speed of consumption of funds has sometimes prevailed over quality, strategic coherence and the innovative character of the intervention[35].

As far as rural development appropriations outside of Objective 1 are concerned, recourse to the EAGGF Guarantee proved not to be sufficiently adapted due to its rule concerning the annual nature of the budget. The high number of eligible measures made the management of rural

[35] Bachtler, J., and Taylor, S., dit.

development programmes very complex[36]. Consequently, consumption of appropriations was very low and disappointing[37][38][39].

3. Current debates concerning the Structural Funds method

- **Concentration or broad coverage of the area?** The 2000-2006 programming introduced a greater concentration of Community interventions by reducing the population covered from 50% to 40% of the total population, the number of 'objectives' from seven to three and of CIPs from 13 to four. This reform responded to concerns relating to simplification, effectiveness and increased visibility. The plea in favour of an even greater concentration is used regularly by those who are keen to avoid the dilution of Community funds and to increase the leverage of structural interventions. In contrast, the concentration advocated now in the name of effectiveness could turn out to be a trap, as it leads to the number of regions benefiting being restricted and to the Structural Funds being turned into a confidential instrument, with the results being even less visible since the measures concern areas experiencing difficulties. It contradicts another of the objectives of cohesion policy, concerning the visibility of Community intervention and its effect on European integration. The correct balance consists eventually of combining a potentially broad eligibility with concentrated financing, either regarding the most serious problems (relating to particular areas or social groups) or the most significant projects, significant due to their degree of innovation, the broad partnership they have mobilised or their purpose.

- **Support for areas or for projects?** The distribution methods of funds and the use of eligibility criteria are the subject of a recurring debate. Two theories regularly clash. Either an objective criterion is chosen, such as the level of GDP per capita, the unemployment rate, the crime rate, population density, altitude and geographical situation, and when the area fulfils this criterion it becomes entitled to a certain financial grant, or a political criterion is preferred, and funds are allocated only on certain conditions concerning the quality of the proposed project or programme. The first option, the more traditional one, relates principally to an objective of compensation, whilst the second moves towards a more dynamic ambition: it involves reforming the methods of regional management, changing strategic planning, and mobilising local and regional actors, etc. The creation of a sort of automatic right of selection for certain areas which results from the first approach has been much criticised, as it promotes dependent behaviour, which does not encourage progress. The second is, on the other hand, elitist. The solution that is historically adopted by cohesion policy consists of a combination of the two approaches; the regions that are most backward and those undergoing economic conversion become eligible according to the pre-defined criteria, but the granting of funds is dependent on the presentation of a regional development programme. For the CIPs and innovative measures, only the best projects are selected, on the condition, however, that they are situated in certain types of area (rural or urban) or relate to certain social groups. For the strands of INTERREG's cross-border and trans-national cooperation, the approach is more similar to that of the programmes of Objectives 1 and 2. The fact that the national

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[36] EPEC, *Impact assessment of rural development programmes in view of post 2006 rural development policy*, Report for the European Commission, DG AGRI, 2004, p. 106.

[37] CNASEA*, 'Application of the rural development regulations in Europe: proposal for the future'*, paper n°3 CNASEA, 2003, p. 10.

[38] Dwyer, J, et al., *Europe's rural futures, the nature of rural development*, Institute for European Environmental Policy, London, 2003 p. 136.

[39] Fischler, F., *Conclusions of the European conference on rural developmen*, Salzburg, 14 November 2003 (http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/03/544&format=HTML&aged=0&language=EN&guiLanguage=en).

envelope is set at the beginning of the period considerably reduces the extent of competition between projects, since competition only exists between projects from the same country. Since the substantial decrease in 2000 of the envelope for the CIPs and the innovative measures, a reduction can be noted in the pool of ideas and of projects likely to give new momentum to cohesion policy.

- **GDP per capita, a significant indicator?** The principal eligibility criterion for the Structural Funds and the Cohesion Fund is GDP per capita. It is the subject of frequent criticism as far as the regional GDP is concerned, and this is readily recognised by the European Commission. This is because it takes little or no account of public or private transfers, which do, however, have an impact on the well-being of the inhabitants. Furthermore, it is due almost as much to regulations and national policies as to local structural problems (Annex 1). This disqualifying argument is used by those who would prefer to confine themselves to an objective of solidarity between countries, with the consequence of a commitment by the national authorities to follow a more active internal cohesion policy. In comparison with other criteria, however, such as the unemployment rate, the GDP per job or disposable income per capita, this imperfect criterion concerning the level of the regional GDP is the least debatable and the most global. Many experts have advocated the construction of a composite index number to better reflect the socio-economic situation of a region. This practice did not succeed, as much due to the lack of available and comparable data in all the regions as to a conservative reflex to consolidate historical references. The solution accepted by the Member States at the Berlin European Council in 1999 consisted of balancing this eligibility criterion with the level of wealth of the country and the unemployment rate in order to calculate budgetary allocations.

- **Integration of funds or uniqueness?** The integration of funds constituted a major advance in the 1988 reform. Its aim was to attain a better coordination of sectoral policies aimed at promoting territorial development. The main exception consisted of retaining national programmes for the ESF. Despite being a vector of innovation and effectiveness in a local context, the practice of integrating funds turned out to be difficult. The initial momentum was systematically slowed down by public services that were anxious to remain in control of their budgets and of their implementation. From 2000, recourse to the EAGGF Guarantee for the financing of rural development outside the Objective 1 regions resulted in a first step backwards, since the integration of the EAGGF into cohesion policy became optional and resulted in the decision of 11 out of 12 countries (France being the exception) to abandon it. In parallel, in order to simplify the situation, it was decided that each CIP would only be financed by a single fund, since this fund would, if need be, finance measures that came into the sphere of the other funds. It was recently suggested as an alternative solution that funds be merged[40]. This would considerably reduce the administrative costs for the European Commission and in the Member States. It would allow staff to be released, in order to help with tasks involving activities, analysis and the accumulation of programme results, thus strengthening Community added value. Locally, it would also allow more flexibility and greater neutrality as far as the beneficiaries were concerned. It would, however, compel the administrative services and political strategies to be completely reorganised, and, in particular, would call into question a certain sectoral vote-catching.

[40] EESC, Additional own-initiative opinion n°848 of 19th July 2002 from the section 'Economic and Monetary Union and Economic and Social Cohesion' on 'The future of cohesion policy in the context of enlargement and the transition to a learning society'.

- **Managing the end of eligibility?** In 1999, the progress recorded mainly by Ireland, Spain and Portugal in certain regions allowed these countries to envisage the end of support under the Structural Funds on the grounds of Objective 1. The difference in allocation levels, however, could have compromised the developments made, and the Member States allowed a provisional system of ‘phasing out’ to be brought in, consisting of progressively reducing allocations year by year, in order finally to reach the lowest level. Experience has shown that this was a reasonable solution in line with the spirit of Community solidarity. The issue is developing differently now following enlargement, which caused a 12.5% drop in average EU GDP per capita and makes certain regions relatively richer without their socio-economic situation being improved. The extension of the 1999 argument should lead to a much better fate being reserved for them than for those who have really made progress, indeed to them being considered to remain fully eligible.

4. Preparing for the future

- **The specific needs of the new Member States**: slight adjustments have been made to cohesion policy for 2004-2006 to meet the specific needs of the new members; these affect large-scale transport and environment infrastructures, where the Cohesion Fund contribution will cover 30% of the cost rather than 18%. This is also the case with rural development. Programming and management methods have also been modified to take account of the small size of many countries and their administrative capacity, which is still limited. The LEADER and URBAN CIPs have not been implemented and most of the countries have drafted national development plans rather than the usual regional programmes. For the future the question is whether it is worth continuing to treat new Member States differently or whether the whole system should be changed, bearing in mind that they will be its greatest beneficiaries.

Based on the experience of the last four years, it would appear that the new Member States are less able to benefit immediately from the Structural Funds than the Mediterranean and Nordic countries were when they joined,[41] because of red tape and weak public institutions.
The need for economic diversification in the new Member States is much greater than in the current Objective 1 regions; in many cases the environment has been damaged by industrial activity and they run a greater risk than the old Member States of their well-qualified young people emigrating. Their needs are actually very similar to those of the formerly industrialised regions of the old Member States.

Economic development over the last ten years, often fed by privatisation and foreign direct investment, have been fundamentally unequal. Public decision-makers are therefore now faced with a dilemma: should they concentrate structural assistance on towns and growth regions in the hope that a trickle-down effect will mean that the other regions will benefit too, or should they allocate the funds based on need for investment, which would favour the regions that are lagging behind? Furthermore, the risk of the economy overheating in the regions already experiencing growth cannot be ruled out and it would be a problem if development of the least developed areas were stymied by bottlenecks in the other regions.

Despite the scale of these countries’ needs, we should not forget that the projects need to be prioritised and interlinked.[42] Simply drawing up a list of the necessary measures is not

[41] Alphametrics et Applica, dit.
[42] Mercier, G., 'Quelle politique de développement régional avec les nouveaux pays membres?', *L’élargissement de l’Union européenne: enjeux, effets et perspectives,* International Conference Medee, Lille, December 2004.

enough – a coherent development strategy is required specifying the objectives to be achieved in the long term. To enable progress to be made on both aspects, the economy and the institutions, investment grants should be combined with continued support for improving the administration on the ground, training staff and developing effective programme management, coordination, monitoring and evaluation systems, especially at regional level. 'An interregional cooperation programme supported by the EU with experienced regions in the old Member States would be invaluable'.[43]

- **The ESDP and territorial cohesion**: although territorial cohesion has been introduced into the future constitutional treaty as a new objective for the European Union, the concept remains vague and, in some quarters, controversial. Its recognition is the fruit of a very lengthy process of intergovernmental coordination that led to the creation in 1999 of the European Spatial Development Perspective (ESDP) and in 2002 of a network of national experts, the European Spatial Planning Observatory Network (ESPON). It is unlikely that this intergovernmental coordination will evolve into anything more Community-based. However, the OMC does offer an interesting opportunity for gradually involving the new Member States in a policy field where no real *acquis* exists and national institutions are very jealous of their responsibilities (see Annex 3).

As far as cohesion policy is concerned, two possible approaches remain with the view to insure territorial cohesion. If it is decided to stick to objective criteria so as to guarantee that the areas that are geographically the most fragile are entitled to financial or regulatory compensation then the situation is in danger of becoming problematic. The list of areas that have particular handicaps and require specific treatment is already lengthening: the outermost regions, the external borders, islands, regions with very low population density, Arctic regions, mountain areas, and so on. The risk, however, is that this approach might leave us open to endless claims for assistance. A more dynamic approach towards territorial cohesion in these areas could be to help them better to solve their specific problems and to put in place a real interregional cooperation programme managed at European level on the model of the CIPs. There is more than one reason why this approach would appear to be more desirable than that of increasing their funding by raising the rate of Community contribution.

- **Preparing for future accessions**: the decision to create the pre-accession instruments in 2000 has proved to be very wise, as have the twinning schemes enabling the new Member States to align their regulations with the Community *acquis* and prepare their administrations to handle the procedures. Nevertheless, the expert evaluations of the PHARE, ISPA and SAPARD programmes and the reports of the Court of Auditors[44] all underline the slowness of the learning process and the rather mixed results achieved at the end of four years. In most cases the programmes did not really start until 2003. Absorption capacity is limited by the lack of competent staff and by red tape. There is a danger that Romania and Bulgaria, which will not have had the experience of managing the programmes between 2004 and 2006, will find it particularly difficult to manage the Structural Funds in 2007. The Commission's proposal to create a single instrument of pre-accession assistance (IPA) suggests that it has learnt the necessary lessons. Nevertheless, we are now paying a high price for not saying enough in the negotiations about the importance of the economic and social cohesion policy and the importance of preparing regional development strategies. Those preparing for future enlargements should take heed.

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[43] Alphametrics et Applica, dit., p.177.

[44] European Court of auditors, *Has SAPARD been correctly managed?*, Special Report n°2/2004 on pre-accession aid, 2002.

Partial conclusion

This gives us an idea of what European cohesion policy should look like after 2006.

In essence, it should help to:

- reduce regional disparities;
- consolidate past developments;
- even out spatial and territorial imbalances;
- improve general welfare;
- increase the feeling of belonging to Europe;
- modernise European governance;
- strengthen competitiveness within a framework of sustainable development (Lisbon and Gothenburg);
- accompany future developments of the new Member States;
- prepare correctly for future enlargements.

In terms of the way in which it works, it should be an instrument that teaches economic, social and territorial development:

- by respecting management and strategic planning constraints;
- by providing technical assistance and greater leadership at European level;
- by being more flexible about timescale;
- by ensuring better coordination with sectoral policies;
- by making increased use of private funding.

PART 2: THE DEBATE ON THE PROPOSED REFORMS

Chapter 1: Previous compromises and the current state of the debate

1. How previous compromises arose

Each final compromise for the first three programming periods of the Structural Funds (1989-1993, 1994-1999 and 2000-2006) reflects the many sometimes contradictory tensions corresponding to the different expectations that Member States had of cohesion policy at the time and the alliances that they formed as a result.

In essence these tensions can be described as follows:

a. As regards the objectives of cohesion policy:

- to reduce economic and social disparities – tension A
- to adapt to economic, social, technological and environmental change – tension B

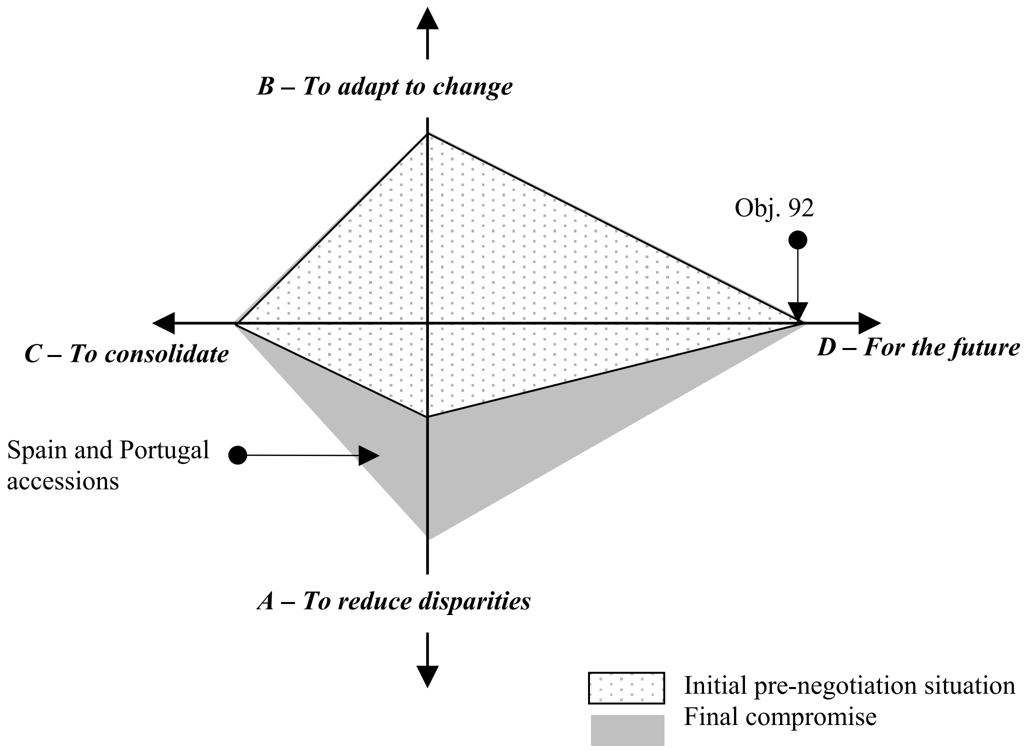
b. As regards the expectations of its potential beneficiaries:

- consolidating what already exists – tension C
- preparing for the future – tension D

Each time, the EU has found itself facing different challenges with stronger or weaker tensions. Compromise solutions, often initiated by the Commission, have made it possible to reduce potential conflicts, either by acceding to all of the demands and 'increasing' the total volume to be shared out, or by 'outsourcing' some of the demands and steering them towards other budget headings and therefore other forums of negotiation. The graphs give a better idea of how the compromises were struck and compares them with the initial pre-negotiation situation.

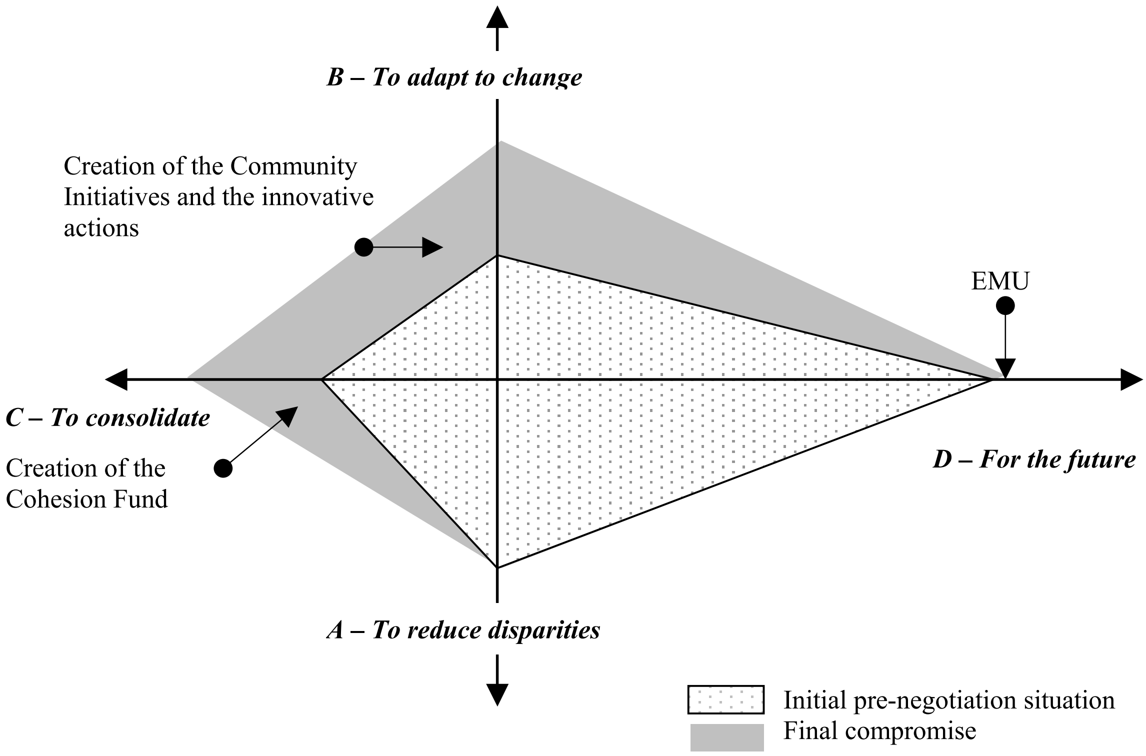
- For the period 1989-1993, there were two competing objectives: that of reducing the inequalities arising from the accession of Portugal and Spain and that of completing the single market. The solution was to double the cohesion budget, making it possible to help the regions lagging behind the most without cutting back on efforts to achieve the other objectives.

1989-1993



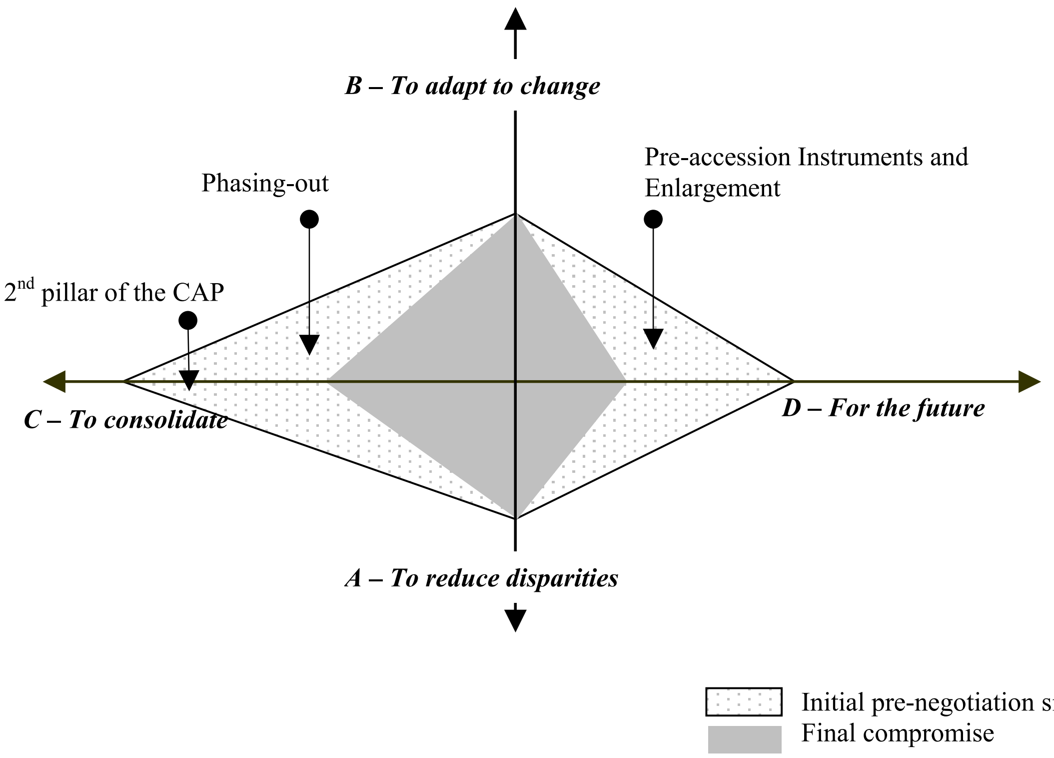
- For the period 1994-1999, when governments were working hard to make progress on convergence, the constraints inherent in Economic and Monetary Union impelled the least advanced Member States to request that the Cohesion Fund be created to consolidate their economies. At the same time, the deteriorating social situation led to increased demands from other countries and regions for support for the economic and social changes underway and for exchanges of good practice to be developed. The solution once again was to double the budget to meet the different demands.

1994-1999



- For the period 2000-2006, the demands mainly concerned consolidating the *acquis*, both in the regions whose development was lagging behind and in rural areas, and preparing for the accession of the 12 candidate countries. However, unlike the two previous periods, several Member States refused to support a substantial increase in the cohesion budget. The solution was first to withdraw support for rural development from the Structural Funds budget for regions that did not fall under Objective 1, which became the 'second pillar of the CAP'. Secondly, it was decided to create two separate envelopes for the pre-accession instruments and for the future accession of the new Member States. This approach of having watertight envelopes also gave the main countries benefiting under Objective 1 assurances as regards the funds that had been allocated to them for the seven programming years and allowed different amounts of aid per inhabitant to co-exist for the same objective.

2000-2006



2. The opposing positions

Last February, the Commission adopted a communication on the future financial perspectives[45] and immediately afterwards published the Third Report on Economic and Social Cohesion,[46] in the conclusions of which it sketched out the priorities for the period 2007-2013. Important meetings bringing together all of the EU's regions were held in the spring.

The response from the European institutions[47] and the advisory bodies[48] to the Third Report was generally favourable. Nevertheless, they thought that some adjustments were needed, in particular:

- the budget should remain sufficient and should even be increased to meet the needs of cohesion;
- regions affected by the statistical effect should not suffer because of enlargement;
- gender equality should be a priority;
- interregional cooperation should be supported by a European programme;
- companies should be more involved and private-sector capital mobilised;

[45] European Commission, *Building our common future. Political challenges and financial resources for the Enlarged Union – 2007-2013*, Communication of the Commission to the Council and the European Parliament (COM (2004) 101 final), Brussels, February 2004.

[46] European Commission, *Third Report on economic and social cohesion*, dit.

[47] European Parliament, *Report on the Thrid Report on economic ans social cohesion*, Brussels, 7 April 2004.

[48] European Economic and Social Committee, *Opinion on the Third Report on economic ans social cohesion – A new partnership for cohesion: convergence, competitiveness and cooperation*, ECOSOC 962/2004, Brussels, 30 June 2004.
Committee of the regions, *Opinion on the Third Report on economic ans social cohesion*, COTER-022, Brussels, 6 July 2004.

- the rule that funds are automatically de-committed in the year n+2 should be relaxed and only apply in the year n+3;
- rural development and the cohesion policy should continue to be formulated with reference to territory;
- significant attention should continue to be paid to urban areas;
- the partnership between the EU, the Member States and the regions should be strengthened, amongst other things by making greater use of tripartite contracts.

As far as the Member States are concerned, negotiations only really started after the draft regulations had been tabled, although the numerous meetings in the spring were an opportunity for speeches to be made and both informal and formal reflection documents to be circulated.

A consensus seems to emerge from this abundance of texts that the new Member States should take priority, that a territorial cooperation objective should be created, that programming should continue to be on a multi-annual basis, that the ERDF, the Cohesion Fund and the ESF should be retained and that the European Agricultural Fund for Rural Development (EAFRD) and the European Fund for Fisheries (EFF) should be created. Away from this common ground, which is in fact very minimal, infinitely varied and extreme positions have been expressed.

A non-exhaustive and inevitably simplified analysis of these positions is presented below.

POSITIONS OF THE MEMBER STATES

PRIORITIES FOR THE NEW POLICY

Regions lagging behind

- The regions lagging behind the most should remain the top priority (**Denmark, Belgium, France, Hungary, Lithuania, Poland, Slovakia, Slovenia**) and in particular, according to **Sweden,** the objective of cohesion policy should change from ‘reducing the disparities between regions’ to ‘reducing the disparities between countries’ (given that relatively prosperous countries should be able to reduce territorial imbalances themselves), which would enable the Union to focus assistance on the countries that need it most.

Modernisation of institutions

- Institution-building should be a priority, in particular in the new Member States (**Netherlands, Italy, Belgium**).

Territorial cooperation

- Cross-border, regional and interregional cooperation should be an essential component of the new policy: **Belgium** (particular attention should be paid to creating an ‘improved interregional society’), **France** (Community policies should take better account of this objective and an open method of coordination should be put in place for territorial development), **Hungary** (which is in favour of increasing the resources set aside for INTERREG on the new external borders of the EU while ensuring that difficulties arising from the different management systems and procedures used for the Structural Funds and external aid programmes are eliminated), **Italy** (cooperation with the Balkans should be stepped up), **Finland** (it is important to guarantee stable development in the border region between the EU and Russia and to develop a cross-border instrument for the regions on the EU’s eastern borders), **Lithuania** (TACIS funding should be adequate), **Poland** (Community support for strengthening the EU’s eastern borders should be increased; aid to promote economic development and political stability in the EU’s immediate neighbours is needed, including in non-candidate countries such as Ukraine and Belarus), **Slovenia, Greece**.
- But the following should remain limited**: United Kingdom, Netherlands**.

Re-nationalisation of cohesion and distribution policies on the basis of national wealth

- Against: **Greece** (no region should be denied access to the Structural Funds), **Belgium**.

- For: funds should no longer be allocated on the basis of regional disparities but on the basis of national wealth (**Netherlands**). Regions should be given maximum freedom to choose the right local strategy and the appropriate instruments; distributing resources via the Community budget is a waste of effort and money, and such waste should be reduced to a minimum (**United Kingdom**).

Urban areas, transport, energy and the environment
- The problems faced by large towns should be taken into account **(Hungary, Malta**) and efforts should be made to maintain, and even reinforce, the environment projects and trans-European transport networks funded by the Cohesion Fund (**Slovakia, Slovenia, Poland, Portugal**) and the energy sector should be added to the sectors eligible for the Cohesion Fund (**Lithuania**).

Outermost regions, territorial handicaps and accessibility
- The competitiveness and accessibility of outermost regions need to be improved (**Finland**) and greater attention needs to be paid to accessibility (**Malta**).

Maintaining support for non-Objective 1 regions:
- Within the context of a sectoral or geographical à la carte approach, we should provide for an intervention that places emphasis on fewer issues and actions, thereby guaranteeing greater added value in terms of Community (**Belgium, France, Hungary, Italy, Sweden**), particularly in order to resolve the human resources and restructuring problems in rural, mountain, outermost and island areas (**Greece**).

Synergy – coordination
- Synergy between economic, social and environmental policies should be favoured, systematically promoting sustainable development and full implementation of the European social model (**Portugal, Sweden, Belgium**). Structural Fund actions should be actively linked to the Community's strategic objectives, including the Lisbon objectives (**Denmark**). Strict priorities must be established (**Netherlands**).
- It must also be ensured that regional, national and Community efforts complement one another (**Denmark**).

ELIGIBILITY CRITERIA

Eligibility criterion (75% average GDP per inhabitant in purchasing power parities) for Objective 1:
- The current instrument is adequate, simple and transparent (**Belgium, Slovakia, Lithuania**). Nevertheless, if the EU decides to place the emphasis on the situation of the labour market, it has to adopt the employment rate as an indicator rather than the unemployment rate (**Hungary**).
- An additional element, such as taking account of the employment rate, would be welcome (**Italy, Lithuania**).

Statistical effect:
- Demand for a specific system for the regions currently eligible for Objective 1 which could cease to be so as a result of the statistical effect (**Belgium, Spain**). Support for the regions of the EU-15 which are no longer eligible for Objective 1 following enlargement must be phased out in a fair manner and within a limited period of time (**Denmark, Poland, Greece**). It is not possible for regions of the new Member States to be phased out of Objective 1 before they have been phased in (**Malta**).

Taking account of islands and accessibility
- The status of areas with low population density eligible for Objective 1 should be preserved permanently (**Finland**) or in all cases outermost areas and areas with very low population density should be eligible for Objective 1 (**Sweden**). Islands must be taken into account (**Italy, Malta**).

<u>BUDGETARY ENVELOPE AND RESOURCES</u>

Maintaining the budget envelope at 0.45% of Community GDP:

- <u>Against</u>: **Germany** (Savings could be made by concentrating aid on areas in which the GDP per inhabitant is less than 75% of the EU average), **Italy, United Kingdom** (Structural and Cohesion Funds should be directed exclusively towards regions in which the GDP per inhabitant is less than 90% of the Community average).
- <u>For</u>: **Belgium** (a change would call into question the nature and the credibility of cohesion policy), **Slovenia, Slovakia**.
- <u>Must be increased</u>: **Greece, Hungary, Portugal** (the current envelope corresponds to the necessary minimum)**.**

Maintaining the absorption capacity set at 4% GDP:

- <u>For</u>: **Germany and the United Kingdom** (it must not be exceeded), **Greece, Sweden, Slovenia, Belgium**.
- <u>Against</u>: **Lithuania** (the 4% of GDP rule must be reviewed since it leads to increased disparities between the regions. It must be reviewed on a case-by-case basis), **Latvia** (An excessively strict application of this rule could lead to discriminatory treatment of certain countries with significant needs in terms of infrastructures throughout their territory, including transport in particular).

Amount of budgetary allocation to the Structural Funds:

- <u>Must be increased</u>*:* **Greece, Lithuania, Portugal.**
- <u>Various</u>: It must be established within the context of Agenda 2007, and not before (**Denmark**); it is important first of all to define the objectives and possible scenarios for the development of the cohesion policy before entering into a purely financial debate (**France**). The proportion of resources allocated to Objective 1 regions must be increased by 5%, including the appropriate phasing-out (**Italy**). The use of resources must be subject to a strict subsidiarity test and should be distributed by means of other instruments, such as the activities of the EIB and the trans-European networks (**Netherlands**).

Proportion of Structural Fund budget that can be allocated to measures outside of Objective 1: 5 to 10% (**Germany, Sweden**).

Chapter 2: Analysis of the Commission's Proposals

The European Commission adopted its precise proposals for the future cohesion policy on 14 July[49] though it broadly defined its shape in the conclusions of the Third Report on cohesion of February 2004 (Annexes 4 and 5)

In order to respond to the EU's increased needs resulting from enlargement, it suggests a budget for 2007-2013 of EUR 336.1 billion, an increase of 33% compared to the previous programming period.

- **The three elements of the cohesion policy**

With a view to simplification and greater consistency with the Lisbon and Gothenburg Strategies, the organisation of spending would be modified with the creation of three priority objectives: a convergence objective for the regions and countries lagging behind, a regional competitiveness and employment objective and a European territorial cooperation objective.

- The convergence objective, similar to the current Objective 1, would be funded by the ERDF, the ESF and the Cohesion Fund. Receiving 78.54% of the funds, it would benefit the regions in which the GDP per inhabitant is less than 75% of the Community average of the EU-25, the regions affected by the statistical effect of enlargement, which reduces the Community average by 12.5%, the countries whose GNI is less than 90% of the Community average benefiting from the Cohesion Fund and the funding of a specific programme for the outermost regions. In addition to the usual fields of intervention, new emphasis would be placed on research, innovation and risk prevention.

- The regional competitiveness and employment objective, funded by the ERDF and the ESF, would be aimed at enhancing the competitiveness and attractiveness of the regions. With 17.22% of the funds, it would be intended to assist all the areas not covered by the convergence objective, in accordance with the proposals recently presented by the Member States and the current Objective 1 regions no longer eligible as a result of their economic progress. The programmes of this objective would be funded equally by the ESF and the ERDF. The ERDF's interventions would be based on three issues: innovation and knowledge based economy, the environment and risk prevention, accessibility of services of general economic interest. For the ESF, the link to the European employment strategy would be strengthened.

- The European territorial cooperation objective, based on the experience of INTERREG CIP, would be provided with 3.94% of the funds and would promote the balanced, harmonious and sustainable development of the territory. It would support cross-border cooperation actions, for regions located on internal borders or certain external borders; it would contribute to the cross-border elements of the future European neighbourhood and partnership Instrument and Instrument for Pre-accession Assistance (IPA). It would benefit transnational cooperation actions and cooperation and exchange networks. The actions of this objective would be linked more closely to the priorities of the Lisbon and Gothenburg Strategies.

[49] (COM(2004)490 final, COM(2004)492 final, COM(2004)493 final, COM(2004)494 final, COM(2004)495 final, COM(2004)496 final and COM(2004)497 final), European Commission, *Proposal of Council Regulation*, 14/7/2004.

- **Specific territories and complementarity with other policies**

- For urban areas, the URBAN II CIP would be integrated into regional and national operational programmes.

- For rural areas or areas dependent of fishing, the majority of the aid would come from the EAFRD and the EFF, with some complementary actions from the ERDF and the ESF.

- The outermost regions, areas with natural handicaps (mountains and islands), areas with low or very low population density and the former external border areas would receive special treatment, that is, an increased level of Community assistance to compensate for extra costs.

- **Community participation**

Except when the ceiling for contributions of 4% of GDP is applicable, the allocations for the regions would be calculated according to the so-called 'Berlin formula', but with some adjustements.

'Berlin Formula':

At the Berlin European Council in 1999, the Member States agreed on a method to calculate the annual amount of aid in eligible regions, following 4 steps:

- to measure the difference between the regional GDP per inhabitant and the EU average;

- to identify a regional disparity coefficient : 1.05% for the regions with GDP per head of less than 64% of the EU average; 1% for the regions with GDP per head between 64% and 67%; 0.95% for the regions with GDP per head of more than 67% (but less than 75%);

- to identify a national prosperity coefficient : 5% for the countries with GNI per head of less than 75% of the EU average; 4% for the countries with GNI per head between 75% and 90%; 3% for the countries with GNI per head of more than 90%;

- the number of persons unemployed above the average of regions eligible for the convergence objective.

Annual amount of aid in eligible regions = difference between the regional GDP per inhabitant and the EU average X regional disparity coefficient X national prosperity coefficient + EUR 100 per person unemployed above the average of regions eligible for the convergence objective

'Adjusted Berlin Formula':

For the future programming period, the Commission suggests to use the same method, with some adjustments on the coefficients and to retain only 3 steps:

- to measure the difference between the regional GDP per inhabitant and the EU average;

- to identify a national prosperity coefficient : 5% for the countries with GNI per head of less than 82% of the EU average; 4% for the countries with GNI per head between 82% and 99%; 3% for the countries with GNI per head of more than 99%;

- the number of persons unemployed above the average of regions eligible for the convergence objective.

Annual amount of aid in eligible regions = difference between the regional GDP per inhabitant and the EU average X national prosperity coefficient + EUR 100 per person unemployed above the average of regions eligible for the convergence objective.

The participation of the funds would be subject to the following ceilings: 85% for the Cohesion Fund, 75% for the ERDF and the ESF in the convergence objective, (which in some cases may rise to 80%), 50% for the ESF and the ERDF in the competitiveness objective, 75% for the

ERDF in the cooperation objective and 85% in the outermost regions and the remote Greek islands. Furthermore, increases of certain points would come into play for actions carried out in the regions with natural handicaps.

- **A new implementation framework**

With a view to improving subsidiarity and decentralisation, the Commission proposes establishing a new system for implementing programmes, based on the Community's strategic orientations and national strategic reference frameworks. Each year, the European institutions would examine the progress made by the Member States in the implementation of the Community strategic orientations. This examination would be carried out jointly with the report on the implementation of the 'broad economic policy guidelines' (BEPG). The management, control and evaluation system would be eased at European level and reinforced at national level.

With a view to simplification, the principle of 'one fund per programme' would be applied and the programming complement removed.

- **Transitional support**

For regions affected by the statistical effect resulting from enlargement, the Commission proposes a phasing out device, imposing a ceiling on the contribution per inhabitant for 2007 at 85% of the 2006 level and then reducing it progressively by steps of 5%. For the calculation of the Community average, it will use the average for the EU-25 rather than the EU-27 on the basis that, at the point when eligibility is calculated, the Union will have just 25 members. For regions whose GDP per inhabitant has increased naturally to above 75% of the Community average, the Commission suggests another transitional phasing in device in the competitiveness objective. It consists of receiving, in 2007 a contribution per inhabitant amounting to 75% of the 2006 level (80% for the regions with low population density) and, having quickly reduced from 2008 to 2010, the aid per inhabitant would drop to the level of the other regions eligible for the competitiveness objective, that is, EUR 21 per inhabitant on average.

2. Financial consequences

The Commission's proposal is aimed at a substantial redistribution of the appropriations to the Member States, when compared to the period 2000-2006. The accumulated effect of enlargement and economic progress, at national level and within several regions, means a very significant reduction in the sums to be received by Ireland and Spain. Similarly, Germany, the United Kingdom the Netherlands and Luxembourg (for very small amounts of money) are seeing considerable reductions.

STRUCTURAL FUNDS AND COHESION FUND APPROPRIATIONS, DETAILED BY COUNTRY AND PRIORITY FOR 2007-2013, AS A RESULT OF THE COMMISSION'S PROPOSAL

COUNTRY	2007-2013 (2004 prices) EUR Million				2000-2006		Change 2000-2006/ 2007-2013
UE 15	Convergence	Regional competitive-ness and employment	Cooperation	TOTAL	2000-2006 (1999 Prices)	2004 Prices (+ 11 %)	
Austria	0	1 330	322	1 652	1 831	2 032	- 19 %
Belgium	1 603	1 290	252	3 145	2 038	2 262	+ 39 %
Denmark	0	658	126	784	828	919	- 14 %
Germany	14 078	9 847	1 230	25 155	29 764	33 038	- 24 %
Spain	24 278	9 149	1 039	34 466	56 205	62 387	- 45 %
Finland	0	2 032	206	2 238	2 090	2 319	- 4 %
France	3 089	11 184	1 007	15 280	15 666	17 389	- 12 %
Greece	23 232	587	459	24 278	24 883	27 620	- 12 %
Ireland	0	790	138	928	3 974	4 411	- 79 %
Italy	19 517	6 456	1 048	27 021	29 656	32 918	- 18 %
Luxemburg	0	27	19	46	91	101	- 54 %
Netherlands	0	2 243	450	2 693	3 288	3 650	- 26 %
Portugal	19 538	524	328	20 390	22 760	25 539	- 20 %
Sweden	0	2 571	289	2 860	2 186	2 426	+ 18 %
UK	4 428	7 826	585	12 889	16 956	18 421	- 30 %
Total old MS				173 825			
p-m: 10 new MS + 2 candidates							
Estonia				2 534			
Latvia				5 482			
Lithuania				2 976			
Poland				63 453			
Czech Rep.				25 940			
Slovenia				4 654			
Slovakia				9 494			
Hungary				24 609			
Malta				754			
Cyprus				274			
Total new MS				140 170			
Romania				16 050			
Bulgaria				6 167			
TOTAL				336 212			

Source: European Commission

3. Analysis of the content of the proposal

For a better understanding of the substance of the Commission's proposal and its capacity to respond to the EU's present and future challenges, the key points identified at the end of Part 1 are represented here in a systematic fashion.

Aims	Commission's proposals	Evaluation
To reduce regional disparities	- 78% of the budget for the convergence objective - Community participation of 75% to 85%	(+++)
To even out spatial and territorial imbalances	- 1.8% of the budget for cross-border cooperation and external borders - Community participation increased by 5% for mountain areas, Member State islands, areas with low population density and the external borders as of 30/4/04 ; by 10% for the outermost regions in convergence and 30% for the outermost regions in competitiveness - creation of a specific programme for the outermost regions - creation of the European Grouping for Cross-border Cooperation (EGCC)	(+++)
To improve general welfare	- Integration of URBAN II, EQUAL and innovative actions into operational programmes. - New issue: accessibility - Complete subsidiarity for promotion of equality between men and women	(--) - Removal of common transversal priorities such as equal opportunities, the environment and local development and employment initiatives
To increase the sense of European belonging	- Removal of Community initiative programmes and innovative actions - End of twinning and cooperative actions for reforming the public institutions in the new Member States	(--)
To modernise European governance	- Strengthening of subsidiarity; eligibility rules become national - Strategic orientations adopted by the Council, with annual national progress reports	(--)- Subsidiarity stopped at national level - Risk of coordination systems for cohesion policy tending towards the open method of coordination
To strengthen competitiveness within the framework of sustainable development	- Creation of a new objective 'regional competitiveness and employment' - Territorial cooperation programmes based on the Lisbon and Gothenburg priorities	(++)
To correctly prepare future enlargements	- creation of the instrument for pre-accession assistance (IPA) under Heading 4	(-) – Insufficient budget - No budget for new Members, apart from

		Romania and Bulgaria (Croatia?)
To consolidate past developments	- Phasing out for regions affected by the statistical effect - Phasing in for regions naturally losing their eligibility	(+)
To accompany future developments of the new Member States	- no proposal	(-) – the actions eligible for the convergence objective are identical for both old and new Member States, although the needs are different
through respect for management constraints and strategic planning	- Removal of the programming complement and easing of management (only at the level of priorities and further measures)	(++)
	- New implementation system with strategic Community orientations, national orientations, national and regional operational programmes for each objective and regular monitoring by means of annual reports.	(-) – Risk of development towards top-down and less differentiated approach by region - Multiplication of bodies involved in the financial management, control and auditing and of the reports to be provided
through technical assistance and greater leadership at European level	- The Commission is no longer involved in monitoring	(--)
through greater flexibility	- One fund per programme, management based on priorities rather than measures	(-/+) Relative flexibility, multiplication of programmes within a particular territory and compartmentalisation of interventions. - End of the integration of funds
through better coordination with sectoral policies	- Creation of a single fund for rural development (EAFRD) and for fishing (EFF)	(-/+)- Weakening of territorial consistency and return to the sectoral management prior to 1989.
through increased use of private funding	- Establishment of programmes in public spending	(-)- Simplification for the convergence objective, but elimination of the leverage effect in the competitiveness objective

4. Evaluation test for the proposal

It is also possible to evaluate the degree of acceptability of the Commission's proposal in relation to the current negotiation.

Proposal	**Justification**	**Acceptability**
Eligibility of all regions lagging behind in terms of development	To apply the Union Treaty	Very high
Phasing out for regions suffering from the statistical effect and phasing in for others	To consolidate the development of the remaining poorer regions	High, since the contributions per inhabitant of the regions of the old Member States are considerably higher than those of the new Member States, even with phasing out.
Support for regional competitiveness and employment (ERDF et ESF)	To intervene in favour of areas with economic and social difficulties outside of the convergence objective To ensure the participation of the whole of European territory	Moderate, since assessments of past actions remain unconvincing
Mainstreaming of Community initiative programmes into regional and national operational programmes; creation of a territorial cooperation objective with almost twice the appropriations for cross-border cooperation and five times for trans-national cooperation	To contribute to territorial cohesion	Low, since there are numerous demands for an element for urban areas and for inter-regional cooperation at Community level.
Complete transfer of rural development and fisheries appropriations to EAFRD and EFF	Not to harm rural areas, since they represent a strong component in the new Member States	Moderate, since if the budget of Heading 1B is reduced, only rural areas would be unaffected

Chapter 3: Assessment of the main Counter-Proposals

A number of requests for adjustment of the Commission's proposals or alternative proposals have been put forward. The range of possible combinations is illustrated by the Dutch Presidency progress report on several modules.[50]

1. Content of the proposals and budgetary implications

Some of the options put forward can be singled out as particularly sensitive, in view of their budgetary implications[51]:

- **Only less developed countries**: This proposal is based on the notion that it is desirable to focus aid on the regions and countries that most need it. Accordingly, the proposal implies excluding regions located in countries where per capita GDP is over 90% of the EU average from convergence policy. In practice, this would amount to retaining only the regions in the new Member States, Portugal and Greece. Outermost regions would receive similar treatment. This proposal was put forward by the governments most in favour of a substantial reduction of the cohesion budget. Consequently it would not necessarily be accompanied by a transitional exit mechanism by way of compensation. It may therefore be estimated that compared to the Commission's proposal, it would result in a reduction of the order of 38% of the budget allocated to the less developed regions, which equates to EUR 67 billion.

- **No cap at 4% of national GDP**: This proposal is based on recognition of the considerable needs of the new Member States. It challenges the widely-held view that the latter lack the capacity to handle the funds allocated to them, maintaining that they learn quickly. The 4% cap sets the maximum amount of funding received under cohesion policy in its 1999 form. That involved Heading 1B, rural development appropriations and the European Fund for Fisheries (EFF). Rough calculations suggest that if the amount less developed regions would receive according to the convergence objective, pursuant to the Berlin formula, is compared with the amounts resulting from application of the cap, the outcome would be that most of the new Member States would receive less money, notably those countries with a low per capita GDP. Doing away with the cap would have the opposite effect. It would result in an increase of approximately 168% in appropriations for the less developed regions, which equates to EUR 298 billion.

- **Complete transfer of all rural development and fisheries appropriations to the EAFRD and the EFF**: This is a Commission proposal intended to separate support for rural development and fisheries from cohesion policy in its strictest sense. The transfers involve EUR 36.2 billion, of which EUR 1.4 billion relates to the former LEADER+ CIP. It should be borne in mind that LEADER+ funding for 2000-2006 was EUR 2 billion for 15 Member States. The reduction is therefore considerable, as 27 countries would now be concerned, and some of them have a large rural population. If the proposal to re-establish Community Initiative Programmes (CIPs) under Heading 1B is adopted, and cooperative ventures are run for the benefit of rural areas, it could be neutral in budgetary terms.

- **No 'phasing out'**: This proposal is part of the approach involving maximum reduction of budget Heading 1B, and entails doing away with all transitional provisions. Its effect would be a EUR 31.7 billion reduction relative to the original budget provision for 'phasing in' and 'phasing out'.

[50] Council, document 15632/04 Cadrefin 155, 6 December 2004.
[51] This section is based on preliminary work undertaken by J. Batchler and F. Wishlade, dit.

- **'Generous' phasing out:** Over and above the Commission's proposal, a number of suggestions aimed at reducing the impact of the drastic cut in Community aid have been put forward. The first of these involves the Cohesion Fund and is based on the treatment of Ireland in 1999. It would involve gradual reduction of aid according to the 'phasing in' model proposed for the regions that would automatically cease to be eligible for convergence. Starting from an amount equal to 75% of the aid received in 2006, aid would be reduced progressively until 2010, when it would cease altogether. This proposal would imply a 5% increase of the Cohesion Fund, approximately EUR 3 billion. A second proposal involves treating the regions affected by the statistical effect in the same way as other regions eligible for the convergence objective, whilst recognising that in any case application of the Berlin formula would reduce their funding. The effect would be an increase of the amount initially reserved for 'phasing out' of the order of 32%, which equates to approximately EUR 6 billion. A third proposal involves extending the transitional period for the 'phasing in' regions. It would mean delaying their alignment with the competitiveness objective regions until the next programming period. Clearly, for some regions the change to aid of EUR 21 per capita in 2011 would be a drastic cut. In this scenario, the 'phasing in' funding would increase by 10%, which equates to approximately EUR 1 billion.

- **Supporting competitiveness through employment (ESF only):** This proposal stems from the desire to reduce the Heading 1B amount outside the convergence objective. It goes along with the existence of transitional treatment for regions that are no longer eligible, in the form of 'phasing in'. Nonetheless, it holds that only the interests of competitiveness can justify support for the improvement of human resources across the whole of the Community. The outcome would be doing away with ERDF intervention and halving the competitiveness objective budget, exclusive of 'phasing in', making it approximately EUR 24 billion.

- **Regional integration of support for restructuring and social inclusion**: This proposal involves the opposite to the approach taken by the previous one. It stems from the fact that there is inadequate coordination of actions on social cohesion taken by the regions with those taken by Member States and by the European Union. In the interests of efficiency regarding social inclusion, it is advocated that the PROGRESS programme currently under Heading 1A be transferred to Heading 1B. The transfer would not have a financial impact in itself, but would result in improved synergy in the fight against social exclusion.

- **Retention of Community Initiative Programmes and Community interregional cooperation**: This proposal is in response to the ongoing needs in new and old Member States regarding regional development strategy. It is also a response to the general recognition of Community added value in cooperation actions and exchanges, otherwise known as the Community Initiative Programmes (CIPs). The proposal suggests applying the CIP method in new contexts. Some examples given are relations between urban and rural areas, the urban environment, general interest services in low density areas and modernisation of public institutions in the new Member States. The proposal advocates this approach rather than the corresponding increase proposed by the Commission in the trans-national cooperation budget, as there are serious concerns about the effectiveness and efficiency of the latter. The proposal would involve a 66% reduction of the [proposed] budget devoted to trans-national cooperation. Compared to the previous period there would nonetheless be a 54% increase in the budget to EUR 2 billion. A new EUR 4.3 billion line devoted to interregional cooperation would be created. This amount is comparable to the amount allocated to EQUAL, URBAN II and other innovative actions in the period 2000-2006. The proposal has no financial impact in itself, but may result in a significant increase of Community added value.

- **Integration of pre-accession instruments and preparation for enlargement**: The decisions to open negotiations with Croatia and Turkey in 2005 have been taken recently, at the European Council on 17 December 2004. Consequently, proposals are required to prepare for these enlargements with similar financial provisions to those made for 2000-2006. The amount involved would be of the order of EUR 21 billion. As the Commission's initial proposal for the Instrument for Pre-accession assistance (IPA) was EUR 12.9 billion, one suggestion could be a 63% increase of this line. Along with the increase, integration into Heading 1B could be effected. Experience gained from the SAPARD, PHARE and ISPA pre-accession instruments has highlighted the need to create additional tools to prepare for economic and social development.

FINANCIAL CONSEQUENCES OF THE COUNTER-PROPOSALS (2007-2013)

EUR Billion	Commission's proposal	Only for countries	No 4% GDP cap	No Phasing out	Phasing out for Cohesion Fund	Full eligibility for regions affected by the statistical effect	Prolonged Phasing in	Competitiveness through employment	EU inter-regional cooperation	Preparing for the future enlargements
Convergence Objective	**264,0**									
Lagging behind regions	177,8	-38%	+168%							
Cohesion Fund	63,0				+5%					
Phasing out (statistical effect)	22,1			-100%		+32%				
Outermost regions	1,1									
Competitiveness Objective	**57,9**									
Phasing in (progressing regions)	9,6			-100%			+10%			
Regional competitiveness and employment	48,3							-50%		
Territorial cooperation objective	**13,2**									
Internal borders	4,7									
External borders	1,6									
Trans-national	6,3								-66%	
Inter-regional	0								4,3	
Networks	0,6									
Technical assistance	**1,0**									
Total Heading 1B	**336,1**	**~269**	**~ 634**	**~ 304**	**~ 339**	**~ 342**	**~ 337**	**~ 312**	**336,1**	**336,1**
p.m :										
Heading 2: Rural development (EAFRD)	***88,7***									
Former - EAGGF-G ou -G	*87,3*									
LEADER+	*1,4*									
EFF	*4,9*									
Heading 4: IPA	***12,9***									***+63% ~21***
Heading 1A: PROGRESS	***0,6***									

Source: European Commission, calculations EPRC and Notre Europe

2. Provisional assessment of the counter-proposals

The degree of acceptability of the counter-proposals can be assessed.

Proposal	Justification	Acceptability
Restricting eligibility to less developed countries only	Increased concentration of European aid	Highly unlikely as it runs counter to the Treaty
No cap at 4% of national GDP	Avoids cutting funding to the new Member States	Highly unlikely, as it will lead to a dramatic increase in the EU budget
No 'phasing out' for regions affected by the statistical effect	Targets aid on the new Member States	Highly unlikely as the Berlin agreement set a precedent
'Phasing out' for the Cohesion Fund	Same treatment as in the Berlin agreement	Unlikely, as only Spain is involved, but it does compensate for the drastic loss of the Fund
Full eligibility for regions affected by the statistical effect	Suppress the negative impact of Enlargement for the poorer regions of the old Member States	Moderate, as it provides compensation for the very significant losses affecting G, UK and ES, and the significant losses affecting EL, I and PT
Extension of the transitional period for regions in the 'phasing in' process	Suppress the negative impact of Enlargement for the regions in question	Moderate/Unlikely, as it provides compensation for the very significant losses affecting ES, UK and IE, for the significant losses affecting EL, I, AU and PT, and for the slight losses affecting FIN
Support competitiveness through employment (ESF only)	Targets ERDF action where its added value is recognised	Strong, as all the countries, including the richer ones, have needs in terms of human resources
Integrate support for restructuring and social inclusion (PROGRESS) into regional programmes	Strengthens coordination between cohesion policy and sectoral policies	Moderate. There are concerns about the competences of sectoral administrations
Retain Community Initiative Programmes and Community inter-regional cooperation	Re-introduces action and working methods where Community added value is recognised	Strong, as it is in line with many national and regional requests, and requests by NGOs
Greater integration of pre-accession instruments into cohesion programmes	Enhances preparation for future enlargements as regards cohesion policy	Moderate/unlikely. There are concerns about the competences of sectoral administrations and Turkey's capacity for absorption remains unclear

3. Definition of three broad options and outline description

As regards 2007-2013, and following enlargement, pressure to reduce socio-economic disparity has become stronger. At the same time, the Lisbon and Gothenburg strategies are leading to consensus on greater efforts regarding competitiveness and sustainable development. A number of Member States are determined to see structural aid continue, in order to consolidate their situation, which in some cases has been artificially adjusted due to enlargement. Other Member States wish to do away with the cap at 4% of GDP, because they believe their needs are considerably greater. Some of the six countries calling for the Community budget to be capped at 1% of GNI advocate the renationalisation of structural aid. In particular, they wish to see a reduction of the funds directed at regional competitiveness and transitional support when leaving the Objective 1 category. In addition, these countries propose restricting the convergence objective to the poorest Member States and excluding regions located in richer countries.

The Commission proposal consists in so-called externalisation of a new part of the appropriations previously allocated to cohesion policy. EAGGF guidance is replaced by EAFRD, which would come entirely from the new Heading 2. In this case, however, the relevant appropriations would be transferred after application of the cap at 4% of national GDP. The same would apply to replacement of the FIFG by the EFF. Community Initiative Programmes would be replaced by an objective for territorial cooperation. The sum involved would be almost equal to 2000-2006 but less than in 1994-1999. The 'phasing out' of regions that would automatically lose Objective 1 status would become 'phasing in' under the competitiveness objective. Preparation for Turkish enlargement, a process with similar socio-economic and demographic implications to the recent enlargement, is dealt with separately. The sum set aside for the forthcoming seven years is EUR 13 billion, which equates to 62% of the budget made available to the CEECs in the past. Lastly, concerning the Lisbon and Gothenburg strategies, the new Heading 1 devoted to sustainable growth includes a Heading 1A aimed at supporting competitiveness for growth and employment. Heading 1B concerns cohesion.

Clearly, it is too early to predict the form the final compromise might take. By way of illustration, however, three alternative scenarios[52] that differ from the Commission's proposal are presented below.

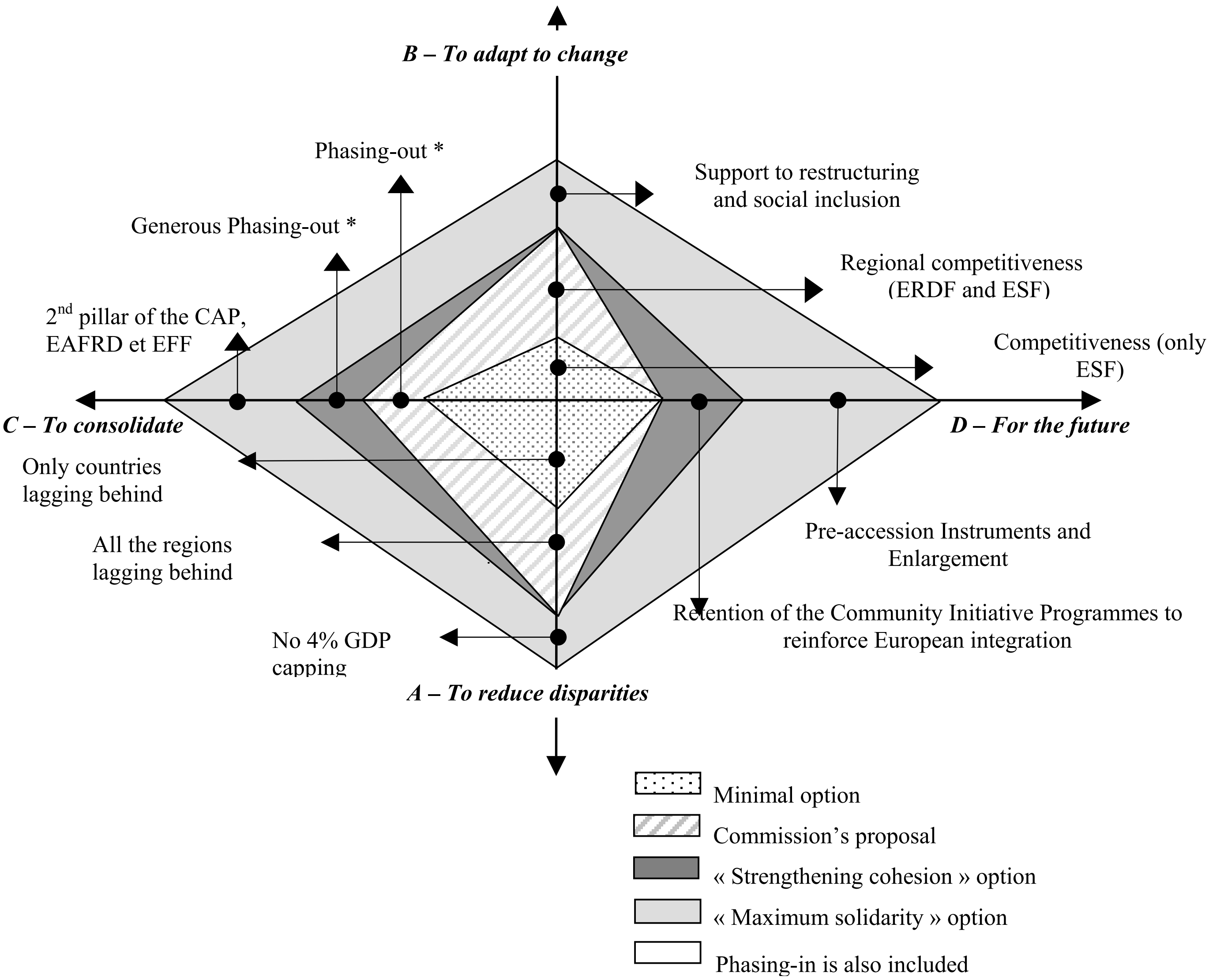
- The "maximum solidarity" option involves including everything remotely related to economic, territorial and social cohesion. This would involve, for instance, support for rural development and economic restructuring, including fisheries, through aid to businesses. Preparation for further accessions would also be included. In this scenario, there would be no cap on Community intervention at 4% of national GDP. This option would mean allocating EUR 634 billion to Heading 1B and increasing the amount for Heading 4 by EUR 8 billion. It would also imply no change whatsoever to the amounts planned for Heading 2.

- The option of "strengthening cohesion" is a natural continuation of earlier programming, as regards both political philosophy and priorities. It involves a very gradual transition for regions no longer eligible under the old Objective 1, either automatically or due to the statistical effect. The same would apply to countries (Cohesion Fund). This option would also imply forceful promotion, at Community level, of interregional cooperation, taking the Community

[52] The scenarios should not be taken to represent the views of particular Member States. The intention was to define three broad groups of proposals.

Initiative Programmes as a model. New topics for cooperation appropriate for the enlarged EU are envisaged. These could be, for example, the modernisation of public institutions, urban regeneration, or relations between town and countryside. It would involve retaining all the gentle transition options, both for the Cohesion Fund (+ EUR 3 billion) and for the regions affected by the statistical effect (+ EUR 6 billion) and the regions that automatically cease to be eligible (+ EUR 1 billion). It would not impact on the amounts devoted to the cooperation objective. The total budget for Heading 1B would be EUR 346 billion.

- The minimum option responds to the wish to reduce budgetary expenditure and, if possible, to renationalise certain areas. Accordingly, less developed regions located in relatively rich countries would no longer be eligible. Aid for changes would be restricted to ESF intervention at national level, and transitional measures when losing eligibility would be all but done away with. This option would result in a reduction of EUR 67 billion for the elimination of regions located in rich countries, and a reduction of EUR 5 billion for the 'phasing out' regions of Greece and Portugal. There would also be a reduction of EUR 9.6 billion for the 'phasing in' regions and a reduction of EUR 24.1 billion for the ERDF under competitiveness objective. This would amount to a EUR 230 billion budget.



PART 3: CONCLUSIONS AND RECOMMENDATIONS

Both the accession of ten new Member States with a total GDP of less than 5% of the GDP of the EU of 15, and a level of competitiveness which can only be viewed as second-rate from a global perspective, have stepped up the pressure on European cohesion policy. The Commission is proposing a major and much-needed restructuring of its priorities to bring them more into line with current needs, and it is also undertaking major efforts to simplify and decentralise the management of the Structural Funds. Nevertheless, in terms of goals and expertise acquired on territorial, social and economic development, it is abandoning a number of instruments which have helped establish Community added value, such as the integration of funds, Community Initiative Programmes and the mobilisation of private funds.

As far as financial issues are concerned, and on the basis of the reactions of not only the Member States, but also the regions, municipalities and social partners, the Commission's proposal seems reasonable. A number of modifications would appear to be necessary, mainly to avoid any negative impact on regions affected by the statistical effect and to consolidate development progress. However, it should not be forgotten that the debate on cohesion policy has now been cut short to a certain extent, because of the transfer of certain policies into other budget headings such as rural development. An overall view must therefore be taken when analysing any potential gains or losses.

By way of a summary of the lessons to be drawn from the foregoing analysis, the following are ten practical recommendations for action and four calls for increased vigilance:

1. Reinstate Community Initiative Programmes under the territorial cooperation objective, to be included in a pillar on interregional cooperation conducted at European level, with EUR 4.3 billion in funding. New subjects for cooperation adapted to an enlarged EU could include the modernisation of public institutions, urban regeneration and town-country relations. This measure could be made financially neutral by means of adjustments downwards to the pillar on transnational cooperation.

2. Extend the same treatment to regions affected by the statistical effect as to those which are fully eligible. Such a measure would only cost EUR 6 billion, and would make it possible to offset the effects of enlargement suffered by many countries, especially those most severely affected, in terms of reduced grants.

3. Maintain synergy between the objective of competitiveness in rural areas and the EAFRD, by drawing up appropriate strategic guidelines.

4. Restore the possibility of mobilising the private sector by setting up programmes in terms of overall expenditure. The Commission's proposal is to set the Community contribution at the level of public expenditure, excluding private co-financing, for the sake of simplification. This rule, suitable for the convergence objective, leaves the other objectives without a significant means of leverage.

5. Extend the deadline for automatic decommitment to n+3, especially as the new Member States are likely to have further absorption problems during the first few years.

6. Allocate budgets for cross-border cooperation by border and not by country, in order to encourage innovation and breathe fresh life into cooperation. The proposed EGCC will give rise to interesting opportunities in this respect.

7. Reinstate interim evaluations of programmes in converging regions, in order to monitor the development of programmes at a sufficiently expert level.

8. Issue reports on national progress every two years, to avoid putting in place new bureaucratic procedures.

9. Set up a genuine mid-term review after four years in order to review the Community's priorities and the regional strategies in the light of progress made or problems encountered. It is difficult today to predict social and economic developments in the new Member States and their ability to derive benefits from the Structural Funds. At the same time, it would be a good idea to make provision for the development of appropriations which are differentiated between regions of the old and new Member States. The former will have greater opportunities to get their programming under way, whereas there is a risk that the latter will lag behind.

10. Increase conditionality on the results of structural interventions instead of on macro-economic developments, which do not necessarily bear any relation to programmes.

The calls for increased vigilance relate to a number of risks associated with the outcome of negotiations on the Financial Perspective:

A. Integrity of the EAFRD budget (at the level proposed by the Commission), as the EAFRD acts as a necessary complement to European territorial development in rural areas.

B. Integrity of the budget for the competitiveness objective (at the level proposed by the Commission). Abolishing ERDF measures throughout the EU or cutting them back as far as possible would deprive the EU of a major instrument ensuring visibility to Europeans.

C. An increase in the pre-accession budget to bring it up to a level comparable to that in 2000-2006.

D. The continued existence of the *acquis communautaire* relating to the Structural Funds. It must be ensured that the new programming system proposed by the Commission for 2007-2013, which provides for Community strategic guidelines and national reference frameworks accompanied by annual reports, does not result in a gradual shift in cohesion policy towards the open method of coordination.

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ANNEX 1 - EFFECTIVENESS AND EFFICIENCY OF THE EUROPEAN COHESION POLICY

'Does cohesion policy work?' is the title of an article by the Spanish economist A. De la Fuente published in 2002[53]. Has European cohesion policy achieved its objectives? More generally, what should be our assessment of the policy?

Apart from this question of diagnosis and therefore of the proven efficiency of cohesion policy, it will be very useful to look, secondly, at the conditions for that efficiency, or in other words the effectiveness of Community intervention.

PART I: REVIEW OF COHESION POLICY

For S. Baudet-Michel and J. Peyrony, 'Regional policy must be assessed from different points of view: economic, political and methodological'[54].

I. 1. The economic aspect

Most, if not all, analyses concentrate mainly on the economic aspect of cohesion policy.

I. 1. 1. The European Commission's diagnosis

I. 1. 1. 1. The lessons drawn in Part 3 of the Second Cohesion Report, 2001

A subheading of Part 3 of this Report, 'The impact of structural policies: positive but uneven effects', sums up perfectly the cohesion policy followed so far. For example, 'Between 1988 and 1998, the difference in income per head between Objective 1 regions and the EU average narrowed by one-sixth, GDP per head in PPS in the former increasing from 63% of the average to 70%. […] Nevertheless, rates of employment and unemployment at the regional level have shown little sign of converging. […] Over the period 1989 to 1999, structural intervention had a significant effect in Greece and Portugal, GDP at the end of the period being an estimated 9.9% higher in the former and 8.5% higher in the latter as a result of intervention. […] This significant contribution to growth was accompanied by more limited effects on the level of unemployment'.

I. 1. 1. 2. The lessons drawn in Part 4 of the Third Cohesion Report, 2004

The report concentrates on Objective 1 and 'the effect of intervention on real convergence and economic integration'. According to the authors, 'Empirical analysis shows not only that growth of GDP, employment and productivity in Objective 1 regions has exceeded that in the rest of the EU since the mid-1990s in particular, but that convergence has been most pronounced in the least prosperous regions among these. […] structural interventions have boosted growth in the cohesion countries both by adding to demand and strengthening the supply side of the economy. In Spain, therefore, GDP in 1999 is estimated to have been some 1½% higher than it would have been without intervention, in Greece, over 2% higher, in Ireland, almost 3% higher and in Portugal, over 4½% higher'.

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[53] De la Fuente, A., 'Does cohesion policy work? Some general considerations and evidences from Spain', 2002.

[54] Baudet-Michel, S., and Peyrony, J., 'Développement territorial et politique régionale: quelques pistes pour l'Union européenne après 2006', 2003.

I. 1. 2. The scientists' diagnosis: 'global convergence, local divergence'?

I. 1. 2. 1. While many authors stress the phenomenon of 'global convergence, local divergence'

In her report on the EPC – Notre Europe seminar 'How to enhance economic and social cohesion in Europe after 2006', M. Jouen writes: 'A degree of convergence between countries can be noted at European level, but more detailed analysis of what is happening at lower levels indicates that disparities are persisting and even increasing in some cases'[55]. For example, 'The reduction in national disparities has been substantial. However, at the regional level certain gaps have increased, either because some less developed regions have found it difficult to catch up to the Community average or because the more developed regions have also experienced strong growth. [...] Some countries have registered a decline in internal economic cohesion'[56]. At the same seminar, B. Morgan in turn stressed that: 'In the period since 1973 there has been some convergence in income levels between Member States. […] Over the same period, and despite these significant expenditures, there has been a lack of convergence at the regional level where the gap between rich regions and 'less favoured' regions has widened'[57].

Many other scientists reach the same diagnosis. To mention but a few:

J. El Ouardighi and R. Kahn write: 'While we find that national economic situations are tending to converge, we can also observe a relative increase in disparities at the regional level'[58].

In the same way, A. Cappelen et al. state: 'There appears to have been a decrease in regional dispersion (i.e convergence) after 1990. However, this does not hold if the 3 new Southern members are excluded from the sample. In this case, there appears to be a slight trend towards increased differences over time. Moreover, it does not apply to dispersion within countries. [...] The decrease in regional dispersion for the sample as a whole after 1990 is entirely accounted for by the catch up of the 3 new Southern States towards the European level. Within countries, there is, on average, no convergence'[59].

According to E. Bode et al., 'while convergence is observed more clearly among EU countries, divergence is more often observed within countries. This is because convergence between countries has been, in many cases, enforced by the dynamism of the national metropolitan centers causing dualistic phenomena inside the countries'[60].

D. Tarschys also underlines the fact that 'The disparities between countries have diminished over time whereas disparities among regions have proven to be more stubborn. [...] A formula often used to capture the situation is 'global convergence, local divergence''[61].

Finally, J. Houard and A. Marfouk confirm that "The process of regional convergence towards the Community average may go hand in hand with an increase in disparities within the various Member States"[62].

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55 Jouen, M., 'How to enhance economic and social cohesion in Europe after 2006', report of the EPC – Notre Europe seminar, 2001.

56 Jouen, M., 2001, 'Ce que nous apprend le 2ème rapport sur la cohésion', 2001.

57 Morgan, B., 'Intégration économique et croissance régionale', 2001.

58 El Ouardighi, J., and Kahn, R., 'Les régions et la politique régionale européenne', 2004.

59 Cappelen, A., et al., 'The impact of EU regional support on growth and convergence in the European Union', 2003.

60 Bode, E., et al., 'European integration, regional structural change and cohesion: a survey of theoritical and empirical litterature', 2003.

61 Tarschys, D., *Reinventing Cohesion – The Future of European Structural Policy*, 2003.

62 Houard, J., and Marfouk, A., 'Portrait socio-économique des régions européennes', 2000.

In the light of this diagnosis, J. El Ouardighi and R. Kahn conclude that 'Given the relative permanence of regional imbalances despite the efforts made to narrow the gaps between rich and poor regions, we remain sceptical as to the real effectiveness of European regional policy'[63].

I. 1. 2. 2. …others seem to take a more optimistic view of the economic success of cohesion policy

S. Baudet-Michel and J. Peyrony find that 'It is indisputable that every cohesion country and all the Objective 1 regions have gradually caught up with the Community average economically, in GDP terms, since 1986'[64].. Similarly, J. Fayolle states: 'So far as Objective 1 is concerned, the dominant characteristic is more clearly the ground made up by the regions concerned'[65].

For S. Ederveen, H. De Groot and R. Nahuis, authors of a report 'Funds and Games: the economics of European cohesion policy' (2002), the 'global convergence, local divergence' vision is questionable.

According to them, 'Convergence exists both between and within countries. […] The widely-quoted Italian experience may have led people to believe that divergence is a common phenomenon in European countries. However, Italy is a noteworthy exception to the rule. In the majority of countries, there is clear evidence for convergence among regions'[66].

The three authors reaffirm a bit later: 'Clear evidence is found for the convergence-hypothesis both on the country level and the regional level: poor countries and poor regions tend to catch up with richer ones at a rate of approximately 2% per year. Futhermore, the evidence supports convergence within countries: in the majority of EU countries regional disparities in income have declined over the last decades'[67].

I. 1. 3. The existence of many methodological problems for assessing the impact of cohesion policy

For S. Baudet-Michel and J. Peyrony, 'the convergence of national, and to a lesser extent regional, GDP levels is cited by DG Regio in support of the relevance of its activities'[68].

Making direct reference to the Third Cohesion Report, N. Gaubert speaks of a 'flattering picture' before explaining that 'on a methodological level, these data must be taken with caution'[69].

This question of 'methodology' seems to predominate given that, as J. El Ouardighi and R. Kahn point out, 'the assessment of the Structural Funds' impact depends in part on the analytical methods and indicators chosen'[70]. E. Bode et al. confirm: 'Conclusions regarding the effectiveness of EU regional and cohesion policies depend crucially on how the policies are defined in terms of their targets and instruments used to mesure the EU contributions'[71].

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63 El Ouardighi, J., and Kahn, R., 'Les régions et la politique régionale européenne', 2004.

64 Baudet-Michel, S., and Peyrony, J., 'Développement territorial et politique régionale: quelques pistes pour l'Union européenne après 2006', 2003.

65 Fayolle, J., 'Croissance régionale, appartenance nationale et fonds structurels européens: un bilan d'étape', 2000.

66 Ederveen, S., et al., *Funds and Games: the economics of European cohesion policy*, 2002.

67 *Idem*.

68 Baudet-Michel, S., and Peyrony, J., 'Développement territorial et politique régionale: quelques pistes pour l'Union européenne après 2006', 2003.

69 Gaubert, N., 'La politique régionale européenne entre convergence et cohésion: institutionnalisation d'un territoire européen et incertitudes politiques', 2004.

70 El Ouardighi, J., and Kahn, R., 'Les régions et la politique régionale européenne', 2004.

71 Bode, E., et al., 'European integration, regional structural change and cohesion: a survey of theoritical and empirical litterature', 2003.

I. 1. 3. 1. GDP, a controversial indicator

Following the appearance of the Second Cohesion Report, L. Davezies explains that 'the Commission opens the debate with the major point of how the problems of disparities in regional development should be measured. It advocates regional GDP on the grounds that it is 'objective' and 'available', which is true even if it is not 'fair'. […] The Commission clearly says that regional GDP takes little or no account of public and private transfers, the effect of which on regional development levels was nevertheless measured in the first report […]. On the other hand, it argues quite convincingly on the limits of using regional data on household incomes, since they do not exist at European regional level in any case. In short, while the Commission claims to 'have a clear conscience' in the matter, it admits and even regrets the limitations of the conventions it is forced to accept'.

'It is true that the measurement of regional development remains highly problematic, not only for the European Commission but, more seriously, in university research laboratories. […] Analysis of European, national or academic literature provides no sound, established definition of what the regional development balance ought to be: is it equality of GDP per capita (as the Cohesion Report implies when it sets the target of equalising the regional situations in the Europe of the fifteen within a generation) or of GDP per job (productivity) or of the disposable income of the population, or of their 'global' income (net of public transfers and taking account of collective consumption)?' [72].

Similarly, M. Beine and F. Docquier take the view that 'for reasons of measurement or interpretation, GDP is far from perfect as an indicator of well-being and performance'. They add: 'GDP has limits and its interpretation calls for some caution. GDP must be interpreted as a measurement of a region's total output and not of its level of wealth or well-being'[73].

Indeed, as reported by D. Tarschys, 'The underlying assumption of a Structural Policy based on GDP figures is obviously that the essential convergence to strive for is an equality of production. Regions are considered to be lagging behind if their output of goods and services falls below the EU average'[74].

Finally, at a seminar held in 2001 by the European Policy Centre and Notre Europe, 'The debate confirmed the weak economic foundations on which evaluations are based. Some participants even questioned the relevance of GDP per capita as an eligibility criterion and basic indicator for economic evaluation'[75].

Geographers also point to this indicator's weaknesses. For example, N. Gaubert questions 'regional GDP as a fair measure of the level of territorial development'[76]. Moreover, wondering about the construction of a European indicator of territorial cohesion, C. Grasland and G. Hamez very interestingly assert that: 'Since the European Union favours economic development at the expense of social cohesion and sustainable development, it gives itself the statistical means to measure the first dimension but not the other two'[77].

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[72] Davezies, L., 'Notes de lecture du 2ème rapport sur la cohésion: unité de l'Europe, solidarité des peuples, diversité des territoires', 2002.
[73] Beine, M., and Docquier, F., *La convergence régionale: théorie et analyse des politiques économiques*, 2000.
[74] Tarschys, D., *Reinventing Cohesion – The Future of European Structural Policy*, 2003.
[75] Jouen, M., 'How to enhance economic and social cohesion in Europe after 2006', report of the EPC – Notre Europe seminar, 2001.
[76] Gaubert, N., 'La politique régionale européenne entre convergence et cohésion: institutionnalisation d'un territoire européen et incertitudes politiques', 2004.
[77] Grasland, C., and Hamez, G., 'Vers la construction d'un indicateur de cohésion territorial européen?', 2004.

I. 1. 3. 2. Demonstrating cohesion policy's contribution to the convergence process. The difficulties of choosing a method of evaluation …

Many scientists point to the difficulty of assessing the real impact of cohesion policy and therefore its effectiveness.

For J. Fayolle, 'Showing the specific effectiveness of the Structural Funds with regard to regional development presents problems of methodology. […] When considering the factors involved in catching up, how are we to distinguish between what is due to the Structural Funds and what to more general factors?' [78]

Many authors stress this point.

S. Baudet-Michel and J. Peyrony explain that 'the impact and overall effectiveness of cohesion policy are all the more tricky to evaluate because it is at present very difficult to distinguish, in the process of convergence of regional and national GDPs, between what is the effect of the Member States' macro-economic policies, the spatial diffusion of growth, or EU regional policy'[79].

In the same way, A. Cappelen et al. assert that 'Empirical evidence of convergence may not immediately reveal the role of regional and cohesion policies, since convergence may be the outcome of other processes that are unrelated to specific regional policies'[80]. According to O. Louis: 'It is scientifically difficult to isolate one single factor that has contributed to the regional growth rate. This may explain certain academics' doubts regarding the effectiveness of this policy'[81].

In the end, 'it would be possible to formally establish the impact of Community interventions only if we could imagine what the situation would have been without them, and that is hardly possible'[82]. As revealed by D. Tarschys, 'A previous Commission report conceded that 'in reality, it is impossible to know what would have happened without the support of the Union' (EC, 1999)' [83].

Other authors stress the different methods of evaluation and their respective methodological limitations.

According to E. Bode et al., 'Despite the existence of numerous empirical studies of the EU regional convergence, the insights that policymakers can gain from them is limited since there are a number of problems which are common to the bulk of existing empirical research that address policy evaluation.

1. Until recently a lack of a sound EU-wide regional database led to the fact that most of the analyses were biased by inevitable selectivity of regions and time periods for investigation.

2. The EU has been developing gradually, with integration occurring steadily between various states at various times. This leads to evolving convergence benchmarks and blurs the assessment of policy impacts.

3. Since most of the countries have implemented independent regional policies prior to introduction of EU structural and cohesion funds in 1994, it is almost impossible to conduct

[78] Fayolle, J., 'Croissance régionale, appartenance nationale et fonds structurels européens: un bilan d'étape'

[79] Baudet-Michel, S., and Peyrony, J., 2003, 'Développement territorial et politique régionale: quelques pistes pour l'Union européenne après 2006' 2000.

[80] Cappelen, A., et al., 'The impact of Eu regional support on growth and convergence in the European Union'.

[81] Louis, O., 'L'avenir de la politique de cohésion', 2003.

[82] Jouen, M., 'How to enhance economic and social cohesion in Europe after 2006', report of the EPC – Notre Europe seminar, 2001.

[83] Tarschys, D., *Reinventing Cohesion – The Future of European Structural Policy*, 2003.

comparative analysis across EU regions without also taking into account national policy impacts. This difficulty appears to be even more serious given different objectives pursued by national regional policies and given the long-term impacts of regional policies.

4. Most studies neglect several unintended but important side-effects of regional policies. For instance, aids might become effective in other regions than is intended due to backward and forward linkages, they might lead to an unintended and adverse change of allocation (e.g. an increase of capital intensity of productions), they might crowd out other policy measures (e.g. a tax cut) due to financial restrictions, they might favor moral hazard and lobbyism, and they might promote an unfavorable development path due to the lack of sufficient information for an efficient direction of funds'[84].

E. Bode et al. present the various evaluation methods : 'On the methodology side, several evaluation approaches are commonly used to assess the effectiveness of EU regional and cohesion policies: case studies, cost-benefit analysis, I-O models, CGE models, single equation econometric models and multi-equation econometric models'[85].

The authors underline the inadequacy of these evaluation methods: 'Micro and meso level evaluations cannot account for all effects of large policy programmes such as the Structural Funds, and this methodology is therefore not well suited for the overall evaluation of the Structural Funds. [...] Evaluation based on fully specified macroeconomic models is discussed'[86].

S. Ederveen et al. also tackle this issue: 'Many evaluation studies have sought to shed light on the extent to which cohesion policy indeed reduces differences in welfare regions.'[87]. The authors review several evaluation methods and underline their results and limits:

- Case studies: 'Most case studies bring up some kind of reservation about the effectiveness of cohesion policy, but they rarely present quantitative estimates of its impact. It is therefore impossible to make an objective assessment on the basis of these individual project appraisals'.

- Model simulation: 'The model simulations complement the case studies by providing the counterfactual how the regions would have fared without the cohesion support. They all suggest that cohesion policy has a large potential to foster growth and convergence. This provides a convenient benchmark against which growth of regional GDP per capita can be measured. They say, however, little about their actual impact.'

- Econometric studies: 'A few studies have econometrically estimated the actual impact of cohesion support of convergence. The evidence is mixed: some studies report a positive, some an insignificant, and some even a negative effect'.

CONSEQUENTLY:

The lack of consensus on the effect of cohesion policy on the convergence process obliges us to read the Commission's official pronouncements with caution.

As showed by S. Ederveen et al., 'There is no consensus about the impact of cohesion policy on convergence. A large number of case studies, model simulations, and some econometric analyses do not paint a consistent picture : researchers draw different conclusions from different studies, ranging from a dismal negative impact of cohesion policy on economic growth of

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[84] Bode, E., et al., 'European integration, regional structural change and cohesion: a survey of theoritical and empirical litterature', 2003.
[85] *Idem.*
[86] *Idem.*
[87] Ederveen, S., et al., *Funds and Games: the economics of European cohesion policy*, 2002.

lagging regions to wildly positive assessments of projects, yielding rates of return that are unheard of in the private sector'[88].

D. Tarschys underlines the fact that 'there is a whole range of different studies with more or less encouraging results as far as Structural Policy impact on growth and convergence is concerned'[89].

For his part, D. Tarschys recognizes that 'Some convergence has no doubt occurred but probably to a large extent because of factors other than Structural Policy'. He actually puts the emphasis on the crucial role played by the Single Market. He explains: 'Looking at economic cohesion, it seems evident that the European Union has already played a major part in furthering integration and interaction between the various economies and will retain a crucial place in this process. The elimination of customs barriers, the extension of access to previously closed market segments and the co-ordination of many rules of the game are key factors in recent European economic development. While Structural Policy interventions may have given some impetus to this growth process and may perhaps make a particularly useful contribution to the adaptation of the new Member States to the common standards, the main force within the EU propelling integration is certainly to be found in the regulatory frameworks for trade and mobility and in the Monetary Union'[90].

Some authors admit that it is very difficult to know whether or not cohesion policy is capable of achieving its objectives.

According to I. Begg, 'Certainly, there is only limited evidence about whether or not cohesion policy works'[91]. E. Bode et al. also explain that 'Overall, the empirical evidence of the success of the EU structural and regional policies has been mixed. [...] Most of the empirical evidence on policies' effectiveness should be treated with caution'. E. Bode et al. give an example of this uncertainty: 'On the one hand, De la Fuente (2002) finds that the overall positive impact of the EU policies was quite sizeable in Spain; eliminating 20% of the initial gap in income per capita between the assisted regions and the rest of the country. [...] On the other hand, a number of studies indicate a failure of EU regional policies to reduce regional income disparities'[92].

As far as they are concerned, Cappelen et al. state that 'The evidence presented suggests that EU regional support through the SF has a significant and positive impact on the growth performance on the European regions and, hence, contributes to greater equality in productivity and income in Europe'[93]. This is also case of J. Bachtler and S. Taylor according to whom: 'Structural Funds interventions in the cohesion countries and other major Objective 1 regions have had the most significant and tangible net economic impacts. Recent evaluations demonstrate the significant effects attributable to the Structural funds in terms of GDP growth, investment and employment. The ex post evaluation of the 1994-1999 Objective 1 programmes concluded recently that, while the impact varied significantly between programmes, the overall picture was a reduced gap in various economic development indicators between Objective 1 regions and the rest of the EU over the programming period'[94].

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88 Ederveen, S., et al., *Funds and Games : the economics of European Cohesion Policy*, 2002.
89 Tarschys, D., *Reinventing Cohesion – The Future of European Structural Policy*, 2003.
90 Tarschys, D., *Reinventing Cohesion – The Future of European Structural Policy*, 2003.
91 Begg, I., 'Complementing EMU: rethinking cohesion policy', 2003.
92 Bode, E., et al., 'European integration, regional structural change and cohesion: a survey of theoritical and empirical litterature', 2003.
93 Cappelen, A., et al., 'The impact of EU regional support on growth and convergence in the European Union', 2003.
94 Bachtler, J., and Taylor, S., *The Added Value of the Structural Funds: a Regional Perspective*, 2003.

I. 2. The political and methodological aspects

Some scientists warn us that 'it may be counter-productive to seek to base the legitimacy of the cohesion policy solely on economic results'[95].

So according to J. Bachtler and S. Taylor, 'There is a common, evidence-based understanding of the nature of the European contribution to regional development through the Structural Funds that goes beyond measures of GDP, investment, job creation and other quantifiable impacts'[96].

As revealed by them, there is indeed 'a cohesion added value' thanks to a macroeconomic and a microeconomic impacts of the Structural Funds, but also:

- a "political added value",
- a "policy added value",
- an "operational added value",
- and a"learning added value".

I. 2. 1. A real added value of cohesion policy from a political and a methodological point of view

I. 2. 1. 1. A political added value

As S. Baudet-Michel and J. Peyrony see it, 'politically speaking, DG Regio's activities are based on local, chiefly regional, authorities. In that, they give the European Union political visibility. In a context where the European Union does not enjoy widespread public support, this is probably not insignificant for the continuing process of building the Union'[97].

In the same way, J. Bachtler and S. Taylor assert: 'An important intangible effect of the Structural Funds is to make the EU more visible to citizens, communities and public authorities. Among the perceived benefits is stronger support for the European economic and political integration. There are tangible outcomes in terms of the encouragement given to regional and local organisations to become involved in European political and policy debates and to "internationalise" their operations'[98].

I. 2. 1. 2. A policy added value

J. Bachtler and S. Taylor show that 'The EU programming approach has promoted a strategic dimension in regional development policymaking. Regional development has become more integrated and coherent, through the multi-sectoral and geographically focused approach of programmes. Multi-annual programming periods have also provided a more stable policy environment'.

In their view, 'For the most part, the EU programmes do not appear to have "bent" expenditures against the direction of national policy trends. However, they have played an important part in pioneering new types of intervention. These include innovative actions undertaken on a pilot basis, as well as applying new economic development principles to allocation of resources '[99].

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95 Jouen, M., 'How to enhance economic and social cohesion in Europe after 2006', report of the EPC – Notre Europe seminar, 2001.

96 *Idem.*

97 Baudet-Michel, S., and Peyrony, J., 'Développement territorial et politique régionale: quelques pistes pour l'Union européenne après 2006', 2003.

98 *Idem.*

99 Bachtler, J., and Taylor, S., *The Added Value of the Structural Funds: a Regional Perspective*, 2003.

Similarly, F. Morata says ‘Cohesion policies have been an essential factor in the Europeanisation of the Member States’ administrative procedures and practices. […] Furthermore, the Structural Funds’ management system seems to have helped the least developed European regions to adjust and modernise by encouraging them to introduce innovative planning and evaluation techniques, a process which has no doubt contributed to the gradual improvement in implementing procedures’[100].

I. 2. 1. 3. An operational added value

J. Bachtler and S. Taylor first underline the fact that ‘the EC has promulgated a number of distinctive principles and practices, including the programming approach, the principle of designing and delivering economic development in partnership, the embedding of learning and feedback into policy through monitoring and evaluation. Other distinctive features are a culture of accountability and sound financial management, reflected through the strong emphasis on transparency and audit, and positive and negative incentives for effective programme management, notably the performance reserve and the n+2 rule’.

Consequently, ‘The Structural Funds have been associated with several institutional innovations in the management of regional development. The most frequently cited area of added value associated with the Structural Funds is partnership. This fundamental principle of Structural Funds programming is considered to have brought enhanced transparency, co-operation and co-ordination to the design and delivery of regional development policy, and better quality regional development interventions as a result. The evolution of monitoring and evaluation practices over time demonstrates how added value has been progressively enhanced’[101].

F. Morata also admits that ‘partnership is of particular importance as it is supposed to generate new forms of governance with respect to the definition and implementation of structural funds. […] The principle of partnership has undoubtedly obliged the public authorities to engage in greater consultation than had been the case for purely national and regional policies. […] Partnerships are conducive to the establishment of formal consultation and decision-making processes’[102].

I. 2. 1. 4. A learning added value

According to J. Bachtler and S. Taylor, ‘Learning is an integral and ongoing ingredient of Structural Funds programming. The Structural Funds have helped to institutionalise a learning reflex as part of the routine delivery of regional economic development policy. Analysis, reflection and learning have been encouraged through regulatory requirements placed on programmes to monitor and evaluate their activities’.

They add: ‘Many structures have been established at programme, national and international level to facilitate the process of ongoing learning and capacity building. The Structural Funds have been an exceptionally yet adaptable policy framework, which has helped to consolidate a dynamic of learning and innovation across 15 years’[103].

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[100] Morata, F., ‘De l’évaluation qualitative aux propositions politiques’, 2001.
[101] *Idem.*
[102] *Idem.*
[103] Bachtler, J., and Taylor, S., *The Added Value of the Structural Fund : a Regional Perspective*, 2003.

I. 2. 2. The limits of this added value

J. Bachtler and S. Taylor show that the added value of the Structural Funds, and *ipso facto* the impact of cohesion policy in political and methodological terms, vary from one region to another.

There are therefore a number of factors that affect that added value:

- ‘the financial and geographical scale of programmes’

  The largest programmes, in terms of their geography and resources allocations, namely the larger and nationwide Objective 1 programmes, have greater scope to achieve and demonstrate economic added value in areas such as GDP growth, investment and employment.

  In contrast, the medium-sized and smaller programmes, whether regional Objective 1 programmes, Objective 2 programmes or Community Initiatives, tend to highlight the more qualitative aspects of added value.

- ‘the Administrative system’: The type of implementation system has a bearing on the scope for generating added value.

  Under “subsumed” systems (Germany, Spain, Austria), added value may be less visible and more difficult to achieve, since the allocation of resources is more strongly determined by domestic priorities and decision-making procedures.

  “Differentiated” systems (Belgium, Denmark, Sweden, UK...), by contrast, generally have more scope for using EU funding to pursue distinctive strategic priorities and to innovate, establishing new processes and systems. In these countries, separate “differentiated” resource allocation systems have been put in place specifically to implement Structural Funds programmes (kind of *ad hoc* implementation).

Both authors therefore recognise that this added value of the Structural Funds has certain limitations from a political and methodological point of view:

‘Structural Funds programmes are not uniformly visible. The degree to which “visibility” added value is achievable depends on certain factors’.

‘It has not always been possible to realise the potential strategic benefits arising from the geographical focus, especially where eligible areas are small, fragmented, fail to encompass the potential economic drivers in a region or coincide badly with administrative boundaries’.

‘The ability of the structural Funds to make an operational difference is more easily identifiable in regions taking a “differentiated” approach’.

PART II: MAKING COHESION POLICY MORE EFFICIENT

II. 1. The "centre – periphery" model and the inherent arbitration between equity and efficiency

II. 1. 1. Explanation of the "centre – periphery" model by the phenomenon of agglomeration

Many authors explain the 'global convergence, local divergence' diagnosis by applying an 'emerging' theory, Krugman's New Economic Geography, which adopts Williamson's theory (1965) on agglomeration effects.

For example, according to M. Beine and F. Docquier, 'The configuration of economic space is the result of two opposing forces: the forces of dispersion (or centrifugal forces) and the forces of agglomeration (or centripetal forces) […] which drive businesses and households to gather together in small spaces. These centripetal forces are the result of three main factors: the existence of externalities linked to the concentration of activities, the presence of fixed costs and growing returns and the strategic interactions associated with spatial competition. These [agglomeration] effects are essential for understanding the phenomena of regional convergence and divergence, especially since the trend of the last twenty years has probably been to increase their scale by comparison with centrifugal effects'[104]. Similarly, J. El Ouardighi and R. Kahn believe that 'the new strategies pursued by businesses are creating imbalances and conflicts, the most obvious forms of which are the concentration of activities around large metropolises, the spatial reorganisation of establishments and competition between regions to harness economic flows and attract internationally mobile investment. The spatial concentration of activities in Europe is explained by a clear domination of agglomeration forces over dispersion forces'[105].

E. Bode et al. also explain the emergence of a "core – periphery" pattern[106] :

'Since the 1980s, the emerging new theories [...] have shed new light on the opportunities and risks associated with the integration process. [...] Earlier stages of integration tends to bring larger gains for already more industrialised regions, as firms exploit economies of scale by concentrating production close to markets where they have more customers and suppliers. This process tends to increase differences between rich and poor regions'. 'Agglomeration overrules the initially even dispersion of economic activities in spaces as well as the equalization of factor prices; the emergence of an explicit and highly specialized core – periphery pattern is a likely outcome of the model'. 'The core – periphery pattern results from an intermediate stage of integration, i.e. after the transition from high to medium transportation costs. But with very low transportation costs at the final stage of integration, agglomeration effect is no longer advantageous as scale economies can be exploited at any place in space. [...] Note that this theory does not imply any automatism working towards a degree of integration sufficient to enter the dispersion stage. There may be barriers to integration that may persist in spite of institutional and technical progress in reducing them: e.g. geographic distances, language, cultural, and institutional differences. If integration comes to a standstill at an intermediate stage, high regional disparities will persist'. 'The studies indicate existence of different grouping of regions. For example, Quah (1996) and Fagerberg and Verspagen (1996) find evidence of club convergence in EU, Lopez-Bazo et al. (1999) point to a permanent polarization pattern between rich regions in the North and poor regions in the South'. 'Many authors detect a dualistic (north – south or core – periphery) phenomenon in the European space, decribed by various authors and reports as a "banana", "blue star", "green grape", or "house with seven

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[104] Beine, M., and Docquier, F., *La convergence régionale: théorie et analyse des politiques économiques*, 2000.
[105] El Ouardighi, J., and Kahn, R., 'Les régions et la politique régionale européenne', 2004.
[106] Bode, E., et al., 'European integration, regional structural change and cohesion: a survey of theoritical and empirical litterature', 2003.

apartments" pattern development. The core regions tend to specialize and export to the periphery high-tech manufacturing and producer services, while the periphery tends to export to the core regions low-tech manufacturing or extracting activity products'.

Consequently, 'Some authors propose the classification of European regions into different development groups (clusters) that have their own developmental dynamic and potential. EU regions are driving themselves up in several clusters, each one with its own asymptotically stable per capita income level'[107].

B. Morgan also stresses 'the existence of clusters or industrial districts': 'geographic concentrations of firms, specialist suppliers and service providers in related industries offer opportunities for firms to develop their competitive edge but also harness the benefits of cooperation'[108]. Consequently, according to J. Houard and A. Marfouk , 'this could result in the formation, in the European area, of "clubs of regions" combining, on the one hand, prosperous areas that are better endowed with human capital and with great R&D potential with, on the other, marginalised regions suffering from a chronic deficit in growth factors. […] For example, Capron (1998) showed that a small number of rich regions capture most growth and that the other regions converge towards a less favourable position below the European average'[109].

In fact, growth seems to engender a cumulative process that results in regional imbalances being intensified.

As showed by E. Bode et al., 'Growth is a spatially cumulative process, which is likely to increase inequalities. [...] Economic growth has a tendency to be associated with some sort of agglomeration and requires a minimum threshold of resources and activities in order to take place. Once it starts however, it is likely [...] to be self-sustained, spatially selective and cumulative in nature'. E. Bode et al. quote Martin and Ottaviano (2001) according to whom 'growth and agglomeration are mutually self-reinforcing. Thus growth increases agglomeration and agglomeration increases growth'[110].

Use of the agglomeration effect theory ultimately gives us a better understanding of the 'global convergence, local divergence' phenomenon.

II. 1. 2. Arbitrating between equity and efficiency

II. 1. 2. 1. How do you arbitrate between equity and efficiency?

In the light of this, A. De la Fuente raises the problem of the redistribution of Community funds and their recipients very clearly: 'However, focusing on lagging regions entails a sizeable efficiency cost and may not be optimal from a national perspective. [...] The estimated returns on public investment are much higher in some of the richest Spanish regions than in most of the territories that are eligible for assistance under Objective 1. [...] The overall impact of EU aids would have been considerably higher if efficiency considerations had been given greater weight in the allocation of these funds. But this would certainly entail some cost in the form of greater inequality in output per capita'[111].

Many authors arrive at the same question.

107 Bode, E., et al., 'European integration, regional structural change and cohesion: a survey of theoritical and empirical litterature', 2003.
108 Morgan, B., 'Intégration économique et croissance régionale', 2001.
109 Houard, J., and Marfouk, A., 'Portrait socio-économique des régions européennes', 2000.
110 Bode, E., et al., 'European integration, regional structural change and cohesion: a survey of theoritical and empirical litterature', 2003.
111 De la Fuente, A., 'Does cohesion policy work? Some general considerations and evidences from Spain', 2002.

For S. Baudet-Michel and J. Peyrony, 'In the absence of a meaningful European budget, would it be better for European regional policy to assist only the least developed regions, those with low productivity, or would it be preferable, from the point of view of overall growth and convergence between European regional economies, to assist those countries' rich regions?' [112] J. El Ouardighi and R. Kahn also wonder 'whether national convergence does not come at the price of some greater regional divergence'[113], and J. Bradley says: 'Perhaps we need to admit that an initial deterioration in intra-state cohesion may be required if inter-state cohesion is to improve?' [114]

E. Bode et al. explain: 'There is a negative correlation between equality and effectiveness, for developing countries. [...] All countries choose effectiveness over equality, in the first stages of their development. Davies and Hallet (2002) found evidence of a trade–off between national growth and regional dispersion in the cohesion countries and especially Spain and Ireland. An empirical study in Spain revealed that regional inequalities could have been reduced by 13.54% for the period 1981–1991, if the Spanish government had "accepted" the reduction of the country GDP by 1.62% (De La Fuente 1996a)'. In the same way, 'Petrakos and Rodriguez–Pose (2002) show that regional inequalities increased in the 1990s, which is exactly the period in which the Greek economy exhibits a strong growth performance and converges towards the EU average'. 'Finally, there can be a potential trade-off between equity and efficiency policy objectives. As shown in Williamson (1965), promoting national growth may require concentration of economic activity in the core region at the expense of lagging periphery. Some empirical evidence from the cohesion countries has supported the existence of the trade-off between equity and efficiency (e.g. De la Fuente, 1996, in a study of Spain; Morgenroth, 2002, in a study of Ireland)'[115].

P. Martin asserts as well: 'It would be illogical to claim that diminution of regional inequalities supposedly facilitated by regional policies will generate efficiency gains at pan-European level. [...] The effects of agglomeration are positive in terms of efficiency but potentially negative in terms of equity'. As showed by him, 'Quah's results (1996) suggest that there is indeed a trade-off betwen regional equity and a country's aggregate growth. He finds that, among the Cohesion group of countries, the two countries that have achieved a high rate of growth and converged in per capita income terms towards the rest of Europe (Spain and Portugal) have also experienced the most marked regional divergence. A recent study by INSEE (1999) shows also that the countries with a per capita GDP level above the EU average also experience above-average regional disparities'. To conclude, P. Martin confirms that 'Regional policies face a trade-off between equity and efficiency. In the case of the Cohesion countries, this suggests that it will be difficult to attain through these policies the objective of higher national growth (and therefore fast convergence towards the rest of Europe) and at the same time the objective of a decrease in regional inequalities'[116].

For J. Fayolle, 'Efficiency considerations may lead us to restrict the primary redistribution associated with the Structural Funds. Some regions, whose wealth is close to the Community average, are quite well provided with Structural Funds, because support for their development is expected to result in national growth and growth in the backward regions themselves. A more

[112] Baudet-Michel, S., and Peyrony, J., 'Développement territorial et politique régionale: quelques pistes pour l'Union européenne après 2006', 2003.
[113] El Ouardighi, J., and Kahn, R., 'Les régions et la politique régionale européenne', 2004.
[114] Bradley, J., 'Comment évaluer l'impact des interventions structurelles communautaires depuis 1994?', 2001.
[115] Bode, E., et al., 'European integration, regional structural change and cohesion: a survey of theoritical and empirical litterature', 2003.
[116] Martin, P., 'Are European regional policies delivering?', 1999.

redistributive allocation of Structural Funds would spontaneously reduce regional inequalities but could also put a brake on collective growth'[117].

II. 1. 2. 2. What are the political implications of this arbitration?

Cohesion policy seems to have two incompatible objectives: either to ensure the convergence of all Member States towards the Community average, or to prevent the gaps between the regions of the same country from widening at all costs.

So according to P. Martin, 'Policy makers should decide whether their main objective is to decrease inequalities between the different countries and therefore give priority to national growth and efficiency, or to decrease inequalities between the different regions inside countries and therefore to give priority to growth in poor regions and to spatial equity'[118].

As J. Fayolle sees it, 'If regional differentiation reflects the normal play of the dynamic of development, it would be harmful, in terms of overall European efficiency and growth, to want to counter that by means of corrective policies that would drive diversification to excess, thereby reducing the excellence of networks and metropolises'[119]. Similarly, B. Morgan advises that 'The policy implications for the forthcoming enlargement are that regional investment policies should focus on growth poles rather than the needs of poor areas, and they should recognise that there is likely to be a trade-off between maximising regional growth rates and achieving convergence'[120]. That might nevertheless lead us to believe, as L. Davezies puts it, that 'the problem of social cohesion between regions is today giving way to that of economic convergence between nations'[121].

On the opposite side, S. Ederveen et al. recommend: 'The main objective of European cohesion policy is to reduce welfare differences among regions. Hence, equity rather than efficiency should govern the allocation of funds'[122].

II. 1. 2. 3. Is there a way out of this dilemma?

P. Martin's answer seems to be affirmative. Indeed, 'it will be difficult to attain through these policies the objectif of higher national growth (and therefore fast convergence towards the rest of Europe) and at the same time the objective of a decrease in regional inequalities. However, a policy aimed at reducing regulatory barriers to innovation or the costs of innovation makes it possible simultaneously to achieve objectives of reducing regional inequalities and increasing the rate of growth. The policies involved could consist in R&D subsidies, education infrastructure, lowering barriers to entry on goods markets, making capital markets more conducive to new start-ups'[123].

The key seems to be innovation and, more than that, strengthening human capital.

For example, in like vein J. El Ouardighi and R. Kahn stress that 'If some regions are unable to harness technological innovations, the public authorities wishing to reverse such trends should act more on the initial conditions for development: education infrastructures, the level of

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[117] Fayolle, J., 'Croissance régionale, appartenance nationale et fonds structurels européens: un bilan d'étape', 2000.
[118] *Idem.*
[119] *Idem.*
[120] Morgan, B., 'Intégration économique et croissance régionale', 2001.
[121] Davezies, L, 'Notes de lecture du 2ème rapport sur la cohésion: unité de l'Europe, solidarité des peuples, diversité des territoires', 2002.
[122] Ederveen, S., et al., *Funds and Games: the economics of European cohesion policy*, 2002.
[123] Martin, P., 'Are European regional policies delivering?', 1999.

qualifications of the workforce, cutting the costs of innovation, the ability to assimilate technology and R&D'[124].

For B. Morgan, 'the impact of technical innovation on productivity is becoming the main driver of the growth process. Technical innovation refers to a multiplicity of factors, such as the skills and adaptability of the workforce, the efficiency with which resources are used, the level of 'first time' innovation and rapid adjustment to new techniques. This means that investment in education and training to improve labour efficiency in the productive process is an important determinant of regional growth. […] The most effective policy intervention at the regional level is to encourage innovation by improving diffusion rates and technology transfer'. In conclusion, after referring to the arbitration between equity and efficiency, B. Morgan, like P. Martin, adds: 'Policies aimed at reducing barriers to innovation and increasing diffusion rates are likely to boost both the competitiveness of less favoured regions and help them attract investment'[125].

Many authors also stress the importance of human capital.

According to I. Begg, 'Further enhancement of human capital will be needed if the potential for catch-up is to be realized'[126]. E. Bode et al. also demonstrate that 'the role of human capital is a vital field of research since human capital can be viewed as an essential prerequisite to the adoption of new technologies and the impact of globalisation'[127]. A. Cappelen et al. finally confirm : 'Empirical work on cross-country samples confirms the importance of national technological capabilities for successful catch-up'[128].

II. 2. The need to coordinate cohesion policy with the Community's other sectoral policies and with national policies

During the Third Forum on Cohesion, held following the publication of the Third Cohesion Report, J-C. Van Cauwenberghe, Prime Minister of the Walloon Government, said: 'To be effective, cohesion policy does not depend only on itself. […] It will not be as fruitful as it could be without the contribution that other policies have to make'[129].

II. 2. 1. The effectiveness of the Structural Funds depends on Community policies being well coordinated

For S. Baudet-Michel and J. Peyrony, 'A number of contradictions between regional policy and other Community policies are working against regional policy as it now stands. […] The effect of some Community policies sometimes runs counter to the objective of cohesion. Those policies therefore need to be strengthened and better coordinated with regard to cohesion'[130].

Indeed, as DG Regio's 2001 Report on *The impact of Community policies on the territory and the cost of the lack of coordination* confirms, 'the lack of coordination between Community policies with a high territorial impact and cohesion policy has consequences for the effectiveness of those policies'[131].

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[124] El Ouardighi, J., and Kahn, R., 'Les régions et la politique régionale européenne', 2004.
[125] *Dit.*
[126] Begg, I., 'Complementing EMU: rethinking cohesion policy', 2003.
[127] Bode, E., et al., 'European integration, regional structural change and cohesion: a survey of theoritical and empirical litterature', 2003.
[128] Cappelen, A., et al., 'The impact of Eu regional support on growth and convergence in the European Union'.
[129] Van Cauwenberghe, J-C., 2004, Discours, 3ème forum sur la Cohésion, 2003.
[130] Baudet-Michel, S., and Peyrony, J., 'Développement territorial et politique régionale: quelques pistes pour l'Union européenne après 2006', 2003.
[131] DG Regio, *L'impact des politiques communautaires sur le territoire et le coût de l'absence de coordination*, 2001.

The report gives the example of the Champagne – Ardennes Region in France, where the combination of CAP and regional policy is giving no impetus to disparities of income. The beneficial effect of regional policy is completely wiped out.

As N. Gaubert points out, 'the shift towards a real territorial cohesion policy will require greater coordination between sectoral policies'. Like N. Gaubert, some experts regret, for example, that 'for want of real political will, spatial planning policy at Community level is still in its infancy'[132]. For P. Cornut and S. Luyten, 'town and country planning on a European scale is fundamental for achieving the objectives of cohesion'[133]. Finally, S. Baudet-Michel and J. Peyrony stress 'the necessity of improving the coherence of all Community policies in order to achieve the objective of sustainable development of the European territory' and the 'necessity of thinking up and implementing common territorial development objectives for the whole of the EU within the framework of regional policy[134]'.

II. 2. 2. The effectiveness of the Structural Funds depends on the country the regions belong to

II. 2. 2. 1. The overriding importance of the national context

The Report *The impact of Member States' policies on cohesion* stresses the complementary nature of national policies and cohesion policy for regional development. 'Disparities between regions are affected by a wide range of factors. [...] Both Community and Member States policies play a role in these processes, and consequently have an impact on cohesion'[135]

For J. Fayolle, for example, 'it is difficult to separate the effectiveness of the Structural Funds for enabling backward regions to catch up (Objective 1) or for preserving regions at risk (Objective 2) from the economic and institutional context of each particular country, since this determines the distribution, execution and use of the Structural Funds committed'. 'The specific effectiveness of the Structural Funds for regional growth interferes with the national affinity of the target regions. […] Where the national affinity is neutral or has more of a positive effect, the Structural Funds can be fully effective without being thwarted'. 'Regional growth performance is of course affected by the country to which the region belongs. This comes into play in two ways: firstly, every region benefits from the performance of the country to which it belongs; secondly, the inequality of regional development varies greatly from one country to another. […] The dynamics of territorial inequality are highly country-specific'[136].

J. El Ouardighi and R. Kahn also admit that 'There seems to be a strong correlation between regional convergence and national economic performance'[137].. S. Baudet-Michel and J. Peyrony add that 'the gradual economic catching-up of each cohesion country and all the Objective 1 regions, in GDP terms relative to the Community average, (…) is territorially differentiated and depends on the national context in which it takes place'[138].

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[132] Gaubert, N., 'La politique régionale européenne entre convergence et cohésion : institutionnalisation d'un territoire européen et incertitudes politiques', 2004.
[133] Cornut, P., and Luyten, S., 'Le programme de recherche ORATE – ESPON : bilan à mi-parcours des recherches sur les dynamiques régionales européennes', 2004.
[134] Baudet-Michel, S., and Peyrony, J., 'Développement territorial et politique régionale : quelques pistes pour l'Union européenne après 2006', 2003.
[135] DG Regio, *The impact of Member States policies on cohesion*.
[136] Fayolle, J., 'Croissance régionale, appartenance nationale et fonds structurels européens: un bilan d'étape', 2000.
[137] El Ouardighi, J., and Kahn, R., 'Les régions et la politique régionale européenne', 2004.
[138] *Dit.*

J. Bradley notes that 'Structural Funds assistance is very low compared with national transfers'. 'Almost all the key fiscal, industrial, labour, educational policies (...) are set at the national level (…). EU structural interventions are just one of a wide range of policy issues that determine the nature and extent of convergence'[139].

Like J. Bradley, other authors stress the importance of national transfers. Take, for example, L. Davezies, who writes that 'Most of the interregional cohesion mechanisms in Europe are still intra-national and do not cross state borders'[140]; N. Gaubert who points out that 'The reduction in social and spatial inequality remains *de facto* largely linked to national mechanisms and marginally to European policies'[141]; or, again, J. El Ouardighi and R. Kahn, according to whom 'Social cohesion still depends mainly on interregional transfers of income organised on a national scale'[142].

In the same way, D. Tarschys stresses the importance of the regional impact of the national policies. The author describes the 'resent distribution of responsibility, with far more extensive programmes implemented within the Member States than within the EU. Even allowing for the overlap brought about by co-operation and co-financing, the centre of gravity for this kind of intervention has always been the national political arena. Gauging the scope of national efforts is difficult because only a fraction of these programmes are expressly labelled "regional policy". Other forms of inter-regional redistribution and legally enforced transfer mechanisms are embedded in the various sectoral policies, in the costing and charging principles of public utilities, in the fiscal system and in the sphere of income maintenance entitlements. With national equality as a general distributive norm in many parts of the national budget and with fiscal burden-sharing consciously designed to equalise conditions between different strata of the population, any modern state is characterised by important inter-regional flows of resources'[143].

II. 2. 2. 2. State disengagement must be avoided at all costs

According to S. Ederveen et al., 'Cohesion policy is not necessarily effective in fostering convergence. Note that its positive impact under either strand of models is conditional'. They clarify a bit later: 'Structural funds and the Cohesion Fund are not necessarily effective in this respect. Indeed, there are several possible caveats that may reduce the growth effect of cohesion support, such as crowding out [...]'. So, 'Cohesion policy has the potential to foster regional convergence within the EU. Crowding out [...] may, however, dampen or even annihilate its positive impact'. 'Crowding out of national regional policy is often blamed for the alleged lack of effectiveness. It seriously undermines the impact of cohesion policy. If Member States withdraw their own funds from lagging regions once they receive support from Brussels, then cohesion policy sets the cart before the horse'[144].

II. 2. 2. 3. What attitude should be encouraged?

The first determining factor is the country's degree of international opening.

As showed by S. Ederveen et al., 'The success of cohesion proves to be conditional on openness. In particular, an open economy like Ireland profits from support through the ERDF,

139 Bradley, J., 'Comment évaluer l'impact des interventions structurelles communautaires depuis 1994?', 2001.
140 Davezies, L., 'Notes de lecture du 2ème rapport sur la cohésion : unité de l'Europe, solidarité des peuples, diversité des territoires', 2002.
141 Gaubert, N., 'La politique régionale européenne entre convergence et cohésion : institutionnalisation d'un territoire européen et incertitudes politiques', 2004.
142 El Ouardighi, J., and Kahn, R., 'Les régions et la politique régionale européenne', 2004.
143 Tarschys, D., *Reinventing Cohesion – The Future of European Structural Policy*, 2003.
144 Ederveen, S., et al., *Funds and Games : the economics of European cohesion policy*, 2002.

while a more closed economy like Spain does not gain at all. For less open economies, the results again suggest a negative impact of cohesion support on their growth performance'[145]. J. Bradley also seems to support this view: 'It is the policy of openness and the use of Structural Funds that served to distinguish Ireland from, say, Greece which had a similar distance to travel has only recently set its wider policy framework in the context of embracing internationalisation'[146].

More generally, there is a need for greater cooperation between the institutions in order to put in place more coherent and efficient regional development strategies.

Indeed, according to J. Bachtler and S. Taylor: 'The influence of the Structural Funds is affected by many factors. There is more potential for issues such as the environment or the Information Society to be actively taken up in the fabric of programmes and in their active implementation where they accord with domestic priorities'[147].

I. Begg underline the necessity of an improved coherence between the European cohesion policy and national policies : 'Persistent regional disparities typically reflect a lack of competitiveness that will only be altered by concerted policy action, suggesting that improved coherence between national policies and the Structural Funds should be a priority'[148].

Similarly, J. Fayolle goes so far as to say that 'the quality of coordination between Community, national and territorial authorities determines the effectiveness of the Structural Funds'[149].

Better consultation and greater coherence, yes, but for what policy?

As J. Fayolle suggests, 'Geographical concentration does not necessarily create territorial inequalities of a social nature, but it does so if there are no mechanisms for the primary diffusion of productivity gains and wage increases in the area concerned'[150]. It is therefore necessary to ensure that those mechanisms are viable.

At the same time, the national government will have to arbitrate between equity and efficiency. There seems to be a possible way out of this dilemma, however. Thus, following A. Cappelen et al. : 'To get the most of the EU support, this needs to be accompanied by policies that improve the competence of the receiving environments, for instance by facilitating structural change and increasing R&D capabilities in poorer regions »[151].

National governments therefore have a predominant role to play in putting into place policies to promote innovation and human capital in the least advanced regions.

[145] *Idem.*
[146] Bradley, J., 'Cohesion and Transition: comparing the Irish experience with the prospects of the Central and Eastern European countries', 2001.
[147] Bachtler, J., and Taylor, S., *The Added Value of the Structural Funds: a Regional Perspective*, 2003.
[148] Begg, I., 'Complementing EMU : rethinking cohesion policy', 2003.
[149] Fayolle, J., 'Croissance régionale, appartenance nationale et fonds structurels européens: un bilan d'étape', 2000.
[150] *Idem.*
[151] Cappelen, A., et al., 'The impact of Eu regional support on growth and convergence in the European Union', 2003.

II. 2. 3. Other determining factors

II. 2. 3. 1. A recurrent criticism: the system's complexity

As reported by J. Bachtler and S. Taylor, 'The implementation of the Structural Funds is overly complex, bureaucratic and requires the commitment of excessive administrative resources at both national and regional levels'[152].

For S. Baudet-Michel and J. Peyrony, this complexity may be detrimental to cohesion policy and its political impact, which in the end is ambiguous. For example, while 'the methodological gains are stressed by evaluators or national authorities, local players seem to put more emphasis on procedural clumsiness and constraints'[153].

J. Bachtler et S. Taylor add: 'From a corporate perspective, the European added value of the Structural Funds is mixed. Business tends to regard the jargon and bureaucracy associated with European funding in negative terms'[154].

II. 2. 3. 2. The political capacity of the regions concerned

F. Morata stresses the importance of an efficient public administration, both externally (ability to establish new forms of participation and cooperation with social agents) and internally (new internal management and training methods)[155].

J. Bachtler and S. Taylor confirm this importance: 'The process of building effective management systems is important in maximising the potential impact of the resources deployed: the stronger the institutional structures, the greater is the impact of the SF in supporting regional growth'[156].

For its part, the Tarschys Report 'interestingly emphasises that the content of the Community added value recognised by the countries varies considerably according to their degree of development and administrative or political advancement'[157].

II. 2. 3. 3. The potential failings resulting from the rules on evaluation and follow-up

Indeed, 'The temptation to finance heavy infrastructure remains strong, for such projects have a high profile and can be easily evaluated and controlled'[158].

Or, as revealed by J. Bachtler and S. Taylor, "There is danger that "n+2" is promoting speedy programme delivery but at the expense of quality, strategic coherence and innovation". According to them, "the main drawback of current systems is their rigidity"[159].

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152 *Idem*.
153 Baudet-Michel, S., and Peyrony, J., 'Développement territorial et politique régionale: quelques pistes pour l'Union européenne après 2006', 2003.
154 Bachtler, J., and Taylor, S., *The Added Value of the Structural Funds: a Regional Perspective*, 2003.
155 Morata, F., 'De l'évaluation qualitative aux propositions politiques', 2001.
156 *Idem.*
157 Jouen, M., 'How to enhance economic and social cohesion in Europe after 2006', report of the EPC – Notre Europe seminar, 2001.
158 Jouen, M., 'How to enhance economic and social cohesion in Europe after 2006', report of the EPC – Notre Europe seminar, 2001.
159 *Idem.*

ANNEX 2: EFFECTIVENESS OF TOOLS AND PROGRAMMES, 2000-2006

COHESION FUND

Achieve-ments	**An important source of finance for infrastructural investment** ▪ The eligible Member States have embraced the opportunity to significantly increase their expenditure in the areas of environment and transport infrastructure since Cohesion Fund assistance first became available in the early nineties. Michel Barnier: «The Cohesion Fund has been particularly useful for Ireland, as well as for the three other countries concerned – Greece, Spain and Portugal – because its rules of operation allow it to contribute a very high proportion of the total cost of an individual project. It was therefore helpful to the national authorities by permitting new investment to take place at a time when the national finances available were under greater pressure than today. The results can be seen in the existence of many new facilities in sectors such as road and rail transport, ports and water services». **Greater rigour to the analysis of the cost and benefits of projects** ▪ Amongst the impacts of Cohesion Fund requirements have been a more regular and sophisticated use of Cost Benefit Analysis on large infrastructure projects. According to the Irish Minister of Finances, Charlie McCreevy, «As well as being an important source of finance for infrastructural investment, the Cohesion Fund has had other important benefits. It brought greater rigour to the analysis of the cost and benefits of projects. The regular monitoring of projects by the Cohesion Fund Monitoring Committee was a useful tool in the early identification of implementation problems and cost over-runs». ▪ As a result of the positive impact these requirements have had through experience with managing Cohesion Fund projects, mechanisms such as Cost Benefit Analysis are now increasingly utilized on projects that are financed wholly by the Irish Exchequer. **The development of the Administration's capacity to manage major project** ▪ The Commission also believes that the experience of the Cohesion Fund has helped the national administration to develop their capacity to manage major projects. This can be seen in the fact that, in Ireland, during the initial period 1993-1999, the average project grant was 12 million, while in the recent period, 2000-2003, it was 58 million. **Key lessons learned through Ireland's experience of managing Cohesion Fund expenditure**[160] In general, some of the more incisive lessons include the importance of : - contacts and liaison with the Commission; - compliance with relevant EU requirements and cross-cutting issues; - coordination and communication between Government Departments, intermediate bodies, local authorities and other implementing bodies; - good practice in public administration generally. **Many Member States and regions are lobbying for the work of the Cohesion Fund to be continued** For example: ▪ The CPMR: 'the Cohesion Fund should be kept in its current form'.[161] Portugal: 'The importance of the Cohesion Fund, which mainly arises from the fact that it focuses on specific sectors and from the nature and dimension of interventions supported, should be substantially accentuated in the next programming period.'[162].

[160] *The Cohesion Fund in Ireland,* National Development Plan, March 2004.
[161] CPMR, *Quatre années de travail au service de la cohésion économique, sociale et territoriale*, February 2004.
[162] Portuguese government, '*Position portugaise relative à la réforme de la politique de cohésion économique et sociale'* (http://europa.eu.int/comm/regional_policy/debate/document/futur/member/portugal_030709_fr.pdf).

OBJECTIVE 1
Supporting development in the least prosperous regions

Achieve-ments	**A positive economic assessment in the Third Cohesion Report** ▪ Empirical analyses show that not only have GDP, employment and productivity grown faster in Objective 1 regions than in the rest of the European Union, in particular since the middle of the 1990s, but also that the convergence was most striking in the least prosperous of these regions. They also show that operations assisted by the Structural Funds stimulated growth in the cohesion countries by both boosting demand and strengthening the supply side of the economy. ▪ Initiatives assisted by the Structural Funds also boosted trade and encouraged closer integration between the cohesion countries and other parts of the Union. **An example of economic success: Hainaut 1994 - 2001**[163] ▪ The main aims of Objective 1 were to reduce unemployment significantly, to achieve annual growth of 0.5% in GDP above the European average, to create 5 000 jobs in the productive fabric and to increase the number of SMEs and investment in R&D. Today we can conclude that a large number of these objectives have been achieved, despite the fact that the economic situation has not always been favourable over the period concerned. ▪ For the first time since the Second World War, thanks to Objective 1, Hainault has been able to reverse the downward spiral into which its economy had plunged. Up until now it had been pulling Wallonia down across all of the main wealth indicators, but now the trend seems to have been reversed. The data that we have for recent years clearly show a spectacular turnaround in the Hainault economy, in terms of both jobs and investment, and in terms of the increase in wealth produced. **Real added value provided by the Objective 1 programmes** ▪ The mid-term review of the South Yorkshire Objective 1 Programme highlights the reasons for this added value [164]: - **Scale of Programme Resources:** It is evident that the major determining factor in each of the above areas has been the scale of funding provided by the Structural Funds and the commitment to deliver the programme in a way consistent with a sub-regional strategy. Without this scale of funding many of the above areas of added value would not have happened. - **Sub-region wide Partnerships:** The programme has provided the catalyst for organisations in the public, private and community and voluntary sectors to collaborate at a sub-regional level to deliver the Objective 1 Programme. This has had knock-on effects in different fields, such as planning, transport and community economic development, with the formation of new partnerships, strategies and projects. - **Sub-regional Programme Administration:** The credibility of the Objective 1 programme and the sub-regional approach it takes, has been underpinned by the creation of the Objective 1 Programme Directorate. - **Sub-regional Projects:** The sub-regional focus of the programme has led to major initiatives being developed to cover the whole of South Yorkshire. This is a marked difference to previous programmes where projects tended to focus at the local district level, particularly in the field of business support and infrastructure.

[163] Van Cauwenberghe, J-C, Ministre-Président du Gouvernement wallon, *Objectif 1 – Hainaut: bilan de la période 1994-2001*, 2003.
[164] Leeds Metropolitan University – University of Hull, *Mid Term Evaluation of the Yorkshire and Humber 2000-06 Objective 2 Programme*, September 2003, p. 263.

	- **Increased Project Quality and Rigour:** Emerging evidence, particularly from interviews and the review of key documents suggests that projects will be of a substantially higher standard than in previous programmes. Moreover, the priority assessments suggest that projects are being developed in a far more rigorous way and that there is more consistency with the programme's goals and that there is greater compliance with wider policies. ▪ The evaluation of the Hainaut Objective 1 Programme also mentions this contribution: In the Walloon Government, the working method used within Objective 1 (carrying out a socio-economic analysis, setting out a strategy after consulting the social partners, regular evaluations, multiannual approach, and so on) has had **'huge learning effects'** since, according to the evaluator, the Walloon administration, which had been confronted with new working methods and new tasks in 1994, has integrated these methods in a 'remarkable' way.
Deficiencies	**Effectiveness differs according to area**[165] ▪ S. Baudet-Michel and J. Peyrony state that if you compare their GDP with the Community average, it is undeniable that the economies of all of the cohesion countries and Objective-1 regions have been gradually catching up since 1986. Nevertheless, this phenomenon is more or less marked in different areas and is dependent on the national context in which it takes place. ▪ Regional convergence appears to be strongly correlated with the performance of the national economy[166]. J. Fayolle talks of the effectiveness of the Structural Funds being 'nationally conditioned'[167]. ▪ Another 'conditional' factor, according to J. Bachtler, «the stronger the institutional structures, the greater is the impact of the SF in supporting regional growth»[168].

165 Baudet-Michel, S., and Peyrony, J., 'Développement territorial et politique régionale: quelques pistes pour l'Union européenne après 2006', *Territoires 2020* (revue d'études et de prospective de la Datar), N°7, March 2003, pp. 61-74.

166 El Ouardighi, J., and Kahn, R., 'Les régions et la politique régionale européenne', in *Les politiques économiques européennes: Enjeux et défis*, 2004.

167 Fayolle, J., 'Croissance régionale, appartenance nationale et fonds structurels européens: un bilan d'étape', 2000.

168 Bachtler, J., et Taylor, S., The Added Value of the Structural Funds: a Regional Perspective , 2003

OBJECTIVE 2
Revitalising areas facing structural difficulties

<table>
<tr><td>Achieve-
ments</td><td>
A positive assessment in the Third Cohesion Report[169]
▪ Overall, actions supported by the Structural Funds in these regions have led to the creation of some 700 000 jobs over the period and a little under 500 000 jobs in net terms, while around 300 000 SMEs have received help to improve their production methods and seek out new markets. Partly as a result of these measures, the fall in unemployment has been slightly greater in these regions than in the rest of the European Union.
▪ Aid to R&D, innovation and technology transfer has been particularly effective in terms of creating new jobs and maintaining existing ones.

Case study : the East of England 2000-06 Objective 2 Programme[170]
▪ Overall, the 2000-06 East of England Objective 2 programme is performing well. The Objective 2 programme is making a significant contribution to a number of Regional Economic Strategy themes. Projects that are being supported should make a significant contribution to the regeneration of disadvantaged areas in the region.

Besides the economic benefits, Community assistance has provided real added value through its management methods, which have been gradually improved over the ten years. Of particular note are the setting up of active and diversified partnerships, more rigorous methods for selecting projects and the setting up of computerised monitoring systems[171].
▪ East of England 2000-06 Objective 2 Programme: Objective 2 projects appear to be demonstrating good added value. Feedback from local partnerships and from the survey of project sponsors suggests that most Objective 2 projects demonstrate high levels of financial additionality, i.e. Structural Fund aid makes a genuine difference in terms of the scale and/or timing of projects. Objective 2 funding is seen as having a ‘catalytic’ effect, i.e. helping to unlock financial support from other sources and in other cases there has been a ‘top-up’ effect. There are also important non-financial aspects to Objective 2 added value, particularly in terms of partnership development and capacity building.
▪ Yorkshire and Humber 2000-2006 Objective 2 Programme[172]: Positive effect of Objective 2 on developing and promoting sub-regional partnerships as vehicles for co-ordination of interventions + role of Objective 2 in building community and strategic capacity.

The Assembly of European Regions therefore recommends that, ‘the added value of Objective 2 funding be recognised and be continued in some form after 2006 for regions experiencing restructuring in the industrial sector and in other fields’[173].
</td></tr>
<tr><td></td><td>
Effectiveness differs according to area[174]
▪ According to A. Cappelen et al., «EU support is more efficient in ‘advanced’
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</table>

169 European Commission, DG Regio, *Third Cohesion Report*, Brussels, February 2004.

170 Centre for Strategy and Evaluation Services, *Mid Term Evaluation of the East of England 2000-06 Objective 2 Programme*, September 2003.

171 DG Regio Website, (http://europa.eu.int/comm/regional_policy/index_fr.htm).

172 Leeds Metropolitan University – University of Hull, *Mid Term Evaluation of the Yorkshire and Humber 2000-06 Objective 2 Programme*, September 2003.

173 ARE, "*Conférence des Ministres régionaux et Présidents de Région sur l'avenir de la Politique Européenne de Cohésion*", Pécs, Hungary, 14-15 November 2002.

174 Baudet-Michel, S., and Peyrony, J., ‘*Développement territorial et politique régionale: quelques pistes pour l'Union européenne après 2006*’, 2003.

Deficiencies	regions. These regions may be assumed to have more developed 'social capabilities'»[175]. **Problems related to zoning** ▪ According to the Third Cohesion Report, 'Although the interventions have had positive effects, these might have been greater if both the areas eligible for support and the scale of operations funded had been bigger and if the time horizon for projects (three years) had been longer. These changes would enable programmes of more strategic importance for regional development to be supported.' ▪ *The case of France:*[176] It was decided to go beyond level 3 of the Nomenclature of Statistical Territorial Units (NUTS) when carrying out territorial zoning. The resulting zoning, because it was very detailed, was not unassailable and did not fit in with the Plan contracts. Objective 2 areas and areas benefiting from transitional support were chosen using objective criteria. As sophisticated as they might appear, however, the criteria used raise questions. This means that the criteria used to identify the eligible areas may be misleading: areas experiencing difficulties, where the population and the number of jobs are falling, are nevertheless likely to have a stable employment rate and not be eligible for the Structural Funds. ▪ The Assembly of European Regions also welcomed, 'the proposal to abandon the criterion of sub-regional zoning in the future regional programmes.[177]

[175] Cappelen, A., et al., 'The impact of Eu regional support on growth and convergence in the European Union', *Journal of Common Market Studies*, Vol. 41, N.4, 2003, pp. 621-644.
[176] Magnier, P., *Fonds structurels européens et politiques régionales*, Commissariat Général du Plan, 2004.
[177] AER, *Conference on Future Cohesion Policy*, Eger, Heves, Hungary, 15 October 2004.

EUROPEAN SOCIAL FUND

Achieve-ments	**Ministerial seminar on the European Social Fund, January 2004[178]:** ▪ 'The clear message from the Member States is that the ESF performs a vital role in creating employment. It also has an essential role in combating the exclusion of certain disadvantaged groups at regional and local level. Its decentralised approach to the implementation of programmes has enhanced good governance and increased awareness of the European Employment Strategy. Performance and results have improved, primarily due to the ESF being aligned more closely to the European Employment Strategy and the National Action Plans for Employment and Social Inclusion, for which it is the major financial support.' **Positive role and contribution of the ESF[179]** : ▪ to the development of the regions by supporting the development of human capital and reforms and modernisation in the field of labour market, education and training. The ESF makes an important contribution to the development of skills and qualifications, in line with the needs of the regional labour markets. The ESF programmes therefore serve as a regional development tools. ▪ to the growing acknowledgement in many policy fields of the importance of human resources development; ▪ to the introduction of employment policy reforms as well as to their implementation; and ▪ to product development whereby the ESF acts as a laboratory. **More active national policies in the service of the European Employment Strategy [180]** ▪ One of the guiding principles of the European Employment Strategy is to convert passive labour market measures into active policies. The ESF provides an important means of encouraging and helping Member States to make their policies more active. According to estimates, the ESF provides 8% of the expenditure devoted to active labour market policies throughout the European Union. The combined efforts of the Member States and the European Union represent a significant investment in Europe's future. **Setting up new forms of cooperation and networks, involving new players, improving recruitment methods and establishing new methods and approaches[181]** Involving authorities and local partnerships in the design and implementation of actions (F).
Deficiencies	**Need to clarify the structure of the programmes as well as the management and delivery systems, to improve monitoring and evaluation and to fine-tune the financial allocations[182]** ▪ The main recommendations thus relate to the reduction of the complexity and bureaucracy, to the simplification and clarification of the implementation structures and provisions, to the streamlining of certain measures, and to the need to increase the co-operation and involvement of all actors[183]. ▪ 'the implementing rules need to be clearer and simpler, and bureaucracy reduced'[184].

178 "*ESF Ministerial seminar*", Brussels, 29-30 January 2004.
179 European Commission, DG Employment, *The Mid Term Review, Performance Reserve and Mid Term Evaluation of ESF Interventions 2000 – 2006*.
180 European Commission, DG Employment, "*Member States' Expenditures, objectives et first achievements*", 2003.
181 *Ibid.*
182 European Commission, DG Employment, *The Mid Term Review, Performance Reserve and Mid Term Evaluation of ESF Interventions 2000 – 2006*, DG Employment.
183 *Ibid.*
184 "*ESF Ministerial seminar*", Brussels, 29-30 January 2004.

INNOVATIVE ACTIONS ESF

Achieve-ments	**Positive impact on employment and social inclusion** ▪ The Third Cohesion Report states that, 'innovative actions funded by the ESF also had positive effects on employment and social inclusion.' ▪ For example: the Local Social Capital pilot project, with ESF funding of EUR 3.5 million a year, supported 3 350 micro-projects, each reaching a wide range of people who were unlikely to obtain other types of support. **Interregional cooperation**[185] ▪ Networking people facing similar situations and allowing them to exchange experiences brings considerable added value to the projects and increases the likelihood of innovative ideas being brought into more widespread use in the European Social Fund. For example, interregional projects implemented as part of the social dialogue have provided an opportunity to experience novel approaches and work on making innovative actions and specialised knowledge transferable to other situations.
Deficiencies	**Obstacles exist**[186] ▪ It has also been observed that the willingness of project promoters to interact across borders and sectors certainly leads to fruitful exchanges, but that these are often hampered by bureaucratic and cultural obstacles.

[185] European Commission, *Third annual report on the implementation of innovatives measures – ESF regulation article 6*, Brussels, December 2003.
[186] *Ibid.*

INNOVATIVES ACTIONS ERDF

Achieve-ments	**Introducing innovation into the economic development agenda of less favoured regions**[187] ▪ Most projects contributed to raise awareness and enlarge the scope of the concept of innovation as well as to integrate it within their regional economic development strategies as a priority task. **Mainstreaming into the Structural Funds for increasing the quality of public expenditure** ▪ Most projects have managed to guarantee a good mainstreaming of their priority actions into the Operational Programmes for objective 1 or 2 areas by providing new project ideas and identifying partnerships to implement them. **An institutional framework for a more efficient use of public and private funds** ▪ The « policy » dimension of the projects contributed to improve the institutional capacity of regional administrations in charge of innovation thanks to a a better co-ordination of public financiers of innovation. **Promotion of public and private partnerships and business networks** ▪ This is one of the most visible results. These networks help translate knowledge (codified or tacit) into economic opportunity, while at the same time build up the necessary bonds and linkages among persons and institutions so as to exploit the synergies that catalyse regional innovation. **Internal coherence of the regional innovation system through a better match between the RDTI supply and demand from firms** ▪ Hundreds of SMEs have been involved in the process of identification of innovation business needs through participation in working groups and all sorts of surveys. On the supply side, most regions have undertaken a thorough critical analysis of their current innovation policies and the contribution of their R&TDI institutions to regional development, including universities and technology centres in particular. **Improvement of innovation support tools by exchanges between regions** ▪ Interregional exchanges of good practice have been quite frequent among regions with many of them involved in study visits, working groups and other means of communication. This has clearly brought a European value added to these projects. **Success due to**[188] **:** - Strategic approach - Implemented directly by the regions - Cooperation / networking / partnership - Simplified rules

[187] European Commission, DG Regio, *"Regional Innovation Strategies under the European Regional Development Fund Innovative Actions 2000-2002*", Brussels, 2002.

[188] Baudelet, O. (DG Regio), 'Knowledge Based Regional Development', Conference*: "Knowledge based regional development and innovation: The transition towards a knowledge based economy*", Florence, Italy, 25 and26 November, 2004.

FIFG

Achieve-ments	**Efficient management of the instrument** ▪ But additional administrative capacity and human resources would be beneficial, as would slimmed-down procedures[189]. **Protection of aquatic resources** The overall impact is expected to be positive[190].
Deficien-cies	**Need for CFP reform** ▪ The decision was made in January 2003 to reform the CFP. This was necessary because the existing instruments were insufficient to meet the objectives set in terms of preserving stocks and the marine environment and guaranteeing the economic viability of the Union's fleets. Following the mad cow disease episode and other problems with food safety, we also needed to provide consumers with guarantees about the quality of seafood. **Need for increased involvement from fishermen and other stakeholders** ▪ The success of the instrument requires all of the stakeholders to work together. An increased level of involvement ought to be possible thanks to the creation of regional advisory councils. These cover marine areas belonging to two or more EU Member States. They will enable fishermen, scientists and other participants to work together so as to guarantee rational exploitation of our aquatic resources, thus creating sustainable economic, environmental and social conditions. **Administrative and systemic factors explain the slowdown in efficient implementation[191]** ▪ Problems with the availability of funds from the co-financing authorities. ▪ Complex, long and discouraging procedures. Lack of promotion of the FIFG. ▪ The decline in natural resources and the uncertain future of the fishing industry, discouraging new investment in the sector. ▪ Lack of organisations representing the interests of the profession as a whole. In addition: ▪ General lack of interest. ▪ Needs over-estimated due to the fact that significant investment had already been made in the previous programming period. **Questionable contribution to sustainable development[192]** ▪ Very few of the social measures in support of restructuring are included in the programmes funded by the FIFG. The instrument does not make a significant contribution to the objectives of social inclusion and rural development. FIFG actions are judged to have both positive and negative effects. **Recommendations** ▪ Potential fund-providers of projects should receive better support in terms of technical assistance during the project-development phase.

[189] London Economics, Report "*A Synthesis of the Mid-Term Evaluations of the FIFG 2000-2006" - Conference: "Steering towards 2007-2013 - What financial support for the common fisheries policy and coastal zone development?*", 27-29 May 2004 (http://europa.eu.int/comm/fisheries/doc_et_publ/liste_publi/reports/synthesis_en.pdf).
[190] *Ibid.*
[191] *Ibid.*
[192] *Ibid*.

EQUAL

Achieve-ments	**The groups targeted by the current programme are not covered by other national or Community programmes[193]** ▪ Having been conceived after Objective 3, EQUAL tries to fill the gaps left by the latter so as to ensure that these two programmes complement each other and that all national needs are catered for. The measures implemented under EQUAL are designed to avoid dual financing and therefore have to focus on different groups of people or propose different activities: it is precisely at this level that Community added value is measured. **A laboratory for developing new ways of implementing employment policies[194]** ▪ Innovative methods have been generated. It actually turns out that new pedagogical tools have been created as well as new childcare models. **Added value thanks to the principles of partnership and transnationality[195]** We should note that a large number of national and transnational partners have taken part in EQUAL measures and that this interaction has injected new momentum into the development of the sectors concerned. The added value that is perceptible at this stage has been produced by examples of good practice being exchanged at national and Community level. Comparing the different approaches adopted at different levels means that the merits of each are constantly called into question and ensures that the best ones are used. Even if the projects do not survive the current programme they will at least have contributed to revealing the links between those influencing society at national level, who can then form themselves into a platform for promoting social innovation.
Deficiencies	**Mainstreaming lacks consistency and versatility[196]** ▪ Threshold effect: several initiatives entrusted by the DPs to thematic implementation groups are underway as part of the French CIP. The fact that the projects are broken down into 8 themes limits the regions' capacity to find a sufficient number of DPs for the same theme, if only for one. ▪ Furthermore, it would appear at this stage in EQUAL's development that there is no visible link between the different implementation levels, thus jeopardising the consistency of the different initiatives. Moreover, there is an obvious risk of information and methodological breakthroughs being lost. **The technical assistance provided varies greatly from one region to another[197]** The devolvement of the CIP to regional level and the use of independent technical assistance services by each managing authority mean that the work done by each varies considerably. This affects the method of delivery (individual support, collective meetings) as much as the subjects dealt with and the timetable agreed. The result is that the information given to the Development Plans varies hugely from one region to another, which means that the principles and expectations of the CIP are applied very differently. As a result, the Development Plans in the 26 French regions are moving forward at different speeds and with different objectives, which means that there is no guarantee that the projects produced will meet the various requirements and address the issues raised by EQUAL in the same way.

[193] ACORD – International S.A., "*Evaluation intermédiaire du PIC EQUAL entre 2000 et 2002*", Luxembourg, December 2003, p. 74
[194] *Ibid.*
[195] *Ibid* and Ministère des Affaires Sociales, du Travail et de la Solidarité, "E*valuation du PIC EQUAL en France 2001 – 2003",* September 2003, p. 104.
[196] Ministère des Affaires Sociales, du Travail et de la Solidarité, "*Evaluation du PIC EQUAL en France 2001 – 2003"*, September 2003, p. 104.
[197] *Ibid.*

URBAN II

Achieve-ments	**Significant in several respects**[198] ▪ Flexibility and subsidiarity: these arise from the zoning decided by the Member States in accordance with objective socio-economic criteria set out by the European Commission. ▪ A high degree of partnership: towns and cities bear the main responsibility for programme management in two thirds of cases; local associations are involved in 80% of cases. ▪ Administrative simplicity: URBAN II is *only financed by one fund* (the ERDF) whereas URBAN I was financed by two funds (ERDF and ESF); *programming has been simplified*; the administrators of the URBAN programmes are grouped together in one unit in the European Commission. ▪ One indicator is the relative speed at which programmes in the URBAN initiative are adopted, which is faster than the norm. ▪ Focuses on Community priorities such as integrating immigrants, sustainable development, safety and the prevention of criminality, equal opportunities and the information society. ▪ An on-going learning process, making it possible in particular to test innovative approaches and create networks to exchange experiences. In this respect URBAN II provides considerable added value. **An integrated approach towards revitalising urban areas** ▪ URBAN II is a simple concept that has forged a link between cities and the EU and has adopted an integrated approach towards revitalising urban areas, involving a variety of players in the decision-making process. It has had a high profile in cities, has targeted disadvantaged groups in society and has built social capital at local level[199]. ▪ It works on the basis of an integrated and consistent approach to meet the diverse needs of urban areas in crisis: the regeneration of the physical environment, the development of a spirit of entrepreneurship and the fight against social exclusion are treated together. ▪ The Committee of the Regions appreciates the efforts made to place urban problems in the broader context of a national and regional strategy, but calls on the Commission to define the eligibility criteria better for urban areas[200].
Deficiencies	**Several areas are excluded from the scope of application** ▪ **The programme's scope is limited to actions defined as eligible by the Structural Funds regulations. A general exclusion is placed on certain areas that are important factors in urban problems, such as housing, the fight against crime and transport.** **There is a need to consolidate the involvement of civil society in the management and implementation of the programme** The programmes should involve civil society as much as possible in their management and implementation, a broad local partnership is required and trans-European networks should be encouraged. It would be preferable for the projects to be managed by the municipal authorities. The URBAN initiative has often brought greater added value when it has been part of a larger urban policy and broader strategies. Effective monitoring and evaluation systems should be put in place.

198 M. Barnier, Conference "Cities and cohesion", London, 8 July 2002.
199 Luciano Caveri, President of the Committee on Regional Policy, Transport and Tourism, European Parliament.
200 Committee of the Regions, "*Opinion on the Third report on economic and social cohesion*", COTER-022, Brussels, 6 July 2004.

LEADER +

Achieve-ments[201]	**Added value**[203] The approach exemplified by LEADER provides greater added value than traditional rural development programmes and measures. ▪ The actions funded have reached a broader range of potential beneficiaries, including micro-entrepreneurs, women, young people and those with specific needs. Everything suggests that the main reason why it has been possible to integrate women, young people and other beneficiaries with specific needs has been the involvement of these groups in planning procedures, training sessions and LAGs, as well as in the projects themselves. In addition, greater account is taken of the needs of weaker sub-regions and the development funding is directed more towards smaller operations, towards increasing the provision of education and training and towards collective projects. **A ‘tailor-made’ territorial approach** ▪ The LEADER method makes better use of local resources and produces excellent pilot projects in the fields of rural infrastructures, making best use of cultural resources, knowledge-transfer and organisational development. This ‘tailor-made’ territorial approach also improves access to measures directed at the agricultural holding itself, such as investment in agricultural and forestry production, processing and product marketing, as well as access to funding for agri-environmental measures. ▪ More effective decentralised management and financing rely on the authorities and institutions at national, regional and local level working together to support the implementing bodies – local partnerships – and the intermediate support structures. However, this approach takes time to produce results and those countries with a tradition of decentralised decision-making systems are at an advantage in this regard. The launch phase of an integrated programme like LEADER takes longer and requires more resources for training, negotiation and development organisation. That is why we have to accept that there will be a period during which the cost-benefit ratio will be less good; nevertheless, the social capital is enriched thanks to learning effects and a significant increase in expertise. **Increased local participation** ▪ Those involved locally and within the authorities benefit from the process of interactive learning initiated by the LEADER approach. The authorities appreciate and understand better the fact that coordination across the board and management of the vertical and horizontal interfaces is an effective way of managing public resources. This is perceived as increasing the quality of regional governance and has a positive impact on the skills of public administration staff. ▪ The approach exemplified by LEADER strengthens local participation and fosters a genuine sense of ownership of the development activities at local level. Programmes like LEADER are capable of mobilising more resources in the community and its various associations thanks to the measures being more varied and better tailored to local needs. ▪ The implementation of the bottom-up approach with a local partnership, networking and decentralised management and financing is seen as a key territorial innovation

[201] ÖIR – Managementdienste GmbH, Report to DG REGIO, Mainstreaming of Leader innovations and methods in the rural development programmes: Methods and achievements, April 2004, (http://europa.eu.int/comm/agriculture/eval/reports/leader/sum_fr.pdf).

[202] *Ibid.*

[203] Van der Ploeg, J., *Rural development and mobilisation of local actors, European Conference on rural development*, Salzburg, 12-14 November 2003 (http://europa.eu.int/comm/agriculture/events/salzburg/panels/ploeg.pdf).

Achieve-ments[202]	by local stakeholders and administrators. **Synergies** ▪ Programmes like LEADER produce synergies with other regional development measures, particularly within Objective 1 and in Objective 2 areas in France. Local groups and regional support structures sometimes create synergies by developing ‘tailor-made’ support plans. **Management and evaluation of the programme: recommendations** ▪ In response to the large turnover in the LAGs and the uneven mobilisation of resources, it would seem that priority should be given to training and networking these managers and mobilising the leaders of the PRESAGE programme. ▪ To facilitate the work of self-evaluation and to ensure that LEADER is properly monitored, a proposal has been made to draw up a list of several indicators – a minimum set – focusing on a small number of indicators of results that apply across the board. ▪ The LEADER programme relies heavily on local initiative and autonomy based on a system of comprehensive grants. This system enables a local body – for example, a community of communes – to take responsibility for managing a budget for shared use. LEADER+ is therefore pioneering the common ownership of funds and projects. All areas interested in European, national and regional contractualisation will want to monitor developments. **The LEADER lessons: building blocks for 'rural futures'**[204] ▪ It is widely acknowledged that the now considerable LEADER experience (that accumulates LEADER I, LEADER II and LEADER +) is a success story. The LEADER programme has created, throughout Europe, a range of interconnected and often highly productive nurseries/laboratories, which together produced a considerable amount of novelties: new insights, new solutions, new arrangements, new networks, new models, new innovative trajectories, etc. The involvement of local actors, the mobilisation of local knowledge and the search for flexible public-private partnerships, have all contributed to this success. Equally important (albeit less visible) is that the LEADER programme has also had a highly positive effect on the underlying socio-economic patterns on which the different projects build. Cooperation, exchange of knowledge and experience (often at the community level), and learning trajectories have increased significantly. Thus, LEADER contributed to the strengthening of social capital and to the search for new forms of governance.
Deficiencies [205]	**Becoming too accustomed to the programme: possible effects** In some cases mainstream programmes like LEADER suffer as people become accustomed to them. This is likely to erode the ‘LEADER spirit’: the improvement in management skills and operational efficiency can be offset by a lack of vision and strategy. Furthermore, the bottom-up approach could be supplanted and completely altered if the programme were to become a political instrument.

[204] Van der Ploeg, J., Rural development and mobilisation of local actors*, European Conference on rural development*, Salzburg, 12-14 November 2003 (http://europa.eu.int/comm/agriculture/events/salzburg/panels/ploeg.pdf).

[205] Conclusions of the European conference on rural development, Salzburg, 14 November 2003 (http://europa.eu.int/rapid/pressReleasesAction.do?reference=MEMO/03/236&format=HTML&aged=0&language=FR&guiLanguage=en).

INTERREG III

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<td>Achieve-
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The three strands of INTERREG II met their objectives and the overall effectiveness of the programme was rated very highly. The overall evaluation of INTERREG II showed that the programmes in all of the strands had generated significant added value[206].
Community associations and Member States are unanimous in recognising that INTERREG III, in its turn, seems to have generated real added value: ‘everyone wants INTERREG to be maintained in the future cohesion policy’[207]. For the Assembly of European Regions, ‘future structural and cohesion policies should provide greater support for interregional, cross-border and transnational cooperation’[208]. For the CPMR, ‘[t]he development of interregional cooperation in Europe is one of the most significant aspects of the progress made in this past decade, notably its capacity to multiply exchanges of experience, synergies and good practice in public policy-making, whether under strands A, B or C of the INTERREG programmes.’ [209] For its part, the CEMR states that, ‘INTERREG is a key programme for applying the philosophy of polycentric development.’ [210].

Some examples of successes:

Strand A: cross-border cooperation

The example of the INTERREG IIIA programme France – Wallonia – Flanders[211]:

economies of scale and effects of synergies: better results, lower costs, more resources available (financial and human);
exchange of experiences and knowledge, learning effects;
learning about others’ organisational structures and working methods;
networking, extending one’s network;
a cultural exchange;
momentum injected into cross-border dialogue and collaboration.

Strand B: transnational cooperation

INTERREG IIIB North Sea: a “success story”[212]

Strong partnership around the North Sea
Well functioning implementation structure
Projects with genuine transnational value
Programme's engagement going beyond its area (Northern Maritime Corridor, Water area, umbrella operation for maritime safety)

Strand C: interregional cooperation

ROBINWOOD: integrated forestry development and creation of a woodland chain process in rural areas[213].

Local development

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206 European Commission, DG Regio, *Ex-post Evaluation INTERREG II Community initiative (1994-1999).*

207 Reflexion Group on the Future of the cohesion policy, Brussels, 17 February 2003.

208 ARE, *Quel est l’avenir de la politique régionale? Propositions des régions en vue d’une simplification, d’une décentralisation et de la création d’un nouveau partenariat*, Poznan, Wielkopolska, 27 November 2003.

209 CRPM, *Un an avant la publication du troisième rapport sur la cohésion: réflexions de la CRPM sur l’avenir de la politique régionale post 2006*, Poitiers, 2/3 December 2002.

210 CCRE, *La valeur ajoutée de la politique de cohésion de l’Union européenne*, CCRE’s position, October 2002.

211 Organisation Gestion Marketing, Idea Consult & Euro Initiatives, *Evaluation intermédiaire INTERREG III A 2000 – 2006, FRANCE – WALLONIE – FLANDRE*, December 2003, p. 76.

212 Helander, E., DG Regio, *INTERREG IIIB North Sea Annual Conference*, 16 June 2004.

213 Minetti, D., ‘*Operation showcase: RobinWood’,_INTERREG IIIC Forum & Lead Partner Workshops in Rotterdam*, 10 December 2004.

	- Biodiversity protection - Forests improvements and mitigation of hydrogeological risk - Lower CO2 emissions - Improvements to local awareness of environmental/forestry issues and of forestry-related themes and to public acceptability of interventions in that field. - Closer cooperation between the administrative offices involved - Better socio-economic situation of rural areas (employment, migration trends, etc.) - Cooperation between local stakeholders and international ones (from partner regions)
Deficiencies	▪ The start of the 2000-2006 programming period, mired in **additional complexity**, is, however, too recent to be able to stand back and draw initial conclusions about its implementation. The last joint secretariats in INTERREG IIIC are currently being set up, almost three years after the programmes theoretically started, and some INTERREG IIIB programmes still have not been able to start. The desire to simplify Community policies still has not borne fruit in this field. In some cases this has led to project promoters becoming rather discouraged, although this in no way calls into question the validity of the objectives. Given that those involved are dealing with relatively new practices and are facing legal problems that are still a long way from being resolved, we should certainly give them more time to develop ownership of the system[214]. ▪ In addition, the aim of increasing the **involvement of the Member States in certain aspects of transnational cooperation** identified by the ESDP (balanced competitiveness, transport and sustainable development) is still **far from being achieved** and promises are not being kept.[215] Rui Azevedo of the CPMR mentions cases of bottom-up transnational projects that are not designed to deal with transnational issues or are badly coordinated with the mainstream[216].. ▪ In order to foster cooperation, the resources intended for financing INTERREG initiatives must no longer be allocated to the Member States, and the work done on legislative cooperation instruments should lead to new structures being created to implement the CIPs[217].

[214] CRPM, *Un an avant la publication du troisième rapport sur la cohésion: réflexions de la CRPM sur l'avenir de la politique régionale post 2006*, Poitiers, 2/3 December 2002.

[215] *Ibid.*

[216] Azevedo, R., La coopération transnationale vers une amélioration de la qualité des programmes et leur contibution aux objectifs de Lisbonne et Göteborg, *Seminar on European cooperation after 2006*, Taormina, October 2004.

[217] European Court of Auditors, *Programming trans-European cooperation Communtiy Initiative – Interreg III*, Special Report N°4/2004, 2004.

ISPA

Achieve-ments	**More than 300 projects carried out on transport and environment infrastructure**[218] Over the first four years (2000-2003), this instrument has cofinanced more than 300 infrastructure projects in the fields of transport and the environment. More than 200 environmental projects have been established, mainly relating to the water supply, sewerage systems, wastewater treatment and waste management. The remaining 100 have covered infrastructures in the pan-European corridors, including cross-border facilities such as railway lines, roads, airports and traffic management systems. **A SIGNIFICANT CONTRIBUTION TO THE ENVIRONMENT POLICY** ***ISPA has made a contribution to implementing the environment policy in the beneficiary countries. The experience garnered in developing and implementing projects has boosted administrative capacity and speeded up the reform of the environment sector. Steady progress has also been made on ensuring that the eia directive is correctly implemented, including the aspects related to public consultation. Furthermore, a pilot project has encouraged better quality of certain public services in the sub-sectors of water and wastewater. In these different ways, the ispa programme has helped to make significant progress on environmental protection in all of the beneficiary countries.*** **Development of administrative and financial capacity**[219] ISPA has contributed to building up expertise and administrative capacity in the then candidate countries, which have received technical assistance in the form of training in purchasing procedures, financial management, preparing projects, drafting technical documentation, cost-benefit analysis and using EDIS[220] (EDIS denotes the process designed for the beneficiary countries as part of their transition towards an extended system of decentralised implementation for ISPA). This programme has therefore enabled most of the beneficiary countries to increase their financial capacity and thus better respect the standards and procedures in the traditional instruments of European cohesion policy, the Structural Funds and the Cohesion Fund. **Improved project monitoring and the need for additional resources**[221] ***In 2003, the main finding of the evaluation of projects is that, on the whole, there has been a further improvement in the capacity of the beneficiary countries to implement projects. Additional efforts still need to be made to resolve the problems that remain in some cases. It is very important that additional human and financial resources are provided to ensure that ISPA measures can continue to be planned, prepared and managed, in particular in the sector of the environment.***

[218] European Commission, *Annual Report 2003 on pre-accesion tool ISPA*, COM(2004)735 Final, Brussels, 2004.
[219] *Ibid.*
[220] European Commission, *A new partnership for cohesion. Convergence, Competitiveness, Cooperation. Third Report on economic and social cohesion*, Brussels, February 2004.
[221] European Commission, *Annual Report 2003 on pre-accesion tool ISPA*, COM(2004)735 Final, Brussels, 2004.

	An effective benchmarking instrument that initiates partnership[222] ▪ Significant progress has been noted over the last few years in terms of the efficiency with which the projects funded by ISPA have been managed and implemented. Through the 'learning-by-doing' approach, the beneficiary countries have gradually managed to achieve the standards and use the procedures that apply to the traditional instruments of the cohesion policy. ▪ The EIB and the EBRD have remained favoured partners for making loans to ISPA projects in 2003. As for the Nordic Investment Bank (NIB), it is primarily involved in ISPA-funded projects in the Baltic countries. The expertise of these banks in preparing and implementing projects has continued to prove useful for improving the quality of projects with ISPA funding. **An instrument that is speeding up reforms**[223] ***Preparing and implementing projects have proved to be important instruments for helping beneficiaries to understand and implement European legislation in the fields of transport and the environment.*** ▪ ISPA has helped to raise awareness in the new Member States that incorporating Community legislation into national law is not enough in itself and that far-reaching structural changes are also needed to ensure that the implementing policy really is effective. ▪ Development of PPPs.
Deficiencies	**Improving the monitoring and control systems**[224] ▪ At the beginning of 2004, some of the beneficiary countries still lacked key elements of the management and financial control systems in the environment and transport sectors, but the Commission thought that they would soon be put in place. ▪ Overall, expenditure is judged to have been in accordance with the rules[225]. The monitoring and control systems for EU aid still need to be improved, but most of the beneficiary countries have made serious efforts to put these systems in place over the last few years. **Need to increase the skills of human resources**[226] Staffs are still not sufficiently well qualified to manage complex projects such as those funded by ISPA. The Commission is continuing to provide technical assistance, in particular to reinforce technical skills, and it is continuing to organise seminars and training courses and to disseminate practical handbooks.

[222] *Ibid.*
[223] European Commission, *Annual Report 2003 on pre-accesion tool ISPA*, COM(2004)735 Final, Brussels, 2004.
[224] *Ibid.*
[225] European Court of Auditors, *Annual report*, 2002.
[226] European Commission, *Annual Report 2003 on pre-accesion tool ISPA*, COM(2004)735 Final, Brussels, 2004.

SAPARD

Achieve-ments	**Increasing administrative capacity and making decentralised management more effective** ▪ Subject to the Commission's ex-post controls, the national authorities of the 10 beneficiary countries have been fully responsible for managing the funds. SAPARD has had a positive impact on the new Member States[227] by encouraging them to establish financial structures and control systems that are similar to those in the former EU of 15, and has thus contributed to building administrative capacity[228]. ▪ This system has therefore had a positive impact on the absorption capacity of the rural development funds after accession. All of the countries have taken up the challenge on this point[229].
Deficiencies	**Initially implementation tended to be slow[230]** ▪ Decentralisation was a good choice, but it took too long to achieve[231].. **The initial assessment is very mixed[232]** ▪ It would seem, according to the European Court of Auditors, that the Commission failed to provide sufficient follow-up, leadership, direction, methodology and technical assistance for the instrument to work effectively, which has also meant that not as much has been learnt as had been expected. The Commission did not provide this initiative with enough human resources and has not carried out a qualitative evaluation of the results of implementing SAPARD. Other points mentioned are the excessive bureaucracy in the new Member States and the fact that the instrument seems to give too much assistance to the largest and wealthiest bodies to the detriment of others.

NB: It is difficult to analyse precisely how effective the instrument has been, as few documents exist and the beneficiary countries' mid-term review reports correlate successes with the instrument's objectives without going into any detail, and do not mention possible deficiencies**.**

227 CNASEA, Application of the rural development regulations in Europe: proposal for the future, *Cahier n°3*, CNASEA, 2003, p. 10.
228 European Commission, *A new partnership for cohesion. Convergence, Competitiveness, Cooperation. Third Report on economic and social cohesion*, Brussels, February 2004.
229 European Commission, *Annual Report 2002 on SAPARD*, COM(2003)582 final, Brussels, 2003.
230 European Commission, *A new partnership for cohesion. Convergence, Competitiveness, Cooperation. Third Report on economic and social cohesion*, Brussels, February 2004.
231 European Court of Auditors, *Has Sapard been well managed?*, Special report n.2/2004 on pre-accession aid, 2002.
232 European Commission, *A new partnership for cohesion. Convergence, Competitiveness, Cooperation. Third Report on economic and social cohesion*, Brussels, February 2004.

PHARE

<table>
<tr><td>Achieve-ments</td><td>
Strengthening the public administration[233]
▪ The results will be long-lasting because legislative changes will remain enshrined in national law and much of the expertise acquired in the public administration will probably be maintained. Institutions take many years to develop and cannot do so within the three years of a project's life.

Acquis communautaire[234]
▪ Good results, with better signs of an enduring impact in the fields of transport, the environment, and justice and home affairs. The picture is less positive, however, in social policy, education, industry and SMEs. (In these sectors, the projects sought not only to create new institutions, but the process also involved networking civil society organisations and companies in a semi-public environment. Often these projects took time to become established and it was difficult for them to obtain their own financial resources, which is why the effects will not be as long-lasting.)

Impact on the economy, society and the environment[235]
▪ The projects had less of an impact than expected and indeed stated in the projects' objectives, although these expectations were not always clearly expressed. However, when the projects did have an impact, it is considered that this is very likely to be an enduring one and a greater socio-economic impact can be expected in the long term, thanks to PHARE's contribution to changing legislation and strengthening the administration.
▪ Of the different sectors, the ones where the impact was most marked and strongest were those where the aid was used for investments relating to European standards (such as the environment and agriculture) or to large-scale infrastructures (like transport). The socio-economic impact was less marked, however, in the fields of regional policy, industry and SMEs. In these fields, PHARE projects invested in structural actions that mixed institutional and socio-economic development, with a strategy and combination of objectives that was often rather confused.

An obvious integration effect[236]
▪ The integration effect, the key to the success of Europe's reunification, is obvious in the case studies. Learning new methods of public management, exchanging ideas and sharing resources to organise joint projects all play an important role.
▪ Projects on cross-border cooperation on the whole proved to be satisfactory.
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Main sources of inefficiency[237]
- weaknesses in the process of deciding on strategies, leading to management difficulties and high implementation costs during the management period;
- the lengthy feedback process, meaning that actions continue to receive financial support when they should be revised or halted;
- an expensive way of learning about the aid schemes;
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[233] PLS Ramboll, *Phare: évaluation ex post de l'aide apportée aux pays candidats entre 1997-1998 et 2000-2001*, Final consolidated report, Study for the European Commission http://europa.eu.int/comm/enlargement/phare_evaluation_pdf/con_sum_fr_30_final_15may.pdf
[234] *Ibid.*
[235] *Ibid.*
[236] Jouen, M., et al., *L'Europe s'invente-t-elle sur ses marges? Coopération transfrontalière et transnationale*, Study, Notre Europe, 2001 (http://www.notre-europe.asso.fr).
[237] *Ibid.*

Deficiencies	- insufficient attention is paid to democratic constraints, leading to projects being supported which subsequently do not have the desired effect, or are cancelled or delayed; - no real possibility to form a partnership. The process has not enabled the partners to take full ownership of the programme's objectives or priorities, or the projects arising from it. **Insufficient involvement of the national institutions**[238] Many PHARE projects have suffered because the objectives were not clearly defined, but also because of a lack of commitment on the part of the national institutions responsible for implementation in the project's initial phases. In addition to the delays caused, these problems have meant that projects have had to be adjusted, sometimes very substantially, during their life cycle. The evaluation shows that adjustments were made in particular when there was a risk that the funds would not be fully absorbed. The general conclusion is that the aid schemes have had a fairly beneficial impact in terms of learning, but that the cost of the learning has been too high and the socio-economic impact has not been significant enough.

[238] *Ibid.*

ANNEX 3: TERRITORIAL COHESION, ESDP AND OPEN METHOD OF COORDINATION

The European spatial development perspective (ESDP) is "soft law" and has to be seen as a policy guideline. Most authors state that the ESDD process has been rather successful as it gave inspiration to policy making with a spatial relevance (ARL, Faludi 2003).

Regarding the big challenge of dealing with a EU 27 instead of EU 15, it seemed to be a normal consequence to continue the ESDP process. Especially as the new member states did not have an opportunity, yet to work with it, there is a certain lack of legitimacy, anyway (ARL 2004) and it is necessary to transform the ESDP or make an ESDP II.

But the continuation of ESDP is not that clear or "normal". Instead the term of "territorial cohesion" in the treaty of Amsterdam caused new initiatives and ways of thinking. This "intrusion" of "territorial cohesion" might also be seen as a consequence of the lack of EU competence for a common policy of spatial development. If the history of ESDP is taken into consideration, one should not forget the fact that ESDP has always been "soft law" in mutation. There have been four variants of ESDP until today and – although the Commission does refer quite often to the ESDP – the Commission does not accept it; and with creating the idea of "territorial cohesion" it even seems to withdraw its support from the ESDP process.

This comes just at a point where a complete revision of the ESDP towards something like "ESDP II" has been put on the agenda.

Instead "territorial cohesion" now is "the thing". France, the Federal Republic of Germany and the Netherlands are even thinking over in a rather positive way, if there should be some small competence given to the Community (Faludi 2003).

Another interesting aspect is the case that the ESDP process until now could be seen as a successful implementation of the open method of coordination, which has been promoted by the Commission in 2001 (COM 428) as well. What is not clear yet (besides the question: what territorial cohesion does exactly mean?), if this method would be applied to the achievement of territorial cohesion, then.

If there is a certain problem in the ESDP process, this is due to the fact that there is a certain friction of the feeling for competence: spatial development and planning is a task of the member states. Regional policy – interfering into spatial planning – meanwhile is a field of competence to the European Union. Since the late 1980s, the Commission (or to be more precise: a small, "French lead" [influenced by DATAR scenarios] group within old DG XVI; later Regio) did make attempts to work on spatial issues as well. Faludi (2003) is convinced that the DG Regio was supporting the ESDP process until 1999, just before a big revision became necessary (due to the preparation of enlargement). This revision itself, although 2004 was not that far away, has not been encouraged, as from then they wanted to make this kind of work more "by themselves". So in 2000 the work-program of the DG did officially stop the support for ESDP and ESPON has been only agreed to after long negotiations, in a way the Commission does have some influence on the ESPON network.

These attempts – certainly – are seen very critically in countries such as Germany with strong regional political and administrative structures. Especially the Länder and the ministry of economy (Minister Clement said "No" to territorial cohesion in Leipzig) were against: spatial planning and development is a national duty and responsibility. But it does not mean that European spatial policy is refused totally! The idea is to have it organised between the member states but out of responsibility of the Commission. But these German attempts (last time promoted at the Potsdam meeting in 1999) have not been accepted.

Instead "territorial cohesion" (TC) came up in the second Cohesion Report. TC had a "prominent" place for the first time. And what is important: not within the framework it was designed (Article 7 D later 16; concerning common economic interest) but as a part of the cohesion objective.

In an informal way TC has been declared to be an objective already in 1995 by Robert Savy who benefited from a scientific support by the university of Limoges (Husson, C.).

In early 2003, DATAR gave an statement to DG Regio about the reform of the policy for economic and social cohesion, in which the use of "open method of coordination" is promoted as well (Faludi 2003). As baseline for this reform have been mentioned the ESDP and its indicators (the creation of these indicators is work done by ESPON). Territorial cohesion has not been mentioned directly, but was "in the background" all the time. So it was not that surprising, that under the Dutch presidency there have been certain (small) attempts to work for a certain competence of the Community on this topic.

Anyway, it seems to be rather clear that the Commission will not be able to continue the ESDP created agenda by its own. So it is dependent on the member states co-operation on issues of spatial development or TC, whatever. So this is the reason, why probably the "open method of coordination" is the only way for TC; also as the ESDP process showed how it can work. Especially in social policy – where the open method has been used successfully, as well – it was used by exchanging "best practices" and "benchmarking". In order to use the open method for territorial cohesion, another dimension "strategy" or "Leitbild" is necessary. TC needs a clear strategy. This strategy does not necessarily mean one clear Masterplan, but could contain also several strategies by several members states for different types of regions. What would be important certainly is that the strategies somehow match together and work together. In order to achieve this state of art, an ESDP process or ESDP II would be an very suitable way. So it is not really appropriate to sacrifice ESPD (and maybe even ESPON one day) to territorial cohesion; especially as both can work and match together very well.

What could be a certain problem is the acceptance of the open method of coordination. OMC is not without risks: so the objectives of a program are worked out together by the member states; the way how to achieve it, is left to the responsibility of each member state. The responsibility of the whole program meanwhile is left to the Community.

Positive is the way how all member states work on achieving one common goal of convergence although the individual ways chosen might be very different. So we would have some kind of centralised coordination with – at the same time – a respect of the individual will (for Community) of the member states. Problem: those who do not work on the agenda followed later at European level (this might be the European Parliament, national and regional Parliaments or other pressure groups) will feel as put under centralized pressure and will complain: "Brussels is the big power which won't respect regional interests in an appropriate way".

Another aspect: horizontal structures will be extended and the making of policy comes more to the level of the executive powers. Regional forces might (or will) loose influence on European policy, although they do have to implement the European policy, and although they are fully responsible for it! This might be a problem, but there is still the possibility to make the open method more sophisticated and to create ways and mechanisms for better control.

But we should not forget that open method is a reaction to the need for flexible processes with high efficiency and the respect of national autonomy. It will be judged later on its results, and the ones we have are not that bad until now.

ANNEX 4: MAIN CHANGES FOR COHESION POLICY

Current situation	**Commission proposals for the new programming period**
Priority objectives for EU structural actions	
– Objective 1: Regions lagging behind (ERDF, ESF, EAGGF, FIFG) 67% of the overall appropriation €195 billion + €18 billion for the Cohesion Fund – Objective 2: Regions undergoing restructuring (ERDF, ESF) 11% of the overall appropriation – Objective 3: Employment: structural adaptation (ESF) 12% of the overall appropriation – Community Initiatives LEADER + (EAGGF) URBAN II / INTERREG III (ERDF) EQUAL (ESF) 5,3% of the overall appropriation – Innovative Actions (ERDF, ESF) 0,65% of the overall appropriation	– Convergence objective: (ERDF, ESF and Cohesion Fund[239]) 78% of the overall allocation of €336 billion – Regional competitiveness and employment objective: (ERDF, ESF) 18% of the overall appropriation – European territorial cooperation objective: (ERDF) 4% of the overall appropriation
Main steps and provisions related to the programming	
– Indicative guidelines prepared by the Commission – Community support framework for objective 1 adopted by the Commission – Regional and sectoral operational programmes (OP) (established at priority axis and measure levels) for objective 1 and Single Programming Documents (SPD) for objective 2 – Programme complement (established at measure level and detailing under each measure the selection criteria applied for choosing projects) for OP and SPD	– Community strategic guidelines adopted by the Council subject, if necessary, to mid-term review – National framework document adopted by the Commission – Operational programme for each of the three objectives and mono-fund (except ERDF and Cohesion fund in convergence objective) established at priority level including indication of the co-financing rate – No programme complement

[239] Integration of the Cohesion Fund in the mainstream programming and implementation of the “ N+2 rule”.

“ N+2 rule”	
If budget commitment has not been used for payment, de-commitment at the end of the second year following the year of commitment	Idem
Classification of ERDF major projects	
Whose total costs exceeds €50 million	€25 million in the case of the environment €50 million in other fields
Pre-financing and indexation	
– Single pre-financing amount of 7% when the Commission decision establishing the contribution from the funds to an operational programme is approved (3,5% for the Cohesion Fund) – Indexation 2%	– Idem (10,5% for the Cohesion Fund) – Idem
Contribution from the Funds	
– Objective 1: ceiling of 75% ceiling of 85% for the Cohesion Fund but possibility to go beyond – Objective 2: ceiling of 50% – INTERREG: 75 % in objective 1 countries/regions 50% in objective 2 and non classified regions/areas	– Convergence objective: idem No possibility to exceed the ceiling of 85% for the Cohesion Fund – Competitiveness objective: Idem – Cooperation objective: 75% in objective 1 countries/regions 50% in other regions; may rise to a maximum of 75% if some regions classified under the convergence objective belong to the cross border territory
Increase in contribution	
Facultative; may be used for example to promote gender equality (but possibility left to Member Sates ; no percentage of increase detailed in the regulation)	– +5%: Mountain areas, island Member States, sparsely populated areas, areas which were external borders of the Community on 30 April 2004 – +10% (convergence) +30% (competitiveness): Outermost regions – +10%: Interregional cooperation (convergence or competitiveness objectives)

Eligibility rules	
Community eligibility rules	National eligibility rules
Financial management	
Designation of a managing authority and of a payments authority	Designation of a managing authority, of a certifying authority, of an independent audit body, of a body for receiving the payments made by the Commission and of a body for making payments to the beneficiaries
Evaluation	
Ex-ante	
– To be organised under the responsibility of the Member State (for the preparation of the plan or draft of OP/SPD, the type of actions to be included, and the programme complement) – Included in the programmes and accompanied by an environmental profile of the region/area and an assessment of the situation on a gender perspective	– Idem (to be carried out for the national strategic reference framework and for each operational programme), under the convergence objective – Included in the programmes: shall identify the extent to which the Community's priorities have been taken into account – For competitiveness objective, possibility to cover all the OP, or each fund or each priority (thematic)
Intermediate	
– To be organised under the responsibility of the Member State in relation to a mid-term review of the programmes and the allocation of the performance reserve (to be done before 31/12/03)	To be carried out by Member States at the latest in 2010 to appraise the progress of programming (in relation to the commitments taken, to the integration of the Community strategic guideline and the national strategic reference framework) During the programming period, MS (or the Commission) carry out ad hoc evaluation linked to the monitoring of OP where the monitoring of programmes reveals a significant departure from the goals initially set and where proposals are made for the revision of OP
Ex post	
– To be organised under the responsibility of the Commission ; report on the use of the resources, on the effectiveness and the efficiency of the interventions and to draw up lessons for the future of the policy	– Idem ; to be done before 31/12/15, to cover all OP under each objective; Examine the extent to which resources were used, the effectiveness and efficiency of Fund programming, the socio-economic impact and the impact on the Community's priorities
Reserves	
National performance reserve at national level: 4% of the national appropriation (commitments); distribution at the latest by 31/12/03 on the basis of a reduced number of monitoring indicators reflecting	Community reserve for quality and performance: 3 % of the financial resources (to be allocated in 2011 by the Council):

effectiveness, management and financial execution and measuring the mid-term results with regards to the initial specific objectives	- For the Convergence objective, allocation according to the growth in the per capita gross domestic product at regional/NUTS II level, in relation to the Community average, and to the growth in the employment rate at NUTS II level - For the Competitiveness objective, allocation pro rata to those regions having spent, between 2007 and 2010, at least 50% of their ERDF allocation on innovation-related activities and according to the growth in employment rate at NUTS II level National contingency reserve: - For the Convergence objective: 1% - For the Competitiveness objective: 3% To cover unforeseen local or sectoral crises linked to economic and social restructuring or the consequences of trade opening; each Member State proposes specific operational programmes for the budgetary commitments covering the entire programming period
Reports	
– Cohesion report submitted every 3 years by the Commission to the other institutions on the progress made on economic and social cohesion – Annual and final reports on the implementation of each programme	– Idem; shall contain proposals concerning any adjustments linked to new Community policy in the strategic guidelines on cohesion. Cohesion report to replace the annual report for the year in which the Cohesion report is issued. – Idem – Annual report on each Member State on the progress made in implementing its strategy and on achieving its goals, taking particular account of the indicators set and the contribution of the results towards implementing the Community strategic guidelines on cohesion
– Annual report of the Commission on the implementation of the regulation (record of the activities of the funds, list of major projects, results of the interventions)	– Annual report of the Commission summarising the main developments, trends and challenges relating to the implementation of the Community strategic guidelines and the national reference frameworks; – To be sent to the Council together with the BEPG[240] implementation report, the joint report on employment and the internal market strategy implementation report

[240] Broad Economic Policy Guidelines.

ANNEX 5: THEMATIC INTERVENTIONS AND THEIR CONTRIBUTION TO THE LISBON AND GOTHENBURG OBJECTIVES FOR 2007-2013[241]

	Lisbon Strategy					Gothenburg Strategy					
	ICT	**R&D/ Innovation**	**SMEs**	**Human capital**	**Employment**	**Climate**	**Public health**	**Transport**	**Natural resources**	**Poverty**	**Age**
ERDF											
Article 4 - CONVERGENCE											
Research and technological development (R&D) / Information society	X	X	X								
Environment / Prevention of natural and technological risks						X			X		
Tourism			X		X				X		
Transports and energy						X		X	X		
Education and health				X			X			X	
Direct aid to investment in SMEs			X		X					X	
Article 5 – REGIONAL COMPETITIVENESS AND EMPLOYMENT											
Innovation and the knowledge economy		X	X			X			X		
Access to transport and telecommunication services	X		X			X		X		X	
Environment and prevention of risks						X	X		X		
Article 6 – EUROPEAN TERRITORIAL COOPERATION											
Development of cross-border economic and social activities	X	X	X	X	X	X		X	X	X	
Development of transnational cooperation	X	X	X			X	X	X	X		
Article 8 – URBAN DIMENSION											
Integrated and participative strategies/ Rehabilitation of physical environment/ Services to the population			X		X			X	X	X	
Article 9 – RURAL AREAS AND AREAS DEPENDANT ON FISHERIES											
Accessibility / telecommunication networks and services in rural areas / new economic activities / links between urban and rural areas / tourism	X		X		X			X	X		
Article 10 – AREAS WITH NATURAL HANDICAPS											
Accessibility / Cultural world heritage / Sustainable use of natural resources / Tourism.			X		X			X	X		
Article 11 – OUTERMOST REGIONS											
Goods transport / Support linked to storage constraints and the maintenance of production tools, and the lack of human capital on the local labour market				X				X			
COHESION FUND: ARTICLE 2 – SCOPE OF ASSISTANCE											
Trans-European transport networks			X		X			X			
Areas promoting sustainable development and presenting clear environmental benefits			X		X	X	X	X	X		
Priorities assigned to the Community environmental protection policy			X		X	X			X		

241 Proposals of the European Commission COM(2004) 495 (ERDF); COM(2004) 494 (Cohesion Fund).

ANNEX 6: NET CONTRIBUTIONS TO THE EU BUDGET AND TRADE RETURNS

Since the mid-90's, taking argument of the British example dated 1984, the member States tended to focus the debate on the EU budget on the level of their net contributions. This point of departure for the discussion is biased[242] as it targets on the budgetary transfers, without taking into account the overhaul growth impact of the integration to the single market. Especially, it is worthwhile comparing, on the one hand, the net balances of certain member States' budgetary contributions and, on the other hand, the trade balances with those countries considered as the main beneficiaries of the cohesion policy. The result of this comparison is enlightening: joining EU is a win-win deal for every country, including the net contributors[243].

Table 1: Contributions to the EU budget 2003

EUR Million	Expenditures	Resources	Balance	GDP 2003	% GDP
Germany	19 202,6	10 637,1	-8 565,5	2 137 436	**-0,40%**
France	15 153,7	13 428,5	- 1 725,2	1 574 153	**-0,11%**
Netherlands	4 919,5	1 996,2	-2 923,3	455 632	**-0,64%**
Sweden	2 501,3	1 454,4	-1 046,9	263 282	**-0,40%**

Source: European Commission, Budget, 2004

Table 2: German trade balances 2003

EUR Million	Exports	Imports	Balance Germany	% GDP Germany
Spain	16 517,8	32 364,0	15 846,2	0,74%
Portugal	4 923,8	6 343,9	1 420,1	0,07%
Greece	1 581,2	5 581,8	4 000,6	0,19%
Total	23 022,8	44 289,7	21 266,9	**0,99%**

Source: Federal Statistical Office of Germany, 2004

Table 3: French trade balances 2003

EUR Million	Exports	Imports	Balance France	% GDP France
Spain	24 400	32 500	8 100	0,51%
Portugal	3 500	4 300	800	0,05%
Greece	505	2 840	2 335	0,15%
Total	28 405	39 640	11 235	**0,71%**

Source: La France en faits et chiffres, 2005

[242] Le Cacheux, J., *Le poison des soldes nets* (to be published), Notre Europe, 2005 (http://www.notre-europe.asso.fr).

[243] Fernandez Martinez, P., 'La política de la cohesión en la UE. Consecuencias de la ampliación', *El Mundo*, 4/12/2004. pp. 28.

Table 4: Dutch trade balances 2003

EUR Million	Exports	Imports	Balance Netherlands	% GDP Netherlands
Spain	4 453,2	8 771,9	4 318,7	0,95%
Portugal	1 112,5	1 888,2	775,7	0,17%
Greece	334,6	2 071,4	1 736,8	0,38%
Total	5 900,2	12 731,4	6 831,1	**1,50%**

Source: Statistics Netherlands, Voorburg/Heerlen, 2004

Table 5: Swedish trade balances 2003

EUR Million	Exports	Imports	Balance Sweden	% GDP Sweden
Spain	1 154	2 717	1 563	0,59%
Portugal	301	478	177	0,07%
Greece	129	492	363	0,14%
Total	1 584	3 687	2 103	**0,80%**

Source: Eurostat, 2004