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THE FINAL YEAR OF THE 2000-2006 PERIOD

Review of Programme Developments: Winter-Summer 2006

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Carlos Mendez, John Bachtler, Tobias Gross and Douglas Yuill

Improving the Quality of Structural Fund Programming through Exchange of Experience

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European Policies Research Centre
University of Strathclyde
Graham Hills Building
40 George Street
Glasgow G1 1QE
United Kingdom

Tel: +44 (0) 141 548 3339/3321
Fax: +44 (0) 141 548 4898
E-mail: john.bachtler@strath.ac.uk
laura.polverari@strath.ac.uk

http://www.eprc.strath.ac.uk/eprc/default.cfm
http://www.eprc.strath.ac.uk/iqnet/default.cfm

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PREFACE

The research for this paper was undertaken in preparation for the 20th IQ-Net meeting which took place in Glasgow, Scotland, UK, on 25-27 June 2006. The paper has been written by Carlos Mendez, John Bachtler, Tobias Gross and Douglas Yuill.

This paper is the product of desk research and fieldwork visits among national and regional authorities in Member States (notably among partners in the IQ-Net Consortium) during Spring/Summer 2006. The field research team comprised:

- Tobias Gross (Austria)
- Frederike Gross (Belgium, France)
- Helle Hjortnæs and Prof. Henrik Halkier (Denmark)
- Prof. Douglas Yuill (Finland)
- Dr. Sara Davies (Germany)
- Laura Polverari (Italy)
- Carlos Mendez (Spain)
- Heidi Vironen (Sweden)
- Dr. Martin Ferry, Rona Michie (Poland, United Kingdom)
- Dr. Irene McMaster (Hungary)

In line with standard IQ-Net practice, this paper has been revised following the Glasgow meeting, taking account of the comments of partners and the substance of discussions at the meeting.

Many thanks to all those who participated in the research. EPRC also gratefully acknowledges the financial support provided by participating regions, which is co-financed by technical assistance from the European Regional Development Fund. The report is, however, the responsibility of the authors alone.

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EXECUTIVE SUMMARY

The December 2005 European Council agreement on the EU budget brought to an end three years of sometimes rancorous debate and negotiation on the financial perspective for 2007-2013. The Inter-institutional Agreement took a further four months, but the Member States and European institutions now have clarity on the allocations for Structural and Cohesion Funds in the next period.

The Community Strategic Guidelines are now close to being finalised and the Member States have been drafting their National Strategic Reference Frameworks (NSRFs) setting out national policy priorities for the use of the Funds. For many programme managers, the main task over the past six months has been to prepare the Operational Programmes (OPs) which have to be submitted by the same deadline as the NSRFs.

An important element of programming has been the organisation and commissioning of ex ante evaluations of the new OPs. For most programme partners, the Commission’s guidance will form the basis for the content of the ex-antes, although a range of views have been expressed on the relative importance of each evaluation component and the specific issues which are considered to be of particular relevance. The completion of draft and final reports is underway, although this is obviously dependent on the development and finalisation of the future Operational Programmes, which remain at an early stage in some partner countries and regions.

Notwithstanding the urgency of the OP preparations, the main challenge for all IQ-Net partners has been to bring the current programmes to a successful conclusion. Various steps are being taken in many partner programmes to ensure successful closure such as the creation of programme closure teams, modifications to financial plans, financial monitoring, deadline and target-setting, increased co-financing flexibility, national/regional guidance and workshops, and overbooking.

The review of programme progress shows that commitment rates have increased strongly over the current six-month review period and are now close to 100 percent for the EU25. Payments have also increased significantly, particularly in the new Member States. The general picture of programme performance among partner programmes is deemed to be satisfactory with few major problems.

1. INTRODUCTION

The December 2005 European Council agreement on the EU budget brought to an end three years of sometimes rancorous debate and negotiation on the financial perspective for 2007-2013. The deal set a total budget of €862.4bn in commitment appropriations, representing a reduction of 16 percent compared to the Commission's original proposal (of €1,028bn). With a cut of less than 10 percent, Cohesion policy allocations held up relatively well during the negotiations, taking the total 2007-13 Structural and Cohesion Funds budget to €307.6bn (35.7% of total commitments). The Inter-institutional Agreement took a further four months (adding an extra €4bn, of which €300m was assigned to Cohesion policy under the Territorial Cooperation Objective), but the Member States and European institutions now have clarity on their Structural and Cohesion Funds allocations in the next period.

With respect to the scope and structure of programmes in the next period, the Community Strategic Guidelines are now close to being finalised, with a view to maximising the potential contribution of Cohesion policy to the 'Growth and Jobs' Agenda. In anticipation of the CSG, Member States have been drafting their National Strategic Reference Frameworks (NSRFs) setting out national policy priorities for the use of the Funds. As noted in the parallel IQ-Net paper,[1] while a few NSRFs have been built on the basis of regional strategies, most of the NSRF drafting has been undertaken by central governments with varying degrees of input of subnational authorities. For many programme managers, the main task over the past six months has been to prepare the Operational Programmes (OPs) which have to be submitted by the same deadline as the NSRFs.

An important element of programming has been the organisation and commissioning of ex ante evaluations of the new OPs. For most programme partners, the Commission's guidance will form the basis for the content of the ex-antes, although a range of views have been expressed on the relative importance of each evaluation component and the specific issues which are considered to be of particular relevance. The completion of draft and final reports is underway, although this is obviously dependent on the development and finalisation of the future Operational Programmes, which remained at an early stage in some partner countries and regions.

Notwithstanding the urgency of the OP preparations, the main challenge for all IQ-Net partners has been to bring the current programmes to a successful conclusion. Various steps are being taken in many partner programmes to ensure successful closure such as the creation of programme closure teams, modifications to financial plans, financial monitoring, deadline and target-setting, increased co-financing flexibility, national/regional guidance and workshops, and overbooking.

The review of programme progress shows that commitment rates have increased strongly over the current six-month review period and are now close to 100 percent for the EU25.

[1] Polverari L, McMaster I, Gross F, Bachtler J and Ferry M (2006) Strategic Planning for Structural Funds in 2007-2013: A Review of Strategies and Programmes, IQ-Net Thematic Paper No. 18(2), European Policies Research Centre, University of Strathclyde, Glasgow.

Payments have also increased significantly, particularly in the new Member States. The general picture of programme performance among partner programmes is deemed to be satisfactory with few major problems.

This IQ-Net paper reviews these developments in more detail. It begins with an update of the recent experience with programme progress, first with an overview of financial performance at the EU25 level, followed by a summary of progress in each of the IQ-Net partner programmes including a discussion of the main implementation challenges faced, experiences with n+2 and operational changes. Section 3 discusses developments with respect to programme closure, focussing on the preparations and activities underway in partner programmes and their views on the Commission's Guidance. Section 4 examines the current status of the ex-ante evaluations for the future round of IQ-Net partner programmes, focussing on the organisation of the process and views on the relative importance of the different ex-ante evaluation components. A final section reviews the outcomes of the EU budget agreement and the main negotiation issues with respect to Cohesion policy.

2. PROGRAMME PROGRESS

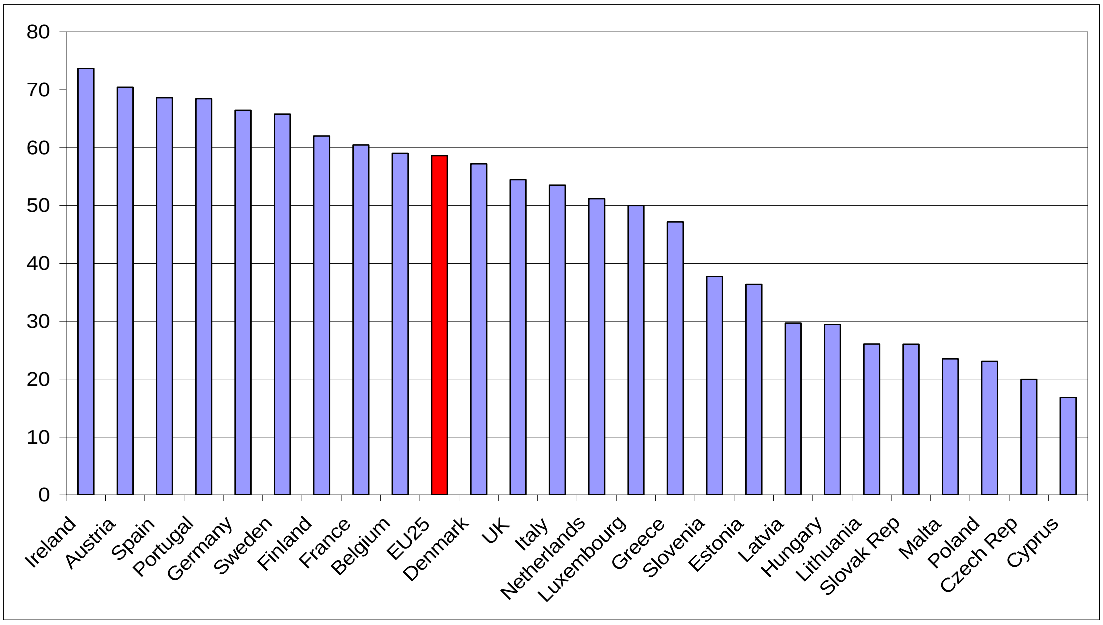
2.1 Financial performance: EU-25

Commitment rates have increased strongly over the current six-month review period and are now close to 100 percent for the EU25, according to the latest Commission figures (1 June 2006). Levels of expenditure are more varied, particularly between the new Member States and the EU15 (Figure 1), although it is worth noting that the average expenditure rate for the EU10 in 2004-05 is similar to the equivalent EU15 rate over the 2000-02 period.[2]

The figure also illustrates the high variation in expenditure within the EU15 and EU10. Beginning with the EU15, three groups can be identified: Ireland, Austria, Spain, Portugal, Germany and Sweden (where the payment/commitment ratio ranges from 65-75 percent), Finland, France, Belgium, Denmark, UK and Italy (where the range is in the order of 55-65 percent) and Netherlands, Luxembourg and Greece (around 50 per cent or less). Turning to the new Member States, three distinct groups can also be identified: Slovenia and Estonia (where expenditure is over 35 percent); a second group comprising Latvia, Hungary, Lithuania, Slovakia, Malta and Poland (with a range of around 25-30 percent); and the Czech Republic and Cyprus (where expenditure is 20 percent or less).

[2] Communication from the Commission, *The Growth and Jobs Strategy and the Reform of European Cohesion Policy: Fourth Progress Report on Cohesion*, COM(2006) 281, Brussels, 12.06.2006.

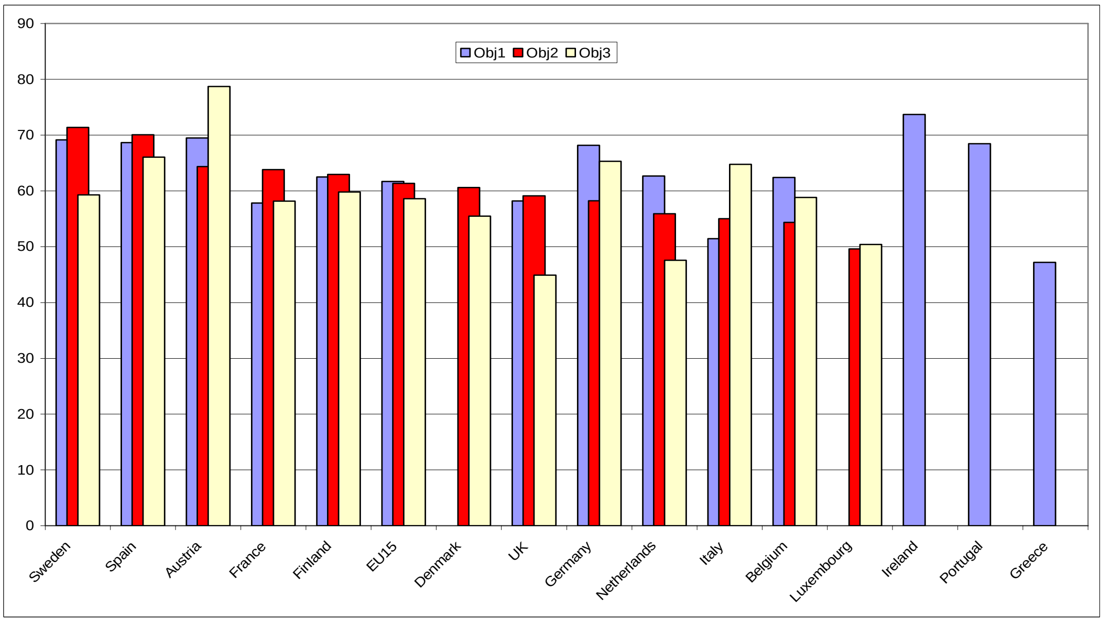
Figure 1: EU25 Payments as a percentage of commitments in Objectives 1, 2 and 3 - June 2006 (%)



Source: DG Regio

When looking more closely at the different objectives in the EU15 (Figure 2), it can be seen that the Objective 1 spending performance is broadly similar to Objective 2 at the aggregate level, both of which are above the average Objective 3 expenditure rate. In four countries (Germany, Belgium, Netherlands and Austria), Objective 1 outperforms Objective 2, whereas the pattern is reversed in France, Italy, Sweden, Spain, UK and Finland.

Figure 2: EU15 Payments as a percentage of commitments for Objectives 1, 2 and 3 - June 2006 (%)



Source: DG Regio

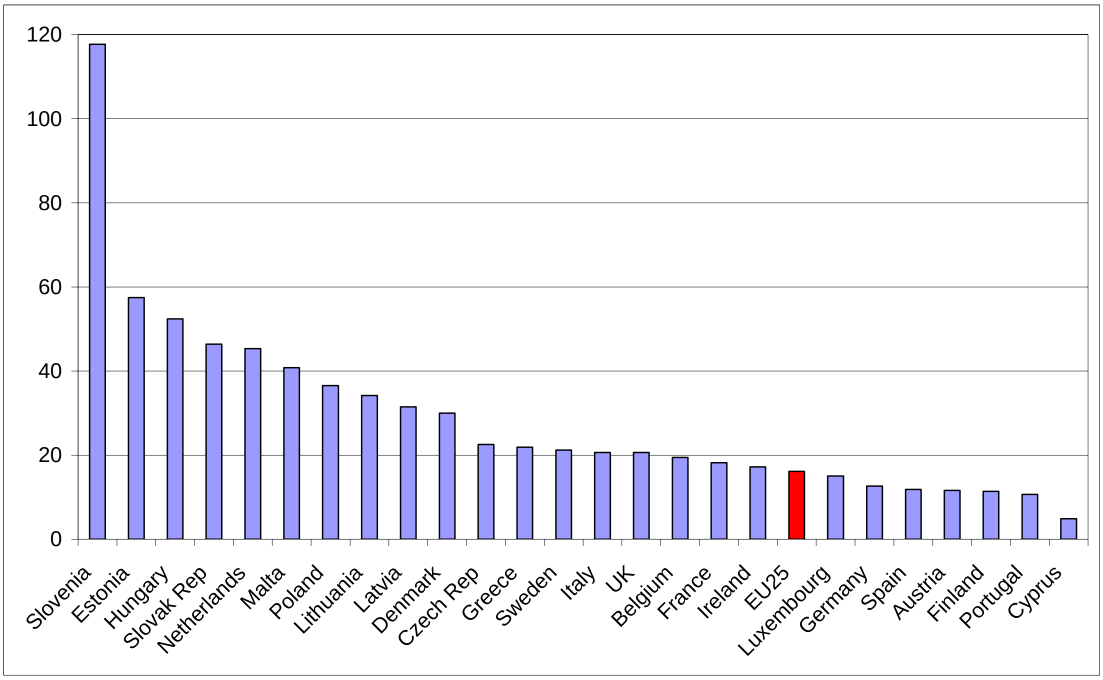
In most countries, Objective 3 is running behind one or both of the other two Objectives (2 and 3): both, in the majority of cases (Sweden, Spain, Finland, UK and Netherlands); only Objective 2 in France where, in any case, Objective 1 is extremely limited; and only Objective 1 in Belgium and Germany. By contrast, in Austria and Italy, payments under Objective 3 are ahead of Objectives 1 and 2. Only four countries have above average EU15 expenditure profiles for all three Objectives (Austria, Sweden, Spain and Finland).

Figure 3 illustrates the percentage increase in payments across the EU25 since the last IQ-Net review paper (which included data from 18 November 2005). It is clear that there have been high increases in payments in the new Member States, significantly more so than in the EU15 (although the increases in the Netherlands and Denmark are also high).

With the exception of Slovenia (where payments have risen by as much as 118 percent), a majority of EU10 countries can be grouped into one of two groups: those where total payments have increased by 40-55 percent (Estonia, Hungary, Slovakia and Malta); and those where the increase is in the order of 30-35 percent (Poland, Lithuania, and Latvia). In the Czech Republic, the increase is closer to 20 percent, whereas the equivalent figure for Cyprus is only 5 percent.

In terms of the EU15, the greatest payments increases are, as noted, in the Netherlands (45 percent), two-thirds of which was due to a rise in ESF expenditure in response to the low spending and decommitment suffered in the past, and Denmark (30 percent). This is followed by Greece, Sweden, Italy and the UK (at over 20 percent). In the remaining EU15 countries, the increase is in the order of 10-20 percent, with Portugal, Finland, Austria, Spain and Germany at the lower end of the range.

Figure 3: Percentage change in payments in Objectives 1, 2 and 3 - November 2005 to June 2006 (%)



Source: DG Regio

2.2 Programme performance: partner programmes

The general picture of programme performance among partner programmes reflects the statistical review in the previous section. In general, progress is deemed to be satisfactory with few major problems.

Austria: The programmes of the two partner regions have progressed on plan and no new challenges have been reported. In Niederösterreich, 84 percent of funds (including phasing out) have been committed. The distribution of commitment rates between the measures is well balanced with very few outliers. In Steiermark, 77 percent of ERDF funds (including phasing out) have been committed. In general, programme progress can be characterised as anti-cyclical with a moderate start and increasing absorption rates over time. The advance has created interest earnings of €700,000 which now has to be divided up between the funding agencies. Small problems in the phasing out area are often related to micro-zoning and should not emerge in the next period.

Belgium: In the Flemish region, no particular problems have been reported. In the Kempen sub-region, all measures are considered to be performing well since the modifications to the financial table in 2005. In the Limburg province, overall commitments are running at 85 percent, although some measures have already been closed (e.g. Measure 1.2 'technology and innovation' and 3.2 'life quality in rural communities'). Notwithstanding progress in Measure 3.1 ("Economic diversification of Haspengouw") since the last review, performance is still lagging somewhat with just 50 percent of funds committed. A similar situation is evident in Priority 2 ("Optimisation of local environment").

Denmark: In broad terms, the Danish Objective 2 programme is performing well. The only problems witnessed during the past six month period concerns North Jutland and the delayed launch of the fjord-side concert hall in Aalborg. The problems have been aggravated as the demand for skilled craftsmen has led to strong wage increases and the costs of the project have increased accordingly.

Finland: The figures are felt to be broadly as they should be. For the full Objective 2 area, commitments are running at 87 percent of the target. Payments are 62 percent of the planned total. For both commitments and payments the most rapid progress continues to be in respect of Priority 3 ('Developing the area structure and living environment) and the slowest progress under Priority 1 ('Developing business activity, renewing the industrial structure'). However, variations around the average are not a significant concern.

France: At the national level, progress under the ERDF is considered satisfactory. By the end of May 2006, 88 percent of funds were committed and 57.4 percent had been paid out. The situation for the ESF is similar in terms of commitments (87.3 percent), but more problematic in terms of payments (47.6 percent). It is possible that ESF funds may have to be decommitted again at the end of 2006. Progress has been generally good in Nord-Pas de Calais, notwithstanding slight delays for some transport projects. As in 2005, cross-border transport measures are not progressing to plan, contrasting with strong progress in the measures for 'research' and 'territory' as well as several of the economic measures. In Alsace, progress is generally good, with slight variations across the priorities. Commitments are high in most measures under Priority A (wasteland, economic development, tourism), although more varied in Priority B (territorial section) - measures for the Potash Basin are overcommitted but not progressing as planned in others (e.g. pylons for mobile telephones). Payments are perceived to be on track to meet the 2006 targets.

Greece: Overall, Greece has achieved significant progress in the implementation of the CSF. A series of systematic structural changes to the implementation system have been undertaken allowing rapid progress in commitments, while the increase in payments over the last six months has been amongst the highest in the EU15. At the end of 2003, the mid-term evaluation had revealed low activity in certain measures. However, substantial progress has been made over the last two years, partly associated with mid-term review reallocations and the implementation of important infrastructure projects spurred by the Olympic Games. Financial absorption in the region of Central Macedonia has been high and additional funding of €65 million was allocated to the programme last year.

Hungary: As noted in the previous IQ-Net update paper commitment rates are very high and therefore the main focus is on ensuring that these are translated into final projects and payments. The project pipeline is satisfactory for all measures and most have an extensive reserve list. Transport and education infrastructure are performing particularly well. On the other hand, ESF resources have been a bit slower to commit, partly due to overlapping measures from the Human Resource OP and the Regional Development OP, although there have been improvements recently.

Italy: In Lombardia, no measures are considered to be in a particularly problematic position, partly because of modifications to the financial table at the end of 2005 and small amendments planned for the future. In Toscana there was no decommitment at the end of 2005 with healthy expenditure rates also reported in Lombardia. For the OP LED, Measure 2 (the Integrated Incentive Plan or PIA) is presenting some difficulties and has registered a spending performance below expectations, whereas business demand for the PIA Networking has been good and all resources under the PIA Innovation have been committed.

Poland: The last year or so has witnessed a significant growth of interest in operational programmes amongst potential beneficiaries and this is reflected in the number and value of project applications submitted. However, the implementation process is faster in some OP's compared to others, due mainly to the nature of assistance offered and the efficiency of management teams involved. In the case of the regional OP's, the number of project applications has been extremely high and regions have been active, particularly in the development of transport, environment and health infrastructures. Despite this acceleration in recent months, project quality is extremely variable and those regions with more experience in the administration of EU funds (such as Śląskie) are more active.

Spain: The performance of the Objective 2 SPD for the País Vasco is in line with expectations and no problems are expected in meeting the objectives for the 2000-06 period. Indeed, the SPD is ranked amongst the top EU Objective 2 regions in terms of financial execution. Progress is particularly strong in Priorities 2 ('the knowledge society'), 1 ('Competitiveness, employment and the productive fabric') and 4 ('Communication and energy networks') with financial implementation rates at the end of 2005 of 93 percent, 85 percent and 81 percent of their respective total allocations.

Sweden: Progress in the Norra and Norra Norrland partner programmes continues to be very high and both are well placed to close soon. In the Objective 1 region Norra Norrland, spending exceeds 90 percent of the programme allocation. In the Objective 2 region Norra, the situation is very similar, with spending rates close to 100 percent. Although some funds may have to be reallocated to other projects, there is a wide range of projects available and no problems are foreseen. Both regions have met their n+2 targets easily.

United Kingdom: No major concerns with commitment and spending have been reported in Wales. The main challenges in Western Scotland and North East England concern unforeseen surpluses. These have been due to major projects not going to plan (North East England) and financial problems of major partners, potentially affecting both projects and co-finance availability (Western Scotland). For Western Scotland, the overall commitment rate is above 90 percent (February 2006) and several programme Priorities/Measures are already fully committed, with some others still open, particularly for ESF. Objective 2 ESF has been found to be much more difficult to spend and generate applications for than the ESF Objective 3 programmes. In North East England, the £70m surplus is in two programme areas: major strategic investment projects which are not ready to come in yet (£60m), and business support (£10m), where there is a public/private match-funding issue.

2.3 Challenges

The range of factors influencing financial performance and implementation in partner programmes has been comprehensively outlined in previous review papers. The main challenges highlighted over the current six month review period are discussed further below.

2.3.1 Size of projects

In some programmes, it is the larger projects that are proving more difficult to implement successfully, in terms of spending the EU funding allocations on time. For example, in Wales, while commitment and spending rates are generally good, there are concerns about some major projects not going to plan. In the case of Poland, a recent report from the Ministry of Regional Development suggests that the rate of expenditure is lowest where large infrastructure projects are being coordinated. For instance, only €0.5m has so far been accessed under the Sectoral OP for Transport, approximately 0.04 percent of the funding available. One reason cited for this is lack of coordination between the central Ministries involved. This contrasts with the regional OP's where the value of proposed and approved projects is strong

2.3.2 Co-finance

Budgetary issues relating to the availability of co-finance (Finland), co-funding procedures (France and Greece) and the timing of funding cycles (Poland) have also impacted on implementation. In Finland, municipal co-finance has been in short supply in some areas due to financial constraints leading to some concerns over spending under Measure 1.2 (‘Improving the operating conditions of businesses’). In Poland, the experience is mixed. For example, the region of Śląskie is considered to be in an advantageous position in comparison to some other Polish regions. It has a relatively healthy budget and can support projects from its own resources when there is a bottle neck in the payments system. Other regions have been using credit to speed up the process. It is important to note that regional self-governments generally have limited financial competence to provide match funding and co-finance regional development projects with EU funds. In comparison, municipalities and cities have more potential to provide match funding for small-scale, local regeneration projects, though even here budget constraints can limit participation.

By contrast, in Greece, there are no problems in raising the necessary co-finance, but changes in the allocation procedures by the Treasury have, according to some regional authorities, led to more demands on human resources due to the more onerous justification requirements. These changes were deemed essential, as the Treasury used to allocate funding based on the Managing Authorities’ estimates of requirements, which were in most cases overstated.

The timing of funding cycles has been raised as a problematic issue in Poland. Differences between multi-annual Structural Funds programmes and Poland’s annual budget cycle mean that money must be taken back from beneficiaries at the end of every year and then reallocated whenever the budget is settled. This obviously creates delays in project progress and it is also very difficult to get money back from beneficiaries in the private sector.

2.3.3 Aid schemes and private sector demand

Low take-up in aid schemes associated with changes in the business climate or difficulties in estimating future levels of demand is another regular issue identified in previous IQ-Net reports. Recently, there has been concern in Finland at the level of demand for support for SMEs under Measure 1.1, which has been running behind expectations. It is not clear why demand for Ministry of Trade and Industry (MTI) funds should be weaker than expected since the economic position of the country is generally positive. However, the MTI is confident that there will be no implementation difficulties by the end of the programme period. In the Italian OP LED a similar problem exists with the fund created to assist the PIA (Integrated Incentive Plan) - the so-called FIT PIA Fund – where there has been less take up than foreseen. If the situation does not improve there is a potential risk of losing resources. In Toscana, there have also been some delays with aid schemes (partly “physiological” delays, partly due to delays with the notification procedures). However, with the procedures now in place, the loss of resources is not a major concern.

2.3.4 Large number of implementing bodies/beneficiaries

In some cases, the large number of implementing bodies which the Managing Authority must deal with prevents direct contact with project holders and creates difficulties in ensuring that the funds are spent as planned (e.g. Sachsen-Anhalt). Similar remarks can be made for Greece, where the large number of final beneficiaries is considered to create difficulties for consultation, implementation and the monitoring of the programme. It is estimated that there are over 2,500 final beneficiaries for the CSF. To address some of the current problems in the following period, the Ministry of Economy and Finance plans to set up a more stringent selection programme involving the certification of final beneficiaries. Local actors will be encouraged to co-operate and establish integrated associated trusts, which will be responsible for implementation.

2.3.5 European Social Fund

Difficulties with ESF expenditure are a well-known and recurring problem in a number of partner programmes (e.g. France and the UK). In Finland, ESF control procedures are viewed as onerous which, historically, has created some problems. In particular, it has made (public) authorities more wary about applying for ESF support. Over the longer-term, this is seen as less than ideal, with negative implications for the authorities and indeed for applicants. This is a general problem for the ESF and is not restricted to the Western Finland programme. The situation is similar in Italy, where the ESF component of the OP LED remains problematic, despite the implementation of new activities to stimulate expenditure. The Managing Authority had explored whether any regional OPs would be willing to receive some of the ESF resources, but there was no interest.

ESF resources have also been slower to commit in Hungary. Measure 3.3 ('Strengthening co-operation of higher education institutions with local actors') had been problematic and project applications were still being accepted in the autumn. However, interest in this measure has picked up and the final decisions on projects will be taken this spring (2006). Finalising commitments for this last measure will effectively mean that there will be no more resources for the programme to offer after the summer.

Another ESF problem in Finland concerns the home residence rule of students in receipt of ESF support. This problem arose when students in receipt of ESF support changed their location of study (as they are entitled to do in Finland). The EU has said that it cannot pay for such students since they are no longer within the eligible area. The universities were warned about this but chose not to listen. This has slowed down commitments and payments within Measure 2.2, an ESF measure to strengthen the links between training and employment.

Last, Objective 2 ESF in Western Scotland has been found to be much more difficult to spend and generate applications for than the ESF Objective 3 programmes, a problem which has also been found in a number of Objective 2 regions in Spain (including the País Vasco) in the past.

2.3.6 New domestic legislation and change of government

Domestic policy and political developments, such as changes in national legislation (Greece) or a change of government (e.g. Nordrhein-Westfalen, Poland and Steiermark), have been the cause of implementation delays in some IQ-Net partner programmes. In Greece, for example, there have been recent changes to the country's legislative framework on the award of public sector contracts and the introduction of new legislation for Public-Private Partnerships (PPP's). These changes were deemed necessary to allow for tendering procedures to accord with the Commission's requirements as well as the domestic Green Paper on Public-Private Partnerships at the end of 2005. The new legislation has allowed for increased flexibility for PPP's with a total value of around €200m. Special legislation was also introduced for 6 large infrastructures projects, enabling their approval and implementation through a legislative concession. The changes in legislation meant that projects above a certain value were delayed for over a year.

Changes of government have impacted on financial implementation in a number of partner countries and regions. In Nordrhein-Westfalen, there was a six month block on spending and commitments after the Land elections in May 2005 – for the entire Land budget, not only the SPD. This ended towards the end of 2005 and the Managing Authority managed to ensure that the n+2 rule was respected for the ERDF. It was, however, very difficult for individual projects because they could not proceed as planned. The block on spending was partly due to delays in agreeing spending priorities following the change of government, and partly due to severe fiscal constraints within the Land budget. These constraints remain i.e. there are ongoing interruptions in the Managing Authorities capacity to make budget commitments. However, there now remains only €90m to be committed (i.e. 10 per cent of the SPD's funding) and there are enough ideas for new projects to ensure that the money will be spent.

The government of Poland has struggled to establish a stable coalition since the elections of September 2005, and this has had an impact on the framework for administering Structural Funds. The establishment in October 2005 of the new Ministry for Regional Development as the Managing Authority for Structural Funds has resulted not only in changes to personnel but also in some procedural adjustments. For instance, the Ministry has changed the financial threshold for Structural Funds' activities that must be set for public procurement. A final example is seen in Steiermark, where the change in government in autumn 2005 has led to a shift of political priorities. It is the new government's goal to balance its budget by 2009 by cutting expenditure in the order of €650m. Thus, funds have to be concentrated on the most important projects with high added value.

2.3.7 Administrative complexity

The administrative complexity of managing the Structural Funds (e.g. the amount of information to be gathered and integrated into documents, application forms, monitoring forms, payment claims etc.) represents a significant challenge to domestic administrations. This is particularly so in the new Member States where the experience with administering large-scale structural funding has been a short and recent one, and where there has been a general willingness and eagerness to absorb EU norms and rules as far as possible.

In Poland, for instance, the recent introduction by the Managing Authority of a 25-page Formal Assessment Form for each project requires considerable time and resources to complete, not least because of the high number of projects submitted. Such administrative burdens are further compounded by the dual character of the regional administration which increases the potential for duplicating or 'double-checking' Structural Funds administration activities in Marshal's Offices and Voivod's Offices (see case study below). This is more of an issue for ERDF than ESF as payments can be made by the regional level in advance to beneficiaries of ESF projects – beneficiaries are not required to produce their own money and the Marshal's Office selects and implements ESF projects itself. However, ERDF projects have to go through the national Ministry of Regional Development (as the Managing Authority), the Voivod's Office (as the intermediary body with payments control) and the Marshal's Office (as the intermediary body with programming and project selection responsibilities). The rigidity of this system is a significant barrier to involving beneficiaries from the private sector. It also limits the region's flexibility to adapt to changing programming conditions.

In Hungary, concerns have been voiced over the ongoing requests for (often small) changes to the Programme Complement in virtually every Monitoring Committee meeting. The main problem relates to the lack of precision in certain issues, particularly in terms of wording. Similar remarks can also be made for Poland, where the Programme Complement has been amended significantly four times, project selection rules have been modified frequently and there have been over 100 versions of project application tools (with changes occurring up to three times a week).

2.4 Speeding up absorption

The main tasks and activities undertaken or planned by partner programmes in order to address some of the abovementioned challenges and to make progress in commitments and payments include changes to the financial tables, spending strategies and funding awareness-raising.

Modifications to financial tables in response to issues such as low take-up, project delays or new strategic priorities has been common practice in partner programmes in the past and is likely to continue over the course of the year (see also the next section on programme closure). In Niederösterreich, some small reallocations from Measure 1.6 ('small scale infrastructure and logistics') to Measure 1.8 ('regional lead projects') may become necessary in the future. The virement of relatively small sums of funds between priorities is being planned in Steiermark this year. Measures 1.3 ('modernisation of enterprises') and 1.5 ('environmental support') are considered to have strong potential to absorb additional funds.

In Finland, there have been some concerns relating to the ERDF measures under Priority 1 ('Developing business activity, renewing the industrial structure'). One longer-standing issue related to the provision of the necessary co-finance under Measure 1.1 ('Activating businesses and developing firms'); this has been resolved by transferring some of the planned expenditure to Measure 1.2 ('Improving the operating conditions of firms').

There have also been reallocations between measures in Hungary, but no changes to the priorities. In Priority 1 of the Regional Development OP money was reallocated from funding for the development of tourist-related services (accommodation accessibility etc) to the development of tourist attractions. This is justified on the grounds that the area's attractiveness must be developed in order draw in tourists and boost visitor numbers. However, others have argued that there may also be a 'hidden agenda' on the part of the Regional Development Agencies (in charge of project selection) which are keen to increase the level of support offered to the public (as opposed to private) sector organisations. There have been some reallocations of resources from measure 2.1 (road access in disadvantaged areas) to 2.3 infrastructure for pre-school institutions. This is because there is a huge need for the development of school infrastructure, although this is also considered to be important in light of the upcoming elections.

The OP LED Managing Authority in Italy plans to modify the financial plan, with a view to increasing expenditure as far as possible before the end of 2006 or 2007. In Lombardia, changes to the financial plan were already made in November 2005, while a further modification had been submitted to the Commission and a final proposed change could potentially be approved in June.

With respect to the Flemish region, funding shifts in the Kempen sub-region were made in 2005, while in the Limburg province certain sub-measures have been merged in order to facilitate spending. Similarly, in Norra Norrland, Measures 2.1 ('support to SMEs) and 2.2 ('General support to the industry') were merged due to low take-up. In Wales, there is a virement management team in place to consider virement issues across the board.

Last, in Greece, the reallocation of funding is considered essential in order to maintain high absorption rates. Recent examples include financial transfers from railways to other infrastructure projects, such as support for the trans-European transport corridors, as part of the Mid-term Evaluation Update in 2005. Funding has also been reallocated from the Information Technology and Competitiveness priority to environmental interventions and ESF-funded projects.

However, as in other countries and regions, the reallocation of funding can cause difficulties with partners. To address this, the Ministry of Economy and Finance in Greece has implemented an electronic system using statistical modelling techniques to predict future absorption. The model takes into account a number of criteria, such as current and past absorption rates, a credit rating for the Managing Authority based on past performance, the number of final beneficiaries etc. A flow chart prediction is produced on each project's absorption rate. If the projected absorption is not satisfactory, the system raises an alarm procedure, and the issue is then discussed between the Managing Authority and the monitoring and audit unit of the Ministry of Economy and Finance. The projected flow charts illustrate bi-monthly absorption rates until the end of the year. These charts are updated on a monthly basis and are used to create a risk assessment chart for the various projects, which are submitted to DG Regio. If the risk of a certain project is found to be high, and measures cannot be taken by the local Managing Authority to reduce the risk profile of the project, procedures are put in place to either ensure higher absorption rates, or that funds are reallocated to other measures.

Explicit *commitment/spending strategies* are a less common feature across partner programmes. However, two examples are available in the UK. As noted in last year's review, the North East England programme has both a de-commitment strategy (to identify projects which are not performing as well as expected, and allocating money that cannot be spent to other projects) and a re-commitment strategy (trying to pool any 'leftovers' and spend them). The programme has some specific concerns about expenditure – a £70 million surplus and the programme is running three months behind schedule (despite being the first English programme to meet all its n+2 targets in 2005). The North East has had difficulties over public funding figures in the financial tables and are now having to correct the figures or have payments capped. The Programme management have agreed a number of strategies to deal with the lack of public match funding, including:

- reviewing prospective projects under those measures particularly affected;
- working closely with One NorthEast to identify projects that will have a funding package that will deliver the required levels of public match;
- issuing calls for funding;
- inviting all prospective applicants, including those on reserve lists, to submit bids quickly;
- virement to measures where a prioritisation exercise is identifying further activity to absorb funds;
- as a contingency measure, reviewing the One NorthEast budget for existing and prospective single programme commitments to ensure that all eligible projects are brought forward for ERDF support;
- as a course of last resort, awarding grant retrospectively to capital projects that have not received ERDF funding; and
- as a further contingency, considering an element of overprogramming to provide a ‘cushion’ against future underspends (at time of writing, guidance was being sought from the Department of Communities and Local Government).

In Western Scotland, the programme is being driven by the need to ensure full commitment, through the Full Commitment Action Plan (a strategy to reach 100 percent commitment) and the n+2 Action Plan. Progressing financial expenditure is tending to be the dominant theme this year – the aim is to get projects to claim more regularly and more frequently. In 2004/05, the programme ended up handling 50 percent of payment claims during the last few months of the year, and the Programme Management Executive are putting a lot of effort into persuading projects to claim earlier.

Improved *communication and awareness-raising* to heighten knowledge of funding opportunities and eligibility conditions is a commonly used method to stimulate interest and applications among potential beneficiaries. In Poland, Śląskie has used the PARTNER information system to improve the project pipeline. This provides potential beneficiaries with a guide as to the kind of projects that can be submitted. It has proved to be a good way to communicate with beneficiaries and is informing arrangements for the project database for the next programme.

2.5 Automatic decommitment

For IQ-Net partners, the application of the n+2 rule has produced mixed results. In the majority of cases, there were no major difficulties with automatic decommitment in 2005. For instance, in Niederösterreich and Steiermark (Austria), Nordrhein-Westfalen and Sachsen-Anhalt (Germany), the Flemish region (Belgium), Toscana and Lombardia (Italy), País Vasco (Spain), North East England, Western Scotland, Wales (UK) and Denmark, the 2005 n+2 targets were met. However, notwithstanding generally positive experiences, a number of programmes reported some problems in meeting the targets. In Denmark, for instance, difficulties were notable in North Jutland where some large payments were made to projects close to the deadline, and the provision of additional funding for the venture fund was made by the National Agency for Enterprise and Construction. In the Flemish province of Limburg, n+2 problems were experienced with Priority 2 (notably Measure 2.2 "environment and nature"). However, with a high number of projects (including some larger ones) submitted in October, the situation was much improved and decommitment was avoided. In Sachsen-Anhalt, the Managing Authority notes that all Priorities (with the exception of the EAGGF-funded Priority 5) had problems with n+2 at the end of 2005, although they managed to respect the rule. The Land introduced changes to the OP in late October 2005, specifically aimed at ensuring financial absorption.

In a second group of countries and regions, decommitment could not be avoided (e.g. France, Greece, OP LED), although in most cases the final sums involved were far lower than initially expected. In the case of France, n+2 forecasts were negative up to October 2005 when sums of €66m for ERDF and €71.2m for ESF were estimated to be lost. However, automatic decommitment was avoided for all regions in the case of the ERDF and only €5.9m of ESF funding had to be decommitted in four French regions. This was a big improvement on the previous year when the ESF resources lost amounted to three times this figure. In Italy, ESF resources were also decomitted under the OP LED (€3.2m), contrasting with the easily exceeded targets under the ERDF. In Greece, the national authorities were advised in early 2005 that a sum of more €350m was likely to be decommitted. However, the country was successful in applying for exceptions and the above sum currently stands at €6-8m. Further talks are taking place with the Commission, to try to avoid the decommitment of funds altogether. In Sweden, FIFG resources were decommitted, although the targets for other funds were easily met.

Looking to the end of the current financial year, a number of partner programmes noted potential n+2 difficulties on the horizon, associated with the following issues:

- **Large projects:** In Steiermark, potential problems could exist in relation to some supporting agencies which administer relatively big projects e.g. in Measure 2.3 ('R&D and innovation in enterprises') it is felt that it might become necessary to have some reserve projects in the pipeline in order to meet the 2006 n+2 targets. In the Flemish region, 2006 is considered a critical year as several large projects are still not finalised. In the province of Limburg, delays in large projects (e.g. Measure 1.4 on tourism and certain projects in the rural development Priority) could also present challenges. Often, the provincial administration does not receive the exact information on the nature of the problem (e.g. problems with getting construction permissions which have to be submitted within three months). This year is also a very critical year because the 2004 budget tranche was the largest of the whole programme.

- **Under-performing sub-measures:** In Germany, both Laender believe that it will be increasingly difficult to respect the n+2 rule in the final years of the programme, although both also face considerable domestic political pressure to ensure that all EU funding is absorbed. In Sachsen-Anhalt, the Managing Authority believes that problems will grow in the final years of the OP because figures on commitments and payments are still very low for some sub-measures.

- **ESF:** In France, it is likely that European Social Funding will have to be decommitted again at the end of 2006. The latest monitoring data in Sachsen-Anhalt show that there could be problems in meeting n+2 in 2006 for the ESF, although one reason for the low figures is that some data has not yet been entered into the monitoring system.

- **Budgetary and co-finance difficulties:** In Western Scotland, two budget related factors are working against the programme meeting n+2 this year – the dramatic shift in the exchange rate which has added €4m to the ERDF target; and the budget difficulties of Scottish Enterprise (a major project sponsor and co-funder), which it is feared may lead to either decommitment or slippage. In Nordrhein-Westfalen, weaknesses in project management and a lack of forward planning are perceived to be the key barriers to full utilization of commitments. A further problem highlighted is a lack of domestic co-financing e.g. in the local authorities which are responsible for infrastructure projects. The Managing Authority now hears fairly often from project holders that they will be unable to respect the initial timetables. In order to expand opportunities for domestic co-financing, the Managing Authority has presented a proposal to the Commission to amend the SPD, allowing private co-financing to be included in the domestic co-financing rates in 2006 and following years. A decision on this has not yet been made.

- **Advance payments:** the key test for n+2 in the Flemish region will be in 2006 and 2007, partly because there remains a significant proportion of the advance payment to be spent and also the fact that there are no more 'fast-spending' projects available. However, after intensive consultations with project promoters, the programming authorities remain optimistic about meeting the n+2 targets

- **Financial table modifications:** The Sachsen-Anhalt Managing Authority notes that it will now be difficult to make any major changes at Priority level. The latest date for any change would be the end of September 2006 and that would not be formally approved by the Commission until March 2007, so it would be very late to make real changes. Also, the OP's budget is divided into years and retroactive changes at Fund or Priority level are not possible, so now it is only possible to shift funds for the year 2006 i.e. for a relatively small percentage of funds. However, as is still possible to shift funds within individual Priorities, there is some limited leeway.

- **New Member States:** In Hungary, and all new Member States, this will be the first year that the programme has to deal with n+2. The Managing Authority from Hungary notes that the rule will mainly apply to the advance payments (15 percent of the programme) made in the lead up to EU enlargement. They also note that invoices for only 8 percent of these resources will have to be provided and that the target should be met without any difficulties. The ERDF target should be met by the first half of 2006, while in the second half of 2006 there is a strong chance that the target for the ESF will also be achieved. In Poland, authorities from the Śląskie programme consider that there could potentially be n+2 difficulties next year, particularly for projects involving the private sector.

To resolve the above issues a number of activities are foreseen in partner programmes:

- **Workshops:** In Greece, the Ministry of Economy and Finance has set up a special unit called Operational Programmes Financial Progress Implementation & Forecasts, which is responsible for estimating future issues with regards to the n+2 rule. The unit organised a series of workshops on the n+2 rule since the end of 2005 which have achieved the following: emphasised the importance of the n+2 rule to partners and final beneficiaries; set the targets for the 2008 deadlines; provided guidance for the review of projects and reprogramming of funds; identified cases for the application of exceptions of n+2 in the new period. In Hungary, the Managing Authority has arranged for VÁTI Kht. (the programmes intermediary body) to organise regional events and invite 'problem' beneficiaries along in order to explain to them the provision of appropriate invoices and reports and try to get them to submit these documents in time. The basic aim is to try and 'get across' why it is so important for them to help the Managing Authority in this matter and why they need to provide the required information. The hope is that the series of information road shows and events will facilitate progress with payments over the next year and contribute towards meeting n+2 targets. If it works in the way that the Managing Authority hopes, there will be no real problems with decommitment for this programming period, although a lot still depends on how disciplined the final beneficiaries are. In Western Scotland, a meeting was organised in early 2006 with the ten largest Structural Fund beneficiaries – because if they slip, this will involve significant funds.

- **Project reserve lists:** In Hungary, it was noted that the existence of strong and extensive reserve lists of projects would help to reduce risks of decommitment, if some of the original projects fail. In the Flemish province of Limburg, weekly follow-ups take place in the scope of team meetings. In this context, promoters of closed projects were asked in October 2005 to submit new projects and a return of around ten projects was achieved, two of which are very large.

- **Lesson-drawing:** In Western Scotland, the programme management executive organised an internal seminar on lessons learned from n+2 in 2005 as part of the preparation of the 2006 n+2 Action Plan. Through this, they learned that claims peak towards the end of the year. The PME are upgrading their internal claims database to help with this, and claims are being chased up much more quickly.

- **Setting targets:** In Lombardia, the Secretariat has set relatively high targets for every measure, with the aim of minimising the likelihood of decommitment. Similarly, in Denmark, the target dates for payments claims have been brought forward beyond what is formally needed in order to ensure that the regions do not remain too relaxed about the deadline. In Scotland, the Executive has set benchmarks to encourage more claims to be submitted earlier – the first, 30 percent by the end of April, the second, 60 percent by the end of August. The intention is to help the programme meet its targets earlier in the year.

2.6 Operational issues

With the 2000-06 period drawing to a close, no major changes to management and implementation systems have been undertaken over the past six months. Where issues have arisen, they relate to: monitoring and financial management systems (Sachsen-Anhalt, Hungary, North-East England); indicators and targets (Finland, Hungary); management and partnerships (Steiermark, Finland and Greece); publicity and communications (Steiermark, Greece, Italy); project selection (Hungary); and broader institutional change (Denmark and Poland)

2.6.1 Monitoring and financial management systems

The introduction of improvements to programme monitoring and financial management systems has been a frequent occurrence in EU15 partner programmes over time. In Sachsen-Anhalt, the Managing Authority is continuing to improve the electronic data monitoring system (efREporter). The Managing Authority has already undertaken project-level checks (i.e. to ensure that all data entered is accurate and appropriate) for agricultural and the environmental Measures, and it is now undertaking these checks for the ESF. The steps being taken by the Managing Authority change the system so that it automatically identifies – and, where possible, corrects – any administrative errors in data etc. It also allows the different implementing bodies to enter data directly into the system. This work can be seen as part of the broader preparations for programme closure because all data in the system have to be correct (e.g. commitments must equal payments) before the projects and programme can be closed.

In the new Member States, some teething problems are evident. In Poland, there have been significant delays in installing the data transfer and monitoring system for Structural Funds and the Cohesion Fund, known as SIMIK, and it is still not fully operational. Programmers at regional level can log on to the system but downloading information and forms is very time-consuming. The Marshal's Office is aware that it will have to feed project data, currently held in Excel form, into this system when it is finally operational and this will be very time-consuming. As effective project implementation is now the main concern in Hungary, more resources and emphasis have been placed on monitoring and payments (these departments in the Managing Authority have been strengthened, by taking on extra people).

In Denmark, the most noteworthy change made at the national level is the introduction of a new upgraded financial management system, designed to live up to modern standards. Similarly, in Wales, the Welsh European Funding Office is in the process of developing a comprehensive grants management IT system (PPIM), for the next round of programmes and also to absorb data on the current programmes – this will be a major undertaking, including a major data transfer exercise. A number of changes to audit and monitoring activities have been recently undertaken in North East England (see case study).

Auditing and Monitoring in North East England

The approach to monitoring has been changed due to several recurrent issues identified during monitoring or audit activity, notably: poor publicity of EU funding; ineligible expenditure in claims; apportionment of overheads; missing or incomplete documentation on procurement; poor audit trails and insufficient supporting documentation; and, failure to comply with procurement regulations.

By statute, the Secretariat must make sure they have carried out an appropriate number of monitoring visits/quota of project visits, to a new agreed standard. By the time the standard was published, some 120 visits had been undertaken, however around 110 of these did not meet the new standard and will have to be revisited. To tackle this problem a dedicated Monitoring Team has been set up with a three-year Monitoring Plan. Projects visited under the earlier less rigorous regime will be checked to ensure high risk projects are visited first, before tackling lower-risk projects. Systems are being developed to ensure the quality of monitoring reports from all staff, and to involve relevant external staff at all stages of the monitoring process (see below). When the programme reaches 100 percent commitment, they will move more staff over to monitoring, thus revealing more cash for recycling to projects that are performing extremely well.

As noted, an important operational change concerns the new working approach for external staff funded by the programme (a residual element of the package system), who are now required to work much more closely with the Government Office and its agenda (previously they were less accountable). The staff will also be used to boost monitoring under the programme, particularly in terms of chasing claims.

Last, at the March 2006 PMC, members were encouraged to disseminate key messages about audit and monitoring: the monitoring process is taking a higher profile at this stage in the programme, and an effective monitoring strategy has been developed. Issues raised in audit visits will be addressed during monitoring visits; failure to comply with monitoring and audit requirements is already resulting in financial penalties, and more can be expected unless partners comply with conditions in ESF/ERDF offer letters/contracts; within the region staff who are funded by the programme must be prepared to fulfil a role in carrying out monitoring visits, to an agreed standard.

2.6.2 Indicators and targets

Setting realistic indicators and targets and revising them as necessary is a challenge which has confronted all programme managers at some point over the current programming period. In Finland, as has been the case for a long time now, many of the indicators are lagging behind. This is particularly true with respect to firm and job creation and, especially the female component of these figures. During the mid-term evaluations, this raised the question as to whether the targets originally set should be amended. This happened under the Objective 1 programmes where the feeling was that a number of the targets set were unrealistic. Under Objective 2, no changes were made to the original targets. The view was that it would be wrong to change the targets originally laid down, particularly those relating to female job creation. Equal opportunities have always been an important element of the Objective 2 programmes and the view was that it would give the wrong signal to lower the targets originally set. Rather, the decision was taken to keep these targets in front of people to underline the importance attached to equal opportunities under the programme.

In Hungary, the indicators have proved to be problematic (and would be something that the authorities would like to change in the future). At the moment, their main function is for accounting purposes. They cannot be aggregated, they are very general and the managing authority does not feel that they reveal particularly useful information. Part of the problem is that the indicators became formalised rather quickly e.g. by being entered into the IT systems, and were then difficult to modify. Asking project partners to suddenly start collecting new data is not practical, so the Managing Authority feels that they will have to live with the current system for the life of the programme. Some changes have been made, but not to the degree the Managing Authority would have liked.

2.6.3 Management and partnerships

Improvements to management structures have been implemented in some partner programmes. In Steiermark, despite positive experiences with bottom-up regional initiatives in the form of regional management structures, an independent evaluation has found that their performance could be improved by agreeing on clearly defined targets. The Managing Authority is currently implementing this recommendation. In Finland, following on from the update to the mid-term evaluation, there is widespread agreement within the programme area of the importance of a "round table" approach to programming, with broad participation in programme decisions. This is already in place with respect to the ERDF. It is also developing with respect to the ESF where, in the next programme period, Regional Council approval will be required for ESF support in the region. That said, the position (formally) is less clear – the Ministry of the Interior (ERDF) and the Ministry of the Labour (ESF) guidelines differ in some respects in this regard. Nevertheless, the regional level is now placing considerable weight on inclusive discussions. There is broad support across the programme area in favour of a "round table" approach to programming. By contrast, relations with partners in Scotland are more difficult at the moment because of uncertainties over future programming arrangements. Last, in Greece, new legislation has been introduced to regulate the powers and responsibilities of the Management Authority and to clarify its role.

2.6.4 Publicity and communication

Progress with the implementation of publicity and communication campaigns continues in most programmes. In Steiermark, a best practice campaign in the local newspaper has begun recently with the aim of increasing the visibility of the EU and to raise awareness on the positive effects of Structural Funds. In the Flemish region, new investments in communication tools with the local television channel are foreseen along with a video to stimulate investment in the Kempen sub-region and to enhance its competitiveness. In Denmark, the most notable recent activity at the regional level is the creation of a homepage for the venture fund in North Jutland.

The Management Organisation Unit in Greece

To assist the operation of the programme, as well as future programming, the Ministry of Economy and Finance in Greece set up the so-called Management Organisation Unit (MOU) in 1996. As a private company, the MOU does not operate under the stringent bureaucratic procedures of the public sector. The role of the MOU has expanded from advisory services to implementation and providing expertise and technical support to managing authorities and partners. For example, it has set up an electronic library in both English and Greek, which includes all legislation, regulations and circulars related to the Structural Funds and Community Support as well as the national laws on tendering, construction and project implementation. One of the biggest achievements was the creation of a glossary on the terminology used in the CSF in both English and Greek which was distributed to partners and has established common terms of reference to avoid misunderstandings. MOU is currently working on setting up an electronic portal network which will include the details of all programmes and will be made available on-line. Together with the regional authorities, MOU is in change of raising awareness of the opportunities which the Structural Funds provide to businesses. The creation of a "find me a programme" page on the company's website is considered to be particularly successful. Following the completion of an electronic questionnaire, businesses are advised within seconds on current and future opportunities for EU financing in their area of interest.

In Italy, the implementation of the publicity and communications plan in Toscana is in full swing. The final year of the SPD was considered to be an opportune moment to consolidate knowledge on the outcomes of the SPD and to disseminate this information more widely. Three main areas of activity are planned. First, an event has been organised to take place in mid June 2006 involving the Commission, all domestic actors involved in the management and implementation of the SPD as well as final beneficiaries and the general public. Second, other publicity-related work has been undertaken as a follow up to the annual meeting between the Commission and Centre-North regions in November 2005. The Managing Authorities were asked to conduct a survey of all projects above a €3m threshold, which are required to display a sign with the Structural Funds logo (whilst carrying out the project) and to display a plaque (on completion). While the number of total projects is not substantial, the main problems encountered are that the signs were not in a uniform format, photographic records have not always been kept and there were mistakes in the written text. These lessons will be incorporated in the next programme period.

Last, the programme website has been redesigned as a result of a new national regulation on transparency and usability (the so-called 'Law Stanca'). The aim was to make the site simpler to navigate, including for those who do not have access to broadband, with particular attention placed on disabled users (e.g. special software has been introduced for blind users).

2.6.5 Project selection

Some IQ-Net partners have made changes to project selection procedures and criteria. In Hungary, a quality control review of project assessment and selection made by Regional Development Agencies (RDAs) was commissioned by the Managing Authority. The aim was to assess the eligibility of finances and the cost effectiveness of projects, potentially highlighting problems with, for example, the clarity of calls, the experience or skill in making assessments, or indeed the undue influence of political factors over selection decisions. Following the assessment, 40 percent of all the project decisions made by the RDA were questioned to varying degrees. The Managing Authority invited the RDA and the consultants to come together and discuss the findings. Ultimately, in the opinion of the Managing Authority representative, it appeared that often the consultants were excessively strict and too bureaucratic in their assessment. In Norra in Sweden, discussions are also being held between the Structural Funds delegation and the secretariat to improve the degree of selection of project applications. The aim is to place greater stress on innovation-related projects, particularly those involving collaboration between universities and businesses.

2.6.6 Institutional change

Broader institutional restructuring in some countries has had implications for the operational management of the Structural Funds. For instance, in Denmark, ongoing local government reforms continue to impact on both general policy-making and the management of the Objective 2 programme, not least because of the insecurity among regional and local personnel of their positions post-2006 (the reform enters into force on 1 January 2007). There have been a significant number of resignations recently, particularly ESF coordinators, and there is a shortage as a result. The fear is that this may also affect ERDF coordinators. In Poland, there have been important changes to the institutional system recently, devolving further policy-making responsibilities to the regional level (see case study below).

Regionalisation in Poland

At the end of the 1990s, the Polish government introduced a package of reforms designed to revitalise regional administrative structures, encourage the development and implementation of political and economic initiatives at regional level and move away from rigid, hierarchical modes of policy administration. As a result, the objectives, priorities, instruments and administrative mechanisms for regional economic development have changed significantly. Notably, Poland now has 16 regions with NUTS II status and a 'dual' structure that combines a centrally-appointed governor with a regionally-elected board, headed by the Marshal's Office. The Marshal's Office provides administrative support to the Voivodship Board and its head – the Marshal. The Voivodship Board is the executive body of the self-government at regional level. It is responsible for creating regional development policy in the region. The reforms mapped responsibilities for the management of EU regional programmes directly onto Poland's new framework for the governance of regional policy. Regional Boards and Marshals' Offices have potentially important powers in the field of regional economic development, including the responsibility for regional programming under the Structural Funds system. In financial terms, the integration of Structural Funds with domestic regional funding streams boosts the amount of funding flowing through regional governments and increases the scale of spending and revenue possibilities. Each Regional Board now submits regional development strategies and operational programmes that inform the National Development Plan (the overarching strategy document for EU and domestic funds).

2.6.7 New OPs and implications for management

There are mixed views among IQ-Net partners on the implications of the new Operational Programmes and respective management arrangements for the final stages of the implementation of the current programmes. For a number of IQ-Net partners, no significant impacts are foreseen. For example, in both of the Austrian partner programmes no major administrative or technical changes are being planned for the next financial period. The responsibilities for programme management will be retained. It is, therefore, unlikely that any future changes will impact on the current programme. This is also the case in Denmark where the post-2006 administration set-up will be much like the current approach. A more significant change in Denmark will be in the administration of the European Social Fund where responsibility will be centralised at the National Agency for Enterprise and Construction (as opposed to remaining at the regional level, as at present). However, in an effort to phase out the management of the ESF, a consequence of the shortage of ESF coordinators, some regions have already handed over responsibility to the National Agency for Enterprise and Construction. In France, changes are also likely to be limited, not least because it has now been decided that the regional prefects will retain Managing Authority status rather than the regional elected council (see the case study on Alsace in last year's review).

In some countries there is still uncertainty over the future implementation arrangements, as in Greece where organisational plans post 2006 have not yet been finalised. If, as currently planned, the regional programmes are reduced to 5 rather than 13, then some of the regional managing authorities will cease to exist. However, local expertise will not be lost, as staff will be incorporated within the regional authorities and they will be tasked to assist the final beneficiaries. In the Flemish region, there have been no direct impacts on current arrangements as a result of the future programme period, but an overlap in staffing is expected for 2007/08. As in Greece, no specific arrangements have been made as yet and the coordination of the current and new programme period still needs to be organised. In the Kempen sub-region of Flanders, most staff contracts for the current programme end in mid-2007. This implies a potential gap of 1.5 years, the staff will either be integrated in the future programme secretariat (which happened in the past) or contracts will be prolonged for the required period.

On the other hand, in Scotland, the organisational plans for the post-2006 period could have a major impact on the management of the remainder of the current programme. The Western Scotland Programme Management Executive is concerned that if the Scottish Executive proceeds with the plans to change the delivery system, the PME (if it exists) will struggle to keep staff to carry out the closure work until 2009. According to the proposals, a part of the future Lowland OP will be managed by one PME, selected by tender. Should the Strathclyde European Partnership not win such a tender, they would risk losing staff to the successful bidder. The PME has recently undertaken a ‘Change Management’ strategy, which covered: internal restructuring; reviewing job descriptions; a new internal communications strategy (to keep staff informed); preparing a staffing strategy for three future scenarios; and examining options for staff retention, bonus systems and redundancy policies.

3. CLOSING THE PROGRAMMES

3.1 Programme closure: A mixed priority

As the programmes move into the final year of the 2000-06 period, the focus for programming authorities has now shifted from committing funds to payments and ensuring effective absorption. Closely associated with this shift, increased attention is now being devoted to programme closure across all countries and regions. While this has translated into concrete actions and activities in some IQ-Net partner programmes (discussed further in the next section), this is not universally the case.

As noted in previous review papers, the issue of programme closure has been interpreted differently in different countries and regions, with some viewing closure as being closely tied to the day-to-day management of programmes (e.g. Denmark, Spain, Nordrhein-Westfalen). In Nordrhein-Westfalen, for example, interviewees argue that the systems are already in place to ensure that the formal requirements of programme closure are dealt with effectively e.g. the formal completion of projects depends on the monitoring system and on mechanisms for ensuring that final payments are made etc.

The fact that the EU programme closure guidelines were still not finalised also affects the priority attached to closure in some partner programmes. The Central Macedonia programme authorities in Greece and the Western Scotland Programme Management Executive argue that no action is anticipated until clear guidelines are finalised, although more will be done once they are issued.

There is also perceived to be sufficient time for the preparation of programme closure and completion of the procedural requirements (e.g. the Flemish region, Finland, Lombardia, Sweden, Spain). This is the case in Flanders where no specific arrangements have been made so far. In Finland, Nordrhein-Westfalen and Lombardia, it was noted that one factor which has helped to ease pressures somewhat is the ability to continue to commit project funding post 2006. The high level of financial implementation in some countries and regions (e.g. Norra and Norrland in Sweden or the Diputación Foral de Bizkaia in the País Vasco) is also considered to present programming authorities with ample time to complete the necessary closure documentation

For others, the current priority is the design of the next round of programmes. For instance, in Denmark, the overall view is that the forthcoming programme period deserves more attention than the one that is closing down. Conversely, in Finland, the intention is to close down the old programmes before starting up the new ones (probably in July 2007). Although this will be challenging, the expectation is that there will be sufficient old programme funding remaining in the first half of 2007 to ensure that there should be no break in the provision of support prior to the new programme coming on stream. In the Flemish region, it was noted that no specific closure arrangements have been made so far because the administration has to deal with more urgent matters concerning the new programme period. Similarly, in Nordrhein-Westfalen, the fact that the managing authority is responsible for preparing the new OP and has a lot of work to do in this regard partly explains the lack of attention to closure. This contrasts with the other German partner, Sachsen-Anhalt, where it is the State Chancellery – not the current Managing Authority – which is responsible for preparing the new OPs. In some countries future programme management arrangements have still not been fully determined which may also impact on the priority attached to closure. This can be seen in Scotland, where the uncertainty over future management arrangements may have implications for closure responsibilities.

In the new Member State partner programmes (Poland and Hungary), programme closure is not perceived to be an immediate priority for two reasons. First, given the start of programmes in 2004, project and programme delivery is still regarded as being in the implementation phase. Second, the very high demand for projects is such that it is currently unnecessary to plan special actions related to closure, although in the case of Poland it was noted that ongoing efforts to strengthen the project pipeline, monitoring arrangements and the payments system would help in this respect.

3.2 Programme closure: arrangements and activities

The experiences of the IQ-Net partner programmes over the last six months (in some cases building on earlier initiatives) reveals a range of activities and tasks being carried out to ensure effective programme closure. These include setting up specific organisational arrangements, communication and awareness raising, the reallocation of funds, tighter financial monitoring and controls, deadline and target-setting, increased co-financing flexibility, issuing national/regional guidance and holding workshops, and overbooking.

3.2.1 Specific organisational arrangements

Some countries and regions have set up specific organisational arrangements to ensure that the programmes are closed successfully. In Finland, as happened at the end of the last programme period, working groups on programme closure have been established in the Ministry of the Interior (ERDF) and the Ministry of Labour (ESF), although there is not felt to be any need to have any further special arrangements at the programme level.

As noted in previous reviews, the UK Programme Closure Group leads on the UK-wide approach to programme closure. The initial aim is to put common systems in place for closure. The Group, which met for the first time 18 months ago, is led by the Department of Trade and Industry and also involves the Department for Communities and Local Government, the Department for Work and Pensions, representatives of the Government Offices in the regions, the Scottish Executive, Northern Ireland and the Welsh European Funding Office.

At the regional level, the Government Office for the North East of England has now also set up a programme closure team, which is made up of the existing finance team, but with a specific programme closure remit (in the last review period there were no specific *regional* organisations working for closure). The closure team is trying to anticipate the practical details that will need to be dealt with in 2009 (the types of details that it is felt were left too late last time) and to smooth the way to make the closure process as simple as possible. The expectation is that the staff member leading the closure team will stay in place until 2009, providing some stability and continuity through the process. A schematic 'family tree' of the organisation has been mapped out, showing how staff resources will shrink over the period until 2009. (Alongside the staffing changes implied by a reduction in the Structural Funds budget, a recent Government Office review concluded that the Government Offices should move to a more strategic, less 'grant-giving' role, and lose one-third of their staff). Currently, there are six teams in the European Programmes Secretariat within the Government Office for the North East covering different areas, and the intention is that there will just be one team left at the end of the period – the programme closure team. The resulting changes within the organisation are already being seen, with teams being merged and positions disappearing – a shrinking of the hierarchy and structure.

In Wales, a Welsh European Funding Office (WEFO) 'Closure Continuity Group' has also been set up, including people still in post who participated in the 1994-99 closure (which is still on-going, due to post-closure audits) plus representatives from the Article 15 body. The Group will lead on getting all the information systems in place for WEFO to close its programmes in a proper form and timely fashion – they will map out a timetable and adapt the general UK closure guidelines. The Group first met formally early in 2006. It is chaired by the Chief Executive, to emphasise the importance of getting the closure process right.

A final example of specific organisational arrangements is available in Greece where some of the Managing Authorities have appointed external consultants to provide support in fulfilling programme closure requirements. The work will begin once the Commission guidelines have been finalised.

3.2.2 Modifications to the financial plan

Changes to the financial plans provide another avenue through which to ease funding absorption and programme closure. In Denmark, for example, the Monitoring Committee meeting of May 2006 was scheduled to deal with proposals for the redistribution of funds before programme closure. The regions have been asked to put forward their requests. As the deadline for redistributing funds between priorities has been set by the National Agency for Enterprise at 1 June 2006, this Monitoring Committee meeting provides the last opportunity for making any requests.

Numerous meetings have been held by the Toscana Managing Authority and measure managers in order to see whether SPD changes would be needed by September 2006. The first meeting occurred in March 2006 including the managers of those measures deemed to be most critical. Furthermore, in early April 2006, the regional government provided the Managing Authority with the mandate to verify the financial progress of the SPD and to identify Measures/Sub-measures where financial reallocations would be needed. The government decision identified three indicators (utilisation capacity, commitment capacity and expenditure capacity) and specified a deadline of 10 June 2006 for the Managing Authority to produce a report assessing the situation.

3.2.3 Financial monitoring/controls

In most programmes specific steps have been taken to try to foresee and reduce the risk of funding not being utilised as a result of projects not progressing as anticipated. One response has been for there to be a more intensive approach to monitoring and follow-up. In Finland, there has been a tightening of financial monitoring and planning at the regional level related to the process of closure. Stress has been placed on having as accurate and up-to-date management information as possible, though there are limits to this under the current monitoring system (which is updated only every three months). The new monitoring system which is to be developed for the 2007-13 period will address this issue (among others).

The Managing Authority in Sachsen-Anhalt is updating both procedures and data within the electronic monitoring system, ensuring that projects are closed correctly. For example, if payments do not precisely equal commitments at the end of the project, there may be a need to request that funds be repaid, or – if the amount is very small – to use technical rules to clear up such inconsistencies. Further work is still needed to improve electronic systems to allow all final checks to be made. Similar remarks can be made for Nordrhein-Westfalen, where the Managing Authority/Secretariat are now using the monitoring system to identify individual projects where financial absorption is too slow, and are providing the relevant project holders with hands-on advice on ways of accelerating implementation. This echoes developments in Sweden, where project applications are being handled more carefully and detailed explanations are requested if money has not been spent.

In Greece, the central electronic database, shared between the Managing Authorities and the Ministry of Economy and Finance, stores deadlines and required actions at the project level which enables monitoring and follow-up of progress. This is considered to have been a great success, as it enables the Ministry to access information on every aspect of any project financed by the CSF. Once the closure guidelines have been finalized, it is anticipated that the relevant procedures will also be included in the IT system.

The financial and procedural progress of programme measures is monitored intensively in all three Italian partner programmes. It is particularly stringent for those measures that present higher risks. For example, under the OP LED, ERDF resources are not considered to be at risk, however, a specific ESF-funded instrument under the PIA (Integrated Incentive Plan) Innovation could be problematic in the future (for circa €600 million) and this is watched closely. In Toscana, the regional government issued a deliberation in March 2006 on management and control procedures which also included reprogramming guidelines. The deliberation up-dates the procedures in place since the beginning of the implementation of the programme, specifying the responsibilities of measure managers, Managing Authority and Paying Authority, and modifies the check-lists for second-level controls and those carried out by the Managing Authority. Building on the experience of the last three years, the new approach marks the beginning of “a systemic control system” implemented directly by the Managing Authority. It involves new more strategic controls that will apply to both the measure managers and the intermediary organisations. The aim is not simply to cut back on resources, but rather to identify problems in the management of the measures and to “educate”.

3.2.4 Deadline and target-setting

The setting of deadlines and targets has become common practice in partner programmes in order to increase awareness of the closing dates and to ensure that these are respected. In Denmark, for example, a specific deadline for project recommendations by regional programme administrators has been set at 1 October 2006. The North East England programme had initially planned to commit all its expenditure by December 2005 – after which any new commitments would have been using recycled funding. For the European Social Fund, the Department for Work and Pensions at the national level has made it very clear that they do not expect any expenditure to be made after August 2008; The Department for Communities and Local Government are suggesting the same. However, the North-East programme management consider this timescale to be rather tight as a number of large capital projects are in the pipeline. It will be at least the middle of 2006 until these are approved, which does not leave them long to spend the money. The programme would therefore like to see some flexibility with final spending dates (e.g. until September/October 2008).

Advice on deadlines is being provided to local authorities in Greece in order to raise awareness on future programme closure. Similarly, in Finland, all the regional authorities have been advised to take care to follow up on the implementation of projects within their area, respecting the closure deadlines which have been set for all projects. Indeed, successful programme closure is being taken very seriously and a "political" target has been set that 100 percent of the available funding should be spent and that 100 percent of the funding due from the Commission should be received. This places extra pressure on an issue which has always had its technical challenges. Realistically, it is considered that it will be difficult to reach the political target which has been laid down.

Ongoing monitoring and related target-setting actions feature as one of the main activities undertaken by the Lombardia secretariat at the moment. A system is in place to ensure that spending progresses according to plan, involving the preparation of a table with up-to-date financial data which is sent to the Director General (on a weekly basis) and the subsequent transmission of this information to all the Director Generals involved in the implementation of the programme (on a monthly basis). The involvement of the region's General Secretary raises the political pressure on measure managers, ensuring that they take their obligations seriously. This 'punitive' approach was adopted in 2005 when it became apparent that the expenditure forecasts of measure managers were sometimes unrealistic. In addition, a meeting with all measure managers was held and new expenditure forecasts were gathered. Tight forecasts have been set and the approach adopted puts the different Directorate Generals in competition with each other: the monthly table that is circulated indicates the percentage progress towards the target and allows all to see immediately who is performing well or badly. In addition to this monitoring work, Steering Committee meetings, also involving the independent evaluator, help to consolidate the information and keep the situation under control.

Setting deadlines in Toscana

A seminar was organised in April 2006 on programme closure to examine the themes of controls, final claim procedures, the procedures for the revision and closure of the SPD, and the evolution of the legislation on state aids expiring at the end of 2006. The Managing Authority explained the timetable/deadlines to modify the SPD/PC and the obligations that the Paying Authority would need to meet. The measure managers were made aware of the information that they are required to provide and of the submission deadlines. The roadmap can be summarised as follows:

1) The last date for the revision of the SPD, i.e. to send to the Commission a revised SPD draft (approved by the MC) is 30 September 2006

2) For this, a PMC meeting has to be held at the latest by mid-September, which means that PMC members have to receive all documentation by 31 August 2006

3) For the above, a draft revised SPD has to be ready by 28 July; the documentation for the revision has to be received from the Measure Managers by no later than 7 July 2006

4) This means that to allow the regional executive (Giunta) to approve the above changes, a report has to be submitted to its members by 19 June.

5) To revise the financial plans, an analysis of the amounts committed and claimed has to be completed by mid April 2006. A further analysis of the financial process at sub-measure level will be made with the data at 31 May 2006 and submitted to the regional government by 10 June. The relevant monitoring data for this has to be sent to the Managing Authority/Secretariat by 8 June 2006.

3.2.5 Co-financing flexibility

In some partner programmes increased co-financing flexibility is being sought in order to speed up payments. For example, in Alsace, increased vigilance and close monitoring of projects is becoming increasingly important. The state services have established a list of sensitive projects which need particular attention and, if necessary, provides for funds to be freed (e.g. in the case of investment projects where call for tenders can delay the project or when problems of public co-financing occur which can hamper or delay the programming). Similar remarks can be made for Finland, where a particular effort is being made to estimate how much will be left to commit by the end of this year (2006) so that the necessary co-finance can be included within next year's budgets. By taking this approach, the hope is that the necessary funding will be available from the start of January 2007, thus reducing potential delays to the minimum.

3.2.6 National/Regional Guidance and workshops

The issuing of national and/or regional guidance, sometimes alongside explanatory workshops, has provided another means through which to facilitate the closure process and compliance with EU procedures. In Finland, the closure groups have been developing ESF and ERDF guidelines as well as keeping national ministries and regional authorities informed on the procedures and deadlines for programme closure. The final version of the Ministry of the Interior's guidelines is in preparation. In the same way, the UK Department for Communities and Local Government has written a draft programme closure guidance document and the Department for Work and Pensions has also produced one for the ESF. In Greece, by contrast, the Ministry of Economy and Finance has not yet issued guidelines for programme closures locally. As noted, this is partly because the Commission's guidelines for programme closure have not been finalised; although it is anticipated that any future national guidelines will reflect those issued by the Commission.

Programme closure has only recently become an issue in France. Basic requirements and regulations were first presented at a meeting for programme managers in April 2006. Further specification of the procedures was provided within the framework of a workshop covering all Objective 1, 2, 3, URBAN and LEADER programmes authorities (the INTERREG programme will be dealt with separately) in mid May 2006. At this meeting, the Inter-Ministerial Commission for the Coordination of Control explained Commission documents and gave instructions. Throughout the closure phase, meetings will be held between regions facing programme delays, the DIACT and the Commission.

Turning to the regional level, the Sachsen-Anhalt Managing Authority has sent guidelines to implementing bodies on project closure. They have emphasised that if projects are not completed on time this would mean that they would not receive EU funding. However, many implementing bodies do not view this as a major threat because they believe that they would instead receive regional or national funding so that the projects would still go ahead. In Italy, the region of Toscana has been particularly active in the procedural preparations for programme closure. As noted above, a seminar was organised on programme closure to examine the themes of controls, final claim procedures, the procedures for the revision and closure of the SPD, and the evolution of the legislation on state aids expiring at the end of 2006. The Managing Authority explained the timetable/deadlines to modify the SPD/PC and the obligations that the Paying Authority would need to meet.

3.2.7 Overbooking

The overbooking of funds is a common activity in all three of the Italian partner programmes. In Toscana, it was highlighted that overbooking is less straightforward in the case of infrastructure projects which have long implementation times. To overcome this, overbooking is implemented by drawing on projects from the so-called "Additional Regional Programme", a domestic infrastructure programme that runs parallel to the SPD. Measure managers are currently identifying suitable projects which meet the SPD's eligibility conditions. In the OP LED, overbooking is available under ERDF funded Measures 1 and 2, however, no overbooking resources are available for the measure funded by the ESF which is also the most critical.

In the Lombardia programme, €13m was obtained from the region's budget in November 2005 for overbooking plus a further €4m from the 2006 budget (a further €10-11m with the forthcoming budget adjustment is also expected). The first sum was allocated to the SPD with the requirement that it be committed in a very short timescale (i.e. by the end of the year). The above resources represent some 5 percent of the SPDs allocation, although it is considered that a further 5 percent would be needed to ensure full commitment. A further issue noted by one interviewee was that the method for calculating final claims has implications for the final performance of the SPD and closure. If a sum equal to 100 percent of the financial allocation is declared, the SPD would lose some monies due to the calculation formula. It would therefore be necessary to declare a level of expenditure higher than the financial allocation.

The Ministry of Finance in Finland has recently changed its approach to funding. In the past, the Ministry was not prepared to take any risks in the provision of funding; it would allow activities to be financed only where all the finance was clearly in place. Now a model has been developed which handles risk. This approach, involves taking account of the fact that a percentage of the projects supported will not be taken forward and a percentage of commitments will not be transformed into payments. Due to this change in approach, the Ministry is now in a position to provide the regions with funding earlier than would otherwise have been the case.

3.3 Programme closure: Commission guidelines

As noted in the previous IQ-Net report, the Commission has issued draft Guidelines on programme closure with the aim of providing Managing Authorities with the necessary information on how to finalise the programmes. A revised version was circulated to the Member States in January 2006. The main concerns on the guidelines raised by Member State authorities are listed below:

- **State aid:** In the UK, the second draft of the Commission's closure guidelines are considered to be an improvement on the first, particularly as they clarify statements about state aid arrangements, which had been a concern. The Government Office for the North East did not want to have to change operating arrangements for schemes already running, and there has now apparently been a compromise reached in that there will be a transitional period during 2007/08 when schemes approved under the current state aid regime can continue under the old guidelines, while the new regime will apply to new schemes. This was a problem common to all the English regions and it cropped up in the most recent Annual Review meeting attended by DG Regio and DG Competition.

- **Advance payments:** In Italy, observations by the regions on the draft guidelines were collated by the Department for Development Policies (DPS) and sent with its own views to the Commission. The guidelines were considered to lack clarity in certain areas. For example, the authorities from Toscana raised technical questions regarding the calculations of interest matured on the 7 percent advance and the time frame that should be considered.

- **ESF/ERDF Closure dates:** In Wales, one potential problem that has been identified is the uncertainty in the draft guidelines with regard to the exact dates for closure on some programmes. The Department for Trade and Industry has pointed out discrepancies between closure dates for ERDF/ESF and other Funds – this discrepancy would be a problem under Objective 1, where four Funds are involved. The Welsh European Funding Office would like all Funds to have the same date for closure.

- **Changes to the financial plan:** Toscana has also sought clarification on the deadline by which the financial plan of the SPD could be modified, within the framework of the Commission's decision on the approval of the SPD. According to the draft guidelines, such a date would be the date of final expenditure eligibility (which for the Tuscan SPD would be 30 April 2009); the authorities from Toscana wanted confirmation of this and also on whether both financial plans (Objective 2 and transitional support) could be modified by this date. Similarly, Toscana sought confirmation of the final deadline for modifying the financial plans with a new Commission decision. According to the guidance, the final date to submit a new version of the SPD to the Commission should be 30 September 2006, and the regional authority wanted to clarify that this deadline applies also to the modifications of the financial plan in transitional support areas (although the closure of Objective 2/phasing out areas does not appear problematic because they have separate financial plans).

- **Private expenditure:** As mentioned in previous review papers, Niederösterreich sees the main closure challenge to be the co-financing rates. According to the Commission's guidelines, priority level changes to private and public co-financing rates are restricted so that the respective commitments have to be met precisely. The regional authorities would like the possibility to substitute private funds for public money as this would strongly increase flexibility and simplify planning. Steiermark authorities are critical that a deadline is not specified in the closure guidelines for claiming financial corrections.

- **Co-financing rates:** In Austria, the further flexibility of 2 percent for reallocations between the priorities envisaged in the guidelines is seen as rather tight since a reserve of 10 percent under each measure would be necessary in order to achieve 100 percent at the priority level. Similarly, In Finland, there is a view that the Commission rules with respect to closure are less flexible than might have been anticipated, particularly the 2 percent limit on transfers between priorities (while allowing more flexibility within priorities). In the Western Finland programme, the impact of the 2 percent limit is exacerbated by the ERDF/ESF split. The fact that each priority has only one ESF measure means that any wish to make transfers between ESF measures comes up against the 2 percent limit. That said, the view is that, by planning carefully in advance, it should be possible to avoid any last minute panic.

- **Bridging projects:** One issue raised in Greece with regard to programme closure relates to so-called bridging projects i.e. projects which have started in the current programming period, but will continue in the next programming period (in Greece, these mainly involve infrastructure projects which have started late in the period). The quantitative indicator targets for the bridging projects will not be met at the end of the current programme, as the projects will be completed in the 4th CSF. For example, in the case of railway infrastructure, only 60 percent of the total project will be completed in the current programme and it is unlikely that the quantitative indicators set at the launch of the CSF will be met. As a result it is viewed as important that the closure procedures provide specific provisions for bridging projects and allow the programme to be closed despite the initial targets not having been met.

4. EX-ANTE EVALUATION

In conjunction with the design of the new round of strategies for 2007-13 (covered in detail in the parallel thematic paper), an important task for programming authorities in the current review period has been the organisation and commissioning of ex-ante evaluations for the future Operational Programmes. Although the process and initial results remained at an early stage in most countries and regions at the fieldwork stage for this review paper, the following section provides an initial examination of the current status of the ex-ante evaluations in partner programmes, focussing on the organisation of the process and partner views on the relative importance of the different ex-ante evaluation components.

4.1 Objectives and scope of the ex-ante evaluation

According to the draft regulations for the 2007-13 programming period, the aim of the ex-ante evaluation is to "optimise the allocation of budgetary resources under operational programmes and improve programming quality."[3] In doing so, a range of tasks should be undertaken, which include identifying and appraising:

> *"the disparities, gaps and potential for development, the goals to be achieved, the results expected, the quantified targets, the coherence, if necessary, of the strategy proposed for the region, the Community value-added, the extent to which the Community's priorities have been taken into account, the lessons drawn from previous programming and the quality of the procedures for implementation, monitoring, evaluation and financial management."*

More detailed methodological guidance on the different components of the ex-ante evaluation, alongside recommendations on the organisation of the process, is provided in the Commission's Working Paper.[4] Five key components are described, including:

- the socio-economic analysis and relevance of the strategy to the needs identified;
- the rationale and consistency of the strategy;
- the coherence of the strategy with regional and national policies, and the Community Strategic Guidelines;
- the expected results and impacts;
- the implementation systems.

[3] Council of the European Union (2006) Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund - General Approach, Doc. 8750/06, 28.04.06.

[4] European Commission (2005) The New Programming Period, 2007-2013: Methodological Working Papers, Draft Working Paper on Ex Ante Evaluation, October 2005.

The Commission's guidance and the key proposed components have been broadly welcomed and, according to most programme partners, will form the basis for the content of the ex-antes. In France, for instance, there will be five key evaluation components, essentially reflecting the Commission's recommendations, as is the case in Niederösterreich. Notwithstanding general satisfaction with the Commission's methodological guidance, a variety of views were expressed on the relative importance of each evaluation component and the specific issues which are considered to be of particular relevance for the respective OP's.

In line with Commission thinking, a number of IQ-Net partners considered the *socio-economic analysis and relevance of the strategy to the needs identified*, and *the rationale and consistency of the strategy* to be of particular importance (components 1 and 2 in the Commission's Working Paper). This is the case in Finland where the key question for the evaluation is to ensure that there is a clear link between the basic analysis undertaken of the programme area and the programme itself. In Sachsen-Anhalt, a specific section will analyse the various instruments to be used in terms of their contribution to specific socio-economic and other goals (using a scoring model). In France, the basic functions of the ex-ante are made clear in the national guidance: to provide support for the conceptualisation of the OP, to allow for a justification of interventions and to provide a basis for quality control. Of the five key evaluation components, the relevance and coherence of the programme is perceived to be particularly crucial. In the Flemish region, it is seen as especially important to ensure the consistency of the strategy and to optimise the translation into strategic and operational objectives. The most important part of the evaluation in Niederösterreich is seen to be the section on Measures and Instruments, the evaluators are considered to be providing valuable input in this context. Programming authorities in Greece consider that the ex-ante will provide important up-to-date feedback which will be very useful in determining the future strategy of the programme. Last, in Wales, the socio-economic analysis is seen as vital. Without this it is not considered possible to identify market failures and understand the wider economic environment in which the programme is operating.

Some partners highlighted the greater importance being attached to the *internal and external coherence of the strategy* component compared to the ex-ante evaluations and drafting of the current programmes. For example, In Wales and Scotland, there were no regional-level strategic documents in place when the current programmes were developed as the Welsh Assembly and Scottish Executive were both relatively new institutions. In Italy, the much stronger emphasis given to the integration between EU and domestic strategies in the new round of programmes should also feed through into the ex-ante evaluations which are expected to cover this aspect in more depth than has been previously the case.

The *expected results and impacts* of the programmes is another key component of the ex-ante evaluation. A key area of interest for a number of partners concerns the evaluation of indicators. For example, in Steiermark, the indicator system was considered to be one of the main areas of interest, alongside the SWOT analysis and its fit with the planned interventions. In Wales, the new indicators for the current programme will form an important part of the ex-ante and programme development process, especially as some of the targets in the current period were considered to be somewhat unrealistic. In Sachsen-Anhalt, an area of contention between some Land Ministries and the State Chancellery, which is coordinating the ex-ante, concerns the need to develop project-related output/results indicators linked to specific goals. The Managing Authority plans to require all implementing bodies to produce project indicators that are linked to one of the broader goals of the Priority. There will also be a further n+2 indicator to reflect financial absorption (rather than progress in developmental terms). In Greece, a strong focus will be placed on context indicators for the next Community Support Framework. Future indicators measuring results and impacts will largely be based on the experience of the previous programme, while aiming to overcome some of the difficulties encountered with the Commission in negotiating changes.

With respect to impacts, some of the larger programmes will be using macroeconomic modelling techniques. In Sachsen-Anhalt, an evaluation of the potential macro-regional impact of the 2007-13 programme using the HERMIN macroeconomic model will be used, as adapted for the region. In Italy, there will also be an important impact-oriented focus. The REMI model – which IRPET has been using for quite some time - will be utilised to anticipate macro-impacts of all regional programmes. In Greece, a difficulty noted with the Commission's working paper concerns the well-known problem in forecasting impacts and proving which impacts may be attributed exclusively to the CSF, even after the programme has been implemented let alone at the ex-ante stage. As in other countries, macroeconomic modelling will continue to be used, despite its known limitations.

The last component of the ex-ante evaluation in the Commission methodological guidance is the *appraisal of the proposed implementation systems*. While most partners did not raise specific issues with regard to this component of the ex-ante, interviewees in Sachsen-Anhalt perceived the assessment of the proposed implementation system to be one of the most important aspects. Similarly, in Niederösterreich and Steiermark a "slim" evaluation in proportion to the limited size of the programme is favoured, with particular attention given to management and implementation systems.

4.2 Organisation and process

The main issue of interest in relation to the organisation and process of the ex-ante evaluations concerns the national/regional balance, the Strategic Environmental Assessment, the approach to proportionality, and the timetables.

In a similar way to the mid-term evaluations and respective updates, the ex-ante evaluations have involved a relatively standard process involving preparatory meetings, the drawing up of terms of reference, setting up steering committees and the selection of evaluation teams. As noted in the previous review paper, the balance and respective roles between national and regional actors within the different evaluation stages is largely dependent on the domestic institutional structure as well as the scale and types of programme being evaluated.

In federal countries, such as Austria, Belgium and Germany, the regional programmes are generally evaluated independently from the national level, with the exception of the

Objective 1 CSF in East Germany. On the other hand, in Austria national evaluation workshops provide an opportunity to stimulate discussion, spread best-practice and coordinate the activities of the actors involved. As part of the Coordination and Work platform, the seventh national evaluation workshop was organised by ÖROK (the federal level coordination body for regional policy) in March 2006, bringing together Managing Authorities from the nine *Länder*, evaluation teams, federal actors etc. The plenary and workshop sessions discussed recent EU developments (e.g. 'earmarking') and the consequences for the ex-ante evaluations. New evaluation concepts such as impact monitoring, as already applied in the Steiermark programme, were also presented.

In devolved countries (such as Italy, Spain and the UK) and more centralised countries (e.g. France, Portugal and a significant number of the new Member States) national authorities generally play a stronger coordination role through their presence in steering committees, the issuing of guidance and the joint development of terms of reference. In France, for instance, detailed ex-ante evaluation guidance was provided by national authorities at a meeting for programme managers in April 2006, while separate methodological guidance for the ESF is being developed by the General Delegation for Employment and Training (DGEFP). The ex-ante evaluations in Poland are being organised by the Ministry for Regional Development, as one evaluation report will be produced for all 16 regionalised OPs. Śląskie and the other regions are in constant dialogue with the national authorities and all 16 regions will participate in an ex-ante evaluation Steering Group. In England, the regions had the opportunity to comment on the Terms of Reference, before the call for the ex-antes was put out to tender, whereas the organisation of the ex-ante evaluations will be a devolved matter in Scotland and Wales.

In line with the principle of proportionality, the regulatory proposals for 2007-13 provide for more needs-based and flexible evaluation in the future. With respect to ex-ante evaluation, Regional Competitiveness and Employment Objective evaluations may be undertaken for either each OP, all OP's, by fund, or for each Priority. For Convergence regions, changes to the Commission's initial proposals also allow for ex-ante evaluations to be carried out for more than one programme, "in duly justified circumstances."[5]

The national authorities in Spain were initially keen to take advantage of the new approach by producing a single ex-ante evaluation for all Regional Competitiveness and Employment Objective regions. However, it appears likely that separate reports will now be undertaken, partly due to the need to incorporate Strategic Environmental Assessments. In England, the call for the Competitiveness and Employment regions' ex ante evaluations, allows applicants to tender for one, all or groupings of English regions' evaluations, whereas in Scotland, there will be one for each of the four programmes. In Greece, although there will be a reorganisation of the current OP structure, the ex-ante evaluation will be undertaken for all OPs as they currently stand, which include all regional OPs and all sectoral OPs. In Poland, the ex-ante evaluation of all 16 regional OPs will also produce a single report.

[5] Council of the European Union (2006) Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund - General Approach, Doc. 8750/06, 28.04.06.

It appears that the Strategic Environmental Assessment (SEA) directive is having an important impact on the programming and evaluation process in some partner countries. For example, in the UK, the Environment Agency carried out a study of the experience of applying SEAs to the Regional Economic Strategies with the aim of identifying the lessons learned. This will be used to support the development of the new programmes. In France, a circular from the national level recommends that environmental considerations be well integrated in the strategy development process. The plan was to determine a list of programmes by March, to establish a regional environmental profile by May (based on analyses by the services of the Ministry of Environment and Sustainable Development) and to finalise an environmental report including the results of public consultations by the autumn. There is a possibility of separating the work for the overall ex-ante and the environmental assessment, but the aim will be to ensure close coordination between them. In the UK, the Department for Communities and Local Government requested that all bidders for the future programmes include provisions to carry-out an SEA as part of their bid, although most bidders plan to sub-let this to other companies. This is also the case in the Flemish region, where a consortium with an approved environmental consultant will be formed.

In terms of timetables, most partner programmes launched the process in early 2005, although in some countries preparatory meetings and the selection of the evaluators had already been arranged by the end of 2005 (e.g. Germany, Austria). The completion of draft and final reports is obviously dependent on the development and finalisation of the Operational Programmes, which remained at an early stage in many cases. The timetable and main stages in the ex-ante process in a number of partner programmes and countries is as follows:

- **Austria:** The contract for the Niederösterreich ex-ante evaluation was awarded in December 2005 and the final report will be presented in May 2006 at the fourth evaluation workshop. In Steiermark, the deadline for the final ex ante evaluation report is in early June 2006.

- **Belgium:** In the Flemish region, the tender for the ex-ante evaluation was launched in early April 2006 and the exercise is expected to be finalised by June together with the NSRF and the new OPs.

- **Germany:** In the German partner programmes, the contracts were launched at the end 2005. In Sachsen-Anhalt, a final draft report has been completed but it has not yet been discussed fully with all partners. The Land aims to hand in the evaluation to the Commission with the OPs at the end of the third quarter of 2006. In Nordrhein-Westfalen, secretariat staff were working on the chapter on the strategy's relevance and coherence at the fieldwork stage. In both Länder, the evaluation is well on course and will be completed by the autumn.

- **Greece:** The ex-ante for the NSRF in Greece was put out to tender in April 2006 and was due to be awarded by May, with the evaluation being completed by the end of June.

- **Denmark:** The Danish ex-ante evaluation was launched at the start of January 2006 and was scheduled to be completed six months later (June 2006).

- **Finland:** the ex-ante tender in Finland was to be issued in mid-April and the selection of the evaluator was scheduled to take place in May. The evaluation will start in early June, at the latest. It is expected that the evaluation will take some three months and that it will be submitted at the same time as the operational programmes (at the end of August) – at least with respect to the first phase of the evaluation. Once central Government has added in its input, the ex-ante evaluator will feed in again.

- **France:** In France, the first drafts are not expected before May and the deadline for final submission is the end of June, although some regions consider this schedule to be unrealistic.

- **Hungary:** In Hungary, the ex-ante evaluation for the NSRF has been completed. However, at the fieldwork stage, there appeared to have been limited progress with commissioning an ex-ante evaluation for the partner's programmes, partly related to uncertainties over the future structure of the OP's in Hungary.

- **Italy:** In Italy, the OPs for Lombardia and Toscana were at an early stage of development during the fieldwork visits with implications for the level of progress on the ex-ante evaluation, although the evaluators had been selected and the programme managers appeared to be relatively clear on the approach that they aimed to adopt. On the other hand, a final decision had not yet been taken on whether a new OP LED would be created for the next period.

- **Poland:** The process was launched in April and the call for tenders closed at the beginning of May. The deadline for submission of the study is August.

- **Spain:** In Spain, the central government began to organise the ex-ante evaluation process in February in close cooperation with the regions. At the sub-national level, the process varies, partly depending on the category of region as it is expected that the Competitiveness and Employment evaluations will feed into an overall report. In Andalucia, a future Convergence region, the ex-ante evaluation tender for the ESF and ERDF OPs was launched in mid-February 2006, specifying that the final report should be completed within three months of the award of the contract.

- **UK:** In Scotland, the ex ante evaluations have been commissioned but are delayed with nothing to evaluate yet. In England, the plan is to appoint the evaluators by early June 2006, with three ex antes to be completed when plan drafting/submission has been completed. The Welsh ex ante process began at the end of March 2006. The completion date will depend on the drafting of the programmes, which is slightly behind schedule, and the target dates vary for the three programmes (September for the Convergence programme, slightly later for the Competitiveness programme, and in between for the ESF programme).

5. THE EU BUDGET NEGOTIATIONS[6]

5.1 The budget as a whole

The process of negotiating the EU budget was lengthy. Initial Commission proposals regarding the next Financial Perspective (2007-13) were published in February 2004.[7] The assumptions underpinning these proposals (and their implications) were then discussed and developed in the Friends of the Presidency Group on the Financial Perspectives which, in the course of the next year, considered almost 100 technical documents (fiches) produced by the Commission.[8] A progress report in March 2005[9] summarised the work of the Group, the clarifications achieved and the developing positions on certain issues. Four days later, following the approach adopted in the run-up to the 1999 Berlin European Council, a first Negotiating Box was produced by the Luxembourg Presidency.[10] This was "designed to provide a solid framework and give focus and momentum to the discussions"[11] by distinguishing between areas (in normal typeface) where there was a degree of agreement (at least at the level of principles) and problem areas (in italics) which remained to be progressed. Four further Negotiating Boxes were considered in April, May and June.[12] Areas of disagreement were narrowed and budgetary ranges became proposed figures. A final set of proposals was made in the last stages of the European Council on 17 June.[13] However, the proposals did not receive the required unanimous approval of the Member States.

Although the failure to reach agreement led to considerable rancour in the immediate aftermath of the European Council, the Luxembourg Presidency felt that the basis for an agreement had been created.[14] It argued that the final outcome would not be substantially different from the June Council proposal – "a budget for commitment appropriations representing 1.056% of national wealth and a budget for payment appropriations representing 1% of national wealth". It placed the blame for non-agreement mainly at the door of the net contributors. "Ah, if only those six, who together, on a day of inspiration wrote a letter, had agreed on the detail of their proposals!"[15]

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[6] This section is drawn from Yuill D, Méndez C and Wishlade F (2006) EU Cohesion policy 2007-13 & the implications for Spain: Who gets what, when and how? European Policy Research Paper Number 59, European Policies Research Centre, University of Strathclyde, Glasgow: http://www.eprc.strath.ac.uk/eprc/publications_eprp.cfm.

[7] European Commission, *Building our common future. Policy challenges and budgetary means of the enlarged Union 2007-2013*, COM(2004) 101 final, 10 February 2004.

[8] See the Temporary Committee on Policy Challenges and Budgetary Means of the Enlarged Union 2007-2013 at http://www.europarl.europa.eu/comparl/tempcom/finp/default_en.htm.

[9] CADREFIN 35 of 4 March 2005 (6825/1/05 REV 1).

[10] CADREFIN 43 of 8 March 2005 (7054/05).

[11] Ibid, para 2.

[12] CADREFIN 84 of 21 April 2005 (8292/05), CADREFIN 108 of 19 May 2005 (9065/05), CADREFIN 115 of 2 June 2005 (9637/05) and CADREFIN 130 of 15 June 2005 (10090/05).

[13] In the form of an addendum to CADREFIN 130 on 17 June 2005 (10090/05, ADD 1).

[14] Speech by Jean-Claude Juncker, President of the Council of the European Union, to the European Parliament, Brussels, 22 June 2005.

[15] Ibid. The Group of Six letter is discussed further below.

With the future of the UK rebate at the heart of the disagreement, the United Kingdom Presidency delayed producing a further Negotiating Box until ten days before the December European Council.[16] This left the results of the June negotiations unchanged as they related to the EU15, and tried to satisfy the net contributors by reducing the expenditure flowing to the new Member States by over 8 percent. By way of "compensation", various concessions were made to the new Member States to ease their absorption of EU spending (by, for instance, increasing the co-financing rate from 80 percent to 85 percent, setting the automatic decommitment rule at n+3 rather than n+2 for 2007-10 and making housing projects eligible for ERDF support). As no doubt anticipated by the Presidency, the proposals were not accepted and, indeed, generated considerable adverse comment.[17] Further concessions were made in a second UK Negotiating Box to try to bring the parties closer to agreement.[18] A final Negotiating Box was withheld until the Presidency felt that agreement could be reached.[19] This made more concessions all round. Expenditure committed under the final set of proposals was 1.0459 percent of EU GNI compared to 1.03 percent under the first UK Negotiating Box and 1.056 percent under the 17 June proposals of the Luxembourg Presidency. Also important to the final agreement were developments on the revenue side of the equation. The United Kingdom agreed to reduce the UK rebate by up to €10,500 million (an increase of €2,500 million compared to the second UK Negotiating Box) and additional concessions were made to Austria and, particularly, the Netherlands.

An overview of the Financial Perspective at key stages of the negotiations is set out in Figure 4. Compared to the benchmark provided by 2006 expenditure commitments, the initial Commission proposal involved a much enhanced budget. An increase of almost a quarter was proposed in real terms, taking commitment appropriations close to the own resources ceiling for the budget. A key feature of the negotiations was the attempt by the net contributors to stabilise average expenditure levels at around prevailing levels, a maximum 1 percent of EU GNI. Early in the debate (December 2003), the Group of Six[20] made this proposal in the joint letter to the Commission President referred to above. Thereafter, much of the debate concerned the appropriate level of expenditure, coupled with related arguments about the UK rebate, overall net balances and the need to review the future structure of the budget. While the final agreement set the budget for commitment appropriations above the 1 percent target of the Group of Six, payment

[16] UK Presidency Website, European Union Financial Perspectives 2007-13, United Kingdom Presidency Negotiating Box available at http://www.eu2005.gov.uk, 5 December 2005. Although this may seem late in the day, it should be noted that the Luxembourg Presidency did not produce detailed figures until the Fourth Negotiating Box in early June.

[17] The spokesman for the Commission President (Johannes Laitenberger) commented: "You all know the old story of Robin Hood and the Sheriff of Nottingham. The President has made it very clear that he does not expect the British Presidency to take the role of the Sheriff of Nottingham, taking from the poor to give to the rich." Quoted on http://news.bbc.co.uk/1/hi/uk_politics/4488164.stm, 6 December 2005.

[18] UK Presidency Website, European Union Financial Perspectives 2007-13, United Kingdom Presidency Negotiating Box available at http://www.eu2005.gov.uk, 14 December 2005.

[19] Finally published as CADREFIN 268 of 19 December 2005 (15915/05).

[20] Austria, France, Germany, the Netherlands, Sweden and the United Kingdom.

appropriations were at this level while commitment appropriations in 2013 will be 1 percent of EU GNI.

Figure 4: Financial Perspective by Heading (€mn at 2004 prices)

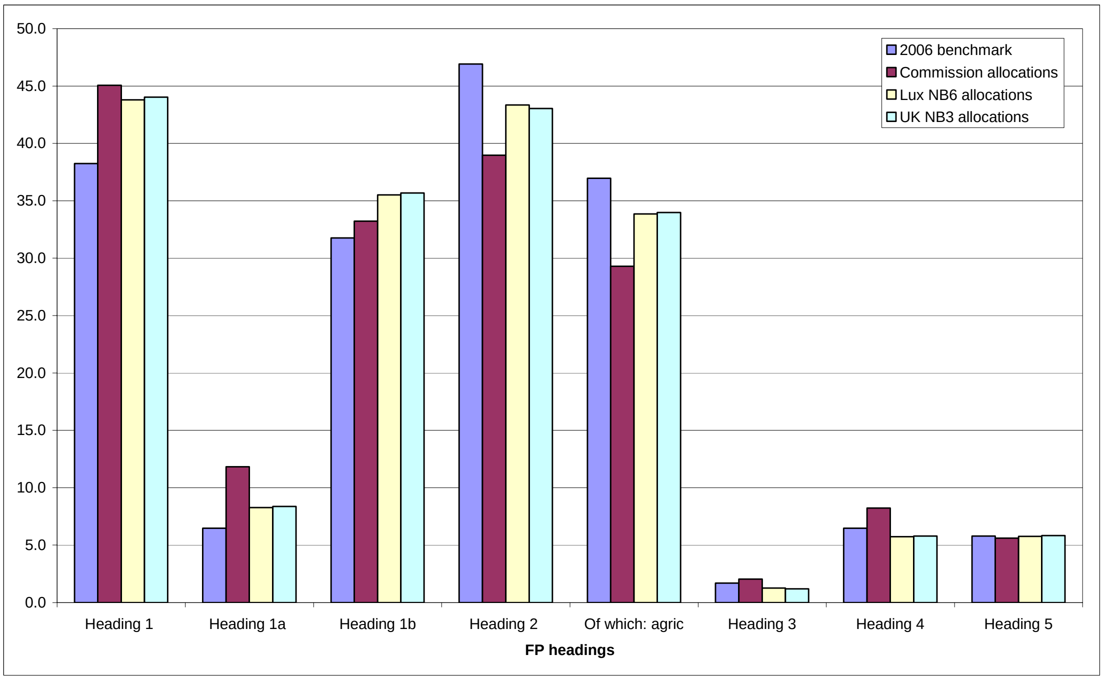
Heading	2006 bench-mark	As % EU total	COM alloc'ns	As % EU total	Lux NB6 alloc'ns	As % EU total	UK NB3 alloc'ns	As % EU total	UK NB3 as % COM	UK NB3 as % 2006
1	**316764**	**38.2**	**463256**	**45.1**	**381604**	**43.8**	**379739**	**44.0**	**82.0**	**119.9**
1a	53662	6.5	121685	11.8	72010	8.3	72120	8.4	59.3	134.4
1b	263102	31.8	341571	33.2	309594	35.5	307619	35.7	90.1	116.9
2	**388486**	**46.9**	**400679**	**39.0**	**377801**	**43.3**	**371244**	**43.0**	**92.7**	**95.6**
Of which: agric	306145	37.0	301074	29.3	295105	33.9	293105	34.0	97.4	95.7
3	**14049**	**1.7**	**20945**	**2.0**	**11000**	**1.3**	**10270**	**1.2**	**49.0**	**73.1**
4	**53613**	**6.5**	**84649**	**8.2**	**50010**	**5.7**	**50010**	**5.8**	**59.1**	**93.3**
5	**48013**	**5.8**	**57670**	**5.6**	**50300**	**5.8**	**50300**	**5.8**	**87.2**	**104.8**
Comp	7287	0.9	800	0.1	800	0.1	800	0.1	100.0	11.0
Total	**828212**	**100.0**	**1027999**	**100.0**	**871515**	**100.0**	**862363**	**100.0**	**83.9**	**104.1**
GNI	75121480		82448058		82448058		82448058			
% GNI	1.10		1.25		1.06		1.0459			

Sources: The Commission allocations and related 2006 data are drawn from Fiche 29 Rev1, as updated to take account of the latest available data, Fiche 17 and Fiche 92. The 2006 benchmark figures consist of 2006 commitment appropriations multiplied by 7. The Luxembourg Presidency figures come from CADREFIN 130 of 15 June 2005 (10090/05), as amended and the UK Presidency data from CADREFIN 268 of 19 December 2005 (15915/05)

Although the overall budget was much reduced compared to the original Commission proposal, the key expenditure headings for the net recipients held up well during the negotiations. The final Cohesion policy budget (Heading 1b) was cut by less than 10 percent compared to the overall fall in commitment appropriations of more than 16 percent. The allocations to headings of less direct benefit to net recipients - Headings 1a (Competitiveness), 3 (Internal policies) and 4 (EU as a global partner) - were reduced by between two-fifths and a half. Of the other headings, administration (Heading 5) was cut by almost 13 percent while spending on natural resources (Heading 2) fell by just over 7 percent. The agricultural component of Heading 2 was largely unchanged in line with the agreement reached at the October 2002 European Council; the decline recorded reflected the inclusion of Bulgaria and Romania within the October 2002 ceilings.

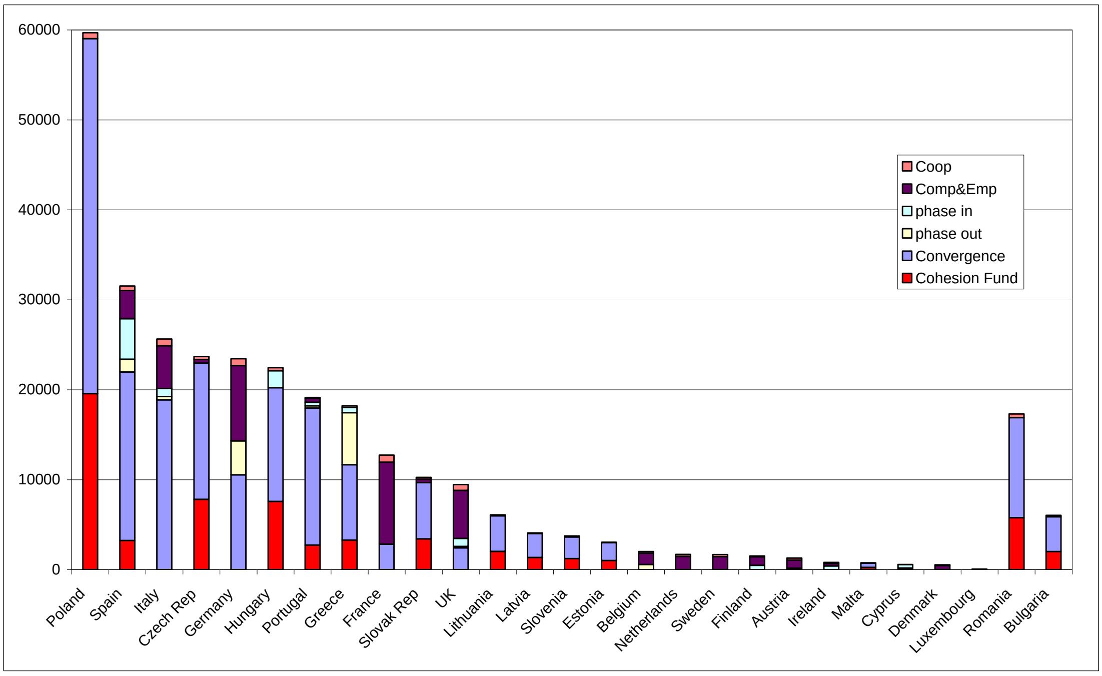
Another way of viewing the outcomes of the negotiations is to compare the final agreement with commitment allocations in 2006 (see the last column in Figure 4). This shows the most significant increases to have been under Heading 1a (Competitiveness), which grew by one-third in real terms (albeit from a low base), and Heading 1b which increased by one-sixth. In contrast, agricultural spending was cut by more than 4 percent in real terms. The relative changes experienced by the different budget headings during the negotiations are set out in Figure 5. Perhaps the most interesting feature is that, at each stage, the proportion of the budget devoted to Cohesion policy increased.

Figure 5: Commitment Allocations as a percent of the EU Total



The Inter-institutional Agreement took a further four months (adding an extra €4bn, of which €300m was assigned to Cohesion policy under territorial cooperation), but the Member States and European institutions now have clarity on their Structural and Cohesion Funds allocations in the next period (Figure 6).

Figure 6: Cohesion Policy 2007-13: Indicative Allocations (€m, 2004 prices)

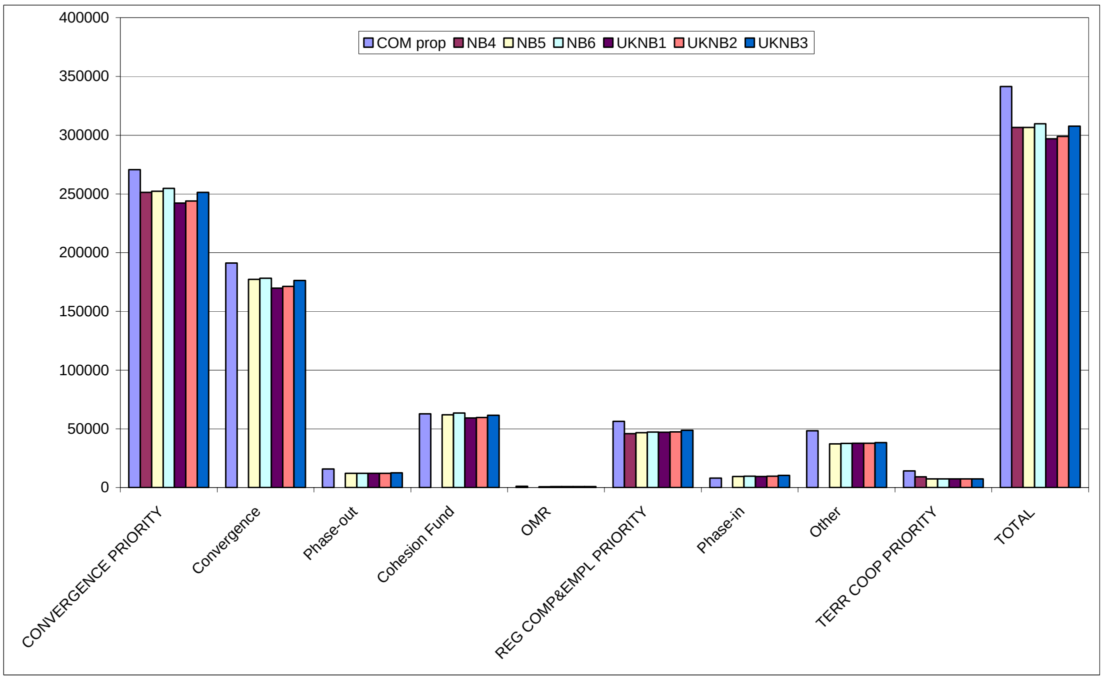


Source: Fourth Progress Report on Cohesion, Annex, p12.

5.2 Cohesion policy

With respect to Cohesion policy, a number of key issues had to be resolved in the course of the negotiations: the allocation of funding between the Convergence priority, the Regional Competitiveness and Employment priority and the Territorial Cooperation priority; related, the split between the new Member States and the EU15 (as determined primarily by the level of absorption capping applied to the new Member States and the assumed future growth rates for these countries); the transitional provisions for regions losing their previous designated status (the Phase-out regions under the Convergence priority and the Phase-in regions under the Regional Competitiveness and Employment priority); provisions relating to the Cohesion Fund (in particular, whether transitional provisions should apply to countries losing Cohesion Fund eligibility i.e. Spain); and the treatment of special geographic areas under the Treaty – specifically, the Outermost regions. An overview of Cohesion policy commitment appropriations at different stages of the budget negotiations is provided in Figure 7.

Figure 7: Cohesion Policy Commitment Appropriations 2007-13 (€mn at 2004 prices)



It can be seen that the overall Cohesion policy budget initially fell significantly from the Commission proposal (while remaining well above 2006 benchmark levels – see Figure 4). It recovered a little in the final phase of the Luxembourg Presidency, was cut again in the first UK Negotiating Box and then rose once more as special provisions were introduced in response to country demands in the last stage of the negotiations. In global terms, there was relatively little difference between Cohesion policy funding under the fourth Luxembourg Negotiating Box (€306,508 million) and the final agreement (€307,619 million). At this level, the budget was broadly midway between the 2006 benchmark figure (around €263,000 million) and the original Commission proposal (over €341,000 million).

Figure 7 shows a similar pattern for most components of the Cohesion budget. However, a number of differential points emerge. First, while the Convergence priority suffered by far the lowest percentage fall compared to the original Commission proposal (just over 7 percent), it was the Regional Competitiveness and Employment priority (13.6 percent decline) which gained funding at virtually every subsequent stage of the negotiations; In contrast, the Territorial Cooperation budget almost halved in the course of the negotiations (to €7,500 million). Under this priority, by far the greatest stress came to be placed on cross-border cooperation. Second, funding for transitional regions proved to be relatively robust during the negotiations – especially the budget for the Phase-in regions which rose from €8,103 million in the initial Commission proposal to €10,385 million. No other component of the Cohesion policy budget increased beyond the original Commission proposal. Finally, Figure 7 shows that the Cohesion Fund held up well during the negotiations, in part due to the special transitional provisions gained by Spain.

5.2.1 Negotiation issues: Allocations by priority

A basic negotiation issue concerned the budgetary split between the Convergence, Regional Competitiveness and Employment, and Territorial Cooperation priorities. As shown in Figure 8, compared to the allocations proposed in the Third Cohesion Report in February 2004,[21] there was, initially, a significant shift away from the Regional Competitiveness and Employment heading and towards the Convergence priority. Then, as the negotiations became more intense, it was the Territorial Cooperation priority which was squeezed as countries impacted by the proposed Regional Competitiveness and Employment cutbacks sought to restore their position. Of particular note, a "safety net" was introduced such that each Member State's share of the Regional Competitiveness and Employment budget could not be less than three quarters of its 2006 share of combined Objective 2 and 3 funding.

Figure 8: Changes in the Percentage Split between Convergence Priorities

	Convergence	Regional Competitiveness and Employment	Territorial Cooperation
Third Cohesion Report (Feb 2004)	78.0	18.0	4.0
Updated COM proposal (Fiche 26REV4, 26.4.05)	79.3	16.5	4.2
NB2	81.0	15.0	4.0
NB3	82.0	15.0	3.0
NB4	82.0	15.0	3.0
NB5	82.3	15.25	2.45
NB6	82.3	15.28	2.42
UKNB1	81.6	15.9	2.5
UKNB2	81.6	15.9	2.5
UKNB3	81.7	15.8	2.4

[21] European Commission, *A New Partnership for Cohesion: convergence, competitiveness, cooperation*, Third Report on Economic and Social Cohesion, February 2004, available at http://europa.eu.int/comm/regional_policy/sources/docoffic/official/reports/cohesion3/cohesion3_en.htm.

5.2.2 Negotiation issues: the absorption cap on new Member States

A related issue concerned the division of the Cohesion policy budget between the EU15 and the new Member States. Under the allocation methodology, it was the so-called Berlin method (as amended) which was the basis for the distribution of resources to the EU15. In contrast, for the new Member States, it was what became known as the absorption cap which mainly determined the resources they received. The absorption cap was originally introduced under the argument that there was a level (4 percent of GNI) beyond which it was difficult for Member States to absorb (ie effectively utilise) EU resources. The impact of the absorption cap on individual Member States varies since this is dependent on assumed future growth rates by country. However, at a more general level, the main developments are clear. As early as the first Negotiating Box, a side effect of capping was highlighted: the fact that it resulted in lower aid intensities per head for poorer Member States (contrary to the philosophy underpinning the allocation methodology). To counter this, reduced capping levels were introduced which were lower the more prosperous the Member State. Changes in these effective levels of capping are set out in Figure 9.

Figure 9: Changes in Effective Levels of Capping (as a percent of national GDP)

	Country groups (as % EU25 GNI)								
	<40	**40-45**	**45-50**	**50-55**	**55-60**	**60-65**	**65-70**	**70-75**	**+ 5% pts**
NB2	4.0	3.9	3.8	3.7	3.6	3.5	3.4	3.3	-0.1 %pt
NB3	4.0	3.9	3.9	3.8	3.7	3.6	3.5	3.4	-0.1 %pt
NB4	4.0	3.9	3.9	3.8	3.7	3.6	3.5	3.4	-0.1 %pt
NB5	4.0	3.9	3.9	3.8	3.7	3.6	3.5	3.4	-0.1 %pt
NB6	4.0	3.92	3.92	3.82	3.72	3.62	3.52	3.42	-0.1 %pt
UKNB1	3.663	3.590	3.590	3.498	3.407	3.315	3.223	3.132	-0.09 %pt
UKNB2	3.663	3.590	3.590	3.498	3.407	3.315	3.223	3.132	-0.09 %pt
UKNB3	3.7893	3.7153	3.7153	3.6188	3.5240	3.4293	3.3346	3.2398	-0.09 %pt

Apart from an adjustment between the second and third Negotiating Boxes which benefited all but the poorest new Member States (Latvia, Estonia, Lithuania), the capping percentages remained unchanged until the final Luxembourg Negotiating Box (NB6), which saw a further (minor) increase. As already noted, the UK Presidency had to reduce overall expenditure (to create budgetary space to satisfy the net contributors) whilst trying to avoid unravelling the progress made under the Luxembourg Presidency. It chose to leave EU15 allocations unchanged while cutting back on new Member State receipts via an 8.4 percent reduction in effective capping levels (see Figure 9). By way of compensation, and as mentioned earlier, a series of changes were made to ease the absorption of Cohesion policy funding in the new Member States: co-financing rates were increased from 80 to 85 percent, the automatic n+2 decommitment rule became n+3 for 2007 until 2010, and housing projects became eligible for ERDF support. However, these “off-budget” concessions were not sufficient to satisfy the new Member States. Accordingly, the second UK Negotiating Box not only introduced a further easing of regulatory provisions,[22] but also made specific additional Cohesion policy provision for Poland, Hungary, the Czech Republic, Estonia and Latvia, while Slovakia and Lithuania received extra funding towards nuclear

[22] By allowing poorer Member States to count non-reimbursable VAT as eligible expenditure when calculating Member State contributions.

decommissioning costs.[23] Finally, in the last UK Negotiating Box, effective capping levels were increased by 3.4 percent, reducing the capping-related cutback to just over 5 percent of the final Luxembourg Presidency proposal (see Figure 9). In addition, to achieve the agreement of all the new Member States, further additional support was provided to Poland (including a transfer of €100 million from Germany).

5.2.3 Negotiation issues: regions in transition

Another important topic in the negotiations related to the treatment of so-called transitional regions – those areas losing their former designated status. The question was raised as early as the first Negotiating Box as to whether the proposed arrangements for transitional regions (Phase-out and Phase-in) "constitute an adequate response to the issue of transition".[24] This issue was taken forward in the second Negotiating Box, with significant extra provision being made for those Member States (Greece and Germany) where at least one third of the national population was located in Phase-out regions. In the same Negotiating Box, Spain benefited directly from the decision to provide transitional support for countries losing their Cohesion Fund status due to the statistical effect (discussed further below). Over subsequent Negotiating Boxes, the allocations to Phase-out and Phase-in regions were refined and were made explicit from the fifth Luxembourg Negotiating Box onwards (see Figure 10). The increases recorded in these later stages of the negotiations mainly reflect additional provisions made to Member States outside the standard allocation formulae. Thus, for instance, in the final UK Negotiating Box, additional funding of €1,400 million was made available to Italy (of which €111 million related to Phase-out regions and €251 million to Phase-in regions), €2,000 million to Spain (of which €75 million was indicatively allocated to Phase-out and €75 million to Phase-in) and €225 million to Germany (of which €58 million was Phase-out support). These three countries thus accounted for all but €75 million of the additional Phase-out support recorded in Figure 10.

Figure 10: Changes in Phase-Out and Phase-In Funding

	Phase-Out (€mn)	Phase-Out (% Convergence funding)	Phase-In (€mn)	Phase-In (% Regional Comp/Empl funding)
NB5	12,202	4.84	9,494	20.30
NB6	12,202	4.79	9,695	20.49
UKNB1	12.200	5.04	9,500	20.13
UKNB2	12,202	5.00	9,688	20.39
UKNB3	12,521	4.98	10,385	21.29

Note: The figures in the first UK Negotiating Box (UKNB1) were in billions to one decimal point

[23] Cyprus and Malta also benefited from specific features of the allocation methodology (see para 47 and para 32(1) of the final Negotiating Box). Only Slovenia was left out. However, Slovenia was anyway inclined to accept the proposals since it would have suffered significantly had agreement been delayed and a later dataset been used.

[24] CADREFIN 43 of 8 March 2005, para 33.

5.2.4 Negotiation issues: Cohesion Fund transitional provisions

As already mentioned, Spain benefited significantly (and exclusively) from the special transitional provisions agreed to help countries "phase-out" from the Cohesion Fund. There was no precedent for such an approach; Ireland lost Cohesion Fund status at the end of 2003 without any phase-out period. On the other hand, the introduction of transitional provisions took cognisance of the fact that the Spanish loss of eligibility was not due to growth *per se* but rather was attributable to the statistical effects of enlargement.

The proposal that there should be transitional provisions for the Cohesion Fund was introduced as early as the second Negotiating Box. By the fifth Negotiating Box, the proposal was for a two-year transition, involving funding for Spain of €2,000 million, €1,200 million in 2007 and €800 million in 2008. However, in the final hours of the Luxembourg Presidency, this was pushed up to €2,800 million, spread over four years. The UK Presidency saw a further €450 million allocated. This took the total transitional allocation to €3,250 million, covering the full 2007-13 period. This was a very significant allocation, representing around 10 percent of the final Cohesion policy budget for Spain.

5.2.5 Negotiation issues: regions with specific characteristics

As "regions with specific characteristics recognised under the Treaties",[25] the Outermost regions were grouped together for negotiation purposes with the sparsely-populated areas of Finland and Sweden. It was under the third Negotiating Box that specific additional provision was first made for such regions. The initial proposal was that additional funding should be provided to the value of €20 per inhabitant per year. The rate of provision was subsequently raised to €30 per inhabitant per year in the fifth Negotiating Box and €35 per inhabitant per year in the sixth Negotiating Box. These provisions were of significant value. For instance, Canarias received over €435 million as a result, with sparsely-populated regions in Finland being allocated just over €190 million and those in Sweden more than €237 million. They were part of a number of significant so-called "additional provisions" which are discussed further in the next section.

5.2.6 Negotiation issues: additional provisions

Additional provisions were introduced into the budget agreement because the general nature of the allocation methodology did "not allow an adequate response to a number of objective situations",[26] thus leading to the special treatment of certain regions and countries. Such provisions were part of the process of trying to ensure that all Member States were in a position to sign up to the negotiated agreement. They first appeared as a separate heading in the fifth Luxembourg Negotiating Box, increased by over €520 million in the final June Negotiating Box and rose significantly in both the second and third UK Negotiating Boxes (by €1,350 million and €4,077 million respectively - see Figure 11). From

[25] CADREFIN 108 of 19 May 2005, paras 32 and 33.

[26] CADREFIN 268 of 19 December 2005, para 43.

the fifth Luxembourg Negotiating Box to the final UK proposal, they grew by over €7,000 million as the respective Presidencies strove to achieve an agreed solution.

Figure 11: Changing Value of Additional Provisions between NB5 and UKNB3 (€mn)

UKNB3 para	Beneficiary	NB5	NB6	UKNB1	UKNB2	UKNB3
44	Germany	n.a.				
44	Greece	n.a.				
45	Transitional areas	n.a.				
46	Poland	114.2	114.2	114.2	1084.7	1221.7
46 bis	Hungary				n.a.	140.0
46 ter	Czech Republic				200.0	200.0
47	Cyprus	n.a.				
48	Finland	n.a.				
48	Portugal	n.a.				
49	Spain		100.0	100.0	100.0	100.0
50	Spain	374.5	436.9	436.9	436.9	436.9
50	Finland	164.4	191.8	191.8	191.8	191.8
50	Sweden	203.2	237.1	237.1	237.1	237.1
51	Border regions	n.a.				
52	Ireland	100.0	100.0	100.0	100.0	100.0
52	UK	100.0	100.0	100.0	100.0	100.0
53	Sweden		150.0	150.0	150.0	150.0
53 bis	Estonia				47.6	47.6
53 bis	Latvia				81.9	81.9
54	Austria		150.0	150.0	150.0	150.0
54	Germany					75.0
54 bis	Spain					2000.0
54 ter	Spain				50.0	50.0
54 quarter	Italy					1400.0
54 quinto	France					100.0
54 sexto	Germany					225.0
Total	**Total**	**1056.2**	**1579.9**	**1579.9**	**2929.9**	**7006.9**

Notes: The focus is on the changes introduced between the fifth Luxembourg Negotiating Box and the third UK Negotiating Box. For those entries where the value of the concession is not made explicit in the Negotiating Box (n.a. in the table), there was no subsequent change to the value of the concession (except under para 46 bis). It should be noted that the above table does not list all of the concessions made in the final stages of the negotiations. There were also rural development "add-ons" (under para 63), which totalled €4,070 million, and own resources "add-ons" (under para 78) which, in addition to reduced VAT calls, benefited the Netherlands to the tune of €605 million and Sweden to the value of €150 million.

In considering the additional provisions, it should be noted that there is a degree of arbitrariness surrounding whether particular "additions" are classified as being distinct from the general allocation mechanism. Thus, for instance, the transitional provisions relating to the Cohesion Fund (which, as has been noted, were not part of the traditional allocation mechanism and are of specific benefit to Spain) are not incorporated within the "additional provisions" heading. On the other hand, a number of other transition-related adjustments *are* included: the enhanced treatment accorded to Member States with at least one-third of their population in Phase-out regions (para 44);[27] the treatment of regions which qualify for transitional support but which were not eligible for 2000-06 Objective 1 funding (para 45); the treatment of Cyprus, which was not an Objective 1 region from 2004-06 but which would have been had revised data been used (para 47); and the treatment of Itä-Suomi and Madeira as if they were Phase-out regions when they have

[27] In practice, Germany and Greece.

Phase-in status (para 48). In similar vein, the provision to increase funding under the Territorial Cooperation priority by 50 percent for regions formerly on external borders (EU15/EU12) or on EU25/EU2 borders (para 51) covers a number of countries and could equally be viewed as part of the allocation method for the Territorial Cooperation priority.