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Preface

This paper reviews the current state of the debate on EU budget and policy reform, and developments during 2008-09, focusing in particular on the future of Cohesion policy after 2013. 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:

**Austria**
- Bundeskanzleramt (Federal Chancellery), Vienna

**Finland**
- Työ- ja elinkeinoministeriö (Ministry of Employment and Economy), Helsinki

**France**
- Délégation interministérielle à l’aménagement et à la compétitivité des territoires (DIACT), Paris

**Germany**
- Bundesministerium für Wirtschaft und Arbeit (Federal Ministry for Economics and Labour), Berlin
- Ministerium für Wirtschaft, Mittelstand und Energie des Landes Nordrhein-Westfalen (Ministry of Economics, SMEs and Energy of the Land of Nordrhein-Westfalen)

**Italy**
- Ministero dello Sviluppo Economico (Ministry of Economic Development), Dipartimento per lo sviluppo e la coesione economica (Department for Development and Economic Cohesion), Rome

**Netherlands**
- Ministerie van Economische Zaken (Ministry of Economic Affairs), The Hague

**Norway**
- Kommunal-Og Regionaldepartementet (Ministry of Local Government and Regional Development), Oslo

**Poland**
- Ministerstwo Rozwoju Regionalnego (Ministry of Regional Development), Warsaw

**Sweden**
- Näringsdepartementet (Ministry of Enterprise, Energy and Communications), Stockholm

**United Kingdom**
- Department for Business, Innovation and Skills, 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 and European institutions during Spring/Summer 2008. The paper was originally prepared for the annual EoRPA meeting in October 2009.

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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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EXECUTIVE SUMMARY

The budget review was concluded in late 2008 with the assertion that radical reform is necessary. A refocusing of spending on future challenges is considered necessary to shift the centre of gravity of the budget towards the priorities of competitiveness, environment and energy. A fair and transparent mechanism of contributions was also seen as important, replacing the current ‘web of corrections’. Flexibility was advocated, so that the budget has improved capacity to respond to evolving challenges.

Radical reform, while politically difficult, would have major implications for the two policy areas which account for most of the EU budget - the Common Agricultural Policy and Cohesion policy. In both policy areas stakeholders have been searching for ways to defend the policies, although with quite different approaches in the two policy areas. With respect to the CAP, there is broad agreement on the need for further reform; most Member States foresee cuts in agricultural spending, but there remains significant support for continued direct payments to farmers. Cohesion policy also has strong support, with major differences on whether and how it should be reformed. There is universal agreement on concentrating funds on less developed Member States and regions, but some wish to end funding in richer countries, while others consider it important that all Member States continue to benefit from the policy.

Since the consultation on the budget review was concluded, the policy debate has largely left the question of Cohesion policy resourcing to one side and has focused instead on justifying the role played by Cohesion policy, the objectives and rationale of the policy and how its implementation and instruments might be improved. The strategy of DG REGIO has been to use much of the past year or so for analytical work - notably through the ex post evaluation of Cohesion policy, the preparation of the Regions 2020 document, and an independent assessment of the policy provided by the Barca Report.

Based on this background work, some broad outlines of DG REGIO thinking have been sketched out by Commissioner Hübner, in particular a ‘reflections paper’ presented to the informal meeting of regional policy ministers under the Czech Presidency. Key principles of DG REGIO thinking are: consolidation of the paradigm shift in Cohesion policy, with a stronger focus on narrowly defined core priorities - linked to innovation, entrepreneurship and development of integrated local strategies; a greater focus on results; reinforcement of the added value of Cohesion policy; and the strengthening and simplification of delivery mechanisms.

DG REGIO are now convening a high-level group of Member State directors of regional policy with a view to discussing the reflections paper during Autumn 2009. The intention is to set out conclusions and proposals in the Fifth Cohesion Report due for publication in late 2010.
1. **INTRODUCTION**

For the past year, the debate on the future of Cohesion policy has been in a period of transition. The consultations on the budget review and on Cohesion policy were concluded in 2008, but a Commission position on the future of the budget is not expected until a new Commission has been appointed, while the DG REGIO proposals on the reform of Cohesion policy are not due until late 2010 as part of the Fifth Cohesion Report.

In the interim, DG REGIO has been engaged in a period of analysis and reflection. A review of the longer term challenges facing EU regions was published in the Regions 2020 document, indicating how globalisation, demographic change, climate change and energy security will affect individual regions. The Sixth Progress Report provided a shorter term perspective with an update on the economic and social situation in the regions. The debate on territorial cohesion also took a step forward with the publication of a Green Paper, without conclusively settling the debate on how the term should be interpreted or its implications for Cohesion policy.

The performance of the policy has been under scrutiny in the largest ex post evaluation exercise ever conducted. The first results are starting to appear, and more studies will be completed in the course of 2010. While the research is providing valuable insights into the contribution of the policy in different sectors and countries, the quality of the data on which the evaluations rely may not be sufficient to provide a convincing rebuttal to the academic studies which have questioned the effectiveness of the policy - or the questions about the policy’s added value raised by the broader research conducted on EU spending as part of the budget review.

Providing a link between analysis and reform is the Barca Report. Conducted over the 2008-09 period, the Report constituted an independent re-assessment of the justification for the policy, the evidence of its effectiveness and proposals for change. The Report had a significant influence on a first statement of DG REGIO thinking by Commissioner Hübner in a ‘reflections paper’ produced in March 2009, outlining some principles for a post-2013 Cohesion policy. Other contributions to the debate have also appeared, although more from academics/think tanks than from Member States which have mostly said little since their submissions to the budget review. The Member States did however agree a communiqué on the future of the policy at an informal ministers’ meeting under the Czech Presidency. A high-level discussion between DG REGIO and Member States is also getting underway possibly leading to an ‘orientations paper’ by Commissioner Paweł Samecki before the end of 2009.

Missing from all of the above, however, is an assessment of the implications of the economic crisis for Cohesion policy. Responding to the crisis has been the principal task for the EU over the past year, with Cohesion policy playing a significant part in the European recovery package. The length, severity and regional impact of the crisis are still unclear, and the consequences will reshape the maps of regional disadvantage with intensified problems for some regions, new areas of vulnerability as well as new regional opportunities.
The budget review will also be affected, on the one hand by reconsideration of EU priorities and, on the other hand, by the impact of the crisis on growth and government finances.

These developments are explored in more detail in this annual review of the Cohesion policy debate. It is the latest in a series of papers produced as part of the EoRPA research programme in recent years.

The paper begins with a summary of the state-of-play with the budget review (Section 2), covering the conclusions of the consultation exercise and the main Member State positions expressed, focusing specifically on the two largest elements of the budget - the Common Agricultural Policy and Cohesion policy. The paper then reviews the analytical work conducted under the auspices of DG Regio (Section 3) and the emerging thinking within the DG on the directions of reform (Section 4). The final section draws out issues as a basis for discussion at the EoRPA meeting (Section 5).

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1 The exception is the regional impact of the crisis and policy responses, which are covered in the accompanying EoRPA Paper 09/1: Davies S, Kahs and Woods C (2009) Regional Dimensions of the Financial and Economic Crisis, EPRC, University of Strathclyde, Glasgow.

2. THE DEBATE ON THE EU BUDGET

2.1 The EU budget review

On 3 September 2009, Commission President Barroso sent his political guidelines for the mandate of the next European Commission to the president of the European Parliament. In a wide-ranging speech, setting out a “transformational agenda” and focusing particularly on unemployment and global leadership, Barroso restated the need for the EU budget to be reshaped to respond to new priorities. He envisaged the budget review being used as a ‘stepping stone’ for the 2014+ Multiannual Financial Framework. In more direct language than he has used before, the Commission President was forthright in calling for change on both the expenditure and revenue sides of the EU budget:

Designing the next financial framework will not be an easy exercise - while everyone agrees in the abstract on the need for reform, as soon as the debate moves to concrete measures, there seems to be a strong bias in favour of the status quo. So before entering into the specifics, such as whether to change the current seven year cycle, I want to get agreement with the European Parliament and Council on three key principles to serve as ground rules for the debate:

- The EU budget must focus on activities which produce genuine European added value. Beyond political considerations, efficiency criteria must help prioritise EU spending activities in terms of their added value (for instance on the basis of cross-border effects, economies of scale, or resolving market failures).

- We need to move away from a narrow focus on net balances and move towards an approach based on solidarity, burden-sharing and equity which is comprehensive and shared by all.

- The stability of the financial framework needs to be counterbalanced by a far greater degree of flexibility so as to enable the Union to respond effectively to new challenges and needs.

This reflection cannot shirk the issue of “own resources”, a system of EU financing that has evolved piecemeal into a confusing and opaque mix of contributions and rebates. We need to see how the EU can find a more efficient and transparent way of financing its policies, and to simplify delivery in order to maximise the impact of spending while safeguarding the principles of sound financial management.

In a document which by its nature was general - and criticised by some as a ‘vague wish list’ and lacking new ideas - the references to the budget review implied a more radical

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1 Political guidelines for the next Commission, José Manuel Barroso, 3.9.09
approach than the somewhat tentative language used at the conclusion of the budget consultation in November 2008.⁵

The Commission President’s political programme is dependent on the appointment of a new team of Commissioners. It does, however, mark the resumption of open discussion on the future of the EU budget after almost a year when the budget review was effectively shelved in a political environment dominated by the economic crisis, continued uncertainty on the ratification of the Reform Treaty, the European Parliament elections and debate on the re-appointment of the Commission President. The original timetable for a final report on the review (late 2008/early 2009) has slipped. Further, the initial intention of separating the review exercise from the discussions on the next financial perspective has been superseded by an acceptance that the review is kicking off the debate on post-2013 financial planning.

The budget review was originally launched by the Commission President in September 2007 with a consultation paper described as a ‘unique opportunity’ to reassess the direction of the EU and its policy and budgetary priorities.⁶ The review prompted extensive academic and policy debate on the future political and policy direction of the EU, and was summarised as follows.⁷

1. The primary conclusion was the need for change. There was a general recognition that the structure of the budget does not reflect the EU’s political objectives and policy priorities. In broad terms, the consultation indicated a need for increased spending on the environment, energy and competitiveness, research and knowledge – as well as greater cross-policy coherence in meeting EU goals in these areas - and a reduction or reorientation of CAP spending towards rural development and other contemporary policy objectives.

2. On the revenue side of the budget, the budget debate promoted extensive discussion of the own resources of the EU. There was considerable support for some kind of EU tax, but others were strongly opposed on theoretical, empirical and political grounds. While there was a widespread view that correction mechanisms should be avoided, it was also recognised that some method for dealing with Member State concerns on net balances is required.

3. The budget review prompted contributions on how to manage change to the budget and EU policies. Many contributors emphasised the need for better independent assessment and understanding of the efficiency and effectiveness of policies (notably impact) as part of a more structured and systematic approach to making expenditure decisions.

⁵ See for example: Reforming the Budget, Changing Europe, Speech by the Commission President to European Commission Conference on the future of the European Budget, 12.11.2008, Brussels.


⁷ Bachtler and Mendez (2008) op. cit.
A final assessment of the consultation was undertaken in November 2008, with a report from the Commission\(^8\) and a major conference\(^9\). The main lesson drawn was that radical reform is necessary, with a refocusing of spending on future challenges and shifting the centre of gravity of the budget towards the priorities of competitiveness, environment and energy. A fair and transparent mechanism of contributions was also seen as important, replacing the current ‘web of corrections’. Flexibility was advocated, so that the budget has improved capacity to respond to evolving challenges.

### 2.2 Ideas for budgetary reform

The prospect of radical reform has prompted considerable debate in the academic research and policy literatures on different ideas for reshaping the EU budget.\(^10\) A first general conclusion to emerge is the need for a **new approach to budgeting**. To address the net balances or *juste retour* problem, one well-known proposal is for the creation of a two-staged budgeting procedure to decouple discussions about overall funding from redistributive questions, along with a mechanism of horizontal transfers across Member States that aligns net balances with relative prosperity (in real income per capita terms) to ensure solidarity and equity among countries.\(^11\) The introduction of a corrective mechanism is also supported by other analysts,\(^12\) some of whom have additionally proposed a restructuring of the budget into three types or chapters of expenditure. This is in line with Musgrave’s distinction between redistribution (here concerning Cohesion policy and the CAP), allocation (all other EU public goods) and stabilisation (EU capital expenditure)\(^13\) - each with a different source of funding (including the creation of a European tax for financing EU public goods).\(^14\)

This latter proposal has generated a lively debate among several commentators, who have raised several criticisms.

- First, while such classificatory systems (i.e. distinguishing between different types of expenditure) may be analytically useful, they do not reflect the inherent reality


\(^10\) This review updates the previous overview (in Bachtler et al (2008) *op. cit.*) but with a stronger focus on more recent contributions to the debate that have emerged during late 2008 and 2009.


\(^14\) Iozzo et al. (2008) *op. cit.*
of public policies which inevitably exhibit overlapping expenditure functions and often involve the targeting of single objectives through multiple instruments.\(^{15}\)

- Second, the creation of a European tax as a new source of EU funding may be appealing from a technical perspective, but so far has little support among Member States, and still raises the politically charged question of which type of European tax is most appropriate.\(^{16}\)

- Third, it is argued that the net balances problem would not be eliminated as the Member States would still seek to calculate their overall returns on the basis of each of the three expenditure chapters.\(^{17}\) Equally, corrective mechanisms are criticised for the possibility of introducing perverse incentives, such as encouraging Member States to minimise Cohesion receipts in the knowledge of a proportionate increase in funding through the mechanism, which would become relatively more attractive given the absence of conditionalities under such transfers.\(^{18}\)

As part of the proposals for a new budgeting process, it is argued that the timing of the Financial Perspectives should be aligned with the legislative periods of the European Parliament and Commission. It is hoped that this would raise the political profile and, potentially, the legitimacy of the process and outcomes.\(^{19}\) Others, however, do not regard this as a desirable end or consider it to be counter-productive, especially if the EU is seen as deriving its legitimacy from effective outputs rather than democratic inputs.\(^{20}\) Similarly, and with more general implications, it is argued that EU budgetary reform solutions derived from federal theories developed from the experiences of nation states may be of limited applicability to the EU given its unique characteristics.\(^{21}\)

A second key strand of the budget review literature is the question of European added value. This is closely tied to debates over the European public good character of expenditure (as well as the presence or not of economies of scale/scope and externalities), increasingly highlighted as the main legitimate criterion for the inclusion of expenditure in the EU budget.\(^{22}\) Climate change is argued to be a particularly promising candidate, not just on theoretical grounds but also because EU citizens could be more easily persuaded


\(^{16}\) Le Cacheux J (2009) op. cit.

\(^{17}\) Osterloh S (2009) Reaction to Iozzo et al., Notre Europe, Paris; Zuleeg (2009a) op. cit.;


\(^{19}\) Iozzo et al (2008) op. cit; Tarschys (2009) op. cit.


\(^{21}\) Pietras J (2009) op. cit.

about the need to address such a theme at EU level. That being said, defining what constitutes an EU public good is difficult and, indeed, can change over time. Instead of debating and deciding in advance what constitutes a European public good, it has been suggested that the issue could be more easily resolved by leaving it to the Member States to decide in the Council on the basis of a unanimous decision, although there is hardly any other alternative forum for such a decision.

The issue of EU added value and public goods has been at the heart of re-assessments of current EU policies. A study undertaken for the Commission’s DG Budget as part of the review assessed EU policies and expenditure profiles with respect to: normative criteria from an economic efficiency perspective (economies of scale, externalities and heterogeneity of preferences); positive criteria from a public choice/political economy perspective (such as limits to system competition, second-best arguments, complementarity between policies and lobbying); as well as considering political and bureaucratic arguments of vested interests and path dependency. On the basis of this assessment:

- no (or insignificant) change to current expenditure levels was recommended for the policy areas of stabilisation, social policies, competitiveness (most areas) and single market, education and culture, fisheries, health and consumer policy, and freedom, security and justice;

- downward change was recommended for Cohesion policy (but only for the Regional Competitiveness and Employment Objective, while retaining the current funding levels for the Convergence and Territorial Cooperation Objectives) and for agriculture and rural development; and

- by contrast, a budgetary boost was recommended for the areas of environment, research (except where targeting SMEs), maritime, defence, foreign policies, and infrastructure/network industries. However, this would not imply an overall increase in public spending in the EU in all areas as in some cases it is recommended that domestic spending be shifted from the national level to the EU level (in areas of R&D, Transport and Energy and Foreign Aid).

A similar study undertaken for the Dutch Ministries of Finance, Economics Affairs and Agriculture also employed these types of criteria to assess EU expenditure, as derived from

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26 Ibid.
theories of public choice, fiscal federalism and political arguments. The conclusions of the study for each of the policy areas considered are that:

- there is a convincing case for limiting Structural Funds support to poorer Member States, although no stance is taken on the appropriate level of funding;
- direct payments under the CAP should be phased out, while rural development programmes should target the underlying objectives more explicitly and be realigned with Structural Funds programmes;
- EU support for the environment should be targeted at projects with strong spillovers and only when taxes or regulation do not suffice;
- higher levels of EU funding are required for public research, with the focus on supporting high quality basic research; and
- increases in spending are needed under foreign policies and internal security policies, although there are difficulties in formulating collective policies.

A final theme to emerge from the academic literature and other studies is that radical change is unlikely. The feasibility of some (if not most) of the proposals put forward is regarded as being politically difficult to agree in practice, notwithstanding the desirability of advancing and debating optimum reform options. Indeed, if history is any guide, there is clearly a strong bias towards the status quo in EU budget negotiations, as illustrated in overviews of the budget’s evolution which typically employ path-dependency arguments. Related, “the implementation of any meaningful reform of the budget structure may need to be “oiled” by an increase in budgetary size - since it would be necessary to ensure a “Pareto” condition that no one should lose in absolute amounts.” Despite the presence of new challenges, the fiscal restraint being imposed across Member States’ own budgets in the aftermath of the economic and financial crisis is likely to militate against any sizeable increase in the EU budget. One solution is to adopt a “gradually feasible” approach involving gradual but persistent changes to the budget in the direction sought.

28 Zuleeg (2009a) op. cit; Osterloh S (2009) op. cit.
2.3 Political debates

On the political front, while the formal budget review may have progressed little, the past year has focused attention on the urgency of EU action in several areas. Successive Council conclusions have highlighted the importance of immediate recovery from the economic crisis and the imperative of dealing with unemployment, and also the longer term challenges of improving the competitiveness of the European economy, addressing the consequences of climate change, increasing energy security, and managing migration. This has clear implications for the two policy areas which account for the majority of the EU budget - the Common Agricultural Policy and Cohesion policy - and in both policy areas stakeholders have been searching for ways of defending the policies, although with quite different approaches in the two policy areas.

Under the CAP, following the DG AGRI ‘health check’ in 2008, Member States took the initiative under the French Presidency to formulate a series of positions and visions on the future of EU policies for agriculture and rural development. Several countries have been actively lobbying to secure some agreement on policy directions for the CAP in advance of conclusions of the budget review (see Section 2.4).

By contrast, under Cohesion Policy individual Member States have been less active over the past year, following consultations on Cohesion policy and input to the budget review in 2007-08. Instead, it has been DG REGIO which has taken the initiative to demonstrate the need for change and the role that Cohesion policy can play in meeting EU priorities. At the heart of this strategy has been an independent study (the ‘Barca Report’) which analysed the current performance of the policy and set out options for change. A succession of speeches by (former) Commissioner Danuta Hübner also laid out key themes for discussion on the future of the policy (discussed in more detail in subsequent sections). The following sections provide a summary of Member State views on the CAP and Cohesion policy based on the consultation exercises.

2.4 Consultation outcomes: Member State perspectives on the CAP

During the budget review consultation process, the Common Agricultural Policy was the subject of most comment, with broad agreement on the need for further reform.33 Most respondents advocated cuts in agricultural spending, impacting particularly on the first pillar (agricultural subsidies); many wanted a shift in funding from pillar 1 to 2; and some proposed that pillar 2 (rural development) should be more closely aligned with Cohesion policy. There was, however, no general agreement on the future of direct payments to farmers under pillar 1: some wanted to see them phased out; others argued for the equitable treatment of old and new Member States; and many saw problems arising from the co-financing of pillar 1 and the potential re-nationalisation of the policy. There was, however, a clear expectation in most submissions of lower agricultural spending overall.

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33 European Commission (2008) op. cit. Section 2.3.
Reviewing the responses of individual Member States, it is clear that there remains significant support for the CAP across the EU, even though most countries accept the need for review and revision.

- There was explicit support for the CAP from a number of Central and Eastern European Member States (for instance, Poland, Hungary and Romania),\(^\text{34}\) the four former or present EU15 Cohesion countries (Portugal, Spain, Greece and Ireland),\(^\text{35}\) as well as Belgium, France\(^\text{36}\) and Cyprus.

- Other countries emphasised the need for some CAP reform. Within this group, several countries stated they are open to policy reform discussions - Estonia, Italy, Finland, Germany and Latvia.\(^\text{37}\)

- A third group of countries favoured substantial review and reform of the CAP. These include: the Czech Republic (which argued that the debate on the future of the CAP needs to be a comprehensive one), Denmark,\(^\text{38}\) Malta (which highlighted the need for further CAP reform, “starting from a thorough review of the current levels and use of financing from the EU budget”), the Netherlands,\(^\text{39}\) Sweden (which envisaged substantial reforms to the CAP, leading to much lower expenditure) and the United Kingdom (which suggested that spending under pillar 1 of the CAP should be phased out).

In terms of the directions of reform, most Member States favoured shifting funds from pillar 1 (agricultural subsidies) to pillar 2 (rural development). This was mentioned explicitly in

\(^{34}\) Hungary stated that “a well-functioning common agricultural policy ... is important for Hungary”; Poland highlights the transition of the CAP into a modern policy strengthening competitiveness and supporting both climate change and food security; and Romania drew attention to the long-term commitment to agriculture under the CAP and the need for such commitment to be shown also in respect of the new Member States.

\(^{35}\) Portugal emphasised the strategic relevance of CAP support, the ongoing reforms to the system and the revisions in train which “will furnish CAP with the necessary instruments to meet the challenges posed to the agricultural sector and society in general”; Greece viewed the CAP as important and favoured more funding for pillar 2, but through additional funding being provided rather than at the expense of pillar 1; Spain argued strongly that CAP reform must not be considered until the British and other rebates are removed - and pointed to the far-reaching effects that changes to CAP instruments could potentially have on society; and Ireland expressed its commitment to maintaining a strong and effective CAP, with only the very gradual introduction of any new initiatives.

\(^{36}\) On the other hand, while stressing “the strategic importance of Europe’s agriculture and food security”, the French submission adopted a low-key approach to the CAP.

\(^{37}\) Italy pointed out that 70 percent of agricultural support in Europe comes from the EU budget and argued that the aims and instruments under the CAP need to be reviewed to, amongst other things, decide on the appropriate breakdown between EU and national support; Germany recognised the need for a CAP to maintain a diverse agricultural sector but noted that the reform process will have to continue and intensify after 2013; and Finland made the case for an ‘open-minded review’ of the CAP.

\(^{38}\) Denmark strongly favours the phasing out of direct subsidies and proposes a limited transfer from pillar 1 to pillar 2.

\(^{39}\) The Dutch submission also saw a continuing need for a European policy aimed at agriculture and rural areas, but suggested a range of areas for reform (including removing trade-distorting instruments and phasing out support for uncompetitive farming (unless it has a social function).
the submissions from Italy, Portugal, Denmark, Lithuania, and Estonia. Related, a wide range of countries emphasised the importance of ongoing support for rural development: Germany, Austria, Finland, Sweden, Greece, Hungary, the Czech and Slovak Republics, Bulgaria, Romania, Malta and Cyprus. For its part, against the backdrop of climate change, the UK favoured a reshaped pillar 2 focusing on the delivery of environmental benefits. Five countries explicitly referred to the synergies to be gained from bringing rural development and Cohesion policy closer together - Germany, Denmark and Sweden as well as the Slovak and Czech Republics.

It is notable that a significant number of the new Member States highlighted the current differences in treatment between the EU15 and the new Member States under the CAP and argued for these inequalities to be removed. Hungary, Lithuania, Latvia, Estonia, Romania, the Czech Republic and Malta each made this point in their submissions.

Lastly, there were very significant differences between Member States with respect to the provision of co-finance under pillar 1. Those countries which argued (usually strongly) against co-finance included Hungary, the Czech Republic, Poland, Estonia, Romania, Austria, Denmark and Greece. Only two submissions (Italy and the Netherlands) explicitly supported co-finance for direct aids, whilst underlining their view that this is not the same as the renationalisation of policy.

Since the conclusion of the budget consultation there has been further debate (especially among farming ministers), with some Member States taking the initiative to try and protect the CAP against prospective cuts. This was already evident in the modification of the CAP health check reforms agreed at the Agriculture Council on 20 November 2008, where - among other concessions to Member States - the proposed diversion of farm subsidies away from large farmers to rural development projects was weakened, and the decoupling of farm subsidies from production levels was delayed in certain sectors. During 2009, France and Germany also pressed the Commission to reconsider the planned 2010 increase in dairy quotas (agreed under the health check) and to consider new forms of regulation of dairy prices.

Looking to the longer term, discussions under both the French and Czech EU Presidencies have addressed the future of the CAP after 2013. At the informal meeting of agriculture ministers in Annecy (September 2008), France initiated a debate on future CAP objectives and subsequently published a set of French Presidency proposals seeking Council agreement for conclusions affirming the necessity for “the European Union to continue to have after 2013 a common and sufficiently ambitious agricultural policy”. This was not accepted due

40 Lithuania noted the need to evaluate the effectiveness of pillar 2 spending and, if necessary revise current pillar 2 measures.
41 Finland argued that rural development funds should be increased substantially.
42 Sweden considered that there should be such support only in respect of genuine cross-border external effects and in the context of decreasing overall agricultural spending.
43 Greece argued for enhanced funding for pillar 2, but not at the expense of pillar 1.
44 CEU (2008a) What’s the best way to prepare the CAP of the future? General Secretariat, Council of the European Union, Brussels, 28.7.08, SN 3986/08. CEU (2008b) The Future of the CAP after 2013 -
to opposition from countries such as Sweden and the United Kingdom. A subsequent informal meeting of agricultural ministers in Brno (June 2009) also made little headway on this issue.

These debates did encourage several Member States to set out their visions of the future of the CAP and - as in the budget consultation - brought out once again the two main fault-lines between countries.

- The first difference is between those Member States wanting to retain the current form of the CAP, with direct payments to farmers, and those governments (Netherlands, Sweden), advocating a more market-based approach, shifting funds to rural development. For example, the view of the CAP published by Finland is for the current structure of two pillars to be retained within an unchanged budget envelope, while allowing for funding to be transferred from the first to the second pillar.45 By contrast, the Dutch Government published an ‘outlook to 2020’ proposing the phasing-out of the current two-pillar structure, and replacing it a single agriculture/horticulture fund - co-financed by national and regional authorities and focused on competitiveness, with support for farmers only being provided where it involves risk management or the maintenance of ‘socially desirable values’ (e.g. environment, animal welfare).46

- The second fault-line in the recent debate is between ‘new’ Member States, pressing for a fairer system of agricultural subsidies (which currently favour EU15 farmers greatly), and older Member States (e.g. France, Greece, Italy, Spain) who would prefer to see higher subsidies in the EU12 being phased in gradually.

A further interesting development is the agreement by French and German farming ministers to create a joint group to study the future of the CAP after 2013. Inevitably, this calls to mind the Franco-German agreement on CAP funding in 2002 which pre-empted the subsequent negotiations on the financial perspective for 2007-13.

### 2.5 Consultation outcomes: Member State perspectives on Cohesion policy

Cohesion policy is an important element of the budget discussions, partly because of its obvious significance in expenditure terms, but also because, different from other components of the EU budget, it involves earmarked funding for the Member States. As a result, not only is the debate about the relative weighting of Cohesion policy within the EU budget important, but more technical aspects relating to the spatial focus of policy and its eligibility and allocation criteria can be of major significance to individual Member States.

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The Commission’s summary of the budget consultation process concluded that “Cohesion receives strong support, with, however, opinions considerably diverging on how it should be reformed”. The majority of contributions favoured concentrating funds on less developed Member States and regions; some wished to end funding in richer countries, while others considered it important that all Member States continue to benefit from the policy. Another area of disagreement concerned the objectives of the policy - some wanted to see issues such as competitiveness and climate change included within the priority remit, while others preferred to keep the policy focused on the cohesion objective. The impact of territorial cohesion was also disputed. Some wanted a wider range of indicators and funding allocation mechanisms, but most advocated keeping GNI and GDP per head as the main criteria for determining eligibility and funding allocations.

Since the consultation was concluded, there has been further debate under the French and Czech EU Presidencies and in the context of the Barca Report (see Section 4.2). The following sections review five key Cohesion policy themes: the scale of Cohesion policy funding; its spatial focus; policy objectives; eligibility and allocation criteria; and the issue of territorial cohesion.

2.5.1 Scale of funding

During the budget review consultation, several net payers argued that Cohesion policy should become more focused (with an implied lower share of the budget). This was made explicit in the Dutch submission which said that funding should be concentrated in the least prosperous regions in the least prosperous Member States, resulting “in a substantial cut in the share of the EU budget allocated to structural and cohesion funds”. The Swedish paper similarly argued for spending to be focused on those parts of the Union in most need - mainly in the new Member States - leading to expenditure cuts, “a prerequisite to accommodate spending in other policy areas”. While the UK response did not comment on the volume of Cohesion spending, it similarly suggested that funding be concentrated on the less prosperous Member States and, indeed, that “Structural Funds in the richer Member States should be phased out”.

The German submission stressed the importance of overall budgetary discipline and of focusing Cohesion policy support. It made specific mention of Europe’s least-developed regions and stressed poor regions rather than poor countries. Underlining this point, it argued that any phase-out provisions for regions should be equitable, “regardless of which

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47 European Commission (2008) op. cit. Section 2.3.
48 This was the subject of a separate consultation and subsequent Green Paper on Territorial Cohesion - Turning territorial diversity into strength, Communication from the Commission, SEC(2008) 2550, Brussels, 6.10.2008.
Member State they are located in”.\(^{52}\) Also of interest, the German response favoured more account being taken of absorption capacity when considering Cohesion policy, with concern expressed about the dangers of overheating. In the Austrian paper, general budget discipline was stressed (with overall expenditure in line with the long-term trend of around one percent of EU GNI), but no specific reference was made to the Cohesion policy budget. France, the final member of the “group of six” countries which argued for a one percent expenditure ceiling in the run-up to the 2007-13 budget exercise, concluded in its submission that “budgetary discipline should be advisably tightened”, whilst making no specific budgetary proposals with respect to Cohesion policy.\(^{53}\)

Elsewhere, there was little explicit mention of the volume of Cohesion policy spending. One exception was the Slovak submission which suggested that the Cohesion policy share of the budget should at least be maintained (at 35 percent). In addition, Hungary argued for adequate long-term Cohesion policy resources and, together with Poland, said that the EU budget as a whole would need to grow. Many countries underlined the importance of cohesion and solidarity (including the net payers) and the fundamental role played by Cohesion policy. On the other hand, there were differences between those countries which argued that solidarity should be expressed solely through Cohesion policy (as in the British, Dutch and Danish responses)\(^{54}\) and those which felt that solidarity was something for the EU budget as a whole (Poland, Greece, Czech Republic, Cyprus).\(^{55}\) With respect to specific policy areas, Hungary, Latvia, Romania and Malta argued that any CAP reform should be based on the principles of solidarity and equal treatment; Lithuania wanted to ensure that any focus on R&D and innovation did not lead to worsening disparities; and Greece cautioned against excellence criteria in this context, arguing that they must be combined with measures to stimulate regional potential.\(^{56}\) Malta was also concerned about the impact of excellence, arguing that “it is essential to consider the ring-fencing of funds by groups of Member States that share similar levels of development and capacities”.\(^{57}\) Finally, Spain argued for advancing “an extended concept of excellence” to encourage those countries making the greatest efforts to build up their innovation and technological capacity”.  

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\(^{52}\) German Ministry of Foreign Affairs, *The Response of the German Government to the Commission Communication “Reforming the budget, changing Europe”*, Translation, 7 April 2008, page 8


\(^{54}\) The Danish response stated explicitly that it would be “counterproductive if the allocation of funds under other EU-policies were to be based on levels of wealth”. The Danish Government, *The Danish Government’s contribution to the 2008/2009 Budget Review, Courtesy translation*, 2008 (page 5)

\(^{55}\) For instance, Greece argued that the “new budget must be mainly redistributional in nature, in order to meet the needs of poorer member states and regions”, Greek Government, *Reforming the Budget - Changing Europe*, 2008, page 1. The Czech response emphasised solidarity, equity and equal treatment “regardless of previous allocation or the date of accession of the respective Member State”. Czech Government, *Contribution of the Czech Republic to the debate on the EU budget review*, June 2008, page 2. The Cypriot submission argued for the territorial dimension to be taken into account across the EU budget.


2.5.2 Spatial focus

In the budget consultation, most countries said that policy should target poor regions and/or poor countries (including Hungary, Poland, Czech Republic, Lithuania, Estonia, Romania, Ireland France, Sweden and Finland). Denmark stated that “financial support for poorer regions should be linked to the overall wealth of the country to a much higher degree than at present. Consequently a much higher percentage of the structural funds would be spent in relatively poor countries”.59 Related, a number of Member States argued that richer countries should be excluded from core Cohesion policy funding (the UK and the Netherlands), while Sweden wished the focus to be on those parts of the Union in most need.60 Estonia argued that the “financing of the poorer regions within richer states should be reconsidered”.61 In contrast, the German response highlighted the importance of supporting poor regions irrespective of country wealth.

A further group of countries stressed the significance of core Cohesion policy funding continuing to be available in all Member States (including Italy, Finland, Greece, Spain and Malta). This was also the tenor of the Austrian submission: “The Federal Government will continue to pursue the concept of a fundamentally comprehensive and integrated structural and regional policy for more economic, social and territorial cohesion at the national and European level” (italics added).62 Interestingly, at the informal meeting of regional policy ministers in April 2009, Germany stated that, while the focus should be on the least-developed regions (with fair transitional mechanisms for regions falling outside this group), Cohesion policy support should continue in all EU regions. This explicit German support for an all-region approach is important for the future development of policy. In similar vein, there was considerable support across the Member States for a broad continuation (or gradual evolution) of the current approach to Cohesion policy (including from Hungary, Italy, Poland, Lithuania, Latvia and Ireland).

2.5.3 Policy objectives

Most countries focused on the importance of reducing economic and social disparities (the Czech Republic, Hungary, Poland, Germany, Netherlands, Portugal, Finland, France,) or in ensuring that all territories were in a position to exploit their development potential (Italy). The Lisbon priorities were frequently mentioned (for instance, by Hungary, Poland, Lithuania, Spain and Italy), as was the need for Cohesion policy funding to support new policy areas such as climate change, demography and energy security. However, the Dutch submission expressed concern about this, stating that the “pursuit of too many objectives

through cohesion policy should be avoided. The emphasis must remain on reducing disparities in wealth”. 63

A considerable number of submissions argued for a continuation of the current objectives and approaches (Hungary, Latvia, Lithuania, Italy) and for any change to be gradual (Poland, Ireland). The Portuguese response warned that “changes to the policy paving the way for new priorities to be included - only to maintain financial flows to regions or Member States that have already high levels of development - can not be accepted”. 64

2.5.4 Eligibility and allocation criteria

With respect to eligibility and allocation criteria, many Member State submissions favoured more stress on the least developed regions and countries, albeit based around current methodologies and approaches. Most explicitly, Romania argued for maintaining “the principle of national and regional allocations and increasing the intensity of financial support per capita for the least developed Member States”. 65 As noted earlier, Germany and Denmark highlighted their support for (the current) wealth-based criteria (related to GNI and GDP per head), although the German submission interestingly raised the issue of absorption capacity, with implications for funding flows to the poorest Member States.

Some countries made representations regarding phase-out provisions (e.g. Germany and Malta), while others wished to see transitional support reduced (Denmark). Estonia was notable for suggesting that any future Objective 2 should focus on regions where GDP per head is 75-100 percent of the EU average, with more prosperous regions qualifying only if facing structural difficulties. While a number of countries (including Cyprus) emphasised the territorial dimension to Cohesion policy, Member State submissions suggest there is limited impetus at present for moving far from current allocation and eligibility methodologies.

2.5.5 Territorial cohesion

“Territorial cohesion” has become an increasingly prominent theme in recent years and will become a shared competence between the Commission and the Member States if the pending (Lisbon) Reform Treaty is adopted. However, it remains a disputed concept, with some countries relating it to polycentric and endogenous development, others viewing it in relation to a balanced development model, some considering it in the context of enhanced accessibility and others seeing it as a form of networking. 66 These divergent views also have implications for the budget debate and, in particular, for the extent to which the particular

geographical handicaps facing certain Member States might be taken into account in the budget negotiations.

In the responses to the budget consultation exercise,\(^67\) the divergent views amongst the Member States were obvious.\(^68\) Some suggested that the territorial cohesion concept was already incorporated within current objectives of Cohesion policy (especially those relating to territorial cooperation) - with the result that GNI/GDP per capita could continue to be the key criteria for determining eligibility and financial allocations. However, others argued that more specific criteria should now come into play relating both to national handicaps and to the potential impact of other challenges (including those mentioned subsequently in the Regions 2020 report: globalisation, climate change, demographic change and energy security).\(^69\)

In the budget consultation exercise,\(^70\) only seven countries made an explicit and positive reference to a new territorial dimension to Cohesion policy: France, Portugal, Spain, Finland, Malta, Greece and Cyprus.\(^71\) The first three wish to see geographical characteristics taken into account under Cohesion policy not least in recognition of their outermost regions (all islands).\(^72\) Finland referred to the special status of the EU’s northernmost sparsely-populated areas. The other three countries placed particular emphasis on the need for policy to take specific account of the challenges facing islands.

In contrast, both Germany and Denmark argued strongly against the idea that the addition of territorial cohesion to the objectives of policy should impact on eligibility or allocation criteria under Cohesion policy. The German stance rejected the idea of including purely geographic factors, while the Danish submission took the view that the concept of territorial cohesion must not mean that certain areas have an intrinsic right to support on the grounds of specific geographical criteria; instead, both countries favoured a continuing


\(^{70}\) All of the Member States made a submission except Slovenia.

\(^{71}\) Poland could perhaps be added to this group. The Polish submission argued that the “significance of cohesion should not be limited merely to bridging the development gap between less and more developed EU areas”, explicit reference is made to Article 158 of the Treaty which, amongst other things, highlights the least favoured regions and islands, including rural areas. However, as noted further below, the Polish response to the Green Paper on Territorial Cohesion suggested that Poland does not favour providing additional support to areas facing geographical handicaps - beyond what is already provided for in the Treaty. Indeed, the Polish submission argued that “the Green Paper … devotes too much attention to such areas” (page 3).

\(^{72}\) Portugal also stressed the idea of support for polycentric development, valuing the key role that certain regions play in the development of the whole territory (no region is explicitly mentioned, but the Portuguese authorities clearly have the Lisbon region in mind). France referred to “regions hampered by a geographic or natural handicap”. Spain argued that “particular attention should be paid to regions with specific geographic handicaps”.

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European Policy Research Paper, No. 74  European Policies Research Centre
strong reliance on wealth indicators for eligibility and allocation purposes.\textsuperscript{73} The remaining Member States either made no mention of territoriality (the majority) or else acknowledged it in a fairly tangential way by referring to economic, social and territorial cohesion.\textsuperscript{74}

The budget consultation responses were also reflected in earlier submissions relating to the consultation on the future of Cohesion policy;\textsuperscript{75} indeed, as might be expected, Member State responses to the two exercises were closely aligned. The Cohesion policy consultation was followed by an intermediate report on territorial cohesion produced by the French Presidency\textsuperscript{76} and by subsequent responses to the Green Paper on Territorial Cohesion where the consultation period concluded at the end of February 2009.\textsuperscript{77}

The French Presidency paper reported on the exchange of views which took place within the Council Structural Actions Working Party over the course of four meetings on the territorial dimension of Cohesion policy. The paper stated that “one of the features of cohesion policy is its capacity to adapt to the particular needs and challenges of specific geographical challenges and opportunities”.\textsuperscript{78} Examples were provided of the operation of effective partnership to this end within regions, at the multi-regional level, nationally and internationally (across borders).

While the Commission’s Green Paper was taken as a good basis for discussion, the Member States made a number of points in relation to the following themes:

- the definition proposed for island regions which, by excluding those containing the capital of a Member State, led to objections from Cyprus and Malta;

- the absence of a precise definition of territorial cohesion, viewed as important by some countries but certainly not by all - several take the view that a formal definition is unnecessary;

\textsuperscript{73} The German submission made specific reference to “continuing to identify the least developed regions solely with the help of the tried and tested GDP-per-capita criterion”. It continues that the “creation of new criteria for the selection of the least developed regions could water down cohesion policy and diminish ... efficiency”. The Danish submission stated that the “main criterion for support should continue to be the level of wealth and nothing else”. This was also the view in a number of other submissions, such as that for Sweden.

\textsuperscript{74} Perhaps the strongest reference in these remaining submissions is in the Czech suggestion of the need for a discussion of territorial cohesion, though the concept is viewed in the Czech paper mainly in terms of cross-border and interregional cooperation.

\textsuperscript{75} \url{http://ec.europa.eu/regional_policy/conferences/4thcohesionforum/all_contrib_en.cfm?nmenu=3}

\textsuperscript{76} Council of the European Union, \textit{Intermediate report on territorial cohesion by the French Presidency if the European Union}, Translation provided by the Presidency, 17580/08, Brussels, 23 December 2008

\textsuperscript{77} \url{http://ec.europa.eu/regional_policy/consultation/terco/contrib_en.htm}

the fact that, while it is generally accepted that geography matters, several delegations felt that additional support is not justified by special geographical features \textit{per se}; and

- coordination of relevant sectoral policies with a territorial impact is critical for the effectiveness of Cohesion policy;

- while there was a view that indicators of accessibility/disparity could perhaps be assessed at other than the regional level, such indicators should (in the view of several delegations) not be used to call current Structural Funds allocation criteria into question.

Moreover, the consensus was that territorial cohesion is of most relevance to the territorial cooperation objective. Finally, territorial cohesion was seen also to have implications for sectoral policies, demanding better alignment between Cohesion policy and the territorial impact of other EU policies.

These differences were reiterated in the budget consultation. Countries such as Cyprus, Malta, Greece, Finland (and also Sweden, given its sparsely-populated northern areas) as well as France and Portugal argued for provision being made under Cohesion policy for specific geographic features. In contrast, most of the Central and Eastern European countries (including the three Baltic States, the Czech and Slovak Republics and Hungary) were explicitly against targeting policy and/or funding at specific geographic features, as were EU15 Member States such as the United Kingdom, the Netherlands, Italy and Germany. Poland was also against such targeting, arguing that the “discussion of territorial cohesion must not come down to a list of certain regions with specific geographical features” (page 3).
3. PREPARING FOR THE COHESION POLICY DEBATE: CHALLENGES AND LESSONS

Since the consultation on the budget review was concluded, the debate has largely left the question of Cohesion policy resourcing to one side and has focused instead on justifying the role played by Cohesion policy, the objectives and rationale of the policy and how its implementation and instruments might be improved. The strategy of DG REGIO has been to use much of the past year or so for analytical work - notably through the ex post evaluation of Cohesion policy, the preparation of the Regions 2020 document, and the Barca Report - as well as the consultation on territorial cohesion, as a basis for creating some building blocks for policy reform that could be discussed with Member States.

During Spring/Summer 2009, some broad outlines of DG REGIO thinking were sketched out by Commissioner Hübner, in particular a ‘reflections paper’ presented to the informal meeting of regional policy ministers under the Czech Presidency. DG REGIO are now convening a high-level group of Member State directors of regional policy with a view to discussing the reflections paper during Autumn 2009. The intention is to set out conclusions and proposals in the Fifth Cohesion Report due for publication in late 2010.

This section reviews the analytical and evaluation work that has been undertaken over the past year or so, reviewing the challenges for Cohesion policy and the lessons from the operation of the policy. Subsequently, Section 4 looks in more detail at the emerging proposals for change.

3.1 Challenges for Cohesion policy

3.1.1 Regions 2020

Taking a long-term perspective on the role of Cohesion policy, the working paper Regions 2020 on the challenges facing EU regions within a 2020 time horizon was presented by the Commission in December 2008. Produced by DG REGIO, the report provides the Commission’s first prospective analysis of the likely regional impact of four key challenges confronting Europe, namely: adapting to globalisation; demographic change; climate change; and energy use and supply. These challenges were amongst those identified in the EU budget review consultation paper of September 2007, which posed the question of how and to what extent EU policies could best respond to the new challenges. The Regions 2020 report set out a ‘vulnerability index’ for European regions to each of these challenges.

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on the basis of a series of indicators and examines the potential differences in impacts across EU regions at NUTS 2 level.81

- **Globalisation.** Many regions in the North-West periphery of the EU, mainly in Finland, Sweden, Denmark, the UK and Ireland, are predicted to benefit from globalisation due to high labour productivity, high employment and education levels, and a high share of employment in advanced sectors. Other regions located in Southern and Eastern Europe are more exposed due to high share of activity in low value added sectors and lower qualification levels. In Western and Central Europe the pattern is mixed, and at the subnational level metropolitan areas and capital regions are in a more favourable position.

- **Demographic change.** The report predicts that around one-third of EU regions will witness population decline, mainly in Central Europe, Eastern Germany, Southern Italy and Northern Spain. The highest shares of old-age population are projected to be found in Eastern Germany, North West of Spain and some parts of Finland, while the lowest share of working age population are anticipated to be found in several regions in Finland, Sweden and Germany.

- **Climate change.** The regions in the South and East of Europe will face the greatest challenge (the whole of Spain, Italy, Greece, Bulgaria, Cyprus, Malta, Hungary, most of Romania and southern parts of France) from climate change, largely due to changes in rainfall and temperatures. Pressures are expected to be less significant in Northern and Western Europe, apart from the lowland coastal regions around the North Sea and the Baltic Sea. In some cases, the impact of climate change will be more pronounced in less-developed regions which have a lower capacity to respond.

- **Energy.** The report notes that energy-related challenges are strongly influenced by national energy policy choices and energy mixes, and thus the energy challenge is largely country-specific. Nevertheless, it goes on to describe a strong core-periphery pattern, in which peripheral regions located mainly in Eastern and Southern Europe will be particularly vulnerable in terms of energy security, efficiency and environmental sustainability.

The main conclusions of Regions 2020 are that there are marked differences in EU regions’ vulnerability to globalisation, demographic change, climate change and energy demand/supply; that regions strongly affected by three or more challenges are mainly situated in the South and on the coasts of Western and Central Europe; and that almost all regions will need to find locally-tailored solutions. Beyond these general conclusions on the 2020 challenges and vague statements by the (former) Commissioner for Regional Policy that there is a disposition to “devise policy tools in the period 2014-2020 in a way which

81 More detailed analysis was provided in four background documents covering the four challenges of demographic change (November 2008), globalisation (January 2009) climate change (March 2009) and the energy challenge (still to be published)
will address them in the most effective way,” it remains to be seen what the implications are for the future proposals and design of Cohesion policy.

3.1.2 Sixth Cohesion Progress Report

A shorter term perspective on challenges was provided by the Sixth Interim Report on Economic and Social Cohesion published in June 2009. The Report updates the statistics on EU socio-economic trends and summarises the responses to the territorial cohesion consultation (see Section 2.5.5). The key messages on the current situation of EU regions are:

- the continued existence of wide development disparities across the EU, particularly between regions in the EU15 and EU12 Member States - the ten highest ranked regions being located in EU15, often in capital regions, while GDP per head in some regions in Bulgaria and Romania remains below 30 percent of the EU27 average;

- convergence in levels of GDP per head between less developed and developed regions over 2000-06, although little improvement in some cases (e.g. regions in Southern Italy and Portugal);

- high disparities in unemployment, with 45 regions recording rates of more than 10 percent in 2007 (mainly located in Belgium, Southern Italy, Poland and East Germany); and

- some narrowing of unemployment disparities over the previous four years, with significant improvements seen in the Baltic States, Bulgaria, Southern Italy and Spain.

Interestingly, the report provides a statistical analysis of creativity and innovation across the EU regions. This is justified on the basis of these themes having a distinct regional dimension and because their importance for regional development is argued to be stronger in the current context of the economic and financial crisis. The main findings of the analysis regarding creativity, defined as generating a new idea, are threefold.

- **Developing local talent**: the share of graduates is nine percentage points higher in RCE regions than in Convergence regions; participation in lifelong learning is significantly lower in Convergence regions; and particularly low scores on the human capital intensity index (which combines secondary and tertiary education attainment) are found in regions in Portugal, Italy, Greece and Southern Spain.

- **Attracting talent and visitors**: only eight EU regions match the US average of an eight percent share of foreign born graduates (way above the EU average of two

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percent); the share of working age population born in another country is four times higher in RCE regions (12.5 percent) than in Convergence regions (2.8 percent); and regions with a high number of hotel arrivals per head are mainly found in Western Europe.

- **Tolerance**: based on a Eurobarometer survey, the EU is regarded as being relatively tolerant, although tolerance of neighbours and politicians of a different ethnic group, religion or sexual orientation is lower, and there has been a perceived rise in ethnicity-related discrimination in most countries.

With respect to innovation, defined as putting a new idea into practice, the statistical analysis shows that:

- **Start-ups**: only nine Member States met the EU objectives of making it easier, simpler, cheaper and faster to register a new company by 2008; new foreign firms are often located in the capital region and over 2005-07 Convergence regions overtook RCE regions in terms of the number created per head.

- **Existing firms**: R&D is highly concentrated sectorally and regionally: 30 percent of business expenditure on R&D is in only ten EU regions, and the share as a proportion of GDP is four times higher in RCE regions (1.3 percent) than in Convergence regions; and the number of patent applications is 13 times higher in RCE regions.

The policy implications of this analysis are that Convergence regions should strive to embed foreign firms more strongly in their economies and improve educational attainment and participation in training; that phase-in/out (transition) regions should improve their business environment, invest more in R&D, education and training and the development of core creative skills; and that RCE regions should further integrate foreign residents into the labour market, make it easier for them to start businesses and increase investment in creativity and innovation.

### 3.2 Lessons from evaluation: EU research on Cohesion policy

Credible evidence and judgement about policy effectiveness and added value is of crucial importance for the debate on EU Cohesion policy reform. In the words of the recent EU Commissioner for Regional Policy, “my objective is that our debates and discussions during the policy review are - as much as possible - based on evidence and not on anecdote or opinion.”

EU-wide evaluation of the performance of Cohesion policy in the 2007-13 period is scant at this stage, notably because of the very low levels of expenditure during the first 18 months and the late start of the programmes. Moreover, over the last two years DG Regional Policy’s evaluation activity has been focused on the ex-post evaluation of the 2000-06
period, which has received significantly more attention than in previous exercises. Some of the findings are already publicly available, but most will be published towards the end of 2009 and in 2010.

Plans by the Commission for thematic evaluations of the 2007-13 period are being developed throughout 2009. Several major studies are in the process of being commissioned and launched, including: policy analysis of the performance of Cohesion policy in 2007-13, with a particular focus on the theme of innovation; a study of the balance between sectoral and integrated approaches and the involvement of sub-national levels in innovation, transport and labour market policies; and a study on Cohesion policy and sustainable development. To learn from global experiences, a comparative study on EU Cohesion policy and third country and international economic development policies is being launched, and work is also underway with the OECD on place-based policies and with the World Bank on challenges for Europe and its neighbourhood. Lastly, in line with regulatory requirements, the Commission will publish its first strategic report in April 2010, synthesising the strategic reports of the Member States on the contribution of programmes towards the achievement of Cohesion policy objectives.

Set against this context, the remainder of this section reviews the main findings of the available ex-post evaluations of the 2000-06 period, a study on the contribution of Cohesion policy to Lisbon and Gothenburg goals in the 2007-13 period, national assessments of the performance of Cohesion policy and some recent academic studies.

The responsibility for ex-post evaluation of the 2000-06 programmes primarily lies with the Commission. It has adopted a different approach compared to previous periods with far more political priority attached to the exercise, an increased budget, much stronger quality management, and a more targeted and thematically oriented focus.

The ex post evaluations of the Objectives 1 and 2 (ERDF) programmes - organised into 11 inter-linked Working Packages - and the INTERREG and URBAN Community Initiatives are all due to be finalised by the end of 2009 (Box 1). The Working Package on data availability, a precondition for some of the other studies, was completed in March 2008 and a further three have been finalised during the first quarter of 2009 (rural development, efficiency of major projects, gender and demography). The rest were scheduled to be finished between June and July 2009 (macro-economic modelling, transport, transport modelling, environment and climate change, and management and implementation) or the end of 2009 (structural change, enterprise and innovation, coordination and synthesis, Interreg and Urban). Lastly, ex-post evaluations of the Cohesion Fund, ISPA and a sample of 1994-99 projects will be launched in October 2009 and finalised in 2011.

The final reports will be made available through the DG REGIO evaluation website and a synthesis of the ERDF reports is due to be published by the Commission in early 2010.  

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85 See the evaluation section of DG Regional Policy’s website: http://ec.europa.eu/regional_policy/sources/docgener/evaluation/rado_en.htm
the time of writing only three final reports were available, the main findings of which are summarised here.

### Box 1: Ex-post evaluations of the 2000-2006 period

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<td>11. Management &amp; implementation</td>
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#### 3.2.1 Analysis of regional trends and Cohesion policy spending, 2000-06

A starting point for the evaluation was to analyse trends in regional disparities across Objective 1 and 2 regions, partly as contextual analysis for other evaluation research. No attempt was made to model causality (that is, to measure the impact of Cohesion policy on regional growth) in this work package, although a key finding is that GDP growth was highest in the less developed EU regions.

- The average GDP per head (in PPS) relative to the EU25 average in Objective 1 regions increased by 4.1 percentage points over the 2000-05 period, most of which was accounted for by regions in the newer Member States (six percentage points increase compared to just 2.5 percentage points in the EU15).

- High growth in the new Member States was concentrated in capital city regions and thus implied a widening of regional disparities within these countries, contrasting with a slight narrowing within EU15 Member States.

- Breaking down GDP into its constituent components, the main driver of growth in the EU12 was productivity, while employment growth was more important in the EU15.

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With respect to Objective 2 regions, growth was lower than in Objective 1 regions but more than in non-assisted regions and generally highest in regions receiving most support in terms of share of population covered. Both productivity and employment increased at similar rates as in EU15 Objective 1 regions, contrasting with the experience in non-supported regions where productivity rose at around twice the rate of employment.

A second area of evaluation interest is Structural Funds spending in 2000-06, based on financial allocations and implementation.\textsuperscript{87} With regard to the allocation of the Structural Funds and the different national strategies adopted, it was found that:

- A regionally-based approach was prevalent in the EU15, contrasting with a national approach in the EU10. More specifically, 74 percent of EU15 programmes were regional, while the vast majority of programmes were sectoral in the EU10 (93 percent).

- Resources were highly concentrated with half of all funding allocated to 13 percent (or 33) of all programmes in seven countries, although slightly less concentration was found under Objective 2.

- With regard to funding distribution and sources, domestic funding made up 37 percent of the total budget in Objective 1 compared to 57 percent in Objective 2. ERDF contributed some 40 percent to the total (both Objectives), while the other EU Funds accounted for 23 percent of all funding (only 4 percent under Objective 2, although none in some countries). Private expenditure accounted for 38 percent of public funding (EU plus national) and was significantly higher in Objective 2 than Objective 1 regions (60 percent compared to 33 percent).

- The highest levels of funding per head were in Greece (€342 per head annually), Portugal (€326 per head annually) and Spain (€212 per head annually), Italy and Germany (€166 per head in both), and - among the EU10 - in the three Baltic States (over €130 per head in each case).

- In terms of the thematic allocation of funding, Objective 1 programmes focused more on basic infrastructure (40 percent), while Objective 2, especially in the EU15, attached more weight to the productive environment (57 percent), mainly on assisting SMEs. In Objective 1, however, some countries focused more on the productive environment (between 60 percent and 72 percent in Austria, Belgium, Sweden and Finland), while others were more geared towards basic infrastructure (Greece (52 percent), Ireland and Spain (46 percent in each) and Malta (60 percent)), especially in the transport domain. Investment in human resources accounted for only one fifth of the total.

The key findings regarding the relative importance of the scale and weight of the Structural Funds were that the Structural Funds amounted to just under 0.3 percent of

EU15 GDP (although significantly more in Portugal (2.1 percent) and Greece (1.8 percent)) and 0.9 percent in the EU10 (highest in Latvia at 2.1 percent). As a proportion of total fixed investment, the share rises to 1.3 percent in the EU15 and 3.8 percent in the EU10, and significantly more in relation to government capital formation - the ERDF alone accounts for 7.3 percent in the EU15 and 14.3 percent in the EU10, but as much as 42 percent in Portugal and 37 percent in Greece.

Examining the relationship between Structural Fund support and selected socioeconomic indicators which capture the potential need for support, it was found that:

- the EU15 received relatively more funding than the EU10 in relation to levels of GDP per head;
- there was a positive relationship between Structural Funds expenditure on RDTI and general expenditure on R&D in relation to GDP (but not in Belgium, Denmark and the Netherlands); and
- an inverse relationship existed between the density of the motorway network in countries and the share of funds allocated to road building.

Lastly, with regard to **financial implementation**, the programmed funding shares were generally in line with how the resources were actually spent for the EU as a whole, although there were marked variations across types of expenditure, programmes and countries: in most countries, the share of expenditure on basic infrastructure was less than planned (especially in Spain, Greece, Portugal and France); there are a number of countries where the difference between actual and planned spending on productive environment Objective 1 programmes is large; and in Objective 2, spending was significantly less than planned on ‘assisting SMEs’ in several countries. Nonetheless, there were limited problems in spending the allocated funding, even in new Member States, and automatic decommitment was relatively low, although there were problems in five specific programmes where decommitment levels were in the order of 10 percent of programme funding.

### 3.2.2 Management and implementation of Cohesion policy, 2000-06

One of the major foci of the ex post evaluation has been on the management and implementation of Cohesion policy in the 2000-06 period across the EU25. This aspect of the evaluation investigated four key issues: the characteristics of management and implementation systems and their particularities in each of the 25 Member States; the effectiveness and durability of management and implementation systems in the EU10, and the type, scale and sustainability of spillover effects on the overall institutional and

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The management and implementation of Cohesion policy in 2000-06 differed greatly across Member States, influenced not just by country-specific constitutional and institutional factors but also by the scale of EU funding, the relationship with domestic development policies and resource allocation systems. A common feature of the 2000-06 period, however, was that the implementation of Cohesion policy was demanding for many Member States.

Implementation performance was most striking in the new Member States (EU10), which administered ERDF largely in line with the Regulations in their first programme period. Despite this positive progress, the research identified some important constraints on effectiveness, in particular related to a strong ‘compliance orientation’ of administrative procedures. Some of these constraints were addressed during the period in response to experience, but others remained outstanding and, if unresolved, will negatively affect implementation of the much larger amounts of EU funding during the 2007-13 period.

The future success of Cohesion policy implementation in the EU10 will largely depend on the completion of broader public administration reforms and on the achievement of a more stable political and institutional setting.

The 2000-06 period saw significant changes to the strategic management of the Funds in many EU15 Member States, particularly in terms of better-quality strategic planning, partnership and evaluation. The period was also characterised by an increasing pre-occupation with financial absorption and audit. While strengthening financial discipline and stimulating expenditure, there is evidence that this emphasis on financial management and audit had negative implications for the effective strategic delivery of programmes.

There is clear evidence of Cohesion policy having spillover effects on the domestic management and implementation systems of Member States. There are important examples of substantial direct and indirect impacts in the EU10. Cohesion policy also had a significant influence on the development of management and implementation systems of EU15 Member States during the 2000-06 period.

Interpretations of sustainable development (SD) varied during the 2000-06 period. Reflecting debates over the previous two decades, a diverse range of interpretations and refinements was used in the different contexts of legislation, regulation, policy and action, and practical evaluation increasingly accommodated procedural as well as substantive concerns.

Differentiated progress was made in accommodating the new concept of sustainable development within Cohesion policy during 2000-06. In particular, there was a general increase in SD awareness and understanding, and good practice
examples illustrate different approaches to SD integration, mostly associated with individual elements of management and implementation systems.

- Although individual initiatives recorded achievements, considerable difficulties were experienced by programme management bodies and partnerships with the concept of SD. In practice, the degree of operationalisation of awareness/understanding was limited, and the management and implementation systems restricted the scope and effectiveness of the integration. Systemic modification would be required for Cohesion policy programmes to be capable of fully addressing sustainable development.

3.2.3 Evaluation of demography and gender in Cohesion policy, 2000-06

Although demographic change was not among the EU priorities for Cohesion policy in the 2000-06 period, the increasing attention being attached to the topic led the Commission to include it within its list of evaluation themes with a view to assessing the extent to which the ERDF was supporting adaptation to demographic change and to better understand the contribution that the ERDF could make in the future.89

The evaluation found that demographic challenges were often taken account of in the socio-economic analysis of OPs, but far less so in terms of implementation and evaluation. Nonetheless, all programmes implemented measures which directly and/or indirectly address demographic challenges, notably in the fields of social infrastructure, transport and ICT infrastructure and urban/rural regeneration. While little or no quantitative evidence on impacts was found, qualitative evidence was reported to show that:

- women, the elderly and migrants are usually the main beneficiaries of these measures, even if often little attention has been paid to their specific needs in the intervention design and in defining the accessibility conditions;

- integrated urban/rural regeneration programmes appear to have contributed to the improvement of the attractiveness of some areas, which could mitigate migration problems;

- transport and ICT interventions have been a good pre-condition for improving access to services and employment, especially in remote and scarcely populated areas and in regions characterised by high internal disparities;

- social infrastructures appear to have contributed to restoring the attractiveness of isolated and/or degraded urban areas;

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89 A final report was not available at the time of writing. These findings are drawn from a presentation by one of the evaluators and relate only to the demography component of the package: Manuela Samek Lodovici (2009) Hearing on the First Findings of the Ex Post Evaluation of Objectives 1 and 2, 23 June 2009, European Commission, Brussels.
SMEs, NGOs and municipal authorities have been relevant players in local development programmes, but often with little awareness of demographic issues and usually able to implement only very small projects.

In terms of strategic alignment, ERDF interventions had high synergies with ESF measures supporting training and counselling services and the EQUAL projects aimed at the social inclusion of the elderly, migrants and women. EAGGF measures (Leader +) supporting rural development also presented synergies with ERDF measures on local infrastructures and services for depopulated areas. In some regions, the ERDF interventions were part of wider regional and local development strategies, complementing national and regional measures and increasing their sustainability in the long run.

Strong interactions were also found between support for demographic change and gender equality, as interventions in social infrastructures and in re-qualification projects in areas experiencing depopulation or deprived urban areas were indirectly beneficial for women’s employment and their work-life balance.

With respect to the main lessons learned, the evaluators argue that the implemented measures were more successful where a number of conditions were satisfied: better focus on demographic priorities; the integration of ERDF interventions within other locally-implemented programmes; and where there effective public-private partnerships and governance capacity at local and regional level was created. In line with these findings, it was recommended that a place-based approach is required to address demographic challenges, implemented in an integrated and multilevel manner; interventions should be integrated into broader strategies which clearly address demographic priorities and exploit possible synergies with national or EU funded programmes implemented at regional/local level; measures should be targeted at the specific needs of local areas and population groups; and governance capacities at local level should be strengthened.

The main policy recommendations were to include ageing and migration among the core priorities for ERDF intervention; to promote the adoption of a more pro-active and integrated approach; to support management and implementation capacity at the local level (e.g. through technical assistance and capacity building interventions); to promote innovation and exchange of experiences for institutional learning; and to develop and improve monitoring and evaluation as a tool to foster learning (e.g. through the issuing of guidance, the development of demographic indicators etc.).

### 3.2.4 Evaluations of the 2007-13 period

The Commission is currently in the process of launching studies to assess the performance of policy in the 2007-13 period and to provide lessons for the future. At this stage, however, the only completed studies are of an ex-ante nature, based on modelling techniques or documentary analysis of programme documents. For instance, a cross-national macro-economic impact assessment was recently published, employing the so-called HERMIN econometric model that has been developed specifically for Cohesion
policy.\footnote{Gáková Z, Grigonytė D and Monfort P (2009) A Cross-Country Impact Assessment of EU Cohesion Policy Applying the Cohesion System of HERMIN Models, Working Papers, No1/09, DG Regional Policy, European Commission, Brussels} Based on a series of assumptions, model parameters and actual programmed financial allocations, the main estimated impacts on the EU12, Spain, Portugal and Greece by the end of the 2007-13 period are:\footnote{Funding allocations from 2000/04-2006 are accounted for.} increases in average GDP ranging from one percent in Spain to around 3-4 percent in Poland, Slovakia and Romania and to more than five percent in the Baltic States; and the creation of 1.9 million additional jobs across the EU.

The other Europe-wide study to have been completed to date on the 2007-13 period is on the contribution of Structural Funds to the Lisbon and Gothenburg agendas.\footnote{Nordregio (2009) The potential for Regional Policy Instruments (2007-13) to contribute to the Lisbon and Gothenburg objectives for Growth, Jobs and Sustainable Development, Final Report to the European Commission, Directorate-General for Regional Policy, Brussels.} This assessment was undertaken early in the new period on the basis of strategy document analysis (including EU27 NSRFs, more than half of all Operational Programmes (ERDF and CF), a sample of ex-ante evaluations, National Reform Programmes and National Sustainable Development Strategies (NSDS)) rather than actual programme implementation experience.

The key conclusion of the study is that Cohesion policy programmes have significant potential to contribute to the Lisbon and Gothenburg objectives, mainly regarding the themes of innovation, entrepreneurship, R&T&D, transport infrastructure and synergies between environmental protection and growth, but less so in terms of the information society and energy dependence. This potential varies across countries depending on their size, economic potential, political priorities, the scale of funding and the strategies pursued, of which six different types are identified depending on the type of programme.

- In competitiveness programmes, the focus is primarily on R&T&D and innovation (with limited environmental priority) (IE, DK, LU, part of NL); on employment, urban regeneration and energy (as well as R&T&D and innovation) (BE, part of NL, SE, FI, partly AT, DE); or on renewable energy, urban and rural development and tourism (as well as R&T&D and innovation) (UK, FR, IT, ES, partly AT and DE).

- The contribution to Lisbon and Gothenburg in Convergence programmes is mainly reflected through measures for transport and accessibility (EL, PT, HU, CZ, SL, MT, CY), knowledge promotion and accessibility (EE, LV, LT) and urban/rural infrastructure (PL, RO, BG, SK).

In terms of strategic coherence, there was found to be close alignment between the NSRFs and NRPs (albeit less so with the NSDS), between OPs and the Community Strategic Guidelines (CSG) and between strategic objectives and financial allocations.

The use of core indicators was found to be mixed and sometimes applied inconsistently, although they were often focused on Lisbon themes. However, different units of
measurement and methods have been used for some of the themes preventing comparison across countries and aggregation of core indicators to EU level. Indicators relating to sustainable development and Gothenburg were employed less frequently. Similarly, sustainable development related concepts (such as a three-pillar definition, the polluter pays principle, environmental/growth trade-offs) were only used in a minority of programmes and growth and jobs objectives tended to take precedence over social and environmental goals. Territorial cohesion, by contrast, was explicitly treated in two thirds of programmes, but at a general level, e.g. in terms of the reduction of regional spatial disparities or as an objective in exploiting regional potential (Convergence programmes), or in relation to inter-regional/national cooperation (Competitiveness programmes).

A key recommendation of the study is that the links between Lisbon and Gothenburg should be strengthened within the framework of Cohesion policy through an increased focus on the pursuit of synergies in policy priorities and interventions, such as a better exploitation of physical inputs, boosting research and innovation in technologies and approaches to energy generation and conservation, improving the quantity and quality of the workforce, and conserving and enhancing the environment.

3.3 Lessons from evaluation: National research

National assessments of the performance of Cohesion policy in the 2007-13 period will become increasingly available by the end of 2009 as the Member States submit their strategic reports on the achievement of policy objectives to the Commission and progress their own plans for ongoing evaluation. In the context of a more flexible and needs based regulatory framework for evaluation in the 2007-13 period, most Member States and regions had finalised their evaluation plans by the start of 2009, setting out a wide range of thematic and process-related evaluations for the coming years, but few have been completed at this early stage in the programme period. However, some countries have been investing in their own evaluation research, either retrospectively with a view to assessing the performance of the Funds or with a future-oriented agenda related to the reform debate. Three examples are Austria, Germany and Poland.

In Austria, a recent ÖROK study on Cohesion policy in Austria over the 1995-2007 period aimed to assess the effects of Structural Funds support since accession in 1995. The main findings are as follows.

- **Quantitative effects.** Building upon research carried out by the Austrian Institute for Economic Research WIFO, which analysed regional economic development since EU accession at district-level (Bezirke, below NUTS 3-level), it is noted that

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employment growth was 0.75 percent higher in regions assisted by ERDF funds compared to those without support, although no significant advances were made in productivity; employing state-level models to simulate the economic effects of regional subsidies, it is estimated that Cohesion policy had a statistically firm, though marginal, positive economic effect.

- **Institutional effects.** The report attributes to Cohesion policy benefits associated with the creation of regional-level economic development structures and institutions which have helped the regions catch-up with national/international developments and access EU funding streams; in addition, the successful integration of Structural Funds implementation structures and procedures within the domestic system is considered to have led to increased professionalization (especially in terms of policy coordination) and the creation of structured opportunities for learning through monitoring and evaluation (especially under the ESF, where there have been spillovers into domestic labour market policies).

- **Policy focus.** A much stronger regional orientation to Austrian development policies is a key positive impact, as is the shift towards economic and innovation type measures which were of less significance in the past. The other main areas of policy innovation attributed to Cohesion policy are territorial cooperation programmes, certain ESF labour market policy measures (e.g. preventative labour market policy, social inclusion etc.) and an increased market orientation in agricultural policy. From a more negative perspective, the report criticises the excessive administration, especially in terms of financial control, which is seen as detracting from policy experimentation, risk-taking and from discussing strategic content.

A more forward-looking study has been conducted on behalf of the Federal German Ministry of Economics and Technology, considering options for the future of Cohesion policy post-2013.\textsuperscript{96} With a review of the conceptual and historical basis for Cohesion policy, the report assesses the effectiveness of Structural and Cohesion Funds, confirming the mixed conclusions of other evaluation research. Based on its own econometric analysis, the report found that:

- EU funding has not led to rise in public investment, at least in the Cohesion countries, and EU-supported expenditures appears to have substituted for other public spending (leading the authors to question why the additionality principle is not applied to the Cohesion Fund);

- among unintended effects, there are strong indications that recipient countries have used Cohesion policy funds to reduce their budget deficits rather than financing (for example) reductions in corporate taxation; and

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\textsuperscript{96} Zukunft der EU-Strukturpolitik, Schlussbericht Forschungsprojekt I D 4 · 15/07 im Auftrag des Bundesministeriums für Wirtschaft und Technologie, Zentrum für Europäische Wirtschaftsforschung GmbH, Mannheim, February 2009.
there is only limited evidence for a demonstrable employment effect of Structural Funds spending.

The study also considered a series of options and issues for Cohesion policy reform, based on different scenarios. Its preferred ‘reform model’ would be for the Convergence objective to be based on two pillars: the first would apply to Member States with GNI per head of less than X percent with a minimum allocation of the funding being earmarked for the regions; the second pillar would apply to Member States with GNI exceeding X percent, with eligibility for regions with an average GDP per head of under Y percent (which may or may not be the current threshold of 75 percent). Different options are also put forward for the Regional Competitiveness and Employment objective: retention, abolition, or continuation without pre-set national allocations or with a reduced EU co-financing rate.

The Federal Ministry of Economics and Technology has also funded two other studies on the impact of the Structural Funds in Germany since 2000, which will also examine the likely effects in 2007-13 and the potential effects post-2013. The first will be a macroeconomic impact assessment covering the German Convergence regions, employing the HERMIN model and focusing on issues relating to the level of funding; and the second, based on case studies, will cover the German RCE regions and examine whether there is a need for funding at all in these regions. Both studies are expected to be finished by the end of 2009, and published in spring 2010 in the context of the debates linked to the Fifth Cohesion Report.

Finally, Poland is one of the Member States investing heavily in evaluation, with a planned series of 14 thematic, horizontal, sectoral and territorial ex post evaluation studies. Two have already been completed. The first of these was on the impact of Cohesion policy in Poland 2004-06 on the EU15 economies, distinguishing between direct and indirect benefits. Direct benefits related to the direct participation of firms in projects co-financed by Cohesion policy in Poland; under this heading, the effects were limited, with EU15 enterprises receiving only five percent of the available funding in the 2004-08 period (for example, only eight percent of the companies involved in Cohesion policy funded construction of road infrastructure came from outside of Poland). However, the economic growth stimulated by Cohesion policy in Poland had a much more significant indirect impact through the rising levels of goods imported from EU15 producers. The import of goods and services used in production processes in Poland, imports for consumption and imports in the form of investment were all boosted by the growth in demand triggered by the contribution of Cohesion policy to the modernisation of the Polish economy. According to the research, direct and indirect benefits in the EU from Cohesion policy interventions in Poland in the 2004-08 period amounted to €3.2 billion (in 2008 prices), the main beneficiaries being Germany and Austria. This represented 19.5 percent of the total Cohesion policy resources flowing to Poland in that period. With the significantly increased funding available in the 2007-13 period, the evaluation forecast that by 2004-15, the EU15 will have profited by around €24.9 billion from Cohesion policy spending in Poland.

The second evaluation employed macro-economic modelling to assess the impact of Cohesion policy on the Polish economy. Using the General Equilibrium Model, the study concluded that the contribution of Cohesion policy to national GDP had reached a maximum of 0.5 percent in 2008 and that an extra 100,000 jobs had been created. Moreover, the research found that Cohesion policy had exerted some (limited) influence in the very gradual slowing down of processes of regional economic divergence.

### 3.4 Broader perspectives on the effectiveness of Cohesion policy

Turning to the academic literature on the effectiveness of Cohesion policy, the extensive research (much of which involves macro-economic modelling or econometric analysis) has recently been reviewed in several studies. In general, the evidence for impact remains contested, given the wide range of (positive and negative) model-dependent estimates. The main reasons for this inconclusiveness are attributed to the complexity of the growth process itself, the failure to model it over time and over different countries and regions, a failure to isolate the effects on the target population (often at sub-regional level) or to separate out the impact of external factors. Similar conclusions can be drawn from several further studies published over the past year employing various econometric techniques.

- **Analysis of the effects of Cohesion policy on labour productivity over the 1975-1988, 1989-1993 and 1994-1999 periods** (using econometric modelling techniques) indicates a positive, but concave, effect on productivity growth. Considering each period in turn and the different funding objectives, it was found that impacts were only significant in the second and third periods and only Objective 1 and Cohesion Funds had a significantly positive impact, while funds devoted to Objectives 2, 3, 4 and 5 had a non-significant or negative effect.

- **Research on the impact of EU Cohesion policy on regional growth in Greece over the 1990-2005 period** (analysed through the estimation of beta-convergence equations using panel methods of estimation) shows a positive impact on regional growth and convergence and that spatial income and unemployment spillovers have a significant influence on regional growth.

- **Analysis of the GDP growth effects of the Structural Funds using a panel dataset of 124 NUTS-1/2 regions over 1995-2005** does not indicate clear cut impacts for the total sum of Objectives 1, 2 and 3. However, Objective 1 payments are found to

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have a positive and significant impact on growth, but which occurs with a time lag of up to four years.\textsuperscript{102}

- An indirect estimation approach to testing the impact of Cohesion policy examines whether the additionality principle (which aims to ensure that EU expenditure is additional to domestic spending) is complied with.\textsuperscript{103} The empirical results indicate that Cohesion policy does effectively increases the economic development expenditure of the Member States (and that crowding out of domestic funding only occurs with relatively large inflows). Following the theoretical and empirical literature on the impact of general public spending on growth, the authors argue that this additional investment should therefore (indirectly) imply that Cohesion policy is indeed effective in promoting economic growth.

A broader perspective on the effectiveness of Cohesion policy can be derived from some of the preparatory work on the EU budget review, two of which are of relevance to Cohesion policy.

The main goal of the ‘Study on EU Spending’ was to make proposals on the main areas of EU policy in which the budget should be concentrated in the future on the basis of an assessment of the current spending characteristics and bottlenecks.\textsuperscript{104} In the area of Cohesion policy, the report provides a short overview of the policy’s history and examines the case for an EU role across the different policy objectives. The starting point for the assessment is the characterisation of Cohesion policy as a redistributive (equity-based) policy, but with allocative (efficiency) objectives that has emerged and developed in response to other EU policy developments (the internal market and EMU). Looking at specific objectives, Convergence funding is justified on various grounds: complementarities between EU policies; second-best issues and solidarity between Member States; redistribution; preventing emigration from low-income regions; better income distribution and stabilisation, although not a justification in itself, is relevant especially where scale economies and externalities are generated with respect to financial and institutional capacity (i.e in poorer Member States). The territorial cooperation objective is also seen as being justified on the basis of economies of scale, spillover effects and common market complementarity arguments.

By contrast, justification for the Regional Competitiveness and Employment Objective is assessed as being weak, as the resources largely flow to relatively rich Member States which have the financial and institutional capacity to fund and deliver their own regional development policies, nor can any discernible impact on competitiveness and employment be expected. Although there are arguments to support EU budgetary intervention for Internal Market policies and the Lisbon agenda, this need not be done through a regional

\textsuperscript{102} Mohl P and Hagen T (2009) Do EU structural funds promote regional growth? Evidence from various panel data approaches Philipp Mohl and Tobias Hagen, Paper submitted to the 24th Annual Congress of the EEA, 23-27 August, Barcelona

\textsuperscript{103} Wostner P and Šlander S (2009) Macroeconomic impact of EU cohesion policy revisited, mimeo

\textsuperscript{104} ECORYS, CPB and IFO (2008) A Study on EU Spending, Final Report to DG Budget, European Commission, Brussels
policy framework. Based on this assessment, the report concludes that the financial allocations to the Regional Competitiveness and Employment heading should be reduced, and the present level of funding allocated to the Convergence and Territorial Cooperation Objectives should be maintained, but no funding increases or other changes are proposed to the latter two objectives.

The second study of relevance to Cohesion policy is a meta-study on lessons from existing evaluations. The two main questions addressed in the report were (i) how relevant, effective, efficient and sustainable were EU programmes and policies in 2000-06 and (ii) what lessons learned are relevant to the review of EU spending? The first question was assessed through seven evaluation criteria on the basis of a review of 257 EU-commissioned evaluation reports covering all EU policy areas. Although a quarter of these reports concerned Cohesion policy instruments (mainly the ERDF and ESF), it is noted that the analysis of Cohesion policy evaluations is largely based on the Commission’s own synthesis work of mid-term and ex-post evaluations of programmes and related Court of Auditor Reports. The main findings regarding Cohesion policy are as follows.

- ERDF programmes are assessed as being relevant, although it was noted that a number of evaluators called for a stronger emphasis on other development objectives, notably sustainable development and, to a lesser extent, the Lisbon objectives in Objective 1 regions. Regarding effectiveness, the rapid economic growth witnessed in some Member States and regions over the 2000-06 period cannot be attributed exclusively to Cohesion policy as macro-economic studies, which are in any case considered to have a weak evidence base, predicted a relatively low economic impact (of some one to three percent of GDP). Lastly, regarding implementation systems, partnership and financial leverage effects are regarded positively, but administrative challenges are noted with respect to monitoring, financial management and coordination with the ESF.

- ESF programmes are assessed as relevant, but with some caveats, such as an insufficient emphasis on social inclusion and on the gender pay gap in Objective 2 areas. Effectiveness is assessed positively in terms of the contribution to the development of skills and qualifications, as well as in terms of system-wide effects such as reform of labour market policies. The efficiency and sustainability of the ESF is rated as mixed, although an explanation of the reasons for this rating is not given.

- The Cohesion Fund is assessed as relevant and effective. The (single) evaluation reviewed is reported to present clear evidence of considerably faster improvement of infrastructure in the beneficiary Member States due to EU assistance. On the basis of macro-economic modelling, further impacts on business investments, economic activities, and employment are predicted to be positive, although concerns are expressed about sustainability in the absence of EU funds.

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With regard to the second question addressed in the report, the main lessons learnt of relevance to Cohesion policy are:

- **policy design**: a greater effort should be made to integrate cross-cutting themes to avoid missed synergies (e.g. gender mainstreaming), to formulate achievable strategies with clear objectives and intervention logics, and to consider exit strategies for post-funding periods;

- **subsidiarity**: trans-national learning and thinking is an important source of added value; policy effectiveness requires interventions to target a critical mass; and the beneficial experiences of securing local relevance should be reinforced;

- **spending wisely**: there is a need to avoid deadweight, to increase the leverage of funding (e.g. through financial engineering schemes) and to secure the benefits of co-finance and multi-annual budgeting (although care should be taken to avoid negative consequences for transparency and prioritisation); and

- **seeking results**: negative experiences with the performance reserve were due to a lack of a priori agreement over targets and the failure to resolve systemic burdens of excessive administration; and more should be done to learn from achievements (i.e. by using monitoring systems as a management tool).

The wider perspective was also elicited at a Bureau of Economic Policy Advisers workshop organised on 29 January 2009 to assess ‘the geography of regional development in Europe: what cohesion policies can and cannot do’. The reference points (see Box 2) posed fundamental questions about the rationale, objectives, instruments and impacts of Cohesion policy.

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<th>Box 2: BEPA workshop on Cohesion policy: points of reference</th>
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<td>- Is unconditional convergence in per capita income across European regions a feasible/sensible policy objective? Are there other/better measures of disparity or cohesion? More generally, how can/should the overall objective of EU cohesion policies be made more operational?</td>
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<td>- Beyond the traditional supply side factors of economic growth, do cohesion policies of the EU sufficiently account for other conditioning elements of regional growth, in particular public and private institutions/governance? In addition, do cohesion policies sufficiently account for forces of agglomeration?</td>
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<td>- Do EU cohesion policies have the leverage to shape public and private institutions/governance at the national and regional level?</td>
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<tr>
<td>- Which policy tools can be expected to have a bigger impact on cohesion across EU regions: Expenditure based measures? Regulatory measures? Labour/product market reforms? Building or improvement of institutions/governance?</td>
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The main themes discussed, however, had a narrower focus, primarily on the relationship between regional development and institutions or migration, and on the rationale for and desirability of spatially-targeted policies.
• Research on the role of migration in regional development suggests that internal labour mobility in Finland has fostered divergence in regional disparities by contributing to the production of localised externalities.\textsuperscript{106} Similarly, in a selection of EU countries it was found that international migration supported productivity increases at the local level by bringing in complementary skills and, as a result, contributed to divergence in development at the regional level. It is therefore inferred that policies that foster mobility can enhance local productivity but cannot drive regional convergence.

• Analysis of the role of institutions for regional development highlights the increasing recognition given to the critical significance of institutions in the literature.\textsuperscript{107} This is regarded as being insufficiently addressed through EU Cohesion policy and, while institution-based strategies should be tailored to regional and local conditions, the EU could provide support through the provision of guidelines for different intervention types.

• Drawing on the World Bank Report of 2009, a paper was presented by one of the report’s authors reiterating its key conclusions and three inter-related policy implications for the EU, namely: the need for a reconsideration of the role of institution-based policies (which should be ‘spatially-blind’ and universal) and infrastructure (or ‘corrective’) policies; for Cohesion policy to shift its focus towards the goal of international convergence, rather than inter-regional convergence; and for the EU to primarily support Member States in identifying effective and efficient sectoral priorities.\textsuperscript{108} On the other hand, the World Bank Report was also criticised for being conceptually and theoretically weak in its understanding of uneven spatial development from a geography perspective, empirically biased in terms of case selection and data, and, hence, problematic in term of policy recommendations.\textsuperscript{109}

3.5 Implications for the Cohesion policy debate

The extensive set of evaluations, studies and workshops summarised deal with many different issues, but there are five main points that are particularly relevant for the Cohesion policy debate.


\textsuperscript{107} Rodríguez-Pose A (2009) \textit{Do institutions matter for regional development in the EU?} background paper for presentation at the BEPA Workshop ‘The geography of regional development in Europe: What cohesion policies can and cannot do?’, 29 January 2009, Brussels.


First, although the EU has made some progress in reducing differences between Member States, and between the least developed and developed regions, the process of convergence has been slow. The Lisbon goals are not being achieved, in particular with respect to improving the business environment for entrepreneurship, investment in research and innovation, and the development of human resources. It is also clear from the persistence of high unemployment in a significant number of regions (even before the start of the crisis) that obstacles to development have not yet been addressed. The longer term outlook presents further challenges for EU regions from the impact of globalisation, declining populations, changes in rainfall and temperature and vulnerability to energy security and environmental sustainability.

Second, Cohesion policy is making a sizeable contribution to investment and capital formation, especially in Central, Eastern and Southern Europe. In the current period, the policy has a significant potential to contribute to the Lisbon and Gothenburg objectives, with a strong focus on innovation, entrepreneurship, R&TD, transport infrastructure and environmental protection. Key aspects of the management of programmes have been improving, notably in relation to strategic planning, monitoring and evaluation. On the other hand, the quality of Structural Funds intervention is potentially being undermined by insufficient attention to deficits of institutional capacity as well as the increasing proportion of administrative time required for financial management, control and audit.

Third, conclusive evidence on the effectiveness of the funds is frustratingly elusive. In the absence of ex post evaluation results (not yet available for the 2000-06 period), recent academic research repeats the conclusions from previous research: modelling projections show significant impacts of Cohesion policy transfers on GDP growth, but econometric studies have produced mixed results. Positive impacts are mostly found for Objective 1 interventions, but some are limited, country or region specific, restricted to particular indicators, and/or with considerable time-lags. The effects in Objective 2 regions are difficult to identify in evaluation research; while a range of programme, region and country-specific quantitative and institutional impacts have been found, these generally defy easy aggregation at EU level.

Lastly, critical questions are being asked whether Cohesion policy should continue in its current form. In particular, the studies conducted in the framework of the budget review imply or explicitly advocate focusing EU funding on the Convergence objective with a rationalisation or discontinuation of support in regions in richer countries.
4. PREPARING FOR THE COHESION POLICY DEBATE: PROPOSALS FOR REFORM

While much of the activity over the past year has been on evaluation and other analysis, some thinking has also been undertaken on what kind of specific changes are needed for the future of the policy. In general, these have eschewed issues of geographical eligibility and financial allocation, concentrating instead on the content and management of the policy. However, the changing maps of eligibility are encouraging thinking about new types of Cohesion policy objective. This section reviews the key issues being considered.

4.1 Concepts and ideas for Cohesion policy reform

Fundamental questions for the future of Cohesion policy were identified by DG REGIO at a ‘brainstorming workshop’ involving senior DG REGIO officials and academics in February 2009: Is the policy an allocative or distributive policy? Is the Lisbon agenda the right way to go? What is the best approach to foster institution building - more stringent conditionalities or by fostering learning? Which regions should be targeted and where? The debate highlighted the dilemmas of the policy. For example: the policy is difficult to categorise as either allocative or distributive - both types of logic/effect are evidently present. The Lisbon agenda is not necessarily appropriate in all places, as less developed regions face ‘entry barriers’ to effective participation in this agenda; there is a danger of losing core objectives and principles, although it is open to debate whether competitiveness and cohesion are mutually exclusive or reinforcing; and multiple objectives create confusion and make it difficult for any single objective to be targeted effectively. The case for supporting lesser developed regions in richer Member States is weak, although legitimacy could be lost if the focus was on poorer Member States alone.

Among the main lessons drawn from the discussion for the future, were three general policy recommendations: the need to adapt to new challenges, but interestingly singling out climate change as the main candidate; the need to be sensitive to both competitiveness and absorption capacity; and the need to avoid a ‘one-size fits all’ approach. A final set of lessons concerned the link between the Lisbon agenda and regional development, namely for more thought to be given to how the knowledge economy translates into the creation of enterprise (e.g. through networks and mobility) and innovation; the importance of socio-economic context; and that complementary policies matter (such as the relationship and division of tasks between Cohesion policy and EU innovation policies).

Similar issues were also raised in contributions from academics to a conference on the future of Cohesion policy in March 2009 organised by the Czech EU presidency, although some different proposals for reform were also highlighted: [111] [112]  

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Challenges, Consultations and Concepts: Preparing for the Cohesion Policy Debate

- flexible concentration: greater Member State flexibility in the choice of thematic priorities, as long as they are limited and financially concentrated;

- phasing-out support or co-funding: the impact of losing Convergence funding eligibility could be eased through a new phasing-out category or by gradually increasing the domestic co-funding component as the 75 percent threshold is approached;

- links to Lisbon: linking Cohesion policy more closely to the Lisbon agenda by increasing the scope of eligibility under the Cohesion Fund to scientific and research infrastructure; and

- administrative simplification: the need for radical simplification in implementation systems.

Many of these and other proposals have also been examined in the Barca Report, which contains the most concrete and advanced thinking on policy reform to date.

4.2 Developing ideas for change - the Barca Report

The Barca Report was an initiative launched by Commissioner Danuta Hübner and the Director-General of DG REGIO in 2007. In the context of the budget review, the remit given to Dr Fabrizio Barca (Director-General of the Italian Ministry of Economy and Finance) was to undertake an independent re-assessment of the effectiveness of Cohesion policy to date as well as a series of proposals how to reform Cohesion policy for the period post-2013. The assessment was based on an extensive programme of research and a series of hearings and seminars with academic experts and policy-makers conducted during 2008-09 leading up to the publication of the Report in April 2009. The Report sought to set an agenda for reform and initiate a frank, informed and timely debate on the conceptual, political and operational aspects of the policy. It discusses the economic rationale and motivation of an EU role policy role on the basis that economic integration (notably through the Single Market) requires accompanying EU action to reduce persistent inefficiency (underutilisation of resources resulting in income below potential in both the short and long-run) and persistent social exclusion (primarily, an excessive number of people below a given standard in terms of income and other fundamental questions).

The starting point for the Report is the relevance and suitability of the ‘place-based development approach’ for Cohesion policy. An EU role policy role is justified on the basis that economic integration (notably through the Single Market) requires accompanying EU action to reduce persistent inefficiency (underutilisation of resources resulting in income below potential in both the short and long-run) and persistent social exclusion (primarily, an excessive number of people below a given standard in terms of income and other fundamental questions).

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features of well-being) in specific places. A place-based approach - whereby the EU sets a framework for regional development intervention and countries/regions are responsible for designing and implementing the intervention - is regarded as “the only policy model that is compatible with the EU’s hybrid form of government and limited democratic legitimacy” (p. XII). The EU is also seen as being best suited for dealing with cross-border issues, as well as promoting processes of institutional learning and dissemination and exerting exogenous pressure to challenge vested interests.

The Report’s assessment of Cohesion policy to date is mixed. As other research has found, the empirical evidence on the performance of Cohesion policy did not allow conclusive answers to the drawn on the effectiveness of the policy. Despite the limitations, the Report concluded that the current architecture of Cohesion policy represents an appropriate basis for implementing the place-based development approach (notably the multi-level governance approach, the contribution to institution-building and partnership, and the scope for cooperation) but that the policy requires “a comprehensive reform for it to meet the challenges facing the Union” (p.XV). Deficiencies were identified with respect to strategic planning, a lack of focus on priorities, weaknesses in the use of indicators and targets, and a lack of political and policy debate on results.

This assessment leads to the recommendation for future Cohesion policy to concentrate on a limited number of priorities. This concentration should allow a Europe-wide critical mass of interventions to be achieved, with greater possibilities of having tangible impacts, and which would receive more political attention and allow more focused management of interventions by policymakers, especially in the Commission. The Report identifies three criteria for the selection of these priorities:

- **EU-wide relevance** - the needs and expectations of European citizens and of the advantage of the EU over Member States in addressing the issue;

- **their place-based nature** - the extent to which the inefficiency and/or social exclusion problems relevant for the issue are context dependent, requiring interventions to be tailored to the characteristics and needs of different places; and

- **verifiability** - the extent to which policy objectives can be clearly identified and measured.

The other governance proposals, encapsulated in the ‘ten pillars’ (Box 3) flow from this analysis, in particular a modified strategic relationship between the Commission and Member States which enables results to be verified and provides incentives for learning, evaluation and policy debate. A ‘territorialised social agenda’ as part of Cohesion policy is also advocated, aimed at guaranteeing socially agreed standards for particular aspects of well-being to which people attach a high priority. The Report concludes with a plea for the negotiation on resources, governance and goals to be completed at the same time to ensure that the allocation of resources is subordinated to a common acceptance of the rules and goals for using them.
Box 3: Barca Report - ‘ten pillars for reforming Cohesion policy governance’

**Pillar 1: An innovative concentration on core priorities and a conservative territorial allocation.** The concentration of 55-65% of funding on 3-4 core priorities (the share varying by Member State and region), with the criteria for the territorial allocation of funding, and the distribution of funds between lagging and non-lagging Regions and for territorial cooperation remaining much as now. Six possible core priorities are innovation, climate change, migration, children, skills and ageing.

**Pillar 2: A new strategic framework for cohesion policy.** An enhanced strategic dialogue between the Commission and Member States (Regions), based on a European Strategic Development Framework, setting out the major policy innovations clear-cut principles for the core priorities and a set of indicators for assessing performance.

**Pillar 3: A new contractual relationship, implementation and reporting aimed at results**

A new type of contractual agreement (a National Strategic Development Contract) between the Commission and Member States, focused on performance and on the institutional requirements for intervention, coupled with the preparation of an Implementation Assessment (where required) by the Commission and of a Strategic Report on Results by Member States annually after the third year.

**Pillar 4: A strengthened governance for the core priorities.** The establishment of a set of ex-ante conditionalities on the institutional framework required to be in place in order to pursue each core priority and a system for assessing progress in meeting targets.

**Pillar 5: Promoting additional, innovative and flexible spending.** The strengthening of the principle of additionality through linkage to the Stability and Growth Pact, plus a contractual commitment and an assessment of how the policy is delivering value added, and the option of implementing the de-commitment rule over the entire country.

**Pillar 6: Promoting experimentalism and mobilising local actors.** A better balance between incentivising local agents to risk and invest and preventing policy from being captured by local interest, by encouraging experimentalism, using a small fund for innovative territorial actions and using international expertise locally.

**Pillar 7: Promoting the learning process: a move towards prospective impact evaluation**

Encouraging the design and implementation of counterfactual methods for assessing the impact of policy interventions, to improve understanding of what works, especially in a prospective sense, so that evaluation is designed together with the intervention, focusing attention on objectives and on the criteria for the selection of beneficiaries.

**Pillar 8: Refocusing and strengthening the role of the Commission as a centre of competence.** A significant investment in human resources and organisational changes in the Directorates-General of the Commission which have overall responsibility for cohesion policy, together with improved coordination.

**Pillar 9: Addressing financial management and control.** Recent changes in this area, and further measures on the basis of current debate, should allow a greater efficiency to be achieved and allow additional investment in human resources.

**Pillar 10: Reinforcing the high-level political system of checks and balances.** An improved high-level political debate, with new information on performance and a renewed system of checks and balances among the European institutions, should be strengthened by creating a formal Council for Cohesion policy.
A substantive discussion of the Report with Member States was held on 22 June 2009, providing a first opportunity for national policymakers to react to the Report’s proposals. Although Member States were cautious in reacting to a complex and wide-ranging document, there was some general agreement on the validity of the place-based concept and the justification for the role of Cohesion policy. The proposed spatial and thematic concentration of resources was supported in principle, and several of the recommendations were regarded as having merit (e.g. more flexibility on n+2, simplification of the additionality requirement, experimentalism, more strategic reporting, high-level political debate).

On the other hand, there were many questions about the operationalisation of the proposals, notably with regard to the proposed strategic development framework, the outcome-focus of contracts, and the feasibility of impact evaluation. The prospect of Member State performance being assessed and ranked caused some disquiet, and there was concern that several issues had not been sufficiently developed e.g. the coordination of Funds, the justification for a ‘territorialised social agenda’, the resolution of financial management, control and audit problems, the scope for the EU to induce institutional changes, and the need for systemic reforms at Member State level.

Other reaction has so far been sparse. The Barca Report has been presented at bilateral meetings with national policymakers in Italy, Poland and Portugal, and also at some fora (Brussels regional offices, Notre Europe), with presentations to the Committee of the Regions and European Parliament foreseen for September/October 2009. However, the participants at these meetings have mainly sought clarification and interpretation, and there has been no formal response from any Member State. Some sub-national authorities have used the Report as a reference point to justify certain political positions – notably on the retention of a well-funded Cohesion policy providing support for all regions after 2013.

Within the Commission, there are mixed views. For those tasked with the budget review, the Barca proposals suggest a much broader scope for Cohesion policy - going in the direction of a ‘European development policy’ - that raises questions of political desirability and practical feasibility (within a limited EU budget). The thematic focus is regarded as potentially very broad, cutting across several different policy areas and DG responsibilities. The proposal to bring rural development into Cohesion policy runs counter to the view of

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115 Other national meetings have been or are being scheduled in Austria and Spain.

the Agriculture Commissioner who has argued strongly that rural development must remain within the CAP.\textsuperscript{117}

From the EoRPA fieldwork research among nine national governments, several unofficial points were made in reaction to the Barca Report. First, the Report was considered a difficult and complex document to read, with a dense mix of economic theory, empirical research and policy proposals. Notwithstanding this constraint, the Report was mostly regarded as providing a fresh and valuable contribution to the policy debate - what one commentator has referred to as a “spring clean” of the policy.\textsuperscript{118}

Second, the concept of a place-based approach was thought to be interesting and useful - often reflecting the debates and recent policy directions in national regional policies over the past decade. Several proposals also mirror national thinking on the reform of Cohesion policy. However, the ambition of the concept - as presented in the Report - was questioned. Specifically, the state of institutional capacity at regional and local levels across the EU was thought to be insufficiently developed for effectively aggregating and representing local preferences in strategic planning. Further, the level of knowledge (and knowledge flows) required to enable higher levels of government (such as the Commission) to challenge the expenditure choices of lower levels, especially where vested interests were resistant to change, was thought to be highly problematic in terms of feasibility.

Third, while the Report was considered to contain important proposals, several key recommendations were not considered to be politically realistic. This applied in particular to the proposed thematic concentration; in a policy environment with numerous actors with different priorities, it was thought (by some) to be unrealistic to focus Cohesion policy spending on narrowly defined priorities. Concerns about realism also applied to the proposed changes to the spatial coverage of the policy by introducing a ‘transition category’ of eligibility, which was welcomed by some and opposed by others depending on their budgetary interests. It was notable that even those Member State officials who welcomed the proposal for a ‘transition category’ were doubtful about the likelihood of it being agreed. A new Council configuration for Cohesion policy (or other high-level forum) was regarded as positive in practice, but most policy-makers questioned whether their ministers would be supportive of this idea, given the technical grasp of Cohesion policy that would be required.

Fourth, the proposed ‘core priorities’ drew a mixed reaction. Some Member State officials saw scope for such priorities to rejuvenate Cohesion policy, providing a justification for the pan-European approach of the policy. Others were unhappy with the proposed priorities especially in countries where, for example, support for dealing with migration or childhood


\textsuperscript{118} “The reader who perseveres - even if disagreeing with certain proposals, or finding that they remain too vague - cannot help but experience the satisfying feeling of a ‘spring clean’, p.5 in The Barca Report: A Spring Clean for Europe’s Cohesion Policy, Marjorie Jouen, Notre Europe, May 2009.
deprivation has not been supported through Structural Funds. Some of the priorities, such as climate change, were not considered to be a primary goal of regional policy.

Lastly, there was a disappointment among some net payer countries that the Report had not been prepared to consider seriously the abolition of Cohesion policy support in the richer Member States or to consider other ways (or interpretations) of how the EU’s cohesion goal might be achieved. The absence of any discussion of levels of funding was also criticised.

4.3 Implications of changing maps

At the heart of the reform debate on EU Cohesion policy is a complex set of budgetary issues concerning overall expenditure and the allocation of finance to countries and regions. At this stage in the debate, the overall amount of the budget and the share for Cohesion policy in that total is an unknown. It is also unclear just how much of an appetite there is for a fundamental reform of budgetary principles, or whether modest adjustments of the current mechanisms are more likely. However, it is clear that, unless steps are taken to disentangle decisions about revenue-raising from those about spending, the distribution of Cohesion policy resources will continue to be an important element in determining acceptable net balances. Moreover, eligibility for the Convergence priority - both the regional (formerly Objective 1) and the national element (i.e. the Cohesion Fund) has become entrenched in Commission policy. It is arguable that the so-called Berlin formula has also achieved this status, although the final negotiations of both the 2000-6 and 2007-13 Financial Perspectives involved substantial tinkering with the methodology to achieve politically acceptable outcomes.

The distribution of funding for the 2007-13 period was principally based on regional GDP data for 2000-2 and GNI data for 2001-3. Regional GDP data are now available for 2006. In addition, Eurostat has updated national GDP(PPS) data, including forecasts, for the period to 2009. This enables some rough forecasts of regional GDP(PPS) to be made for 2007-2009, the period which, in principle, would be used as the basis for Convergence eligibility in the post-2013 period. Of course, such forecasts must be treated with considerable caution. In particular, they presuppose that regional GDP growth rates will mirror national ones; this is a heroic assumption. Moreover, given current conditions, the data are likely not only to be volatile, but also subject to revision.

Current convergence coverage involves 84 regions in 18 Member States and a total population of around 154 million, this being over 31 percent of the EU27 population. On the basis of forecast regional GDP data for 2007-9, this would fall significantly - to 68 regions in 16 Member States and total of 120 million inhabitants, or about 24 percent of the EU population (see Table 1). These changes arise from a combination of regional economic change and the impact of Bulgaria and Romania on EU average GDP - i.e. the shift from EU25 to EU27, which entails a further ‘statistical effect’.

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119 The number of eligible regions cannot be compared directly owing to boundary changes.
At the national level, the principal changes would be as follows within the ‘old’ Member States:

- Germany: would lose all convergence coverage, except Brandenburg-Nordost;
- Greece: three regions (Ionia Nisia, Peloponnisos and Kriti) would lose eligibility, with coverage falling from 37 to 24 percent of the national population;
- Italy: two regions (Molise and Balisicata) would gain Convergence status, taking coverage from 29 to just over 30 percent of the national population;
- Spain: three regions (Andalucia, Castilla-La Mancha and Galicia) would lose eligibility; only Extremadura would retain it so that coverage would fall from 31 percent to 2.4 percent of the population;
- UK: West Wales & the Valleys; Cornwall & Scilly Isles would lose eligibility, so that the UK would have no Convergence regions.

Importantly, however, changes are not limited to the EU15. The following regions would also lose Convergence status:

- Czech Republic: Střední Čechy
- Malta
- Poland: Mazowiecki (Warsaw region)
- Romania: Bucarest-Ilfov
- Slovenia: following the split into two NUTS 2 regions, Zahodna Slovenija (Ljubljana region)

The situation would be unchanged in the remaining countries currently concerned by Convergence status, namely: Bulgaria, Estonia, Latvia, Lithuania, Hungary, Portugal, Slovakia.

A number of points arise from this. Convergence region coverage would become more heavily concentrated in the new Member States. In these countries the losses would be Bucharest, Mazowiecki, Malta and Zahodna Slovenija. These losses are significant. Leaving aside the case of Malta aside - a single region country - the areas concerned are the capital regions of the countries concerned, and their loss of eligibility raises serious questions about support for the key drivers of the economy.

On the other hand, the changes are not large compared with those in the EU15 where Greece, Portugal and Italy would be the only countries with significant Convergence region coverage; the absence of significant interest from Spain and Germany would have important implications for lobbying.
Table 1: Current eligibility and future eligibility changes

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<tr>
<td></td>
<td>Convergence</td>
<td>Phasing-out</td>
<td>Phasing-in</td>
</tr>
<tr>
<td>EU27 Pop (m)</td>
<td>153798.8</td>
<td>16594.5</td>
<td>19534.2</td>
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<tr>
<td>EU27 Pop (%)</td>
<td>31.4</td>
<td>3.4</td>
<td>4.0</td>
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<tr>
<td>EU27 no of regions</td>
<td>84</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>Belgium</td>
<td>12.3</td>
<td>12.3</td>
<td></td>
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<tr>
<td>Bulgaria</td>
<td>100.0</td>
<td></td>
<td></td>
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<tr>
<td>Czech rep</td>
<td>88.6</td>
<td></td>
<td></td>
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<tr>
<td>Germany</td>
<td>12.3</td>
<td>6.1</td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>100.0</td>
<td></td>
<td></td>
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<tr>
<td>Ireland</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Greece</td>
<td>36.5</td>
<td>55.7</td>
<td>7.8</td>
</tr>
<tr>
<td>Spain</td>
<td>31.0</td>
<td>5.8</td>
<td>20.6</td>
</tr>
<tr>
<td>France</td>
<td>2.9</td>
<td></td>
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<tr>
<td>Italy</td>
<td>29.0</td>
<td>1.0</td>
<td>2.8</td>
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<tr>
<td>Cyprus</td>
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<td>Latvia</td>
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<td>Lithuania</td>
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<tr>
<td>Hungary</td>
<td>71.9</td>
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<td>Malta</td>
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<td>Austria</td>
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<td>3.4</td>
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<tr>
<td>Poland</td>
<td>100.0</td>
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<tr>
<td>Portugal</td>
<td>67.6</td>
<td>3.9</td>
<td>2.3</td>
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<tr>
<td>Romania</td>
<td>100.0</td>
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<td>Slovenia</td>
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<td>Slovakia</td>
<td>88.8</td>
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<td>Finland</td>
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<td>12.8</td>
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<tr>
<td>UK</td>
<td>4.0</td>
<td>0.6</td>
<td>4.4</td>
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Source: Commission information from Inforegio and own calculations from Eurostat data.

A number of points arise from this. Convergence region coverage would become more heavily concentrated in the new Member States. In these countries the losses would be Bucharest, Mazowiecki, Malta and Zahodna Slovenija. These losses are significant. Leaving aside the case of Malta aside - a single region country - the areas concerned are the capital regions of the countries concerned, and their loss of eligibility raises serious questions about support for the key drivers of the economy.

On the other hand, the changes are not large compared with those in the EU15 where Greece, Portugal and Italy would be the only countries with significant Convergence region coverage; the absence of significant interest from Spain and Germany would have important implications for lobbying.
Although most of the new Member States would retain Convergence status, actual allocations would depend partly on growth rates since, for the current period, allocations to the new Member States were primarily driven by the constraints of capping, rather than regional disparities. It is here that the volatility of the current period may have significant effects on future allocations. Several of the new Member States, notably the Baltic countries, have been severely affected by the recession, with the potential consequence of lower Structural Fund receipts because of the impact of capping.

The mixed pattern of economic growth coupled with loss of Convergence status in Germany, Spain and Greece, seems likely to fuel demands for generous transitional arrangements. This is all the more so since all of those regions which would lose Convergence status on the basis of the EU27 average for 2007-9 - with the exception of the Bucharest, Ljubljana and Warsaw regions - would still be eligible for Convergence status if the EU15 average were used. In addition, most of the existing Phasing-out regions, some current Phasing-in regions and some areas that are currently not designated at all also have GDP per head below the EU15 75 percent threshold on the basis of these forecasts. All regions with GDP below the EU15 threshold are included as Phasing-out areas in Table 1. They include:

- Belgium: Hainaut, Namur, Luxembourg
- Czech Republic: Střední Čechy
- Germany: Mecklenburg-Vorpommern; Chemnitz, Sachsen-Anhalt; Thüringen
- Greece: Kentriki Makedonia; Dytiki Makedonia; Peloponnisos
- Spain: Castilla-La Mancha; Andalucia
- Italy: Abruzzo; Sardegna
- Malta
- Austria: Burgenland
- Portugal: Algarve
- United Kingdom: Tees Valley; Lincolnshire; Cornwall & the Scilly Isles; West Wales & the Valleys.

This raises the curious prospect of the capitals of Poland, Romania and Slovenia losing eligibility completely (except for Phasing-in, assuming the designations were the same), while some regions of richer Member States (Belgium, Italy, UK) gain or regain Phasing-out status.

For the Cohesion Fund, based on data currently available, the position is relatively stable (see Table 2). Based on 2005-7 data, Greece would lose Cohesion Fund eligibility, and thus only Portugal among old Member States would retain it. Based on current growth trajectories in relation to EU27 average, Cyprus and Slovenia are also likely to cease to
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qualify, although it is worth noting the precedent in Spanish eligibility under the current Financial Perspective.

Table 2: GNI(PPS) per head (EU27=100)

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<tbody>
<tr>
<td>EU27</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>126.4</td>
<td>125.1</td>
<td>123.2</td>
<td>122.0</td>
<td>121.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>31.3</td>
<td>33.2</td>
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Source: Own calculations from DG ECFIN data.

Not surprisingly, the implications of the shifting maps of eligibility have prompted discussions on possible alterations to the algorithms for determining spatial coverage and financial allocations. Specifically, there has been debate about creating a ‘transition’ or ‘Convergence(b)’ objective for regions above 75 percent of EU GDP per head but below 80, 90 or 100 percent. The main argument for such an approach is the need to lessen the big differences in per capita Cohesion policy support for regions either side of the 75 percent threshold, and to introduce some form of gradation in the provision of aid. A second justification is the desirability of ensuring continued strong EU15 interest in Cohesion policy after 2013.

The desirability of ameliorating the ‘boundary effect’ was voiced at the Prague International Conference under the Czech Presidency, where it was noted that “the eligibility criteria need to be reconsidered, potentially with modulated Convergence...
support for regions immediately above the 75% threshold”. As noted in Section 4.2 above, the Barca Report also made a proposal to create a category of transition regions.

4.4 Emerging thinking in DG REGIO

In launching the debate on the future of Cohesion policy during 2008, Commissioner Hübner reiterated three main themes. First, regional development in Europe and the role of Cohesion policy must been seen within the context of global challenges. Second, Cohesion policy must be more focused on maximising its impact on EU competitiveness, growth and jobs. Third, changes are required to the governance of Cohesion policy in order to increase the focus on performance, to optimise the roles of different actors and levels, and to improve the coordination of the funds.

Over the past year, Commissioner Hübner has elaborated on these themes, using the Barca Report to inform or reinforce DG REGIO thinking about the future orientation of Cohesion policy. Of particular note was a ‘reflections paper’ presented at the April 2009 informal meeting of regional policy ministers, as well as subsequent speeches. The main message is that “the policy we put in place in 2006 was the right one, but...it must evolve further to meet the challenges of the 21st century”. Four sets of issues were highlighted.

1. Consolidating the paradigm shift in Cohesion policy. The EU needs a strong-based development policy that enables all regions to realise their economic potential, and all citizens to benefit from integration wherever they live. This involves mobilising people and businesses to make best use of tangible and intangible territorial assets. Cohesion policy enables all territories, lagging and non-lagging, to mobilise such assets and improve their contribution to overall economic efficiency and growth.

The policy needs a stronger focus on narrowly defined core priorities - linked to innovation, entrepreneurship and development of integrated local strategies - to allow a Europe-wide critical mass of interventions to be achieved, focusing political and public attention on clear objectives. In all regions, promoting competitiveness requires emphasis on know-how, capacity-building, strategy development and networks. In the poorer regions, it is also necessary to address key bottlenecks to growth such as infrastructure deficits in transport, ICT, human resources and research. The policy also needs to ensure that lagging regions can benefit from knowledge and technology spillovers from leading regions.

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121 Bachtler and Mendez (2008) op. cit.
122 Reflection paper on future Cohesion policy, presented by Commissioner Danuta Hübner to the Informal Meeting of Ministers for Regional Policy, Mariánské Lázně, 22-24 April 2009.
123 See, for example: First reaction to Barca report, Speech by Commissioner Danuta Hübner at the launch of the Barca report, 27 April 2009, Berlaymont, European Commission. Speech by Commissioner Danuta Hübner to a Meeting with the Regional Offices - Centre Borschette, 25 June 2009.
124 Ibid.
2. **A greater focus on results.** There is a need for a greater performance orientation, with a stronger focus on targeted outcomes and results, as well as a stronger monitoring and evaluation culture and commitment to learning. This includes comparable indicators across all Member States and investment in impact evaluation.

3. **Reinforcing the added value of Cohesion policy.** More emphasis needs to be placed on the development of effective institutions. Improving delivery includes better coordination between Cohesion and sectoral policies at national and EU levels and an increased targeting of interventions (especially between Cohesion policy programmes and the Lisbon strategy, and for competitiveness measures to take account of low carbon and climate change objectives). Reinforcing the strategic dimension of the policy requires the strategic role of the Commission to be enhanced, especially the role of the Commission as ‘strategic advisor’ to Member States and its scope to promote effective knowledge management. The introduction of a high-level political peer review mechanism should be considered.

4. **Strengthening and simplifying delivery mechanisms.** To address the growing complexity of the policy requires a better balance between performance, simplification and assurance of financial legality and regularity. Management and control mechanisms should be tailored more closely to the nature of the intervention. The administrative burden for implementing bodies and beneficiaries must be reduced. The scope for reinforcing proportionality of procedures should be explored. More flexible spending rules are needed, especially to encourage risk-taking and experimentation. The role of financial engineering in increasing the leverage and impact of the policy should be enlarged.

Many of these proposals for reform are shared by Member States. Based on a questionnaire circulated by the Czech Presidency, a joint communiqué was agreed by regional policy ministers at Mariánské Lázně. This underlined the relevant and long-term strategic role of the policy and acknowledged that Cohesion policy “can play a role” (as a complement to other policies) in helping regions deal with new challenges like globalisation, demographic change, energy and climate change. It agreed that the policy “should be present across the whole EU territory” although this was open to different interpretations. The communiqué also reiterated the principles of Cohesion policy (strategic planning, partnership, integrated policy approaches, etc) but called for better coordination among Cohesion policy and other EU policies, “real simplification” of delivery mechanisms, more coherence between the Funds, and the use of non-grant forms of financing.

The communiqué is regarded by several Member States as an important political milestone (and a tribute to the Czech Presidency) although it was agreed with stated caveats that it did not pre-empt the outcome of the budget review or pre-define the shape of Cohesion policy after 2013. As noted above, a high-level group on the future of Cohesion policy is being convened to (in the words of the new Commissioner Paweł Samecki) “provide an

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125 A working group with Member State officials has been established to explore simplification measures for the current programme period.
informal platform for discussion between the Commission and Member States on the cohesion policy foundations". With a first meeting in October 2009, its starting point is the Mariánské Lázně reflection paper. The next milestone will be the publication of the Fifth Cohesion Report in 2010.
5. CONCLUSIONS AND POLICY ISSUES

The aim of this paper has been to provide a review of the Cohesion policy debate over the past year. It began with a summary of the state-of-play with the budget review, covering the conclusion of the consultation exercise, reform ideas and the main Member State positions expressed, focusing particularly on the two largest elements of the budget - the Common Agricultural Policy and Cohesion policy. The paper then reviewed the analytical work conducted under the auspices of DG Regio and the emerging thinking within the DG on the directions of reform. This final section draws out a number of policy issues for further consideration.

(i) How relevant is the ‘place-based policy’ concept, as interpreted in the Barca Report for the debate on the future of Cohesion policy?

In the Barca Report, the place-based policy concept is interpreted as “a long-term strategy aimed at tackling persistent under-utilisation of potential and reducing persistent social exclusion in specific places through external interventions and multilevel governance…. It promotes the supply of integrated goods and services tailored to contexts, and it triggers institutional changes.” The concept is regarded as the only policy model appropriate for Cohesion policy.

At the heart of the Barca Report recommendations are changes to the multi-level governance of the policy to ensure a stronger set of conditionalities in the relationship between Commission and national/regional levels, with greater strategic focus and performance. This would involve:

- a new strategic framework for Cohesion policy, with an enhanced strategic dialogue between the Commission and Member States (or regions), based on a European Strategic Development Framework, setting out the major policy innovations, clear-cut principles for the core priorities and a set of indicators for assessing performance; and

- a different contractual relationship, implementation and reporting aimed at results based on a new contractual agreement (a National Strategic Development Contract) between the Commission and Member States, focused on performance and on the institutional requirements for intervention, coupled with implementation assessment by the Commission and strategic reporting.

A second important dimension of the Barca proposals is greater transparency in the design and implementation of interventions. In part, this would be achieved by the performance focus above. It would also require an improved high-level political debate, with new information on performance and a renewed system of checks and balances among the European institutions, strengthened by creating a formal Council for Cohesion policy.

A third aspect of the place-based approach is an emphasis on learning. In recognition of the fact that information on ‘what works’ in specific contexts is imperfect, the mobilisation of knowledge gathering and dissemination is important. The Barca Report proposes:
• **promoting experimentalism and mobilising local actors** - through a better balance between incentivising local agents to risk and invest and preventing policy from being captured by local interests, by encouraging experimentalism, using a small fund for innovative territorial actions and using international expertise locally;

• promoting the learning process through a move towards *prospective impact evaluation* - encouraging the design and implementation of counterfactual methods for assessing the impact of policy interventions, to improve understanding of what works, especially in a prospective sense, so that evaluation is designed together with the intervention, focusing attention on objectives and on the criteria for the selection of beneficiaries.

Several of these proposals find some resonance in the principles for a future Cohesion policy outlined in the Member States’ communiqué at the Mariánské Lázně meeting. However, implementing these Barca Report measures would place much greater demands on national and regional authorities in designing and implementing Structural Funds interventions as well as requiring considerable trust in the capacity of the Commission to perform the role assigned to it. The questions are whether Member States are willing to support such far-reaching changes, and whether they would deliver the expected increase in performance.

**(ii) Is it feasible to focus Cohesion policy on a limited number of core priorities?**

In her reflections paper, Commissioner Hübner argues that “to achieve the highest impact possible of the policy, it will be necessary to focus on a more limited number of core EU priorities”. Two areas of particular importance are considered to be the Lisbon Strategy and sustainable development (notably responses to climate change). Similarly, the Barca Report advocates focusing the major share of Cohesion policy support on a limited number of objectives: innovation, climate, skills, social exclusion, children and ageing are put forward as possible candidates. Three criteria for deciding on priorities are also suggested: EU-wide relevance; their place-based nature; and verifiability.

The question is how such a focus might be achieved. In order to demonstrate more clearly the impact of Cohesion policy, it would be desirable to build a critical mass of interventions on narrowly defined priorities with measurable indicators. In a general sense, thematic concentration is also supported by Member States, as the discussion at the Mariánské Lázně meeting demonstrated.

However, the diversity of regional needs across the EU, and the different ways in which Structural Funds are utilised, present formidable obstacles to identifying and defining priorities for Cohesion policy acceptable to all Member States. For example, the response from some new Member States to the Barca Report has affirmed the need for Cohesion policy to support broad-based development and the scope to address bottlenecks such as infrastructure deficits. Other countries have questioned the justification for Cohesion policy to be involved in some of the priorities proposed. Lastly, the experience of ‘earmarking’ in the current period provides only partial encouragement for thematic concentration: the Lisbon focus has certainly raised the profile of themes in the Community Strategic
Guidelines, but it has also demonstrated the creativity of Member States in interpreting the Guidelines as broadly as possible.

(iii) **What is the scope for the management and implementation of Cohesion policy to be substantially simplified?**

The Commissioner’s reflections paper stated that “the policy requires a better balance between performance, simplification and assurance of financial legality and regularity”. This includes a reduction in the administrative burden for implementing bodies and beneficiaries, and exploration of the scope for reinforcing proportionality of procedures. The working group on simplification has made some progress in identifying procedures where the administrative burden could be rationalised. However, many programme managers and partners have urged more radical simplification, pointing to the increased bureaucracy, particularly associated with financial management, control and audit.

Yet, it is not clear how simplification can be achieved. The pressure to reduce the proportion of irregularities in Cohesion policy spending from the European Parliament and European Court of Auditors (as well as from the Commission President and DG Budget) is unlikely to diminish. And it has to be recognised that implementing Cohesion policy through ‘shared management’ within a multi-level governance system and with multiple actors and interests is inherently complex. This is after all the third consecutive reform debate where simplification is intended to be an objective of reform, the previous two reforms having failed to reduce significantly the administrative burden. The question here is whether simplification may require the principle of shared management to be fundamentally reconsidered.

(iv) **How will the crisis affect the debate on the future of Cohesion policy?**

As noted at the outset of this paper, the full regional impact of the crisis is not yet known. However, the accompanying EoRPA paper on the crisis reveals some of the emerging patterns. There have been sharp and steep falls in national GDP in many EU countries, with different projections about the pace of recovery - several major economies are still officially in recession. Regional unemployment has reached 20-25 percent in several Spanish regions. In many others it is currently on an upward trajectory or temporarily suppressed through short-time working subsidies. Two categories of regions are of particular concern:

- structurally weaker regions (either lagging in development or whose restructuring after previous crises was incomplete) whose competitiveness is weak and where there is often a high dependence on public spending and public sector employment, both threatened by cuts as governments deal with mounting deficits; and
- industrial regions which adapted successfully to globalisation and technological change but whose enterprise profile and employment are dependent on sectors

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where there is overcapacity (notably automobile production), a collapse in export markets and strong international competition.

The question is how the changing regional development challenges will affect the Cohesion policy debate. One possible effect may be on the emphasis given to policy objectives. As policy attention shifts from emergency crisis measures to longer term strategies, a higher priority is likely to be given to economic development policies that promote innovation and the knowledge economy (already evident in policy debates in Ireland and Spain) with Cohesion policy being seen as a relevant instrument for delivering these objectives. Equally, it may well be argued that sectoral policies are better suited for this task.

Another issue is the spatial coverage of policy. Prior to the crisis, an increasing body of opinion was challenging the DG Regio view that Cohesion policy should operate throughout the EU. The meta-evaluations of EU spending conducted for the budget review, for example, saw merit only in providing support for poor countries/regions and territorial cooperation. The trends in GDP per head (see Section 4) were also indicating an increasing restriction of Convergence eligibility to Central and Eastern European countries. In response, a developing network of ‘new statistical effect regions’ was already emerging to argue for a new transition category of regions between 75 and 80/90/100 percent of EU GDP per head. The crisis could have a twofold effect. First, the impact on GDP will affect the map of eligibility for Convergence funding (under the current criterion) and potentially also eligibility for the Cohesion Fund. Second, the rise in regional unemployment could prompt demands for unemployment to be given a higher weighting in financial allocation mechanisms and potentially for a resurrection of an ‘Objective 2’ for regions suffering from high (increases in) unemployment.