Setting the stage for the reform of Cohesion policy after 2013

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Preface

This paper reviews the current state of the debate on EU budget and policy reform, and developments during 2009-10, focusing in particular on the future of Cohesion policy after 2013. The paper was prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for the EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. EoRPA members currently comprise the following partners:

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United Kingdom

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EXECUTIVE SUMMARY

This paper provides a review and assessment of the current state of the debate on the future of Cohesion policy. It begins, by setting out the context for reform in terms of economic governance, institutional changes and the policy priorities of Europe 2020. It then reviews the state-of-play of the budget debate, highlighting different national positions. For Cohesion policy, an analysis is provided of one of the key issues underlying Member State positions – their eligibility for Structural and Cohesion Funds, and the likely financial allocations, based on the latest Eurostat data. The political and policy dimensions of Cohesion policy reform are reviewed in detail, and the paper concludes with issues and questions for discussion.

Context for reform

EU budget reform has been in a state of flux over the last year, with limited legislative progress since the end of the consultation process in late 2008. The economic crisis has dominated the EU agenda with important consequences for economic governance and new ideas on the use of EU budgetary conditionalities emerging. On the political and institutional front, the entry into force of the Lisbon Treaty (December 2009), the appointment of a new Commission and College of Commissioners (February 2010) and European Council agreement on the Europe 2020 strategy (March and June 2010) have set the stage for a new, critical phase of budgetary and policy reform. Of particular relevance is Europe 2020 - the overarching, long-term economic strategy for the European Union. It succeeds the renewed Lisbon Strategy for growth and jobs, and sets out three mutually reinforcing priorities of smart, sustainable and inclusive growth.

The state of play on EU budget reform

The EU budgetary review process was launched by the Commission in September 2007 but, since the conclusion of the consultation, the Commission has made little public statement on the future of the EU budget. In November 2009, a leaked draft of a DG Budget Communication proposed that EU spending should be focused on three key axes: sustainable growth and jobs; climate and energy; and 'global Europe'. With respect to Cohesion policy, the leaked paper recommended a concentration of resources on *national* convergence, and regional disparities *within* countries. It questioned the value of Regional Competitiveness & Employment (RCE) funding. However, the DG Budget non-paper attracted significant criticisms, especially from regional development institutional interests.

Meanwhile, the process of preparing positions on the EU budget by other EU institutions has advanced over the past year. Virtually all Member States provided formal responses to the consultation, but there have been very few additional formal government statements or

position papers on budgetary reform published. Many Member States expect to develop clearer negotiating mandates in response to the Commission's forthcoming budget paper.

Cohesion policy scenarios 2014+: eligibility and allocations

Future eligibility scenarios under EU Cohesion policy on the basis of the latest statistical data and EU27 coverage reveals that there would be a significant shift in coverage, with the scope of the Convergence and Phasing-out regions considerably reduced and higher coverage under Phasing-in and RCE status. At a global level, Convergence coverage would fall from 31.7 percent to 24.4 percent of the EU27 population, with coverage concentrated in 15 rather than 18 Member States, as previously. Seven Member States would lose population coverage; two (Italy and Greece) would gain; the remainder would remain unchanged. Phasing-out coverage would be relatively marginal – fewer than 7 million population, compared with over 16 million in 2007-13. By contrast, Phasing-in coverage would increase, concentrated in a few countries, notably Germany and Spain. RCE coverage would remain heavily concentrated in EU15. Lastly, Greece would cease to be eligible for the Cohesion Fund, leaving only Portugal eligible among the EU15 Member States.

The existing approach to Convergence region and Cohesion Fund allocations cannot be reapplied largely unchanged because the budget for these two strands of policy would exceed that for 2007-13, even though the eligible population is substantially smaller. Among the main options to address this are: to mechanistically reduce the Convergence allocation for all eligible regions to constrain the allocation within a fixed budget; to mechanistically reduce the Convergence allocation with different reduction coefficients for EU12 and EU15; or to reconfigure the capping approach. Whatever the scope for 'tweaking' the Berlin formula and the capping methodology, it is questionable whether the existing architecture for determining Cohesion policy allocations is robust enough to be rolled forward in such changed economic conditions.

Cohesion policy directions 2014+: performance, process and perspectives

Looking forward at the substance of policy, the extensive investment in evaluation and other research has continued over the past year, with further insights on the performance of the policy supplemented by the first strategic reports from Member States. The Commission has also been mobilising debate on the future of the policy, particularly through the High-Level Group of Member States.

The Fifth Cohesion Report is currently being finalised and is due for publication in November 2010. In addition to its analytical role in assessing the state of cohesion in the EU, the Report will bring together the conclusions of research and debate with a series of proposals for 2014-2020. At it heart is a conception of Cohesion policy as a delivery vehicle for achieving the Europe 2020 objectives of smart, inclusive and sustainable growth, while recognising the founding Treaty-based objective of cohesion. It will propose several ways for enhancing the European added value of the policy through greater concentration, conditionalities and a performance focus, and it will seek to streamline and simplify the delivery system.

Interviews with national policy-makers reveal universal agreement on EU Cohesion policy being closely aligned with Europe 2020 and its key objectives. However, sufficient flexibility is also called for to adapt EU priorities to different domestic contexts.

With regard to performance-enhancing measures, the use of financial conditionalities and incentives is generally viewed with scepticism, particularly because of methodological challenges. Reinforced monitoring and evaluation could be supported, but as long as the current devolved and needs-based approach is not disrupted. To improve the quality and utility of strategic reporting, national policymakers argue that the reports should concentrate on strategic issues and agreement should be sought on standard core indicators to allow comparison across countries, while the need for a more structured high-level debate in the Council has received mixed reactions. Institutional capacity is increasingly recognised as being critical to effective performance, but this is largely viewed to be a domestic concern.

On the issue of strategic coherence between EU policies, national policymakers are supportive of proposals of a common strategic framework for cohesion policy, rural development policy and maritime and fisheries policy. A related priority is the need to agree on harmonised management rules, eligibility conditions and operational coordination between the Structural Funds and with other EU policies. More complementarity between the Structural Funds and Rural Development is a priority, but not all policymakers consider that rural development should be reintegrated into Cohesion policy.

There is universal agreement on the need to simplify implementation rules and procedures, particularly concerning financial management and control. Other proposals with strong support include lighter administrative requirements for specific types of interventions or beneficiaries, a more flexible decommitment rule and the facilitation of partial closure. Resolving the burden of financial management, control and audit is also seen as the key issue for improving the role of the Commission within Cohesion policy and allowing it to adopt a more strategic stance. However, this would also require additional human resources, more training of Commission staff and more effective inter- and intra-DG coordination.

Issues for discussion

A preliminary set of questions for discussion at the EoRPA meeting are:

- What kind of changes to the Berlin formula for allocating Cohesion policy funding could be considered to stay within budgetary limits and ensure sufficiently wide political support?
- How should the approach to shared management of Cohesion policy evolve?
- What kind of conditionalities on Cohesion policy spending would be acceptable to Member States?
- What scope is there for widening the use of different financial instruments?

SETTING THE STAGE FOR THE REFORM OF COHESION POLICY AFTER 2013

1. INTRODUCTION

As the Fifth Cohesion Report is finalised, the stage is being set for the important, negotiation phase of Cohesion policy reform. The proposals for ‘a regional development strategy for 2020’ come at a critical time for the policy, which has been under internal and external pressure. As in 2004-05, several of the net payer Member States are concerned about the cost of their budget contributions, exacerbated by current public expenditure constraints in the wake of fiscal retrenchment. Cohesion policy, along with the Common Agricultural Policy, are the main areas of EU spending likely to be targeted for cutbacks. Within the European Commission, the launch of the Europe 2020 has given a high profile to new EU priorities for which extra funding is sought. As previous EoRPA papers have illustrated,[1] Cohesion policy has been under attack for its performance, especially the ambiguous evidence for the effectiveness of spending, the administrative complexity of management and implementation requirements, and the relatively high level of irregularities.

All EU reform debates are protracted, but the recent discussions on reforming Cohesion policy have been longer than any hitherto. Hardly had the new 2007-13 programmes been launched in 2007 than the first consultation on the future of the policy was launched on the back of the future-oriented questions in the Fourth Cohesion Report. The independent Barca Report on the future of the policy was commissioned in late 2007, reporting in 2009, followed by an orientations paper from Commissioner Hübner and a reflections paper from Commissioner Samecki. Along the way, a Green Paper on territorial cohesion was prepared, and the biggest ever evaluation exercise was conducted by DG Regio to assess the effectiveness of the policy in 2000-06 along with a series of other studies to inform future thinking.

The Fifth Cohesion Report, due for publication in November 2010, and the Cohesion Forum planned for March 2011, are two further important milestones. In addition to its analytical role in assessing the state of cohesion in the EU, the Report will bring together the conclusions of research and debate with a series of proposals for 2014-2020. At it heart is a conception of Cohesion policy as a delivery vehicle for achieving the Europe 2020 objectives of smart, inclusive and sustainable growth. It will propose several ways for enhancing the European added value of the policy through greater concentration, conditionalities and a performance focus, and it will seek to streamline and simplify the delivery system. However,

[1] For example, see: Bachtler J, Mendez C and Wishlade (2009) *Challenges, Consultations and Concepts: Preparing for the Cohesion Policy Debate*, EoRPA Paper 09/6, European Policies Research Centre, University of Strathclyde, Glasgow. Bachtler J, Mendez C and Wishlade (2009) *Ideas for Budget and Policy Reform: Reviewing the Debate on Cohesion Policy 2014+*, EoRPA Paper 09/5, European Policies Research Centre, University of Strathclyde, Glasgow.

the conclusions have yet to be finalised – and some key issues, such as the relationship between the ERDF and ESF, have still to be agreed.

The context for the Report will be provided by the results of the budget review to be published by the Commission in October 2010. In charting the priorities for future EU spending and mechanisms for revenue-generation, it will reveal the thinking shaping the proposals for the next Financial Perspective, due in Spring 2011. Followed by the legislative package for Cohesion policy in Summer 2010, the starting gun will have been fired for the negotiations on the EU budget for the post-2013 period.

Against this backdrop, this paper provides a review and assessment of the current state of the debate on the future of Cohesion policy. It begins, in Section 2, by setting out the context for reform in terms of economic governance, institutional changes and the policy priorities of Europe 2020. Section 3 reviews the state-of-play of the budget debate, highlighting different national positions. Section 4 then focuses on one of the key issues underlying Member State positions – their eligibility for Structural and Cohesion Funds, and the likely financial allocations, based on the latest Eurostat data. The political and policy dimensions of Cohesion policy reform are the subject of Section 5, and the paper concludes with issues and questions for discussion in Section 6.

2. THE CONTEXT FOR POLICY REFORM

EU budget reform has been in a state of flux over the last year, with limited legislative progress since the end of the consultation process in late 2008. The economic crisis has dominated the EU agenda with important consequences for economic governance and new ideas on the use of EU budgetary conditionalities emerging. On the political and institutional front, the entry into force of the Lisbon Treaty (December 2009), the appointment of a new Commission and College of Commissioners (February 2010) and European Council agreement on the Europe 2020 strategy (March and June 2010) have set the stage for a new, critical phase of budgetary and policy reform.

2.1 Economic governance

Over the past year the fallout from the financial and economic crisis has dominated the EU agenda with important consequences for economic governance. A Greek debt crisis erupted in January when it was discovered that the country's deficits were twice as large as it had reported. This led to a fall in Greece's sovereign debt rating and speculative attacks on the euro. Although initially hesitant to react, the EU Member States, the European Central Bank and the Commission responded with a strong and concerted package of initiatives to ensure financial stability, support growth and employment, and to strengthen the economic governance system of the EU:

- a task force was set to reform EU and euro zone economic governance, comprised of EU27 Finance Ministers and chaired by European Council President Herman Van Rompuy (26 March 2010);
- an emergency aid mechanism for Greece was agreed worth €30 billion (11 April 2010);
- a stabilisation mechanism of €750 billion was set up to protect the euro (10 May 2010);
- and a Commission Communication proposed to strengthen EU economic governance, including reinforced ex-ante budgetary surveillance through early mutual surveillance and peer review of national budgets and tougher sanctions for countries breaking budget deficit and debt limits (12 May 2010).[2]

With an eye on the future reform of Cohesion policy, the above-mentioned Commission Communication stated that *"Cohesion policy should have a clearer role to play in supporting Member States actions to address structural weaknesses and competitiveness challenges….particularly with a view to strengthening institutional capacity and efficiency of public administrations."* It also called for more rigorous and stricter enforcement of

[2] European Commission (2010) Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, *Reinforcing Economic Policy Coordination*, COM(2010) 250 final, 12.5.2010, Brussels.

existing conditionalities on the Cohesion Fund – as linked to breaches of the Stability and Growth Pact (SGP) - during the current financial perspectives.

Further Commission thinking on these issues was set out in a follow-up Communication in June 2010.[3] It anticipated the establishment of ex-ante conditionalities for Cohesion policy in its future reform proposals, by linking Cohesion disbursements to structural and institutional reforms. Although not specified in the Communication, potential candidates are likely to include business regulation and, in the environment field, water pricing and user-charging policies, given the high volume of funding channelled into business support and basic water infrastructures.

With respect to the fiscal corrective arm, a new system of financial sanctions and incentives was proposed to ensure compliance with SGP rules. These would apply to expenditure under Cohesion policy, the CAP and the Fisheries Fund. However, a qualification was noted in relation to the CAP and Fisheries Fund, by excluding the possibility of farmer and fisherman income being affected; conditionality on payments would target EU reimbursements to national budgets and Member States would have to continue to pay the farm and fisheries subsidies. Lastly, it suggested that other incentives could be set up, such as a performance reserve or the modulation of co-financing rates.

2.2 Political and institutional context

After eight years of intense negotiation, the Lisbon Treaty finally came into force on 1 December 2009 following the second Irish referendum vote on 2 October 2009 and ratification by all EU27 Member States. The Treaty's stated aim is "to enhance the efficiency and democratic legitimacy of the Union and to improve the coherence of its action." Important changes were made to EU institutions and decision-making processes, most prominently an extension of Qualified Majority Voting (QMV) in the Council of Ministers; increased power for the European Parliament in the legislative process through extended co-decision with the Council of Ministers; and the creation of a President of the European Council (Herman Van Rompuy) and a High Representative of the Union for Foreign Affairs and Security Policy (Baroness Catherine Ashton) to present a common EU position on the world stage.

The main implications of the Lisbon Treaty for Cohesion policy are two-fold. First, there is a new title on economic, social and 'territorial' cohesion. The concept of territorial cohesion is not defined and the traditional goal of reducing regional disparities has not changed, but a more specific reference to the regions deserving particular attention is included in the Treaty, namely: "rural areas, areas affected by industrial transition and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and

[3] European Commission (2010) Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, *Enhancing Economic Policy Coordination for Stability, Growth and Jobs - Tools for Stronger EU Economic Governance*, COM(2010) 367/2, European Commission, Brussels.

mountain regions." Second, Cohesion policy legislation is now decided on the basis of co-decision through the so-called ordinary legislative procedure, providing the Parliament with stronger decision-making power vis-à-vis the Council of Ministers across the entire legislative package of regulations.

In September 2009, José Manuel Barroso was re-elected by the European Parliament for a second term of office as President of the European Commission. The appointment of a new College of Commissioners was interrupted due to the delayed ratification of the Lisbon Treaty, obliging Barroso to extend the mandate of the previous College pending Treaty approval. Following this, the European Parliament elected the new European Commission and College of Commissioners on 9 February 2010 for a four year period, including a representative of each of the 27 EU Member States. The Cohesion policy portfolios were taken up by Commissioner Johann Hahn, following Pamel Samecki's six-month term in office at DG Regional Policy, and Commissioner László Andor, to replace Vladimir Spidla at DG Employment, Social and Equal Opportunities.

The new Commission published its 2010 Work Programme at the end of March 2010,[4] setting out the key policy and legislative issues to be taken forward in the coming years. A particular emphasis was placed on the launch of the Europe 2020 strategy for sustainable growth and jobs (see below), enhancing the rights and security of European citizens, and strengthening Europe's role on the world stage. These political priorities were reiterated in Barroso's first ever 'State of the Union' address to the European Parliament (as foreseen in the Lisbon Treaty) in September 2010 on the programme for the year ahead, as well as reaching agreement on the Commission's economic governance proposals and the launch of the negotiations on the EU budget.[5]

Political change has also been evident in some Member States over the past year. Changes of government and a rise of more eurosceptic views have been witnessed in the UK (May), Sweden (September) and the Netherlands (where coalition negotiations are ongoing). By contrast, a new Czech coalition (July) has a more moderate eurosceptic stance than the previous government, while the Presidential elections in Poland (July) have strengthened the position of the existing pro-Europe government.

2.3 The Europe 2020 strategy

Europe 2020 is the overarching, long-term economic strategy for the European Union. It succeeds the renewed Lisbon Strategy for growth and jobs, which was scheduled to end in 2010. Following a relatively quick public consultation, the Commission put forward its proposal for the EU 2020 strategy on 3 March 2010.[6] The strap-line objective is to *"turn the*

[4] European Commission (2010a) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Commission Work Programme 2010, *Time to act*.

[5] José Manuel Durão Barroso, President of the European Commission, *State of the Union 2010*, 7 September 2010, European Parlimament, Strasbourg.

[6] European Comission (2010b) Communication from the Commission, *Europe 2020 A strategy for smart, sustainable and inclusive growth*, COM(2010) 2020, Brussels, 3.3.2010

EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion". To pursue this objective, three mutually reinforcing priorities have been set:

- Smart growth: developing an economy based on knowledge and innovation.
- Sustainable growth: promoting a more resource efficient, greener and more competitive economy.
- Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

In line with these priorities, five "headline targets" were defined to be adapted at national level and seven flagship initiatives were identified where joint action would be initiated on innovation, youth, the digital agenda, resource efficiency, industrial policy, skills and jobs and the fight against poverty (Figure 1).

Figure 1: Overview of Europe 2020

<table>
<tr><th colspan="3">HEADLINE TARGETS</th></tr>
<tr><td colspan="3">1) Raise the employment rate of the population aged 20-64 from the current 69% to at least 75%
2) Achieve the target of investing 3% of GDP in R&D in particular by improving the conditions for R&D investment by the private sector, and develop a new indicator to track innovation
3) Reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30% if the conditions are right, increase the share of renewable energy in our final energy consumption to 20%, and achieve a 20% increase in energy efficiency
4) Reduce the share of early school leavers to 10% from the current 15% and increase the share of the population aged 30-34 having completed tertiary education from 31% to at least 40%.
5) Reduce the number of Europeans living below national poverty lines by 25%, lifting 20 million people out of poverty</td></tr>
<tr><th>SMART GROWTH</th><th>SUSTAINABLE GROWTH</th><th>INCLUSIVE GROWTH</th></tr>
<tr><td>INNOVATION

EU flagship initiative "Innovation Union" to improve framework conditions and access to finance for research and innovation so as to strengthen the innovation chain and boost levels of investment throughout the Union.</td><td rowspan="2">CLIMATE, ENERGY AND MOBILITY

EU flagship initiative "Resource efficient Europe" to help decouple economic growth from the use of resources, by decarbonising our economy, increasing the use of renewable sources, modernising our transport sector and promoting energy efficiency.</td><td rowspan="2">EMPLOYMENT AND SKILLS

EU flagship initiative "An agenda for new skills and jobs" to modernise labour markets by facilitating labour mobility and the development of skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand.</td></tr>
<tr><td rowspan="2">EDUCATION

EU flagship initiative "Youth on the move" to enhance the performance of education systems and to reinforce the international attractiveness of Europe's higher education.</td></tr>
<tr><td rowspan="2">COMPETITIVENESS

EU flagship initiative "An industrial policy for the globalisation era" to improve the business environment, especially for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.</td><td rowspan="2">FIGHTING POVERTY

EU flagship initiative "European platform against poverty" to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.</td></tr>
<tr><td>DIGITAL SOCIETY

EU flagship initiative "A digital agenda for Europe" to speed up the roll-out of high-speed internet and reap the benefits of a digital single market for households and firms.</td></tr>
</table>

Source: European Commission (2010a), Annex 1

The Commission's proposals were endorsed by the European Council in March 2010 - except for some of the headline targets which were subsequently agreed in June 2010 – providing the Commission with a mandate to draft economic policy and employment guidelines to steer the next round of National Reform Programmes.[7] The guidelines were integrated and formally agreed through a Council recommendation on economic guidelines[8] and a draft decision on employment guidelines, which is still awaiting Parliamentary assent (see Box 1).

Box 1: The Europe 2020 Integrated Guidelines

1. Ensuring the quality and the sustainability of public finances
2. Addressing macroeconomic imbalances
3. Reducing imbalances in the euro area
4. Optimising support for research, development and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy
5. Improving resource efficiency and reducing greenhouse gases
6. Improving the business and consumer environment and modernising the industrial base in order to ensure the full functioning of the internal market
7. Increasing labour market participation and reducing structural unemployment
8. Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning
9. Improving the performance of education and training systems at all levels and increasing participation in tertiary education
10. Promoting social inclusion and combating poverty

To encourage more effective delivery and increased ownership, the governance model for Europe 2020 includes three key innovations compared to the previous Lisbon strategy. First, the European Council is now clearly responsible for coordinating the process, on the basis of Commission proposals. Second, the Commission has a new ability to issue country specific recommendations and policy warnings. Third, the system of Member State reporting on the achievement of 2020 targets is more coordinated with the Stability and Growth Pact reporting system, the latter now including a legal obligation to report on macroeconomic and public finance reform.

With the new Parliament and the Commission in place and the Treaty of Lisbon entering into force, the stage is now set for the critical debates and legislative process to proceed on the new financial perspective for the post-2014 period.

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[7] European Commission (2010c) *Recommendation for a Council recommendation on broad guidelines for the economic policies of the Member States and of the Union* Part I of the Europe 2020 Integrated Guidelines, COM(2010) 193 final, 27.4.2010, Brussels; European Commission (2010d) *Proposal for a Council decision on guidelines for the employment policies of the Member States Part II of the Europe 2020 Integrated Guideline*s, COM(2010) 193 final, 27.4.2010, Brussels.

[8] Council of the European Union (2010) *Council Recommendation on broad guidelines for the economic policies of the Member States and of the Union*, 11646/10, 7 July 2010, Brussels

The Europe 2020 strategy has received a mixed reaction in the consultation exercise and subsequent debates and media commentary. In the academic community, a prominent series of contributions have emphasised four key positive features in comparison to the Lisbon strategy.[9]

- it provides a more comprehensive strategy with a clearer focus on the environmental (sustainable) and social (inclusive) dimensions of growth, as well as recognising the need for a stronger industrial policy;
- there is greater concentration and focus in the approach to target-setting;
- the improved and more coherent economic coordination between national budgetary policies and growth-enhancing policies is welcomed; and
- the use of specific country reports and recommendations should make poor performance more visible.

On the negative side, critics have argued that there has been a lack of informed assessment or evaluation of the preceding Lisbon strategy, particularly the reasons for non-achievement of the goals. There are also concerns that some mistakes may be replicated. For example, the strategy does not entail substantial innovation in terms of instruments and is arguably a window-dressing exercise, consisting of indicators where EU has limited power to add value. The targets are regarded as over-ambitious, especially given the challenging budgetary climate. Further, it fails to incorporate the impact of the short-term imperative of crisis exit strategies on the medium-term goals of the strategy and even contains contradictions, such as the limited priority given to financial regulation or a narrow interpretation of inequalities. Problems of coherence have also been cited: there has been inadequate reflection on the tensions and contradictions between different aims or within flagship initiatives, such as social cohesion versus growth or between employment flexibility and security. Lastly, several problems with the governance approach have been noted, particularly: the limited consultation on the document or space for involvement of stakeholders in implementation; the enhanced role of ECOFIN (Finance Ministers) at the expense of other sectoral Councils; and the lack of attention to how learning and genuine and effective scrutiny by peers can be stimulated.

[9] See the contributions by Annnete Bogardt and Francisco Torres, Phillipe Pochet, Iain Begg, Laszlo Csaba, Karel Lannoo, Luc Soete and Christian Egenhofer in: *Intereconomics* (2010) Forum on Europe 2020 – A promising strategy?, Volume 45, Number 3, May/June 2010, pp136-70.

3. THE STATE-OF-PLAY ON EU BUDGET REFORM

3.1 EU developments

The EU budgetary review process was launched by the Commission in September 2007 with a consultation paper,[10] stating that: *"This budget review is unique, a once in a generation opportunity to make a reform of the budget and in the way we work"*. The consultation was concluded as far back as late 2008 with the assertion that radical reform is necessary. A refocusing of spending on future challenges was considered necessary to shift the centre of gravity of the budget towards the priorities of competitiveness, environment and energy. A fair and transparent mechanism of contributions was also seen as important, replacing the current 'web of corrections'. Flexibility was advocated, so that the budget has improved capacity to respond to evolving challenges.

Since the conclusion of the consultation, the Commission has made little public statement on the future of the EU budget. However, in November 2009, a leaked draft of a DG Budget Communication gave some insight into the way that the Commission might be thinking.

The paper proposed that EU spending should be focused on three key axes: sustainable growth and jobs – research, skills, convergence, innovation; climate and energy – energy efficiency, mitigation and adaptation; and 'global Europe' – poverty, migration management, neighbourhood cooperation. A stable budget of one percent of GNI was foreseen. The paper advocated a reform of EU financing, with the replacement of VAT by a new own resource and the phasing-out of all correction mechanisms (over time). Better delivery was envisaged through simplified procedures (including the delegation of financial control to Member States, more use of performance incentives such as conditionalities, and the differentiation of management/control requirements based on capacity.

With respect to Cohesion policy, the leaked paper recommended a concentration of resources on *national* convergence, and regional disparities *within* countries. It questioned the of value of Regional Competitiveness & Employment (RCE) funding and mooted a possible redirection of RCE funding to areas like research, innovation and TENS as well as strengthened focus on cross-border cooperation. The possibility of extending the use of adjustment instruments in response to external shocks – economic crises, natural disasters, terrorism, public health emergencies - was discussed. Thematic concentration on a limited number of priorities was foreseen: human capital development; infrastructure connections between lagging areas and growth centres; climate and biodiversity investments (climate proofing); and research and innovation. Lastly, the paper made several proposals for improving delivery, potentially including a separation of the European Social Fund from the European Regional Development Fund, the creation of a 'Single Strategic Framework' for all Community funds under shared management (Cohesion, rural development, maritime), and more support for institutional capacity through know-how exchange and networks.

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

The DG Budget non-paper attracted significant criticisms, especially from regional development institutional interests such as the European parliament's REGI Committee, the Conference of Peripheral & Maritime Regions, the Assembly of European Regions and other networks. The main objections were that the DG Budget proposals represented a *de facto* renationalisation of Cohesion policy; it would involve a downgrading of multi-level governance, with no recognition of regional and local issues/interests or involvement, and the downgrading of Objective 2 would potentially 'exclude' c.200 regions from the policy. The separation of ESF from Cohesion policy was also seen as counterproductive. In response to such criticisms, President Barroso rapidly disassociated himself from the paper.

Since then, the publication of the official Communication has been repeatedly delayed – first from Spring 2010 to the Summer, then to early Autumn and now to October. Reports suggest that the scope for radical reform has diminished, largely because of the political turbulence caused by the economic crisis. Of course, there is always a bias towards the 'status quo' in EU budgetary negotiations given that budget agreements require unanimity, and the current fiscal constraints in major EU economies limit the scope for more spending. Nevertheless, in the context of the ambitious Europe 2020 proposals, the budget review will play an important role in charting the priorities for future EU spending which will be formally put proposed by the Commission in July 2011.

Meanwhile, the process of preparing positions on the EU budget by other EU institutions has advanced over the past year. In the European Parliament, a new committee was set up for this purpose in July 2010. Named the 'Special Committee on the Policy Challenges and Budgetary Resources for a Sustainable European Union after 2013' (SURE), the committee's mandate includes six key tasks:

- to define Parliament's priorities for the EU's next long-term budget framework, in both political and budgetary terms;
- to estimate how much money the EU will need to achieve its objectives;
- to define the duration of the next long-term budget framework (this has traditionally been seven years but MEPs want to adjust it to match the mandates of the Parliament and the Commission);
- to propose a structure for future long-term budget frameworks;
- to draw up guidelines on how resources should be distributed within and between different parts ("headings") of the EU budget; and
- to specify the link between a reform of the EU's financing system and a review of expenditure, so as to provide the Budgets Committee with a basis for the forthcoming MFF negotiations.

A first meeting took place in July 2010 to elect the committee's chair (Jutta Haug, S&D, Germany) rapporteur (Salvador Garriga Polledo, EPP, Spain) and four vice chairs (Anne Jensen, ALDE, Denmark; Jan Olbrycht, EPP, Poland; Konrad Szymański ECR, Poland; and Helga Trüpel, Greens/EFA, Germany). Working meetings began in September, but draft

reports are not anticipated till 2011. Looking at specific areas of expenditure, however, an indication of the Parliament's future stance on the agriculture heading can be seen from a resolution on the future of the CAP, approved at a plenary sitting on 9 July 2010. On the basis of an own-initiative report by the agriculture committee, the resolution essentially defends the current approach, arguing for continuity rather than change: maintaining the current share of the EU budget and co-financing approach; and continuing with some market measures as a safety net, the Single Farm and the Less-Favoured Area Payments, and flexible spending entitlements that are fully community-financed.

The Committee of the Regions preparatory work has also stepped up a gear. A formal opinion on the future EU budget is imminent. Among the key expected proposals are that a 10 year financial framework (that is, 5+5 approach) be adopted and for there to be flexibility to reallocate up to 25 percent of the budget after five years.[11] Like the Parliament, the Committee of the Regions has also issued an opinion the future of the CAP with a supportive stance on the level of EU expenditure. Specifically, it calls for "a consolidated and reinforced budget that is up to the challenges and issues to be addressed."[12]

3.2 National developments

The development of Member State thinking on the post-2014 financial perspectives was prompted by the EU budgetary review. Virtually all of the Member States provided formal responses to the consultation, concluded with a major conference in Brussels in November 2008. Beyond these contributions, there have been very few additional formal government statements or position papers on budgetary reform published. However, internal consultation and coordination processes have advanced and many Member States expect to develop clearer negotiating mandates in response to the Commission's forthcoming budget paper.

3.2.1 Organisational preparations

The process of developing a national position on EU budget reform is often led by a Finance or Treasury Ministry with varying degrees of input from other Ministries (particularly those responsible for managing EU funding) through existing inter-ministerial coordination forums and channels (e.g. Finland, Ireland, Netherlands).

- For instance, in Finland discussions have progressed within the Budget Department's EU Unit at the Ministry of Finance. Politically contentious issues are resolved in the so-called Agenda Leader Group (which gathers representatives at

[11] Committee of the Regions press Release (2010) EU budget review: regions will continue to play key role, agree Bresso and Lewandowski, 19 July 2010, Committee of the Regions, Brussels: http://www.cor.europa.eu/pages/PresentationTemplate.aspx?view=detail&id=dcd3c76f-7729-4edd-a884-50a36982ff1b

[12] Committee of the Regions (2010) Own-Initiative Opinion, The Future Of The Cap After 2013: http://coropinions.cor.europa.eu/CORopinionDocument.aspx?identifier=cdr\nat-v\dossiers\nat-v-003\cdr127-2010_fin_ac.doc&language=EN

the level of heads of departments) and final decisions will be formalised in the EU Ministerial Committee.

In other cases, a Foreign Affairs or External Relations Ministry plays a more significant role in coordinating the process, given their general responsibility for EU policy coordination.

- In Italy, the lead is taken by the Ministry of Foreign Affairs, which prepared the national contribution to the budget review consultation and has begun developing this work further through inter-ministerial meetings in late March 2010 with representatives from the Presidency of the Council of Ministers, the Ministry of Economy and Finance, the Ministry of Agriculture, the Department for Community Policies and the Department for Development Policies.

- In Poland, the Ministry of Foreign Affairs is taking the lead on the formulation of the government position, now that the Office for European Integration (which led the role for the previous financial perspective) has been incorporated into the Ministry.

- In Spain, the DG for Integration and Coordination of General and Economic Affairs of the State Secretariat for European Affairs (Ministry of External Cooperation) coordinates the government's EU budget reform position in cooperation with officials and technical experts from other Ministries (particularly the Ministry of Economy and Finance and the Ministry of Agriculture) which have been meeting in an Inter-Ministerial Committee for EU Affairs or engaging in informal contacts.

Greater political oversight is evident in other countries, sometimes involving direct links to heads of state.

- In Austria, the process is led by the Treasury, but the work is closely coordinated with the Ministry of Foreign Affairs and the Federal Chancellery

- In France, the process is managed by the President and the Prime Minister together with the Budget Directorate of the Budget Ministry and the General Secretariat for European Affairs which is directly affiliated to the Prime Minister.

The setting up of dedicated committees or working groups on specific aspects of budgetary reform is indicative of the increasing attention being devoted to the development of more detailed positions on the post-2013 financial perspectives.

- In Italy, a working group was set up in mid-2010 to assess the implications of the budgetary review for net balances in more detail.

- Similarly, the recent preparatory work in France has focused on modelling the main scenarios for the different budget headings, involving dedicated meetings between the Ministry of Agriculture and DATAR.

- In the case of Ireland, a high-level consultative committee on CAP reform has been set up by the Department of Agriculture and submissions on CAP reform from the public and interest organisations have been invited.

- The forthcoming EU Presidency in Poland is seen as an important milestone for Polish authorities in the budget debate and working groups on Cohesion policy have been set up to prepare for this in the Ministry of Regional Development

Parliamentary input to the budgetary review process is another distinctive feature of recent developments in some countries.

- On the request of the Prime Minister, a report on budgetary reform was produced by the French Parliament's European Affairs Committee in May 2010 to steer strategic thinking, based on a broad consultation process with a broad array of stakeholders at different levels.[13]

- A similar process is underway in Spain through the creation of a temporary parliamentary committee in March 2010 to examine the reform of the EU budget along with the implications for the CAP and Cohesion policy.

As noted, most Member States have not issued further formal position papers beyond the budgetary review consultation responses and it is evident that the intention in many cases is to "wait-and-see" what the Commission will propose in its budget paper before reacting. In line with this timetable, an official French position is expected in November 2010, following intensive work after the summer break, and an Italian memorandum on the EU budget and Cohesion policy is expected soon. In other cases, responses to EU policy developments will only be undertaken if this proves necessary (e.g. Germany, Spain). Political attention has been diverted to more pressing domestic matters elsewhere. Linked to managing the banking crisis and public sector staff cuts, Ireland's Department of Finance is under considerable pressure and the position on the EU budget has not advanced to any great extent since the budgetary review.

3.2.2 Budget positions

Turning to the substantive content of EU budgetary reform, initial Member State views have been systematically reviewed elsewhere on the basis of the consultation responses.[14] These positions have not changed significantly since then, and very few new ideas have been proposed. According to the national policymakers interviewed, the main issues that have

[13] Lequiller P (2010) *Rapport de Pierre Lequiller*, auprès de Monsieur Michel Mercier, Ministre de l'espace rural et de l'aménagement du territoire et de Monsieur Pierre Lellouche, Secrétaire d'Etat chargé des affaires européennes.

[14] Bachtler J, Mendez C and Wishlade F (2008) Ideas for Budget and Policy Reform: Reviewing the Debate on Cohesion Policy 2014+, EoRPA Paper 08/4, European Regional Policy Research Consortium, EPRC, University of Strathclyde, Glasgow; Bachtler J, Mendez C and Wishlade F (2009) Challenges, Consultations and Concepts: Preparing for the Cohesion Policy Debate, EoRPA Paper 09/6, European Regional Policy Research Consortium, EPRC, University of Strathclyde, Glasgow.

dominated internal discussions relate to the size of the EU budget, the added value of expenditure and future policy priorities.

Opposing views on ***the size of the EU budget*** were already evident in the budget consultation responses. On the one hand, Greece, Poland and Portugal emphasised the need for the EU budget to have sufficient resources, warning (in the case of the Polish submission) that budget reductions will reduce responsiveness to changing needs. On the other side, some of the net contributors called for a “leaner” budget with substantial reprioritisation of expenditure (Sweden and the UK) while Austria and the Netherlands explicitly called for total spending to remain constant at a level of 1 percentage of EU GNI, the capping level which had been defended by the group of six net budget contributors in the previous financial perspective.

Since the budget consultation, Germany has adopted a similar stance by calling for a 1 percent ceiling on the EU budget in the federal government’s coalition agreement of October 2009.[15] The French contribution to the budget consultation was silent on the question of scale, but interviews with government officials suggest that the ambition is to keep the budget within the current limits, a view which is also reflected in the French Parliament’s report on the future of the budget. This states that, as a net contributor to the EU budget, France ‘is probably prompted, in a context of generalised pressure on public finances of Member States, not to support a significant increase’ of the EU budget as compared to its current level.[16] Following a meeting between the French Budget Minister Francois Baroin and the German Finance Minister Wolfgang Schäuble on 24 August 2010, Commission proposals for budgetary increases in 2011 (including future proposals for a new EU-wide tax that could fall on bank transactions or air travel[17]) were strongly criticised by the Ministers for being out of line with the austerity measures being implemented across EU Member States in the challenging fiscal climate.[18]

This economic realism is echoed by recent Ministerial statements in Spain, a country which is likely to become a net contributor for the first time and faces a drastic squeeze on public finances. In a Parliamentary hearing on budget reform,[19] the Secretary of State for Finance and Budgets noted that the government will continue to advocate a ‘strong Europe and a strong budget’ as in the past, but also acknowledged that it is unlikely that the budget will increase given the current financial context. Tensions about the increasing net payer burden in Finland have been at the core of a recent informal document produced by the

[15] CDU, CSU and FDP (2009) Growth. Education. Unity, The Coalition Agreement between the CDU, CSU and FDP for the 17th legislative period, p165.

[16] *Ibid*, p.41

[17] Pignal S (2010) Brussels proposes ‘eurotaxes’ to fund EU, *Financial Times*, August 9 2010, London.

[18] Euractiv.com (2010) France, Germany at odds with Brussels over budget, 25 August 2010: http://www.euractiv.com/en/priorities/france-germany-odds-brussels-over-budget-news-497151

[19] Commision Mixta para la Unión Europea (2010) Comparecencias del señor Secretario de Estado de Hacienda y Presupuestos para informar en relación con la materia objeto de estudio de la ponencia sobre el marco presupuestario de la Unión Europea 2013-2020 y su impacto sobre la reforma de la política agraria común y sobre las políticas de cohesión. Sesión Núm. 39, 25 de Mayo 2010, Palacio del Congreso de los Diputados, Madrid.

government, concerns which seem to be shared in Italy given the increased attention being placed on the modelling of future scenarios.

An even harder stance has been adopted by the new UK Prime Minister David Cameron who has called for the budget to be reduced over time in the context of recent debates about the annual budget for 2011. In a joint press conference with Danish Prime Minister Lars Lokke Rasmussen in August 2010, Cameron stated that *"as we reduce our deficits at home, I think it's very important, as we were discussing, that we both argue to make sure that the European budget over time is reduced rather than increased."*[20]

With respect to ***expenditure***, one of the main conclusions from the consultation was the universal support among Member States for decisions on future EU policies to be based on their European added value, although interpretations of what this meant in practice varied or were simply not provided. Linkages to the new Europe 2020 strategy are increasingly being used as a justification in this respect.

- In Finland, a recent government paper advocates a more 'modern' approach entailing, for instance, activities which would result in more added value, and a better linkage to the components proposed in Europe 2020, particularly competitiveness, R&D and innovation dimensions.

- The German government's coalition agreement of October 2009 expresses its commitment to the Lisbon Treaty objective of transforming the EU into the world's most competitive economic area and states that EU expenditure must be seen in this context including more resources from the Structural Funds being dedicated to this objective.[21]

The ramifications of Europe 2020 for existing EU policy priorities are a cause for concern in some countries.

- An updated Polish position paper on Cohesion policy defends the policy's central contribution to Europe 2020 objectives and argues that it should therefore *"keep its prominent place in the EU budget."*[22] This was reiterated by the Polish President, Bronislaw Komorowski, who argued for maintaining Cohesion policy funding: "it is so important to make solidarity real, to make development levels more equal."[23]

[20] Transcript of a press conference given by Prime Minister David Cameron and the Danish Prime Minister Lars Lokke Rasmussen in London, on 12 August 2010: http://www.number10.gov.uk/news/speeches-and-transcripts/2010/08/press-conference-with-the-danish-prime-minister-54498

[21] Ibid, p.165

[22] Position of the Government of the Republic of Poland on the future of Cohesion Policy after 2013 "Cohesion Policy as an efficient, effective and territorially differentiated response to EU development challenges" Adopted by the Council of Ministers on 18th August 2010

[23] Grajewski M (2010) Polish leader urges EU to keep generous aid funds, *Reuters,* 1 September 2010.

- Recent government speeches in Spain have emphasised that Europe 2020 strategy should not lead to a reduction in spending on traditional policies (both the CAP and Cohesion policy), but that 'quality' should be the core principle informing future spending grounded on the 'added value' and 'complementarity' generated for the EU and for individual Member States.[24] Four elements are emphasised:
    - the ability to contribute to common EU objectives, notably competitiveness, economic, social and territorial cohesion and sustainable development;
    - positive externalities on energy supply and security, external security and the internal market;
    - the potential to encourage greater Member States participation in EU policies and especially those which contribute to convergence, competitiveness and sustainability;
    - and multiplier effects on domestic investments and synergies with resources mobilized at the level of Member States.

Diverging views on the appropriate level of funding for the core areas of agricultural and cohesion expenditure were evident from the budget review consultation. On the **Common Agricultural Policy**, two opposing camps can be identified.

On the one hand, there are countries that want to see the retention of a strong CAP, like France and Greece. Recent statements by ministers and senior officials in Spain indicate that they share this position,[25] and bilateral talks with Poland suggest that there is consensus with Spain on CAP reform.[26] Concerns about the future of the single farm payment are particularly salient in Ireland, where a high-level consultative committee on CAP reform has recently been set up.

By contrast, a drastic reduction in the CAP budget was proposed by the UK and Denmark, including a reprioritisation towards rural development and the provision of public goods. The UK line was reiterated during the new coalition government's first ministerial visit to Brussels in May 2010, where the UK Minister for Agriculture and Environment suggested that the financial crisis should help to focus Member States minds on the need for radical reform and could increase the number of British allies.[27]

The debate on the CAP has intensified over the past year. A large public consultation on the future of the CAP concluded with a conference on 19-20 July 2010, where the Agriculture

[24] Commision Mixta para la Unión Europea (2010) *op.cit*.

[25] Miniserio de Medio Ambiente y Medio Rural y Marino (2010) Elena Espinosa defiende la fortaleza para la PAC post 2013 por el carácter estratégico de la agricultura europea, Gabinete de Prensa, 10 June 2010, Madrid.

[26] Ministry of Agriculture and Rural Development (2010) 'Polish-Spanish talks', Press Release, 14.05.2010, Ministry of Agriculture and Rural Development, Warsaw.

[27] European Voice (2010) UK hopes for CAP reform support, 17 May 2010, *European Voice*, Brussels.

Commissioner recognised that the policy needed to change. CAP payments based on historic production levels needed to be replaced by a more equitable method of payments. Both the consultation and conference argued in support for CAP to be providing modern public goods, to be supporting 'high nature value' farming and to be adapted to different territorial needs and conditions.[28]

At the most recent informal meeting of agriculture ministers (September 2010), the background working paper argued the "need for a strong CAP" on the basis that a common agricultural policy at European level was regarded as preferable to Member State policies.[29] Further, there was a desire to keep rural development support separate from Structural Funds: *"there is a general view that the two pillars of the CAP should be maintained and that the rural development fund should not be merged with the cohesion funds. However, the relationship between the two pillars should be clarified and their coherence and coordination should be strengthened bearing in mind the need for better coherence and coordination with other EU policies".* This was supported by a joint Franc-German position paper issued in advance of the informal meeting which supported the current two pillar structure and opposed national co-financing within Pillar 1.[30]

In the area of **Cohesion policy**, Member States views on the appropriate level of funding for Cohesion policy are equally divided. The Dutch consultation submission explicitly called for cuts in spending, while Sweden and the UK argued for a reprioritisation of spending towards other policies. By contrast, most of the EU12 responses expressed resistance to cuts arguing that cohesion remains a fundamental and overarching objective for the Union. Italy and Spain also support an adequately resourced Cohesion policy, notwithstanding their net payer status. Decisions on the overall scale of funding for Cohesion policy are closely connected to several inter-related issues concerning eligibility and the policy architecture of Objectives.

On eligibility, the question is whether there should be a **concentration of funding on poorer Member States and/or regions,** as argued in the consultation submissions by Estonia, Sweden, UK, Czech Republic and Romania, or an all-region approach, as emphasised by the submissions of Finland, France and Germany. The (former) UK government's position was reiterated recently: [31] *"Where Member States have the institutional structures and financial strength to develop and pursue their own policies, they should be enabled to do so within a common EU strategic framework. Consequently Structural Funds in the richer Member States should be phased out."*

[28] *Public goods centre stage at the CAP post 2013 Conference*, Institute for European Environmental Policy, News briefing on the future of the CAP, IEEP, London, 30 July 2010.

[29] European Council (2010) *Choosing today for a stronger CAP tomorrow,* Informal meeting of the Ministers of Agriculture, La Hulpe, Belgium, 19-21 September 2010, Council of the European union, Brussels, 13452/10.

[30] *Franco-German Position on Future of the CAP Released*, Institute for European Environmental Policy, News briefing on the future of the CAP, IEEP, London, 23 September 2010.

[31] Department of Works and Pensions (2010) *Memorandum to the House of Lords European Union Committee, Making it work: the European Social Fund*, Minutes of Evidence, 2 February 2010, House of Lords, London.

On the other hand, interviews with national policy-makers across the EU suggest that there is strong support for the current regional approach, **concentrating on the Convergence objective** on the basis of the well-established threshold of 75 percent of EU GDP per capita. It appears that Finland is relatively isolated in arguing for supplementary criteria to be used to determine funding allocations (e.g. on demographic change).

Increasing consensus is evident in relation to the idea of **modulating Convergence funding for transition regions** immediately above the 75 percent threshold. While some policy-makers disagree with this informally, the latest Council conclusions on Cohesion policy recall the *"experiences from the applied transitional regimes and notes that possible discussion should consider existing transitional regimes, inter alia in order to seek similar treatment of regions in similar situations, which also allow programmes to be organised effectively."*[32] Germany, Greece and Spain are particularly keen on transitional support given the major funding cuts anticipated from the loss of Convergence status for several regions (see Section 4), a view which is supported by Poland in its updated position paper on Cohesion policy[33] as well the European Parliament and the Committee of the Regions.[34] A proposal that has been floated in EU circles is that there should be 'sliding zones' in the range 75-90 percent of EU GDP per capita, with a sliding scale of support. On the other hand, this could lead to an expansion of the Cohesion policy budget, which would conflict with net payer countries' budgetary concerns.

The future of the **Regional Competitiveness and Employment** Objective is less certain, not least given the ongoing criticism about its added value and the related calls for a national approach to eligibility. However, the indications are that a significant number of countries would resist the renationalisation of the Objective. France has advocated an EU-wide approach for all regions, reiterated in the earlier-cited parliamentary report on budgetary, policy and diplomatic grounds: from a budgetary perspective, it is the funding tranche with the greatest rate of return for France; politically and policy-wise, it is considered important to maintain a sizeable contribution of Structural Funds to the development strategies of all French regions as a withdrawal might lead to questions over the future of the State-region contracts; and, diplomatically, it is considered necessary to be in line with the majority view of the Member States, notably Germany, as well as the European Parliament. National policy-makers from other member States have also defended the objective (e.g. Finland, Italy, Poland), although recognising that cuts may be necessary (Germany) or that more thought needs to be given to how the Objective can generate positive incentives effects or spillover effects on Convergence regions (Spain). A proposal raised in a Council Presidency

[32] Council of the European Union (2010) *Council conclusions on the Strategic Report of 2010 by the Commission on the Implementation of the Cohesion Policy Programmes*, 3023rd Foreign Affairs Council meeting, 14 June 2010, Luxembourg.

[33] Position of the Government of the Republic of Poland on the future of Cohesion Policy after 2013 *"Cohesion Policy as an efficient, effective and territorially differentiated response to EU development challenges"* Adopted by the Council of Ministers on 18th August 2010

[34] *Report on Green Paper on Territorial Cohesion and the state for the debate on the future reform of Cohesion policy*, A6-0083/2009, 20.2.2009; Opinion of the Committee of the Regions on the 'Fifth progress report on economic and social cohesion' C 76, 31.3.2009, Official Journal of the European Union, Luxembourg.

paper for the informal meeting of regional policy ministers in February 2010 is the introduction of tranches within the Objective to reflect the significant differences in development across the competitiveness regions by allowing differentiation in the allocation of resources within the objective and the eligible investments.[35]

Finally, the continuation of the **European Territorial Cooperation** Objective has universal support across the Member States. The above-cited Presidency paper suggests that there is sufficient consensus across the Member States for the Objective to be financially reinforced, but only if agreement can be reached on clearly defined financial allocation criteria - between Member States and cooperation zones, and between different fields or levels of territorial cooperation (cross-border, transnational and interregional).[36]

[35] Spanish Council Presidency (2010) *Orientation document for the debate on the future of Cohesion Policy*, Informal Meeting of Ministers of Regional Policy, February 19th 2010, Zaragoza.

[36] *Ibid*, p5

4. COHESION POLICY SCENARIOS 2014+: ELIGIBILITY AND ALLOCATIONS

A critical factor influencing Member State positions on these budgetary questions and the architecture of Cohesion policy post-2014 is the issue of future eligibility, which determines the funding that will flow to different countries and regions. This section explores future eligibility and allocation scenarios under EU Cohesion Policy on the basis of the latest statistical data.[37] The starting point for the analysis is essentially a reapplication of the methods used for 2007-13. The latest GDP data covers the period up to and including 2007. The calculations use regional GDP data for 2005-7 and GNI data for 2006-8.Other things being equal, Cohesion policy post-2014 will be based on GDP data for 2007-9 and GNI data for 2008-10.

4.1 2007-13 Criteria and coverage

Cohesion policy distinguishes between eligibility for the Cohesion Fund, which is determined at the national level, and eligibility for the various strands of policy determined at the regional level. Eligibility for the **Cohesion Fund** is restricted to Member States where gross national income (GNI) per head measured in PPS is less than 90 percent of the EU 25 average for the period 2001-3 (see Table 1). 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 benefits from a special allocation.

Table 1: Member States eligible for the Cohesion Fund 2007-13

Eligible	GNI(PPS) per head EU25=100		Ineligible	GNI(PPS) per head EU25=100
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 Rep	51.1		**France**	114.0
Hungary	55.7		**Sweden**	115.6
Czech Rep	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: (i) Although Spain is over the qualifying threshold, it is eligible for special transitional arrangements under the Cohesion Fund; (ii) Bulgaria and Romania also qualified for the Cohesion Fund; (iii) Based on 2001-3 data.
Source: Multiannual Financial Framework 2007-2013, Fiche No. 57 rev 2.

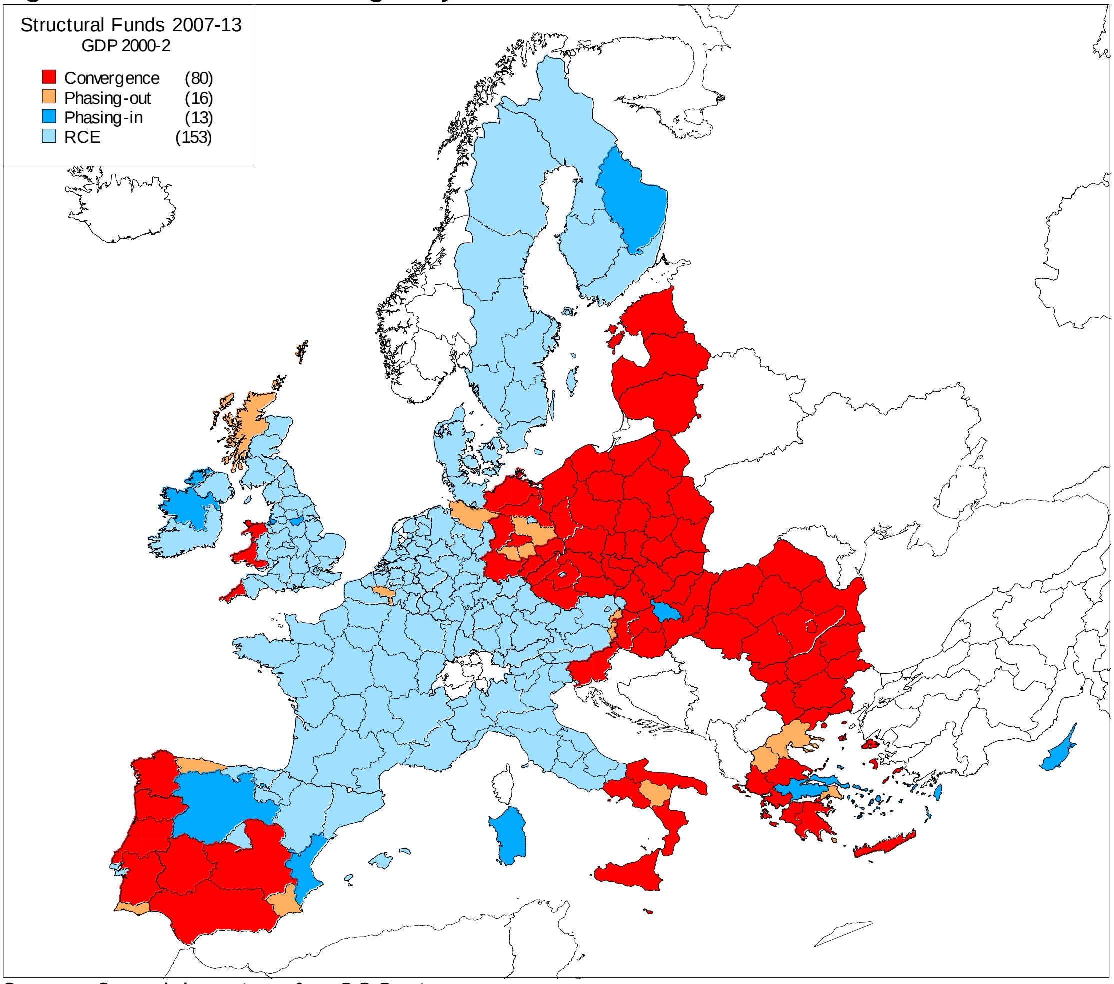
[37] The calculations and assessment in this section were sent to EoRPA partners in Spring 2010 soon after the latest Eurostat data were published.

Current eligibility for the regionally-based elements of Cohesion policy is illustrated in Figure 2. As is well-known, four categories of assisted area can be distinguished:

- Convergence: those regions where GDP(PPS) per head for 2000-2 was less than 75 percent of the EU25 average.
- Phasing-out: those regions squeezed out of eligibility for Convergence status as a consequence of enlargement, these being regions where GDP(PPS) per head was between 75 percent of the EU15 average and 75 percent of the EU25 average.
- Phasing-in: former Objective 1 regions which had outgrown even Phasing-out region status.
- Regional competitiveness and employment: the remaining territory of the EU.

It is important to note that while Bulgaria and Romania joined the EU on 1 January 2007, the averages used for 2007-13 were for EU25, not EU27.

Figure 2: Structural Funds eligibility 2007-13



Source: Own elaboration after DG Regio.

As Table 2 shows, **Convergence** regions are heavily concentrated in central and eastern Europe and the Baltic states, covering the entire territories of Bulgaria, Estonia, Latvia, Lithuania, Malta, Poland, Romania and Slovenia, as well as most of Hungary and the Czech and Slovak Republics (the capital city regions of these countries being excluded). Most of Portugal is also covered (Lisbon region excluded) together with around one-third of Italy, Greece and Spain, most of eastern Germany, and small parts of the UK.

Overall, the EU15 account for just over one-third of total convergence coverage. However, around half of the EU27 total is within three countries – Italy, Poland and Romania.

Coverage of **Phasing-out** regions is not significant at the EU27 level, covering just 3.4 percent of the EU population. Moreover, Phasing-out only concerns eight countries – all within the EU15 (see Table 3). Nevertheless, coverage is particularly significant in Greece, where over half the population falls into this category. Germany, Greece and Spain together account for over 80 percent of Phasing-out coverage.

Table 2: Convergence region coverage 2007-13

	Population	% of population	Share of population
EU27	153721.2	31.7	100.0
EU25	124049.2	27.3	80.7
EU15	55095.2	14.5	35.8
Bulgaria	7868.9	100.0	5.1
Czech Republic	9042.0	88.6	5.9
Germany	10327.8	12.5	6.7
Estonia	1361.2	100.0	0.9
Greece	4026.3	36.6	2.6
Spain	12882.8	31.8	8.4
France	1748.9	2.9	1.1
Italy	16712.3	29.2	10.9
Latvia	2338.6	100.0	1.5
Lithuania	3469.0	100.0	2.3
Hungary	7331.7	72.2	4.8
Malta	395.9	100.0	0.3
Poland	38230.0	100.0	24.9
Portugal	7032.2	67.8	4.6
Romania	21803.1	100.0	14.2
Slovenia	1995.0	100.0	1.3
Slovak Republic	4790.6	88.9	3.1
United Kingdom	2364.9	4.0	1.5

Source: Own calculations from Eurostat data.

Table 3: Phasing-out region coverage, 2007-13

	Eligible regions	Population	% of population	Share of population
EU27		16395.4	3.4	100.0
EU25		16395.4	3.6	100.0
EU15		16395.4	4.3	100.0
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

Coverage of **Phasing-in** regions is also modest at the EU27 level, covering just 3.9 percent of the population (see Table 4). However, coverage is particularly significant in Cyprus (where the whole country is eligible), Hungary, Ireland and Spain. Spain alone accounts for approaching half of the total Phasing-in population.

Table 4: Phasing-in region coverage, 2007-13

	Eligible regions	Population	% of population	Share of population
EU27		19000.3	3.9	100.0
EU25		19000.3	4.2	100.0
EU15		15458.3	4.1	81.4
Greece	Sterea 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

The **Regional Competitiveness & Employment (RCE)** strand covers all regions that do not have Convergence, Phasing-out or Phasing-in status. This covers over 60 percent 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 5: RCE region coverage, 2007-13

	Population	% of population	Share of population
EU27	295255.3	60.9	100.0
EU25	295255.3	64.9	100.0
EU15	293496.1	77.1	99.4
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

Source: Own calculations from Eurostat data.

4.2 Post 2014 Criteria and coverage?

To date, no firm indications have been given about future eligibility criteria for the Structural Funds. Nevertheless, the definition of eligibility for the Cohesion Fund and for Convergence regions, coupled with some transitional arrangements for regions losing Convergence region status has arguably become entrenched in Commission policy and, in the absence of information to the contrary, the discussion that follows proceeds on the basis that the existing system would be rolled forward. A key assumption in this discussion is that the benchmark for determining eligibility for the Cohesion Fund and Convergence status will be the EU27, rather than the EU25. Similarly, Phasing-out status relates to the impact of enlargement from EU25 to EU27, rather than from EU15 to EU25.

Eligibility for the **Cohesion Fund** on the basis of 2006-8 GNI data is illustrated in Table 6. The main change in relation to the current position is that, in principle, Greece would cease to be eligible for the Cohesion Fund. However, even if this position were to remain unchanged on the basis of 2008-10 data (which itself seems doubtful), Greece would be certain to benefit from some transitional arrangements, precedents for which were set when Ireland and Spain ceased to qualify. The scale and nature of such arrangements would, as in the past, be the subject of negotiation. Nevertheless, it is notable that on the basis of current data, among the EU15 Member States, only Portugal would have full eligibility for the Cohesion Fund.

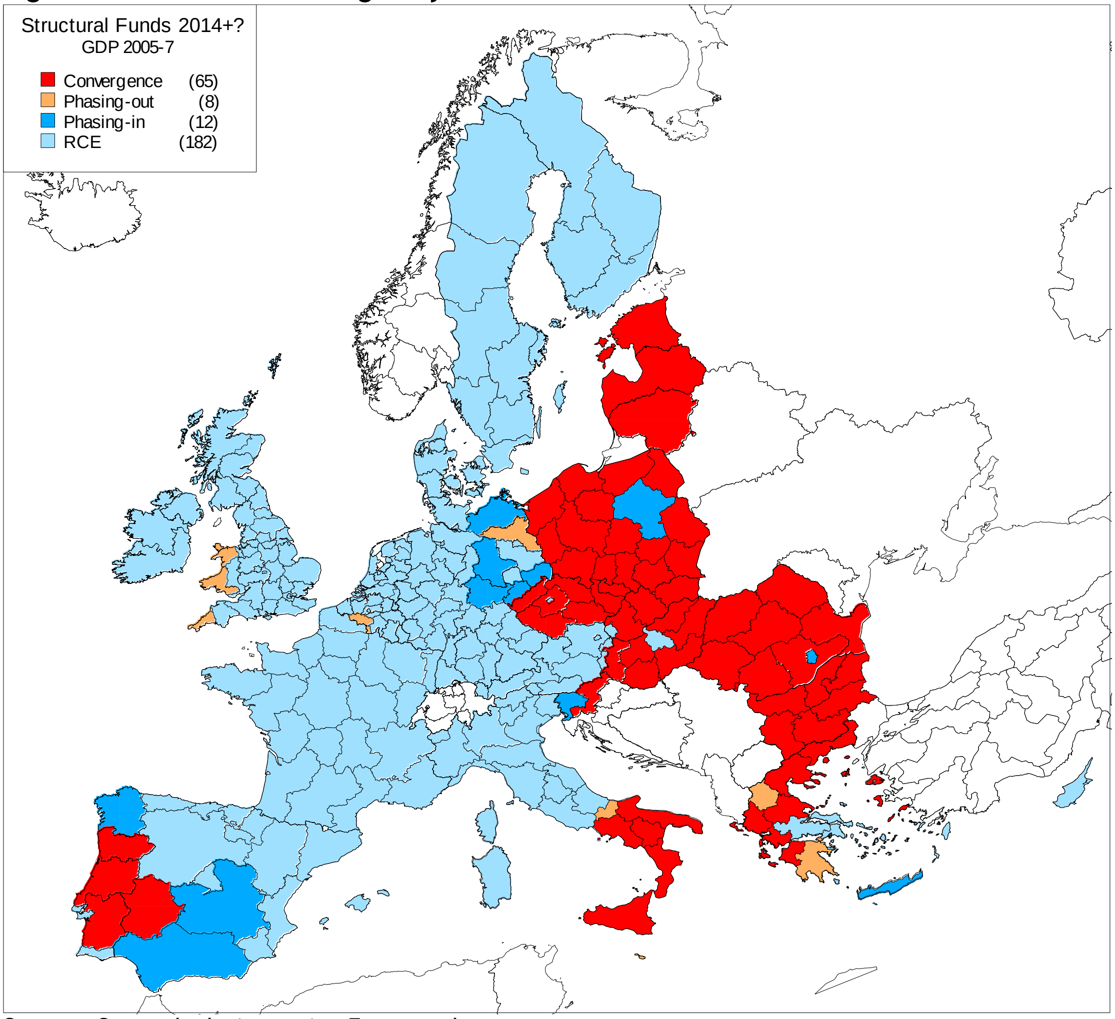
Table 6: Member States eligible for the Cohesion Fund 2014+?

Eligible	GNI(PPS) per head EU27=100			GNI(PPS) per head EU27=100
Bulgaria	37.2		Greece	91.7
Romania	40.5		Italy	101.3
Poland	52.7		Spain	102.8
Latvia	53.9		France	110.0
Lithuania	57.2		Finland	116.1
Hungary	59.0		Germany	118.3
Estonia	63.5		Belgium	119.8
Slovakia	65.6		United Kingdom	120.8
Portugal	73.4		Denmark	122.1
Czech Republic	74.8		Austria	122.7
Malta	74.9		Sweden	124.3
Cyprus	86.1		Ireland	126.2
Slovenia	88.1		Netherlands	132.7
			Luxembourg	213.8

Source: Own calculations from AMECO data.

Coverage of eligible areas determined at the *regional* level is illustrated in Figure 3.

Figure 3: Structural Fund eligibility 2014+?



Source: Own calculations using Eurostat data.

Compared with Figure 2, Figure 3 shows a significant shift in coverage, with the scope of the Convergence and Phasing-out regions considerably reduced and higher coverage under Phasing-in and RCE status. It should be noted in passing that caution should be exercised in considering the *number* of eligible regions in the two maps – these are not directly comparable owing to changes in NUTS 2 boundaries in a number countries.

Looking first at the coverage of **Convergence** regions, several key points emerge from the calculations based on the most recent data (see Table 7).

At a global level, coverage would fall from 31.7 percent to 24.4 percent of the EU27 population, with coverage concentrated in 15 rather than 18 Member States, as previously. Seven Member States would lose population coverage; two (Italy and Greece) would gain; the remainder would remain unchanged.

- Poland and Romania would no longer have Convergence status in their entirety: the capital regions of Mazowieckie and București-Ilfov would become Phasing-in regions
- Germany would cease to have any Convergence regions, as would the United Kingdom
- Spain would have only one such region (Extremadura)
- Malta would lose Convergence status and become a Phasing-in region
- Slovenia would partly be covered by Convergence status with coverage falling from 100 percent to 54 percent following its split into two NUTS 2 regions
- Greece and Italy would both *increase* coverage with Kentriki Makedonia and Basilicata both regaining Convergence status, having been Phasing-out regions in 2007-13.

Table 7: Convergence region coverage, 2014+?

	Population	% of population	Share of population
EU27	121040.7	24.4	100.0
EU25	94071.2	20.2	77.7
EU15	31959.5	8.1	26.4
Bulgaria	7659.8	100.0	6.3
Czech Republic	9134.0	88.4	7.5
Estonia	1341.7	100.0	1.1
Greece	4791.3	42.8	4.0
Spain	1076.7	2.4	0.9
France	1463.3	2.3	1.2
Italy	17491.4	29.5	14.5
Latvia	2276.1	100.0	1.9
Lithuania	3375.6	100.0	2.8
Hungary	7170.9	71.3	5.9
Poland	32940.6	86.4	27.2
Portugal	7136.8	67.3	5.9
Romania	19309.7	89.6	16.0
Slovenia	1084.3	53.7	0.9
Slovakia	4788.5	88.7	4.0

Source: Own calculations from Eurostat data.

Phasing-out region status would concern regions which would have been eligible for Convergence status had it not been for enlargement from EU25 to EU27 and the consequent lowering of EU per capita GDP. The threshold for Phasing-out status on this basis is 77.95 of the EU27 average, which yields the coverage illustrated in Table 8. This shows that Phasing-out coverage would be relatively marginal – fewer than 7 million population, compared with over 16 million in 2007-13. However, Phasing-out status would clearly be of considerable importance to Malta, since the whole country would be covered, even though, overall, the population concerned is concentrated in the United Kingdom, Belgium, Germany and Greece. For the most part, the regions concerned have Convergence status in 2007-13; however, this is not the case for Hainaut, which also has Phasing-out status at present.

Table 8: Phasing-out region coverage, 2014+?

	Eligible regions	Population	% of population	Share of population
EU27		6887	1.4	100.0
EU25		6887	1.5	100.0
EU15		6478	1.6	94.1
Belgium	Hainaut	1297.5	12.2	18.8
Germany	Brandenberg-Nordost	1150.7	1.4	16.7
Greece	Dytiki Makedonia Peloponissos	887.9	7.9	12.9
France	Martinique	398.6	0.6	5.8
Italy	Molise	320.5	0.5	4.7
Malta	Entire country	409.1	100.0	5.9
United Kingdom	Cornwall & the Scilly Isles West Wales & the Valleys	2422.8	4.0	35.2

Source: Own calculations from Eurostat data.

Phasing-in concerns regions with Convergence status in 2007-13, but which have outgrown even the Phasing-out threshold on the basis of the latest data. This concerns a population of some 30 million, compared with 19 million previously, although overall coverage at 6.1 percent of the population is relatively modest. On the other hand, as Table 9 shows, these regions are heavily concentrated in a few countries – notably Germany and Spain - and cover significant proportions of those countries, except in the case of Greece.

Table 9: Phasing-in region coverage, 2014+?

	Eligible regions	Population	% of population	Share of population
EU27		30265.7	6.1	100.0
EU25		28028.6	6.0	92.6
EU15		22848.5	5.8	75.5
Germany	Mecklenburg-Vorpommern Chemnitz Dresden Sachsen-Anhalt Thüringen	9578.0	11.7	31.6
Greece	Kriti	605.4	5.4	2.0
Spain	Galicia Castilla-La Mancha Andalucía	12665.1	28.2	41.8
Poland	Mazowieckie	5180.1	13.6	17.1
Romania	Bucaresti-Ilfov	2237.1	10.4	7.4

Source: Own calculations from Eurostat data.

Table 10: RCE region coverage, 2014+?

	Population	% of population	Share of population
EU27	337377	68.1	100.0
EU25	337377	72.3	100.0
EU15	331899	84.4	98.4
Belgium	9328	87.8	2.8
Czech Republic	1200	11.6	0.4
Denmark	5461	100.0	1.6
Germany	71538	87.1	21.2
Ireland	4357	100.0	1.3
Greece	4908	43.9	1.5
Spain	31137	69.4	9.2
France	61963	97.1	18.4
Italy	41563	70.0	12.3
Cyprus	784	100.0	0.2
Luxembourg	480	100.0	0.1
Hungary	2885	28.7	0.9
Netherlands	16382	100.0	4.9
Austria	8316	100.0	2.5
Portugal	3472	32.7	1.0
Slovakia	609	11.3	0.2
Finland	5289	100.0	1.6
Sweden	9148	100.0	2.7
United Kingdom	58558	96.0	17.4

Source: Own calculations from Eurostat data.

Regional competitiveness and employment (RCE) is essentially a residual category for regions not qualifying under the Convergence or transitional headings. Reflecting changes under the other categories, the RCE population would increase from 60.9 percent to 68.1

percent of the EU27 population. It would remain heavily concentrated in EU15 (although somewhat less so than in 2007-13). Eight countries (Bulgaria, Estonia, Latvia, Lithuania, Malta, Poland, Romania and Slovenia) have no RCE regions. By contrast, seven countries are entirely covered by RCE status (see Table 10).

One final issue is worth raising with respect to eligibility in the post-2014 period. It has been assumed here that transitional status in relation to *EU15* averages has effectively run its course with further enlargement from EU25 to EU27. However, a number of regions with RCE status on the basis of the calculations presented here, would in fact be eligible as *'Objective 1'* regions, if the original threshold – 75 percent of EU15 GDP(PPS) per head - were retained.

Table 11: Still Objective1 post-2014? RCE regions below EU15 GDP per head threshold

	'Eligible' regions	Population	% of population	Share of population
EU27		6653	1.3	100
EU25		6653	1.4	100
EU15		6653	1.7	100
Belgium	Luxembourg Namur	726.3	6.8	10.9
Germany	Lüneburg	1702	2.1	25.6
Italy	Sardegna	1662.5	2.8	25.0
Austria	Burgenland	280.7	3.4	4.2
Portugal	Algarve	424	4.0	6.4
United Kingdom	Tees Valley & Durham Lincolnshire	1857	3.0	27.9

Note: This population is in included within the RCE regions in Table 10; some Phasing-in regions are also below the EU15 GDP threshold for Objective 1.
Source: Own calculations from Eurostat data.

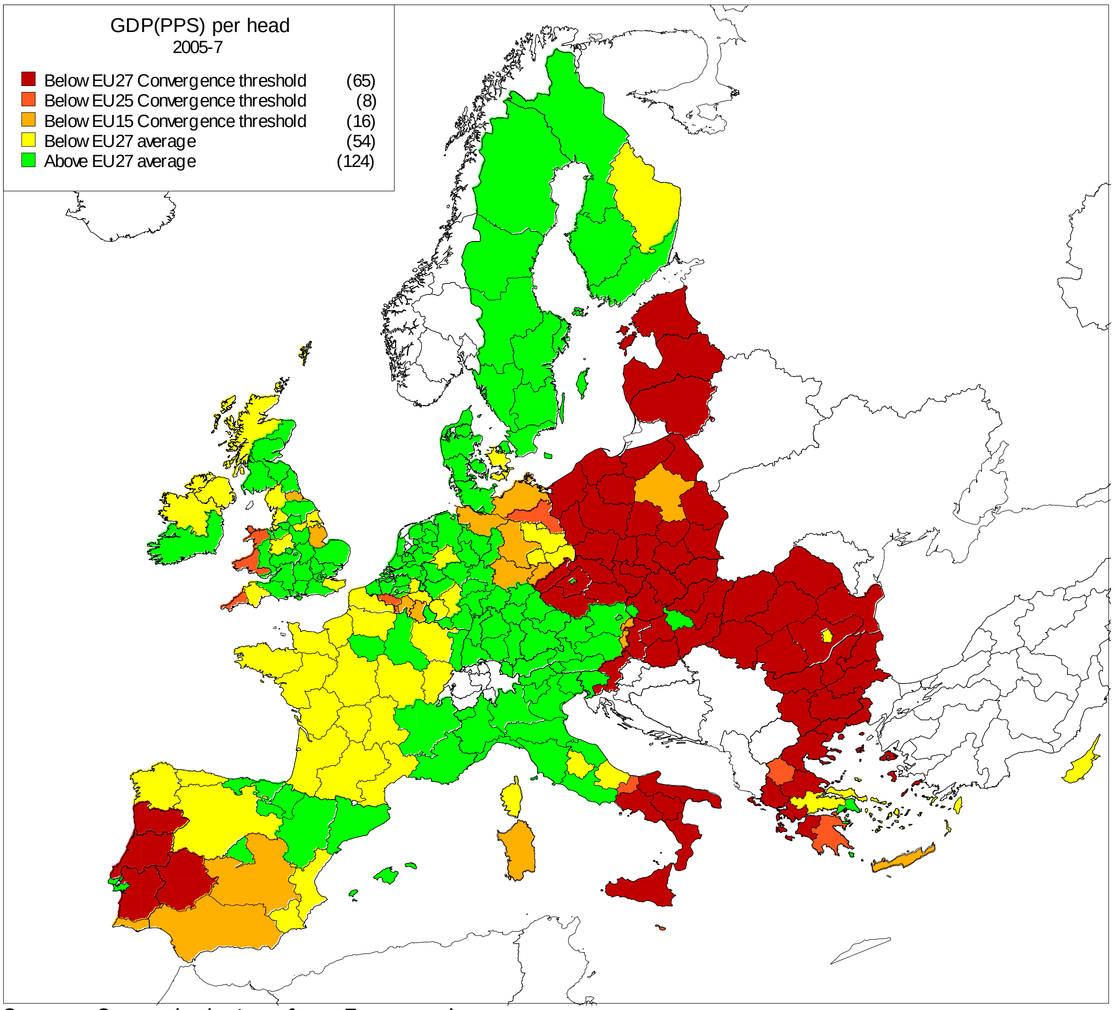
As Figure 4 shows, some 24 regions are affected by the impact of enlargement on eligibility thresholds. Those below the EU25 Convergence threshold would, in principle, be accorded Phasing-out status. However, a further 16 regions, with either Phasing-in or RCE status would have been eligible for Convergence status on the basis of the EU15 threshold.

4.3 Financial allocations

For 2007-13, projected commitment appropriations amounted to 1.048 percent of GNI – some €864.3 billion (2004 prices); of this €308 billion was allocated to Heading 1b for Cohesion Policy.[38] The breakdown between the various strands of policy is illustrated in Table 12.

[38] Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management, OJEU No C139/1 of 14 June 2006.

Figure 4: Impact of enlargement on Convergence region eligibility



Source: Own calculations from Eurostat data.

Table 12: Cohesion policy allocations 2007-13 (2004 prices)

	€ million	%
Convergence regions	177,084	57.5
Phasing out	12,521	4.1
Cohesion Fund	58,308	18.9
Cohesion Fund Transition (Spain)	3,250	1.1
CONVERGENCE TOTAL	**251,163**	**81.5**
RCE regions	38,742	12.6
Phasing-in	10,385	3.4
REGIONAL COMPETITIVENESS TOTAL	**49,128**	**15.9**
Cross-border cooperation	5,576	1.8
Transnational cooperation	1,582	0.5
Interregional cooperation	392	0.1
PEACE	200	0.1
EUROPEAN TERRITORIAL COOPERATION TOTAL	**7,550**	**2.5**

Source: Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, OJEU No L210/25 of 31 July 2007.

This in turn yielded the national breakdown illustrated in Table 13.

Assessing the implications of shifts in spatial coverage for financial allocations is not straightforward.

- In part, this is because, historically, the initial parameters for calculating the allocations have been based on *political* choices (such as an *a priori* EU15/EU10/EU2 split, an Objective 1/Objective 2 share, ring-fencing commitments to ensure doubling allocations for the Cohesion countries) and a methodology adopted, and then adapted, to deliver those results.

- Also, the final allocations are the product of protracted and intense negotiations through which many of the initial parameters are adjusted.

- Added to this, there is no obvious starting point for determining what the Cohesion policy budget might be post-2014, this essentially also being a political decision.

- Moreover, and in contrast with national budgetary practices, in the Multiannual Financial perspective, the overall budget itself is set not as a fixed absolute amount, but rather as a proportion of GNI.

Despite the large number of 'unknowns', the approach to allocating funding has a number of precedents embedded within it. This is particularly so for allocations to the Convergence regions, where the so-called 'Berlin formula' has been applied on two occasions, and the allocation for the Cohesion Fund, where the starting point for allocating funds was that the aid intensity (ie. amount per head) in 2007-13 should be the same as in 2004-6. In both cases, the amounts calculated on the basis of these formulae were subject to two major adjustments:

- for the then new Member States the Convergence region and Cohesion Fund allocations were adjusted such that the latter represented one-third of the Cohesion Policy total; and

- of crucial importance, a cap expressed as a proportion of GDP was set on the amount that could be allocated to any given Member State.

Although in principle the cap applied to all countries, in practice it only affected nine countries (all EU12), namely Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania and Slovakia. The net effect of this was that, for these countries, the *cap* determined the allocation, rather than the Berlin formula and the distribution mechanism for the Cohesion Fund.

Table 13: 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**
EU25	***162065***	***53775***	***12521***	***10387***	***38743***	***7187***	***284286***
EU15	***77040***	***9261***	***12521***	***8159***	***37971***	***4899***	***149851***
EU10	***85025***	***44514***	***0***	***2228***	***772***	***1896***	***134435***
EU27	**177081**	**61559**	**12521**	**10387**	**38743**	**7750**	**308041**

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.

The remainder of this discussion focuses on the allocations for the Convergence regions and the Cohesion Fund which, in 2007-13, account for over three—quarters of total Cohesion policy allocations.

4.3.1 Convergence region allocations

The basic mechanism for allocating funding to the Convergence regions for 2007-13 was modelled on the Berlin formula used for 2000-6. This involved making an allocation based on regional disparities in GDP per head, adjusted for national prosperity, and high unemployment – the basic principle being that the Convergence region allocation should be

related to the prosperity ‘gap’. The steps involved in the Berlin formula are illustrated in Box 2.

Box 2: Calculation of the annual allocation for Convergence regions

1. Calculate difference between regional GDP per head and the EU average.
2. Multiply result by national prosperity coefficient:

GNI(PPS) per head - EU27=100	National prosperity coefficient
< 84.1	4.25%
>84.1 <100.9	3.36%
>100.9	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. (This is not applied in the discussions that follow; the data are not readily available and the addition makes little difference to the outcome).

In looking forward, the main change applied to the methodology has been to adjust the national prosperity criterion to reflect enlargement from EU25 to EU27. The outcome of applying this formula (excluding the unemployment premium) is given in Table 14, alongside the Convergence region allocation for 2007-13, but expressed on a common price footing for the purposes of comparison.

The most striking aspect of Table 14 is the budgetary impact of applying the Berlin formula unfettered. Even though the calculations presented earlier suggested that the Convergence population would *fall* by over 30 million (see Table 2 and Table 7), Table 14 suggests that a straight reapplication of the Berlin formula - ie. *without* capping - would require the Convergence region budget to more than double from €195 billion to €414 billion. The separate treatment of Bulgaria and Romania and the fact that EU25 (not EU27) thresholds were used for 2007-13 complicates direct comparisons between 2007-13 and post-2014 scenarios. However, an ‘unfettered’ application of the Berlin formula to the EU25 would have required funding of around €421 billion for 2007-13 compared to about €281 billion for 2014-20; in other words, the unadjusted funding for the EU25 falls (due loss of eligibility, use of EU27 GDP averages and economic growth) but enlargement to include Bulgaria and Romania means that the overall unadjusted amount remains broadly comparable. Reflecting this, the most significant increases are for Bulgaria and Romania where Convergence region allocations would increase around eight-fold compared to 2007-13.

Table 14: Unadjusted Convergence region allocations 2014+? (2009 prices)

	2007-13		2014-20?	
	Total	€ per head per annum	Total	€ per head per annum
EU27	195026	181	413637	488
EU25	178488	206	280710	426
EU15	84846	220	59233	265
Bulgaria	4266	77	36446	680
Czech Rep	16684	264	22885	358
Germany	11623	161	0	0
Estonia	2194	230	3490	372
Greece	9228	327	8748	261
Spain	20625	229	1466	195
France	3126	255	2521	246
Italy	20778	178	27006	221
Latvia	2915	178	8152	512
Lithuania	4367	180	11094	470
Hungary	13936	272	28532	568
Malta	545	197	0	0
Poland	43487	163	128689	558
Portugal	16784	341	19491	390
Romania	12272	80	96481	714
Slovenia	2651	190	1751	231
Slovak Rep	6862	205	16885	504
UK	2683	162	0	0

Source: Own calculations from Commission Decision of 4 August 2006 2006/594/EC (as amended) and Eurostat data, using standard Cohesion policy deflator of 2 percent.

4.3.2 Cohesion Fund allocations

For 2007-13 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 EU12 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 (2004 prices) by the eligible population.[39] This sum was allocated on the basis of a 'distribution key' which took account of eligible 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. As noted earlier, Spain had ceased to qualify for the Cohesion Fund for 2007-13, but it successfully negotiated separate transitional arrangements.

For the EU12 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.

The calculations presented below take the 2007-13 annual aid intensity for the Cohesion Fund (excluding the transitional arrangements for Spain) as the basis for determining the Cohesion Fund budget for 2014-20; this yields a budget for the period of around €58 billion,

[39] The Commission had proposed that the same aid intensity should apply in 2007-13 as in 2004-06.

which is in turn divided among the eligible Member States according to the distribution key described above. Whether or not this figure is valid as a starting point is debatable since, for 2007-13, the overall Cohesion Fund budget was increased from the initial figure owing to the requirement that the Cohesion Fund account for one-third of the Cohesion policy allocations of the new Member States. Nevertheless, the notable feature of the outcome shown in Table 15 is that the Cohesion Fund budget is contained since a set amount is distributed according to a key, at least in the first instance, rather than being contingent on the scale of disparities. In considering Table 15 it is important to note that the one-third adjustment for the EU12 has *not* been applied at this stage.

As mentioned earlier, it is scarcely conceivable that some form of transitional arrangement would not be made for Greece – assuming that the criteria remained unchanged and Greece became ineligible on the basis of the latest data. However, on the basis of 2006-8 GNI data, Portugal is the only EU15 country that would qualify. In principle, it would also therefore be the only country where the Cohesion Fund contribution was not readjusted to represent one-third of the total. Assuming that the one-third rule remains in place, the outcomes shown in Table 15 would therefore only apply to Portugal.

Table 15: Unadjusted Cohesion Fund allocations 2014+? (2009 prices)

	2007-13		2014-20?	
	Total	€ per head per annum	Total	€ per head per annum
EU27	66466	58	58409	73
EU25	58062	62	36834	62
EUR15	9999	24	3635	49
Bulgaria	2175	40	6772	126
Czech Republic	8454	121	5280	73
Estonia	1100	118	1176	125
Greece	3551	47	0	0
Spain	3509	13	0	0
Cyprus	209	43	270	49
Latvia	1472	92	1912	120
Lithuania	2196	92	2113	89
Hungary	8194	118	4092	58
Malta	272	100	150	52
Poland	21121	81	15538	58
Portugal	2939	41	3635	49
Romania	6229	42	14803	98
Slovenia	1337	98	623	44
Slovakia	3706	100	2043	54

Source: Own calculations from Commission Decision of 4 August 2006 2006/594/EC (as amended) and Eurostat data, using standard Cohesion policy deflator of 2 percent.

4.3.3 Outcomes and the impact of capping

As already mentioned, for nine Member States, a crucial feature of the 2007-13 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 made 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 16 shows, the system of limits was not *meaningfully* generalised, as the cap only appears to 'bite' in the case of the poorest countries.

Table 16: Absorption cap 2007-13

	GNI(PPS) per head (EU25=100)	Cap - % of GDP	Allocation affected?
Latvia	39.5	3.7893	Yes
Lithuania	42.4	3.7135	Yes
Estonia	44.4	3.7135	Yes
Poland	45.5	3.7135	Yes
Slovak Republic	51.1	3.6188	Yes
Hungary	55.7	3.5240	Yes
Czech Republic	64.9	3.4293	Yes
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

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

Looking forward, and reapplying the same approach to limiting Cohesion policy spending as a percentage of GDP implies the application of the ceilings set out in Table 17. Of course, it should be pointed out that, in reality, it seems unlikely that these thresholds would simply be reapplied in the manner suggested here. The thresholds arrived at in Table 16 are clearly the result of a process of 'reverse engineering' the methodology in order to produce an outcome that can be accommodated; it seems probable that such an approach would dominate were the methodology to be rolled forward for the post-2014 period.

Table 17: Absorption cap post-2014?

	GNI(PPS) EU27=100 (2006-8)	Ceiling as % of GDP
Bulgaria	37.2	3.7893
Romania	40.5	3.7135
Poland	52.7	3.6188
Latvia	53.9	3.6188
Lithuania	57.2	3.524
Hungary	59.0	3.524
Estonia	63.5	3.4293
Slovakia	65.6	3.3346
Portugal	73.4	3.2398
Czech Republic	74.8	3.2398
Malta	74.9	3.2398
Cyprus	86.1	2.9698
Slovenia	88.1	2.9698
Greece	91.7	2.8798
Italy	101.3	2.6998
Spain	102.8	2.6998
France	110.0	2.5198
Finland	116.1	2.4298
Germany	118.3	2.4298
Belgium	119.8	2.4298
United Kingdom	120.8	2.3398
Denmark	122.1	2.3398
Austria	122.7	2.3398
Sweden	124.3	2.3398
Ireland	126.2	2.2498
Netherlands	132.7	2.1598
Luxembourg	213.8	0.7198

Source: General Regulation Annex II, paragraph 7 and own calculations from Ameco data.

A key difficulty in calculating the potential impact of capping is that it is based on GDP forecasts for the funding period. The Commission devised forecasts for the period 2007-13 specially for the purpose of establishing capping values, 'official' DG ECFIN forecasts being available only up to 2006. This meant, in effect, that the budget allocation for most of the EU12 was based on 2004 GDP to which growth forecasts were applied. There are practical difficulties in reapplying this approach – not least the absence of *any* GDP forecasts beyond 2011 from DG ECFIN. This is a significant problem for predicting financial allocations resulting from changes in spatial coverage since the overall ceiling on financial allocations is sensitive to the growth rate applied to GDP. In the absence of any other indications, the approach adopted here is to apply the *same* annual growth rate for all countries for 2014-20 as the Commission has forecast for the EU27 for 2011, this being 1.6 percent. This is clearly unrealistic, but it probably errs on the side of caution.

To summarise the above, the outcomes presented Table 18 are based on the following assumptions:

- annual allocations are subject to a ceiling expressed as a percentage of GDP as given in Table 17;

- the Autumn 2009 economic forecast growth rates are used up to 2011
- for 2012 to 2020 a uniform annual growth rate of 1.6 percent is applied
- it is assumed that, for the EU12, the Cohesion Fund would account for one-third of the Cohesion policy allocation.[40]

Table 18: Convergence allocations 2014-20? (2009 prices)

	2007-13				2014-20			
	Convergence		CF		Convergence		CF	
	Total €m	€ ph pa	Total €m	€ ph pa	Total €m	€ ph pa	Total €m	€ ph pa
EU27	195,026	181	67,795	58	208,961	250	78,920	99
EU25	178,488	206	59,223	62	179,454	277	64,166	108
EU15	84,846	220	10,199	24	59,233	279	3,635	49
Bulgaria	4,266	77	2,219	40	6,722	125	3,361	62
Czech Rep	16,684	264	8,623	121	18,777	295	9,388	131
Germany	11,623	161	0	0	0	0	0	0
Estonia	2,194	230	1,122	118	2,517	267	1,259	133
Greece	9,228	327	3,622	47	8,748	438	0	0
Spain	20,625	229	3,579	13	1,466	195	0	0
France	3,126	255	0	0	2,521	198	0	0
Italy	20,778	178	0	0	27,006	221	0	0
Cyprus	0	0	213	43	0	0	270	50
Latvia	2,915	178	1,501	92	3,415	213	1,708	106
Lithuania	4,367	180	2,240	92	4,768	200	2,384	100
Hungary	13,936	272	8,358	118	17,282	342	8,641	122
Malta	545	197	278	100	0	0	150	53
Poland	43,487	163	21,544	81	60,541	262	30,270	113
Portugal	16,784	341	2,998	41	19,491	390	3,635	49
Romania	12,272	80	6,354	42	22,785	168	11,393	75
Slovenia	2,651	190	1,364	98	1,582	209	791	56
Slovakia	6,862	205	3,780	100	11,339	338	5,669	150
UK	2,683	162	0	0	0	0	0	0

Note: Special provisions made for the Outermost Regions (in addition to the Convergence allocation) have not been included in the 2014-20 calculations. The standard Cohesion policy deflator of 2 percent has been applied. It appears that eight countries would be subject to capping: Bulgaria, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia and Romania.
Source: Own calculations from Commission Decision of 4 August 2006 2006/594/EC (as amended); Eurostat data; and DG ECFIN autumn economic forecasts.

The outcomes shown in Table 18 should be treated with caution – not just because of the assumptions regarding growth rates, but also because the full details of the Commission capping methodology have never been disclosed. Nevertheless, it is worth noting that, even if a *zero* growth rate were assumed for all Member States for 2012-20, the Cohesion budget for 2014-20 would still be about €197 billion for the Convergence regions and €73 billion for the Cohesion Fund.

[40] This is not applied to Cyprus and Malta, which do not qualify for Convergence policy under the latest data.

What is driving these outcomes? A combination of two factors is at work. First, Convergence status continues to cover most the territories of most of the EU12 (except Cyprus and Malta). Second, many of these countries have experienced high growth rates over the period since 2004. Of course many, most notably the Baltic states, experienced a severe recession especially in 2009; however in no case did this wipe out the growth of the preceding period – indeed, in all the central and eastern European and Baltic states except Hungary, cumulated real GDP growth in 2004-9 was above the EU27 average. The consequence of this is that while most of these territories remain poor enough to be eligible for Convergence status, the increase in GDP has raised the level at which transfers are capped.

4.3.4 Assessment

The calculations in this section, especially regarding financial allocations, contain a number of caveats, not least relating to the application of the capping methodology. Nevertheless, it is fair to conclude that the existing approach to Convergence region and Cohesion Fund allocations cannot be reapplied largely unchanged. This is because, even assuming very modest (or zero) growth rates for the period 2012-20, the budget for these two strands of policy would exceed that for 2007-13, even though the eligible population is substantially smaller. Against this background, there are a number of options.

First, there could be a mechanistic **reduction of the Convergence allocation for all eligible regions to constrain the allocation within a fixed budget**. This approach was used for Objective 1 allocations in 2000-6, where a 'reduction coefficient' was applied uniformly to Objective 1 allocations in order for the Objective 1 budget to remain within a notional budget maximum.[41] The disadvantage of this approach is that it dilutes the contribution to the poverty gap for all Member States. However, it would impact particularly on the EU15 countries and some EU12 countries would still receive a much higher allocation than in 2007-13.

Second, there could be a mechanistic **reduction of the Convergence allocation with different reduction coefficients for EU12 and EU15.** This raises practical questions such as the basis for the reduction – although past aid intensities could be used as a baseline. However, perhaps more importantly, there is the question of whether it is politically acceptable explicitly to reduce the amounts under the Berlin method more for the EU12 than for the EU15.

Third, **capping could be reconfigured**. In practice, capping determined the allocations for most of the EU12 for 2007-13. However, indications in this paper suggest that the existing method will result in Convergence region and Cohesion Fund budgets that are too high to be acceptable to net payers and non-beneficiaries of these policy strands. As capping drives the allocations for the main beneficiaries, an obvious solution would be to lower the absorption cap as a percentage of GDP across the board. It could also be argued that this should be set a percentage of a single year's GDP, rather than as a percentage of forecast

[41] Note, however, that final allocations were 'complemented' by a lengthy list of special provisions, which partially undermined the application of the methodology.

GDP, not least since these forecasts have proved to be wildly inaccurate.[42] The question remains, however, of whether it is acceptable in effect to apply the Berlin formula only to a minority of the population covered by the Convergence objective.

Of course, all of the above could be subject to almost endless permutations, whether it be reduction coefficients, changes in the weight allocated to poor regions or to poor countries in the Berlin formula, a reconsideration of the one-third rule for the Cohesion Fund in the new Member States, flat rate absorption limits, allocations driven by previous aid intensity, and so on. However, whatever the scope for 'tweaking' the Berlin formula and the capping methodology, it is questionable whether the existing architecture for determining Cohesion policy allocations is robust enough to be rolled forward in such changed economic conditions.

[42] 2007-9 forecasts for Czech Republic, Poland and Slovakia were out by 7.5, 8 and 10.8 percent, respectively, leading to an adjustment in their Cohesion policy allocations – see COM(2010)160 final of 16 April 2010.

5. COHESION POLICY DIRECTIONS 2014+: PERFORMANCE, PROCESS AND PERSPECTIVES

Looking forward at the substance of policy, the extensive investment in evaluation and other research has continued over the past year, with further insights on the performance of the policy supplemented by the first strategic reports from Member States. The Commission has also been mobilising debate on the future of the policy, particularly through the High-Level Group of Member States. As the Fifth Cohesion Report is finalised, some indication of the future directions of policy are becoming apparent, as well as the views of Member States on different aspects of the likely directions. The following section reviews each of these issues in turn.

5.1 Reviewing performance across the EU

Various studies and policy reports have become available over the past year offering insights into the effectiveness of Cohesion policy and, in some cases, policy recommendations to inform future policy directions. The key EU-wide analyses include the ex-post evaluation of the 2000-20006 period, preparatory studies undertaken as part of the Fifth Cohesion Report, and the results of the strategic reporting exercise.

5.1.1 Learning from the past: the 2000-2006 ex-post evaluation

The ex-post evaluation of the 2000-06 programmes is the responsibility of the Commission in cooperation with the Member States. The approach taken by the Commission is significantly different from the past, with a far higher priority given to the exercise, an increased budget, a much stronger onus on quality and quality management, and a more targeted and thematically oriented focus through 11 inter-linked Working Packages. The findings of several working packages have been examined in detail elsewhere.[43] A summary of some of the key findings is presented in Box 3.

A synthesis report of the evaluation was presented in February in 2010 to draw out the main points from each of the working packages and from examining all of the material in the round.[44] A number of key policy implications and recommendations were distilled. The first set concerned **policy objectives**:

- greater clarity is needed on the relative priority attached to different policy objectives when formulating programmes;
- more concentration of expenditure is needed to ensure a tangible impact and to achieve critical mass;

[43] Bachtler J, Mendez C and Wishlade F (2009) Challenges, Consultations and Concepts: Preparing for the Cohesion Policy Debate, EoRPA Paper 09/6, European Regional Policy Research Consortium, EPRC, University of Strathclyde, Glasgow.

[44] Ward T (2010) Ex-Post Evaluation of Cohesion Policy programmes 2000-06 co-financed by the ERDF (Objective 1 & 2), Synthesis Report, DG Regional Policy, Brussels.

- objectives and measures should be determined in a bottom-up and flexible way, but taking account of national and EU strategies and objectives.

Box 3: Key Findings of the Ex post Evaluation of the ERDF in 2000-2006[45]

Global impacts
- The creation of 710,000 jobs in Objective 1 regions and 730,000 in Objective 2 regions at the end of 2006.
- Increased long-term productive economic potential and the level of GDP in Objective 1 regions, e.g. cumulative effect on GDP from 2000 to 2009 of +0.5% in EU15 and +3.7% in the EU10.
- A macro-economic simulation suggests that the entire EU was better off with cohesion policy than without, notably because of increased trade effects.

Structural change & globalisation
- Path-dependencies can be changed by long-term, well defined regional policies.
- Objective 2 programmes are most effective when they reinforce regional policies and do not pursue additional objectives.
- The ERDF contribution is most effective when interventions are focused on innovation and internationalisation.

Enterprise and innovation
- SMEs received 83% (€22.9 billion) of support to businesses. For instance, 40,000 micro-enterprises were created in Germany over the six year period.
- Nearly 38,000 R&D projects received support with the creation of over 13,000 new long term research jobs
- Significant contribution to R&D expenditure in Objective 1 regions, adding some 12% to national spending in Portugal, 7% in Greece and 6% in Spain and even more in some of the EU 10 countries, especially Estonia

Transport
- Support for the building of 2 000 km of motorways (24% of all motorway development in the period) and 4 000 km of rail. For instance, it contributed to a reduction of 20% in travel time on rail corridors in the Czech Republic.
- 100.000 km of roads were built or improved, e.g. a 46% reduction in journey time on major road corridors in Ireland.
- The modernization of 31 airports and 45 sea ports
- Improvement of intermodal links, establishing connections between ports, airports, road network and rail network.

Environment
- €25.5 billion spent on environment-related interventions in 2000-06.
- 14 million more people connected to modern water supply systems;
- 20 million more people with waste water treatment – through ERDF support, which represents half of the total increase throughout Europe in the period;
- The European Commission needs to explicitly state that meeting the EU environmental requirements is an objective of Cohesion Policy even if it does not lead in the short term to economic growth.

Rural Development
- The ERDF contributed significantly to development in rural areas, in both Objective 1 and 2 regions.
- Cohesion Policy should make its contribution more visible to citizens in rural areas

Gender & demography
- Demography was not a priority at the start of the period, but regions have supported relevant projects
- It is not enough to set gender equality as a horizontal priority; specific, tangible actions are needed.
- The number of horizontal priorities should be limited to those relevant to the regions.

Management & Implementation systems
- EU-10 managed to put in place systems to correctly draw down resources: significant improvements over time and positive spillovers on domestic governance systems.
- Both EU-10 & EU-15 need a stronger focus on result

On the **spatial focus of policy,** the report calls for:

[45] DG Regional Policy (2010) Panorama issue on 'Evaluating Regional Policy Insights and results, No. 33, Spring 2010, DG Regional Policy, Brussels; Commission Press Release (2010) Commission assesses cohesion policy's achievements: around 1.4 million jobs created in Europe in 2000-2006, IP/10/444, 19th April 2010, Brussels.

- policy to be determined, or at least coordinated, at an appropriate spatial level (including functional areas), which will vary according to the type of policy intervention;

- and for a greater policy interest to be given to achieving territorial balance within regions.

For better **policy design and assessment**, improvements are needed in indicators and data requirements**:**

- better indicators are needed to capture and measure the objectives of policy, particularly on multi-dimensional concepts such as social cohesion (including at a level below NUTS 2) and on environmental effects;

- expenditure data on national policies sources should be more readily available so that they can be examined in relation to spending financed by the Structural Funds

- account needs to be taken of the impact of commuting on GDP per head in NUTS 2 regions when designing and assessing policy.

Several policy implications were raised in relation to **specific areas of intervention**:

- *Enterprise support:* consideration should be given to whether the ERDF should fund aid to large enterprises given the significant 'deadweight' effects, while support for SMEs needs to be targeted on strategic objectives. More impact analysis is also needed

- *Transport interventions:* recognition is needed on the case for expanding support for investment in urban transport and intermodal links (given the major potential for reducing congestion and emissions). In the EU12, transport infrastructure support needs to pay more attention to environmental impacts. On the other hand, due to the questionable impacts on development or environmental considerations, consideration should be given to whether the ERDF should continue to finance the construction of high-speed rail lines, the modernisation and extension of regional airports and ports, the construction of new roads in the EU15 and road maintenance.

- *Environmental projects:* the case for intervention in terms of the objectives of cohesion policy needs to be spelled out and justified. Investment in environmental infrastructure needs to be linked with regional development

Lastly, a number of **management and implementation** recommendations were made, mainly related to monitoring and evaluation:

- more focused evaluations examining effectiveness and different interventions rather process issues or absorption;

- the use of rigorous methods should be encouraged;

- indicators need to be directly related to programme objectives at the planning stage;

- regular collection and publishing of data is required;
- monitoring and evaluation system should be an integral part of the decision-making process, requiring political buy-in;
- greater public scrutiny and debate on policy objectives and performance;
- Member States should be obliged to produce data on the unit costs of large projects to enable comparison across regions and countries;

The other management-related recommendations concerned programme formulation (more detailed and informed negotiation between the Commission and the Member States needed); financial management (for the n+2 rule to be revised); and project selection (to outlaw the practice of allocating funding to pre-financed projects).

5.1.2 Informing thinking on the future: thematic studies

To inform Commission thinking on the future of Cohesion policy and to feed into the Fifth Cohesion Report preparatory work, DG Regio commissioned several studies on specific aspects of policy performance or on economic development policies more generally. A number of these were published during 2010, covering the themes of policy objectives, financial leverage, governance, and the regional impact of global pressures.

The social **objectives of policy** are examined through a study on social equity, which provides a detailed statistical analysis of social mobility and interpersonal inequality disparities and trends across EU regions.[46] The study's key policy conclusion is that EU Cohesion policy can (and does) play an important role in addressing social inequalities and in promoting social mobility, through three different routes.

- First, interventions to support education and training are the most likely to promote social mobility per se, notably: the improvement of education infrastructure; measures to increase participation in education and training throughout the life-cycle; updating skills of training personnel with a view to innovation and a knowledge based economy; and, development of life-long learning systems and strategies in firms. Transport infrastructure may also contribute, where it improves access to education and employment opportunities to groups with low mobility.
- Second, Cohesion policy has considerable scope to reduce income inequality through pro-poor growth interventions, particularly: active and preventive labour market measures; creating pathways to the integration and re-entry into employment for disadvantaged people; combating discrimination in the labour market; increasing female participation in the labour market (including childcare); and, actions to increase migrants' participation in employment.

[46] GHK (2010) *Social Mobility and Intra-Regional Income Distribution across EU Member States*, Final Report, DG Regional Policy, European Commission, Brussels.

- Third, the policy areas that provide the most potential for promoting a reduction in intra-regional inequality are environment infrastructure, social inclusion and related public services interventions.

However, the extent and relative importance placed on the objective of social equity remains unclear and requires clarification in the policy's design and constitutive principles. At an operational level, the report argues that the relevance, emphasis and potential of the three social equity priorities could be usefully examined in ex ante and ex post impact assessment of Cohesion policy interventions at the regional level and that the simulation model developed as part of the project could provide a useful tool in this respect.

The theme of **financial leverage** is examined from different angles in two studies on additionality and public capital stocks. Based on a review of existing theoretical and empirical research, the additionality study[47] concluded that the rationale for the principle is theoretically sound, given the broad consensus in the literature on the potentially net positive impacts of public expenditure on long-run economic growth, albeit under specific conditions. More critically, however, it argues that the way in which the additionality principle is operationalised and enforced in Cohesion policy fails to take account of the complexities of public expenditure and its relationship with economic growth. It concludes that the Commission should move away from the current one-size-fits-all verification approach towards a country-by-country approach, possibly based on spending reviews. A formal spending review approach with negotiation of suitable monitoring indicators for each country could be one way forward. But the more politically feasible approach would involve setting aggregate and disaggregate targets as ratios of expenditures to GDP, with each Member State providing: an ex-ante target of overall public spending on a suitable harmonized definition of expenditure; and a breakdown of the target by a core set of sectors, such as transport or environment, to limit the scope for opportunistic substitution effects. A default clause for renegotiation under specific circumstances could also be foreseen under this approach.

The second study was of a pilot nature and aimed to assess the feasibility of estimating capital stocks for the EU27 at regional level.[48] The rationale for the study is that analysis of the impact of expenditure shifts, particularly the injection of Structural Funds, on the regional distribution of the capital stock is often compromised by a lack of adequate data. The main conclusion of the report is that it would be possible to update and regularly publish capital stock estimates at NUTS2 level for the EU27 countries, employing a version of the so-called Perpetual Inventory Method used in the study and by many national statistical offices across the EU. The report also puts forward several methodological recommendations on how to develop and improve the capital stock statistics used in the report.

[47] CSIL (2010) *Impact of Additionality on the Real Economy of the EU Member States: Open questions, some facts and a review of the literature*, Final Report, DG Regional Policy

[48] Cambridge Econometrics (2010) *Pilot Study on the Estimation of Regional Capital Stocks, Final Report*, DG Regional Policy, European Commission Brussels,

Understanding how responsibilities, competences and financial resources are distributed between levels of government and the costs involved is important for the efficient design and implementation of Cohesion policy. With this objective in mind, two studies commissioned by DG Regional Policy have focussed on the **governance of regional policy.** The first analyses the distribution of domestic regional policy competences across EU Member States.[49] Among the key conclusions are the following:

- local authorities are key and increasingly important actors across the EU, especially in EU12 countries;
- in regionalised countries, central and intermediate levels of government tend to have shared competences in all areas relevant to economic development, while Nordic countries have a tradition of decentralisation with respect to the provision and development of public services; and
- regional development policies remain highly centralised in unitary countries, despite the increasing devolution of regional development competences in recent years.

Turning to expenditure, the report finds that development policies accounted for some 3 percent of GDP and 14 percent of total gross fixed capital formation in the EU27 during the 2000-2006 period, with an average contribution from EU Cohesion Policy in the order of 11 percent (but significantly higher in some of the least developed countries, i.e. 80 percent in Latvia and Lithuania). In examining trends over time, a key conclusion is that national experiences have varied dependent on national budgetary policy trends, and that the macroeconomic influence of Cohesion Policy has been strongly influenced by the public finance context and the overall level of expenditure for development in different countries. Importantly, the growth of expenditure for development in the EU after 2000 suggests a relative reduction in the prioritisation of the poorest regions relative to wealthier regions within many countries (e.g. Greece, Italy, Spain, Portugal and Germany and the EU12). EU Cohesion policy has therefore played an important role in countering this unbalanced distribution of public investment (especially in Italy, Portugal and in many EU12 countries).

The increasingly polemical issue of administrative costs in EU Cohesion policy was analysed in the other governance study.[50] It confirms that the costs are indeed high, both in terms of time and the share of funding (3-4 percent of eligible expenditure) spent on EU Cohesion Policy. The majority of these costs are accounted for by programme management functions, particularly project selection and the verification of deliverables. However, the study also reveals that the costs are relatively modest in comparison with other EU policies, such as global and regional partnership programmes and bilateral aid programmes.

In line with the increasing attention being placed on **the regional implications of global pressures**, two studies were commissioned by DG Regio to examine the impacts of

[49] ISMERI-Europa and Applica (2010) *Distribution of Competences in relation to Regional Development Policies in the Member States of the European Union.* Final Report, DG Regional Policy, Brussels.

[50] SWECO (2010) *Regional governance in the context of globalisation: The administrative costs of EU Cohesion Policy*, Final Report, DG Regional Policy, European Commission, Brussels.

globalisation (trade liberalisation) and technological change on EU regions. Based on EU27 quantitative analysis and a sample of qualitative case studies, a key finding of an earlier globalisation impact study is that sectoral structure is not the main factor in explaining the vulnerability of regions to the consequence of increased trade, but that other general factors relating to development and competitiveness are more relevant.[51] Given the wide variability in the regions designated as being particularly "vulnerable", the report argues that policies should be sufficiently differentiated to respond to this heterogeneity. It also argues that the analysis provides support for policy to focus on embedding firms (especially large ones) within the region or to support spillover effects from these firms to the region - for which the level of basic and tertiary education are critical factors – as well as supporting the exploitation of territorial assets. Further regional policy implications were developed in the more recent follow-up study on the regions benefitting from globalisation, including several lessons and recommendations to be applied more generally:[52]

- to support regions in opening their local economies so that they can exploit the advantages deriving from an integrated world economy;
- to avoid generic assistance and to develop job-creating policies only in those sectors and activities that show a capacity to increase productivity growth;
- to facilitate a transition to higher value added activities in regions dominated by labour-intensive sectors;
- to support innovation, defined broadly;
- to pursue both short-term and long-term objectives;
- and to exploit and reinforce territorial assets and core competences (i.e. a place-based approach), including the use of FDI incentives.

The need for a place-based approach was also a central policy recommendation in the prospective study on the impact of technological change on EU regions.[53] In particular, it argues that excellence-based and place-based innovation policies can be mutually compatible; while scientific excellence policies may not be very important for every region, place-based specialisation and innovation policies are required to enhance knowledge absorption and diffusion capacities and to encourage smart specialisation in all regions. As basic framework conditions are a pre-condition for such policies, the report argues that support for the quality of government in general and the governance of innovation policy in particular is essential, especially in lagging regions.

[51] IGEAT, Politecnico di Milano, UMS Riate (2008) *The impact of globalisation and increased trade liberalisation on European regions*, DG Regional Policy, European Commission, Brussels.

[52] Politecnico di Milano, Bocconi University and IGEAT (2010) *Regions Benefiting from Globalisation and Increased Trade*, Vol.1, Final Report, DG Regional Policy, European Commission, Brussels.

[53] Wintjes R and Hollanders H (2010) *The regional impact of technological change in 2020, Synthesis Report*, Final Report, DG Regional Policy, European Commission, Brussels.

5.1.3 Mid-term achievements and lessons: Strategic Reporting

Reporting on the achievement of policy objectives has been institutionalised at the Council level in this period through the new strategic reporting requirements. Member States must submit two reports by the end of 2009 and 2012 to assess the progress and challenges with programme performance. These reports are synthesised by the Commission and sent to the Council and other EU institutions for examination and debate.

The Commission's synthesis report indicates that across the EU a strong commitment has been made to implementing programme aims established at the outset.[54] On the basis of Member States data, the Commission reports that 27 percent of funding had been assigned to projects by the start of 2010, a rate that is similar across the different funding objectives as well as Lisbon-related expenditure. On the other hand, there are marked variations across countries, from close to 10 percent (Greece) to more than 60 percent (Belgium). In terms of specific thematic areas and interventions, the main areas facing delays in some Member States are the rail sector, certain energy and environmental investments, the digital economy (broadband and ICT use in the public and business sectors), social inclusion, and governance and capacity building measures.

The key obstacles to implementation reported by Member States were the following.

- *the economic crisis,* which has led to generalised low levels of business investment and activity and to strains on public finances, thereby generating take-up/implementation challenges in many countries/regions, although a package of anti-crisis measures have been introduced to support financial implementation.

- *systemic factors concerning EU rules,* notably delays in agreeing EU legislation (the budget, Regulations and Community Strategic Guidelines) and the adoption of programmes; changes in the rules on financial control, requiring adjustments to control systems; and the complexity of managing overlapping programming periods; and

- *domestic management issues,* such as unclear distribution of tasks nationally, insufficient experience, lack of administrative capacity at both managing authorities and beneficiaries and internal reorganisation processes of public administrations.

Reporting on physical implementation was more uneven as not all Member States provided the Commission with data on core indicators. It was therefore not possible to aggregate data on outputs to the EU27 level. Looking to the future, the main conclusions and recommendations put forward by the Commission were two-fold.

- First, while the strategic reporting exercise is an improvement in accountability in the delivery of policy objectives compared to the previous period, the 2012 national

[54] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Cohesion policy: Strategic Report 2010, on the implementation of the programmes 2007-2013, SEC(2010)360, European Commission, Brussels.

reports should be improved so that they are more concise and more focussed on outputs, results and strategic developments.

- Second, a more thorough peer review process and results oriented policy is necessary, requiring the Member State to ensure that future annual programme reports are accompanied by accurate and complete data to better understand programme content and through reinforced reporting on core indicators across all Member States.

The General Affairs Council of the Council of Ministers adopted conclusions on the Commission 2010 strategic report in mid-June 2010 under the Spanish Presidency.[55] It endorsed the Commission's report and conclusions, as well as putting forward some general ideas on the future direction of policy:

- the need for the policy to have an important role within the Europe 2020 Strategy, as had already been emphasised in the March European Council conclusions;

- the need to concentrate on a limited number of priorities but leaving sufficient flexibility for Member States and regions to determine the most appropriate policy mix

- the need for one strategic approach and common implementation rules for the three funds (ERDF, CF and ESF);

- the need for further streamlining administrative procedures;

- and the need to better address problems faced by transition regions by considering a similar solution to that adopted in the current period.

5.2 The reform process

The Commission has the lead role in organising the Cohesion policy reform process during the agenda-setting phase, given its monopoly right over legislative initiative. The Commission's approach has been similar to previous policy reviews, involving the launch of formal consultation processes to gather stakeholder views, the publication of Cohesion Reports and progress reports to communicate consultation results and developments in economic, social and territorial cohesion, and the dissemination of evaluation findings to feed into the debate on the policy's performance. The more novel features of DG Regional Policy's approach this time round are: the commissioning of an independent report – the Barca Report – to assess the policy and propose reform recommendations;[56] the setting up of a 'Task Force on Simplification' with a select national experts to consider how to reduce administrative burdens; the publication of several orientations documents and papers to stimulate debate; and the creation of a 'High-Level Group Reflecting on Future Cohesion

[55] Council of the European Union (2010) *Council conclusions on the Strategic Report of 2010 by the Commission on the Implementation of the Cohesion Policy Programmes*, 14 June 2010, 3023rd Foreign Affairs Council meeting, Luxembourg.

[56] For a summary of the report and reactions see: Bachtler J, Mendez C and Wishlade F (2009) *op. cit.*

Policy' to engage national policymakers in the process. On the DG Employment side, a similar ad hoc group was set up to examine the future of the ESF, including the organisation of a high-level conference on the contribution of the ESF to the Europe 2020 strategy - "Shaping the future of the ESF - ESF and Europe 2020" - on 23-24 June 2010 in Brussels.

The assessment of the Commission's overall approach by the national policymakers interviewed is generally positive, particularly in terms of the more active involvement and engagement with national actors. The increased openness, particularly through the establishment of the High-Level Group, has been welcomed as a useful way of creating more transparency and ownership of the reform process among the Member States. Combined with the various papers and orientations documents produced by the Commission, the approach has helped to stimulate debate and a stronger community spirit amongst the policy actors involved.

Despite the positive overall assessment, several criticisms were raised. First, the initiation and momentum of the process has been slower than it could have been, partly due to the relatively high turnover of Commissioners and some senior staff. In the context of a relatively tight reform timetable, this presents obstacles to achieving consensus on key issues at this informal stage. Second, the Commission's approach has been fragmented, with limited coordination (or outright conflict) between DG Regio and other DGs (DG Employment, DG Agriculture and DG Budget) or within the DG's as evidenced by the differing views put forward by cabinets and other staff. Third, there has been a lack of leadership by DG Regional Policy in championing a particular stance on key issues, preferring instead to formulate options and questions. Fourth, the discussion topics have been selected in a rather haphazard way or have been excessively technical for this stage of the discussions. Lastly, the discussions have been somewhat exclusive and closed off from wider EU debates, notably on territorial cohesion and the Europe 2020 agenda.

Policymaker views of the Commissioner Samecki 'orientations paper', published in December 2009, were similarly mixed. Overall, it was seen as good contribution at its time - sparking one of the best discussions in the High-Level Group according to one participant - and providing a useful input to debates within the Member States. For instance, the paper was used by policy-makers in Poland to organise debates among partners at the end of 2009, and was regarded as containing useful arguments, observations and proposals to steer the discussions. A related, positive feature highlighted by others was that it helped to maintain Cohesion policy reform on the political agenda, not least by having taken better consideration of overarching EU objectives (namely, Europe 2020) than the earlier reflections paper by the previous Commissioner Hübner. The main criticisms include limited follow-up, as the paper was overshadowed by the Europe 2020 strategy and the forthcoming Cohesion Report; excessive attention on technical issues, including several proposals that were considered confusing or difficult to put into practice; and, when reading between the lines, to have adopted the already known line of DG Regional Policy.

The setting up of a High-Level Group to reflect on the future of Cohesion policy is a novel feature of this period, mirroring existing practices in other EU policy fields. The rationale for establishing this informal advisory group, composed of policy experts from the Commission and the Member States, was to support the Commission in developing the main

building blocks of its legislative proposals on the future Cohesion policy. The formal mandate was to discuss future policy directions, to ensure transparency between the Commission and Member States and to offer a forum for contributing to the preparatory process and exchanging views between national policy-makers. As an advisory group, the discussions and outputs are not binding, nor does the group replace other formal structures (the Structural Actions Working Group or the Committee on the Coordination of the Funds). While the establishment of the HLG was announced by Commissioner Hübner in February 2009, the first meeting was not held till October 2009, followed by four further meetings between December 2009 and June 2010 covering issues such as territorial cooperation, conditionalities and incentives, and financial management.

Most of the national policymakers regarded the HLG as a useful deliberation forum and welcomed its contribution to more openness and ownership of the reform process. The background and issues on the reform agenda have become clearer to the participants as a result and it has helped to ensure that the Commission is informed (and takes account of) Member State realities and views. At the domestic level, the HLG process is reported to have usefully contributed to engagement and meetings with Ministers responsible for Cohesion policy in some countries, although it has also been onerous for officials to brief the high-level representatives on the implications of some of the technical issues discussed. Another benefit reported by policymakers is that it allows Member State representatives to meet informally at EU level, eliminating the need for bilateral meetings between them. Lastly, it has filled an institutional void. In the previous reform period, it was not always clear where certain discussions should take place – and the COCOF (then, CDCR) comitology group was not always regarded as the appropriate place. The HLG is considered to have resolved this issue, providing an ideal forum for the discussion of strategic issues. Some policymakers argue that the group should continue to discharge this role after the expiry of its mandate at the end of 2010.

On the other hand, the extent and level of strategic debate in the HLG has been questioned. Some participants consider that the discussions were absorbed too much by practical and technical issues rather than conceptual issues. The more in-depth discussions were on management issues and the content of the new financial regulations in particular, although these topics were considered important by others who welcomed the opportunity to influence Commission thinking. The quality of the meeting discussions was also regarded as being variable, depending very much on the facilitation abilities of the Commission chair or the knowledge of the individuals sent by Member States. In some cases, junior representatives were sent or scripted statements were read instead of engaging in real discussion. In this respect, one participant considered the group to have been a 'missed opportunity' to draw on the knowledge of very senior people who were ready to discuss strategic issues.

Operational draw-backs raised by some participants included the lack of language interpretation, which made it hard to follow the discussions for some participants, and the lack of structure and scope for preparation. For instance, for one meeting the delegates were reported to have received guidance notes and questions only two days prior to the meeting. In comparison, the organisation of ad hoc group on the future of ESF was considered by some to have been more strategic and structured, particularly in terms of the

production of a draft interim report on the discussions and then a final report and opinion.[57] Related, the outcomes of the HLG appear to have been limited so far. The group has not agreed on concrete ideas or solutions and seems unlikely to do so until the Commission has put forward more detailed proposals.

5.3 EU perspectives: the Fifth Cohesion Report

The Fifth Cohesion Report is currently being finalised and is due for publication in November 2010. In addition to its analytical role in assessing the state of cohesion in the EU, the Report will bring together the conclusions of research and debate with a series of proposals for 2014-2020. At it heart is a conception of Cohesion policy as a delivery vehicle for achieving the Europe 2020 objectives of smart, inclusive and sustainable growth, while recognising the founding Treaty-based objective of cohesion. It will propose several ways for enhancing the European added value of the policy through greater concentration, conditionalities and a performance focus, and it will seek to streamline and simplify the delivery system.

- **Territorial cohesion:** A starting point for the future reform is the explicit recognition of 'territorial' cohesion as a policy objective in the new Lisbon Treaty. However, this is unlikely to have major implications because the principle remains undefined and subject to different interpretations, as the Territorial Cohesion Green Paper exercise made clear. The stance of DG Regio on the concept has been to emphasise two particular dimensions. The first is the process dimension in which the policy's multi-level governance model is often presented as the panacea to the ownership failings of the Lisbon strategy due to its ability to involve different actors and stakeholder at multiple territorial levels. But it is not clear how the regulatory requirements for partnership can or will be changed to enhance the role of sub-national actors in policy design or delivery. The second dimension concerns specific territorial features that merit particular attention. While the Treaty refers to a number of such features, successive DG Regio Commissioners have placed a particular emphasis on urban problems and the role of local authorities, potentially through specific earmarked funding. In addition, macro-regional strategies have risen up the political agenda, building on the experiences with the EU's strategies for the Baltic Sea and Danube.

- **Strategic programming and concentration:** the need for close coordination with Europe 2020 has clearly informed the Commission's proposals, requiring clearer guidance at European level and a potentially more strategically-oriented negotiation process and follow-up. As at present, a Strategic Framework would be drawn up at EU level to translate the targets and objectives of Europe 2020 into investment priorities for Cohesion Policy covering the Structural Funds, which could also extend to the European Fisheries Fund and the European Agricultural Fund for Rural Development. The Commission is likely to propose a reinforced NSRF, potentially with a more contractual or binding status, including more regular reporting. At the

[57] ESF Committee (2010) *Opinion on the future of the European Social Fund*, 3 June 2010, ESF Committee, Brussels.

programme level, a more focused and restrictive prioritisation on Europe 2020 will be proposed, particularly in the more developed regions.

- **Conditionality and incentives:** The Commission has already indicated that it intends to strengthen the role of Cohesion Policy in the EU reformed economic governance system through the use of conditionalities and incentives. These would target two themes:
  - Structural and institutional reforms: Member States would be required to introduce structural and institutional reforms in those areas directly linked to the operation of Cohesion Policy, such as regulatory and administrative burdens on businesses, environment protection, flexicurity policies, etc. Their fulfilment could either constitute a prerequisite for allocating funding at the start of the period or the basis for suspending future payments following Commission review and assessment.
  - Macroeconomic conditions and the SGP: Fiscal conditionality would be extended from the Cohesion Fund to all Structural Funds to ensure the respect of key macro economic conditions and the Stability and Growth Pact. In cases of non-compliance with the rules or of repeated breaches of the Pact, current or future allocations would be suspended or cancelled
- Other instruments which could be employed to enhance effectiveness include a performance reserve at EU level to reward progress toward Europe 2020 targets. In addition, the Commission may propose to be granted additional resources to directly support experimentation and networking along the lines of the innovative actions of previous periods.
- **Evaluation:** the Commission is keen to ensure that ex-ante evaluations focus on improving programme design such that the achievement of objectives and targets can be monitored and evaluated, and the need for the Member States to adopt more rigorous evaluation methodologies is a well-known challenge. More priority to evaluation could be encouraged through a requirement to develop evaluation plans as has been done in some Member States voluntarily in this period. The Commission has also indicated that the Member States should prepare summative reports synthesising the on-going evaluations they conduct during the programming period, which could feed into the Commission's ex-post evaluation work.
- **New financial instruments:** The Commission is particularly keen on expanding the use of financial engineering instruments within Cohesion Policy, given the leverage effects in the context of a relatively limited budget. Greater clarity and differentiation between rules governing repayable forms of assistance relative to direct grants is also needed.
- **Simplifying management and administration:** A particularly salient issue is the need to simplify the audit and control requirements. The most likely proposal is to introduce greater differentiation, by focusing on programmes where there is greater

risk based on the track record and relaxing requirements elsewhere. The facilitation of the partial closure of programmes is also likely to be sought. Proposals being floated to support this include the introduction of an annual clearance of accounts procedure. Encouraging the use of the simplified costs method of reimbursement, as introduced for the current period, could also simplify financial management and reduce administrative burdens. Simplification of the n+2 rule is also likely to be proposed, particularly at the start of a programme period. Lastly, on expenditure eligibility the key issue on which the Commission has been working on is the harmonisation of rules for different structural Funds and also with Research Policy.

5.4 National perspectives

Turning now to the national perspective on the reform of Cohesion policy, the remainder of this section explores some of the above themes in more detail based on interviews with national policymakers.

5.4.1 Strategic priorities

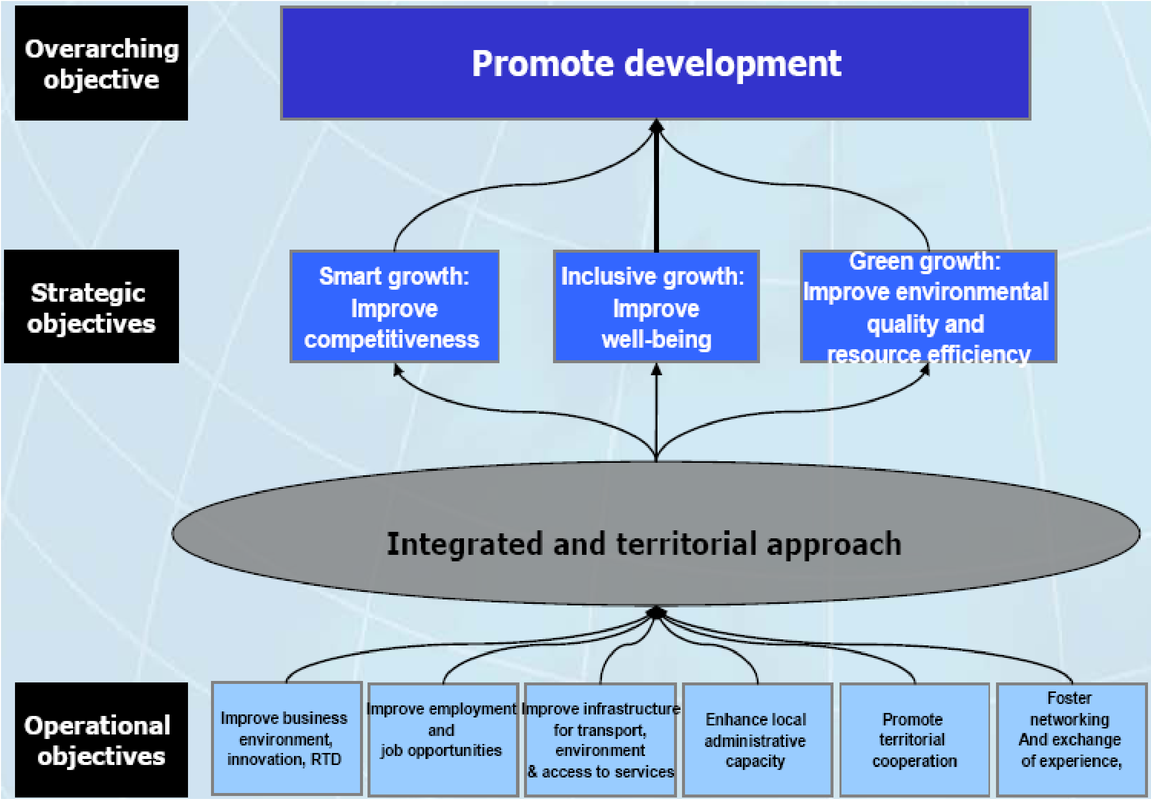
The Europe 2020 strategy has provided a focal point for reflection on the future priorities of all EU policies. From the perspective of Cohesion policy, it is of note that the strategy underlined that *"economic, social and territorial cohesion will remain at the heart of the Europe 2020 strategy to ensure that all energies and capacities are mobilised and focused on the pursuit of the strategy's priorities. Cohesion policy and structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions."*

DG Regional Policy will be publishing Communications on the contribution of Cohesion policy to Europe 2020 and, in the meantime, has been actively defending its role, not only as the largest source of multi-sector finance for Europe 2020, but also because the strategy requires the EU to demonstrate that its instruments are working together and because the goals cannot be achieved unless the regions achieve them.[58] From this angle, DG Regio argues that the relevance of Cohesion Policy to Europe 2020 is high and clear-cut: it provides an integrated framework for investment; a tried and tested delivery system; and increases ownership on the ground. Furthermore, it argues that the policy's objectives already have a close fit with the EU 2020 priorities – knowledge-based smart growth, empowering people in inclusive societies and green growth – but adding a critical place-based dimension, as illustrated below.[59]

[58] Martin N (2010) *Europe 2020 Strategy and Cohesion Policy, STRAT.AT plus Forum "Europe 2020"*, 8 June 2010, Danube University Krems.

[59] Ahner D (2010) *Speech on 'Cohesion policy: tackling the challenges of the EU and its regions'*, Regional Studies Association Conference 'Regional Responses and Global Shifts: Actors, Institutions and Organisations', 24 May 2010, Pécs, Hungary.

Figure 5: Cohesion policy logical diagram



Source: Ahner (2010)

Similar views have been expressed by national policymakers. There is universal agreement that EU Cohesion policy should be aligned with Europe 2020 and its key objectives. The three EU 2020 priorities are seen as being highly relevant and, to a large extent, in line with the current Lisbon agenda focus of the programmes. However, several criticisms against the strategy and the implications for Cohesion policy have been raised:

- the EU 2020 strategy formulation process lacked reflection on the successes and failures of the Lisbon Strategy, which is necessary to inform the strategic approach to cohesion;
- a sectoral approach dominates the EU 2020 strategy, which does not provide a strong rationale for Cohesion policy - the principle of cohesion is mentioned, but it could be more visible with explicit encouragement of a territorial approach towards all EU policies;
- while Cohesion policy should be closely aligned with EU 2020 and can make an important contribution, it should not be shouldered with unrealistic responsibility for promoting EU growth or lose sight of its founding treaty-based objectives;

- the generality of EU 2020 means that almost any activity would be possible to justify by reference to one of the three priorities and no positive lead is provided for policymakers at the national and regional levels; and

- more attention could be given to specific development drivers or challenges, such as: demographic change (in line with the ageing agenda), geographical handicaps (as recognised in the Treaty) and a broader interpretation of innovation (focusing on user- and demand-driven innovation and social innovation in addition to the more traditional technology- and supply-driven innovation concepts).

With specific reference to the European Social Fund, the Member States have agreed a series of general principles regarding the fund's scope and priorities in light of Europe 2020.[60]

- The ESF should be fully aligned with the objectives and priorities of Europe 2020. The ESF should underpin the three priorities of the Europe 2020 Strategy. Employment, training and education, active inclusion and equal opportunities policies are key engines for empowering people by developing their knowledge and skills, promoting a culture of innovation, boosting employment levels (including in the area of green and white jobs), and fostering an inclusive labour market.

- The ESF priorities should be based on the policy objectives of the Integrated Guidelines, and especially on the Employment Guidelines

- The ESF should enhance its support for institutional capacity building and structural reforms to social partners and to partnership with civil society, in particular with NGOs and associations that work with the most disadvantaged people

- Gender equality, anti-discrimination and transnationality should remain key horizontal priorities for the ESF in the next programming period.

- Social innovation should be enhanced in the next programming period in employment and active inclusion policies.

- New and smart financial engineering to blend grants and loans are needed to increase the resources available for employment and inclusion policies using the leverage of the ESF.

A critical question for Cohesion policy is how can strategic EU priorities best be translated into specific national and regional contexts? The general view is that a combination of top-down joint priorities and bottom-up initiative is needed for the approach to succeed. Put differently, there is agreement on the need for greater concentration, but sufficient flexibility is also called for to adapt EU priorities to different domestic contexts. Flexibility is interpreted in two different ways by the Member States:

[60] ESF Committee (2010) *op.cit.*

- freedom for national and sub-national actors to devise place-specific solutions within high-level, non-prescriptive EU priorities; and

- freedom for national and sub-national actors to use a proportion of the funds for priorities that are not aligned with narrowly-defined EU priorities.

This view is echoed in the ESF Committee's opinion, which "*recognises the need to achieve a better thematic concentration of ESF support in order to ensure that interventions have a tangible impact and achieve a critical mass. Thus, a limited number of priorities should be chosen at operational programme level. The number of priorities may vary according to national and regional needs and to the ESF amounts allocated*".[61]

At the operational or expenditure level, there are mixed views about the use of earmarking to achieve concentration. In line with the views on EU priorities, most policymakers are concerned about the imposition of a top-down or excessively restrictive approach on programmes. In this vein, one proposal suggested to achieve 'flexible concentration' is to reduce the number of earmarking categories but to use wider definitions. By contrast, some national policymakers would like to see a more focused approach by applying the earmarking principle consistently across all EU Member States – including clarification of existing categories' definitions - and enforced more strictly.

5.4.2 Performance

A key element of the debate on the future is how to make the policy more performance-oriented. The potential for greater use of financial **conditionalities and incentives** has been a prominent feature of the discussions. Such proposals have, however, been viewed with scepticism by national policymakers. Methodological challenges are often raised as the main obstacle, both in terms of measuring causation and designing appropriate indicators and targets. The difficulties in measuring performance and attributing unambiguous causal effects to Cohesion policy interventions are widely known, particularly given the complexity and variety of policy fields covered. It is also difficult to select indicators and targets that would be reliable enough to be used for imposing financial penalties in a rigorous and objective way; applying them at EU level would be especially challenging given the different approaches, methods and definitions used within and across countries, which hampers aggregation and comparability of programme performance. Beyond these methodological challenges, a series of other difficulties are often mentioned:

- additional administrative burden, especially in countries with low funding;

- more conservative and risk-averse programme management and projects selection;

- increased politicisation due to the potential for losing money;

- unfair penalisation of lagging regions, which tend to have weaker institutional capacity and more challenging and complex programmes to administer;

[61] ESF Committee (2010) *op.cit.*

- practical implementation difficulties given the preparatory work needed to design and negotiate indicators and targets;

Nevertheless, some policy-makers do see the potential for using financial mechanisms to enhance performance under certain conditions. First, **greater concentration** on specific themes and interventions at the programming stage is needed as a pre-condition, tying in with the previous discussion on core priorities. Second, **they should be applied within countries** rather than at EU level. This is already being done at programme level in some countries in the current period (e.g. Italy, Poland) but it remains to be seen how effectively this will improve the focus on performance and attainment of goals. Project-level conditionalities are also widely used and could be encouraged. Third, **strict enforcement is required.** For instance, a recent report by the French parliament favours the introduction of a national performance reserve, but only if it employs a genuinely incentivising approach that compensates the best performing programmes alone. Fourth, the possibility of introducing output or result-based conditionalities will depend on the **type of interventions** or objectives being pursued.[62] Lastly, **the creation of a performance reserve** at EU level is more likely to prosper if it is created from decommitted funds. Excellence criteria could be set for such a fund, for example in terms of innovative or experimental projects and involving a more autonomous role for the Commission in selection processes. A supra-national dimension could also be introduced - where a stronger role for the Commission is more justifiable - by focusing on macro-regions within the EU.

A final point emphasised by national policymakers is that there is more scope for the use of financial incentives rather than sanctions. Peer review is regarded as an interesting, though not unproblematic, option. The OECD model of territorial reviews of regional policies is often cited as providing a promising lead, and there are similar approaches used in other EU policy areas. The reinforcement of existing initiatives for best-practice exchange and knowledge transfer (such as the RegioStars awards and the Open Days) are generally supported, although the impact of these 'soft' activities on the performance focus of programmes is considered to be limited.

Reinforced **monitoring and evaluation** offers another potential avenue for strengthening the performance orientation of Cohesion policy. In this respect, the present period is widely regarded as a positive step. The emphasis on ongoing evaluation and more flexibility to undertake thematic or operational needs-based evaluations is universally supported. The breadth and diversity of evaluation topics being analysed across the EU suggests that it is being increasingly employed as a learning tool, as opposed to a formal compliance routine. Monitoring indicators and systems have also been improved, involving the streamlining and standardisation of indicators, the use of early-warning indicators to trigger evaluations and more comprehensive and robust IT systems. Yet, ongoing difficulties persist.

- Methodological challenges associated with demonstrating causality, the limited use of advanced or experimental methods, and coordination and data comparability difficulties within countries or at EU level.

[62] ESF Committee (2010) op.cit.

- The exploitation of results for strategic planning and implementation purposes is limited, and it is often not possible to generate fast and up-to-date information.
- Capacity challenges are regularly reported due to onerous information requirements for beneficiaries and programme managers, and a lack of skills or resources within the public sector or in the evaluation market.

Recommendations by national policymakers to address these issues and improve the general state of monitoring and evaluation practice include the following:

- continue and further encourage the move towards flexible, ongoing evaluation approaches, with a particular onus on strategically relevant indicators and evaluations focusing on specific strategic themes and on impact;
- improve the quality of monitoring data and the consistency of indicator definitions across Member States and regions. The definition of common core indicators at EU-level has been proposed by the DG Regio, but this would need to happen soon so that the programme managers were informed and could incorporate these into their post-2013 planning;
- strengthen national and sub-national capacities. This could take the form of training or institution-building, as in Portugal and Poland where statistical observatories have been set up at regional level during this period to boost monitoring and evaluation capacity;
- adopt more rigorous evaluations methods, including counterfactual and other experimental methodologies. This is an area where the Commission could readily support evaluation units and programme managers by providing guidance and tools; and
- to encourage more political buy-in through regulatory incentives, although most Member States consider that stricter regulatory requirements are not necessary and could be counterproductive.

More structured **strategic reporting and high-level debate** is regarded as a necessary condition for enhancing accountability over policy performance. However, the first experience in 2009/10 reveals significant limitations, mirroring some of the criticism raised above on monitoring. The exercise has often been treated as a compliance exercise rather than a genuine learning tool. Some policymakers consider that the reports were mainly about providing a positive image rather than a full, objective account of what was happening on the ground. Timing constraints were partly to blame. It was still early in the programme period and only limited funds had been spent, but it also proved difficult to aggregate data in countries where there is no common monitoring database across all programmes or where indicators and monitoring systems are designed at programme level. Strategic, high-level debate on the reports was also limited. The General Affairs Council discussions concentrated mostly on the elaboration of Council conclusions, and presentations of the national reports in the COCOF committee were brief and primarily for information purposes.

To improve the quality and utility of the strategic reports, the main suggestions by national policymakers are reducing their scope to concentrate on strategic issues, and, for the next period, agreeing on core indicators to allow comparison across countries. The need for a more structured debate has received mixed reactions. Some policymakers oppose Council-level debates on the grounds that they cannot generate any real learning given the complexity of the issues at stake, especially in a political environment, or because many countries simply do not have Regional Policy Ministers. In this respect, the current informal council meetings are seen to be a good opportunity to talk about strategy, although these meetings are often attended by Director Generals rather than political representatives. Similarly, the recently created HLG could represent a good platform for such tasks. On the other hand, it is argued by others that a more structured and formalised system at both the political and technocratic levels is needed to diffuse and exploit the (often interesting) national experiences and lessons that emerge from these fora.

Institutional capacity is increasingly recognised as being critical to effective performance. Among the national policymakers interviewed, it was generally felt that the main problems lay in the EU12 due to high staff turnover, a lack of experience in implementing Cohesion policy and less modernised administrative cultures. On the other hand, it was also argued that there was scope in all Member States to improve their institutional capacities. Horizontal and vertical policy coordination is an ongoing challenge in all countries, as is the ability to devise and implement place-based approaches to sectoral policies.

Whether the Commission should be more proactively involved is an open question. National policymakers consider institutional capacity to be a domestic matter, unless capacity deficits threaten legal compliance with EU rules. On the other hand, it is argued that the Commission could provide greater oversight on how technical assistance is being deployed, particularly in terms of the quality of the interventions funded. Other softer types of intervention where the Commission could take a more proactive role include benchmarking of national experiences or training. But rather than focusing on compliance issues – as in the ‘train the trainers’ seminars – the Commission could address more strategic and thematic issues. This, in turn, requires stronger institutional capacity within the Commission.

5.4.3 Strategic coherence

The extent of coordination and coherence between EU policies is widely regarded as being sub-optimal, as is the degree to which cohesion objectives are taken on board outside the EU’s structural policies. The introduction of an overarching EU strategy for cohesion could help to remedy this deficit, but it is also recognised by national policymakers that a single strategic framework for cohesion policy, rural development policy and maritime and fisheries policy would be more feasible. Not all policymakers agree on the benefits of such strategic coordination. Sceptics argue that the real issue is how the structural funds are implemented and coordinated on the ground, where domestic institutional arrangements and interests are the determining factors not the pre-existence on EU strategy. Additionally, the effectiveness of the NSRF in translating EU objectives into a coordinated national strategy is disputed and in most countries the NSRF is of limited importance in steering implementation at the post-planning stage.

The pursuit of coordination through radical organisational change within the Commission – such as the creation of a single DG for all the funds or a strong Coordination DG - is largely regarded as 'utopian'. More critical, according to most policymakers, is the need to agree on harmonised management rules, eligibility conditions and operational coordination between the Structural Funds and with other EU policies. For instance, common eligibility conditions between EU Cohesion policy and EU Research Policy would be welcomed, and it is argued that enhanced interaction with specialists from the sectoral DGs could contribute to improving the quality of programmes. For such interaction to be effective it must be targeted and well-coordinated in order to avoid the dangers of 'mission drift' in programmes, which can result from the 'checklist' approach to inter-service consultations within the Commission. Equally, the limits to operational coordination should not be under-estimated given the different nature of the different policy areas and the different ways of working across DGs.

At the programme level, a reversion to integrated programmes drawing on all Structural Funds is another option to increase coordination. A report from the French Parliament calls for the mono-fund arrangements to be reviewed, arguing that the rule reduces the scope for synergies between different funds. A recent Polish position paper on Cohesion policy reform states that the *"rules on monofunding weaken the efficiency of the more and more separated funds. A return to the concept of making implementation of integrated projects possible would be an optimal solution. Then, the resources from the ESF and the European Regional Development Fund (ERDF) would provide a meaningful support to integrated projects realising priorities defined at the fund level, operational and strategic documents."* If agreement cannot be reached on integrated programming, an alternative proposal by the Polish authorities is to reform the existing cross-financing mechanism to allow soft and hard investments to be combined and to increase and differentiate the current threshold limits in accordance with the type of intervention.

The need to achieve more complementarity between the Structural Funds and Rural Development policies features prominently in the debate on strategic coherence. Some policymakers argue that the current approach is driven by demarcation instead of strategic thinking on balanced territorial development and call for the second pillar of CAP to be reintegrated under Cohesion Policy. On the other hand, others do not see a need to change the status quo and argue that agriculture ministries at national or regional level would oppose such changes. An alternative proposal is for more coordination at the strategic planning stage through a coordination platform similar to the NSRF or by merging the National Rural Strategy with the NSRF.

5.4.4 Simplification

The simplification of Cohesion policy has been high on the agenda in recent years, particularly in terms of the packages of legislative amendments to facilitate policy implementation within the context of the crisis. Looking to the future, the key simplification measures being explored concern the tolerable risk of error, management and control systems and financial management procedures.

As part of the triennial review of the Financial Regulation, the Commission has proposed to decide on a level of tolerable risk of error by policy area, which could mean fixing a higher tolerable risk level than the current two percent threshold.[63] For Cohesion policy, one important step being considered by DG Regio is that errors attributable to problems with compliance with State aid, public procurement and environmental legislation could be separated out from the errors directly associated with the management and implementation of the Structural and Cohesion Funds.

A prominent idea in the debate on simplification is the introduction of differentiated requirements on financial management, audit and control, based on the volume of funding or the effectiveness of systems. For instance, a proposal that has been examined in the HLG is to exclude programmes below €250 million from the need to receive Commission approval for their management and control system. This would apply to more than half of all EU programmes, while the vast majority of total funding would be implemented in programmes with an approved management and control system. Another proposal where there is more universal support is on the use of 'contracts of confidence', whereby the Commission would not undertake controls in those Member States where domestic systems have a good track record or the systems are assessed as being effective. The challenge with these proposals is to avoid perceptions of double standards being introduced (particularly between old and new Member States), while ensuring that the management and control obligations are proportionate with the aims pursued.

There are several areas of financial management where further scope for simplification has been identified.

- **Lighter administrative requirements for specific types of interventions or beneficiaries**: particularly smaller grants, high-risk or innovative interventions, financial engineering instruments and specific types of beneficiaries such as small firms.

- **A more flexible decommitment rule:** by extending the rule by one year (n+3) for all Member States or applying it nationally (rather than at programme level). While some Member States view this added flexibility positively, others are supportive of the financial discipline imposed by the current system.

- **Basing EU reimbursement on the declaration of payments rather than on expenditure by beneficiaries:** would expedite payments from the Commission because they would not be held up by problems with a specific beneficiary, as can happen under the existing rules. However, this is not viewed as being of major significance by many policymakers and may even encourage lax financial management.

[63] European Commission (2010) *Proposal for a regulation of the European Parliament and of the Council on the Financial Regulation applicable to the general budget of the European Union,* COM 2010) 260 final, Brussels, 28.5.2010.

- **Incentivising partial closure of programmes:** could limit errors and omissions in the management and monitoring of individual projects (i.e. by avoiding issues with incomplete documentation arising later down the line).

5.4.5 The role of the Commission

There is general consensus on the need for the Commission to have a more strategic role than at present, but what does this mean in practice? At the policy design stage, it is argued that the Commission could adopt a more strategic role in defining the role of Cohesion policy vis-à-vis other EU policies more clearly. This would not only improve the strategic direction of the Structural Funds but also make the institutional and political position of DG Regio (and, therefore, its credibility) less tenuous. At the implementation stage, it is argued that the Commission should work more on the credibility of the strategies, their concrete feasibility and logic and then focus on following-up on practical delivery of strategic objectives. However, there are mixed views on the extent to which the Commission should be involved in such decisions. Some policymakers are wary about excessive Commission 'interference' in the strategic decisions of the Member States, while others would welcome a more proactive Commission approach.

Where there is universal agreement is on the need for a revision to the current approach to audit and control. Policymakers argue that it is necessary to move away from the distrustful shadow of fraud allegations, for more balance between the audit of legal and procedural compliance and the audit of effectiveness, and for a repositioning of the roles of the Commission and the Member States. In particular, it is argued that the philosophy of the single audit model needs to be genuinely embraced, whereby responsibility for the control of projects is devolved to the Member States, with the Commission being responsible, above all, for ex-ante verification of domestic management and control systems.

More generally, policymakers argue that a better relationship is needed with programme managers. In the context of Monitoring Committee meetings, for instance, DG Regio's presence and interventions are sometimes felt to be unnecessary, superfluous or disruptive. It is argued that the Commission should be listening more to the regions views and engaging in more strategic discussions, rather than concentrating on financial management and implementation issues.

Finally, in pursuing a strategic shift in the role of the Commission, several preconditions are considered to be necessary. Additional human resources are needed within the Commission DGs, but as the Commission is unlikely to obtain additional personnel, a shift from audit to strategic issues would be expected. Related, more training is needed within the Commission as it currently lacks the necessary competences to support a strategic approach. More effective inter- and intra-DG coordination is also necessary as the well-known compartmentalised institutional structure of the Commission presents a significant barrier to strategic thinking.

6. ISSUES FOR DISCUSSION

The aim of this paper has been to provide a review of the Cohesion policy debate over the past year. It began by setting out the context for reform in terms of economic governance, institutional changes and the policy priorities of Europe 2020. It then reviewed the state-of-play of the budget debate, highlighting different national positions. For Cohesion policy, an analysis was provided of one of the key issues underlying Member State positions – their eligibility for Structural and Cohesion Funds, and the likely financial allocations, based on the latest Eurostat data. Lastly, the political and policy dimensions of Cohesion policy reform were reviewed in detail. This final section concludes with some questions for discussion at the EoRPA meeting.

What kind of changes to the Berlin formula for allocating Cohesion policy funding could be considered to remain within budgetary limits and ensure sufficiently wide political support?

The analysis of eligibility and allocations concluded that the existing approach to Convergence region and Cohesion Fund allocations cannot be reapplied largely unchanged. Eligibility would be too low to command the political support for renewal of the policy, and the budget would exceed the 2007-13 funding allocation significantly. Among the possible modifications to the allocation formula are reduced coefficients, reconfiguration of the absorption cap, changes to aid intensity, or changes to the weights allocated to poor countries or regions. A more significant change, discussed over the past year, would be the creation of a 'transition' category of eligibility for those regions losing eligibility for the Convergence objective.

How should the approach to shared management of Cohesion policy evolve?

At the heart of the governance of Cohesion policy is the system of shared management between the European Commission and Member States. The recent policy debate, most notably in the Barca Report, has seen proposals for a different form of 'contract' between the EU and national levels, potentially involving much greater emphasis on targets and results. Although there has been some progress in this direction in the current period (e.g. through strategic reporting), result-oriented contracting would involve a step change in the obligations on Member States.

What kind of conditionalities on Cohesion policy spending would be acceptable to Member States?

The reform debate over the past two years has involved consideration of strengthening the performance of the policy through conditionalities and other incentives. The issue of conditionality became particularly important in the debates over stabilisation of the euro in the face of the high levels of indebtedness of some countries. Three types of possible conditionality are: macro-economic conditionalities (e.g. relating to compliance with monetary policy rules); structural conditionalities (e.g. ensuring that the structural,

regulatory or institutional pre-conditions for effective use of Structural Funds are in place); and performance-related conditionality (e.g. linking funding to adequate performance).

What scope is there for widening the use of different financial instruments?

The current period has seen the use of new financial instruments such as JEREMIE and JESSICA. Financial engineering instruments are used in the regional policies of some Member States also. Under Cohesion policy, the use of such instruments could be intensified in future, in particular to move policy support away from non-repayable grants, but they do depend on having appropriate regulatory frameworks and administrative capacity in place.