Renewing Cohesion Policy:

Recent Progress and Long-Term Challenges

EoRPA Paper 07/3

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This paper was for the 28th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside on 7-9 October 2007. It should not be quoted without permission.

October 2007

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Preface

This paper on the reform of EU Cohesion policy examine the renewal of Cohesion policy both in terms of the changes introduced for the 2007-13 programme period the longer term issues raised by the budget review. The paper was prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for the EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. EoRPA members currently comprise the following partners:

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Italy
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- Department of Business, Enterprise and Regulatory Reform, London
- The Scottish Government, Enterprise, Transport and Lifelong Learning Department, Glasgow

The research for this paper was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries during Spring/Summer 2007.

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Many thanks to everyone who participated in the research. The European Policies Research Centre also gratefully acknowledges the financial support provided by Sponsors of the EoRPA Consortium.

Disclaimer

It should be noted that the content and conclusions of this paper do not necessarily represent the views of individual members of the EoRPA Consortium.

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1. INTRODUCTION

Over the past year, the main focus of Cohesion policy has been on the finalisation, submission, negotiation and adoption of National Strategic Reference Frameworks and Operational Programmes. Virtually all of the documents have now been submitted, and all but one of the NSRFs have been approved. A relatively small proportion of the OPs have so far been adopted by the Commission, but the forecast is that most will have been signed off by the end of 2007, allowing funding to be committed across much of the EU from the start of 2008.

The process has not always been straightforward. Drawing up national frameworks was a new challenge for some Member States and required difficult consultation or negotiations, especially in countries with regionalised responsibilities for Structural Funds management. Negotiation with the Commission was regarded as positive by some countries, with a constructive dialogue at a strategic level; other Member States are more critical, taking the Commission services to task for their perceived over-emphasis on technical issues.

Preliminary analysis of the new programme documents suggests that there are substantial shifts in expenditure. The Community Strategic Guidelines appear to have had a powerful influence on the format and content of some, though not all, programmes. The most obvious impact is the importance accorded to innovation, knowledge and entrepreneurship in virtually all programmes. A clear strategic shift in Cohesion policy spending in 2007-13 across all Member States is the stronger focus on R&D and innovation, often seen to be at the heart of the Lisbon strategy. Two other core priorities are energy and environmental and risk prevention. Though less significant in absolute terms, there will also be a substantial boost in Cohesion policy expenditure on renewable energies, energy efficiency and environmentally friendly processes and firms.

Notwithstanding the fact that the 2007-13 programme period has hardly started, the attention of policymakers at EU and national levels is increasingly looking to the longer term. The launch of the 2008/09 budget review by the Commission President on 12 September was described as a unique opportunity to reassess fundamentally EU spending priorities and own resources. Cohesion policy is undergoing a review of its own, initiated by the publication of the 4th Cohesion Report in May 2007 with a consultation on policy objectives and management arrangements. The consultation began with the Fourth Cohesion Forum on 27-28 September.

The aim of this paper is to examine the renewal of Cohesion policy both in terms of the changes introduced for the 2007-13 programme period and the longer term issues raised by the budget review. Following this introduction, the paper is in three further main parts. Section 2 assesses the new planning framework for 2007-13, reviewing the experiences of preparing and negotiating the NSRFs and OPs and examining the shifts in spending. Section 3 looks beyond the current period, in the context of the policy reviews launched by the Commission, and Section 4 discusses three key questions: What are the lessons of previous experience with Cohesion policy? What should be the objectives of the policy and where should it intervene? And how should the future policy be managed? These issues are intended to be the focus of Session 5 at the EoRPA Meeting.

The paper is the latest in a series of EoRPA papers which have monitored and analysed the reform of Cohesion policy over the past five years. The research is based partly on fieldwork research conducted over the past year, and focusing particularly on EoRPA Member States. The paper also brings together material from previous EoRPA papers and other EPRC research conducted in recent years, particularly studies conducted under the auspices of the IQ-Net programme.

2. ASSESSING THE NEW PLANNING FRAMEWORK FOR 2007-13

The latter half of 2006 saw the drawing to a close of a long period of negotiation on the budgetary and regulatory framework for the 2007-2013 Cohesion policy. Following the EU Council agreement on the EU budget (December 2005) and the related Inter-Institutional Agreement (April 2006), the package of five regulations was approved in July 2006.[1] A series of six decisions confirmed for each Member State the eligibility of their regions and the total and annual financial allocations for 2007-2013 at the beginning of August 2006, while the final decision on the eligibility of regions and areas for funding from the ERDF under the cross-border and trans-national strands of the European territorial cooperation objective was adopted at the end of October 2006.[2] Also in October, the Council adopted the Community Strategic Guidelines providing the official starting point for the formal submission of the NSRFs and OPs.[3] Lastly, the implementing regulation was adopted by the Commission on 8 December 2006 setting out detailed implementation rules on a range of important issues.[4]

The core features of the new planning system proposed by the Commission for 2007-13 remained largely intact during the negotiations. At the apex of the new strategic approach lie the Community Strategic Guidelines, setting out a hierarchy of priorities, sub-priorities and actions for the targeting of Cohesion policy in line with goals of the Lisbon strategy. National Strategic Reference Frameworks are developed by the Member States containing a common nationwide strategy consistent with the Community Strategic Guidelines, which serve as a benchmark for the programming of funds through thematic and regional Operational Programmes. The Operational Programmes constitute the only management instrument (the CSF, SPD and Programme Complement have been discontinued) and have become more strategic and less detailed, specifying the activities of the Cohesion policy funds at priority level only.

[1] Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999; Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999; Regulation (EC) No 1082/2006 of the European Parliament and of the Council of 5 July 2006 on a European grouping of territorial cooperation (EGTC); Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999; Council Regulation (EC) No 1084/2006 of 11 July 2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94.

[2] Commission Decision of 31 October 2006 drawing up the list of regions and areas eligible for funding from the European Regional Development Fund under the cross-border and transnational strands of the European territorial cooperation objective for the period 2007 to 2013, 2006/770/EC, *Official Journal of the European Union* L 312/47, 11.11.2006

[3] Council Decision of 6 October 2006 on Community strategic guidelines on cohesion, 2006/702/EC, *Official Journal of the European Union* L 291/11, 21.10.2006

[4] Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund, *Official Journal of the European Union* L 371/49, 27.12.2006

With the strategic programming process almost finalised, the main aim of this section is to provide an assessment of Member State responses to the new planning framework.[5] It begins by reviewing the process of preparing and finalising the NSRF and OPs, including a review of national/regional experiences of informal and formal negotiation with the Commission. The section concludes with an assessment of the outcomes of the programming exercise, both in terms of shifts in the thematic allocation of funding as well as changes to management and implementation systems.

2.1 The preparation and finalisation of the NSRFs

The strategic planning for the 2007-2013 programming period can be traced back to the second half of 2004. The preparation and launch of the Mid-term Evaluation Updates for the 2000-2006 programmes included a specific component on recommendations for the future and was often used as a learning tool to engage in strategic reflection for programming in 2007-13.[6] A first exchange of views between the Commission and each Member State on their future national and regional development needs in relation to EU priorities took place in early 2005, in the context of bilateral meetings to discuss initial proposals for the Community Strategic Guidelines. The first round of formal bilateral meetings specifically dedicated to NSRF plans were held over the September-December 2005 period, although at this stage only a limited number of Member States had reached a relatively advanced stage in the planning process. The substantive content of the national frameworks was generally developed throughout 2006, allowing draft versions to be submitted to the Commission and providing the basis for more detailed informal exchanges and negotiations.

Internally, the development of the NSRFs often involved extensive processes of analysis, coordination and consultation across government departments and agencies at different territorial levels, as well as with interest groups. Several Member States (e.g. Austria, France, Italy, Sweden) took the opportunity provided by the NSRF to create or update their own national policies for regional development. The most prominent example is Italy where the NSRF is not limited to the Structural Funds but is a single reference point also for: national regional policies implemented through the so-called Framework programme Agreements (*Accordi di Programma Quadro*) and Institutional Understandings (*Intese Instituzionalli*); rural development policies; and other policies relevant to achieving the Lisbon and Gothenburg objectives.

[5] It draws on material from a number of EPRC reports: Gross T and Davies S (2007) *Programmes in Transition - Between Closure and Start. Review of Programme Developments: Winter-Summer 2007*, IQ-Net Review Paper, 20 (1), European Policies Research Centre, Glasgow. Bachtler J, Ferry M, Mendez C and McMaster I (2006) *The 2007-13 Operational Programmes: A Preliminary Assessment*, IQ-Net Thematic Paper, 19(2), European Policies Research Centre, University of Strathclyde, Glasgow. Bachtler J, Wishlade F and Mendez C (2006) New Budget, *New Regulations, New Strategies: The Reform of EU Cohesion Policy*, EoRPA paper 06/3 paper prepared for the 27th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside on 8-10 October 2006. Bachtler J and Wishlade F (2005) *From Building Blocks to Negotiating Boxes: The Reform of EU Cohesion Policy*, European Policy Research Papers, No 57, European Policies Research Centre, University of Strathclyde, Glasgow;

[6] Bachtler J, Mendez C, Gross T and Wishlade F (2005) *Planning for Programme Closure and Beyond: Review of Programme Developments: Spring – Autumn 2005*, IQ-Net Review Paper, 17(1), European Policies Research Centre, University of Strathclyde, Glasgow.

The organisational approaches for formulating the NSRFs varied across countries, reflecting different constitutional/institutional arrangements and previous patterns of Cohesion policy implementation. A predominantly 'top-down' approach was employed in the new Member States, most Cohesion countries, Denmark, Ireland, Luxembourg and the Netherlands. In these countries, central government authorities took the lead role in developing their NSRFs with varying levels of consultative input from sub-national authorities and other interests. At the other end of the spectrum, the process was essentially 'bottom-up' in federal countries such as Germany and Belgium, where the primary responsibility for drafting regional strategic frameworks was assigned to regional governments and the central government focussed on the overarching strategic framework and on finalising an overall document. In between these two approaches, other Member States adopted a 'mixed' or 'collaborative' process balancing national and regional inputs through joint working arrangements, as in Austria, Finland, Italy, Spain, Sweden and the UK.

Developing a national and more strategic approach to Cohesion policy has not been without difficulties for the Member States. Notwithstanding the somewhat simplified and stylised categorisation depicted above, the nature of the process was inherently complex, implicating a wide array of actors at different horizontal and vertical levels of governance and across various stages of strategy development, consultation, definition and negotiation. This implied significant organisational and logistical challenges in all Member States, particularly in those countries that have lacked an adequately coordinated and strategic approach to resources allocation under EU Cohesion policy in the past.[7] In the case of the EU12, the 2007-13 NSRFs (and the underlying domestic policy strategies) represented the first real experience in developing comprehensive, long-term, national strategies linked to EU objectives with substantial funding. The experience was also new in a large number of EU15 countries, notably those that have not been covered by a Community Support Framework for large parts of their national territory in the past.

National institutional contexts have also provided a challenge for the adoption of a unified approach to the formulation of an overall national strategy. This mainly concerned federal states (particularly Belgium and Germany) or regionalised political systems (as in Italy and the devolved administrations in the UK) where there was no pre-existing national policy framework for articulating regional development objectives and strategies into a coherent whole, given that the core competence for regional economic development policy lies at the sub-national level. The formulation of a common nationwide strategy was also complicated by the diverse socio-economic situations of the regions in some countries (e.g. Germany, Italy and Poland). In four Member States (Italy, Portugal, Spain and the UK) the typology of eligible regions under EU Cohesion policy includes all four possible categories defined in the regulation (Convergence, Phasing-Out, Phasing-in and Regional Competitiveness and Employment) adding to the complexity of the exercise, not least due

[7] Danuta Hübner (2005) *The strategic approach to EU Regional Policy*, Speech to Conference on 'Regional and Rural Development Programmes (2007-2013): Delivering the Lisbon and Gothenburg Agendas' organised by the UK Presidency, Newcastle, 7 November 2005

to the varying regulatory NSRF obligations across the different objectives.[8] Lastly, changes of national government over the last two years caused delays in some countries or even led to changes in priorities (Germany, Hungary, Italy, Sweden).

Despite the various challenges confronted, all Member States submitted their NSRFs before the regulatory deadline of March 2007,[9] eleven of which had already been formally received by the Commission before the end of 2006 (Austria, Latvia, Malta, Hungary, Denmark, Poland, United, Kingdom, Lithuania, Netherlands, France and Cyprus). The first NSRF to be decided was that of Malta on 20 December 2006. The vast majority of NSRFs were decided between March and July 2007, and only one Member State is still waiting for formal approval (Luxembourg) at the time of writing (September 2007).

The informal and formal negotiations between the Commission and national/regional authorities were intensive throughout the various stages of the programming process. Detailed comments were provided by the Commission on all aspects of the Member States' successive draft NSRFs, transmitted through letters, position papers, regular informal contacts and bilateral meetings. The Commission's observations tended to follow a standard structure, covering:[10]

- the preparation of the NSRF: respect for the partnership principle during the NSRF development process;
- the analysis of the socio-economic situation: adequate data coverage and consistency with the National Reform Programme;
- the strategy: clarity and coherence, consistency between analysis/SWOT and strategic objectives, hierarchy of clearly defined indicators;
- the OPs and financial tables: coherence of OPs with thematic/territorial strategies, limited use of multi-objective programmes, information on reserves;
- additionality: detailed information on the ex-ante verification of additonality;
- key elements of implementation: a description of management arrangements and details on coordination arrangements;
- and an overall assessment: summarising the major elements missing, outstanding issues and required clarifications.

In terms of the preparation of the NSRF, the Commission's principal concern was to ensure that the partnership principle was fully respected through the inclusion of information on

[8] The cases of Portugal and Spain are unique in the EU15 context because of the added challenge of integrating the Cohesion Fund into the programming of the NSRF. Although the whole national territory is eligible, the environmental and transport needs within both countries are diverse.

[9] The regulations state that after the adoption of the CSG, the Member States have five months to submit their NSRFs.

[10] European Commission (2006) *Programming Period 2007-2013: Aide-Mémoire for the Desk Officers*.

the responsibility and involvement of different partners. National authorities were often asked to provide indications of the outcomes of consultations, which some Member States consider to have been a rather 'hollow pretension' given the inherently complex and interactive nature of the strategy formulation process (e.g. Portugal)

The analysis of the socio-economic situation does not appear to have been a particularly contentious issue during the negotiations. The main requests are reported to have centred on the inclusion of additional statistical data (Finland, Belgium), for example, relating to gender breakdowns (Slovenia) or specific labour market groups (Austria).

Interview and documentary evidence suggests that the more substantive discussions on NSRF content concerned the strategy section. From the Commission's perspective the key issue was to ensure consistency between the diagnosis, SWOT, challenges and description of objectives. More specifically, requests were made for:

- improvements to the logic of the SWOT (France) or ensuring that it is more firmly grounded in the statistical analysis of global challenges (UK);
- further explanation or justification on the reasoning behind the choices of strategic actions (Greece);
- clarification of the overarching regional policy strategy for the whole country (Belgium, Germany, UK);
- clarification of the priorities, their link to the diagnosis section (Poland, France) and selection criteria (France); and
- provision of a clearer hierarchy of priorities linked to a more concrete definition of objectives and indicators (Belgium).

Other key discussion issues on the strategy concerned the clarity of the linkages between NSRF objectives and NRP measures (Finland, France, UK) and between the objectives of the NSRF and the Community Strategic Guidelines, as well as requests for further information on the quantification of objectives (Belgium, Portugal).

With respect to earmarking, the Commission asked various national authorities for information on how the OPs will ensure that they meet the targets. In the UK, there was a reluctance to offer a guarantee that each and every OP would meet the targets and the request was rejected. The national position was that this issue is for the individual OPs to address. For their part, the Italian authorities had initially resisted the inclusion of targets in the NSRF as it was not a formal obligation under the regulations. Elsewhere, justification was sought for the complementary categories proposed by the Member States (e.g. France).

On the issue of OPs and financial tables, discussions primarily concerned the coherence of programmes and the use of multi-objective/regional programmes.

- In France, negotiations on the setting-up of multi-regional programmes were viewed as challenging. The Commission required a sound diagnosis, a limited number of priorities and the proof of clear added value. This led to an agreement that four multi-regional OPs would go ahead, instead of the initially proposed five.

- In Germany, issues were raised concerning the linkages between OPs, both between the ESF and ERDF OPs as well as between the Land ESF OPs and the federal ESF OP. Clarifications were requested on the interventions financed under the OP(s) due to potential overlaps and duplication. This was viewed as a legitimate concern by the federal authorities, and also manageable in terms of its resolution.

- In the case of Poland, the Commission expressed concerns about the plan to have one large ESF programme for Human Capital. It would have preferred a split between a national programme dealing with macro-level institutional framework issues (30 percent of funds from ESF resources) and an inter-regional one supporting specific activities and groups and complementing the human resources development activities pursued under the ROPs (70 percent of ESF funds). However, the Polish authorities persisted with one OP (with a split between 40 percent national and 60 percent regionally implemented resources).

With respect to the financial tables, discussions centred mainly on the technical issue of bringing the agreed allocations on to a current price basis and aligning them with the Operational Programmes.

The issue of additionality was not reported as significant in most Member State discussions with the Commission. A methodological issue arose in Germany, where eligible domestic public spending in the new *Länder* is scheduled to fall in coming years. This has been noted as running counter to the additionality principle by the Commission. However, the position of the German authorities was that the decline in expenditure was based on long-run public spending plans irrespective of EU funding flows. In the end, the Commission accepted Germany's position. In the case of Poland, the Commission asked the national authorities to upgrade the minimum targets for additional public expenditure beyond the minimum requirement, justifying its position on the basis of forecast economic growth, increased public revenues and the need for greater public investment.

Lastly, under the key elements of implementation the main details requested were about coordination arrangements and the tasks of management and audit bodies. A common request was for further clarification on the demarcation between the ERDF and the rural development fund (Austria). As a consequence, the relevant section of the Austrian NSRF was extended, and it was agreed to include a separate table in each Operational Programme which distinguishes more clearly between the funds. In other cases, the focus was on ensuring greater clarity and consistency in the definition of the tasks of the different actors involved in management (Finland), implementation and control, including the intermediary bodies (Poland). More contentiously in Poland, Portugal and Spain, the Commission asked for guarantees that the Certifying Authority would be independent of the Managing Authorities.

The overall assessment of the NSRF negotiations by national authorities reveals mixed views. In some cases, the dialogue with the Commission is described as having been protracted and laborious. For instance, concerns in France have centred on the scale of the commentary and the level of additional detail requested, motivated by Commission reservations over the lack of strategic focus and perceived dispersion of funding in certain interventions. As a consequence, some interviewees consider that the exercise has lost its strategic character and that the flexibility of the final document has been reduced. Similarly, in Ireland it was noted with some regret that the Commission had pushed for a high level of specification in funded activities, thus diminishing the flexibility which the Irish authorities felt the document inevitably needs. Initial expectations were also frustrated in Belgium, where officials had originally believed that the Commission wanted a condensed document, but had to subsequently incorporate substantial amounts of additional information following the informal submission.

Other criticisms raised by various countries include: an overemphasis on technical issues rather than strategic themes; incoherent responses from desk officers, in the sense that some observations were not followed up; conflicting messages between desk officers and higher-level political agreements; and a lack of coherence on the Commission side regarding types of eligible expenditure.

In other cases, negotiation experiences with the Commission are reported to have been positive (although extensive) with constructive collaboration throughout (e.g. Germany, Greece, Spain). In the cases of Germany and, to a lesser extent, Spain this has been facilitated by the bottom-up nature of the approach to developing the NSRF, which has helped to ensure coherence between the NSRF and OPs. Interestingly, the federal authorities' views of the NSRF in Germany have become more positive over time. Initially, there were concerns that the NSRF would be overly bureaucratic and administratively heavy. However, they found the approach of the Commission to have been constructive and cooperative, largely due to the approach taken by individuals responsible in the Commission. It was also noted that the Commission has focused more strongly on strategic issues in the negotiations (notably, on the strategy and content of the OPs) compared to the approach adopted in 2000-06, when it tended to be more formal and legalistic.

With respect to the final outcomes of the negotiations, many national authorities consider that the Commission's comments were primarily of a technical nature and did not imply major substantive changes to the strategic content of the NSRF. For example, in Austria, the main comments related to information requests, clarifications and, especially, linguistic or technical modifications and additions. Similarly, in Finland, it was reported that the Commission mainly requested clarifications (e.g. on the value added provided by Structural Funds, the tasks of the various bodies in the management system, coordination between the different instruments, and the role of Lisbon strategy at the national level) which could be easily integrated. In Italy, it was remarked that "in the end Italy took its National Strategic Document home basically unchanged", although some observations were addressed regarding the rationale of the proposed framework. The Dutch authorities also commented that the text of the NSRF was not changed much during the process and that there was broad agreement with the Commission with respect to the content, although it took some time to iron out the technical requests. Similar comments were made by officials from Belgium, France and the UK.

2.2 The preparation and finalisation of the OPs

In parallel with the finalisation of the NSRFs, over 450 Operational Programmes (ERDF/Cohesion Fund and ESF) have been prepared by the Member States. The timing of the strategy development process has varied both across and within countries, although in most cases the programmes have been developed alongside the NSRF in an interactive manner throughout the 2005-2007 period. The majority of Member States formally submitted their OPs during the first quarter of 2007 to comply with the regulatory deadline. However, detailed informal discussions with the Commission had been held on an ongoing basis throughout the strategy development phase as well as in connection with the NSRF negotiations. To date, around a third of all OPs have been approved by the Commission, with only Denmark, Hungary, Netherlands, Malta and Sweden having had all their programmes approved.

The partnership arrangements for developing the programmes have been diverse and complex involving a multitude of partners at different levels and stages. With respect to the balance between national and regional governmental influence, three main organisational approaches were adopted. In the 'regionalised' model followed in some countries, regional governments have had a high degree of autonomous policy development capacity, largely reflecting the federal (Austria, Belgium, Germany), quasi-federal (Italy) or regionalised (Poland, Scotland and Wales in the UK) nature of the domestic institutional framework. A more common approach across the EU has been to provide for regional input into the formulation of OPs with central government assuming a coordinating role and thereby ensuring that an organised and structured approach is followed across the country. This approach was adopted in both centralised countries (e.g. Denmark, Finland, France, Greece, Portugal's mainland, English regions) and regionalised countries (Spain, Italy under the Convergence Objective). The 'top-down' model of OP development involved a far greater role for central government in both the general coordination and development of OPs, although this has not precluded some degree of sub-national involvement in the process (e.g. Greece, Denmark or the national OPs in Italy and Spain). The national role under the ESF has tended to be stronger, with some countries expecting greater centralisation of the process in the 2007-13 period (e.g. France).

In theory, the programming obligations have been simplified for 2007-13. As noted, the documents are more strategic and less detailed with only priority-level financial information required, while the Programme Complement has been eliminated. In practice, however, many national/regional authorities have programmed the funds at the level of measures or actions (e.g. Italy, Spain) as this degree of detail is considered to be vital for internal planning and management purposes and also to facilitate subsequent monitoring (particularly in the light of the categorisation of fields of intervention required for monitoring in the implementing regulation). In this sense, the workload has not been significantly different from the previous period in some EU15 countries. By contrast, in most of the EU10, the much higher levels of funding compared to 2004-2006 has significantly increased the pressure on programming authorities. Several new Member States have drawn up regional OPs for the first time, while the smaller EU10 countries have prepared a larger number of OPs than in the past, when only a Single Programming Document had to be adopted.

The shift to a more strategic approach and associated changes to priorities have also presented challenges for the formulation of OPs. For instance, the introduction of new interventions in some Italian OPs (the Interregional Programme for Cultural and Natural Attractors, and Tourism; the Interregional Programme for Renewable Energy and Energy Saving; and the Research and Competitiveness Convergence NOP) partly explains the delays in their finalisation. The new obligations regarding Strategic Environmental Assessment of Cohesion policy plans/programmes is also reported to have generated a significant amount of additional workload for programming authorities (e.g. Germany)

Another factor which has impeded the swift finalisation of OPs relates to the logistical complexity of designing national or thematic programmes involving several Ministries and targeting various regions. The coordination work needed between national ministries or between the national and regional levels of government/administration has been the source of delays in multi-regional programmes in both Italy and France. Setbacks in France were also caused by timing inconsistencies in the development of Cohesion policy programmes and the parallel domestic regional strategies (the State-region project contracts). In other cases, consultation exercises have been lengthy, as in England where the Commission issued a warning letter (in March 2007) due to concerns with the slowness of the process. The reason for the delay was that the consultation on the OPs could not start until national funding allocations had been agreed (as part of the NSRF submission), although the approval process is now considered to be on track. Lastly, some Member States reported substantial difficulties with the Commission's SFC2007 system and problems with entering information onto the database have caused delays.

As with the NSRFs, the negotiations on the OPs have been intensive with detailed informal discussions having taken place in all countries prior to formal submission. Final versions of the OPs were generally submitted before 6 March 2007, although the regulatory deadline was not respected in all cases. The Commission has responded with formal comments, interrupting the approval process if necessary until the programmes are amended and resubmitted. Negotiations are ongoing at the time of writing, and it is anticipated that the vast majority of OPs (some two thirds of the total) will be approved by the Commission over the October-December 2007 period.

Although a comprehensive picture is not yet available on the outcomes of the OP negotiations, the focus of the discussions appears to be primarily on the programmes' strategies and, especially, the descriptions and content of the priority axes. Given that the OPs no longer contain information at the measure level, it seems that the Commission has been keen to ensure that the priorities contain clear indications of the main types of interventions planned and on using this information to ensure sufficient *strategic concentration and focus.* In France, this was considered by the Commission to be a general weakness across the OPs, notably in relation to the R&D priority. The sectors targeted for the promotion of innovation were often not identified and there was perceived to be a risk of dispersion of funding. In the case of Finland, the Commission raised objections to the business aid schemes, which were perceived to be rather traditional in nature. It also suggested that aid should be restricted to SMEs of less than 50 employees, although the national authorities resisted, arguing that firms of less than 250 employees should remain eligible because the potential for competitive distortion was insignificant in the Finnish context.

In line with the increased priority attached to *territorial issues* in EU Cohesion policy, more targeted interventions are also being sought on the urban theme (notably in France, but also more generally across the EU). The Commission view is that expenditure should prioritise projects with a sufficient critical mass, a real partnership with territorial actors and an integrated approach encompassing economic, social and environmental dimensions. On the other hand, the 'non-Lisbon' nature of urban interventions is anticipated to be a source of friction in future negotiations on the Scottish ERDF OPs.

More closely associated with the *Lisbon agenda*, the Commission has asked for a clearer explanation of how OPs will encourage R&D activity and cooperation between businesses, public bodies and the research sector (e.g. Polish Innovative Economy OP and Portuguese Competitiveness Factors OP). In France, the Commission considered that the OPs lacked a clearly articulated strategy for innovation. This prompted the national authorities to launch a call to support the building of regional innovation strategies, developed together with territorial authorities, the business world and R&D representatives. It is anticipated that the overall process will be finalised by the start of 2008 in order to provide a basis for the development of regional innovation strategies within the first two years of the new programming period.

With respect to the environmental theme, Commission observations in Greece have mainly concerned the regional plans for waste management with requests for the inclusion of recycling interventions and a clearer indication of the contribution of the plans to the targets set for the programming period (e.g. Central Macedonia ERDF ROP).

The Commission has also been pushing for a rationalisation of the planned interventions and an increased focus on economic impact (e.g. Flanders). For the OP Development of Eastern Poland, for instance, the Commission has argued that it has to prove its added value, focusing on 'flagship projects' that are crucial to the economic development of the five regions involved. Similarly, the Commission advised against the inclusion of certain specific major projects in the Portuguese thematic OP for Territorial Development as they were not considered to have sufficiently high economic or social benefits.

The *structure of priorities* has been an important feature of the discussions in some programmes. For instance, the priorities of the Portuguese thematic OP for Territorial Development (ERDF/Cohesion Fund) were reorganised and increased by three to ten, upon Commission requests. The proposed two priority structure for the French Aquitaine ERDF OP was increased to four, while an additional priority on energy is being sought (but not yet agreed) in the Italian ERDF Veneto OP. A similar experience can be seen in the ERDF programme of Sachsen-Anhalt, where DG Regio requested that the Infrastructure Priority be divided into three separate priorities (business-oriented infrastructure, sustainable urban development and education infrastructure, and environmental protection and risk prevention) in order to increase the visibility of the interventions for urban development and the environment.

Conversely, a reduction of priorities has been sought in Poland. The Commission was concerned that new priority axes were added to the OP Environment and Infrastructure (on higher education infrastructure and regional competitiveness) that were not discussed with the Commission beforehand and that may duplicate investments in other OPs, notably the ROPs. The Commission proposed taking the regional competitiveness priority out of this OP and allocating the budget to environment and infrastructure investments in certain ROPs. It seems that a compromise has been reached whereby the Polish government will reserve a sum of €142.5 million within the OP Environment and Infrastructure for the regions of Łódzkie, Małopolskie, Wielkopolskie and Śląskie.[11]

A key concern for the Commission has been to ensure that all priorities contain a limited set of appropriate and *quantified targets and indicators*. Various programming authorities have been asked for improvements and clarifications to indicator systems, strategic targets (Flanders, Wallonia, Scotland, Sweden, Central Macedonia in Greece) and baseline indicators (Portugal). In this context, a criticism raised by national authorities in Finland is that the Commission has placed too much focus on indicators, which is felt to be more relevant for larger Convergence Objective programmes rather than the Regional Competitiveness and Employment Objective. Similar arguments have been put forward by authorities in Nordrhein-Westfalen (Germany) which had mainly included output indicators in the original ERDF OP. The Commission argued that more result and impact indicators should be included, and the *Land* authorities agreed to expand the range of result indicators but not impact indicators. Instead, the Managing Authority will undertake thematic evaluations which will examine more closely the impact of interventions

Discussions over *Lisbon earmarking* have not been problematic for many national/regional programming authorities, particularly where there was a clear orientation towards Lisbon in previous programmes. However, this has not always the case. As noted, the Commission was initially pushing for guarantees that the targets would be met at the level of individual OPs in the UK (which is not required under the regulations), notwithstanding an overall earmarking commitment well above the regulatory targets. In other cases, methodological issues have arisen regarding the calculation of earmarking and the application of categories of expenditure. For instance, in France, there was uncertainty over whether calculations would refer to EU funding or to total programme costs. In Nordrhein-Westfalen, the authorities had applied the intervention codes 69 to 74 (relating to access to employment, social inclusion, and human capital) of Annex IV to interventions in the ERDF funded OP. However, the Commission argued that these codes are relevant only to the ESF but not to the ERDF.

The current stage of the OP approval process inhibits an overall and comprehensive assessment of the formal negotiations with the Commission. What is clear is that the process was essentially a continuation of the informal and extensive discussions on the OPs and the NSRF preparations. In many cases, the close contact with the Commission services during the programme preparation process meant that no major surprises or difficulties were anticipated or reported. In part, this has been facilitated by the new regulatory

[11] 'Regiony dostaną miliony euro na osłodę' Gazeta Wyborcza 6/3/07

framework which prescribes less detail in the programmes and a higher degree of autonomy for national and regional programming authorities. On the other hand, it is clear from the above discussion that the Commission's observations have been extremely detailed and thorough, on occasion going beyond a strict reading of the regulatory requirements. And it is here where the main disputes or frustrations have occurred.

Member States have also criticised the demanding nature of the process. The scale of the negotiations is particularly acute in Poland, where it is anticipated that at least 2 formal meetings with the Commission will be held for each of the 23 programmes. Even more OPs are being negotiated in Italy (66), Spain (45) and Germany (36). Lastly, an anecdotal criticism of the decision-making process raised in at least one Member State is that there was a certain degree of "arbitrariness" between different desk officers covering different regions (e.g. Austria), although in other cases it was noted that the Commission's approach was consistent across the country (e.g. France).

Table 1: The state-of-play of the NSRFs and programmes

Status NSRF	Country	Date of receipt of NSRF by COM	Date of decision of NSRF	Number of Ops presented to the COM / Number of OPs expected		Number of OPs approved		Total allocation by State in €m million
				ERDF and CF	ESF	ERDF and CF	ESF	
Approved	Austria	31/10/2006	04/04/2007	9/9	2/2	8	1	1461
Approved	Belgium	07/02/2007	02/10/2007	4/4	6/6	0	0	2258
Approved	Bulgaria	16/01/2007	20/06/2007	5/5	2/2	1	0	6853
Approved	Cyprus	21/12/2006	07/05/2007	1/1	1/1	1	0	640
Approved	Czech Republic	05/03/2007	26/07/2007	14/14	3/3	0	0	26692
Approved	Denmark	29/11/2006	16/04/2007	1/1	1/1	1	1	613
Approved	Estonia	05/02/2007	13/08/2007	2/2	1/1	0	1	3456
Approved	Finland	02/02/2007	12/09/2007	5/5	2/2	4	0	1716
Approved	France	21/12/2006	04/06/2007	31/31	5/5	10	1	14319
Approved	Germany	23/01/2007	02/05/2007	18/18	18/18	12	7	26340
Approved	Greece	26/01/2007	28/03/2007	10/10	3/4	0	0	20420
Approved	Hungary	24/11/2006	07/05/2007	13/13	2/2	13	2	25307
Approved	Ireland	05/03/2007	27/07/2007	2/2	1/1	0	0	901
Approved	Italy	02/03/2007	13/07/2007	20/28	21/24	15	0	28812
Approved	Latvia	03/11/2006	20/09/2007	2/2	1/1	1	0	4620
Approved	Lithuania	12/12/2006	26/04/2007	2/2	2/2	2	1	6885
	Luxembourg	05/03/2007		1/1	1/1	0	0	65
Approved	Malta	21/11/2006	20/12/2006	1/1	1/1	1	1	855
Approved	Netherlands	18/12/2006	07/06/2007	4/4	1/1	4	1	1907
Approved	Poland	07/12/2006	07/05/2007	20/20	1/1	11	1	67284
Approved	Portugal	01/02/2007	28/06/2007	10/10	4/4	0	0	21511
Approved	Romania	31/01/2007	04/04/2007	5/5	2/2	5	0	19668
Approved	Slovak Republic	21/12/2007	17/08/2007	9/9	2/2	4	0	11588
Approved	Slovenia	16/02/2007	18/06/2007	2/2	1/1	2	0	4205
Approved	Spain	08/02/2007	07/05/2007	23/23	22/22	0	0	35517
	Sweden	05/02/2007	20/07/2007	8/8	1/1	8	1	1891
Approved	United Kingdom	11/12/2006	30/07/2007	11/16	6/6	4	2	10613
	EU Territorial Cooperation			59/70				
	IPA-CBC			4/12				
	IPA			**7/7**				
	Total			**314/335**	**116/117**	**120**	**20**	**347410**

Source: European Commission, DG Regional Policy
http://ec.europa.eu/regional_policy/newsroom/pdf/scoreboard110507.pdf (status: 4 Oct)

2.3 Main shifts in the thematic allocation of Structural Funds expenditure

Central to the new policy rationale underpinning Cohesion policy in 2007-13 is the emphasis on the Lisbon strategy, with future policy priorities more closely targeting the renewed growth and jobs agenda of the EU. The new planning framework aims to deliver this objective through a cascade of strategic documents, beginning with the Community Strategic Guidelines and followed through in the National Strategic Reference Frameworks and Operational Programmes.

2.3.1 Linking EU Cohesion policy to Lisbon

The Community Strategic Guidelines have had a powerful influence on the format and content of some, though not all, programmes. The most obvious impact of the Guidelines is the importance accorded to innovation, knowledge and entrepreneurship in virtually all programmes. Innovation is among the main themes for 2007-2013, particularly in the Regional Competitiveness programmes. There appears to be less consistency in the way that Member States are responding to the guidelines relating to increasing locations' attractiveness to private investment and employment. Several of the interventions under this heading were already an important feature of programmes in the past, notably measures to strengthen the economic environment through investment in infrastructure and environmental improvements. There is a greater focus on funding interventions such as logistics hubs and traffic management systems. Support is also planned to strengthen complementarities between environmental protection and economic growth. New types of policy instrument may also be employed, notably through the JEREMIE financial engineering initiative.

At the programming level, the strategic link between Cohesion policy and Lisbon has been operationalised through the identification of a list of Lisbon-related categories of expenditure under a series of 'priority themes' and the setting of targets to which Cohesion policy programmes must contribute ('earmarking'), 60 percent of expenditure under Convergence and 75 percent under the Regional Competitiveness and Employment Objective. The earmarking requirement is voluntary for the new Member States but they are being encouraged to achieve at least 50 percent wherever possible.

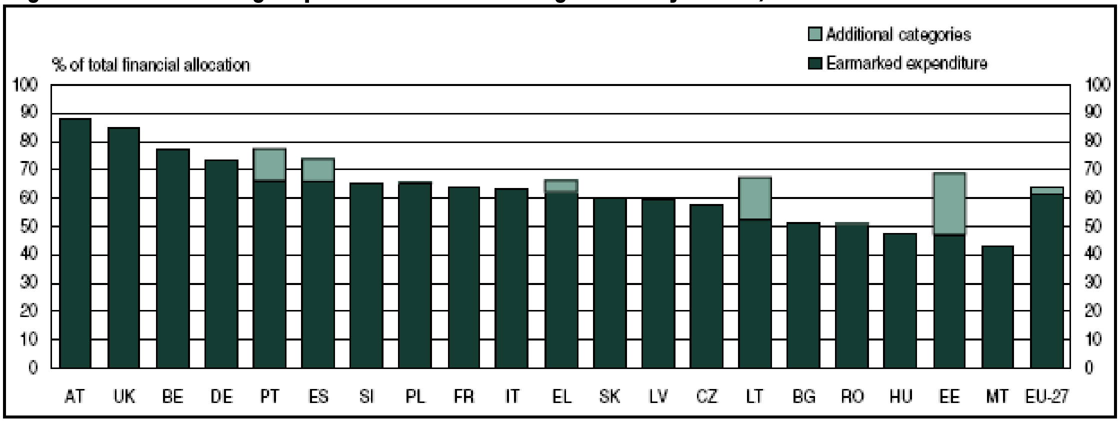
While earmarking has been criticised as being a rather "blunt" instrument in some quarters, from the Commission perspective the benefits are clear:[12] *"it has helped to steer the discussion between the Commission, Member States and regions and concentrate investments in key drivers of the knowledge economy and on long-term growth and job creation."* The Commission's estimates show that the average share of 2007-13 Cohesion policy resources that has been allocated to these investments at the EU level are 61.2 percent under the Convergence objective and 76.7 percent under the Regional Competitiveness and Employment Objective, marginally above the regulatory targets. In absolute terms, this represents a sum of €215 billion out of a total Cohesion policy budget

[12] *Cohesion policy: charting new territories*, Speech by Commissioner Danuta Hübner to the Fourth Cohesion Forum, Brussels, 27 September 2007

of €350 billion, or an increase of €75 billion compared to the 2000-2006 programming period.

The overall figures mask great variations in the planned shares of investment being earmarked for the Lisbon strategy across the Member States. Under the Convergence Objective, provisional estimates in the Fourth Cohesion Report suggest that the range is from around 90 percent (in Austria) to just over 40 percent (in Malta).[13] For those EU15 Member States with significant funding allocations under the Convergence Objective (Germany, Greece, Portugal and Spain), the share of earmarked expenditure is closer to 75 percent (including the complementary categories), although slightly less in the case of Greece. Interestingly, four EU12 Member States plan to exceeded or equal the Convergence Objective target of 60 percent (Slovenia, Poland, Slovakia, Poland), which they are not obliged to do so by the regulations. In the case of Poland, the overall target of 64 percent is split as follows: ERDF OP Innovation Economy (95 percent), ESF OP Human Capital (83 percent), ERDF/Cohesion Fund OP Infrastructure and Environment (67 percent), ERDF OP development of Eastern Poland (44 percent) and the 16 ERDF Regional OPs (42 percent).

Figure 1: Earmarking expenditure in Convergence Objective, 2007-13

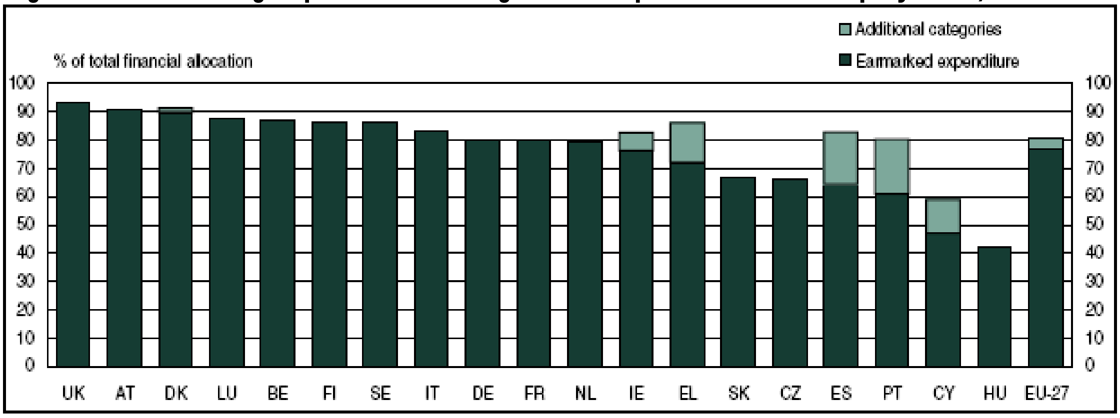


Source: Fourth Cohesion Report

With respect to the Regional Competitiveness and Employment Objective, the range of earmarked expenditure across Member States is similar, with the UK at one end of the scale (at over 90 percent) and Hungary at the other (just above 40 percent). The estimates show that the earmarking targets in every EU15 Member States exceed the 80 percent level. However, if the complementary categories added by Greece, Portugal and Spain are excluded from the calculations, the regulatory target of 75 percent would not be met in these countries, and indeed would be below (in Portugal and Spain) the respective targets of both the Czech Republic and Slovakia. It should be noted that the estimates do not necessarily reflect the final outcomes as the calculations are based on data available at the end of April 2007, and in certain cases very few OPs had been submitted at this stage.

[13] CEC (2007a), *Growing Regions, growing Europe, Fourth Report on Economic and Social Cohesion*, May 2007, Luxembourg: Office for Official Publications of the European Communities.

Figure 2: Earmarking expenditure in Regional Competitiveness & Employment, 2007-13



Source: Fourth Cohesion Report

A clear strategic shift in Cohesion policy spending in 2007-13 across all Member States is the stronger focus on R&D and innovation, often seen to be at the heart of the Lisbon strategy. The latest Commission estimates suggest that over €60 billion will be allocated to spending on R&D and innovation at the EU level, rising from a share of seven percent of the Cohesion policy budget in 2000-2006 to around 18 percent for 2007-2013.[14] This represents a doubling of R&D and innovation expenditure in the Convergence Objective and a five-fold increase under the Regional Competitiveness and Employment Objective. The shift is not only being driven by the EU15. A strong effort can be seen in the 12 new Member States too, where the share devoted to R&D and innovation has increased by more than 300 percent relative to the 2004-2006 period, although investments in basic infrastructure still remain paramount in these countries (around 40 percent of the total allocation).[15]

Two other core priorities under the Lisbon (or rather, Gothenburg) strategy are energy and environmental and risk prevention. Though less significant in absolute terms, there will also be a substantial boost in Cohesion policy expenditure on renewable energies, energy efficiency and environmentally friendly processes and firms, rising from one percent (in 2000-2006) to more than four percent in the Convergence Objective and over six percent in the Regional Competitiveness and Employment Objective (or from €2.5 billion to over €15 billion overall).

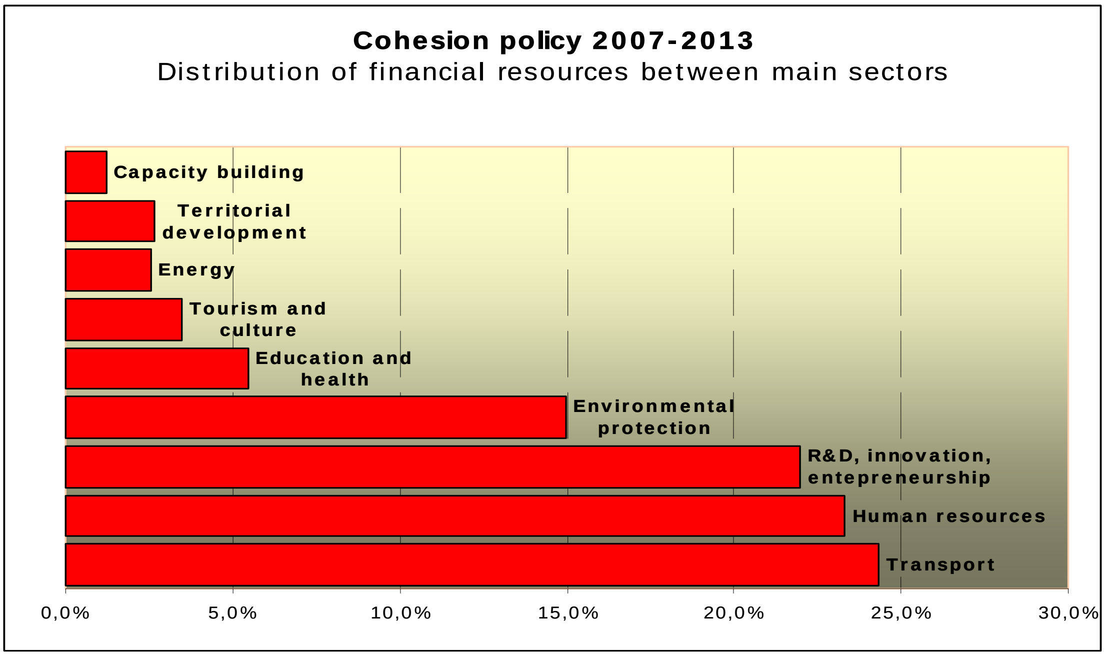
More traditional support for basic infrastructure will continue to be an important component of Cohesion policy expenditure, particularly in the new Member States. Commission estimates on the proposed allocation of funds between priorities (see Figure 3) indicate that the majority of support will be devoted to upgrading transport systems (approximately €80 billion), followed closely by support for developing the labour force and improving human capital (approximately €70 billion), the latter including particularly high levels of Lisbon-related expenditure. Other less financially significant investments include

[14] *Cohesion policy: charting new territories,* Speech by Commissioner Danuta Hübner to the Fourth Cohesion Forum - Brussels, 27 September 2007

[15] *European Regional policy: History, Achievements and Perspectives*, Speech by Commissioner Danuta Hübner to the Lunch Debate '50th Anniversary of the EU', Brussels, 17 September 2007

education and health (€16.5 billion), rural and urban regeneration (€8.0 billion) and reinforcement of administrative and institutional capacity (€3.7 billion).

Figure 3: Distribution of financial resources between sectors in 2007-2013, in percent



Source: European Commission Press Conference, 2 April 2007, '*Making it Happen: Delivering Cohesion Policy 2007-2013*', Brussels.

2.3.2 Overview of the Operational Programmes

As noted above, the preparation of the OPs is still ongoing. While a limited number of Member States have already had all of their OPs approved, in other countries the OPs are still being negotiated with the Commission. The content of the NSRFs and a preliminary overview of the Operational Programmes have been discussed in previous EoRPA reports on Cohesion policy[16] as well as several other EPRC reports under the aegis of the IQ-Net network.[17] Drawing on this material, the following section examines the main features and overall trends of spending in the new OPs for 2007-13. It divides the Member States into three broad groups, beginning with the new Member States, then discussing Germany, Greece, Italy, Portugal and Spain, and lastly the remaining EU15 countries. In each case, the discussion begins by summarising the main trends, followed by a series of national examples drawn from the EoRPA countries.

(i) New Member States (EU-12)

In the new Member States (EU-12), developmental challenges remain significant, so that a substantial amount of EU funding will be channelled through national programmes for infrastructure, environmental improvements, human resources and business support. As

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[16] Bachtler J, Wishlade F and Mendez C (2006) *op. cit*; Bachtler J and Wishlade F (2005) *op. cit*.

[17] Gross T and Davies S (2007) *op. cit*; Bachtler *et al* (2006) *op. cit*; Polverari *et al* (2005) *op. cit*.

elsewhere in the EU-25, however, expenditure on innovation, research and development and ICT is expected to increase significantly over the 2007-2013 programming period. Some of the EU-12 will be allocating significant funding to regional OPs for the first time, notably Poland, Hungary, the Czech Republic and Slovakia.

- **Poland:** For 2007-13, Poland has been allocated Structural Funds and Cohesion Funding amounting to €59.656 billion. These resources will be disbursed though five thematic OPs and 16 regional OPs. The majority of funds will be allocated to infrastructure development, in particular transport, energy, environmental protection and risk prevention. However, the total proportion of Structural Funds allocated for infrastructure would be slightly less than for 2004-2006 and the share for human resources and enterprise support is increasing. In terms of the ROPs, infrastructure, particularly the development of transport links, remains a significant area of investment. However, the range of policy fields encompassed by regional strategies is broadening. Business support measures and other interventions related to the Lisbon agenda (RTD, Innovation, Information Society) are gradually developing a stronger regional dimension, moving beyond support for micro-enterprises. Policy areas such as culture and tourism are also gaining more prominence.

(ii) Germany, Greece, Italy, Portugal and Spain

Germany, Greece, Italy, Portugal and Spain all receive substantial funding under both the Convergence and Regional Competitiveness & Employment objectives. All are affected by changes in eligibility of different regions for EU funding. The three Cohesion countries and Italy show an increase in funding for policy areas such as R&D, technology and innovation, although this focus was already strong in the past in Germany. Due to the continued need to address infrastructure deficits, significant amounts of funding will be allocated to transport and other physical infrastructure, as well as to environmental interventions. In the three Cohesion countries, there is evidence of greater involvement by regional authorities or a larger percentage of funding for regional (rather than national) programmes. However, in Germany (and to a lesser extent Italy), sub-national authorities already played a strong role in Structural Fund programmes in past programming periods.

- **Germany:** The use of Structural Funds in Germany in the new period has a regionalised strategic approach, reflecting the federal structure of the country and the mix of Convergence and Regional Competitiveness funding. There are separate goals for Convergence and Regional Competitiveness regions and Fund-specific sub-goals for each objective, while enabling each *Land* to take its own decisions on specific priorities and measures. In the new *Länder*, the Lisbon list has opened up possibilities for new types of eligible expenditure e.g. general spending on education infrastructure, childcare facilities etc. Several of the new *Länder* aim to use the opportunity to finance ICT and other equipment in vocational training centres, as well as equipment in R&D centres (e.g. Thueringen). More generally, the focus on Lisbon is also likely to reduce the percentage of funding allocated to interventions which do not strongly contribute to structural change, such as village renewal, which have received funding in the past.

- **Italy:** There will be a degree of rationalisation in the number of national OPs for the Convergence Objective, from the current seven to five: Security; Education; Competitiveness and Research; Networks and Mobility; and Governance and Systemic Actions. Related, the proportion of resources allocated to the national OPs relative to the regional OPs will be reduced. For the Convergence regions, two new, Inter-regional OPs will be introduced covering Territorial Attractiveness (culture, tourism and natural resources) and Renewable Energy. In this respect, it is of note that a significant share of ERDF funding has been reserved for energy efficiency and renewable energy sources (eight percent for Convergence and 12 percent for Regional Competitiveness and Employment regions). Generally speaking, there will be a strategic shift of the OPs towards the Lisbon goals which, for the RCE regions, will be consistent with the 'whole-region' coverage of programmes. For the RCE regions, a national OP cofinanced by ESF will also be introduced.

(iii) Other EU-15 Member States

In many other EU-15 Member States, Cohesion Policy funding is allocated mainly under the Regional Competitiveness & Employment Objectives. The OPs (as foreshadowed by the NSRFs) are characterized by several broad trends. First, the structure of some programmes is being rationalised, with fewer priorities. Second, there is a strong focus on Lisbon objectives and interventions. Third, and related, there is a closer alignment between Structural Funds programmes and domestic regional programmes, which have also become more focussed on growth and competitiveness.

- **Austria**: Under the STRAT.AT national framework, Structural Funds in the new period are to be focused on: innovation and the knowledge-based economy; locational attractiveness and competitiveness; qualification and adaptability; and territorial cooperation. The Lisbon orientation is high across all *Länder*, accounting for 90 percent of planned expenditure overall. In some cases, the new OPs have seen a considerable shift of emphasis towards the provision of funds for R&D and technology development. For example, the programme of Kärnten is composed of a single priority, entitled 'innovation and the knowledge-based economy'. As previously, the Funds will continue to be managed and implemented through ERDF and ESF regional OPs in each of the nine *Länder.*

- **Finland**: The country will continue to have five regional ERDF OPs at NUTS II level (as under the 2000-06 period) but with modifications to the boundaries of the Western, Northern and Southern programmes to bring the whole country into the programme areas. ESF will be delivered through a national OP with four regional chapters for mainland Finland and a separate ESF OP for the Åland Island. The four mainland ROPs (Eastern Finland, Southern Finland, Western Finland and Northern Finland) will include three similar priorities (Promotion of business activity; promotion of innovation and networking, and reinforcement of knowledge structures; and improving regional accessibility and attractiveness of business environment). An additional and new priority in both Southern and Western Finland (Development of major urban areas') will target the more challenging and problematic areas, while a further priority in Southern Finland will provide support for cross-cutting themes (e.g. cluster, innovation and learning environments, internal attractiveness and the development of innovative welfare services) with a as much as one quarter of the programme's financial allocation. Overall, more than 88 percent of funding will be earmarked for Lisbon-related expenditure.

- **France:** The majority of Structural Funds support is being delivered through 21 regional OPs under the RCE objective, the Nord-pas de Calais phasing-out programme, and four Convergence programmes for the overseas *départements*. In most cases, the regional OPs are based around 4-5 priorities – as set out in the French NSRF - with a strong Lisbon focus and innovation as the lead priority, as well as bringing environmental issues to the fore. For the French programmes as a whole, it has been estimated that innovation funding is rising from five to 38 percent of programme allocations from the 2000-06 to 2007-13 periods.

- **Netherlands:** The Structural Funds will be managed and implemented through four ERDF ROPs and one national ESF OP. The ROPs will target spending on three priorities (innovation, entrepreneurship and knowledge economy; attractive regions; attractive cities) closely mirroring the Community Strategic Guidelines. At least 50 percent of regional programme resources are to be devoted to innovation. At the core of the new programmes is the idea that they should focus on existing strengths and activities in order to both avoid unnecessary fragmentation and increase the effectiveness of the selected projects. The shift towards Lisbon is very substantial, with earmarked expenditure planned to increase to 80 percent (compared to less than 50 percent in the 2000-2006 Objective 2 programmes). A much closer alignmnent with domestic strategies (e.g. 'Peaks in the Delta', 'National Spatial Strategy', Major Cities Policy', 'Agenda for a Living Countryside') is also a key feature of the programming approach for the Structural Funds in 2007-2013.

- **Sweden:** The geography and management of Structural Funds in Sweden is changing in the 2007-13 period. The six regional OPs in the 2000-06 period will increase to eight regional ERDF-funded OPs and one national OP with eight 'regional plans' funded by ESF. This involves a change in programme boundaries – although not for the IQ-Net partner regions of Övre Norrland (formerly Norra Norrland) and only minimally so for Norra Mellansverige (formerly Norra) - and the inclusion of new areas within the programmes (most notably Stockholm, which will have an OP for the first time). Reflecting the reduced budgets in most programme area, the focus of intervention will be narrower and the already considerable emphasis on Lisbon interventions (73 percent) will increase (to more that 80 percent). The NSRF has a clear territorial strategy which is reflected in the ROPs through a specific priority targeting cities. Planned interventions include the strengthening of local development in isolated areas and cooperation and knowledge exchange between Swedish cities and those in other Member States. A greater alignment of Structural Funds interventions with the priorities of the domestic Regional Development Programmes underlies the design of the programmes.

- **United Kingdom:** As previously, the UK programmes are being prepared separately in England, Scotland, Wales and Northern Ireland. Although there are differences in the individual strategic priorities - based on eligibility, Fund and specific territorial objectives – the OPs have common themes, notably innovation and knowledge transfer, enterprise development, entrepreneurship, environmental sustainability, community regeneration and (in the case of ESF) employability. The Lisbon component of the programmes is amongst the highest in the EU (83.4 percent under Regional Competitiveness and Employment and 73 percent under Convergence). In the case of Scotland, the number of programmes has been reduced with the merger of three former Objective 2 programmes into a single Lowlands & Upland Scotland programme (LUPS) area with ERDF and ESF programmes. The ERDF LUPS Regional Competitiveness programme has three proposed priorities: a region-wide enterprise development priority; a mainly urban priority of community regeneration; and a rural development priority. The OPs are more closely focused on key domestic strategies (Smart Successful Scotland, Workforce/Employability Framework (social inclusion) and Regeneration Policy. In Wales, the structure of the OPs has been simplified, with fewer priorities to increase flexibility. There will be more focus on R&D (ERDF), skills and young people (ESF), and a new priority to improve the quality of public services has been introduced. The Convergence programme will see an increase in resources in areas such as R&D and innovation, entrepreneurship, ICT, employment and skills,

2.4 Main changes to management and implementation arrangements

There will be extensive reforms to the management and implementation arrangements for the 2007-2013 period in many Member States. These reforms are being mainly driven by changes to the level of EU funding, but also by changes to the regulatory framework and domestic considerations.[18]

One set of changes involves a greater regionalisation of management responsibilities, for instance through the introduction of regional OPs, regional Managing Authorities or the increased involvement of sub-national tiers in the implementation of priorities or measures. This applies particularly to the EU12 (e.g. Czech Republic, Hungary, Poland, Slovakia), driven by increases in funding, the experience accumulated in the current programming period, and processes of domestic administrative reform.

In Slovakia, self-governing regions at the NUTS III level have been involved in implementing some measures in the current Infrastructure OP. For 2007-2013, the government is transferring more responsibilities to the regions in the new Regional Development OP, as they gradually acquire programming experience and expertise. Several countries have introduced Regional Operational Programmes (ROPs) for the first time. In Poland, the planned shift from an Integrated Regional Operational Programme to 16 individual ROPs means that the role of the Managing Authority for these programmes is passing from the

[18] Bachtler *et al* (2006) *op.cit*; Ferry M, Gross F, Bachtler J and McMaster I (2007) *Turning strategies into projects: The implementation of 2007-13 Structural Funds programmes*, IQ-Net Thematic paper, 20(2), European Policies Research Centre, Glasgow

Ministry for Regional Development to regionally-elected Boards and their executive bodies. In addition, regional governments will play an important part in the regional dimension of the national OP Human Capital. Priorities 1-6 will be implemented centrally and allocated 40 percent of OP funds, while priorities 7-10 will be implemented by regional governments and allocated 60 percent of funds. It should be noted that concerns over variation in administrative capacity and expertise at sub-national level mean that central implementation structures will continue to play dominant roles.

There is also some evidence of regionalisation processes occurring in the EU15, notably in several countries which have had a relatively centralised approach to the management and implementation of the Structural Funds in the past (e.g. Finland, Denmark and Portugal). For instance, Finland and Demark will see more delegation of responsibilities to the regional level, although Managing Authority status will remain with the central government in both countries. In the Finnish case, the Regional Councils have been assigned further responsibilities in the preparation of Monitoring Committee meetings and the implementation of the Committee’s tasks, with the support of a secretariat within each NUTS II area. In addition, the Regional Management Committees have gained further responsibility in the process of resource allocation through annual Regional Cooperation Documents. The reforms largely reflect ongoing trends in the implementation of Cohesion policy as well as related changes to the role of sub-national actors in domestic regional policy (under the Regional Development Act of 2007). Similarly, a new Business Development Act (*Lov om erhvervsfremme*, L47 of 16 June 2005) in Denmark, combined with reforms to the domestic territorial governance model, have given the new regions responsibility for economic development through statutory agreements (Regional Growth Fora), raising the profile of this area of public policy significantly. Moreover, recent primary and secondary legislation has given the new fora a key role in the administration of the Structural Funds, thereby increasing the resources at their disposal and the scope for coordination between regional development activities sponsored by different tiers of government. Lastly, in Portugal, the evolving thematic orientation of programmes and the increasing recognition of the need for a more territorially-grounded approach have encouraged the regionalisation of business aid schemes, which are to be introduced in the ROPs for the first time.

A second trend in management changes involves the rationalisation of implementation structures at central or regional levels or some reorganisation of responsibilities between tiers. Rationalisation at the central level is taking place where the shortage of funding results in a reduced number of OPs and central or regional management and implementation bodies. However, the prospect of increased funding and expanding programmes is also necessitating greater coordination of ministries and departments. Rationalisation between regional and central levels is being driven by efforts to: align domestic and EU programmes; improve efficiency and flexibility in a context of reduced funding; and, improve coordination and harmonisation between different EU funds and programmes. Elsewhere, rationalisation involves a review of the range and/or functions of regional or sub-regional implementing bodies. This refers mainly to programmes under the Regional Competitiveness objective in a context of reduced funding and can involve a shift from ‘differentiated’ to ‘subsumed’ approaches.

More detail is also emerging on how Member States will approach the implementation process in the new period. Arrangements for project generation and selection are seeking to concentrate funding on larger 'key' projects or integrated groups of smaller projects that could strengthen strategic impact. In several Member States, this will involve aligning projects with existing, selective domestic schemes. This is creating new demands for policy-makers and implies a close relationship between projects and implementing bodies.

The changing levels of funding available and shifts in eligibility criteria have prompted some (re)consideration of co-financing arrangements. A greater use of co-financing systems is as an option to secure better value for money, allow limited funds to be targeted on strategic priorities using existing delivery mechanisms and increase alignment with domestic strategies. Some programmes have reviewed co-financing arrangements as part of an effort to draw in more funding from other sources, notably the private sector.

Partnership remains a fundamental principle for programmes. However, changes to levels of funding available, new Commission guidelines, the territorial coverage and thematic focus of programmes and domestic administrative reforms are altering partnership arrangements in the new programmes. Where funding is declining, programmes are seeking more efficient ways to manage partner contributions and streamline structures. Emerging challenges to partnership-working refer to coordination of different levels of public administration and to the incorporation of new partners from different sectors or territories.

Shifting levels of funds are having an impact on the anticipated range and number of beneficiaries. It may be unrealistic for some programmes to fund the range of organisations supported in the current period, prompting consideration of what support can be provided to organisations prevented from participating. Funding restrictions aside, the potential range of beneficiaries is being affected by: broadened territorial eligibility; the use of new instruments; the concentration on integrated, larger projects; and a strategic reorientation on 'stronger areas'. Some of these factors will require some rationalisation of the structure and number of beneficiaries.

3. LOOKING TO 2013 AND BEYOND

Although much of the focus over the past year has been on programming resources for the 2007-13 period, the attention of policymakers at EU and national levels is increasingly looking to the longer term. Less than 18 months after agreement was reached on the current Financial Framework, the debate on future EU financing is already resuming. The following section considers the budget review and the key questions for Cohesion policy.

3.1 Launching the budget and policy reviews

3.1.1 Budget review

The Inter-Institutional Agreement of April 2006 required the Commission to undertake *"a full, wide-ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/09…accompanied by an assessment of the application of the current IIA"*.[19] This review was launched by the Commission President José Manuel Barroso on 12 September 2007 with a consultation paper,[20] introduced with the statement: *"This budget review is unique, a once in a generation opportunity to make a reform of the budget and in the way we work".* The paper reviews the evolution of the budget, the issues and principles for EU spending and the system for generating own resources. It also poses several questions for the consultation (see Box 1).

Box 1: Budget review – consultation questions

- Has the EU budget proved sufficiently responsive to changing needs?
- How should the right balance be found between the need for stability and the need for flexibility within multi-annual financial frameworks?

- Do the new policy challenges set out here effectively summarise the key issues facing Europe in the coming decades?
- What criteria should be used to ensure that the principle of European added value is applied effectively?
- How should policy objectives be properly reflected in spending priorities? What changes are needed?
- Over what time horizon should reorientations be made?
  How could the effectiveness and efficiency of budget delivery be improved?
  Could the transparency and accountability of the budget be further enhanced?
- Could enhanced flexibility help to maximise the return on EU spending and political responsiveness of the EU budget?

- What principles should underpin the revenue side of the budget and how should these be translated in the own resources system?
- Is there any justification for maintaining correction or compensatory mechanisms?
- What should be the relationship between citizens, policy priorities, and the financing of the EU budget?

[19] Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management, *Official Journal of the European Union*, C139, 14.6.2006.

[20] CEC (2007c) *Reforming the Budget, Changing Europe: A Public Consultation Paper in View of the 2008/2009 Budget Review*, Communication from the Commission, Brussels, SEC(2007) 1188, 12.9.2007

The public consultation is due run until Spring 2008. It will include planned debates in the budgetary committees of the European Parliament and national parliaments and a political conference in association with the European Parliament involving an initial analysis of the results of the debate. Based on the consultation, the Commission aims to present a proposal for budget reform in late 2008 or early 2009 for discussion and endorsement by the EU institutions and providing a basis for the Commission's proposal, in 2010/11, for the next financial framework.

The launch of the consultation paper was used to stress several important points. First, it was described as a 'unique opportunity', separate from the Financial Framework negotiations on the post- 2013 period, and covering all policies (including agriculture) as well as the revenue side of the budget, including abatements/corrections. Second, the consultation was presented as being completely open; the terms 'no taboos', 'frank debate', 'fresh-thinking' and 'no pre-conditions' were frequently used. Third, the paper outlined several key principles for future policies, including subsidiarity, proportionality, efficiency and added value.

Notwithstanding these sentiments, it has been recognised that the scope and conduct of the budget review will be limited by several factors. Some Member States may be cautious about making proposals that go beyond general statements of principle or aspiration, in the absence of detailed figures that enable them to assess the likely impact of budgetary changes on their net balances. The Commission and Parliament are handicapped by the expiry of their mandate in the middle of the review and their unwillingness to make proposals that bind their successors.

More generally, while DG Budget envisages the budget review as being genuinely open, with the scope to make radical changes to the institutional and policy architecture, this view is not shared by the 'spending DGs' who are understandably keen to defend their policies, as are those Member States and interest groups who benefit from particular areas of spending. In the recent past, the EU budget has generally changed in incremental steps. The combination of institutional/policy inertia and the politically contentious nature of major change (with 27 Member States at the table) may make it difficult for a significant reorganisation of the budget on either the expenditure or income sides.

3.1.2 Reviews of the CAP and Cohesion policy

The budget review is complemented by preparatory action in the spending areas of the CAP and Cohesion policy. The CAP will be undergoing a 'health check' with a view to assessing whether rationalisation or reorganisation of some aspects is required for the period 2009-2013. The view of the Agriculture Commissioner is interesting here:[21]

[21] *The Future of the CAP and Rural Development,* Speech by Mariann Fischer Boel, Commissioner for Agriculture and Rural Development to the AGRO Baltic International Trade Fair, Kaunas, Lithuania, 14 September 2007.

> *"I can't emphasise enough that this is not going to be a fundamental reform. It's not about rethinking the essential principles of the reforms of 2003 and subsequent years. It's about ensuring that those principles are being worked out in practice in the context that we have now – as effectively, efficiently and simply as possible."*

Areas identified for review as part of the 'health check' are: the conditions for cross-compliance with other EU policies (environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition); simplification of the Common Market Organisations for agricultural products; abolition of milk quotas; ending of compulsory set-aside; decoupling of direct payments; and further modulation of funds from direct payments into the rural development budget.[22] The issue of funding has also been acknowledged at the outset: *"winning enough money for rural development is a huge political challenge for the future"*.[23]

With the publication of the 4th Cohesion Report, a review of Cohesion policy has also been launched.[24] As with previous reports, the latest Cohesion report provides an update on the situation and outlook with regard to economic, social and territorial cohesion, and an analysis of the impact of national and Community policies on cohesion in the Union. Along with the report, the Commission published a Communication highlighting the added value of Cohesion policy, the progress made towards convergence and cohesion in recent years, and the contribution of the reformed Cohesion policy to the delivery of the EU's new 'growth and jobs' strategy.[25] The Communication also highlighted some questions concerning the future challenges for Cohesion policy and the scope for reforming the policy and its management (**Error! Reference source not found.**).

3.1.3 Member State views[26]

As yet, it appears that the majority of Member States have not developed any firm positions on future financing of the EU. Internal discussion among government departments is certainly taking place, as well as statistical modelling of options, and informal consultations between Member States at official level. However, few governments are able or willing to make official public statements. The current approach can be explained in the following terms.

[22] Matthews A (2007) *CAP budget futures,* Paper to Workshop 'Challenges of the EU Budgetary Reform', Ljubljana, Slovenia, 7 May 2007.

[23] *Policy challenges of rural land management,* Speech by Mariann Fischer Boel, Commissioner for Agriculture and Rural Development to the Conference 'Future Policies for rural Europe 2013 beyond – delivering sustainable land management in a changing Europe', Brussels, 19 September 2007.

[24] CEC (2007a) *op. cit.*

[25] CEC (2007b) *Fourth Report on Economic and Social Cohesion*, Communication from the Commission, COM(2007) 273, Brussels, 30.5.2007

[26] Based on discussions with Member State officials during Summer 2007.

- *Wait-and-see.* Many countries were keen to see the Commission's proposals before reacting and would have been anticipating the budget review paper to present a clearer idea of Commission thinking or at least options. Some also intended to allow other Member States to take a lead in setting out their positions in order to provide points of reference for the domestic debate.

- *Scepticism about outcomes.* Several Member States were doubtful about what the budget review can be expected to achieve. It was noted that without reform of the EU's institutional arrangements and decision-making procedures, it will be difficult for the review to be meaningful and may be little more than a 'window-dressing exercise'. As noted above, the review is complicated by the inability of the present Commission and Parliament to take formal decisions, which may lead to the debate being conducted in rather generic or vague terms until the second half of 2009.

- *Development of policy ideas.* Of key interest to every Member State is what the budget review will mean for their net balances. However, some countries are also keen to use the budget review to improve the effectiveness of EU policies and are developing policy papers on specific policy areas to contribute to the debate at an early stage.

Insofar as there are any common views emerging, they are along the following lines.

- Most Member States are not in favour of radical changes to the current financial framework. Given the complexity of the framework and (with respect to Cohesion policy) the fact that resource allocation will only be properly underway in all Member States in 2008, there is seen to be little justification for significant change in 2009. Instead, the budget review should be used to lay the foundations for longer term financing of the EU.

- Notwithstanding the DG Budget view that the budget review is separate from the next financial perspective, most countries perceive the review as starting the debate (if not the negotiations) on funding in the post-2013 period.

- With respect to Cohesion policy, some of the main positions are similar to those in the 2004-06 debate while others are evolving.

    - Among the 'net payers', the emphasis on limiting Cohesion policy funding to the poorer countries/regions is likely to be repeated, although possibly expressed in different and more subtle terms.

    - Among the major recipients in the EU12, the intention is to ensure that Cohesion policy remains well-funded and is not restricted to a 'welfare policy' for the poor. However, some of the countries potentially losing significant eligibility for Convergence funding appear to be willing to consider other options for the future of the policy.

    - A similar view is evident among southern EU Member States, where significant funding outside the Convergence regions (or an 'all region' approach to Cohesion policy) is becoming a more important policy priority as the relativities in GDP per head change to their disadvantage (see below). In parallel, increasing potential funding under the Heading 1a (Competitiveness) is regarded as important.

- The position of some of the EU15 Member States which receive relatively small sums of Cohesion policy funding is that they are in favour of Cohesion policy and are open to proposals for its reform. However, their support will be influenced by whether policy proposals can really improve the contribution of Cohesion policy to Lisbon and can address efficiency concerns such as bureaucracy and inflexibility.

Box 2: Cohesion policy review – key questions

- What lessons can be drawn from the experience of preparing the 2007-2013 programmes? In this context and in the light of the analysis provided by this report, how far is cohesion policy adapted to the new challenges European regions will face in the coming years? For example:
    - How can the regions react to restructuring pressures from dynamic competitors in low and medium tech sectors?
    - Given wide differences in birth rates, death rates and migratory flows at regional level, what is the role of cohesion policy in responding to demographic change?
    - To what extent is climate change a challenge for cohesion policy?
- How can cohesion policy further develop an integrated and more flexible approach to development/growth and jobs in this new context?
    - How can cohesion policy better promote harmonious, balanced and sustainable development taking into account the diversity of EU territories, such as least favoured areas, islands, rural and coastal areas but also cities, declining industrial regions, other areas with particular geographic characteristics?
    - What are the impacts of the challenges identified in the report for key elements of social cohesion such as inclusion, integration and opportunity for all? Are further efforts needed to anticipate and counteract these impacts?
    - What are the key future skills that are essential for our citizens in facing new challenges?
    - What are the critical competencies that should be developed at the regional level to make regions globally competitive?
- Following the appraisal of the previous questions, what is the assessment of the policy management system for the period 2007-2013?
    - Given the need for efficient management of cohesion policy programmes, what is the optimum allocation of responsibility between the Community, national and regional levels within a multi-level governance system?
    - How can cohesion policy become more effective in supporting public policies in Member states and regions? What mechanisms of delivery could make the policy more performance-based and more user-friendly?
    - How can we further strengthen the relationship between cohesion policy and other national and Community policies to achieve more and better synergies and complementarities?
    - What are the new opportunities for co-operation between regions, both within and outside the EU?

4. ISSUES FOR THE REVIEW

The Fourth Cohesion Forum on 27-28 September 2007 provided a first opportunity for the above questions to be debated. Taking account of the views expressed at the Forum, as well as other research and policy positions, the following section considers three sets of issues relevant to the future of Cohesion policy:

- What are the lessons of previous experience with Cohesion policy?
- What should be the objectives of the policy and where should it intervene?
- How should the future policy be managed?

4.1 What are the lessons of previous experience with Cohesion policy?

One of the key issues for the budget review is to assess *"what offers the best added value and most effective results"*.[27] Specifically, it is stated that spending *"must be able to offer a return at European level which could not be matched by national or local spending"*.[28]A substantial amount of research has been conducted on Cohesion policy which provides some insight on these criteria.[29]

The basis for the Commission's justification – evident in the 4th Cohesion Report and the contributions of speakers at the Cohesion Forum – is that Cohesion policy has made a major contribution to convergence and European integration more generally. However, the existing evidence presents mixed results.

On the one side of the argument is the evaluation and modelling research commissioned by DG REGIO. The macro-economic models vary in their estimates of the impact of Cohesion policy, but all attribute significant Cohesion policy impacts on output and income in the less-developed countries and regions of the EU.

Projections of economic impact using DIO made at the start of the 1989-93 and 1994-99 periods estimated the effects of the Funds to be an increase in the GDP growth rate of between 0.5 and 1.0 percent per year in the four EU15 Cohesion countries,[30] and an

[27] Reforming the Budget, Changing Europe, *op.cit.*, p.2.

[28] *Ibid*, p.7.

[29] This section contains extracts and updated summaries of research conducted for the Ministry of Enterprise, Energy & Communications in Sweden, to be published as: Bachtler J, Mendez C, Wishlade F and Yuill D (2007) *The European Added Value of Cohesion Policy*, European Policy Research Papers, EPRC, University of Strathclyde, Glasgow.

[30] Beutel J (1993) *The Economic Impacts of the Community Support Frameworks for the Objective 1 Regions 1989-93*, Report to the European Commission (DG XVI), University of Constance; Beutel J (1995) *The Economic Impacts of the Community Support Frameworks for the Objective 1 Regions 1994-99*, Report to the European Commission (DG XVI), University of Constance.

increase in the GDP growth rate of between 0.03 and 0.4 percent in the 2000-06 period.[31] Similar results for the 1989-93 period were found by simulations using an optimal growth model, which concluded that Cohesion policy had a significant impact on the economic growth of Greece, Ireland Portugal and contributed greatly to their EU convergence.[32] The HERMIN econometric model, focusing on GDP levels rather than growth rates, projected the effects of structural interventions in the 1994-99 period as increasing GDP by 4-9 percent in Ireland, Spain and Portugal by the end of the decade, and by 1.8-6.1 percent in the 2000-06 period.[33] The Commission's own macro-economic model, QUEST, which made different assumptions, calculated the impacts on GDP to be lower: for 1994-99, an increase in GDP of 1-3 percent in the Cohesion countries by the end of the decade and, for the 2000-06 period, increases of 0.5-2.4 percent.[34]

For the 2007-13 period, HERMIN simulations showed relatively low impacts for the EU15 countries, with projected increases in GDP by 2020 ranging from 0.3 percent in Greece to 1.7 percent Portugal, while increases for the new Member states were in the range 1.4 percent (Latvia) to 4.4 percent (Czech Republic).[35] The QUEST model also predicted that Cohesion policy will assist convergence and increase the long-term productive potential of the EU as a whole.

Research at national level has identified some positive – but highly variable - economic impacts of Cohesion policy. In Spain, the Structural Funds in 1994-99 were found to have added about one percentage point per year to output growth and 0.4 percent per year in employment growth, but with wide regional variation.[36] In Italy, the annual average impact of 1994-99 support on growth was calculated as an additional 0.45-1.69 percent for six Objective 1 regions over the period 1994-2005, with a cumulative impact of 3.96-6.13

[31] Beutel J (2002) *The Economic Impact of Objective 1 Interventions for the period 2000-2006*, Report to the European Commission (DG REGIOI), University of Constance.

[32] Pereira A M (1997) Development Policies in the EU: An International Comparison, *Review of Development Economics*, 1(2), 219-235; Pereira A M and Gaspar V (1999) An Intertemporal Analysis of Development Policies in the EU – Developing Neoclassical Implications, Journal of Policy Modelling, 21(7), 799-822.

[33] CEC (1996) *First Cohesion Report,* Directorate-General for Regional Policies, Commission of the European Communities, Brussels. ESRI with GEFRA (2002) *An examination of the ex-post macroeconomic impacts of CSF 1994-99 on Objective 1 countries and regions*, Final Report, Economic and Social Research Institute, in association with Gesellschaft für Finanz- und Regionalanalysen, Dublin; ECOTEC (2003) *Ex-Post Evaluation Objective 1, 1994-1999,* Final Report to the European Commission (DG REGIO), ECOTEC Research & Consulting Ltd, Birmingham. CEC (2004) *A new partnership for cohesion – convergence, competitiveness, cooperation, Third report on economic and social cohesion*, Directorate-General for Regional Policies, Commission of the European Communities, Brussels.

[34] CEC (2007a) *op. cit.*

[35] Bradley J (2006) Evaluating the Impact of European Union Cohesion Policy in Less-Developed Countries and Regions, *Regional Studies* 40(2), 189-199.

[36] De la Fuente A (2003) The Effect of Structural Fund Spending on the Spanish Regions: An Assessment of the 1994-99 Objective 1 CSF, Working Paper of the Dirección General de Presupuestos, Ministeri de Hacienda. De la Fuente A (2002) Does cohesion policy work? Some general considerations and evidence from Spain, Paper to Conference on Income Convergence and Regional Policy, Bertelsmann Foundation, World Bank and Fundación CIDOB, October 2002.

percent.[37] For Greece, a simulation estimated that the 1989-93 CSF could increase national GDP by up to 1.3 percent per year during the programme, but with an increase of only 0.5 percent lasting beyond the end of the programme period.[38] A later study of the Greek CSF for 1994-99 predicted that total output in 2010 would be 9.5 percent higher than a baseline, with growth 0.26 percent per year higher than it would otherwise have been.[39] Lastly, a survey of studies of Ireland's economic performance concluded that Structural Funds equated to an annual average increase in the GDP growth rate by up to 0.5 percent.[40]

Turning to employment effects, the ex post evaluation for the 1994-99 period estimated that, overall, at least 798,000 gross jobs had been created in the Objective 1 regions.[41] Time-series analysis of employment change in Objective 1 regions over the period 1976-2002 suggested that the broad impact of Structural Funds could be some 1 million jobs by 2002.[42] Outside Objective 1, ex post evaluation of interventions in Objective 2 regions for the 1989-93 period estimated that 450,000-500,000 net additional jobs could be attributed to the Structural Funds programmes.[43] A similar ex post evaluation for the 1994-99 period[44] concluded that Objective 2 programmes created some 567,000 net jobs. The most recent Objective 2 employment data for the 2000-06 period are based on the mid-term evaluation updates, calculating gross job creation of 455,000 jobs associated with Structural Funds support in six Member States.[45]

Notwithstanding the positive effects attributed to Cohesion policy in the above studies, many of the conclusions were hedged with caveats concerning the assumptions made by the models and the data used. More substantively, research has questioned the contribution of Cohesion policy to convergence. Trenchant criticisms were contained in studies which found minimal effects of Cohesion policy on regional disparities or long-term growth rates and questioned the value of such policies.[46] Other research could not find evidence

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[37] Percoco M (2005) The impact of Structural Funds on the Italian Mezzogiorno, *Région et Développement*, 21, 142-153.

[38] Lolos S, Suwa-Eisenmann A, Zonzilos N and Bouruignon F (1995) Evaluating the CSF with an Extended Computable General Equilibrium Model: The Case of Greece (1988-1995), *Journal of Policy Modeling* 17(2), 177-197.

[39] Christodoulakis N M and Kalyvitis S C (1998) The Second (Delors' II Package) for Greece and its Impact on the Greek Economy, *Economics of Planning,* 31(1), 57-79.

[40] Barry F, Bradley J and A Hannan (2001) The Single Market, the Structural Funds and Ireland's Recent Economic Growth, *Journal of Common Market Studies*, 39(3), 537-52.

[41] ECOTEC (2003a) *Ex-Post Evaluation Objective 1, 1994-1999,* Final Report to the European Commission (DG REGIO), ECOTEC Research & Consulting Ltd, Birmingham.

[42] Martin R and Tyler P (2006) Evaluating the Impact of the Structural Funds on Objective 1 Regions: An Exploratory Discussion, *Regional Studies*, 40(2), 201-210.

[43] Ernst & Young (1997) *Ex-Post Evaluation of the 1989-1993 Objective 2 Programmes*, Evaluation and Documents Series No.4, Directorate-General for Regional Policies, Commission of the European Communities, Brussels.

[44] CSES (2003) *Ex Post Evaluation of 1994-99 Objective 2 Programmes*, Synthesis Report to DG Regional Policy, European Commission, Centre for Strategy & Evaluation Services.

[45] CEC (2007a) *op. cit.*

[46] Boldrin and Canova (2001) *op. cit.*

demonstrating that EU-funded regions were behaving differently from other regions with respect to income, unemployment and productivity (based on the period up to the mid-1990s).[47] An assessment of the impact of Structural Funds on the convergence process of 145 European regions over the 1989-99 period found a mixed picture of performance: the Funds made a limited contribution to growth with small spillover effects especially in peripheral regions.[48]

Three factors appear to be crucial in explaining the mixed picture of Cohesion policy. First, it has been argued that the focus on infrastructure has been excessive, particularly during the 1990s, with insufficient attention given to education and human capital[49]. Investment in transport may also have counteracted convergence given the potential double-edged impact of increased accessibility.[50]

Second, the use of Structural Funds support to attract economic activity and employment has sometimes been counterproductive. Investment in R&D intensive activities may have acted against the comparative advantage of less-development Member States with low endowments of skilled labour.[51]

Third, and perhaps most importantly, several studies have noted that the contribution of Cohesion policy to growth and convergence is conditional on a supportive institutional and policy environment. Institutional capacity has been found to be critical for the effective use of Structural Funds at both national and regional levels.[52] Further, the benefits of the

[47] Basile R, de Nardis S and Girardi A (2001) *Regional Inequalities and Cohesion Policies in the European Union*, Documenti de Lavoro, Istituto di Studi e Analsisi Economica (ISAE), Rome.

[48] Dall'erba S and Le Gallo J (2003) *Regional convergence and the impact of European Structural Funds over 1989-1999,* Discussion Paper, regional Economics Applications Laboratory, University of Illinois.

[49] Percoco M (2005) *op. cit.*; Bradley J (2007) Evaluating the Impact of European Union Cohesion Policy in Less-Developed Countries and Regions, *Regional Studies* 40(2), 189-199; Leonardi, 2006 *op. cit.* Rodríguez-Pose A and Fratesi U (2004) Between Development and Social Policies; The Impact of European Structural Funds in Objective 1 Regions, *Regional Studies*, 38(1), 97-113. Basile *et al* (2001) *op. cit.*

[50] Puga D (2002) European regional policies in the light of recent location theories, *Journal of Economic Geography,* 2, 373-406. ECORYS (2006) *Strategic Evaluation on Transport Investment Priorities under Structural and Cohesion Funds for the Programming period 2007-13,* Synthesis Report to the European Commission (DG REGIO), ECORYS Nederland NV in cooperation with Spiekermann & Wegener and national partners.

[51] Midelfart K and Overman H (2002) Delocation and European integration: is structural spending justified? *Economic Policy* 17(35) 321-259. Bondonio D and Greenbaum R (2006) Do Business Incentives Promote Employment in Declining Areas? Evidence from EU Objective 2 Regions, *European Urban and Regional Studies*, 13(3), 225-244. Lains P (2006) *Growth in the Cohesion Countries: The Irish Tortoise and the Portuguese Hare, 1979-2002*, Working Papers in Economics, Área Cientifica de Economica, E/no 37/2006, Universidade de Aveiro.

[52] Bailey D and De Propris L (2002) The 1988 reform of the European Structural Funds: entitlement or empowerment? *Journal of European Public Policy* 9(3), 408-428. Ederveen S, Gorter J, De Mooij R and Nahuis R (2002) *Funds and Games: The Economics of European Cohesion Policy,* Occasional Paper No.3. European Network of European Policy Institutes. Cappelen A, Castellacci F, Fagerberg J and Verspagen B (2003) *The Impact of EU Regional Support on Growth and Convergence in the European Union,* Journal of Common Market Studies, 41(4), 621-44. Milio S (2007) Can administrative capacity explain differences in regional performance? Evidence from Structural funds Implementation in Southern Italy, *Regional Studies* 41(14), 429-442.

Structural Funds alone are likely to be marginal in the absence of openness (and responsiveness) to trade and investment opportunities, financial stability and supportive national-level macro-economic policies.[53]

Going beyond the economic impacts, the Commission has often argued that the impact of Cohesion policy cannot be limited to its influence on GDP and employment alone, and that there is a wider ‘added value’ of the policy associated with the way it is designed and implemented.

Added value is a disputed concept; definitions and interpretations vary greatly, but it is possible to identify several broad categories of effects associated with Cohesion policy.[54] First, a primary source of added value relates to the effect of EU funding in leveraging additional resources for economic development. According to Commission data, for every euro contributed through EU Cohesion policy an extra €0.9 was generated on average in Objective 1 regions in the 2000-06 period, rising to €3 in Objective 2 regions.[55] There is evidence that the Funds have safeguarded or increased the level of domestic regional development spending, in particular at the local level.[56] The availability of EU investment encouraged ‘financial pooling’ by mobilising resources from other funding partners.[57] The evidence from some evaluation studies is that the additionality of funding was high at project level, and that, in some regions, the Funds acted as a catalyst for regeneration.[58]

Second, added value is said to have been derived from the multi-annual planning process, which encouraged participants to adopt a ‘strategic’ approach to regional development leading to the introduction of new ideas and approaches, better project selection and greater coherence of co-financed projects.[59] Examples have been cited of the lessons of EU strategic programming being transferred into domestic policies.[60] Through Commission influence, the Funds have also played a role in shifting national policy interventions away

[53] Bradley J, Morgenroth E and Untiedt G (2004) Macro-regional evaluation of the Structural Funds using the HERMIN modelling framework, http://www.gov.si/umar/conference/2004/papers/Gerhard.pdf Bradley J (2007) Evaluating the Impact of European Union Cohesion Policy in Less-Developed Countries and Regions, *Regional Studies* 40(2), 189-199.

[54] Bachtler J and Taylor S (2003) *The Added Value of the Structural Funds: A Regional Perspective*, IQ-Net Special Report, European Policies Research Centre, University of Strathclyde, Glasgow.

[55] CEC (2007a) *op. cit.*

[56] Bachtler and Taylor (2003) *op. cit.*

[57] OIR (2007) *The Leverage Effects of European Cohesion Policy under the Structural Funds*, Final Report to the Committee of the Regions Unit for Policy Analysis, Studies & Inter-institutional Legislative Planning, Österreichisches Institut für Raumplanung, Vienna.

[58] CSES (2003) *op. cit.* ECOTEC (2003b) *Evaluation of the added value and costs of the European Structural Funds in the UK*, Report to the DTI and ODPM, ECOTEC Research & Consulting Ltd, p ii.

[59] Bachtler and Taylor (2003) *op. cit.* OIR (2007) *op. cit.*

[60] Mairate A (2006) The ‘added value’ of European Union Cohesion policy, *Regional Studies* 40(2): pp. 167-177.

from the traditional focus on infrastructure and business aid and instead emphasise human resources, innovation, community development and the horizontal themes.[61]

Third, one of the most frequently cited areas of added value associated with the Structural Funds is partnership. Evaluation studies generally conclude that this fundamental principle of Structural Funds programming has 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 commonly perceived benefits of partnership are new forms of governance, stronger involvement of local actors, collaborative working and co-operation on economic development initiatives, improved decision-making in the management of economic development interventions (e.g. project selection) and opportunities for exchange of experience.[62]

A fourth aspect of added value concerns the monitoring and evaluation obligations of the Funds which, the Commission argues, have improved the efficiency of programme implementation and led to more transparency and better policymaking.[63] The embedding of these practices in the regulatory frameworks is seen as not only fulfilling transparency and accountability needs but also supplying management information to guide the strategic steering and effective management of programmes.[64] Again, these procedures were found to be influencing national policies, raising the profile, culture and practice of evaluation in some Member States.[65]

Lastly, there are wider implications for European integration associated with the Funds. The Commission considers that Cohesion policy has made a contribution to the aims pursued by other Community policies; it has 'cemented' the Internal Market and is a factor in the stability of monetary union.[66] Policies for territorial cooperation contribute to the integration of border regions and enhanced cooperation among regions and urban areas across Europe.[67] There is also an important 'learning effect': the Funds provide a

[61] Bachtler J and Méndez C (2007) Who Governs EU Cohesion Policy? Deconstructing the Reforms of the Structural Funds? *Journal of Common Market Studies*, September.

[62] Bachtler J and Turok I (1997) *The Coherence of EU Regional Policy: Contrasting Perspectives on the Structural Funds*, Jessica Kingsley Publishers, London. Tavistock Institute (1997) *Thematic evaluation of the partnership principle*, Report to DGXVI, European Commission, Tavistock Institute, London. OIR *et al* (2003) *The Efficiency of Implementation Structures of Structural Funds*, Final Report to the European Commission (DG REGIO) Österreichisches Institut für Raumplanung, Vienna. Roberts P (2003) Partnerships, programmes and the promotion of regional development: an evaluation of the operation of the Structural Funds regional programmes, *Progress in Planning*, 59(1), 1-69.OIR (2007) *op. cit.*

[63] CEC (2002) *op. cit.*

[64] Bachtler and Taylor (2003) *op. cit.*

[65] Bachtler J (2001) Quod erat demonstrandum? The Evaluation of Regional Policy, in H-F Eckey, D Hecht, M Junkernheinrich, H Karl, N Werbeck and R Wink (Eds.) *Ordnungspolitik als konstruktive Antwort auf wirtschaftspolitische Herausforderungen – Festschrift zum 65. Geburtstag von Paul Klemmer,* Lucius & Lucius Verlag, Stuttgart, pp. 3-20; Bachtler J and Wren C (2006) The Evaluation of EU Cohesion Policy: Research Questions and Policy Challenges, in *Regional Studies* 40(2), Special Issue: The Evaluation of EU Cohesion Policy, 143-153.

[66] CEC (2002) *op. cit.*

[67] CEC (2004) *op. cit*. OIR (2007) *op. cit.*

framework for exchange of experience, mutual learning and lesson-drawing on regional development practices across countries and regions.[68] It has been suggested that an important intangible effect of the Structural Funds was to 'give a profile to Europe', making the EU more visible to citizens, communities, businesses and public authorities. Research on the impact of EU spending on public opinion showed that the Structural Funds have a very high level of awareness and public recognition and are regarded positively by the public.[69]

There are also counter arguments to the areas of added value cited above. Research on implementation methods under the Structural Funds has highlighted the complexity and administrative cost of programming, financial management and control, and auditing.[70] The application of the decommitment rule (N+2) was seen as inhibiting innovation and reducing project quality. While the overall value of monitoring and evaluation may have been recognised, *"there is general agreement that it is over demanding and that the benefits that accrue relative to the costs are not sufficient to justify the effort required"*.[71]

Contrasting assessments of added value in Objective 1 and Objective 2 regions suggested that the benefits were more prevalent in the latter regions. Whereas the ex post evaluation of Objective 2 for the 1994-99 period[72] found considerable evidence of 'Community added value' (in areas such as strategic coherence, integrated development, management capability, innovation), the counterpart evaluation for Objective 1 was less positive.[73] Findings included: programmes implemented with a lack of strategic coherence, supporting too many different activities with no overarching development concept; little evidence of new policy thinking; a focus at management level on absorption, with insufficient focus on strategic policy issues; and deficiencies in project appraisal and selection systems.

Research in the UK – covering both Objective 1 and 2 regions - also questioned several of the added value effects of the Funds.[74] While acknowledging new policy approaches in some domains, there was found to be no evidence of a consistent influence of Cohesion policy on domestic policies. EU-funded projects were not substantially different from domestically-funded ones in terms of their quality, and the impact on partnership was limited compared to domestic programmes (and largely historic). Further, the evidence on the levering-in of additional resources was inconclusive, while the administrative processes were often regarded as burdensome.

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[68] Bachtler and Taylor (2003) *op. cit.*

[69] European Parliament (2003) *An Assessment of the Impact of EU Spending*, Working Paper, DG for Research, European Parliament, BUDG 113 EN.

[70] OIR *et al* (2003) *op. cit.*

[71] *Ibid.* p.139.

[72] CSES (2003) *Ex Post Evaluation of 1994-1999 Objective 2 Programmes*, Synthesis Report to the Directorate-General for Regional Policies (Commission of the European Communities), Centre for Strategy & Evaluation Services, Sevenoaks, UK.

[73] ECOTEC (2003) *Ex-Post Evaluation Objective 1, 1994-1999,* Final Report to the European Commission (DG REGIO), ECOTEC Research & Consulting Ltd, Birmingham.

[74] ECOTEC (2003b) *op. cit.* EKOS Consulting (2004) *The Impact and Added Value of EU Structural Funds in Yorkshire and the Humber*, Report to Yorkshire Forward, Leeds.

With respect to the relevance of this research for the Cohesion policy debate, it is important to note that many of the studies on both impact and added value are based on data and information from the 1990s. Academic research and ex post evaluation on the period since 2000 are still quite limited. Although DG Regio has launched its largest ever evaluation exercise, results will not be available until 2009, and it is unclear to what extent the issues regarding the investment mix, strategic coherence of programmes and institutional capacity have been addressed in the 2000-06 period or in the plans for the 2007-13 period.

With regard to the investment mix, Commission data indicate there was a significant shift in total public spending (excluding Structural Funds) in the Objective 1 countries between the 1994-99 and 2000-04 periods.[75] This involved a shift in resources away from basic infrastructure towards human resources, attributed to increasing emphasis being placed on workforce skills and increasing the participation rate. However, this was not replicated in the use of Structural Funds between these periods. While EU-funded programmes in 2000-04 spent considerably less on human resources, expenditure on human resources also declined with a major increase in funding for productive investment (attributed to the easier financial absorption of productive investment). Spending on transport and environmental infrastructure again dominated with c.one-third of Cohesion policy expenditure in Objective 1 regions, and about a quarter of expenditure for the whole of the EU. Expenditure on some Lisbon objectives was relatively small-scale, e.g. RTDI (5.2 percent of total spending) or entrepreneurship (6.5 percent).[76] Evidence from the mid-term evaluations and updates also suggest that spending was not always used to best effect, for example an over-emphasis on supple-side RTDI interventions and 'indiscriminate' support for SMEs and entrepreneurship with insufficient targeting and cost-benefit analysis.[77]

In the 2007-13 period by contrast, there appears to have been a major shift towards Lisbon interventions. As noted in Section 2.3 above, according to preliminary EU data, the proportion of programmes spending on RTDI, entrepreneurship and the information society appears to have doubled for the EU as a whole, and tripled in the EU12. These data are based on planned programme allocations, which can differ substantially from outturns, but they do appear to indicate that the earmarking requirement is having some effect. According to Commissioner Danuta Hübner, over €215 billion will be allocated to earmarked categories of investment, an increase of €75 billion compared with the previous period.[78] Attempts are also being made to link Cohesion policy more closely with the R&D Framework

[75] DG Regio (2006) *Verification of additionality in the Objective 1 regions for 2000-2006,* Report to the Evaluation Network, DG Regio, Commission of the European Communities, Brussels, October 2006.

[76] CEC (2007a) *op. cit.*

[77] DG Regio (2004a) *The Mid Term evaluation in Objective 1 and 2 Regions: Growing Evaluation capacity,* Final report to the Evaluation Network, DG Regio, European Commission, November 2004. DG Regio (2007) *Mapping progress: key findings from the updates of the mid-term evaluations, European Cohesion Policy 2000-2006*, Working Document, DG Regio, European Commission, February 2007.

[78] *Cohesion policy: charting new territories,* Speech by Commissioner Danuta Hübner to the Fourth Cohesion Forum, Brussels, 27 September 2007.

Programme, and the launch of the JASPERS, JESSICA and JEREMIE instruments are intended to encourage Member States to look at different types of funding instruments.

4.2 What should be the objectives of the policy and where should it intervene?

The EU's objective of economic and social cohesion has hitherto been interpreted as the reduction of socio-economic disparities between the regions of the EU, in particular between the poorest regions and the EU average. This objective has been promoted on the grounds of solidarity and equity, in particular to compensate for the uneven distribution of costs of European integration and to allocate resources for a 'fairer' distribution of the benefits.

The approach is reflected in the use of economic and labour market indicators to determine the eligibility of regions for support and the allocation of funding to eligible regions. In particular, the use of GDP per head as a measure of regional development to determine Objective 1/Convergence status (and the application of a threshold of 75 percent of the EU average) has had almost totemic status since 1988. Through successive reforms, the indicator has been the key mechanism for dispersing at least two-thirds of Structural Funds resources to the poorer regions. Similarly GNP/GNI per head has been the main indicator for determining eligibility for the Cohesion Fund, with a threshold of 90 percent.

This approach is also evident in the assessments of the effectiveness of policy. A key feature of successive Cohesion reports is analysis of the evolution of national and regional disparities and the contribution of Cohesion policy to convergence.

(i) Adapting the existing approach

Looking to the future, one option would be to retain the focus of Cohesion policy on convergence and utilizing the same indicators for determining eligibility for funding. However, the existing approach is likely to come under pressure in any future reform for several reasons related to the changing maps of eligibility.[79]

One factor is the natural growth of regions. Figures in the 4th Cohesion Report[80] indicate that two new Member States – Czech Republic and Slovenia - have now reached or exceeded a GDP per head of 75 percent of the EU average.[81] Moreover, the Report notes that since 2000, growth has been highest in countries with the lowest levels of GDP(PPS) per head. At the regional level rates of growth over the period 1995 to 2004 have varied widely. Depending on whether these trends continue, there are potentially significant implications for Convergence regions eligibility: there are a number of regions within 5-10 percentage points of the Convergence eligibility threshold, with growth rates significantly higher than the EU27 average (Nyugat-Dunantúl, Kentriki Makedonia, Extremadura, Stredny

[79] Bachtler *et al* (2007) *op. cit.*

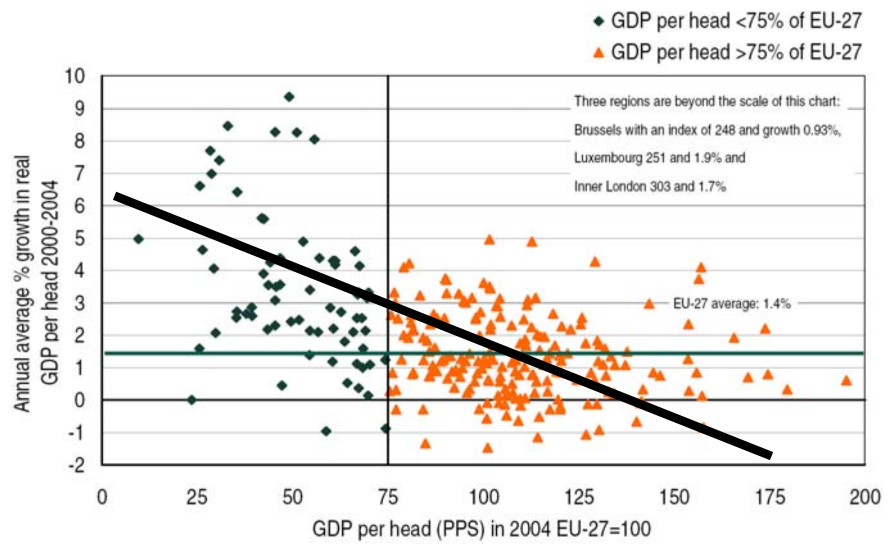
[80] CEC (2007a) *op. cit*. p. 8

[81] Cyprus had already done so at the time of the 3rd Cohesion Report.

Cechy); conversely, there are regions above the Convergence threshold[82] where recent growth rates have been well below the EU average (Basilicata, Mecklenburg-Vorpommern, West Wales & the Valleys).

The cluster of regions immediately above or below the 75 percent threshold (see Figure 4) raises broader questions about the continuing validity of such an important cut-off point. When the threshold was first applied, there was a significant gap between the richer and poorer regions, and a cut-off of 75 percent of the EU average provided a politically useful and valid determinant of eligibility. Now, however, relatively small changes in growth rates for one or two years in either direction can lead to regions becoming eligible or ineligible, with major consequences for funding receipts. As the experience with the Highlands & Islands shows, the differences are within the margin of error for the calculation of GDP per head.

Figure 4: GDP per head and annual average growth rates for EU27 regions



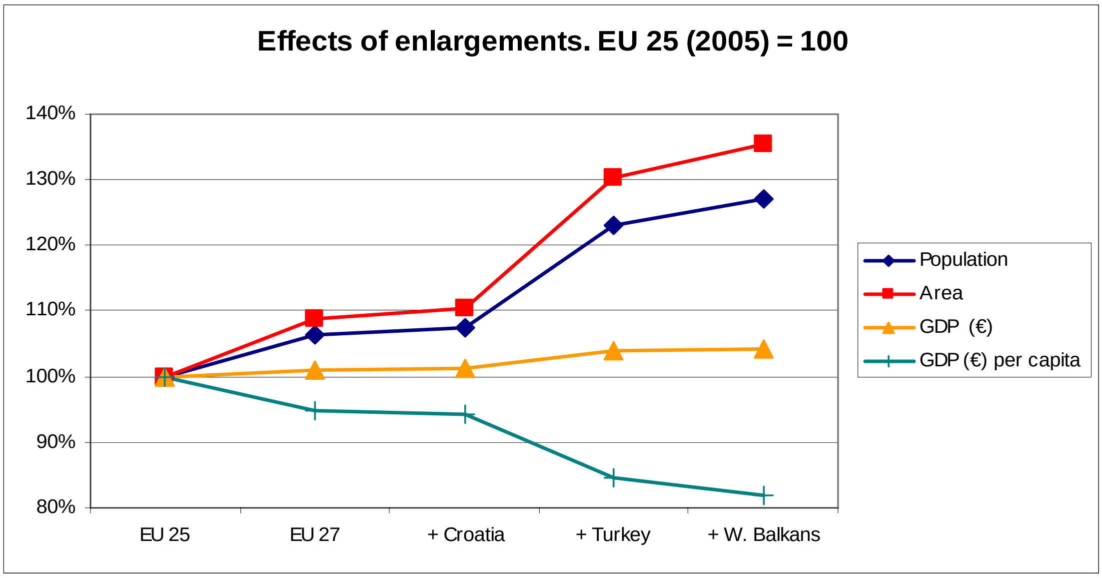
A second factor is enlargement.[83] Although the impact of potential new entrants on GDP per head would be significant, particularly in the case of Turkey (see Figure 5), their likely accession dates suggest that the budgetary impact on Cohesion policy over the 2014-2020 period may be limited to the possible accession of Croatia.

[82] Based on EU27 data for 2002-04, rather EU25 data for 20002, which was used for the actual designation for 2007-13.

[83] European Parliament, Policy Department Structural and Cohesion Policies, *Future Enlargements and Cohesion Policy*, Directorate General Internal Policies of the Union, IP/B/REGI/NT/2006_08, November 2006. Untiedt G and Mitze T (2006) *Die Auswirkungen der zukünftigen Erweiterung auf die EU-Regionalpolitik*, GEFRA, Münster.

On the other hand, the accession of Bulgaria and Romania will anyway have a marked impact on Cohesion policy eligibility, assuming current criteria are retained. An EPRC analysis of future eligibility, using data for 2004, already shows some significant shifts compared with the 2000-02 average which was used as the basis for the 2007-13 designation (see Table 2).[84] Based on 2004 data, the number of eligible Convergence regions in the EU25 would fall from 70 to just 56. Moreover, all but two of the regions losing designated Convergence status would be in the EU15[85] – all seven in Germany, three in Spain and two in the United Kingdom. Convergence coverage within the EU15 would be reduced to just 21 regions out of 213 – eight regions in Greece, four regions each in Portugal, Italy and France (all in the overseas territories) and just one in Spain.

Figure 5: Effects of enlargement on EU population, area, GDP and GDP per head



Source: European Parliament, Policy Department Structural and Cohesion Policies, *Future Enlargements and Cohesion Policy*, Directorate General Internal Policies of the Union, IP/B/REGI/NT/2006_08, November 2006

While total Convergence, Phasing-out and Phasing-in coverage remains much the same at the level of the EU27, the composition of the three categories changes markedly, with significant shifts from fully eligible to transitional status. For example, there are major reductions in Convergence coverage in Germany and Spain; an increase in Convergence and Phasing-in coverage in Greece; an end to 100 percent Convergence coverage in Poland (the capital city region becomes Phasing-out; and Slovenia shifts from being fully Convergence to fully Phasing-out.

Looking longer term, the picture is more unpredictable. The key criterion for Convergence status (GDP(PPS) per head below 75 percent of the EU average) depends on two core variables: regional GDP and regional population. Two further, interrelated variables also

[84] The figures need to be treated with considerable caution. They are based on data for one year only, and the Greek and Italian data show some volatility.

[85] The two EU10 regions are Slovenia and the Warsaw region (Mazowieckie) of Poland.

play a role: changes in purchasing power standards (PPS); and the performance of other regions, since the basis for eligibility is the EU27 average. The combination of the above factors suggests that the direct interest of EU15 countries (and some EU12 Member States) in the Convergence Objective may be much reduced in the next policy period. Indeed, Convergence eligibility in the EU15 may potentially be limited to just Portugal and Greece (and perhaps Italy, if modest growth trends persist), while transitional provision (Phasing-out, but principally Phasing-in) would be important to countries like Germany, Greece and Spain.

The Cohesion Fund is an important component of Cohesion policy, especially for the new Member States. Recent trends in GNI do not currently suggest major shifts in eligibility from that applying for the 2007-13, even using EU27 rather than EU25 as the reference point.

Even on the basis of Commission forecasts to 2008[86] eligibility would remain as at present, with only Greece, Cyprus and Slovenia approaching the threshold.[87] Nevertheless, a key consideration is whether the 'new' Member States would continue to receive one-third of Cohesion policy receipts through the Cohesion Fund, or whether the allocation mechanism would be applied in the same way to all eligible Member States. In practice, for the new Member States, it was the application of the 'one-third' rule together with capping which determined Convergence region receipts, rather than the Berlin formula.

Assuming that convergence remains the primary objective of Cohesion policy, a modification of the current system for Structural Funds allocations would be to retain the overall approach, objectives and financial allocation methodology but adapt the eligibility criteria to avoid some of the disadvantages outlined above. Given the pressures on eligibility, it is likely that variants on the Berlin method would be put forward to ensure that Cohesion policy continues to be of interest to at least some of the EU15 as well as the EU12. Two options for the allocation of Structural Funds would be:

- to raise the Convergence eligibility threshold to 85 or 90 percent of EU GDP per capita, thereby significantly increasing the eligible population for Convergence funding;

- to create a new 'Convergence-Plus' or 'Transition' Objective for those regions in the range 75-85 percent or 75-90 percent of EU GDP per capita, thereby creating a second level of eligibility for mainstream funding.

[86] DG Economic and Fiancial Affairs, AMECO database.

[87] As would be expected, Spain, which currently benefits from transitional arrangements, is significantly over the threshold.

Table 2: Impact of 2004 GDP data and EU27 basis on eligibility

	EU27 basis, using 2004 GDP data			Designation 2007-13		
	Convergence	**Phasing-out**	**Phasing-in**	**Convergence**	**Phasing-out**	**Phasing-in**
EU27 Pop (m)	**123330.2**	**40366.2**	**27473.5**	**153798.8**	**16594.5**	**19534.2**
EU27 Pop (%)	**25.2**	**8.2**	**5.6**	**31.4**	**3.4**	**4.0**
EU27 no of regions	**70**	**24**	**20**	**84**	**16**	**13**
Belgium		12.3			12.3	
Bulgaria	100.0			100.0		
Czech rep	88.6			88.6		
Germany		13.4	5.0	12.3	6.1	
Estonia	100.0			100.0		
Ireland			26.7			26.7
Greece	49.0	7.4	43.6	36.5	55.7	7.8
Spain	2.5	31.5	23.4	31.0	5.8	20.6
France	2.9			2.9		
Italy	29.0	6.6	0.0	29.0	1.0	2.8
Cyprus			100.0			100.0
Latvia	100.0			100.0		
Lithuania	100.0			100.0		
Hungary	71.9		28.1	71.9		28.1
Malta	100.0			100.0		
Austria			3.4		3.4	
Poland	86.5	13.5	0.0	100.0		
Portugal	67.6	3.9	2.3	67.6	3.9	2.3
Romania	100.0			100.0		
Slovenia		100.0		100.0		
Slovakia	88.8			88.8		
Finland			12.8			12.8
UK		4.0	4.4	4.0	0.6	4.4

Source: EPRC calculations from Eurostat data.

This approach could be justified on the basis that, in an EU27, many of the regions in the range of 75-90 percent of EU GDP per capita still face considerable development challenges and need continued EU support to maintain their progress towards converging with the rest of the EU. In addition, those new Member State regions falling into this category could argue that they had only been recipients of substantial Cohesion policy funding for a single programming period by comparison with their EU15 counterparts which have benefited from EU support for much longer.

In the negotiations on Cohesion policy for the 2007-13 period, several net payer countries – Netherlands, Sweden, UK and (at one stage) Germany – advocated major changes to the approach to Cohesion policy – and, in particular, that it should focus on poor countries and/or regions. However, this was opposed by the new Member States and major EU15 recipients, notably Greece, Italy, Portugal and Spain. The projected trends in eligibility could lead to new alliances or groupings in the Council with an interest in different approaches to (and levels of spending on) Cohesion policy.

(ii) Developing a new 'territorial' approach

A different approach is that heralded by the 4th Cohesion Report which identified a set of 'new challenges' for Cohesion policy: the global pressure to restructure and modernize, climate change, increase energy prices, and emerging demographic imbalances and social tensions. The Commission argues that *"some of these challenges are particularly relevant to Cohesion policy since they have an uneven territorial impact on Europe's territory and may widen social and economic disparities"*[88]. National policies are said to face increasing difficulties in keeping up with the rapid pace of change imposed by these trends, providing a justification for EU action in these areas.

These proposals reflect the shift in Commission thinking about the role of Cohesion policy in recent years. One aspect is the view that Cohesion policy can provide a territorial dimension to other EU policies. This was evident in the 3rd Cohesion Report, where the Commission presented its proposals for the 2007-13 period, linking Cohesion policy closely to the relaunched EU 'growth and jobs' strategy: [89]

> *"growth and cohesion are mutually supportive…..cohesion policy in all its dimensions must be seen as an integral part of the Lisbon strategy….[it] needs to incorporate the Lisbon and Gothenburg objectives and to become a key vehicle for their realization via the national and regional development programmes".*

The Commission justified the continuation of sizeable funding for Cohesion policy, and, in particular, funding outside the poorer regions on the basis of the need to respond to globalization. In the subsequent reform, Cohesion policy support was provided – for the first time – across the whole of the EU with a strong thematic focus on the 'Lisbon objectives'

[88] CEC (2007a) *op. cit.* p.12

[89] CEC (2004) *op. cit.* p.xxvi

(innovation, knowledge economy, entrepreneurship etc) through the Community Strategic Guidelines and earmarking requirement.

As noted earlier in this report, this change in approach has contributed to a significant shift in the orientation of Structural Funds spending (at least in strategic frameworks and programming documents) with more emphasis given to areas such as RTDI and the information society. At the Cohesion Forum, this was framed as a paradigm shift in the use of Cohesion policy:[90]

> *"that stresses opportunities for the future, by mobilizing underexploited potential, rather than compensating for problems of the past. In short, it is a dynamic process of empowerment helping overall European economic growth and competitiveness."*

The Commissioner went on to argue that Cohesion policy should move away from its concern with traditional macro-economic variables such as income per head to take a more qualitative approach to sustainable growth which covers the whole of the EU. Cohesion policy, it was said:[91]

> *"should be a policy that encourages the long-term economic development of each [emphasis added] European region. A policy which targets structural factors of competitiveness including environmental and social sustainability. Finally, a policy which facilitates anticipation and adaptation of regional economies to changing market conditions by promoting innovation and knowledge".*

These proposals also have to be seen in the context of the debate about territorial cohesion and the development of a 'territorial agenda' for EU Cohesion policy. Over the past decade, there has been a 'strategic turn' in academic and policy thinking which has sought to move regional policy beyond its primary concern with regional economic development to broader concepts of territorial development. These concepts encompass a more dynamic approach to the interrelationships between places and territories, and integrate a range of economic, social and environmental objectives. This is reflected in the proposed extension of EU Cohesion policy objectives in the Reform Treaty to include 'territorial cohesion' and the references to balanced development and polycentrism in earlier versions of the Community Strategic Guidelines. It has also been the subject of extensive conceptual analysis and debate as part of the ESDP and ESPON programmes and the territorial agenda debate under recent Presidencies.

In this context, Cohesion policy has been regarded as facilitating policy integration at regional or local levels, by coordinating interventions across policy boundaries to address

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[90] *Conclusions*, Speech by Commissioner Danuta Hübner to the Fourth Cohesion Forum, Brussels, 28 September 2007

[91] *Ibid.*

problems at different spatial scales. At the Cohesion Forum, the Commissioner argued that:[92]

> *" we need to move away from a territorial piecemeal approach and focus on an integrated development policy for well-defined economic regions linking different types of territories. In other words we must ensure the consistency between actions to promote competitiveness and actions to promote territorial cohesion. This requires a tailor-made development strategy matching the individual needs and the potential of a given territory".*

The implications of these shifts in policy thinking about the role of Cohesion policy are potentially far reaching. At one level, they could be seen as an attempt to safeguard the future of Cohesion policy by justifying a rationale and continuance of policy intervention outside the poorer countries and regions. However, the policy proposals could also be seen as fundamentally changing the scope and governance of Cohesion policy to make it a more flexible instrument in support of restructuring and adaptation at various territorial scales in response to external challenges.

While the Cohesion Forum showed some support for the Commissioner's thinking, there was also opposition to some aspects of the above debate. With respect to the future of Cohesion policy, a UK government minister restated British scepticism about the value of the policy, stating that the reform should be guided by three principles: the EU should act only where there are clear collective benefits; where action is justified, it should be proportionate; and spending needs to be transparent and accountable.[93]

A German government representative supported a concentration model of Cohesion policy,[94] with *"three parameters of essential importance for the future of Cohesion policy:"* focusing policy in the most needy regions; orienting the substance of structural policy to the promotion of competitiveness; and retaining the basic structure of the policy (e.g. the multi-governance approach). The German position also emphasises the economic nature of Cohesion policy, with the need to retain measurable economic indicators such as GDP per capita; territorial indicators are regarded as "alien to the system".

From a different perspective, the Portuguese Prime Minister (and President of the European Council) also appeared to urge caution on the scope of the policy:

> *"An alignment logic between the Cohesion Policy and the great development aims of the Union as a whole must be pursued and even enlarged. But this does not*

[92] *Ibid.*

[93] Intervention by Stephen Timms, Ministry of State for Competitiveness, UK Department of Business, Enterprise & Regulatory Reform, at the Fourth Cohesion Forum, Brussels 28 September 2007

[94] *New challenges facing the EU and its Regions*, Speech by Dr Joachim Wuermeling, State Secretary in the German Ministry of Economics & Technology at the Fourth Cohesion Forum, Brussels, 27 September 2007.

> *mean increasing the objectives of the Cohesion Policy; it means ensuring synergies with the Union's remaining policies".*[95]

With reference to territorial cohesion, there are clearly limits on the extent to which Member States are prepared to see Cohesion policy evolve. Although some countries have developed 'national spatial strategies' (e.g. Ireland, Netherlands), there has been only limited support among Member States for the EU to have a major competence in the area of spatial planning, as the history of ESDP and ESPON illustrates. It has been said that achieving territorial policy integration in Europe is beyond the capacity of individual Member States and requires a multi-governance approach, but that that it *"remains a political ambition without sufficient administrative backing".*[96] Arguably, territorial cohesion has been strongly supported only in two specific areas.

- Cohesion policy intervention to support specific categories of regions, defined by geographical or topographical criteria, continues to be valued by those Member States with (for example) peripheral or island territories. This was evident in the 2004-06 debate and continues to be advocated. As a Finnish contribution to the Cohesion Forum argued, the Reform Treaty reference to territorial cohesion: *"will extend the scope of regional cohesion….while taking special note of regions subject to serious and permanent problems…this represents a welcome clarification of the fundamental task of the EU cohesion policy."*[97]

- There is a strong commitment among Member States for the more narrowly focused Cohesion policy actions to promote territorial cooperation. During the 2004-06 reform debate, even those countries advocating the restriction of Structural and Cohesion Funds to poorer regions/countries cited INTERREG as an example of EU intervention which provided added value (albeit Commission proposals for increasing spending on territorial cooperation were cut back during the budget negotiations). This was reiterated by several Member State at the Cohesion Forum.

4.3 How should Cohesion policy be managed?

The management of Cohesion policy has been based on the principle of shared management – involving both the Commission and Member States – and on the principle of partnership involving regional and local authorities and other bodies in the planning and delivery of programmes. These principles have been influential. The shared management approach has given the Commission significant leverage on the allocation of financial resources within programmes (at a detailed level during the 1990s), and on the usage/results of interventions through the monitoring and evaluation obligations.[98] As noted above,

[95] Speech by José Socrates, Prime Minister of Portugal and President of the European Council to the Fourth Cohesion Forum, Brussels, 28 September 2007.

[96] Schout J A and Jordan AJ (2007) From Cohesion to Territorial Policy Integration (TPI): Exploring the Governance Challenges in the European Union, *European Planning Studies* 15(6), 835-851.

[97] Speech by Anssi Paasivirta, State Secretary, Ministry of Trade & Industry, Finland to the Fourth Cohesion Forum, 27 September 2007.

[98] Bachtler and Mendez (2007) *op.cit.*

partnership has also been seen as an important area of added value which has encouraged new forms of governance and engaged new organisations in economic development activity.

It is possible to identify a range of administrative areas where there have been 'spillovers' from the EU approach into national regional development practice. Examples would include the application of EU programme design principles in Denmark, Greece, Ireland, Italy, the Netherlands and Sweden; the use of project development and selection principles in Austria, Greece and Germany; the use of monitoring in France and Italy; and the impact on evaluation culture in Austria, Ireland, Italy and Spain.

Multi-level governance continues to be seen as a key benefit of Cohesion policy. At the Cohesion Forum, Commissioner Hübner argued that Cohesion policy has been in the vanguard of the new paradigm of regional development and the emphasis on collaboration to transcend boundaries between actors and policy areas:[99]

> *"Multi-level governance, involvement of socio-economic partners in the policy design and implementation, public-private partnerships, network pooling and sharing best practices and knowledge – all these elements were fostered by the cohesion policy already since the beginning of the 90s. This proves that cohesion policy is not only adapting to changes. It is also pioneering new approaches which are now in the core of ground-breaking development and business strategies".*

Although these claims are valid at an aggregate EU level, an audit of Structural Funds management would also have to recognize that the delivery of the Funds is complex, bureaucratic and difficult.

The experience of the implementation during the 2000-06 is illustrative, indicating both progress and problems. At the start of the period, management and implementation arrangements were subject to more detailed regulatory requirements and Commission guidance on structures and organisational responsibilities, as well as obligations with respect to monitoring, evaluation, financial control, information and publicity. New management challenges were introduced with the decommitment rule (N+2) and performance reserve.

However, implementation of programmes was not easy.[100] On the one hand, evaluation and other research has generally found that the management and implementation of programmes improved considerably in the 2000-06 period, by comparison with previous periods.[101] There was clear evidence of learning from previous programme periods, and the

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[99] *Cohesion policy: charting new territories,* Speech by Commissioner Danuta Hübner to the Fourth Cohesion Forum, Brussels, 27 September 2007

[100] See IQ-Net Review Papers: http://www.eprc.strath.ac.uk/iqnet/reports.cfm

[101] DG Regio (2004b) *A Report on the Performance Reserve and Mid-Term Evaluation in Objective 1 and 2 Regions,* 27 July 2004. Taylor S, Bachtler J, Josserand F and Polverari L (2004) *Achieving the aspirations of the 2000-06 programming period,* IQ-Net Thematic Paper 14(2), EPRC, University of Strathclyde. DG Regio (2004a) *op.cit.*. Bachtler *et al* (2005) *op. cit.* DG Regio (2005) *Partnership in the 2000-06 programming period: analysis of the implementation of the partnership principle,* November 2005. DG Regio (2007) *op. cit.*

adaptation of administrative systems. In nearly all cases, implementation systems respected the formal requirements and had introduced more rigorous project selection procedures, better financial control and evaluation, better communication with partners and improved monitoring systems.

On the other hand, implementation continued to suffer from a mix of institutional and systemic problems. Some of the management structures and systems established by Member States were found to be overly ambitious and complex; and the decentralisation of responsibilities to regional levels was not always matched by adequate institutional capacity. At EU level, the administrative requirements needed to be re-appraised with a 'simplification initiative' in 2001. A critical issue for some Member States was compliance with N+2: economic slowdown, changes in strategy of co-funders, and problems with specific measures caused problems with financial absorption and (in some cases) decommitment.

At programme level, the management of the Funds suffered from ongoing problems that had characterized implementation throughout the 1990s. For example, programme management roles and relationships were not always sufficiently clear, with insufficient human resources. In particular, administrative capacity was sometimes inadequate for delivering specialised R&D and innovation measures as well as employment and labour market actions requiring specific delivery mechanisms. Some project selection systems were insufficiently flexible to react to changes in take-up of funding or failed to give sufficient attention to project quality. Project aftercare, to ensure projects were implemented as planned, was frequently lacking. Many programmes had gaps or inefficiencies in monitoring systems and data (including with respect to the horizontal themes) affecting the usability of information gathered. Partnership was not always used effectively, particularly in ensuring that partners were involved appropriately at different stages of programme implementation.

Such problems, which were being encountered in the third period of Structural Funds programme implementation (with over a decade of experience with Cohesion policy) reflect basic problems of administrative capacity but also the difficulties inherent in the implementation of Structural Funds programmes. As noted above in the discussion on institutional capacity, this has inhibited the poorer regions, in particular, from effective utilization of Cohesion policy resources.

These types of problems are understandably more pronounced in the EU12, where most countries are said to have weaknesses in terms of the administrative structures and systems needed for managing and delivering Cohesion policy effectively. This is part of broader public administration concerns, including: the lack of a strategic approach to economic development; inadequate coordination of institutions and policies; corruption and lack of accountability; poor financial audit and control; insufficient separation between politics and administration in payment decisions; high staff turnover; lack of specialist skills and equipment; fragmentation of sub-national authorities; and frequent institutional change[102]. An OECD report[103] states fairly critically that:

> *"more than two years after the enlargement of the EU, administrative capacity remains an issue of concern for the new member countries…. Whereas most states were and are effective in the management of core EU-related issues, such as for instance the transposition of EU legislation, their record in fiscal management, the planning and use of structural funds and in addressing broader issues of competitiveness remains uneven."*

Studies[104] show that structures were largely put in place during the 2004-06 period, but programme managers faced obstacles such as insufficiently formalised or embedded co-ordination arrangements, resistance of sectoral ministries, unclear definition of responsibilities between different ministries, and weak co-ordination between the national and regional level. Some countries found that implementation structures could easily become overly complex. Implementing bodies were expected to take on an active and strategic role but could act in a 'traditional' manner and had a tendency to limit their activities to administration or known areas of activity. Although the project pipeline worked quite well, with a wide range of applicants, application rates varied greatly and the transparency and efficiency of selection systems were of concern. Although substantial investment was made in the setting-up and functioning of monitoring system, significant problems were encountered in the operationalisation of systems, especially due to IT difficulties or a lack of human resources. Evaluation also remains an area of potential weakness. In the field of partnership, the EU12 made considerable efforts to take up this principle with new structures and national legislation in place. Notwithstanding formal compliance, participation was sometimes patchy and insubstantial, with a need for more involvement of stakeholders outwith of central government ministries. In terms of sustainability of the management structures the main challenges lie with staffing and resources. According to the OECD report, incentive and management systems are generally inadequate and policy integration was mixed – operating reasonably well between levels of government, but very weak in terms of horizontal management[105].

In several major respects, the difficulties in the EU12 can be attributed to the limited experience with Cohesion policy, against a backdrop where institutional capacity for policy management and delivery is still developing. However, as the experience with the EU15, it is arguable that there appear to be inherent tensions and problems with the approach to

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[102] Davies S, Bachtler J and McMaster I (2006) *Study on the Potentials and Development Needs of the New Member States: Country Reports for Bulgaria, Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia, Romani*a, Reports to the European Commission (DG Regio), European Policies Research Centre, University of Strathclyde, and national partners.

[103] OECD (2006) *Administrative Capacity in the New Member States: The Limits of Innovation?* Report Number: 36930-GLB, Poverty Reduction and Economic Management Unit, Europe and Central Asia

[104] McMaster I and Novotný V (2005) *The Management and Implementation of Cohesion Policy*, Discussion Paper for EPRC Conference 'Benchmarking Regional Policy in Europe', 24-26 April 2005, Riga. McMaster I and Bachtler J (2005) *Implementing Structural Fund in the New Member States: Ten Policy Challenges*, Open Days Seminar, 12 October 2005. DG Regio (2007) *op.cit.*

[105] OECD (2006) *op. cit.*

Cohesion policy. If so, there is a strong case for the review of Cohesion policy management to consider a fundamental overhaul of the approach to policy implementation.

A further issue concerns the future of the principle of shared management and the influence of the Commission on programming and programme management. Over three programme periods since 1988, the Commission has been able to exert a strong influence on key aspects of programming, despite Member State attempts during the 1993 and 199 reform phases to limit the role of the Commission.[106] In the latest reform, however, the Commission's influence appears to have been significantly inhibited by its more limited role in programming.

The review of NRSFs and OPs above in Sections 2.1 and 2.2 is illustrative of this point. In negotiating with the Member States, the Commission attempted to improve the strategic coherence and orientation of frameworks and programmes, for example by requesting improvements to the logic of the SWOT, further explanation or justification on the reasoning behind the choices of strategic actions, clarification of the overarching regional policy strategy, clarification of the priorities, their link to diagnoses and selection criteria; and the provision of a clearer hierarchy of priorities linked to a more concrete definition of objectives and indicators. However, for the most part, the Commission's approach has focused on technical issues to ensure regulatory compliance on detailed issues.

While Member States have sometimes been critical of this lack of a strategic approach, it reflects the limitations of the current programming approach; Member States are required to provide relatively limited amounts of information to the Commission, and at priority level only, even for programmes involving substantial resources. Combined with the lack of in-depth policy expertise on individual countries and regions among the Commission services (for example in DG Regio), compared to the 1990s, it is perhaps not surprising that the Commission is unable to make substantive responses at a strategic level.

These factors suggest that the overall management approach, as well as the specific aspects of implementation, are due for a fundamental overhaul as part of the budget review.[107] For example, with greater regional differentiation within Member States, and the growing complexity of local and regional development, it is arguable that the main role of Cohesion policy should be to strengthen the ability of national governments to operate effective national regional policies in line with overall EU objectives, as well as transnational development issues. The first step has already been taken with the introduction of National Strategic Reference Frameworks; an extension of this approach could see the Commission withdrawing from involvement with individual national and regional operational programmes and focusing more strongly on the strategic level to ensure that national regional policies have greater impact. Such a move would potentially 'liberate' the Commission services (notably DG Regio) from its currently under-resourced role in negotiating and monitoring large numbers of programmes through a myriad of

[106] Bachtler and Mendez (2007) *op. cit.*

[107] Bachtler J and Gorzelak G (2007, forthcoming) Reforming EU Cohesion policy: a reappraisal of the performance of the Structural Funds, *Policy Studies,* December.

priorities (over which it has diminishing leverage under the proportionality principle) and allow it to focus more on adding 'policy added value' to national regional policies by promoting innovation, experimentation and knowledge transfer.

5. QUESTIONS FOR DISCUSSION

The aim of this paper has been to examine the renewal of Cohesion policy both in terms of the changes introduced for the 2007-13 programme period the longer term issues raised by the budget review. The paper has provided an assessment of the new planning framework for 2007-13, reviewing the experiences of preparing and negotiating the NSRFs and OPs and examining the shifts in spending. It has also looked beyond the current period, in the context of the policy reviews launched by the Commission, and it has discussed important issues concerning the lessons of previous experience with Cohesion policy, the future objectives of the policy, and the management of a future policy.

Based on issues discussed in the paper, key questions for debate at the EoRPA Meeting are as follows:

- What are the past lessons from implementing Cohesion policy?
- How significant are the changes in the 2007-2013 period?
- What should be the future objectives of Cohesion policy?
- Where should Cohesion policy intervene?
- How should Cohesion policy be managed and implemented?