



**New Budget, New Regulations, New Strategies:  
The 2006 Reform of EU Cohesion Policy**

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## PREFACE

This paper on the reform of EU Cohesion policy provides a review and assessment of the EU budget agreement and the strategic planning undertaken by Member States for the 2007-2013 period. The paper was originally drafted for EoRPA (European Regional Policy Research Consortium)<sup>1</sup>, which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for the EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. EoRPA members currently comprise the following partners:

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### Sweden

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### United Kingdom

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- Scottish Executive Enterprise, Transport & Lifelong Learning Department, Glasgow

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<sup>1</sup> An earlier version of the paper is available via the EoRPA website: [www.eprc.strath.ac.uk/eorpa](http://www.eprc.strath.ac.uk/eorpa)

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*It should be noted that the paper was drafted in September 2006 based on budgetary and strategy information available at the time.*

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October 2007

#### Disclaimer

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

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# New Budget, New Regulations, New Strategies: The Reform of EU Cohesion Policy

## EXECUTIVE SUMMARY

### INTRODUCTION

The Inter-Institutional Agreement on the financial framework for 2007-2013 brought to a close almost two years of negotiation and five years of debate on the future of EU Cohesion policy. There will be a significant shift in the allocation of Cohesion policy resources to the EU10 (new Member States), while providing substantial funding for the poorer parts of the EU15 (old Member States) and continuing to make Structural Funds available for the remaining regions also. While there is a common commitment among Member States to the overall goal of improving the competitiveness of the EU, countries and regions, the strategies proposed by individual Member States vary greatly, reflecting domestic policy priorities and institutional arrangements. The aim of this paper is to review the outcome of the reform of EU Cohesion policy over the past year and the preparations being made for the 2007-2013 programmes.

### THE FINANCIAL FRAMEWORK NEGOTIATIONS

Following the stalemate in budgetary negotiations under the Luxembourg Presidency, it fell to the UK Presidency to find a way forward. The First UK Negotiating Box, presented on 5 December 2005, proposed a 2.9 percent reduction in the EU budget to a new total of €846.754 billion (1.03 percent of GNI). The lower figure was to be achieved mainly by reducing spending under Headings 1b and 2. Offsetting the budget reductions proposed for the EU10, a number of changes were proposed including: a more generous co-financing rate; an N+3 decommitment rule; the eligibility of housing under the ERDF; and the exclusion of the EU10 from provisions relating to the Lisbon agenda. In addition, a reduction in the UK rebate of €8 billion was proposed.

Responding to criticisms of these proposals, the UK published its Second UK Negotiating Box immediately before the December 2005 European Council. This made a series of country-specific adjustments which added €2.55 billion back into the budget (taking it to €849.303 billion), mostly through increases to Heading 1b. The practical changes made to the rules governing Cohesion policy in the EU10 were extended to Greece and Portugal. Extra funding was provided for the decommissioning of nuclear power plants in Slovakia and Lithuania and for Cohesion policy funding in Poland, Hungary, the Czech Republic, Estonia and Latvia. Spain benefited from extra transitional Cohesion Fund resources and from additional funding for Ceuta and Melilla; Finland, Ireland, Portugal, Sweden and Austria from additional regional development funds; and Sweden and the Netherlands from specific improvements on the revenue side of the budget.

In the course of the Council Meeting on 15/16 December, the Third UK Negotiating Box was presented, increasing the budget again to €862.363 billion, with more resources to Headings 1b and 2. Most of the changes took the form of specific additional payments to individual countries, amounting to €4.04 billion. In addition, significant additional funding was made available to individual countries for rural development purposes. Major changes were also made to the revenue side of the budget, benefiting Austria and the Netherlands, and there were further reductions to the UK rebate. Together with a commitment to a comprehensive policy and budgetary review in 2008-09, these changes were sufficient to allow a budgetary deal to be reached.

Over the subsequent three months, four ‘trialogues’ on the financial perspective were held, involving the Parliament, Council and Commission, in order to reach political consensus. The Inter-Institutional Agreement was eventually achieved at the final meeting in April 2006, with three main elements: a small increase of €4 billion in funding; provisions on ‘sound financial management’; and more flexibility in the budget.

The evolution of the financial negotiations indicates several points. First, the overall budget ceiling eventually agreed for commitment appropriations in 2007-2013 is almost one-fifth lower than that proposed by the Commission and represents a four percent increase over spending in the current period. Second, the allocations to agriculture and Cohesion policy, proposed by the Commission, changed less than might have been expected in the course of the negotiations. Third, most of the key changes to the budgetary headings in the Commission proposals were made during negotiations under the Luxembourg Presidency. Fourth, the final outcome illustrated that the European Parliament’s ability to make significant changes - after the Council had reached agreement - was very limited. Lastly, at a political level, the nature of the deal means that most participants in the negotiations could point to at least some success in meeting their objectives (a significant influence being the ‘additional provisions’ under Cohesion policy).

## THE IMPLICATIONS FOR COHESION POLICY - ELIGIBILITY

The outcome of the negotiations has major implications for Cohesion policy. Under the *Convergence* objective, there are 70 eligible Convergence NUTS II regions in the EU25, where GDP per head is less than 75 percent of the EU25 average. These regions have a total population of just over 124 million, or 27.3 percent of the EU25 population. They include most of the EU10 Member States; only Cyprus and parts of Hungary, the Czech Republic and Slovakia are excluded. By contrast, just 14.5 percent of the EU15 population has Convergence region status, although comprising 44 percent of the total Convergence region population.

Associated with the ‘statistical effect’ of enlargement, 16 regions in the EU25 have been granted Phasing-out status under the Convergence objective; they have a total population of just over 16 million, or 3.6 percent of the EU25 population. For the most part, Phasing-out coverage is not extensive at EU or national levels; the major exception is Greece, where Phasing-out regions account for 55.5 percent of the national population. Over two-thirds of the Phasing-out population are in Greece and Germany.



The Convergence objective also covers support under the Cohesion Fund for Member States with GNI of less than 90 percent of the EU25 average. This covers all the EU10 countries as well as Portugal and Greece (with Spain having special transitional arrangements).

The *Regional Competitiveness and Employment* (RCE) objective comprises two strands: Phasing-in regions; and Regional Competitiveness & Employment regions. Phasing-in regions are current Objective 1 regions which have outgrown that status for the new funding period. There are 13 such regions in the EU25, with a total population of just over 19 million or 4.2 percent of the EU25 population. Included in this is Cyprus which did not have Objective 1 status in 2004-06, but where this was acknowledged to have been due to an overestimation of GDP per head. Phasing-in status accounts for a significant proportion of several Member States (Spain, Ireland and Hungary) and all of Cyprus; almost half of the Phasing-in population is in Spain.

The Regional Competitiveness & Employment regions cover all areas that do not have Convergence, Phasing-out or Phasing-in status. These comprise almost two-thirds of the EU population, but are heavily concentrated in the EU15 - notably Germany, France and the UK, which together account for over 60 percent of the RCE population.

Overall, the outcome is a significant shift in eligibility for Objective 1 / Convergence coverage in the EU15 Member States and a modest reduction in coverage in the EU10 Member States. The differences are particularly marked in Greece. Also significant are the cutbacks in Spain, Ireland and Hungary which all see a reduction in coverage exceeding 25 percentage points.

## THE IMPLICATIONS FOR COHESION POLICY - FINANCIAL ALLOCATIONS

The overall resources available to Cohesion policy for 2007-13 are €308.041 billion. Most of the resources (81.5 percent) are allocated to the Convergence objective, which includes eligible Convergence regions, transitional funding for Phasing-out regions and the Cohesion Fund. The Regional Competitiveness & Employment objective has been allocated 15.9 percent of the budget, also including a small element of transitional Phasing-in regions. The remainder (2.5 percent) is allocated for Territorial Cooperation.

Each strand of policy has a separate mechanism for determining the allocation to any given Member State. Under the *Convergence* objective, the basic mechanism for allocating funding to the Convergence regions was modelled on the Berlin formula used for 2000-06. For the period 2007-13, the main changes were the lowering of the coefficients for national prosperity, less emphasis on the very poorest regions, and a higher allocation in respect of unemployment. For the Phasing-out regions, the per capita allocation for 2007 was set at 80 percent of the 2006 level and declines in a linear fashion to reach the national average per capita allocation for RCE regions in 2013. If applicable, an allocation of €600 per annum was made per unemployed person in excess of the Convergence region average.

The allocation of the Cohesion Fund had two elements. The first phase involved the distribution of a 'theoretical financial envelope' (obtained by multiplying average aid intensity of €44.7 per head per annum by the eligible population) on the basis of Member

State shares of population and surface area, adjusted by national GNI to favour the poorer countries. For the EU10, there was a second stage which involved adjusting the Cohesion Fund allocation so that it represented one-third of the Cohesion policy allocation over the 2007-13 period.

Under the *Regional Competitiveness & Employment* objective, the 2007 allocation for the Phasing-in regions was set at 75 percent of the 2006 allocation and declines in a linear fashion to reach the national average per capita allocation for RCE regions in 2011. If applicable, an allocation of €600 per annum was made per unemployed person in excess of the Convergence region average. The budget for the (remaining) RCE regions was allocated on the basis of a distribution key that took account of a number of criteria, weighted as follows: population (0.5); unemployment; (0.2); employment (0.15); educational level (0.1); and population density (0.05).

Lastly, for the cross-border component of the *Territorial Cooperation* objective, resources were allocated according to Member State shares of the total eligible population. For the transnational component, allocations were made on the basis of the national population as a share of the total.

The financial allocations are the outcome of the interplay of allocation formulae, precedent and the negotiation process, with different elements carrying different weights for different countries and objectives. For many of the EU10, a crucial feature of the methodology was the imposition of an annual limit on transfers expressed as a percentage of projected GDP for that year (the absorption cap). Also, the negotiations of the EU budget resulted in numerous exceptions to the basic methodologies outlined above and in additional allocations being made; almost every Member State benefited from some special treatment. Over the planning period as a whole, around 52.7 percent of the EU25 Cohesion policy budget is accounted for by the EU15. However, year-on-year, the balance tips towards the EU10. Perhaps unsurprisingly, the outcomes result in some interesting contrasts, especially when viewed on a per capita basis and related to broad measures of prosperity. They also have some quite significant differential effects on the Member States when compared to commitment appropriations for the current policy phase.

## THE IMPLICATIONS FOR COHESION POLICY - REGIONAL ALLOCATIONS

While the European Council budget agreement provided detailed criteria for the geographical allocation of funding under the Convergence objective and regions governed by transitional arrangements, the entire remaining territory of the Community was deemed eligible for the Regional Competitiveness & Employment (RCE) objective. As noted above, the share of each Member State for RCE funding was determined at EU level by a weighted basket of demographic, labour market and educational criteria, adjusted according to relative regional prosperity. However, the share of regions within individual countries was left to Member States to decide.

The Commission was keen to influence the decisions made by Member States on the distribution of RCE funding and provided an indicative financial allocation methodology. While some Member States welcomed the guidance from the Commission, the reaction from

others was hostile. In practice, some countries - such as France - utilised the Commission criteria as part of the allocation method. Others used a variant on the criteria (e.g. Germany); and others applied a completely different geographical framework (e.g. the Netherlands). At the time of writing, it is not clear how much influence the Commission is having on regional allocation methods. However, there is some evidence that, where national approaches depart significantly from the Commission method, there have been some difficult negotiations with the Commission.

## THE NEW REGULATIONS

The new Cohesion policy regulations were published in the *Official Journal* on 31 July 2006, two years after the Commission published its initial proposals. With respect to the overall objectives and general rules on assistance (Title I), the main changes are fourfold. First, the proposals aim to provide for a clearer distribution of tasks between Member States and the Commission by defining the principles governing relations between them. Second, a more precise definition of the elements required for programme implementation has been provided to increase the level of legal security for the Member States. Third, the number of objectives has been reduced to three, increasing the geographical and thematic concentration of Cohesion policy. A final key change is the application of proportionality to the principle of additionality.

Under Titles II and III, the new strategic approach to cohesion represents an important change from the current policy period. It introduces a new strategic layer of planning involving the adoption of Community Strategic Guidelines (CSG) at the EU level to support the drawing up of National Strategic Reference Frameworks, which will in turn form the basis for drafting the new generation of Operational Programmes (OPs). The other current programming documents (CSFs, SPDs and Programme Complements) will be discontinued. The Commission's aim is to strengthen the legitimacy of EU Cohesion policy, improve the monitoring of the impact of Structural and Cohesion Funds as well as of EU priorities, and to increase the coherence between Community priorities and national/regional priorities. To simplify decision-making processes, there will only be one programming and management tool: the mono-fund OP. Increased flexibility in managing OPs will also apply, particularly regarding financial management which will now only take place at the priority level.

Regulatory changes to effectiveness (Title IV) involve an increased level of flexibility for evaluation activities. Compared to the current period, the new regulation implies a significant reduction in the number of evaluations needed, while also allowing Member States to implement evaluations adapted to their needs. The title also modifies the performance reserve and establishes a new national contingency reserve.

Changes to the financial contribution by the funds (Title V) aim to increase the flexibility of the financial management and monitoring of OPs, to reduce the probability of conflicts between national and Community rules, and to simplify EU co-financing arrangements. This is to be achieved by applying co-funding rates at programme level and by replacing detailed regulations on common eligibility rules with national eligibility rules.

Some important changes to the requirements for management, monitoring and control (Title VI) have been introduced. The functions of the three main authorities and Member States responsibilities are more clearly defined from the outset and contained in one general regulation. In line with the principle of proportionality, the Member States may use national systems for management and control in smaller programmes with a low share of EU co-financing. To provide the Commission with guarantees on the management and control systems in place, an independent Member State body will assess the conformity of the systems at the beginning of the programming period. The introduction of a national audit strategy will allow annual and final certification of systems in place. Greater cooperation between national authorities and the Commission is proposed to avoid duplication of effort and EC audits will only be undertaken in exceptional circumstances.

Finally, the main regulatory changes under the heading of financial management (Title VII) include: provisions for the pre-funding (advance) of seven percent for the Structural Funds and 10.5 percent for the Cohesion Fund, with differences between Member States; interim payments at priority level, with application of the rate for the priority to the amount of public expenditure presented by the Member State; the possibility of operating “partial” programme closure for completed operations; and the introduction of transparent rules for the interruption of the payments deadline and suspension of payments.

## STRATEGIC PLANNING FOR THE 2007-13 PERIOD

With agreement on the budget and regulations, strategic planning for the next period has accelerated since the start of 2006. The Community Strategic Guidelines have been revised and are expected to be approved in October 2006. All of the Member States have developed drafts of their National Strategic Reference Frameworks (NSRFs), in some cases in final form, and these have been discussed with the Commission.

Drawing up a national strategy for EU Cohesion policy has not been without problems for Member States due to institutional constraints, the complexity of economic development problems, and difficulties in relating NSRFs and National Reform Programmes. Analysis of the content of NSRFs indicates fundamental differences in the way that the objectives of the Frameworks have been developed by different Member States, with a contrast, between ‘needs-driven’ and ‘policy-driven’ strategies.

Despite these differences, the universal goal of the NSRFs in all Member States is expressed as higher national growth and competitiveness. This goal is interpreted or addressed in different ways, with seven broad types of development objective: a competitive economy; (sustainable) growth and employment; quality of life and/or territorial attractiveness; development of human capital and more general societal modernisation; social cohesion; balanced territorial development/sustainable development; and European or national convergence. The NSRFs of the EU15 Regional Competitiveness and Employment countries tend to be more oriented towards competitiveness, growth and jobs, whereas the EU10, the Candidate Countries, and the EU15 Member States with sizeable Convergence funding (Germany, Greece, Italy, Portugal and Spain) have a much wider set of goals.

With respect to earmarking, the consensus among those Member States for which compliance is obligatory is that meeting earmarking targets will not be a problem. Insofar as there are concerns, they relate to: the level at which earmarking will be calculated in countries with federal or regionalised management arrangements; and the systems that will need to be introduced for monitoring compliance with earmarking targets across programmes and institutions. In the EU10 Member States, the approach to earmarking is not obligatory, but the Commission is encouraging them to achieve the 60 percent earmarking target of EU15 Convergence programmes.

## CONCLUSIONS

Four main conclusions arise from this review. Firstly, the budget negotiations eventually achieved a compromise acceptable to all Member States but made little fundamental change to the structure or content of the financial framework. Second, the reform of Cohesion policy involves a significant reallocation of funding at national level (and in some cases regional level) but limited change to the principles of Structural and Cohesion Funds. Third, the new strategic approach to implementing Cohesion policy may lead to a more coherent approach to territorial development in some countries, although (in certain Member States) the future added value of Structural Funds could be questionable. Lastly, initial thinking is already underway on the policy review and the next financial framework.



# New Budget, New Regulations, New Strategies: The Reform of EU Cohesion Policy

## 1. INTRODUCTION

The Inter-Institutional Agreement on the financial framework for 2007-2013, agreed on 5 April 2006 by the European Council, European Parliament and European Commission, brought to a close almost two years of negotiation and five years of debate on the future of EU Cohesion policy. The overall EU budget for commitment appropriations of equivalent to 1.048 percent of the GNI (€864.3 billion) represented a compromise between the initial Commission proposal of 1.24 percent and the 1.0 percent figure proposed by the group of six 'net payers'.

The budget for Cohesion policy - €308.04 billion - will account for almost 36 percent of the new financial framework. Under this heading, there will be a significant shift in the allocation of Cohesion policy resources to the EU10 (new Member States), while providing substantial funding for the poorer parts of the EU15 (old Member States) and continuing to make Structural Funds available for the remaining regions also. The compromises involved in securing the agreement of 25 Member States stretched the financial allocation methodology to the limit, increasing its complexity and requiring more 'additional provisions' than ever before.

Following the budget agreement, the Cohesion policy regulations for the new period were quickly finalised by the Council, approved by the Parliament and published in the *Official Journal* in July 2006. The assent of the Parliament required relatively small changes, mostly to the Competitiveness heading in the budget.

Agreement on the budget and regulations has allowed preparations for the new programme period to accelerate. All Member States have now drawn up drafts of their National Strategic Reference Frameworks, some of them in final form. National and regional authorities are also rapidly preparing Operational Programmes, for appraisal and adoption by the Commission, with a view to minimising the delay in launching new programmes in 2007. Although the Community Strategic Guidelines are not yet approved, the design of the OPs is taking account of the objectives of the draft Guidelines on the contribution of Cohesion policy to growth and jobs, by prioritising the improvement of national, regional and urban attractiveness, encouraging innovation, entrepreneurship and the knowledge economy, and creating more and better jobs.

While there is a common commitment among Member States to the overall goal of improving the competitiveness of the EU, countries and regions, the strategies proposed by individual Member States vary greatly, reflecting domestic policy priorities and institutional arrangements.

The aim of this paper is to review the outcome of the reform of EU Cohesion policy over the past year. Following this introduction, it charts the final stages of the budgetary

negotiations and Inter-Institutional Agreement (Section 2), assesses the implications of the agreement for eligibility (Section 3) and discusses the financial allocations to Member States under the Structural and Cohesion Funds (Section 4). The paper also describes how Member States are planning to allocate funding at the regional level, particularly under the Regional Competitiveness Employment objective (Section 5). In addition to budgetary issues, the paper outlines the conclusion of the debate on the regulations, identifying the main changes introduced to the general regulation (Section 6). It also reviews the objectives and priorities of the emerging National Strategic Reference Frameworks and the response to the Lisbon agenda (Section 7). Finally, the paper presents some conclusions (Section 8).



## 2. THE FINANCIAL FRAMEWORK NEGOTIATIONS

The evolution of the budgetary negotiations up to the European Council meeting under the Luxembourg Presidency in June 2005 were analysed extensively in a previous EPRC report.<sup>2</sup> At that point, the failure of Member States to agree reflected a deep political division among national governments. A key issue was the future of the British rebate, with the UK linking any reduction of its rebate to a fundamental reform of agricultural spending, while France was publicly calling for the rebate to be abolished.

With the failure of the Luxembourg Presidency to resolve the budgetary dispute, it fell to the UK Presidency to find a way forward. The UK initially sought to broaden the debate. A speech by the UK Prime Minister Tony Blair to the European Parliament advocated a different type of budget to reflect ‘new European realities’ as part of a wider set of political and institutional changes to the EU. Specifically on the budget, the UK made a commitment to “*take forward discussions on future financing, drawing on progress to date, and with a view to resolving all the elements necessary for an overall agreement as soon as possible*”.<sup>3</sup> The UK approach was that agreement on the budget depends on setting out “*a process that leads to a more rational budget and that this must allow such a budget to shape the second half of the perspective up to 2013*”,<sup>4</sup> with reference to the budgetary framework set out in the Sapir Report.

During the Summer/Autumn 2005, UK ministers and officials engaged in bilateral consultations with other Member States to explore the scope for presenting a new negotiating box during the autumn in the hope of a possible agreement by the end of the year. In order to place the budgetary negotiations in a broader context, the UK Presidency convened a special meeting of Heads of State and Government (at Hampton Court) to discuss the future direction of the European Union and its policy priorities. However, this focused exclusively on issues, such as competitiveness, social justice and security and, to the disappointment of some Member States, avoided any detailed discussion of future financing.

### 2.1 First UK Negotiating Box

The First UK Negotiating Box<sup>5</sup> (UK NB1) on the 2007-2013 Financial Perspective was not presented until 5 December 2005, less than two weeks before the December European Council. UK NB1 proposed a 2.9 percent reduction in the EU budget (see Table 1), reducing overall commitment appropriations by €24.761 billion compared to the Sixth Negotiating

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<sup>2</sup> Bachtler J and Wishlade F (2005) *From Building Blocks to Negotiating Boxes: The Reform of EU Cohesion Policy*, European Policy Research Papers, No 57, European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>3</sup> UK Presidency Priorities, <http://www.eu2005.gov.uk/>

<sup>4</sup> *Programme of the British Presidency*, presented by UK Prime Minister Tony Blair to the European Parliament, 23 June 2005, Brussels.

<sup>5</sup> UK Presidency Website, European Union Financial Perspectives 2007-13, United Kingdom Presidency Negotiating Box available at <http://www.eu2005.gov.uk>, 5 December 2005.

Box of the Luxembourg Presidency (Lux NB6). The new total of €846.754 billion was 1.03 percent of GNI compared to 1.06 percent under the Lux NB6 and represented a 17.6 percent reduction compared to the original Commission proposal (1.25 percent of EU GNI). The lower figure was to be achieved by reducing spending under Heading 1b (by €12.7 billion, through lowering the absorption caps for the EU10 Member States), Heading 2 (by €10.3 billion, mainly through rural development and fisheries cuts), Heading 3b (by €730 million, by keeping expenditure constant in real terms) and Heading 5 (by €1 billion of administrative cuts).

To offset the budget reductions proposed for the EU10 Member States, a number of (off-budget) changes to Cohesion policy rules were proposed including: a more generous co-financing rate; an N+3 decommitment rule; the eligibility of housing under the ERDF; and the exclusion of the EU10 Member States from provisions relating to the Lisbon agenda. In addition, the UK proposals involved a reduction in the UK rebate of €8 billion, “*the equivalent of halving the rebate in respect of structural and cohesion funding in the EU10 member states*”.<sup>6</sup> However, the UK NB1 did not contain any fundamental change with respect to the rebate pending fundamental reform of the CAP (and of EU spending priorities more generally), which was proposed to take place during the coming budget period.

Table 1: First UK Negotiating Box, 5 December 2005, and comparison with Sixth Luxembourg Negotiating Box

Commitment appropriations	UK NB1 € mill	Lux NB6 € mill	Difference €mill
1. Sustainable Growth	368,910	381,604	-12,694
1a. Competitiveness for Growth & Employment	72,010	72,010	0
1b. Cohesion for Growth and Employment	296,900	309,594	-12,694
2. Preservation/management of natural resources	367,464	377,801	-10,337
market-related expenditure & payments	293,105	295,105	-2,000
3. Citizenship, freedom, security and justice	10,270	11,000	-730
4. EU as a global player	50,010	50,010	0
5. Administration	49,300	50,300	-1,000
6. Compensations	800	800	0
Total commitment appropriations	846,754	871,515	-24,761
as a percentage of GNI	1.03%	1.06%	-0.03%

Sources: See Footnotes 1 and 4.

## 2.2 Second UK Negotiating Box

The First UK Negotiating Box was not well received, not least in the EU10 Member States which bore the brunt of the proposed cutbacks. Immediately before the December European Council, the UK published its Second UK Negotiating Box (UK NB2).<sup>7</sup> This

<sup>6</sup> News Release, “UK Presidency of the EU launches budget proposals for 2007-2013”, UK Presidency Website, 6 December 2005.

<sup>7</sup> UK Presidency Website, European Union Financial Perspectives 2007-13, United Kingdom Presidency Negotiating Box available at <http://www.eu2005.gov.uk>, 14 December 2005.

responded to the criticisms of UK NB1 by making a series of country-specific adjustments which added €2.55 billion back into the budget (taking it to €849.303 billion). More than four-fifths of the increase came under Heading 1b (€2.1 billion), with the remainder being accounted for by rural development and fisheries (€460 million). The proposed new budget represented a 17.4 percent reduction on the original Commission proposals.

The main changes introduced by UK NB2 were as follows.<sup>8</sup> First, the practical changes made to the rules governing Cohesion policy in the EU10 Member States were extended to countries with GDP per head below 85 percent of the EU25 average over the 2001-03 period (in effect, Greece and Portugal). Second, extra funding was provided for the decommissioning of nuclear power plants in Slovakia and Lithuania and for Cohesion policy funding in Poland, Hungary, the Czech Republic, Estonia and Latvia. Only Slovenia of the Central and Eastern European Member States did not receive any specific extra provision. Third, amongst the EU15: Spain benefited from extra transitional Cohesion Fund resources and from additional funding for Ceuta and Melilla; Finland, Ireland, Portugal, Sweden and Austria from additional regional development funds; and Sweden and the Netherlands from specific improvements on the revenue side of the budget. Lastly, the proposal committed the Council to increase spending on R&D by 75 percent in real terms between 2006 and 2013.

Table 2: Second UK Negotiating Box, 14 December 2005, and comparison with First UK Negotiating Box

Commitment appropriations	UK NB2 € mill	UK NB1 € mill	Difference €mill
1. Sustainable Growth	370,999	368,910	2,089
1a. Competitiveness for Growth & Employment	7,2010	72,010	0
1b. Cohesion for Growth and Employment	298,990	296,900	2,090
2. Preservation/management of natural resources	367,924	367,464	460
market-related expenditure & payments	293,105	293,105	0
3. Citizenship, freedom, security and justice	10,270	10,270	0
4. EU as a global player	50,010	50,010	0
5. Administration	49,300	49,300	0
6. Compensations	800	800	0
Total commitment appropriations	849,303	846,754	2,549
as a percentage of GNI	1.03%	1.03%	0%

Sources: See Footnotes 4 and 6.

<sup>8</sup> News Release, “European Union Budget 2007 - 2013: Written Ministerial Statement by UK Secretary of State for Foreign and Commonwealth Affairs, Mr. Jack Straw, to the House of Commons”, 14 December 2005.

### 2.3 Brussels European Council, December 2005

In the course of the Council Meeting on 15/16 December, the UK Presidency said that it would bring forward a third proposal only if there was a likelihood that such a proposal would succeed. Eventually, a proposal was presented, which made a number of further significant changes. In the Third UK Negotiating Box (UK NB3), the budget increased again to €862.363 billion, €13.059 billion higher than UK NB2 and only €9.152 billion lower than in the final Luxembourg Negotiating Box rejected in June. This budget was just over 16 percent lower than the original Commission proposal and represented 1.045(9) percent of EU GNI. Compared to UK NB2, the main increase was under Heading 1b (€8.6 billion), although the rural development/fisheries sub-head also increased by €3.3 billion, and Heading 1a rose by €110 million. The administrative heading (Heading 5) also increased by €1 billion, taking it back to the level proposed under the Luxembourg Presidency.

Most of the changes in UK NB3 took the form of specific additional payments to individual countries. For instance: the five poorest Polish regions received an extra €12 per head, equivalent to €100 million; the Közép-Magyarország (Budapest) NUTS II region received an additional budget of €140 million; Germany received a new allocation of €75 million in respect of Bavaria, and €225 million was allocated to the eastern *Länder*; Spain received a further €2 billion under the ERDF; Italy obtained an additional €1.4 billion; and France received €100 million for Corsica and Hainaut français. In total, these additional country-specific payments amount to €4.04 billion. On top of this, the absorption cap for the EU10 Member States was raised by just under 3.45 percent. As a result, the Heading 1b expenditure total increased by a further €4.6 billion, resulting in an overall increase of €8.629 billion.

In addition, significant additional funding was made available to individual countries for rural development purposes: €1.35 billion for Austria (up from €450 million in UK NB2); €820 million for Sweden (up from €120 million); €500 million for Ireland (up from €250 million) and the same for Italy; €460 million for Finland (up from €230 million); €320 million for Portugal (up from €160 million); €100 million for France; and €20 million for Luxembourg. Overall, the rural development budget increased by €2.86 billion due to these specific additions and by €3.41 billion in total.

Significant changes were also made to the revenue side of the budget. These involved a reduced rate of call on the VAT resource for Austria, a further significant reduction in the Dutch GNI contribution (replacing a proposal in UK NB2 Box for a further reduction in Dutch payments relating to traditional own resources and VAT) and an increase in the reduction made to the UK rebate of €2.5 billion, taking the reduction to a maximum €10.5 billion.

Table 3: Third UK Negotiating Box, 16 December 2005, and comparison with Second UK Negotiating Box

Commitment appropriations	UK NB3 € mill	UK NB2 € mill	Difference €mill
1. Sustainable Growth	379,739	370,999	8,740
1a. Competitiveness for Growth & Employment	72,120	72,010	110
1b. Cohesion for Growth and Employment	307,619	298,990	8,629
2. Preservation/management of natural resources	371,244	367,924	3,320
market-related expenditure & payments	293,105	293,105	0
3. Citizenship, freedom, security and justice	10,270	10,270	0
4. EU as a global player	50,010	50,010	-49,960
5. Administration	50,300	49,300	1,000
6. Compensations	800	800	0
<b>Total commitment appropriations</b>	<b>862,363</b>	<b>849,303</b>	<b>13,060</b>
as a percentage of GNI	1.045%	1.03%	0.15%

Sources: See Footnotes 4 and 8.

The UK NB3 provided the basis for agreement among the Member States at the December Council. In particular, the concessions made by the UK on its budgetary rebate, allied to the Council's request to the Commission *"to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9"* was sufficient to allow a budgetary deal to be reached.<sup>9</sup>

## 2.4 Inter-Institutional Agreement, April 2006

Reaction to the Council agreement from the European Parliament and from the Commission was critical. The Parliament's Budget Committee rejected the budget<sup>10</sup> *"in its current form because it does not guarantee an EU budget enhancing prosperity, competitiveness, solidarity and cohesion in the future"*. In particular, the Council agreement for funding of €862 billion (1.045 percent of GNI) for 2007-13 was compared unfavourably by MEPs with the €975 billion (1.18 percent of GNI) proposed by the Parliament in June 2005.<sup>11</sup> Commission President Barroso also considered the Council agreement to be inadequate, stating that:<sup>12</sup>

*"While I welcome the agreement reached at the European Council, I must restate my concern about some of the consequences, for instance in terms of our ability to deliver our growth and jobs agenda. I would like to draw particular attention to actions targeting citizens directly, notably in the field of culture and youth, public*

<sup>9</sup> *Presidency Conclusions*, Brussels European Council, 19 December 2005, CADREFIN 268.

<sup>10</sup> European Parliament Budget Committee meeting, 11.1.2006.

<sup>11</sup> European Parliament meeting, 8.6.2005

<sup>12</sup> Letter from Jose Manuel Barroso, President of the European Commission, to the Austrian Presidency and the European Parliament, 1.2.2006.

*health and consumer protection...An additional effort needs therefore to be made in this field if we are to fulfil our commitments."*

Over the subsequent three months, four 'trialogues' on the financial perspectives were held, involving the Parliament, Council and Commission, in order to reach political agreement on the Inter-Institutional Agreement (IIA). This was eventually achieved at the final meeting on 4 April 2006, with three main elements to the agreement.<sup>13</sup>

First, a small increase of €4 billion in funding was agreed, supplementing the expenditure ceilings in the December 2005 framework by €2 billion, and a further €2 billion (corresponding the Emergency Aid Reserve plus €500 million for administrative expenditure) remaining outside the expenditure ceilings. As indicated in Table 4, most of the additional funding is for Heading 1a covering expenditure on innovation, R&D, SMEs, Trans-European Networks and lifelong learning. Some additional funding was also agreed for Heading 1b, Heading 2 (environment) and Heading 3b (citizenship). The European Investment Bank also made a commitment to co-finance the Heading 1a objectives and instruments with up to €2.5 billion from its own funds.

**Table 4: Inter-Institutional Agreement, 4 April 2006, and comparison with the Third UK Negotiating Box**

Commitment appropriations	Inter-Inst. Agreement € mill	UK NB3 € mill	Difference €mill
1. Sustainable Growth	382,139	379,739	3,400
1a. Competitiveness for Growth & Employment	74,098	72,120	1,978
1b. Cohesion for Growth and Employment	308,041	307,619	422
2. Preservation/management of natural resources	371,344	371,244	100
market-related expenditure & payments	293,105	293,105	0
3. Citizenship, freedom, security and justice	10,770	10,270	500
4. EU as a global player	49,463	50,010	-547
5. Administration	49,800	50,300	-500
6. Compensations	800	800	0
<b>Total commitment appropriations</b>	<b>864,316</b>	<b>862,363</b>	<b>1,953</b>
as a percentage of GNI	1.048%	1.045%	0.003%

Sources: See Footnotes 8 and 12.

Second, the IIA includes provisions on 'sound financial management'. Based on a proposal from the Commission,<sup>14</sup> these comprise a budgetary review clause requiring the Commission

<sup>13</sup> Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management, *Official Journal of the European Union*, C139, 14.6.2006.

<sup>14</sup> *Contribution to the Interinstitutional negotiations on the Proposal for renewal of the Inter-Institutional Agreement on budgetary discipline and improvement of the budgetary procedure*, Commission Working Document, COM (2006) 75, Brussels, 15.2.2006

to report on all aspects of the Community budget before the end of 2009 as well as evaluating if the IIA is working properly. They also require certification of Member States' management of Structural Funds-related expenditure, in order to allow a positive 'Statement of Assurance' on expenditure to be produced, as well as a review of the Financial Regulation. New legislation was subsequently approved to implement budgetary discipline and sound financial management.

Third, the IIA provided more flexibility in the budget. Alongside the flexibility instrument and Solidarity Fund (retained at the same levels of funding as in 2000-06), the new financial framework will include a Globalisation Adjustment Fund of €3.5 billion (to support workers suffering the consequences of major structural changes in world trade patterns, and drawn from unused appropriations under the expenditure headings) and an Emergency Aid Reserve of €1.5 billion.

## 2.5 Assessment of the financial framework

### *2.5.1 Reflections on the negotiations*

Reviewing the evolution of the financial negotiations over the past two years, several points are worth noting (see Table 5). First, the overall budget ceiling eventually agreed for commitment appropriations in 2007-2013 is almost one-fifth lower than that proposed by the Commission and represents only a four percent increase over spending in the current period. Expressed as a percentage of GNI, the final figure of 1.048 percent is considerably closer to the 1.0 percent advocated by the group of six 'net payers' (Austria, France, Germany, Netherlands, Sweden, United Kingdom) than the 1.24 percent originally proposed by the Commission.

Second, the allocations to agriculture and Cohesion policy, proposed by the Commission, changed less than might have been expected in the course of the negotiations. Heading 2 declined by just over eight percent and Heading 1b by less than 10 percent. The main changes affected the proposed allocations for Heading 1a (competitiveness), Heading 3 (citizenship, freedom, security & justice), and Heading 4 (EU as a global player), all of which saw the Commission proposals reduced by 40-50 percent. Nevertheless, the budget contained some important increases in spending. For instance, Heading 1a (competitiveness) will grow by almost 40 percent in the 2007-13 period, albeit from a low base. Cohesion policy is also forecast to increase by one-sixth. By contrast, the large budget for agriculture will decline by four percent, and the much smaller budget for Heading 3 by a quarter.

Table 5: Evolution of the Financial Perspective by Heading (€ mill at 2004 prices)

Heading	2006 benchmark		COM allocations		Lux NB6 allocations		UK NB3 allocations		Inter-Institutional Agreement allocations			
	€ mill	% EU total	€ mill	% EU total	€ mill	% EU total	€ mill	% EU total	€ mill	as % of EU total	as % of COM	as % of 2006
1. Sustainable Growth	316,764	38.2	463,256	45.1	381,604	43.8	379,739	44.0	382,139	44.3	82.7	121.0
1a. Competitiveness for Growth & Employment	53,662	6.5	121,685	11.8	72,010	8.3	72,120	8.4	74,098	8.6	60.9	138.1
1b. Cohesion for Growth and Employment	263,102	31.8	341,571	33.2	309,594	35.5	307,619	35.7	308,041	35.7	90.2	117.1
2. Preservation/management of natural resources	388,486	46.9	400,679	39.0	377,801	43.3	371,244	43.0	371,344	43.0	92.7	95.6
market-related expenditure & payments	306,145	37.0	301,074	29.3	295,105	33.9	34	34.0	293,105	34.0	97.4	95.7
3. Citizenship, freedom, security and justice	14,049	1.7	20,945	2.0	11,000	1.3	10,270	1.2	10,770	1.3	51.4	76.7
4. EU as a global player	53,613	6.5	84,649	8.2	50,010	5.7	50,010	5.8	49,463	5.7	58.4	92.3
5. Administration	48,013	5.8	57,670	5.6	50,300	5.8	50,300	5.8	49,800	5.8	86.4	103.7
6. Compensations	7,287	0.9	800	0.1	800	0.1	800	0.1	800	0.1	100.0	11.0
Total commitment appropriations	828,212	100.0	102,7999	100.0	871,515	100.0	862,363	100.0	864,316	100.0	84.1	104.4
GNI	75,121,480		82,448,058		82,448,058		82,448,058		82,448,058			
as a percentage of GNI	1.1		1.25		1.06		1.0459		1.048			

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 15.6.2005 (10090/05), as amended, and the UK Presidency data from CADREFIN 268 of 19.12.2005 (15915/05). The Inter-Institutional Agreement data are from the *Official Journal of the European Union*, C139, 14.6.2006 14.6.2006.



Third, most of the key changes to the budgetary headings in the Commission proposals were made during negotiations under the Luxembourg Presidency. Cuts to the budget headings proposed in the first UK Presidency Negotiating Box were largely restored in the course of the December Council meeting. Consequently, the final allocations in the Inter-Institutional Agreement are within +/- 2 percent of the figures in the Sixth Luxembourg Negotiating Box. On the other hand, the UK Presidency did have a differential impact on allocations between Member States, cutbacks within the EU10 being compensated for by 'off-budget' concessions. These concessions, plus the myriad additional provisions, allowed agreement to be reached; there was also of course the fact that the imperative for there to be agreement was much higher in December 2005 than it had been in June.

Lastly, the final outcome illustrated that, while the decisions on the financial framework required the approval of the European Parliament, in practice the Parliament's ability to make significant changes was very limited. The EU budget agreed by the Member States in December 2005 was over €110 billion less than the Parliament's proposal (made in June 2005), but it was evidently politically impossible for the Parliament to reopen a complex deal agreed by 25 Member States with less than a year to go before the start of the new budget period. The changes made by the Parliament were, therefore, restricted to some small policy initiatives, and increasing the ceiling on commitment appropriations by less than €2 billion out of a budget of more than €860 billion.

### *2.5.2 Member State reactions to the outcome*

At a political level, the nature of the deal means that most participants in the negotiations can point to at least some success in meeting their objectives. The new financial framework provides for an increase in spending but considerably less than originally proposed by the Commission. The deal on agricultural spending agreed in 2002 survived with minimal change, but a comprehensive policy review will restart the debate in 2008-09. Cohesion policy will remain a well-resourced budgetary heading, operating across the whole of the EU, and focusing more resources on the poorest countries and regions. Extra resources will be committed to 'competitiveness', although much less than proposed; funding for some other headings of EU expenditure was reduced. The UK budgetary correction mechanism was also retained, albeit with some concessions on its financing and ceiling.

At the level of Cohesion policy, the outcome is widely considered to be 'fair'. The EU10 will receive a major increase in EU resources, albeit limited by the 'absorption cap'. The poorer parts of the EU15 will continue to receive a sizeable amount of funding, with reasonably generous transitional provisions. Funding for non-Convergence regions will comprise a smaller proportion of the Cohesion policy budget than currently, but the principle of Structural Funds supporting restructuring throughout the EU has been retained. An important change, from the viewpoint of Member States, is that they will determine the spatial and thematic allocation of funding for the Regional Competitiveness and Employment objective, although the Commission continues to exert at least some influence through the new strategic planning system. Support for Territorial Cooperation - for which there was only limited support at national level in several Member States - has been

retained but without the increase in funding sought by the Commission, and with a shift in resources towards cross-border cooperation.

A significant influence on the acceptability of the outcome for many countries were the 'additional provisions' under Cohesion policy which addressed specific Member State concerns, notably for peripheral or poorer regions (e.g. Austria, Finland, France, Poland, Spain, Sweden). The share of rural development funding allocated under Heading 2 was also a factor in some cases (e.g. in Italy). Changes to the revenue side of the equation played a part for countries seeking a more 'equitable' contribution to the EU budget (e.g. for Italy, Netherlands, Sweden).

Notwithstanding the positive aspects cited by Member States, there is a strong feeling among some of the current net contributor countries that, while the budget deal was the best that could be achieved at this time, there is still a need for more fundamental reform. Some of the signatories to the December 2003 letter to Commission President Prodi remain convinced of the need to restrict Cohesion policy funding to the poorest regions as part of a wider restructuring of the EU budget. In this respect, the forthcoming Commission review of EU policies and spending will effectively start the debate for the post-2013 funding period.

### 3. THE IMPLICATIONS FOR COHESION POLICY - ELIGIBILITY

The outcome of the negotiations described in the previous section has major implications for Cohesion policy. The following three sections examine the impact of the reforms on, in turn, the eligibility of different areas for Cohesion policy support, the EU methodology for allocating funding to eligible areas, and the approaches of Member States to allocating funding at the regional level. This section begins the assessment by analysing the spatial coverage of the new Cohesion policy objectives.

#### 3.1 The new architecture of the Funds

The new architecture of Cohesion policy is set out in a new general regulation on the Structural Funds.<sup>15</sup> It distinguishes three objectives (relevant articles in parentheses).

- *Convergence*, which aims at “*speeding up the convergence of the least-developed Member States and regions*” and which is considered the “priority of the funds” (Article 3.2 (a)). The Convergence objective is financed by the European Regional Development Fund (ERDF) the European Social Fund (ESF) and the Cohesion Fund.
- *Regional Competitiveness & Employment*, which aims at “*strengthening regions’ competitiveness and attractiveness as well as employment by anticipating economic and social change*” (Article 3.2 (b)). The Competitiveness and Employment objective is financed by the ERDF and the ESF.
- *European territorial cooperation*, which aims at “*strengthening cross-border cooperation... .... transnational cooperation... ...and inter-territorial cooperation*”; (Article 3.2 (c)). The Territorial Cooperation objective is financed by the ERDF.

#### 3.2 Convergence objective

Three types of area are eligible under the Convergence objective: Convergence regions; Phasing-out regions; and Cohesion countries.

##### 3.2.1 Convergence regions

Convergence regions are comparable with Objective 1 regions under the regulations for the 2000-06 period. These are NUTS II areas where GDP per head measured in purchasing power standards (PPS) for 2000 to 2002 is less than 75 percent of the EU25 average (Article 5.1). There are 70 such regions in the EU25, with a total population of just over 124 million or 27.3 percent of the EU25 population.<sup>16</sup>

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<sup>15</sup> Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, *Official Journal of the European Union*, L210, 31.7.2006.

<sup>16</sup> All of Bulgaria and Romania will also qualify as Convergence regions, adding a further 14 regions and over 29 million population and taking coverage to 31.7 percent of the EU27 population.

Coverage by Member State is set out in Table 6, illustrating a number of important points. Most of the EU10 Member States (almost 93 percent in population terms) are covered by the Convergence objective; only Cyprus and parts of Hungary and the Czech and Slovak Republics are excluded. By contrast, just 14.5 percent of the EU15 population has Convergence region status. However, reflecting differences in national populations, the EU15 Member States still account for a large proportion of the total Convergence population - over 44 percent. Poland alone accounts for over 30 percent of the Convergence population, with Italy, Spain and Germany together accounting for a further 32.3 percent.

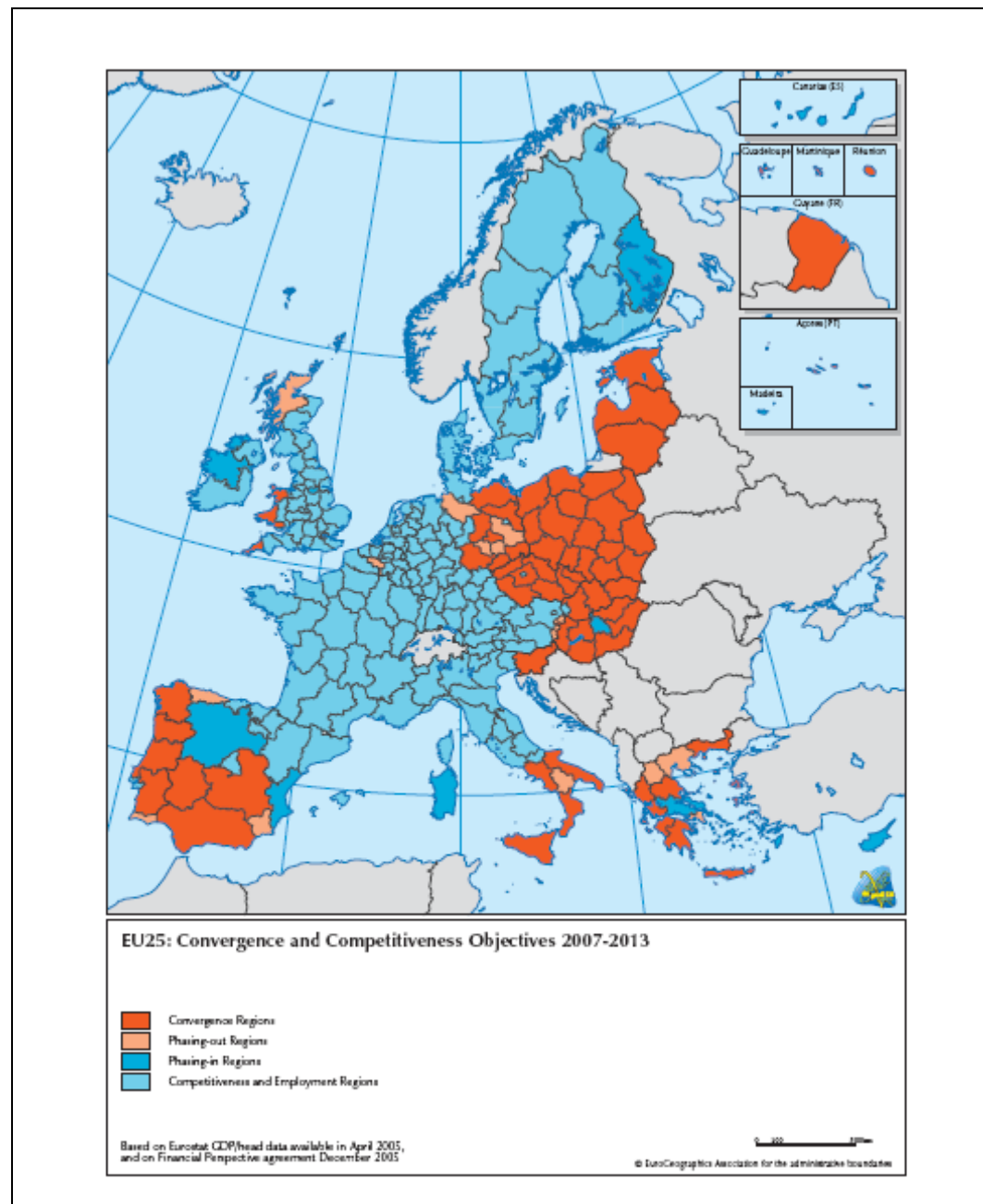
Table 6: Convergence region coverage, 2007-13

	Population	% of population	Share of population
EU25	124049.2	27.3	100.0
EU15	55095.2	14.5	44.4
EU10	68954.0	92.9	55.6
Belgium	0.0	0.0	0.0
Czech Republic	9042.0	88.6	7.3
Denmark	0.0	0.0	0.0
Germany	10327.8	12.5	8.3
Estonia	1361.2	100.0	1.1
Greece	4026.3	36.6	3.2
Spain	12882.8	31.8	10.4
France	1748.9	2.9	1.4
Ireland	0.0	0.0	0.0
Italy	16712.3	29.2	13.5
Cyprus	0.0	0.0	0.0
Latvia	2338.6	100.0	1.9
Lithuania	3469.0	100.0	2.8
Luxembourg	0.0	0.0	0.0
Hungary	7331.7	72.2	5.9
Malta	395.9	100.0	0.3
Netherlands	0.0	0.0	0.0
Austria	0.0	0.0	0.0
Poland	38230.0	100.0	30.8
Portugal	7032.2	67.8	5.7
Slovenia	1995.0	100.0	1.6
Slovak Republic	4790.6	88.9	3.9
Finland	0.0	0.0	0.0
Sweden	0.0	0.0	0.0
United Kingdom	2364.9	4.0	1.9

Source: Own calculations from Eurostat data and Multiannual Financial Framework 2007-2013, Fiche No. 57 rev 2.

Coverage of the Convergence regions is illustrated in Figure 1. This shows coverage heavily concentrated in the eastern part of Europe and the southern periphery.

Figure 1: Cohesion policy eligible areas, 2007-13



Source: InfoREG website: [http://ec.europa.eu/regional\\_policy/index\\_en.htm](http://ec.europa.eu/regional_policy/index_en.htm)

### 3.2.2 Phasing-out regions

As is well-known, the so-called ‘statistical effect’ of enlargement squeezed a number of EU15 regions out of eligibility for Convergence status. Under the reformed Structural Funds, regions with GDP(PPS) per head between 75 percent of the EU25 average and 75 percent of the EU15 average<sup>17</sup> have Phasing-out status (Article 8.5). There are 16 such regions in the EU25, with a total population of just over 16 million or 3.6 percent of the EU25 population. Coverage by Member State is set out in Table 7.

<sup>17</sup> Equivalent to about 82.2 percent of the EU25 average.

Table 7: Phasing-out region coverage, 2007-13

	Eligible regions	Population	% of population	Share of population
EU25		16395.4	3.6	100.0
EU15		16395.4	4.3	100.0
EU10		0.0	0.0	0.0
Belgium	Hainaut	1281.0	12.4	7.8
Germany	Brandenburg-Südwest Lüneberg Leipzig Halle	5030.4	6.1	30.7
Greece	Kentriki Makedonia Dytiki Makedonia Attiki	6100.1	55.5	37.2
Spain	Asturias Murcia Ceuta Melilla	2346.2	5.8	14.3
Italy	Basilicata	597.1	1.0	3.6
Austria	Burgenland	278.3	3.4	1.7
Portugal	Algarve	394.6	3.8	2.4
UK	Highlands & Islands	367.6	0.6	2.2

Source: Own calculations from Eurostat data and Multiannual Financial Framework 2007-2013, Fiche No. 57 rev 2.

Several points are worth making about Phasing-out region coverage. First, at the EU25 level, coverage of the Phasing-out regions is not significant, at just 3.6 percent of the population, and is non-existent in the EU10 Member States. Second, even at the national level for the most part, Phasing-out coverage is not extensive; the major exception is Greece, where regions excluded from eligibility by dint of enlargement account for a massive 55.5 percent of the national population. Moreover, Greece alone accounts for well over a third of the Phasing-out population of the EU25, while Greece and Germany together account for more than two-thirds of the total. Third, Phasing-out status is not reserved for regions which have Objective 1 status for 2000-06; Hainaut and Highlands & Islands are among the eligible regions. Coverage of the Phasing-out regions is illustrated in Figure 1 which, for the most part, shows that these regions are adjacent to Convergence areas (Hainaut and Highlands & Islands being the exceptions).

### 3.2.3 Cohesion countries

Member States where gross national income (GNI) per head measured in PPS is less than 90 percent of the EU25 average for the period 2001-03, and which have a programme for meeting the economic convergence conditions referred to in Article 104 of the Treaty, are eligible for the Cohesion Fund (Article 5.2). Current recipients of the Cohesion Fund are Greece, Portugal and Spain. Ireland ceased to be eligible at the end of 2003, following a mid-term review. Spain successfully made a case that special arrangements should apply to Member States subject to the 'statistical effect' of enlargement on the threshold for the Cohesion Fund and, as a result, benefits from a special allocation (Article 8.3).

Table 8: Member States eligible for the Cohesion Fund, 2007-13

Eligible	GNI(PPS) per head	Ineligible	GNI(PPS) per head
Latvia	39.5	Germany	108.7
Lithuania	42.4	Italy	108.7
Estonia	44.4	Ireland	110.8
Poland	45.5	Finland	113.6
Slovak Republic	51.1	France	114.0
Hungary	55.7	Sweden	115.6
Czech Republic	64.9	UK	119.6
Malta	73.5	Belgium	120.2
Portugal	75.2	Austria	121.1
Slovenia	75.7	Netherlands	121.5
Greece	77.9	Denmark	122.9
Cyprus	82.5	Luxembourg	195.3
Spain	94.1		

Note: Although Spain is over the qualifying threshold, it is eligible for special transitional arrangements under the Cohesion Fund.

Source: Multiannual Financial Framework 2007-2013, Fiche No. 57 rev 2.

### 3.3 Regional Competitiveness & Employment objective

The Regional Competitiveness & Employment objective comprises two strands: Phasing-in regions; and Regional Competitiveness & Employment regions.

#### 3.3.1 *Phasing-in regions*

Phasing-in regions are current Objective 1 regions which have outgrown that status for the new funding period. There are 13 such regions in the EU25, with a total population of just over 19 million, or 4.2 percent of the EU25 population. Included in this is Cyprus which did not have Objective 1 status in 2004-6, but where this was acknowledged to have been due to an overestimation of GDP per head (Article 8.2).

As Table 9 shows, Phasing-in status accounts for a significant proportion of several Member States (Spain, Ireland and Hungary) and all of Cyprus; almost half of the Phasing-in population is in Spain.

Table 9: Phasing-in region coverage, 2007-13

	Eligible regions	Population	% of population	Share of population
EU25		19000.3	4.2	100.0
EU15		15458.3	4.1	81.4
EU10		3542.0	4.8	18.6
Greece	Stereia Ellada Notio Aigaio	861.1	7.8	4.5
Spain	Castilla y León Valencia Canarias	8376.6	20.7	44.1
Ireland	Border, Midlands, West	1040.6	26.5	5.5
Italy	Sardegna	1634.2	2.9	8.6
Cyprus	Entire country	715.1	100.0	3.8
Hungary	Közép-Magyarország	2826.9	27.8	14.9
Portugal	Madeira	240.8	2.3	1.3
Finland	Itä-Suomi	674.5	13.0	3.6
UK	Merseyside South Yorkshire	2630.4	4.4	13.8

Source: Own calculations from Eurostat data and Multiannual Financial Framework 2007-2013, Fiche No. 57 rev 2.

### 3.3.2 Regional Competitiveness & Employment regions

The Regional Competitiveness & Employment (RCE) strand covers all regions that do not have Convergence, Phasing-out or Phasing-in status. This covers almost two-thirds of the EU population, but is heavily concentrated in the EU15 - notably Germany, France and the UK, which together account for over 60 percent of the RCE population.

Table 10: RCE region coverage, 2007-13

	Population	% of population	Share of population
EU25	295255.3	64.9	100.0
EU15	293496.1	77.1	99.4
EU10	1759.2	2.4	0.6
Belgium	9049.0	87.6	3.1
Czech Republic	1158.8	11.4	0.4
Denmark	5376.0	100.0	1.8
Germany	67123.7	81.4	22.7
Spain	16940.7	41.8	5.7
France	59487.8	97.1	20.1
Ireland	2885.6	73.5	1.0
Italy	38213.4	66.9	12.9
Luxembourg	446.2	100.0	0.2
Netherlands	16147.0	100.0	5.5
Austria	7805.5	96.6	2.6
Portugal	2700.7	26.0	0.9
Slovak Republic	600.4	11.1	0.2
Finland	4526.5	87.0	1.5
Sweden	8925.0	100.0	3.0
United Kingdom	53869.0	90.9	18.2



### 3.4 Territorial cooperation objective

As noted earlier, the Territorial Cooperation strand comprises three elements: cross-border cooperation; transnational cooperation and interregional cooperation. For *cross-border cooperation*, eligible areas are NUTS III regions along all internal and some external land borders as well as maritime borders separated by a maximum of 150 km. At the time of writing, a list of eligible cross-border areas, together with the areas eligible for *transnational cooperation* is due to be adopted by the Commission. All EU regions are eligible for the *interregional cooperation* strand.

### 3.5 Impact of the reform on eligibility

The new regulations produce a significant shift in eligibility for Objective 1 / Convergence status in the EU15 Member States and a modest reduction in coverage in the EU10 Member States. The differences are particularly marked in Greece where the entire population was eligible under Objective 1 in 2000-06 but where Convergence coverage falls to 36.6 percent for 2007-13 (see Table 11). Also significant are the cutbacks in Spain, Ireland and Hungary which all see a reduction in coverage exceeding 25 percentage points. In Finland and Sweden, the special Objective 1 status accorded to sparsely-populated regions in 2000-06 has not been continued under the new architecture which instead allocates higher per capita funding to such regions under the Regional Competitiveness & Employment objective.

Table 11: Objective 1/Convergence and transitional coverage, 2000-6 and 2007-13 (% of population)

	2000-06		2007-13		
	Objective 1	Phasing-out	Convergence	Phasing-out	Phasing-in
EU25	34.5	2.9	27.3	3.6	4.2
EU15	22.4	3.5	14.5	4.3	4.1
EU10	96.7	0.0	92.9	0.0	4.0
Belgium	-	12.7	-	12.4	0.0
Czech Republic	88.6	0.0	88.6	0.0	0.0
Denmark	-	-	-	-	-
Germany	17.3	1.6	12.5	6.1	-
Estonia	100.0	-	100.0	-	-
Greece	100.0	-	36.6	55.5	7.8
Spain	58.5	1.3	31.8	5.8	20.7
France	2.7	1.9	2.9	-	-
Ireland	26.6	73.4	-	-	26.5
Italy	33.6	0.6	29.2	1.0	2.9
Cyprus	-	-	-	-	100.0
Latvia	100.0	-	100.0	-	-
Lithuania	100.0	-	100.0	-	-
Luxembourg	-	-	-	-	-
Hungary	100.0	-	72.2	-	27.8
Malta	100.0	-	100.0	-	-
Netherlands	-	1.8	-	-	-
Austria	3.4	-	-	3.4	-
Poland	100.0	-	100.0	-	-
Portugal	66.6	33.4	67.8	3.8	2.3
Slovenia	100.0	-	100.0	-	-
Slovak Republic	88.9	-	88.9	-	-
Finland	21.0	-	-	-	13.0
Sweden	11.0	-	-	-	-
United Kingdom	8.6	3.5	4.0	0.6	4.4

Source: Own calculations

Objective 2 in 2000-06 and Regional Competitiveness & Employment in 2007-13 are not strictly comparable. Objective 2 is spatially restricted to areas facing restructuring while the RCE strand of the reformed policy is thematic rather than geographical in approach. To some extent, coverage of Objective 3 may be considered comparable with RCE status since Objective 3 is restricted to areas not eligible for Objective 1 (see Table 12). As such, the differences between Objective 3 and RCE coverage are largely a reflection of the differences between Objective 1 and Convergence status. The principal exception to this is Cyprus, part of which had Objective 2 status in 2000-06, but all of which qualifies for Phasing-in treatment in 2007-13.

Table 12: Objective 2/3 and Regional Competitiveness &amp; Employment coverage (% of population)

	2000-6		2007-13
	Objective 2	Objective 3	Reg. Comp. & Employment
EU25	15.0	62.6	64.9
EU15	18.0	74.1	77.1
EU10	0.9	3.3	2.4
Belgium	12.0	87.3	87.6
Czech Republic	3.5	11.4	11.4
Denmark	10.0	100.0	100.0
Germany	13.0	81.1	81.4
Spain	22.0	40.2	41.8
France	31.0	95.4	97.1
Ireland	-	-	73.5
Italy	13.0	65.8	66.9
Cyprus	30.0	100.0	-
Luxembourg	23.0	100.0	100.0
Netherlands	15.0	98.2	100.0
Austria	25.0	96.6	96.6
Portugal	-	-	26.0
Slovak Republic	3.3	11.1	11.1
Finland	31.0	79.0	87.0
Sweden	14.0	89.0	100.0
United Kingdom	24.0	87.9	90.9

Note: Objective 3 covers all areas, except those covered by Objective 1.

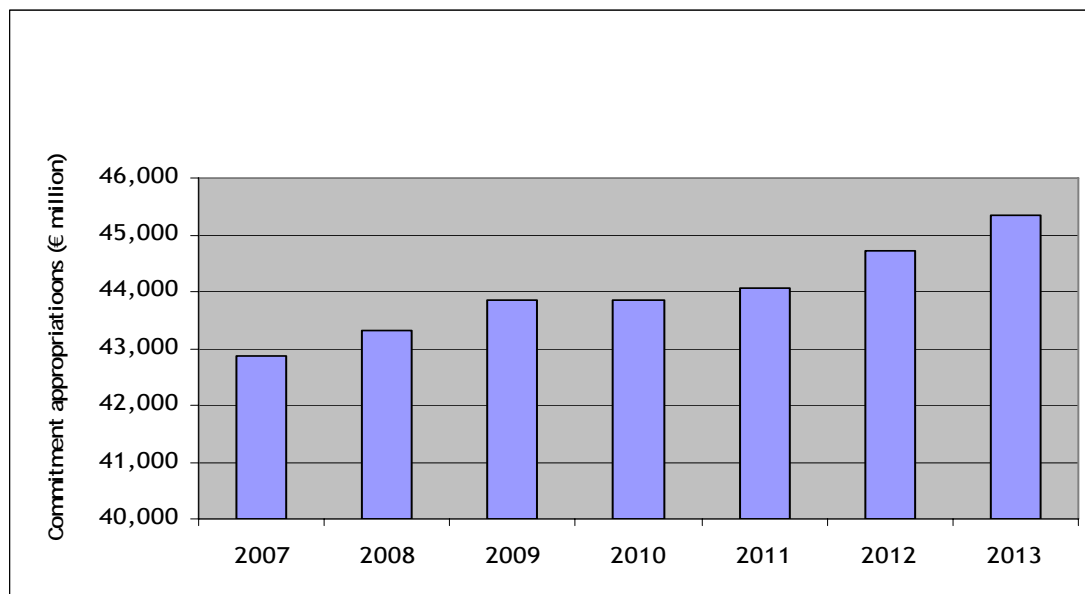
Source: Inforegio; Own calculations from Eurostat data.



#### 4. THE IMPLICATIONS FOR COHESION POLICY - FINANCIAL ALLOCATIONS TO MEMBER STATES

Having set out the new arrangements for spatial coverage, the next question is how Cohesion policy resources are to be allocated among Member States. The overall resources available to Cohesion policy for 2007-13, as specified in Article 18 of the Cohesion policy regulation, are €308.041 billion (2004 prices). This has been divided into a financial profile of annual allocations rising from €42.863 billion in 2007 to €45.342 billion in 2013 (see Figure 2).

Figure 2: Commitment appropriations for 2007-13 (€m, 2004 prices)



Source: General Regulation, Annex I.

In the regulation, this budget is broken down into the objectives of Convergence, Regional Competitiveness & Employment and Territorial Cooperation as shown in Table 13. Most of the resources (81.5 percent) are allocated to the Convergence objective, which includes eligible Convergence regions, transitional funding for Phasing-out regions and the Cohesion Fund. The Regional Competitiveness & Employment objective has been allocated 15.9 percent of the budget, also including a small element of transitional Phasing-in regions. The remainder (2.5 percent) is allocated for Territorial Cooperation, encompassing cross-border, trans-national and inter-regional cooperation as well as the PEACE programme.

Table 13: Commitment appropriations by objective, 2007-13 (2004 prices)

		€ mill	% of objective	% of total
<b>Convergence</b>				
	Convergence regions	177083.6	70.5	57.5
	Phasing-out	12521.3	5.0	4.1
	Cohesion Fund	61558.2	24.5	20.0
	Total	251163.1	100.0	81.5
<b>Regional Competitiveness &amp; Employment</b>				
	RCE regions	38742.5	78.9	12.6
	Phasing-in	10385.3	21.1	3.4
	Total	49127.8	100.0	15.9
<b>Territorial Cooperation</b>				
	Cross-border	5576.4	72.0	1.8
	Transnational	1581.7	20.4	0.5
	Interregional	392.0	5.1	0.1
	PEACE	200.0	2.6	0.1
	Total	7750.1	100.0	2.5
<b>TOTAL</b>		<b>308041.0</b>		<b>100.0</b>

Source: General Regulation, Articles 18 to 21 and Annex II para 22.

The remainder of this section is in three parts. The first sets out the allocation mechanisms for each strand of policy; the second examines the outcome of these mechanisms in global and per capita terms for the Member States; and the third compares these outcomes with funding in the 2000-06 period.

#### 4.1 Allocation mechanisms

Each strand of policy has a separate mechanism for determining the allocation to any given Member State. In some cases, the approach was ‘bottom up’ based on a measurement of disparities; in other cases, the approach was ‘top-down’ with the allocation based on a distribution key. The calculations for each element were affected by several overarching constraints, specifically:

- the annual allocation for Cohesion policy should not exceed a set percentage of national GDP - the so-called absorption cap;
- a proportion of the regional convergence allocation was transferred to Heading 2 under the EAGGF and EFF; and
- for the EU10 Member States, the Cohesion Fund was to represent one-third of Cohesion policy funding.

In addition, the allocation methodologies for each strand were complemented by a large number of ‘additional provisions’. The combined effect of these constraints and the additional provisions is that the published methodology is only a starting point in the allocation of funding.

### 4.1.1 Convergence objective

#### (i) Convergence regions

The basic mechanism for allocating funding to the Convergence regions was modelled on the Berlin formula used for 2000-06. This involved making an allocation based on regional disparities in GDP per head, adjusted for national prosperity, and high unemployment. For the period 2007-13, the main changes were the lowering of the coefficients for national prosperity, less emphasis on the very poorest regions, and a higher allocation in respect of unemployment (see Box 1).

#### Box 1: Calculation of the annual allocation for Convergence regions

1. Calculate difference between regional GDP per head and the EU average in euro.

2. Multiply result by national prosperity coefficient:

GNI(PPS) per head - EU25=100	National prosperity coefficient
< 82	4.25%
>82 <99	3.36%
>99	2.67%

3. Gives allocation per head of regional population; multiply by regional population to give total regional allocation.

4. Add €700 per person unemployed in excess of the Convergence region average, if applicable.

An important point to note about the methodology is that, in practice, it only really applied to the EU15. Allocations to the EU10 Member States were affected by the absorption cap and the one-third split in favour of the Cohesion Fund.

#### (ii) Phasing-out regions

The starting point for allocations in the Phasing-out regions was the per capita allocation for 2006, i.e. the final year of the current spending period. The allocation for 2007 was set at 80 percent of the 2006 allocation and declines in a linear fashion to reach the national average per capita allocation for RCE regions in 2013. If applicable, an allocation of €600 per annum was made per unemployed person in excess of the Convergence region average.

#### (iii) Cohesion Fund

There were two elements to the allocation of the Cohesion Fund, the first of which applied to all eligible Member States and the second only to the EU10 Member States.

The first phase involved the distribution of a 'theoretical financial envelope' obtained by multiplying average aid intensity of €44.7 per head per annum by the eligible population.<sup>18</sup>

<sup>18</sup> The Commission had proposed that the same aid intensity should apply in 2007-13 as in 2004-06.

This sum was distributed on the basis of a key which took account of Member State shares of population and surface area, adjusted by national GNI to favour the poorer Member States. For Greece and Portugal, the Cohesion Fund allocation was the outcome of this method.

For the EU10 Member States, there was a second stage which involved adjusting the Cohesion Fund allocation so that it represented one-third of the Cohesion policy allocation over the 2007-13 period.

As noted earlier, Spain had ceased to qualify for the Cohesion Fund for 2007-13, but it successfully negotiated separate transitional arrangements.

#### *4.1.2 Regional Competitiveness & Employment objective*

##### *(i) Phasing-in regions*

The method for the Phasing-in regions is similar to the statistical effect regions, but less generous. The starting point was the per capita allocation for 2006. The allocation for 2007 was set at 75 percent of the 2006 allocation and declines in a linear fashion to reach the national average per capita allocation for RCE regions in 2011. If applicable, an allocation of €600 per annum was made per unemployed person in excess of the Convergence region average.

##### *(ii) Regional Competitiveness & Employment regions*

The budget for RCE regions was allocated on the basis of a distribution key that took account of a number of criteria and weighted them as illustrated in Box 2.

#### **Box 2: Calculation of distribution key for C&E regions**

1. Calculate regional key based on following criteria and weightings:

Population	0.5
Number of unemployed	0.2
Jobs needed to reach 70% employment	0.15
Number of employed with low education	0.10
Low population density	0.05

2. Adjust share by +/-5 percent according whether regional GDP per head is above or below that for the group.

3. Sum regional shares for each Member State. Adjust to ensure that share for 2007-13 is at least 75 percent of the combined share of Objective 2 and 3 funding in 2006.

#### *4.1.3 Territorial Cooperation objective*

For the cross-border component of Territorial Cooperation, resources were allocated according to Member State shares of the total eligible population. For the transnational



component, allocations were made on the basis of the national population as a share of the total.

#### 4.1.4 Absorption cap

For many of the EU10 Member States, a crucial feature of the methodology was the imposition of an annual limit on transfers expressed as a percentage of projected GDP for that year. Initially the cap had been set at four percent and restricted to the EU10 Member States. However, in the course of the negotiations, the cap was generalised and rendered progressive so that the poorer the Member State, the higher could be the Cohesion policy allocations as a proportion of GDP. At the same time, however, the limit was reduced to below four percent in all cases; moreover, as Table 14 shows, the system of limits was not meaningfully generalised, as the cap only appears to ‘bite’ in the case of the poorest countries.

Table 14: Absorption cap

	GNI(PPS) per head	Cap	Allocation affected?	Estimated reduction due to capping (%)
Latvia	39.5	3.7893	Yes	63
Lithuania	42.4	3.7135	Yes	59
Estonia	44.4	3.7135	Yes	48
Poland	45.5	3.7135	Yes	59
Slovak Republic	51.1	3.6188	Yes	48
Hungary	55.7	3.5240	Yes	24
Czech Republic	64.9	3.4293	Yes	13
Malta	73.5	3.2398	No	
Portugal	75.2	3.1498	No	
Slovenia	75.7	3.1498	No	
Greece	77.9	3.1498	No	
Cyprus	82.5	3.0598	No	
Spain	94.1	2.8798	No	
Germany	108.7	2.6098	No	
Italy	108.7	2.6098	No	
Ireland	110.8	2.5198	No	
Finland	113.6	2.5198	No	
France	114.0	2.5198	No	
Sweden	115.6	2.4298	No	
United Kingdom	119.6	2.4298	No	
Belgium	120.2	2.3398	No	
Austria	121.1	2.3398	No	
Netherlands	121.5	2.3398	No	
Denmark	122.9	2.3398	No	
Luxembourg	195.3	0.9898	No	

Note: This table should be treated with *considerable* caution because neither the growth rates on which the GDP forecasts were based (the previous year’s estimates were used), nor the details of the methodology were made public

Sources: Table 8, General Regulation Annex II, paragraph 7 and own calculations from Eurostat data and Multiannual Financial Framework 2007-2013, Fiche No. 1b.

### Box 3: Additional provisions

1. Transitional arrangements for Member States losing eligibility for the Cohesion Fund (Spain) - €3250 million.
2. Absorption cap raised by four percent from 2007 to 2009 (Poland).
3. Where Phasing-out regions cover more than one third of regions eligible for Objective 1 in 2006 (Germany, Greece, Austria), aid intensity is higher than the standard rate - 80 percent of 2006 levels in 2007, falling to 50 percent in 2013.
4. For Phasing-out or Phasing-in regions *not* eligible for Objective 1 in 2006 (Belgium, Germany, Cyprus, UK), the starting point is 90 percent of the theoretical allocation under the Berlin formula, on the basis of a hypothetical GDP per head of 75 percent of the EU15 average.
5. Notwithstanding the absorption cap, the five poorest regions in Poland are allocated an additional €107 per head.
6. Notwithstanding the absorption cap, Közép-Magyarország (Hungary) is allocated an addition €140 million and for regulatory purposes treated as a Phasing-out (rather than Phasing-in) region.
7. Notwithstanding the absorption cap, Prague (Czech Republic) is allocated an additional €200 million.
8. Cyprus is treated as a Phasing-in region, in spite of not being eligible for Objective 1 in 2004-6.
9. Itä-Suomi (Finland) and Madeira (Portugal) have Phasing-in status, but benefit from the financial arrangements of Phasing-out regions.
10. Canaries (Spain) has an additional allocation of €100 million.
11. The Outermost Regions (France, Portugal, Spain) and the sparsely-populated regions (Finland, Sweden) benefit from additional funding of €35 per head per annum.
12. Aid intensity under the cross-border strand of Territorial Cooperation is raised by 50 percent for regions along borders between the EU15 and EU12 (Germany, Austria, Italy, Hungary, Czech Republic, Poland, Slovenia, Slovakia) and between the EU25 and AC2 (Greece, Hungary).
13. The PEACE programme (UK and Ireland) is allocated €200 million.
14. Sweden is allocated an additional €150 million under the RCE objective.
15. Notwithstanding the absorption cap, Estonia, Latvia and Lithuania are allocated an additional €35 per head per annum.
16. Austria and Germany are allocated an additional €150 and €75 respectively for RCE regions bordering EU10 Member States.
17. Spain is allocated an additional €2 billion for research development and innovation.
18. Ceuta and Melilla (Spain) are allocated an additional €50 million.
19. Italy is allocated an additional €1.4 billion.
20. France is allocated an additional €100 million in recognition of the particular circumstances of Corsica and French Hainaut.
21. An additional €225 million is allocated to the RCE and Phasing-out regions in Germany.

For those countries where capping does apply, it appears to be significant; in broad terms, the poorer the country the greater the reduction owing to capping. This largely reflects the somewhat contradictory interaction of the Berlin methodology (which gives higher allocations to the poorest regions and countries) with the capping mechanism (which limits transfers as a proportion of GDP - obviously the lower the GDP, the lower the level at which this bites). Overall, capping may have reduced EU25 Cohesion policy commitments by around a third.

#### ***4.1.5 Additional provisions***

Also important, the negotiations of the EU budget resulted in numerous exceptions to the basic methodologies outlined above and in additional allocations being made.<sup>19</sup> As noted earlier in Section 2, these were added to, and embellished, in each negotiating box under the Luxembourg and UK Presidencies, which both used these provisions in attempts to broker a deal.<sup>20</sup> The key provisions are listed in Box 3. This shows that almost every Member State (Denmark and the Netherlands are the exceptions) benefits from some special treatment above and beyond the standard allocation mechanisms described earlier.<sup>21</sup> Sometimes the additional sums involved are little more than symbolic, recognising special circumstances, but some are significant: in Spain, for example, they total over €5.5 billion, exceeding the *total* allocations to some countries.

### **4.2 Financial outcomes**

The financial allocations are the outcome of the interplay of the allocation formulae, precedent and the negotiation process, with different elements carrying different weights for different countries and objectives. The resulting indicative allocations by Member State and by objective were published by the Commission in June 2006 and are reproduced in Table 15.

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<sup>19</sup> See Annex II the General Regulation, paragraphs 6(c), 11 to 30.

<sup>20</sup> For details of the process, see Bachtler J and Wishlade F (2005) *op cit*. For a more detailed discussion of the negotiations, see Yuill D, Mendez C and Wishlade F (2006) *EU Cohesion policy 2007-13 & the implications for Spain: Who gets what, when and how?* European Policy Research Paper 59, European Policies Research Centre, University of Strathclyde, Glasgow.

<sup>21</sup> It is also worth noting that, in addition to these provisions on the expenditure side of the budget, some countries (including the Netherlands) also benefited from significant special provisions on the revenue side of the budget.

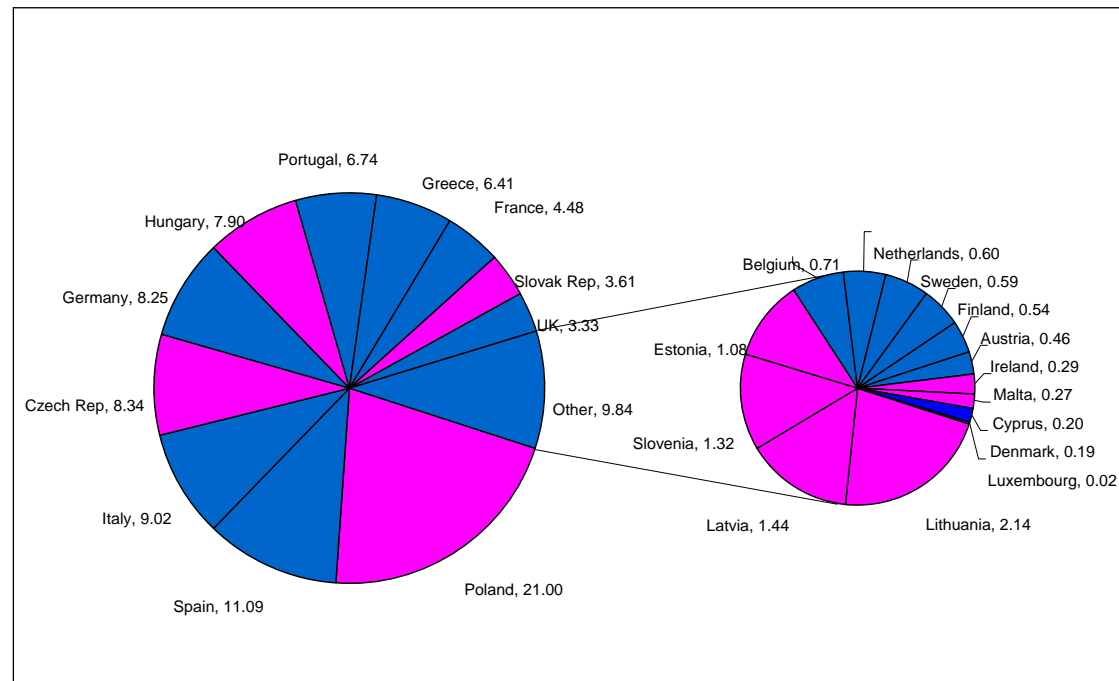
Table 15: Indicative financial allocations, 2007-13 (€ millions, 2004 prices)

	Convergence regions	Cohesion Fund	Phasing-out regions	Phasing-in regions	RCE regions	Terr. Coop	Total
Belgium	-	-	579	-	1268	173	2020
Czech Rep	15149	7830	-	-	373	346	23698
Denmark	-	-	-	-	453	92	545
Germany	10553	-	3770	-	8370	756	23449
Estonia	1992	1019	-	-	-	47	3058
Greece	8379	3289	5779	584	-	186	18217
Spain	18727	3250	1434	4495	3133	497	31536
France	2838	-	-	-	9123	775	12736
Ireland	-	-	-	420	261	134	815
Italy	18867	-	388	879	4761	752	25647
Cyprus	-	193	-	363	-	24	580
Latvia	2647	1363	-	-	-	80	4090
Lithuania	3965	2034	-	-	-	97	6096
Luxembourg	-	-	-	-	45	13	58
Hungary	12654	7589	-	1865	-	343	22451
Malta	495	252	-	-	-	14	761
Netherlands	-	-	-	-	1477	220	1697
Austria	-	-	159	-	914	228	1301
Poland	39486	19562	-	-	-	650	59698
Portugal	15240	2722	254	407	436	88	19147
Slovenia	2407	1239	-	-	-	93	3739
Slovak Rep	6230	3433	-	-	399	202	10264
Finland	-	-	-	491	935	107	1533
Sweden	-	-	-	-	1446	236	1682
UK	2436	-	158	883	5349	642	9468
Unallocated	-	-	-	-	-	392	
Bulgaria	3873	2015	-	-	-	159	6047
Romania	11143	5769	-	-	-	404	17316
<i>EU25</i>	<i>162065</i>	<i>53775</i>	<i>12521</i>	<i>10387</i>	<i>38743</i>	<i>7187</i>	<i>284286</i>
<i>EU15</i>	<i>77040</i>	<i>9261</i>	<i>12521</i>	<i>8159</i>	<i>37971</i>	<i>4899</i>	<i>149851</i>
<i>EU10</i>	<i>85025</i>	<i>44514</i>	<i>0</i>	<i>2228</i>	<i>772</i>	<i>1896</i>	<i>134435</i>
<i>EU27</i>	<i>177081</i>	<i>61559</i>	<i>12521</i>	<i>10387</i>	<i>38743</i>	<i>7750</i>	<i>308041</i>

Source: European Commission (2006) *The Growth and Jobs Strategy and the Reform of EU Cohesion policy: Fourth progress report on cohesion*, COM(2006)281, 12.6.2006.

Over the planning period as a whole, around 52.7 percent of the EU25 Cohesion policy budget is accounted for by the EU15. However, year-on-year, the balance tips towards the EU10 Member States partly because the capping mechanism, which only affects certain EU10 Member States, allows for rising allocations in line with GDP growth, and partly because the majority of transitional regions, for which allocations are tapered, are in the EU15.

Figure 3: National shares of Cohesion policy funding, 2007-13 (% of EU25)

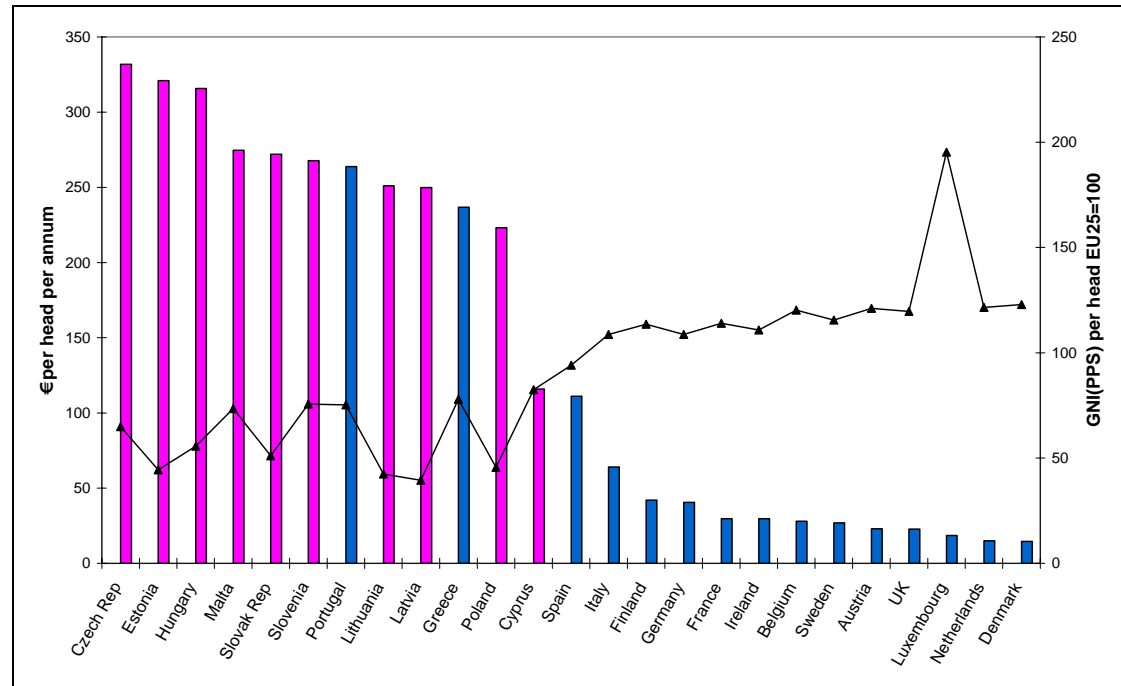


Source: Calculated from figures in European Commission (2006) *The Growth and Jobs Strategy and the Reform of EU Cohesion Policy: Fourth progress report on cohesion*, COM(2006)281, 12.6.2006.

As Figure 3 shows, Poland is by far the single largest recipient of Cohesion policy funds over the 2007-13 period. Moreover, just four countries - Poland, Spain, Italy and the Czech Republic - account for around half of total commitment appropriations. Eleven out of 25 Member States share over 90 percent of the total, with the remaining 10 percent or so distributed among 14 Member States. In practice, however, this is *partly* a function of the size of the Member States, as well as levels of prosperity.

A somewhat different picture emerges from Figure 4, which shows the allocations in terms of euro per annum per head of national population. In the Czech Republic, Estonia and Hungary, annual allocations exceed €300 per capita, with all of the EU10 Member States except Cyprus set to receive in excess of €200 per head per annum. This allocation largely reflects the extent of eligibility for the Convergence region objective and the associated transitional arrangements (Phasing-out and Phasing-in) to which most of the Cohesion policy budget is allocated. However, it is interesting to note that, even where Member States are wholly eligible for Convergence, Phasing-out or Phasing-in status (and this applies to all those receiving at least €200 per head per year, except Portugal), the relationship between aid intensity and national prosperity is at best indirect. For example, Estonia appears to fare considerably better than Latvia and Lithuania; and Cyprus fares considerably worse than Greece, Portugal or Slovenia. Of key importance appears to be the impact of capping - Table 14 suggested that those most affected by capping were Latvia, Lithuania and Poland; this would seem to be reflected in aid intensities at the national level. Similarly, Hungary and the Czech Republic, where the impact appeared to be less, receive considerably higher allocations, in spite of higher levels of prosperity.

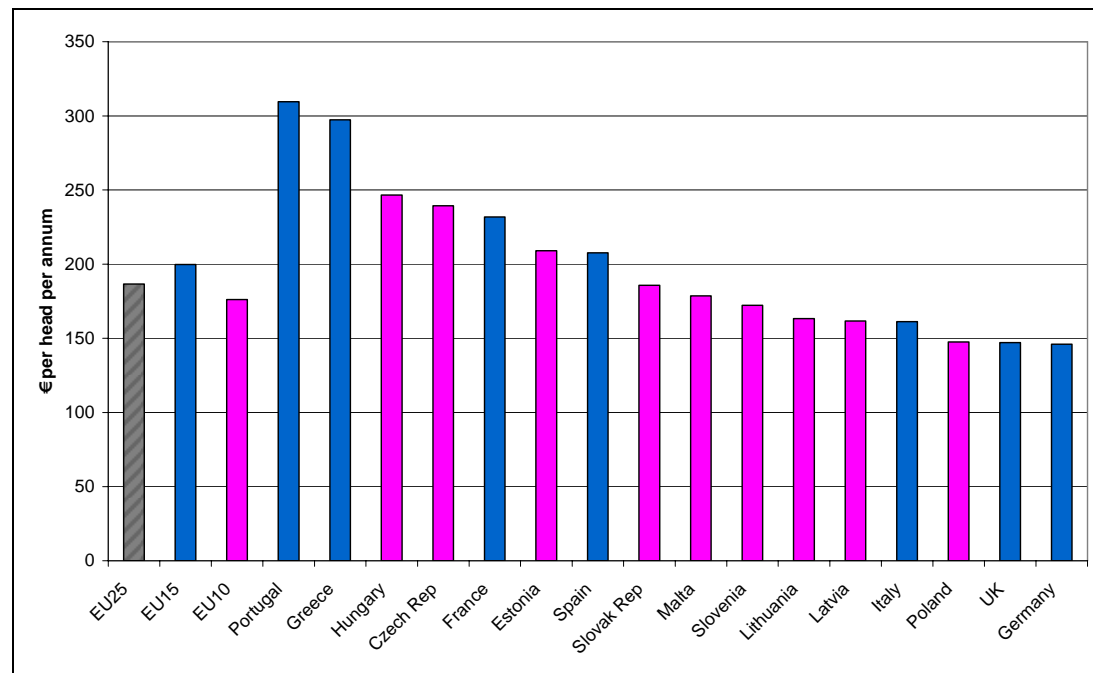
Figure 4: € per head per annum (2004 prices) and GNI(PPS) per head (EU25=100)



Source: Multiannual Financial Framework 2007-2013, Fiche No. 57 rev 2, calculations from Eurostat data and European Commission (2006) *The Growth and Jobs Strategy and the Reform of EU Cohesion Policy: Fourth progress report on cohesion*, COM(2006)281, 12.6.2006.

At the *regional level*, another perspective emerges. Figure 5 shows aid per head per annum in the Convergence regions, taking account only of the eligible population. This shows that aid intensity in the EU15 is actually *higher* than in the EU10 Member States, in spite of the fact that the EU10 Convergence regions are poorer. This reflects the point made earlier that the Berlin formula can be considered only really to apply to the EU15; for the EU10 Member States, allocations were primarily determined by capping and the principle that a third of the Cohesion policy allocation should come from the Cohesion Fund. Nevertheless, it is striking that while the allocations to Portugal and Greece are around €300 per head per annum, the allocation for Poland is around half that level, and comparable to the allocations to the UK and Germany.

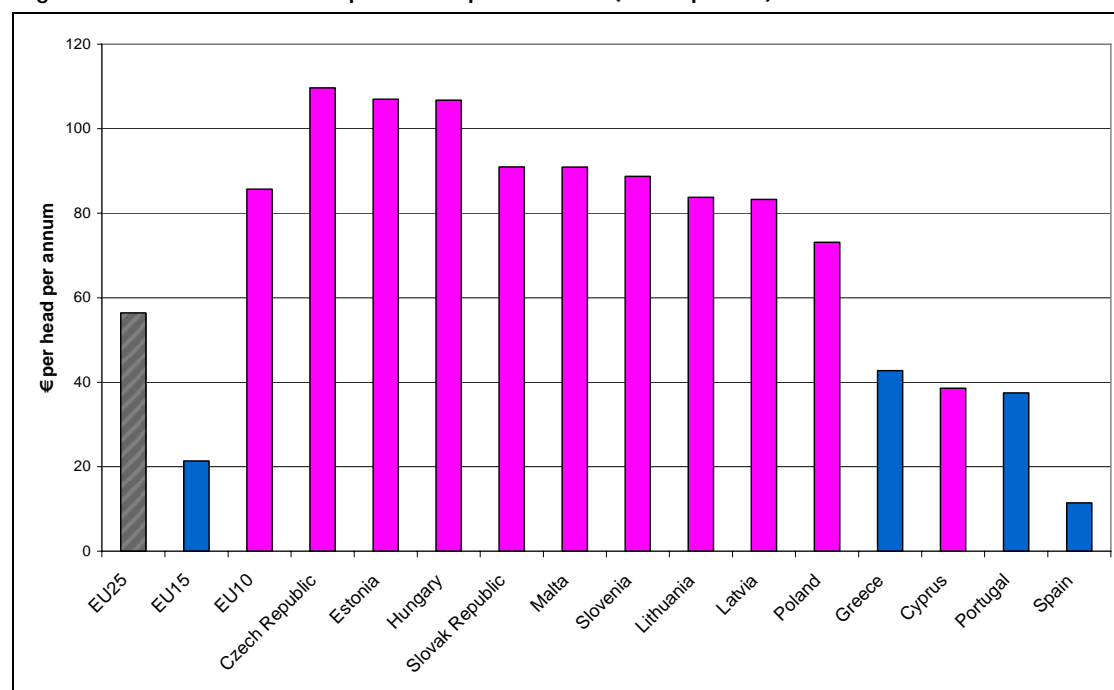
Figure 5: Convergence regions € per head per annum (2004 prices)



Source: Calculations from Eurostat data and European Commission (2006) *The Growth and Jobs Strategy and the Reform of EU Cohesion Policy: Fourth progress report on cohesion*, COM(2006)281, 12.6.2006.

Reflecting the one-third principle for the Cohesion Fund in the EU10 Member States, the balance is partly redressed by the allocations under the Cohesion Fund. These are illustrated in Figure 6 which shows that, on average, the Cohesion Fund per capita allocations in the EU15 are about a quarter of those to the EU10 Member States. However, this figure is distorted by the transitional arrangements for Spain; setting these aside (i.e. taking account only of Greece and Portugal, which are fully eligible), the EU15 average is €40.2 as against €85.6 in the EU10 Member States. Nevertheless, there are considerable variations within the average for the EU10. In Cyprus, for example, the aid intensity is around one-third of that for the Czech Republic and comparable to the figures for Greece and Portugal. This is partly because GNI per head in Cyprus is the highest among the EU10 Member States, but also because Cyprus is treated as a Phasing-in region (whereas most of the EU10 Member States are entirely covered by the Convergence objective, with correspondingly higher allocations); as a result, the principle that the Cohesion Fund should account for a third of the total does not greatly benefit Cyprus since the overall allocation is quite modest.

Figure 6: Cohesion Fund € per head per annum (2004 prices)



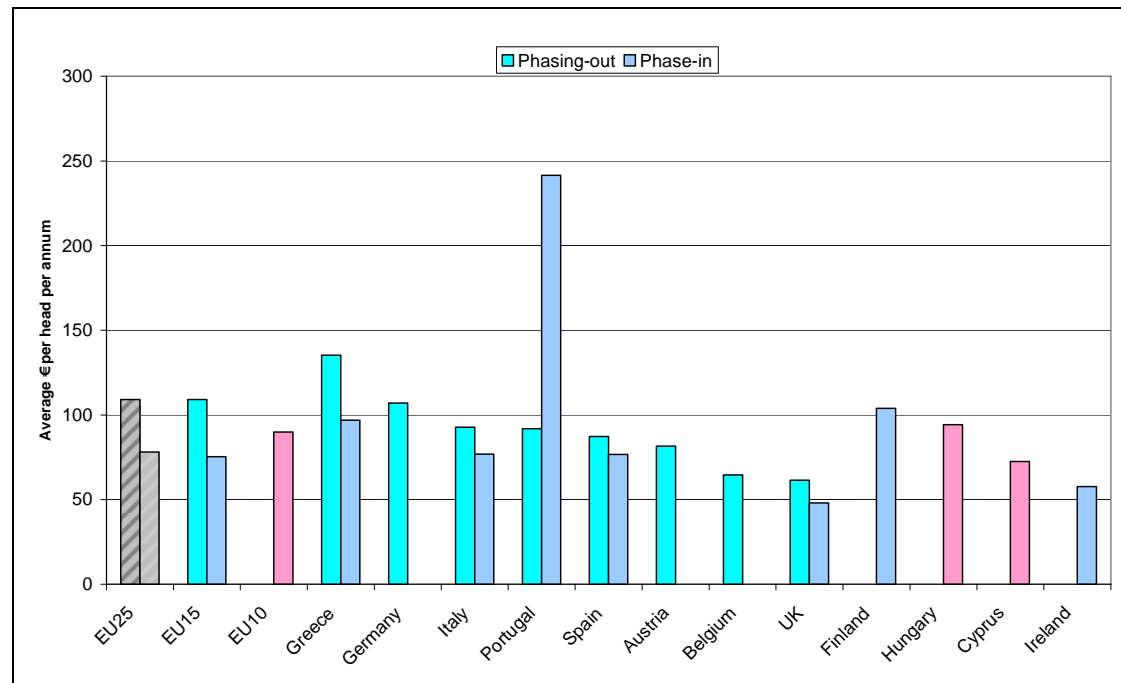
Source: Calculations from Eurostat data and European Commission (2006) *The Growth and Jobs Strategy and the Reform of EU Cohesion Policy: Fourth progress report on cohesion*, COM(2006)281, 12.6.2006.

With the exception of Hungary and Cyprus, the transitional arrangements for regions with Objective 1 status in 2000-06 (2004-06) only apply to the EU15. The Budapest region is over the threshold for Convergence status (which it had in 2004-06); and Cyprus is treated as a Phasing-in region since a review of the statistical data showed that it *should* have had Objective 1 status in the previous period.

For the most part, the transitional arrangements are less generous than those for full Convergence regions. However, in the case of Portugal, aid intensity for Phasing-in exceeds that in many Convergence regions. This is partly because the region concerned (Madeira) qualifies for the additional allocation made to the Outermost regions, and partly because the starting point for Phasing-in funding is the 2006 per capita allocation; for Portugal, aid levels in 2000-06 were very high. In Greece too, the aid intensity for Phasing-out regions is comparatively high (reflecting high rates in 2000-06 and the special arrangements for countries where the Phasing-out regions represent more than a third of Objective 1 coverage), averaging €135 over the period. This compares to around €147 in Convergence regions in Poland, for example; moreover, at the start of the period, aid intensity in the Greek Phasing-out regions would actually be *higher* than in Poland.



Figure 7: Aid intensity in transitional regions (€ per head per annum, 2004 prices)

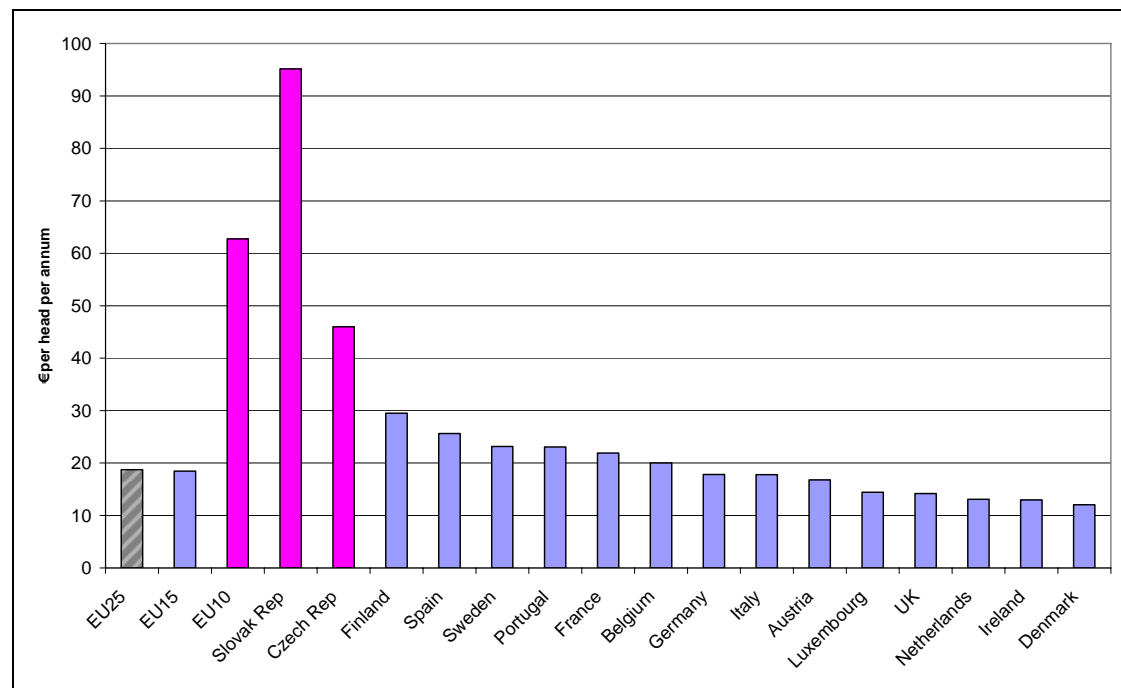


Note: Allocations are averaged over 2007-13 here, whereas in practice they will be tapered over the funding period.

Source: Calculations from Eurostat data and European Commission (2006) *The Growth and Jobs Strategy and the Reform of EU Cohesion Policy: Fourth progress report on cohesion*, COM(2006)281, 12.6.2006.

In the Regional Competitiveness & Employment regions, aid intensity is considerably more modest than elsewhere, largely reflecting the fact that RCE status applies to all regions other than those with Convergence, Phasing-out or Phasing-in status. Across the EU25, RCE funding averages around €18.7 per head per year, with actual allocations ranging from €12 in Denmark to over €95 in the Slovak Republic. The EU10 Member States aside, differences in aid levels among the EU15 are less marked. Finland, Sweden, Spain and Portugal benefit from higher rates, mainly owing to the impact of low population density in the case of the Nordic countries, and to the effects of high unemployment and low educational attainment among employees in the cases of Spain and Portugal.

Figure 8: Aid intensity in RCE regions (€ per head per annum, 2004 prices)



Source: Calculations from Eurostat data and European Commission (2006) *The Growth and Jobs Strategy and the Reform of EU Cohesion Policy: Fourth progress report on cohesion*, COM(2006)281, 12.6.2006.

### 4.3 Comparisons between 2000-06 (2004-06) and 2007-2013

Finally, it is worth making some comparisons between the new funding period and the arrangements in place up to 2006. Comparisons are not straightforward because the EU10 Member States only qualified for EU Cohesion policy from 2004. Moreover, as described, the overall architecture of policy has changed. Nevertheless, a number of key points can be made. In all cases, figures are given in 2004 prices to facilitate comparison.

Overall, the Cohesion policy budget rises from €235 billion for the EU15 in 2000-06 to €308 billion for the EU27 for 2007-13. For the EU15, the budget *falls* from €235 billion for 2000-06 to €150 billion for 2007-13. Among the EU15, Belgium is alone in securing a (very) modest increase in Cohesion policy funding; elsewhere, there are major cutbacks (see Figure 9). In absolute terms, the single biggest 'loser' is Spain, where funding falls by over €28 billion between the two periods. However, in Ireland, the reduction amounts to almost 80 percent of the 2000-06 allocation.

Figure 9: 2000-06 and 2007-13 commitment appropriations (2004 prices), EU15

	<b>Change (€mill)</b>	<b>Change %</b>
<b>Belgium</b>	0.6	0.03
<b>Denmark</b>	-277.5	-33.7
<b>Germany</b>	-7637.5	-24.6
<b>Greece</b>	-8313.6	-31.3
<b>Spain</b>	-28392.5	-47.4
<b>France</b>	-3405.7	-21.1
<b>Ireland</b>	-3178.4	-79.6
<b>Italy</b>	-5801.6	-18.5
<b>Luxembourg</b>	-28.1	-32.7
<b>Netherlands</b>	-1212.3	-41.7
<b>Austria</b>	-325.3	-20.0
<b>Portugal</b>	-5250.6	-21.5
<b>Finland</b>	-494.1	-24.4
<b>Sweden</b>	-424.6	-20.2
<b>United Kingdom</b>	-7794.3	-45.2
<b>EU15</b>	-85166.2	-36.2

Source: Own calculations from Rapid Press Release IP/99/442 and Table 15, using Commission standard deflators.

The position is largely reversed in the EU10 (see Figure 10). Overall, the EU10 see an increase over 113 percent in funding for 2007-13 compared with the previous period. However, as in the EU15, the changes are not evenly distributed. Whilst the Czech Republic, Malta and Slovenia see increases of over 200 percent, in the Baltic states and Poland (where capping bites hard) the increases are more modest.

Figure 10: 2000-06 and 2007-13 commitment appropriations (2004 prices), EU10

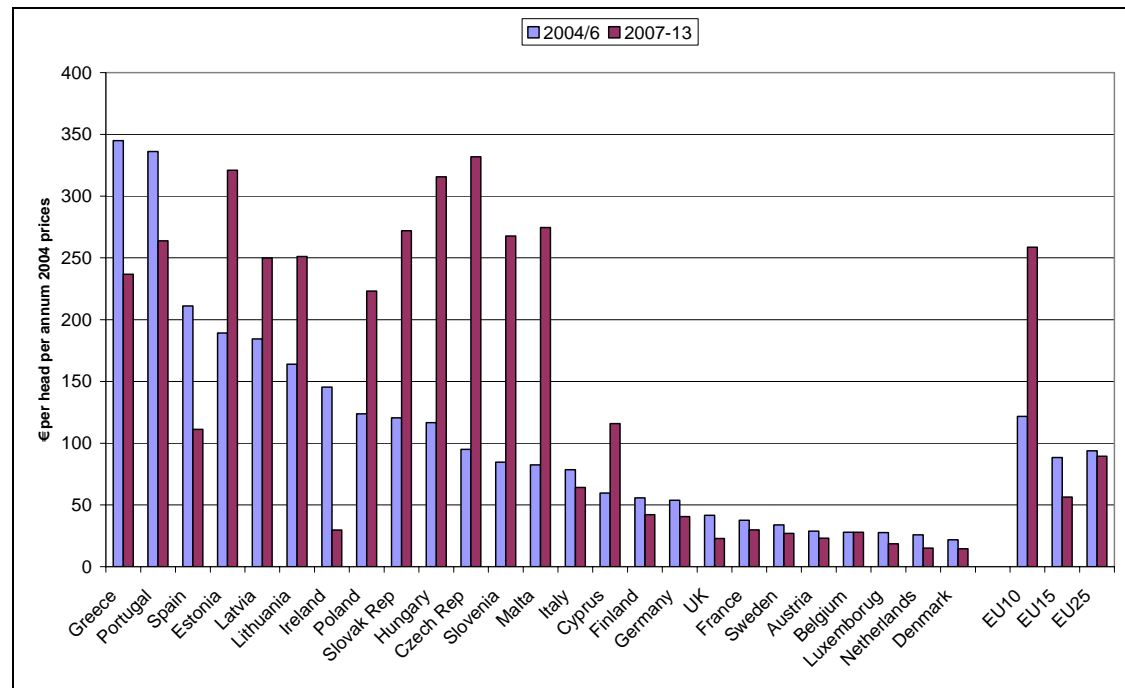
	<b>Change (€mill)</b>	<b>Change %</b>
<b>Czech Republic</b>	16922.5	249.8
<b>Estonia</b>	1255.6	69.7
<b>Cyprus</b>	281.9	94.6
<b>Latvia</b>	1070.5	35.5
<b>Lithuania</b>	2114.3	53.1
<b>Hungary</b>	14159.9	170.8
<b>Malta</b>	532.4	232.9
<b>Poland</b>	26598.4	80.4
<b>Slovenia</b>	2556.8	216.3
<b>Slovak Republic</b>	5720.4	125.9
<b>EU10</b>	71212.8	112.6

Note: In order to effect a similar comparison as in Figure 9, the 2004-6 allocations have been uprated to apply over the whole period 2000-6.

Source: Own calculations from Third Report on Economic and Social Cohesion and Table 15, using Commission standard deflators.

The shifts illustrated in Figure 9 and Figure 10 are reflected in the changes in per capita annual allocations shown in Figure 11. With the exception of Belgium where the position is essentially unchanged, every EU15 Member State sees a reduction in funding expressed in terms of euro per head of national population, while all the EU10 Member States see a substantial increase.

Figure 11: Aid per head per annum 2000-06 (2004-06) and 2007-13, national population (2004 prices)



Source: Own calculations from Third Report on Economic and Social Cohesion and Table 15, using Commission standard deflators.

For the EU25 as a whole, there is a modest reduction in annual allocations, from around €94 per head per annum in 2000-06 (2004-06) to €89 per head per annum in 2007-13.

## 5. THE IMPLICATIONS FOR COHESION POLICY - THE REGIONAL ALLOCATION OF FUNDING

### 5.1 Regional allocations

While the European Council budget agreement provided detailed criteria for the geographical allocation of funding under the Convergence objective and regions governed by transitional arrangements, the entire remaining territory of the Community was deemed eligible for the Regional Competitiveness & Employment (RCE) objective. As noted in the previous section, the share of each Member State for RCE funding was determined at EU level by a weighted basket of demographic, labour market and educational criteria, adjusted according to relative regional prosperity. However, the share of regions within individual countries was left to Member States to decide.

The Commission was keen to influence the decisions made by Member States on the distribution of RCE funding. Within a month of the Council agreement, the Director-General of DG REGIO, Graham Meadows wrote to each Member State with “*indicative financial allocation....for the programming of cohesion policy for 2007-2013*”.<sup>22</sup> The regional allocations for Convergence, Phasing-out regions and Phasing-in regions resulted directly from the Council decisions, but the regional allocations for the regionally allocated elements of the RCE objective were determined by a Commission method.

#### Box 4: Commission method for regional allocations of the RCE objective

1. Four of the criteria under point 35 of the Council agreement were used: total population; number of unemployed people in NUTS III regions with an unemployment rate above the group average; population density; and regional GDP. The other two criteria (employment rate and employed people with a low education level) were deemed more relevant for co-financing policies aimed at individuals rather than regions.
2. Country-specific weighting factors were applied to the four criteria.
3. In order to ensure a smooth transition from the current Objective 2 to the new RCE objective, the indicative regional allocations took into account the regional breakdown of the current period by calculating the arithmetic average between the current shares and the new ones and by ensuring that no region would lose/gain more than 25 percent of its current share.
4. The regional breakdown was provided in percentage terms, and was presented as being provisional, to be finalised once the Inter-Institutional Agreement and new Regulations were adopted.

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<sup>22</sup> Letter from the Director-General of the DG Regional Policy, Graham Meadows, to the Permanent Representatives of the EU Member States, 23.1.2006.

The Commission letter stressed that “*it is the responsibility of each Member State to determine the final allocations in partnership with the Commission - applying the necessary degree of flexibility*”. However, the purpose of the letter was clearly to influence the regional allocation decisions being made by national governments, in particular to ensure a continued focus of RCE funding on the types of area being supported currently under Objective 2.

While some Member States welcomed the guidance from the Commission, the reaction from others was hostile. The most fundamental objection was that the Commission was involving itself in decisions which, under the Council agreement, were the responsibility of Member States. For some countries, the Commission methodology ran counter to the approach being planned by the Member State, in particular where the national government was seeking to shift funding away from traditional ‘problem regions’. Questions were also raised about the lack of clarity concerning the methodological steps outlined in the Commission letter, with respect to the choice of criteria, the application of ‘country-specific weighting factors’ and the application of a ‘safety net’ to limit the loss of receipts by existing Objective 2 regions.

Despite these objections, the Commission letter effectively set out a benchmark for negotiations with the Member States. As the following summaries of selected Member State regional allocations show<sup>23</sup>, some countries such as France utilised the Commission criteria as part of the allocation method; others used a variant on the criteria (e.g. Germany); and others applied a completely different geographical framework (e.g. the Netherlands). At the time of writing, it is not clear how much influence the Commission is having on regional allocation methods. However, there is some evidence that, where national approaches depart significantly from the Commission method, there have been some difficult negotiations with the Commission.

## 5.2 Austria

Projected EU Cohesion policy receipts for Austria involve a reduction in mainstream EU funding of about 30 percent. The potential impact of the reduction has been part-compensated by the ‘special provision’ of €150 million of additional funding for regions bordering the EU10 Member States, which reduces the loss to c. 20 percent. The overall reduction is reflected in the division of ERDF for 2007-13 among the *Länder*, where most of the states lose 30-34 percent of current receipts but retain almost the same share of the national total as in 2000-06 (see Table 16). One exception is Burgenland, where the reduction is over 40 percent (due to the *Land* moving from Objective 1 status to a Phasing-in region). The other is Vienna, which more than doubles its share of the national total as part of a deal to exclude it from eligibility from the national regional aid map despite having high unemployment rates.

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<sup>23</sup> The countries covered are the sponsors of the EoRPA Consortium that have funded the research for this paper. Poland is therefore also included although not a recipient of Structural and Cohesion Funds under the RCE objective.

Table 16: Regional envelopes for EDRF in Austria, 2000-06 and 2007-13

Region	Total 2000-06 <sup>1</sup>		Total 2007-13 <sup>2</sup>	
	€ mill	% of total	€ mill	% of total
Burgenland	181.52	20.5	105.9	17.7
Kärnten	84.99	9.6	59.84	10.0
Niederösterreich	184.97	20.9	129.34	21.6
Oberösterreich	127.16	14.3	84.85	14.2
Salzburg	18.53	2.1	12.27	2.0
Steiermark	204.71	23.1	137.7	23.0
Tirol	46.65	5.3	30.88	5.2
Vorarlberg	23.7	2.7	15.68	2.6
Vienna	14.89	1.7	22.34	3.7
Total	887.12	100.0	598.8	100.0

Note: Expenditure figures are not directly comparable between 2000-06 and 2007-13 due to differences in prices.

Sources: (1) DG REGIO InfoREG database. (2) Data provided by the Federal Chancellery.

### 5.3 Finland

Finland is projected as experiencing a reduction in resources from the Structural Funds in 2007-13 of about one quarter. The regional allocation of future funding - according to the first draft of the National Strategic Reference Framework - is based on a division of Finland into five areas (NUTS II regions), each of which will have an ERDF Operational Programme (see Table 17). Two of the five regions (Eastern Finland, Åland Islands) are the same as the current programme areas, but the remaining three (Western, Northern, Southern) have changed boundaries, principally to bring the whole country within the programme areas.

The ESF OP will cover all of continental Finland (NUTS I) and will have four regional chapters for southern, western, eastern and northern Finland; the Åland Islands will have a separate ESF OP. This replaces the current set of three ESF programmes (Objective 1 ESF, Objective 2 ESF and national ESF). In the Northern, Western and Southern regions, there is a 50:50 split of ESF between national and regional levels, whereas the Eastern (Phasing-in) region will have the flexibility to decide the national/regional split itself.

The potential impact of loss of Objective 1 status for Eastern Finland (to become a Phasing-in region) and Northern Finland (RCE region) has been ameliorated by the provision of 'special funding' of €35 per head per year for the population of these two regions. Instead of a reduction in EU funding of c.48 percent and 36 percent respectively, Eastern Finland

will lose ‘only’ about one-fifth of its current receipts, while the allocation to Northern Finland will increase.

Table 17: Regional envelopes for Structural Funds in Finland, 2000-06 and 2007-13

Region	Total 2000-06 <sup>1</sup>		Total 2007-13	
	€ mill	% of total	€ mill	% of total
Eastern Finland	627	43.1	489	39.8
Northern Finland	321	22.1	361	29.4
Western Finland	284	19.5	190	15.5
Southern Finland	218	15.0	184	15.0
Åland Islands	5	0.3	5	0.4
<b>Total</b>	<b>1455</b>	<b>100.0</b>	<b>1229</b>	<b>100.0</b>

Notes: Expenditure figures are not directly comparable between 2000-06 and 2007-2013 due to differences in prices. (1) Figures are for the Objective 1 and 2 programmes. (2) Figures are for the regionalised ERDF and ESF allocations.

Sources: (1) DG REGIO Inforegio database. (2) Suomen kansallinen alue- ja rakennepoliittinen strategia 2007-2013 (Finnish National Strategic Reference Framework).

## 5.4 France

Cohesion policy funding in France is set to fall by about one-fifth overall. For the regional allocation of RCE funding, the French government applied the four criteria recommended by the Commission (i.e. population density, number of unemployed above the national average, GDP per head, regional envelopes for 2000-06). At the same time, it tried to avoid reducing the individual regional envelopes by more than 30 percent. It was also decided in September 2006 to anticipate an indicative envelope of almost €200 million for the future interregional programmes and the interregional OP sections (€116 million for mountainous areas and €83 million for river basins).

The regional allocation of ESF funding used two criteria: the employment situation based on five indicators (long-term unemployment, youth unemployment, total employment, gap between women and men, number of minimum wage beneficiaries); and the absorption capacity of Objective 3 funds between 2000 and 2005. In order to ameliorate the impact of funding losses, the government decided to limit reductions to a maximum of 40 percent (applicable to seven regions). Table 18 shows the projected regional funding envelopes for 2007-13 in comparison with the amounts allocated in the current period.

The balance between ERDF and ESF under RCE was decided by the CIACT. Due to the France-wide coverage of RCE, implying a tripling in the population eligible for funding, ERDF will receive 56 percent (i.e. €5.11 billion), and the remaining €3.98 billion will be allocated to the ESF.



Table 18: Regional envelopes for Structural Funds in France, 2000-06 and 2007-13

Region	Total 2000-06		Total 2007-13	
	€ mill	% of total	€ mill	% of total
Alsace	242.58	2.2	177.93	2.2
Aquitaine	659.36	6.0	507.3	6.2
Auvergne	387.46	3.5	260.37	3.2
Basse Normandie	368.41	3.3	244.03	3.0
Bourgogne	356.05	3.2	250.29	3.1
Bretagne	618.44	5.6	430.35	5.2
Centre	345.29	3.1	297.12	3.6
Champagne-Ardenne	300.99	2.7	238.6	2.9
Corse	167.63	1.5	148.68	1.8
Franche-Comté	283.57	2.6	187.47	2.3
Haute Normandie	486.81	4.4	319.89	3.9
Ile-de-France	757.96	6.9	601.95	7.3
Languedoc-Roussillon	461.24	4.2	382.25	4.7
Limousin	188.25	1.7	153.73	1.9
Lorraine	528.33	4.8	403.45	4.9
Midi-Pyrénées	615.82	5.6	511.37	6.2
Nord-Pas de Calais <sup>1</sup>	1,335.82	12.1	954.24	11.6
PACA	591.45	5.4	520.82	6.4
Pays-de-la-Loire	647.93	5.9	450.21	5.5
Picardie	416.38	3.8	291.91	3.6
Poitou-Charentes	416.56	3.8	281.09	3.4
Rhône-Alpes	835.47	7.6	615.58	7.5
<b>Total</b>	<b>11,011.78</b>	<b>100.0</b>	<b>8301</b>	<b>100.0</b>

Note: (1) The Nord-Pas de Calais region (NPdC) was originally allocated €926.61 million for 2007-2013. However, following regional concerns that the EU 'special allocation' of €70 million for French Hainaut (part of the NPdC region) had not been adequately reflected in the regional allocation, the regional envelope for NPdC was increased to €954.24 million

Source: Premier Ministre de la République Française (2006) *Projet du Cadre de Référence Stratégique Nationale*, version 4, p. 98

Regarding the Convergence objective, €2.831 billion will be available for the four overseas *départments* (including funds for Outermost regions) which still needs to be divided into programmes and between funds.

## 5.5 Germany

German receipts under EU Cohesion policy comprise €16.1 billion under the Convergence Objective, mainly for the new *Länder* but including an allocation (€0.8 million) for the Phasing-out region of Lüneberg in the old *Land* of Niedersachsen. In addition, 9.3 billion is allocated to the old *Länder* under the Regional Competitiveness and Employment Objective.

The Convergence allocations are subject to 'top sliced' funding for a federal programme for transport infrastructure (€1.5 billion), while both the Convergence and the RCE allocations

are ‘top-sliced’ for a federal ESF programme (€3.5 billion). The allocations between *Länder* are based on agreements between *Land* and federal levels. In particular, RCE funding is distributed on the basis of an ‘allocation key’, agreed between the federal government and the German *Länder*, which reflects specific regional conditions and departs slightly from the Commission’s own calculations (see Table 19). The budget allocations include an additional €75 million for Bayern for its border areas.

The allocation of RCE funding has been agreed by the *Länder* along the following lines:

- RCE funding will be divided the old *Länder*, on the basis of an agreement between the federal government and the *Länder*;
- the allocation of ERDF funding is based on the overall resources allocated to Germany under the RCE objective as well as the different levels of regional economic prosperity;
- the allocation of ESF among the *Länder* is based on a number of indicators relating to: unemployment; youth unemployment; unemployment among the over-55 age group; unemployment benefit recipients; employed workforce; gender gap; economic activity; employed workforce over 50; and migrants.

Table 19: Regional envelopes for Structural Funds in Germany, 2000-06 and 2007-13

Region	Total 2000-06 <sup>1</sup>		Total 2007-13 <sup>2</sup>	
	€ mill	% of total	€ mill	% of total
Convergence				
East Berlin	709.6	4.8	-	-
Mecklenburg-Vorp.	1888.6	12.9	1,669.9	12.6
Sachsen	4367.8	29.8	3,963.0	29.9
Sachsen-Anhalt	2737.6	18.7	2,575.7	19.5
Thüringen	2449	16.7	2,106.7	15.9
Brandenburg	2490.7	17.0	2,119.0	16.0
Niedersachsen	-	-	799.0	6.0
Total	14643.3	100.0	13,233.3	100.0
Reg. Comp. & Emp.				
Baden-Württemberg	102.1	2.7	409.4	5.6
Bayern	560.5	14.8	886.0	12.2
Berlin	401.3	10.6	1,211.6	16.7
Bremen	118	3.1	231.1	3.2
Hamburg	6.4	0.2	126.4	1.7
Hessen	191.6	5.1	450.2	6.2
Niedersachsen	766	20.2	875.9	12.1
Nordrhein-Westfalen	1012.8	26.8	1,967.4	27.1
Rheinland-Pfalz	178.2	4.7	331.4	4.6
Saarland	178.6	4.7	284.0	3.9
Schleswig-Holstein	269.6	7.1	473.9	6.5
Total				

3785.1

100.0

8,046.3

100.0

Notes: Expenditure figures are not directly comparable between 2000-06 and 2007-13 due to differences in prices.

Sources: (1) DG REGIO Inforegio database. (2) Federal Ministry of Economics and Technology Press release, *Genau 25,488,616,290 EURO EU-Mittel für deutsche Regionen*. 29.9.2006.

## 5.6 Italy

At time of writing, no decisions had been made on the regional allocation of funding among the regions in Italy. Discussions among the Regional Presidents are ongoing, and the outcome will also encompass the regional allocation of domestic co-financing.

## 5.7 Netherlands

The Netherlands is one of the few countries to use a new geographical framework for allocating resources in the 2007-2013 period. Whereas the 2000-06 EU funding was split between regional programmes and a cities programme, the 2007-13 ERDF resources are being wholly regionalised (north, east, west, south) (see Table 20). This places much less emphasis on support for the north of the country than in the 2000-06 period, and has been a source of dispute with the European Commission. The view of the Dutch government was that the allocation of RCE ERDF funding should be driven by national regional policy objectives and project priorities, as set out in the *Peaks in the Delta* policy memorandum.<sup>24</sup> This approach was validated by applying the RCE allocation criteria (in the December 2005 Council agreement) to the distribution of ERDF among the four Dutch regions. However, the Commission's view was that insufficient account was being taken of regional differences and advocated a stronger focus on the north. The Dutch government has taken into account some of the Commission's concerns by increasing the transitional assistance given to the north over the 2007-10 period, at the expense of the west and the south. Support for the north was also strengthened, following a parliamentary debate, by providing extra national funding for the region from other budgetary sources.

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<sup>24</sup> Ministry of Economic Affairs, *Peaks in the Delta: Regional Economic Perspective*, The Hague, July 2004.

Table 20: Regional envelopes for ERDF in the Netherlands, 2000-06 and 2007-13

Region	Total 2000-06 <sup>1</sup>		Total 2007-13 <sup>2</sup>	
	€ mill	% of total	€ mill	% of total
2000-06 allocation				
Objective 1 Flevoland	110.9	11.4	-	-
Objective 2	859.1	88.6	-	-
<i>North</i>	<i>356.6</i>	<i>36.7</i>	-	-
<i>East</i>	<i>148.0</i>	<i>15.3</i>	-	-
<i>South</i>	<i>146.3</i>	<i>15.1</i>	-	-
<i>Cities</i>	<i>208.2</i>	<i>21.5</i>	-	-
<b>Total</b>	<b>970.0</b>	<b>100.0</b>	-	-
2007-13 allocation				
North	-	-	152.4	20.7
East	-	-	145.6	19.8
West	-	-	274.3	37.2
South	-	-	164.2	22.3
<b>Total</b>	-	-	<b>736.5</b>	<b>100.0</b>

Notes: Expenditure figures are not comparable between 2000-06 and 2007-13 due to differences in programme boundaries and different prices.

Source: Ministry of Economic Affairs, Letter to the Dutch Parliament, 2.6.2006.

## 5.8 Poland

Poland is benefiting wholly from Cohesion policy under the Convergence objective, with the largest allocation of any Member State. The majority of the Polish allocation of EU Cohesion policy is being spent through sectoral programmes, in particular a very large OP Infrastructure and Environment which will account for over one-third of the total budget (€21.28 billion). However, 30.4 percent of funding will be allocated to the regions (*voivodships*), primarily through 16 Regional Programmes, supplemented by a special programme for the five eastern Polish regions.

The NDP 2004-2006 used a model according to which 80 percent of funds were distributed according to the level of population, 10 percent to the sub-regions with low GDP per head, and 10 percent to those which suffer high unemployment. Preparation of the NSRF 2007-2013 has been accompanied by debate over proposed allocation models for the 16 Regional Operational Programmes.<sup>25</sup> Initially, it was suggested that the funds for the regional programmes should be split amongst the regions according to a formula which would take into account their level of population only, given the special focus on the issues of low productivity and high unemployment in the new Programme for the Development of Eastern Regions. However, according to the current version of the NSRF 2007-2013, the present

<sup>25</sup> 'Największe pieniądze dla najuboższych regionów' *Rzeczpospolita*, 2.8.06

system is still favoured.<sup>26</sup> Using such criteria means that regions with a high level of structural unemployment and relatively low GDP per head will receive a higher allocation of funds (see Table 21). The issue of regional absorption capacity is given less priority.

With respect to the special OP for the development of Eastern Poland (the poorest five regions of the country), the funding of €2.162 billion comprises two elements. The main part (€1.280 billion) is ‘top-sliced’ from the Polish ERDF allocation and will be allocated among the five regions according to the following criteria: number of inhabitants (weighting of 20 percent); GDP per inhabitant (20 percent); population density (30 percent); and level of unemployment (30 percent). This is supplemented by the European Council ‘additional provision’ of €882 million, which will be allocated among the five regions on the basis of population alone.

Although most of the sectoral programmes do not have a spatial component in the allocation of funds, the OP Human Capital uses regional criteria for allocating the funding. For 97 percent of the programme, the regional allocations are based on the criteria of: number of inhabitants (weighting 40 percent); number of SMEs, including micro-enterprises (15 percent); number of registered unemployed (25 percent); number of people working in agriculture per 100 hectares, against the total number in the agricultural sector in the region (10 percent); and disparity in regional GDP per capita (10 percent).

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<sup>26</sup> There are no homogenous criteria for the allocation of other Sectoral Operational Programme (SOP) funds similar to those used for the IROP. Other SOP funds are distributed according to the scale of the particular sectoral problem in particular regions. No regional criteria for this allocation have been established.

Table 21: Regional envelopes for ERDF in Poland, 2000-06 and 2007-13

Region	Integrated ROP, 2004-06		Regional OPs, 2007-13		Special OP, 2007-13		Human Resources OP, 2007-13	
	€ mill	%	€ mill	%	€ mill	%	€ mill	%
Dolnośląskie	223.6	8.1	1213.2	7.6	-	-	362.0	6.8
Kujawsko-pomorskie	142	5.1	951	5.9	-	-	298.7	5.6
Lubelskie	201	7.3	1155.9	7.2	429.5	21.0	381.9	7.2
Lubuskie	82.5	3.0	439.1	2.7	-	-	133.4	2.5
Łódzkie.	157.1	5.7	863.8	5.4	-	-	376.0	7.1
Małopolskie.	185.2	6.7	1147.7	7.2	-	-	440.5	8.3
Mazowieckie	299.9	10.9	1831.5	11.5	-	-	676.6	12.8
Opolskie	76.8	2.8	427.2	2.7	-	-	130.0	2.5
Podkarpackie	192	7.0	1136.3	7.1	459.6	22.5	322.5	6.1
Podlaskie	110	4.0	636.2	4.0	371	18.1	194.2	3.7
Pomorskie	159.6	5.8	885.1	5.5	-	-	280.1	5.3
Śląskie	279.8	10.1	1570.4	9.8	-	-	550.5	10.4
Świętokrzyskie	133.1	4.8	725.8	4.5	358.2	17.5	236.8	4.5
Warmińsko-mazurskie	182	6.6	1036.6	6.5	428.6	20.9	233.3	4.4
Wielkopolskie	196	7.1	1130.3	7.1	-	-	452.0	8.5
Zachodnio-pomorskie	140	5.1	835.4	5.2	-	-	228.6	4.3
Total	2760.7	100.0	15985.5	100.0	2046.9	100.0	5297.2	100.0

Notes: Expenditure figures are not directly comparable between 2000-06 and 2007-13.

Source: *Narodow Strategiczne Ramy Odniesienia 2007-2013* (Polish National Strategic Reference framework), August 2006.

## 5.9 Sweden

Cohesion policy support in Sweden will decline by about one fifth in 2007-13, compared to 2000-06. With respect to regional allocations, significant changes to the geographical boundaries of the 2007-13 programmes are currently being considered, although the current reforms of the Swedish administrative system (expected to be completed in February 2007) mean that the situation is still in flux. The first draft of the NSRF, published at the end of June 2006, outlines only an indicative division of funding between the eight NUTS II operational programme areas (see Table 22). These represent a significant departure from the programme areas for 2000-06, with the exception of the proposed Övre Norrland area, which is identical to the current Objective 1 region of Norra Norrland. ESF will be administered through a single national programme, as in the current programme period.

Table 22: Regional envelopes for ERDF in Sweden, 2000-06 and 2007-13

Region	Total 2000-06 <sup>1</sup>		Total 2007-13 <sup>2</sup>	
	€ mill	% of total	€ mill	% of total
2000-2006 allocation				
Norra Norrland	260	29.7	-	-
Södra Skoglän	228	26.1	-	-
Öarna	27	3.1	-	-
Västra	120	13.7	-	-
Norra	165	18.9	-	-
Södra	74	8.5	-	-
Total	874	100.0	-	-
2007-2013 allocation				
Övre Norrland	-	-	209	26.0
Mellersta Norrland	-	-	152	18.9
Norra Mellansverige	-	-	168	20.9
Stockholm	-	-	32	4.0
Östra Mellansverige	-	-	70	8.7
Västsverige	-	-	55	6.8
Småland and öarna	-	-	58	7.2
Sydsverige	-	-	61	7.6
Total	-	-	805	100.0

Notes: Expenditure figures are not directly comparable between 2000-06 and 2007-13 due to differences in programme boundaries and different prices.

Source: (1) DG Regio Inforegio Database. (2) *En nationell strategi för regional konkurrenskraft och sysselsättning 2007-2013* (Swedish National Strategic Reference Framework), June 2006.

## 5.10 United Kingdom

At time of writing, no decisions had been made on the regional allocation of funding among the four nations of the UK or, within each of the nations, the distribution of funding to regions. However, the methodological approach to allocating regional funding is expected to be consistent across the nations. UK authorities are planning to use a transparent, formula-based methodology, using safety nets and ceilings to limit the impact of any changes in funding.





## 6. THE NEW REGULATIONS

The new Cohesion policy regulations were published in the *Official Journal* on 31 July 2006, two years after the Commission produced its initial proposals. The negotiations were pursued along two parallel tracks: the European Structural Funds regulations in the Council's Structural Actions Working Group (SAWG); and wider budgetary and financial matters through the Ad-Hoc Group on the Financial Perspectives (the Friends of the Presidency group). This section reviews the changes to the Structural and Cohesion Funds introduced by the new regulations.<sup>27</sup>

### 6.1 Objectives and general rules on assistance (Title I)

The objectives and general rules on assistance comprise five chapters which set out the Structural Funds' scope and definitions, objectives and missions, geographic eligibility, principles of assistance, and financial framework. Compared to the 2000-06 period, the main changes are fourfold. First, the proposals aim to provide for a clearer distribution of tasks between Member States and the Commission by defining the principles governing relations between them. Second, a more precise definition of the elements required for programme implementation has been provided to increase the level of legal security for the Member States. Third, the number of objectives has been reduced to three, increasing the geographical and thematic concentration of Cohesion policy. A final key change is the application of proportionality to the principle of additionality. Since issues relating to the financial framework and geographic eligibility have already been discussed previously in Sections 3 and 4, the focus below is on the main principles of assistance.

- **Complementarity, consistency, coordination and compliance (Article 9):** The article restates the principle that the Funds should complement national actions, but makes a new reference to the inclusion of actions at regional and local levels. More fundamentally, the article requires national actions - for the first time - to incorporate "*the priorities of the Community*" by targeting the promotion of competitiveness and job creation, which includes meeting the objectives of the Integrated Guidelines for Growth and Jobs.<sup>28</sup> To implement this obligation, the EU15 Member States will be required to ensure that 60 percent of expenditure for the Convergence objective, and 75 percent of expenditure for the Regional Competitiveness & Employment objective, is earmarked for certain

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<sup>27</sup> An analysis of the negotiation process, identifying the contentious issues and Member State positions, has previously been reported in: Bachtler J and Wishlade F (2004) *Searching for Consensus: The Debate on Reforming EU Cohesion Policy*, European Policy Research Paper No 55, European Policies Research Centre, University of Strathclyde, Glasgow; Bachtler J and Wishlade F (2005) *From Building Blocks to Negotiating Boxes: The Reform of EU Cohesion Policy*, European Policy Research Paper No 57, European Policies Research Centre, University of Strathclyde, Glasgow; and 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, No 59, European Policies Research Centre, University of Strathclyde, Glasgow. See [http://www.eprc.strath.ac.uk/eprc/publications\\_eprp.cfm](http://www.eprc.strath.ac.uk/eprc/publications_eprp.cfm) for all three papers.

<sup>28</sup> Council Decision 2005/600/EC of 12 July 2005 on Guidelines for the employment policies of the Member States, *Official Journal of the European Union*, L205, 6.8.2005, p. 21.

categories of expenditure (listed in an annex to the regulation). For the EU10 Member States, this condition will be voluntary. A final change is the application of the principle of coordination to the different Funds, the EAFRD, the EFF, the EIB and other existing interventions; indeed, coordination has now been incorporated within the title of the article.

- **Partnership (Article 11):** The article amends the definition of partnership from “*close consultation*” to “*close cooperation*”, which applies both to the relations between the Commission and the Member States, and the relationships between authorities and bodies within Member States. It also strengthens the partnership principle by broadening the list of partners to include urban authorities for the first time and by listing the “*appropriate*” partner bodies (representatives of civil society, environmental partners, non-governmental organisations, and bodies responsible for promoting equality between men and women). As previously, the article requires the partnership to cover the various stages of programme management - preparation, implementation (instead of ‘financing’ as previously), monitoring and evaluation of Operational Programmes - but makes a new reference to involving “*particularly the regions*”.
- **Proportionality (Article 13):** The proportionality principle is a new feature of the regulations, requiring the financial and administrative resources for implementing the Funds to be proportional to the size of the OP. The principle applies to the choice of indicators, evaluation requirements, management and control systems (elaborated further in Article 74) and reporting requirements. This widens considerably the areas to which proportionality applies, previously having been restricted to managing and control systems and financial corrections.<sup>29</sup>
- **Shared management (Article 14):** The regulation incorporates the principle of shared management, between the Member States and the Commission, for the management of the budget allocated to Structural and Cohesion Funds, as well as the application of sound financial management, as set out in the 2002 Financial Regulation<sup>30</sup> on the general budget.
- **Additionality (Article 15):** The regulation makes important changes to the additionality principle by restricting its verification to the Convergence objective. Other objectives are not mentioned, although the article retains the general principle that “*contributions from the Structural Funds shall not replace public or equivalent structural expenditure by a Member States*”.

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<sup>29</sup> In the current period, under Regulations 1260/1999 (Article 39), 438/2001 (Article 3) and 448/2001 (Article 4).

<sup>30</sup> Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities, *Official Journal of the European Communities*, L248, 16.9.2002.

- **Gender Equality (Article 16):** Again for the first time, a separate article on gender equality has been included in the general regulation. Under the 1999 regulation, gender equality was cited in several places as an overall objective and with respect to specific areas such as partnership, rates of assistance, evaluation etc. The new regulation strengthens the horizontal nature of the obligation by requiring Member States to “*ensure that equality between men and women and the integration of gender perspective is promoted during the various stages of implementing the funds*”. The same applies to non-discrimination “*based on sex, racial or ethnic origins, religion or belief, disability, age or sexual orientation*”.
- **Sustainable development (Article 17):** The different references to sustainable development in the 1999 regulation are also brought together in a single article, although phrased in rather general terms: “*the objectives of the Funds shall be pursued in the framework of sustainable development*” without specific obligations.

## 6.2 Strategic approach to cohesion (Title II)

The new strategic approach to cohesion represents an important change from the current policy period. It introduces a new strategic layer of planning involving the adoption of Community Strategic Guidelines (CSG) at the EU level to support the drawing-up of National Strategic Reference Frameworks (NSRFs), which will in turn form the basis for drafting the new generation of Operational Programmes (OPs). The other current programming documents (Community Support Frameworks, Single Programming Documents and Programme Complements) will be discontinued. The Commission’s aim is to strengthen the legitimacy of EU Cohesion policy, improve the monitoring of the impact of Structural and Cohesion Funds as well as of EU priorities, and to increase the coherence between Community priorities and national/regional priorities. The title is structured into three chapters, covering the Community Strategic Guidelines, the National Strategic Reference Framework, and strategic follow-up and annual debate.

- **Community Strategic Guidelines (Articles 25-26):** Reflecting the views of Member States in the Council discussions, the regulatory description of the content of the Guidelines is high-level, succinct and non-prescriptive. It refers only to the guidelines “*defining an indicative framework for the intervention of the Funds, taking account of other relevant Community policies*”.
- **National Strategic Reference Framework (Articles 27-28):** The regulatory requirement for the NSRF applies to the Convergence and the RCE objective; its applicability to the Territorial Cooperation objective is voluntary. The main elements of the NSRF required are an outline of the strategy and its justification on the basis of development problems and trends, a list of the OPs, an indicative allocation of funding by OP and arrangements for coordination with other EU funding. Contrary to the Commission’s initial proposals, there is no requirement to provide performance or impact indicators. Further, the preparation of the

NSRF is to be undertaken “*in dialogue with the Commission*” rather than being negotiated as originally proposed.

- Strategic reporting and debate (Articles 29-30): Again reflecting Member State opposition to Commission proposals, the regulatory requirements for strategic reporting are not onerous. Reporting on the contribution of the programmes will be limited to triennial reports (at the end of 2009 and 2012), and a “*concise section*” in the national annual reports on the implementation of the National Reform Programmes. There is no obligation for ‘follow-up’, apart from the Commission providing a summary assessment of Member State reports as a basis for debate by European institutions.

### 6.3 Programming (Title III)

The regulations provide for major changes to programming. To simplify decision-making processes, the Community Support Framework and the Programming Complement will no longer be required, leaving only one programming and management tool: the mono-fund OP. A second key change involves an increased degree of flexibility in managing OPs, particularly regarding financial management which will now only take place at the priority level. The programming title is structured into two chapters, general provisions on the Structural Funds and the Cohesion Fund, and programming content relating to OPs, major projects, financial engineering and technical assistance.

- General provisions on the Structural Funds and the Cohesion Fund (Articles 32-36): The regulation now sets a four-month deadline for Commission adoption of OPs. If programmes are seen to be inconsistent with the CSG or NSRF, the Commission can “*invite the Member State to provide all necessary additional information, and, where appropriate, to revise the proposed programme accordingly*”. A new article specifies the reasons permitting OP revision during implementation (e.g. significant socio-economic changes, major changes to Community, national or regional policies, evaluation findings, and implementation difficulties) and also includes a deadline for Commission approval. Although the programmes are now mono-fund in nature, scope has been provided to fund complementary actions from the other fund by up to 10 percent, or 15 percent in certain domains (sustainable urban development priorities and social inclusion), of the EU contribution for the priority axis.
- Operational Programmes (Articles 36-38): Changes have been made to the required content and structure of the OPs, reflecting the increased strategic orientation of the documents; measures will no longer be described, shifting greater focus to the strategy and priorities. The main elements of the Convergence and RCE OPs are: an outline of the strategy and its justification; a justification of priorities based on the CSG, NSRF and the *ex-ante* evaluation; quantified targets at priority level; an indicative breakdown of categories of expenditure; a substantially simplified financing plan; information on complementarity with other funds; implementing provisions; and, an indicative list of major projects. Under the RCE objective, a justification of the approach to

thematic, territorial and financial concentration must also be provided. ERDF-funded OPs must include information on the approach to urban sustainable development and, on a voluntary basis, a list of cities for urban actions, related procedures for urban sub-delegations and actions for inter-regional cooperation.

- **Major Projects (Articles 39-41):** The main changes to the current requirements include: the application of the same rules to both the Cohesion Fund and ERDF major projects; the setting of the starting point for expenditure eligibility at the date of programme eligibility; the calculation of project thresholds based on total cost, instead of eligible cost; and the inclusion in Commission decisions of a physical object description, an annual plan of financial assistance and a confirmation of the basis of the application of the priority axis co-financing rate.
- **Global Grants (Articles 42-43):** Member States or Managing Authorities will be able to allocate global grants without a prior agreement with the Commission. Global grants will be formally recognised as a general management instrument, eliminating the references to specific types of interventions in the current general and ESF regulations (e.g. in the field of local development or the redistribution of small ESF grants). On the other hand, the provisions for setting up an urban authorities' sub-delegation does specifically refer to the possibility of using a global grant.
- **Financial Engineering (Article 44):** A separate article on financial engineering has been included in the general regulation for the first time. It states that financial engineering instruments can be included in the OPs, particularly for targeting SMEs and for supporting integrated plans for urban sustainable development.
- **Technical Assistance (Article 45):** New provisions are included to allow for the creation of a specific OP to fund Member States' technical assistance, although this had also been done in some Objective 1 CSFs during the current period.

## 6.4 Effectiveness (Title IV)

The regulatory changes under this title primarily involve an increased level of flexibility for evaluation activities. Compared to the current period, where compulsory *ex-ante*, mid-term and *ex-post* evaluations were required for all interventions,<sup>31</sup> the new regulation implies a significant reduction in the number of evaluations needed, while allowing Member States to implement evaluations adapted to their needs. The title also modifies the performance reserve and establishes a new, national contingency reserve.

- **Evaluation (Articles 47-49):** The main change from current practice is that programme mid-term evaluations, and the related updates, are to become optional, although evaluations should be undertaken during the programming period where problems arise and/or programme modifications are required. *Ex-*

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<sup>31</sup> In the current period, under Articles 41 and 42 of the Council Regulation 1260/1999

*ante* evaluation will remain compulsory for programmes under the Convergence objective. However, in line with the proportionality principle, they may be undertaken for more than one programme if “*duly justified*” and “*agreed with the Commission*”. A new optional provision under the Convergence objective is the possibility to draw up an evaluation plan “*presenting the indicative evaluation activities which the Member State intends to carry out*”. For the other two objectives, Member States can decide what level of evaluation is required (programme, groups of programmes, themes, Funds) based on their needs.

- **Reserves (Articles 48-49):** The regulations provide for the creation of a ‘national performance reserve’ for the Convergence and RCE programmes amounting to three percent of their respective allocations (contrasting with four percent in the current period). In response to Member State pressures, the reserve shall be national and optional, instead of Community-based and compulsory as originally proposed by the Commission. A new ‘national contingency reserve’ may also be set up voluntarily to respond to unforeseen crises (disasters, etc.). The allocated amounts for this second reserve will vary by objective, one percent of the Structural Funds contribution for the Convergence objective and three percent for the RCE objective.

## 6.5 Financial contribution by the Funds (Title V)

Changes to this title aim to increase the flexibility of the financial management and monitoring of OPs, to reduce the probability of conflicts between national and Community rules, and to simplify EU co-financing arrangements. This is to be achieved by applying co-funding rates at programme level and by replacing detailed regulations on common eligibility rules with national eligibility rules.

- **Contribution of the Funds (Article 52-54):** As in the current period, the contribution of the Funds can be modulated depending on a number of circumstances (e.g. the importance for EU, national and regional priorities, the gravity of specific problems, or for areas with a geographical/natural handicap under the new RCE objective). As noted, co-financing caps will only be applicable at the level of the OP, instead of priority level (as originally proposed by the Commission) or measure level (as in the current period). In addition, co-financing rules will be eased for the poorest Member States.<sup>32</sup>
- **Revenue-generating projects (Article 55):** The requirements for revenue-generating projects are now incorporated into a separate article. The main changes have been to clarify the definition of these projects and to include

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<sup>32</sup> It was agreed in the Council budget agreement that, in Member States where average per capita GDP from 2001 to 2003 was below 85 percent of the EU25 average (the ten EU10 Member States plus Greece and Portugal), the ERDF or ESF co-financing rate will be set at 85 percent. Other countries eligible for the Cohesion Fund (in practice, Spain) are eligible for an ERDF or ESF co-financing rate of 80 percent for both Convergence regions (up from 75 percent) and Phasing-in regions (up from 50 percent).

provisions for funding deductions (where it is not possible to estimate the revenues in advance) and clawback after programme closure (within a maximum period of three years).

- **Eligibility of expenditure (Article 56):** The setting of rules on eligible expenditure will be devolved to the national level, with the exception of specific rules under each Fund.<sup>33</sup> This is a significant change from the current period in which detailed common rules were set in EU regulations.<sup>34</sup>
- **Durability of operations (Article 57):** As previously, a five-year durability period will be applied within which aid may be recovered if substantial modifications are made to the recipient firm or public body or as a result of the cessation of activities, although the Commission had initially proposed a seven-year period. The requirement is now incorporated into a separate article.

## 6.6 Management, monitoring and controls (Title VI)

The new regulations have made a number of important changes to the requirements for management, monitoring and control. The functions of the three main authorities and Member State responsibilities will be more clearly defined from the outset and contained in one general regulation. In line with the principle of proportionality, the Member States may use national systems for management and control in smaller programmes with a low share of EU co-financing. To provide the Commission with guarantees on the management and control systems in place, an independent Member State body will assess the conformity of the systems at the beginning of the programming period. The introduction of a national audit strategy will allow annual and final certification of systems in place. Greater cooperation between national authorities and the Commission is proposed to avoid duplication of effort, and Commission audits will only be undertaken in exceptional circumstances. The title is structured into four chapters, covering management and control systems, monitoring, information and publicity, and controls.

- **Management and control systems (Articles 58-62):** The chapter begins by specifying 'general principles', setting out the main elements to be satisfied by the management and control systems (e.g. in terms of the separation of functions, audit trail etc.) which are broadly similar to the provisions in the current regulations.<sup>35</sup> The functions of the three main authorities (managing, certifying and audit), and Member States responsibilities are now clearly defined in the general regulation.<sup>36</sup> The main change is the specification and extension of

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<sup>33</sup> See Article 11 of the ESF Regulation, Articles 7 and 13 of the ERDF Regulation and Article 3 of the Cohesion Fund regulation.

<sup>34</sup> Commission Regulation 1685/2000 for the Structural Funds, and Commission Regulation 16/2003 for the Cohesion Fund.

<sup>35</sup> Council Regulation 1260/1999 and Commission Regulation 438/2001.

<sup>36</sup> The definition of functions and tasks is currently incorporated within three regulations: Council Regulation 1260/1999; Commission Regulation 438/2001 for the Structural Funds; and Commission Regulation 1386/2002 for the Cohesion Fund).

the functions of the new ‘audit authority’ (tasks which were typically undertaken by the national audit/winding-up body in the current programming period) which has overall responsibility for all audit work.<sup>37</sup> In particular, it must present an audit strategy within nine months of OP approval (following a new standard EU model) and report annually on its implementation through an ‘annual control report’ (including an ‘audit opinion’) in order to provide “*reasonable assurance...that the underlying transactions are legal and regular*”.

- **Monitoring (Articles 63-68):** The regulation now includes a provision to allow for the setting-up of a single Monitoring Committee for several programmes. The composition and tasks of the committee will remain largely as before. The key differences are that the Programme Complement (PC) will no longer have to be approved, and that the committee should be informed about the new annual control report. As the PCs are no longer required, financial and physical progress in the annual implementation reports will only need to be reported at the priority (instead of measure) level, although there is a new requirement to provide “*the indicative breakdown of the allocation of funds by categories...*” Annual examinations will give increased attention to the strategic nature of programme implementation.
- **Information and publicity (Article 69):** The main change to the text of the current information and publicity requirements is the restriction of their application to co-financed ‘programmes’, instead of ‘operations’. On the other hand, more detailed rules will be provided in the separate implementing regulation.
- **Responsibilities of the Member States and the Commission (Articles 70-74):** Within twelve months of programme approval, the Member States will be required to submit a description of the management and control systems, accompanied by an assessment report and opinion by an independent body (e.g. the Audit Authority). Importantly, payment of the first interim payment will be conditional on the opinion not containing reservations on the systems in place or, alternatively, upon confirmation to the Commission that outstanding issues have been addressed. A new article on proportional controls allows Member States the option to apply national rules to programmes with Community co-financing of 40 percent or less and where total public expenditure is €750 million or less.

## 6.7 Financial management (Title VII)

The main regulatory changes under this title include: provisions for the pre-funding (advance) of seven percent for the Structural Funds and 10.5 percent for the Cohesion Fund, with differences between Member States; interim payments at priority level, with application of the rate for the priority to the amount of public expenditure presented by

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<sup>37</sup> The Managing Authority retains the same name and broadly similar functions, while the previously designated Paying Authority will be known as the Certifying Authority, also with similar responsibilities for certifying statements of expenditure and payments applications.



the Member State; the possibility of operating ‘partial’ programme closure for completed operations; and the introduction of transparent rules for the interruption of the payments deadline and suspension of payments. The main objectives of these reforms are: to simplify payment procedures and programme closure; to improve the legal security for actors and increase transparency; and to clarify payment procedures under the Structural Funds regulation by bringing it into line with the Council’s general financial regulation applicable to the EU budget.

- **Financial management (Articles 75-97):** The main change to the budgetary commitments requirements is to allow for the transfer of resources from the new national contingency reserve to other programmes. As already noted, the first interim payment is conditional on receipt of assurance on control and management systems and will be calculated by applying the co-financing rate for the priority agreed in the OP to the eligible expenditure. The first interim payment must be submitted within 24 months of the date of paying the first instalment of the pre-financing. In turn, the pre-financing payments will be split over two years (as currently) or three years and will be different for Member States joining the EU after 2004.<sup>38</sup> Reimbursements will be calculated at the priority axis level, rather than at the level of the measure (as in the current period). Another notable change is the extension of the period for automatic decommitment by one year (i.e.  $n+3$ ) for 2007 to 2010 for the EU10, Greece and Portugal. Last, a new article provides for the possibility to operate ‘partial closure’ for completed operations by 31 December of the previous year.
- **Financial corrections (Articles 98-102):** The provisions for financial correction by Member States and for the procedures to be followed by the Commission remain largely as before, although a clearer definition of the criteria for deciding on financial corrections by the Commission is now provided.

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<sup>38</sup> As agreed in the Council budget agreement, advance payments under the Structural Funds will be seven percent over three years for the EU10 plus Romania and Bulgaria, and five percent over two years for the EU15. For the Cohesion Fund, the respective figures will be 10.5 percent and 7.5 percent.



## 7. STRATEGIC PLANNING FOR THE 2007-13 PERIOD

In the light of the budgetary and regulatory agreements, strategic planning for the next period has accelerated since the start of 2006. The Community Strategic Guidelines have been revised<sup>39</sup> and are expected to be approved in October 2006. All of the Member States have developed drafts of their National Strategic Reference Frameworks (NSRFs), in some cases in final form, and these have been discussed with the Commission. The following section reviews the state-of-play with respect to the NSRFs and the emerging strategic priorities for the 2007-13 period.<sup>40</sup>

### 7.1 National Strategic Reference Frameworks

#### 7.1.1 Preparation of the NSRFs

As noted in the previous section, under the new regulations, Member States are required to present an NSRF: *“which ensures that assistance from the Funds is consistent with the Community strategic guidelines on cohesion and which identifies the link between Community priorities, on the one hand, and its national reform programme, on the other”* (Article 27(1) of the general regulation). Specifically, it should include an analysis of disparities and challenges, strategic objectives, a list of Operational Programmes and a description of the contribution of EU expenditure towards the Community priorities of growth and jobs.

Drawing up a national strategy for EU Cohesion policy has not been without problems for Member States. First, some countries do not have the institutional framework for developing strategic regional development objectives at national level. This applies mainly to federal states (e.g. Belgium, Germany) or other countries with devolved government (e.g. United Kingdom) where responsibility for economic development is allocated to sub-national authorities. Second, several Member States have a complex map of economic development problems that cannot be readily brought together in a single strategy. Greece, Italy, Portugal and Spain, for example, have regions in four different categories of eligibility for Structural Funds (Convergence, Phasing-out, Phasing-in and Regional Competitiveness & Employment). Others, such as Germany, Italy and Poland, have significant regional socio-economic disparities across the country. Third, the link between NSRFs and National Reform Programmes has often been insubstantial. Drawn up by different organisations in different ways, the two documents contain only general references to their shared goals, detailed connections are frequently lacking, and there are often inconsistencies and tensions.

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<sup>39</sup> *Proposal for a Council Decision on Community Strategic guidelines on cohesion (from the Commission to the Council)*, COM(2006) 386, Brussels, 13.7.2006.

<sup>40</sup> This section draws on the paper: Polverari L *et al* (2006) *The National Strategic Reference Frameworks: between myth and reality*, Background Paper for the IQ-Net 10<sup>th</sup> Anniversary Conference “Strategic Planning for Structural Funds programmes in 2007-2013”, Hampden Park, 27-28 June 2006.

Notwithstanding these difficulties, all Member States are now at an advanced stage in preparing their NSRFs, with several countries having produced finalised versions, and it is possible to make some overall comments on the strategic objectives.

Analysis of the content of NSRFs indicates fundamental differences in the way that the objectives of the Frameworks have been developed, between ‘needs-driven’ and ‘policy-driven’ strategies. The first category applies to those Member States receiving substantial Cohesion policy funding in the next period - such as the EU10, Greece, Portugal, Spain and Italy - where the NSRF strategies have generally been rooted in an *ex novo* reflection of development disparities, problems, challenges and needs. In the EU10, this reflection often started with the preparation of National Development Plans prior to the launch of the NSRF development process; the extent of the preparations reflects the fact that the 2007-13 programmes will represent the first real opportunity for the development of integral, long-term strategies

By contrast, in other Member States, the NSRFs appear to be more ‘policy-driven’, as in Denmark, Finland, Ireland, the Netherlands, Sweden and the United Kingdom (see Table 23). These are either Member States which will see a substantial reduction in Cohesion policy funding over the next seven years (e.g. in the UK, Structural Funds resources will broadly halve, from €18.07 billion in 2000-06 to €9.42 billion in 2007-13), or countries where Cohesion policy funding was already relatively low (e.g. Denmark, with its current €688 million, and future €542 million), and to countries where regional policy has little weight *per se* (e.g. the Netherlands). The starting point for these NSRFs are existing regional policy or spatial strategy documents and, more so than in previous programme periods, the Structural Funds programmes will be expected to support domestic policy objectives.

Table 23: Policy-driven NSRF strategies

Denmark	The NSRF reflects the general Danish approach to regional economic development and the government’s 2005 Business Development Act, both based on the four OECD growth drivers: quality of human resources, innovation, ICT and entrepreneurship.
Finland	The NSRF is being developed in line with the 2002 Regional Development Act and the subsequent 2004 Government Decision on Regional Policy Targets.
Ireland	The NDP will be closely linked to the Irish Spatial Strategy and its emphasis on gateway towns.
Netherlands	The NSRF focuses on strengthening the competitiveness of the Dutch economy. In this, it reflects the policy goals of <i>Peaks in the Delta</i> , the spatial economic development strategy for the Netherlands.
Sweden	The NSRF will reflect the key strategies of Swedish economic development policy, such as the Innovation Strategy and sustainable development policy.
United Kingdom	The NSRF will be closely aligned with UK regional policy, which is increasingly driven by productivity and competitiveness considerations. Infrastructure-based activities are being left behind and, although themes such as sustainable communities can be found in the draft NSRF, concepts such as city-regions are very much to the fore. The alignment with domestic strategies applies also to the individual nations and regions.

Source: Polverari *et al* (2006) *op. cit.*

Despite these differences in the policy basis for the NSRFs, the universal goal of the Frameworks in all Member States is expressed as higher national growth and

competitiveness. This goal is interpreted or addressed in different ways, with seven broad types of development objective:

- *a competitive economy*, to be achieved mainly through innovation, R&D and the knowledge economy, but also through support to the business sector (in virtually all Member States and in the two Candidate Countries);
- *(sustainable) growth and employment* (which can be found in basically every country, even when not mentioned explicitly as the main strategic goal of the NSRF, e.g. in Denmark);
- *quality of life and/or territorial attractiveness* (in Bulgaria, Czech Republic, Hungary, Malta, but also in Austria, Finland, Germany, Sweden and the UK);
- *development of human capital and more general societal modernisation* (in Bulgaria, Czech Republic, Denmark, France, Germany, Greece, Italy, Latvia, Malta, Poland, Romania, Slovenia and Spain);
- *social cohesion* (in Bulgaria, Cyprus, Czech Republic, France, Lithuania and Portugal);
- *balanced territorial development/sustainable development* (in Austria, Belgium, Bulgaria, Czech Republic, France, Italy, Poland, Portugal, Slovakia, Slovenia, Spain and Sweden);
- *European or national convergence* (an explicit strategic objective in Cyprus, Latvia, Romania, Slovakia for the EU12 and in Germany, Italy and Portugal for the EU15; although European convergence is *de facto* an overarching objective of the NSRFs of all EU10 Member States).

This categorisation is based on the main goals set out in the framework documents (or derived through fieldwork research). Clearly, such goals do not necessarily reflect the actual priorities and interventions mentioned in the NSRF, and they will not necessarily be closely matched by the interventions and territorial choices operated by the OPs. However, the categorisation does provide an indicative overview of the broad policy preferences expressed in the available NSRFs.

Bearing in mind these caveats, Table 24 provides an overview of the strategic objectives of the EU27 NSRFs. From the table, it can be seen that the NSRFs of the EU15 Regional Competitiveness & Employment countries tend to be more oriented towards competitiveness, growth and jobs, whereas the EU10 Member States, Candidate Countries, and EU15 Member States with sizeable Convergence funding (Germany, Greece, Italy, Portugal and Spain) have a much wider set of goals. This is not surprising and reflects the Community Strategic Guidelines and regulation drafts. At the same time, this different orientation of policy preferences seems to point to the adoption of different development paths. The more narrow focus on innovation, R&D and SME competitiveness (Lisbon agenda) of some Member States is matched elsewhere by a growth pole/competitiveness/excellence pole strategy, and/or with contextual interventions, such as the improvement of services of General Economic Interest (and, also, of collective services more generally), institutional

reforms and market reforms as well as the up-grading of the existing infrastructure (particularly in countries eligible for the Cohesion Fund).

Table 24: NSRF overarching strategic objectives

Country	Overarching objective(s)
Austria	To ensure the “Quality of Life, Income and Employment in Austria” and to strengthen “the competitiveness of the regional economies, increase the attractiveness of Austria’s regions based on the principles of sustainable development”. Strong focus on innovation and the knowledge economy (though with some limitations, e.g. innovation intended in a broad sense).
Belgium (Flanders)	To promote innovation, entrepreneurship and urban development.
Bulgaria	To become by 2013 a country with a higher standard of living, based on sustainable socio-economic growth during the process of full integration into the European Union. Two medium-term goals: (i) to attain and maintain high economic growth through a dynamic knowledge-based economy in accordance with the principles of sustainable development; and (ii) to improve the quality of human capital and to achieve employment, income and social integration levels which provide higher living standards.
Cyprus	To help achieve high rates of sustainable economic growth, conditions of full, high-quality employment and social cohesion, thereby contributing to real convergence with the more developed Member States of the European Union. To ensure the achievement of this general strategic objective, efforts are predicated on improving the competitiveness of the Cyprus economy and constantly enhancing the standard of living and quality of life on the island.
Czech Republic	To create a competitive Czech economy (competitive business sector, R&D capacities for innovation, developing a sustainable tourism industry); a modern and competitive society (education, raising the employment rate and employability, social cohesion, information society, advanced public administration); attractive environment (environmental protection and upgrading, transport availability); balanced territorial development.
Denmark	To become the most competitive society in the world by 2015, through four drivers of economic development: human resource quality; innovation; ICT; and entrepreneurship.
Estonia	NA
Finland	To reinforce national and regional competitiveness, employment and welfare through priorities of: business and innovation; knowledge, workforce, employment and entrepreneurship; and competitive business environments.
France	To promote the economic environment and enterprises with a particular focus on: research and innovation; training, employment, human resource management and social inclusion; environment and risk prevention; sustainable territorial development; improved accessibility and compensation for specific constraints (only for overseas regions).
Germany	Objective 1: to achieve convergence, and to raise welfare through sustainable development, especially economic growth and the improvement of employment prospects. Three sub-goals cover both ERDF and ESF: (i) to develop an economy based on innovation and knowledge; (ii) to develop competitive and attractive regions through investment in enterprises and infrastructure; and (iii) education, training and strengthening of the adaptability of workers and the working age population. Objective 2: to improve regional competitiveness and employment (again a sub-set of Fund-specific goals).
Greece	To raise the sustainable growth rate of Greece so as to foster growth and employment.
Hungary	To establish a knowledge-based economy and society; strengthen the role of research and development and innovation within the economy; create a modern infrastructure for research and development; create and enhance development poles; increase the economic, intellectual and cultural attraction of the country through creativeness as well as initiative and creative participation within the international arena.

Table 24: NSRF overarching strategic objectives - continued

Country	Overarching objective(s)
Ireland	To promote competitiveness, innovation, growth and employment.
Italy	To tackle the difficulties which have caused the persisting stagnation (social and productivity-related): supply and promote collective services, guarantee general conditions of competitiveness, ensure a high level of competencies, improve entrepreneurial innovation (linked to a non competitive capital market and to a weak research system), make the capital market efficient.
Latvia	To promote growth and catching-up with the EU, focused on supporting educational measures, technological excellence and flexibility, the development of science and research and the development of a knowledge-based economy.
Lithuania	To promote rapid growth of the economy for a long period; more and better jobs, and social cohesion.
Luxemb'rg	To support the Lisbon agenda and competitiveness.
Malta	To sustain a growing and knowledge-based, service-oriented economy; improve the quality of life of citizens; invest in human capital; and address Gozo's regional distinctiveness.
Netherl'd	To increase the growth potential of all regions (rather than reducing economic disparities between regions).
Poland	To create conditions for maintaining the high pace of durable economic growth; employment growth through the development of human and social capital; improvement of the competitiveness of Polish enterprises, including in particular the service sector; development and modernisation of technical infrastructure for competitiveness; increase of the competitiveness of Polish regions and preventing their social, economic and territorial marginalisation; rural development.
Portugal	To promote sustained growth; social and territorial cohesion; territorial and urban development; human resource development.
Romania	To create a competitive, dynamic and prosperous Romania, by reducing social and economic development disparities between Romania and the EU Member States; and reducing the disparities with the EU by generating an additional 10 percent increase in Romania's GDP by 2015.
Slovakia	To increase the competitiveness and performance of the Slovak economy and its regions by the year 2013, while respecting the goal of sustainable development.
Slovenia	NA
Spain	NA
Sweden	To achieve the goals of regional competitiveness and employment through priorities of innovation and renewal, competence and workforce supply, accessibility and cross-border cooperation.
United Kingdom	To raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all. This includes improving the economic performance of every part of the UK, as 'unfulfilled economic potential in every nation, region and locality must be realised to increase the UK's long-term growth rate'. (Separate high-level priorities for England, Scotland, Wales, Northern Ireland and Gibraltar, and then for Convergence and RCE objectives).

Source: Polverari *et al* (2006) *op. cit.*

## 7.2 Strategic priorities in EoRPA Member States

### 7.2.1 Strategic priorities: overview

The strategic priorities in the EoRPA Member States are generally structured according the draft Community Strategic Guidelines with a strong Lisbon orientation. For example, the Finnish NSRF has three priorities: business priorities; knowledge, workforce, employment and entrepreneurship; and competitive working environments. Similar language is used in the main strategic priorities of the NRSFs for Sweden (innovation and renewal; support for competence and employability; accessibility) and Austria (innovation and knowledge-based

economy; attractive regions and quality of location; adaptability and qualification of the workforce).

The structure – although not the language – of the German NSRF is different in that, while it has core national goals (innovation and the knowledge-based economy; improving regional attractiveness; addressing new labour market challenges), there are separate EDRF and ESF priorities for Convergence and RCE regions. The French NSRF takes the same approach, distinguishing between ERDF and ESF support for continental France and the overseas territories. The UK NSRF sets out broad policy priorities for the UK as a whole (e.g. building an enterprising and flexible business sector) but has separate strategies for England, Scotland, Wales, Northern Ireland and Gibraltar.

The NSRFs in Italy and Poland also emphasise the main Lisbon goals but take a broader approach, reflecting the ambitions of the Frameworks to bring policy coherence across a wide range of policy areas (EU and national), the mix of development challenges and the scale of EU funding (especially in Poland). They are characterised by a larger number of national priorities (six in Poland, ten in Italy), a more extensive range of anticipated interventions (especially infrastructure) and the inclusion of issues such as regulatory change, governance and institutional capacity.

There is less consistency in the treatment of the territorial cohesion issues and specifically the Territorial Cooperation objective within the NSRFs. The Austrian NSRF gives considerable importance to territorial cohesion, highlighting the importance of polycentric development and regional integration. Among the five strategic fields of intervention foreseen for achieving balanced regional development are both ‘hard’ and ‘soft’ initiatives for improving territorial cooperation, especially with the EU10 Member States. In Sweden, one of the four NSRF priorities is ‘strategic cross-border work’, encompassing ambitions such as the promotion of Baltic ‘sea motorways’, reducing border-related obstacles to cross-border cooperation, improving cooperation between Nordic city regions and encouraging cooperation in areas like innovation, culture and the environment. The French NSRF also contains ‘strategic orientations’ for European cooperation on the continental territory, integration of the overseas territories and inter-regional cooperation.

A specific territorial focus has been included in some NSRFs, notably Finland (special support for sparsely populated areas and areas with particular development challenges) and Poland (special assistance for eastern Poland). By contrast, there is no mention of territorial cohesion issues or of the Territorial Cooperation objective in the United Kingdom NSRF (although the concept of ‘city regions’ is an important part of the strategy).

### *7.2.2 Earmarking*

The consensus among those Member States for which compliance is obligatory is that meeting earmarking targets will not be a problem. In Austria, Finland, France, Italy, Sweden and the UK, policymakers consider that the objectives and priorities of the current strategies (EU and domestic) are already aligned with the Lisbon agenda (in Finland, it has been estimated that 67 percent of current Objective 1 and 2 programme expenditure is Lisbon-oriented) and that future programmes will be still more oriented towards ‘growth



and jobs'. Insofar as there are concerns, they are related to the level at which earmarking will be calculated in countries with federal or regionalised arrangements for managing Structural Funds (e.g. Germany, UK) and the systems that will need to be introduced for monitoring compliance with earmarking targets across programmes and institutions.

In the EU10 Member States, the approach to earmarking is not obligatory, but the Commission is encouraging them to achieve the 60 percent earmarking target of EU15 Convergence programmes. Poland aims to comply with this threshold at national level, although the Lisbon orientation will vary between programmes. For example, it has been estimated that the proposed large-scale OP Infrastructure and Environment is only 42 percent Lisbon-oriented (unsurprisingly in view of the level of expenditure on physical infrastructure), whereas the OP Human Capital and OP Innovative Economy may be up to 90 percent Lisbon-oriented with a strong focus on skills and technology. The Lisbon orientation of the OP Development of Eastern Poland is also likely to be lower given the pressure to support basic infrastructure and social equity measures (although it will also have some JEREMIE-funded Lisbon activities such as support for the information society).

### *7.2.3 Assessment of the NSRF process*

EoRPA Member States are divided in their overall assessment of the value of the NSRF process. For Austria, which developed its STRAT.AT document through an extended process of analysis and consultation, the process is considered to have been constructive and fruitful and may be used again to facilitate exchange of experience and policy learning. In Sweden also, the development of the NSRF was the first time that a single, strategic regional development document had been created at national level and involved a learning process for both central government and the regions; the outcome is intended to be a coherent strategic framework encompassing both EU and national policy programmes. The same can be said of Poland, where the NSRF is based on a pre-existing national development plan (as in other EU10 Member States), and facilitates the challenging task of coordination within and between central and regional levels of government.

By contrast, in Finland, the NSRF exercise became rather politicised and the resultant document has been described by policymakers as more of a 'shopping list' than a strategic framework. More critical are policymakers in Germany, where the process has been problematic, given constitutional arrangements for regional policy and the dichotomy between the western and eastern Länder, and has been described as 'superfluous'.

## **7.3 EoRPA Member State strategies**

### *7.3.1 Austria*

The general objectives of the NSRF (set out in the STRAT.AT document) are *"to ensure the quality of life, income and employment, to strengthen the competitiveness of the regional economies and to increase the attractiveness of Austria's regions based on the principles*

*of sustainable development*<sup>41</sup>. Hence, the strategy strongly embraces the Lisbon and Gothenburg goals and has incorporated their focus on innovation and sustainability.

The NSRF is built around four priorities. The first focuses on laying the regional foundation of an *innovation- and knowledge-based economy*. Innovation has been defined broadly and “*shall not be reduced to technological dimensions only*”.<sup>42</sup> In spatial terms, “[t]his implies that regions which are less favoured in terms of accessibility and economic structure shall be included in the general modernisation process, which overall shall contribute to reducing regional disparities in Austria”.<sup>43</sup> Under the second priority, *attractive regions and quality of location*, support is to be directed to logistical infrastructure and risk prevention measures and the improvement of energy efficiency in firms and private households. Priority three aims to increase *adaptability and qualification of the work force*, regarded as essential for an innovation-driven economy. Lastly, the fourth priority is *territorial co-operation*, seen as particularly relevant for a landlocked country that shares borders with four EU10 Member States. Additionally, the theme of governance is presented as a horizontal priority, instrumental to the implementation of the strategy devised, and encompassing measures for strengthening regional management, cluster managements and other forms of bottom-up regional development initiatives.

The NSRF also refers, under Priority 2, to the achievement of the goal of territorial cohesion, highlighting the importance of the concepts of poly centric development and regional integration. Five strategic fields of intervention are foreseen for achieving the objective of balanced regional development, ranging from improvements to transport infrastructure (especially to the EU10 Member States) to support for risk prevention of natural hazards and investments in renewable resources.

### 7.3.2 Finland

The NSRF strategy for the 2007-13 period is to reinforce national and regional competitiveness, employment and welfare. Its aims are: to respond successfully at the national and regional levels to increasing national and international competition; to predict and react flexibly to the changes in the world economy; to create attractive businesses, knowledge, working and living environments; and to focus special measures on Eastern and Northern Finland, sparsely populated areas, as well as on areas in Southern and Western Finland that are facing particular challenges with their development.

The NSRF is based on three different components: basic funding for regions that do not fall within the criteria for Phasing-in regions (Northern, Western and Southern Finland and the Åland islands); Phasing-in treatment for the region of Eastern Finland; and special additional funding for the Eastern and Northern regions on account of their sparse population. The first NSRF draft identifies three broad priorities for all three areas: (i) business and innovation (ERDF); (ii) knowledge, workforce, employment and

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<sup>41</sup> STRAT.AT (2005), Executive summary, 31.10.2005.

<sup>42</sup> *Ibid.*

<sup>43</sup> *Ibid.*

entrepreneurship (ESF); and (iii) competitive business environments (ERDF). By focusing on these priorities, the NSRF is building on themes developed during the present programming period. The broad goals of the programme are likely to be similar to those currently being followed with, if anything, even more of a focus on competitiveness (and the Lisbon agenda) than at present.

### 7.3.3 France

The NSRF draft contains five strategic objectives and a list of themes/priorities from which the regions can choose to develop their strategies (synthesised in Table 25). The strategic objectives are: (i) support for the economic environment and business support, with a particular focus on research and innovation; (ii) support for training, employment, human resource management and social inclusion; (iii) environment and risk prevention; (iv) sustainable territorial development; and (v) for the overseas regions, improved accessibility and compensation of specific territorial constraints. The NSRF suggests a number of priorities (see Table 25) from which a limited number will be selected to develop the OPs.

The development of the NSRF has been conducted alongside decisions concerning the future State-region project contracts (*Contrats de projet Etat-région*) in order to ensure coherence in the future funding of regional development. The NSRF is characterised by its strong links with national regional policies and other policies such as rural and urban policies, employment and training policies. There is an ongoing debate with regions on the degree to which territorial specificities are being taken into account and the leeway available for regional and local authorities in decisions on both national and EU regional policies.

Table 25: 'Menu' of priorities in the French NSRF for the development of OPs

	ERDF	ESF
Convergence	<ol style="list-style-type: none"> <li>1) Promotion of territorial competitiveness and attractiveness</li> <li>2) Environmental preservation for sustainable development</li> <li>3) Promotion of social and territorial cohesion</li> <li>4) Compensation of specific constraints for overseas regions</li> </ol>	<ol style="list-style-type: none"> <li>1) Adaptation of workers and firms</li> <li>2) Prevention of unemployment</li> <li>3) Support of inclusion and fight against discrimination</li> <li>4) Promotion of partnership and networking to support employment and social inclusion</li> <li>5) Investment in human capital</li> <li>6) Institutional and administrative capacity building</li> <li>7) Development of innovative transnational or interregional actions for employment and social inclusion</li> </ol>
Reg. Competitiveness & Employment	<ol style="list-style-type: none"> <li>1) Support to innovation and the knowledge economy</li> <li>2) Development of ITC to support the economy and the information society</li> <li>3) Support to firms following a territorial development approach</li> <li>4) Environmental protection and risk prevention in a perspective of sustainable development</li> <li>5) Development of alternative transport modes for individuals and economic activities</li> </ol>	<ol style="list-style-type: none"> <li>1) Adaptation of workers and firms to economic change</li> <li>2) Improved access to employment for job seekers</li> <li>3) Promotion of social inclusion and fight against discriminations</li> <li>4) Investment in human capital</li> <li>5) Development of partnerships and networking for employment and inclusion</li> <li>6) Support to innovative transnational or interregional actions for employment and social inclusion</li> </ol>
Territorial cooperation	<ol style="list-style-type: none"> <li>1) <i>Cross-border cooperation</i>: Optimisation of conditions for a balanced economic, social and environmental development</li> <li>2) <i>Transnational cooperation</i>: <ul style="list-style-type: none"> <li>- Competitiveness and innovation</li> <li>- Environment and risk management/ prevention</li> <li>- Accessibility and transports</li> <li>- Enhancement of territorial networking</li> <li>- Coordination with the ENP</li> </ul> </li> <li>3) <i>Interregional cooperation</i>: Capitalisation of results, exchange of experiences, enlargement of existing networks, enhancement of diffusion and appropriation of good practices</li> </ol>	

### 7.3.4 Germany

The NSRF presents two separate strategies - overarching goals, general sub-goals and Fund-related sub-goals - for the Convergence and RCE regions. For Objective 1, the overarching goal is to achieve convergence and to raise welfare through sustainable development, especially economic growth and the improvement of employment prospects. There are also three sub-goals that cover both the ERDF and ESF, namely: (i) to develop an economy based on innovation and knowledge; (ii) to develop competitive and attractive regions through investment in enterprises and infrastructure; and (iii) education, training and strengthening of the adaptability of workers and the working age population. Additionally, there are some Fund-specific priorities. For ERDF, the priorities are: (i) education, R&D, innovation; (ii) raising the competitiveness of business especially by supporting future-oriented investment and the promotion of entrepreneurship; (iii) developing and improving infrastructure for sustainable growth; and, possibly, (iv) environment. The ESF priorities are: (i) enhancing

the adaptability and competitiveness of workers and businesses; (ii) improving human capital; (iii) improving access to employment and the social inclusion of disadvantaged people; and (iv) trans-national cooperation.

For Objective 2, the NSRF notes the strong differences between Objective 2 regions, and hence, the impossibility of providing a comprehensive strategy for all regions. However, it specifies an overarching goal to improve regional competitiveness and employment. With respect to Fund-specific goals, the ERDF objectives are: (i) support for start-ups and business competitiveness; (ii) innovation and a knowledge-based economy; (iii) improvement of specific development potential including the reduction of intra-regional disparities; and, possibly, (iv) the environment. For each ERDF programme, these goals will form the basis for the priorities, but it will be up to each *Land* to take its own decisions on specific priorities and measures, based on the EU list of possible interventions, noting that *Länder* with only limited Structural Funds' resources can focus on only two of the three priorities identified. For the ERDF programmes, each *Land* will decide to what extent funding should be geographically concentrated. The ESF goals are identical to those for Objective 1. Finally, for Objective 2, there are also Fund-specific horizontal goals: improving the environmental situation (ERDF); and equality between men and women (ERDF, ESF).

### 7.3.5 Italy

The NSRF draft has the overall objective of tackling the economic and social difficulties which have caused the persisting Italian stagnation. This will be achieved through the supply and promotion of collective services, guaranteeing general conditions of competitiveness, ensuring a high level of competencies, improving entrepreneurial innovation (linked to a non-competitive capital market and to a weak research system) and the efficiency of the capital market. The draft anticipates ten priorities: (i) improvement and full exploitation of human resources; (ii) promotion, full exploitation and diffusion of research and innovation for competitiveness; (iii) environmental protection, health and a sustainable and efficient use of environmental resources for development; (iv) full exploitation of natural and cultural resources for attractiveness and development; (v) social inclusion and services for quality of life and territorial attractiveness; (vi) networks and links for mobility; (vii) competitiveness of the productive systems and employment; (viii) competitiveness and attractiveness of cities and urban systems; (ix) international openness and attraction of investments, consumption and resources; and (x) governance, institutional capacities, and competitive and effective markets.

### 7.3.6 Netherlands

The emphasis on competitiveness is clear from the opening words of the draft NSRF: *"One of this Cabinet's main objectives is to boost the competitiveness of the Netherlands ....[EU Cohesion policy] offers the opportunity of giving extra impetus to this objective in the coming years".*<sup>44</sup> In line with the Lisbon strategy, the focus of the Dutch NSRF is on

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<sup>44</sup> Draft NSRF (May 2006), English version, p5.

innovation, the knowledge economy and human capital, while recognising that the knowledge economy is dependent on an attractive business climate. As a result, the three broad priorities highlighted in the Community Strategic Guidelines are carried over to the NSRF: attractive cities and regions; innovation, entrepreneurship and the knowledge economy; and more and better jobs. In addition, a basic principle of the NSRF is that it should be built on *existing* national policy (as opposed to the development of new policies). Particular mention is made of the national regional policy memorandum *Peaks in the Delta*, reflected in the NSRF aim of “*increasing economic growth in all regions and not in reducing economic disparities between regions*”.<sup>45</sup>

The strategy will be implemented through four regional programmes (all eligible under the RCE objective), compared to six *Peaks in the Delta* programmes. This may involve some tensions with respect to the strategic focus (the limited emphasis on the north) and the implementation of the OPs (expected to be more bottom-up than the approach adopted for the implementation of *Peaks in the Delta*). Each of the regional OPs will have three priorities: innovation and the knowledge economy; the attractiveness of regions; and the attractiveness of cities. These priorities are considered to be mutually reinforcing. However, the NSRF states that the aim should be for at least 50 percent of the available resources to be committed to the innovation priority. It is left to the regions to determine how the 60 percent earmarking target will be met - this will either involve committing more resources to innovation or utilising the other categories of expenditure on the earmarking list.

### 7.3.7 Poland

The main strategic aim of the NSRF 2007-2013 is the creation of conditions to increase the competitiveness of the economy based on knowledge and entrepreneurship, ensuring employment and an increase in levels of social, economic and spatial cohesion.<sup>46</sup> This aim is supported by six horizontal goals: (i) improvement of the quality of public institutions and development of partnership mechanisms; (ii) improvement of the quality of human capital and strengthening social cohesion; (iii) building and modernising technical and social infrastructure important to the increasing competitiveness of Poland and its regions; (iv) raising the competitiveness and innovation of enterprises, particularly in high value added sectors and the services sector; (v) raising the competitiveness of Polish regions and countering their social, economic and spatial marginalisation; and (vi) balancing the opportunities for development and helping structural change in rural areas.

This approach appears to modify the policy direction set out in the current NDP 2004-2006, giving more emphasis to improving competitiveness in all regions rather than targeting marginalised or struggling regions. The long-term debate between equity/efficiency priorities is ongoing, but a trend towards the latter can be identified, at least in terms of sequencing and setting priorities for the short to medium terms. Increasing emphasis is being placed on the classification of metropolitan areas as potential growth poles for the

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<sup>45</sup> *Ibid*, p8.

<sup>46</sup> Ministry of Regional Development (2006) *N-S-R-F-, 2007-2013* (August 2006 version), Warsaw, p22.

national economy. Supporting processes of diffusion through a focus on transport and infrastructural links between regional and sub-regional centres is included. Nevertheless, the key strategic question for Polish regional policy remains the choice of how much weight should be put on the objective of external convergence (i.e. convergence with the rest of the EU in terms of GDP per capita) versus internal convergence (i.e. convergence between regions inside Poland).

For 2007-2013, it is proposed to have a 50:50 division of EU resources between national interventions and regional interventions (which overall would mean approximately one-third for the Cohesion Fund, one-third for the 16 ROPs and one-third for sectoral OPs). Funding for the ROPs will come solely from ERDF, amounting to around 58 percent of total ERDF available.

Apart from the 16 ROPS, a dedicated programme of resources is being provided for the development of the eastern regions. Although the financial package has yet to be finalised, recent forecasts suggest that the OP will receive EU funding of around €2 billion. This is a ring-fenced amount, but more will be provided through the sectoral OP activities that will only be carried out in eastern regions. The programme will also draw on funds dedicated to the now-liquidated OP 'Territorial Cohesion and Regional Competitiveness'. Other sources include the national budget (e.g. the National Road Fund), regional government resources and JASPERS (the joint Commission/European Investment Bank initiative). It will have three main priorities: (i) innovation and enterprise development (including business infrastructure, internet access, financing cooperation between regional universities and business, regional airports etc.); (ii) supporting the development of potential metropolises (e.g. Białystok, Lublin and Rzeszów) by building conference centres, renewing transport networks etc.; and (iii) development of inter-regional road networks.

### 7.3.8 Sweden

The main objective of the NSRF, as highlighted in the title of the document<sup>47</sup> and along the lines of the draft CSG, concerns the creation of competitive regions and individuals as well as a high level of employment in Sweden. Four national priorities have been outlined to achieve the goals of regional competitiveness and employment: innovation and renewal; support to competence and increasing supply of workforce; accessibility; and strategic cross-border cooperation. The NSRF mentions that a special focus will be placed on territorial aspects, in particular concerning the least populated and major city areas. Within the four priorities there are a number of guidelines intended to serve as a so-called 'menu' for the eight regional structural funds programmes.

The NSRF took as a starting point the regional development policy in Sweden, based on the 2001 Government Bill, *A Policy for Growth and Viability throughout Sweden*.<sup>48</sup> It is also based on Swedish employment policy, innovation policy, sustainable development policy

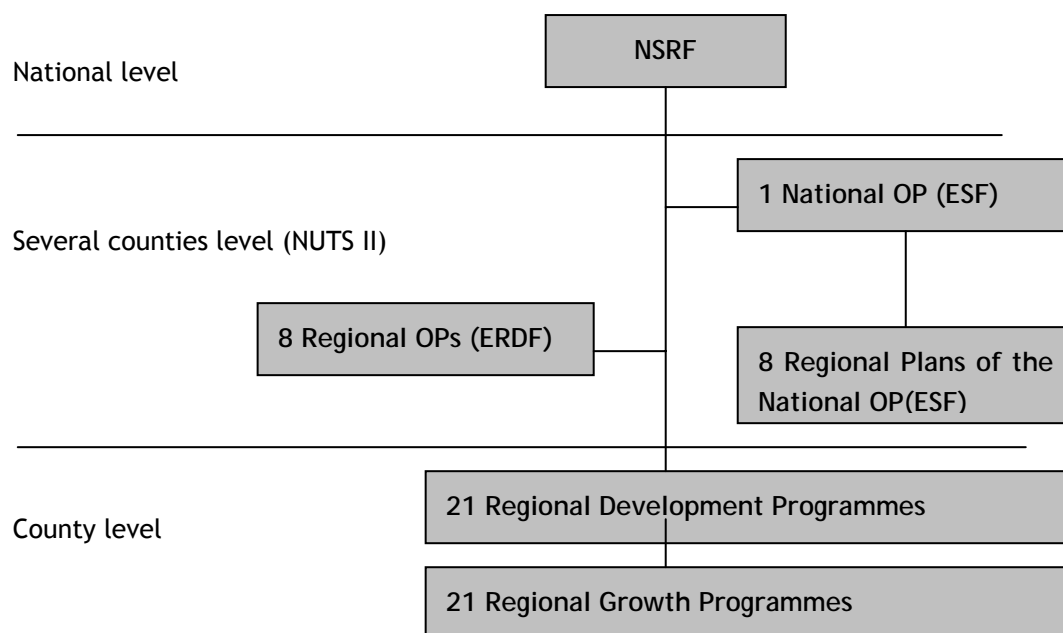
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<sup>47</sup> 'En nationell strategi för regional konkurrenskraft och sysselsättning 2007-2013', (Swedish NSRF) June 2006

<sup>48</sup> Government Bill 2001/02:4, *A policy for growth and viability throughout Sweden*.

and the Swedish National Reform Programme. The aim of the NSRF is to further develop the co-ordination between these policies by serving as a platform to incorporate the overall national priorities into regional development policy. As such, the four priorities outlined above are intended to inform the preparation - at both national and regional levels - of domestic regional development strategies (i.e regional development programmes) and regional growth programmes as well as Structural Funds programmes (see Figure 12).

Figure 12: Strategic planning framework under the NSRF in Sweden



Source: *En nationell strategi för regional konkurrenskraft och sysselsättning 2007-2013* (Swedish National Strategic Reference Framework), June 2006.

### 7.3.9 United Kingdom

The NSRF restates the Government's central economic objective *"to raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all"*. This includes improving the economic performance of every part of the UK, as *"unfulfilled economic potential in every nation, region and locality must be realised to increase the UK's long-term growth rate"*. Within the NSRF, high-level priorities are established for Structural Funds spending in England, Scotland, Wales, Northern Ireland and Gibraltar, and then strategies are set out for Convergence and Competitiveness objectives. These set a 'backdrop' for the OPs. No strategy is set out for the Territorial Cooperation objective.

The broad policy priorities set out in the UK's NSRF are: maintaining fiscal sustainability in the face of demographic challenges; building an enterprising and flexible business sector; promoting innovation and R&D; widening opportunities for the acquisition of skills; increasing innovation and adaptability in the use of resources; and ensuring fairness through a modern and flexible welfare state.



The NSRF includes a strong focus on activities to promote enterprise, innovation, sustainable communities, sustainable development, skills and employment, in support of the Lisbon and Gothenburg Agendas. The NSRF will be closely aligned to UK regional policy, and this itself is increasingly driven by productivity and competitiveness considerations. Infrastructure-based activities are being left out and, although themes such as sustainable communities can be found in the draft NSRF, concepts such as city-regions are very much to the fore.

Table 26: Strategic priorities for OPs in the UK NSRF

Programme	Strategy outlined in NSRF
<i>Convergence Programmes</i>	
ERDF Convergence Programme: Cornwall and the Isles of Scilly	Promoting innovation and knowledge transfer, stimulating enterprise and business development, improving accessibility and connectivity
ERDF Convergence Programme: West Wales and the Valleys	Promoting a high value-added economy by improving knowledge and innovation for growth, creating a favourable business environment and building sustainable communities
ERDF Phasing-out Convergence Programme: Highlands and Islands	Promoting economic sustainability, reinforcing community sustainability and developing environmental sustainability
ESF Convergence Programme: Cornwall/Scilly Isles	Tackling barriers to employment and improving the skills of the local workforce, particularly relating to the knowledge economy
ESF Convergence Programme: West Wales	Increasing employment, tackling economic inactivity, improving skills levels and building administrative capacity
ESF Phasing-out Convergence Programme: Highlands and Islands	Progressing people into sustained employment, progressing people to better quality and better paid jobs, and investing in employability and lifelong learning support environment
<i>RCE Programmes</i>	
English ERDF Competitiveness Programmes (9 regional)	Promoting innovation and knowledge transfer, stimulating enterprise, ensuring sustainable development, production and consumption and building sustainable communities.
Scottish ERDF Competitiveness Programme (Lowlands and Uplands Scotland)	Supporting innovation and entrepreneurship, developing infrastructure and environmental sustainability, promoting community regeneration and rural development
Wales ERDF Competitiveness Programme	Building the knowledge-based economy, enhancing the environment and promoting accessibility
Northern Ireland ERDF Competitiveness Programme	Improving accessibility and enhancing the environment, increasing investment in R&D, promoting innovation and promoting enterprise
Gibraltar ERDF Competitiveness Programme	Diversifying the economy, encouraging enterprise, supporting sustainable urban development and promoting a knowledge society
England ESF Competitiveness Programme	Extending employment opportunities and developing a skilled and adaptable workforce
Scotland ESF Competitiveness Programme (Lowlands and Uplands Scotland)	Helping people into sustainable employment, progressing people to better quality and better-paid jobs, and investing in the employability and lifelong learning support environment
Wales ESF Competitiveness Programme	Increasing employment and tackling economic inactivity, and improving skills levels
Northern Ireland ESF Competitiveness Programme	Reducing the level of economic inactivity, removing barriers to work and equipping people with the necessary skills to enter the workforce
Gibraltar ESF Competitiveness Programme	Helping people into sustainable employment, progressing people to better quality and better paid jobs and developing a skilled and adaptable workforce



## 8. CONCLUSIONS

This paper has provided a detailed review of EU Cohesion policy developments over the past year. It has discussed the negotiations and agreement on the new financial framework for 2007-2013 and provided an analysis of the implications for Cohesion policy with respect to spatial eligibility and financial allocations to Member States, as well as the regional allocations in selected countries. The paper has also summarised the main changes in the new Cohesion policy regulations. Lastly, the paper has reviewed the strategic planning for the new programme period, examining the stated objectives and priorities of the National Strategic Reference Frameworks and compliance with the draft Community Strategic Guidelines. This final section draws out a number of conclusions.

- (i) *The budget negotiations eventually achieved a compromise acceptable to all Member States but made little fundamental change to the structure or content of the financial framework.*

Under the UK Presidency, the European Council managed to agree a compromise on the 2007-2013 financial framework. The budget negotiations were more complex than ever before, given the participation of 25 Member States, the range of different national positions and the major political issues (UK rebate, CAP reform) involved. As in previous budget negotiations, the compromise included ‘something for everyone’.

Despite the protracted negotiations, the financial framework eventually agreed was not radically different from the proposal put forward by the Commission in February 2004. Compared to the 2000-06 framework, more funding was allocated to Cohesion policy, agricultural spending remained largely unchanged, and more money was given to competitiveness, although considerably less than the Commission wanted. However, the fundamental issues concerning the structure of the EU budget (on both the expenditure and income sides), which were at the heart of the contentious debates during 2005, were not resolved. Looking at the structure of the new budget, it can be argued that the initiatives to restrict substantially the amount of EU spending, or to ‘modernise’ the EU budget (through challenges from the net contributors, proposals to reform the CAP, advocacy of different types of spending as in the Sapir Report), had only limited impact.

- (ii) *The reform of Cohesion policy involves a significant reallocation of funding at national level (and in some cases regional level) but limited change to the principles of Structural and Cohesion Funds*

The financial allocations to Member States under Cohesion policy involve a significant redistribution of resources among EU countries. On average, annual spending on Structural and Cohesion Funds in the EU10 will more than double in the 2007-2013 period compared to 2004-06, with some countries (Czech Republic, Malta and Slovenia) seeing increases of 200-250 percent. Poland will be the major recipient of Cohesion policy support in the next period, with 21 percent of the total budget. By contrast, spending in the EU15 will fall on average by more than one-third (compared to 2000-06), with decreases in excess of 40 percent in the Netherlands, Spain and the UK, and by almost 80 percent in Ireland.

Nevertheless, the EU15 will still receive a sizeable share of Cohesion policy receipts, accounting for almost 53 percent of the total budget over the 2007-13 period as a whole. Further the aid intensity of spending in the Convergence regions will be somewhat higher in the EU15 than in the EU10, especially in Greece and Portugal where aid intensity will be around €300 per head per year, compared to figures of €160-250 per head in the EU10.

Within Member States, the regional allocation of Regional Competitiveness & Employment (RCE) funding is being determined by the Member States. The Commission has tried to influence the process with the aim of limiting changes to the Objective 2 map. In some countries, the regions will see little change in their percentage share of national Structural Funds receipts, but in others a new geographical framework is being introduced.

Although spending is being redistributed, the basic principles of Cohesion policy will be largely the same. The concentration of resources on the poorest countries and regions is to rise, although the geographical eligibility for non-Convergence funding increased with the abolition of EU-level zoning for the new Objective 2. Programming will be simplified with the replacement of CSFs/SPDs and OPs by NSRFs and (mono-Fund) OPs, the decentralisation of key responsibilities to the Member States and the wider application of proportionality to selected areas of Funds management. Partnership has been strengthened to a limited extent. The principle of additionality has been maintained, but responsibility for its verification for the RCE objective has been devolved to the Member States.

*(iii) The new strategic approach to implementing Cohesion policy may lead to a more coherent approach to territorial development in some countries, although (in certain Member States) the future added value of Structural Funds could be questionable.*

An important development is the new strategic planning system and the orientation of Cohesion policy towards the Lisbon agenda, through the design of National Strategic Reference Frameworks (NSRFs) (in line with the draft Community Strategic Guidelines), the links with National Reform Programmes, the earmarking of programme expenditure according to specified expenditure categories, and reporting requirements. Across the Member States, the preparation of NSRFs is now in its final stages; the documents vary greatly in terms of their development process, strategic objectives and priorities, as well as their perceived relevance.

The influence of the NSRFs will depend on how their commitments are translated into practice via the Operational Programmes. In some countries, the Frameworks may lead to a more coherent approach to territorial development, particularly where policymakers have taken the opportunity of the NSRF to undertake a wide-ranging review of both EU and domestic funding. The outcomes are intended to provide better strategic alignment of European and national regional policies, and also stronger links between regional policies and other relevant policy areas (e.g. urban, rural, sectoral policies). There is some evidence of more conceptual thinking about the use of Structural Funds, especially to justify the balance between strategic investment choices, between a focus on equity and efficiency, and (in territorial terms) between investing in 'areas of opportunity' and 'areas of need'.

A notable feature of NSRFs in some Member States is their 'policy driven' approach to determining the use of the Structural Funds. This applies primarily to countries receiving (limited amounts of) funding under the RCE objective, for example, Denmark, Finland, Ireland, Netherlands, Sweden and the United Kingdom. More so than in previous programme periods, Structural Funds programmes will be expected to support domestic regional policy objectives and strategies. This approach should help to reduce some of the policy tensions of the past, where EU and national regional policy objectives were sometimes in conflict. However, it also poses the question of what added value the Funds are likely to have, and whether the contribution of EU Cohesion policy will be visible, particularly in a period when monitoring and evaluation obligations are being downgraded. There is clearly a political dimension to this, given the imminence of a comprehensive policy review where the added value of Cohesion policy in non-Convergence regions will be an important theme.

*(iv) Initial thinking is already underway on the policy review and the next financial framework.*

With respect to the longer term evolution of EU Cohesion policy, it is clear that the December 2005 agreement represents only an interim solution. The decision to have a wide-ranging policy review in 2008-09 - covering both the expenditure and income sides of the budget - has already fired the starting gun for deliberations on the post-2013 budget. At both European and national levels, initial thinking is underway on options for the next period.

The debate will be complex. The political and economic environment for planning the 2014-2020 financial framework is highly uncertain, with respect to the future membership of the EU, its political priorities and economic challenges. There are contrasting national views on the configuration of the budget and the degree of EU-level competence and spending in different policy areas. The issue of own resources, in terms of the generation of EU funding and the rebate system, will also be reviewed. At the level of Cohesion policy, there are several important questions: Can the EU10 absorb the massive increase in funding efficiently and effectively? Will it effect tangible changes to growth, employment, living conditions? To what extent will Structural Funds make a contribution to the Lisbon agenda? What is the added value added for Cohesion policy in the new period, and can this be demonstrated? And, on the basis of these questions, what are the policy options for the next period?