A Budget and Cohesion Policy for Europe 2020: Let the Negotiations Begin

EoRPA Paper 11/4

Carlos Mendez, John Bachtler and Fiona Wishlade

This paper was prepared for the 32nd meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside on 2-4 October 2011

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

Tel: +44-141-548-3339/3061/3334
Fax: +44-141-548-4898
e-mail: carlos.mendez@strath.ac.uk
john.bachtler@strath.ac.uk
fiona.wishlade@strath.ac.uk

EUROPEAN POLICIES
RESEARCH CENTRE

The University of Strathclyde is a charitable body, registered in Scotland, number SC015263.

Preface

This report has been 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 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. Over the past year, EoRPA members have comprised the following partners:

Austria
- Bundeskanzleramt (Federal Chancellery), Vienna

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

France
- Délégation à l'aménagement du territoire et à l'attractivité régionale (DATAR), Paris

Germany
- Bundesministerium für Wirtschaft und Technologie (Federal Ministry for the Economy and Technology), Berlin
- Ministerium für Wirtschaft, Energie, Bauen, Wohnen und Verkehr des Landes Nordrhein-Westfalen (Ministry for the Economy, Energy, Construction, Housing and Transport of the Land of Nordrhein-Westfalen), Düsseldorf

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

Netherlands
- Ministerie van Economische Zaken, Landbouw en Innovatie (Ministry of Economic Affairs, Agriculture and Innovation), The Hague

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

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

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

Switzerland
- Staatssekretariat für Wirtschaft (SECO, State Secretariat for Economic Affairs), Bern

United Kingdom
- East Midlands Development Agency, on behalf of the English RDAs
- Department for Business, Innovation and Skills, London
- The Scottish Government, Enterprise, Transport and Lifelong Learning Department, Glasgow

The research for this report was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries during the first half of 2011. The EoRPA research programme is coordinated by Professor John Bachtler, Fiona Wishlade and Heidi Vironen. The report was written by Carlos Mendez, John Bachtler and Fiona Wishlade and draws on country-specific research contributed by the following research team:

Austria: Stefan Kah, EPRC	Lithuania: Inga Bartkeviciute, Jonas Jatkauskas, UAB BGI Consulting
Belgium: Prof Norbert Vanhove, T&R	Luxembourg: Prof Norbert Vanhove, T&R
Bulgaria: Prof Julia Spiridinova, ProlnfraConsult	Malta: Stephanie Vella, E-Cubed Consultants
Czech Republic: Marie Feřtrová, Lucie Jungwiertová, Jiří Blažek, Charles University	Netherlands: Prof John Bachtler, EPRC
Cyprus: Victoria Chorafa, LKN Analysis	Norway: Fiona Wishlade, EPRC
Denmark: Prof Henrik Halkier, Aalborg University	Poland: Dr Martin Ferry, EPRC
Estonia: Dr Kristina Tõnnisson, University of Tartu	Portugal: Carlos Mendez, EPRC
Finland: Heidi Vironen, EPRC	Romania: Prof Daniela-Luminita Constantin, Academy of Economic Studies
France: Frederike Gross, EPRC	Slovakia: Martin Obuch, Consulting Associates
Germany: Dr Sara Davies, EPRC	Slovenia: Dr Damjan Kavaš, Institute for Economic Research
Greece: Victoria Chorafa, LKN Analysis	Spain: Carlos Mendez, EPRC
Hungary: Prof Ilona Pálné Kovacs, Centre for Regional Studies	Sweden: Heidi Vironen, EPRC
Ireland: Prof David Charles, EPRC	Switzerland: Frederike Gross and Stefan Kah, EPRC
Italy: Dr Laura Polverari, EPRC	United Kingdom: Dr Martin Ferry and Rona Michie, EPRC
Latvia: Prof Tatjana Muravska, University of Latvia	

Many thanks are due to everyone who participated in the research. Thanks also to Dr Keith Clement, Lynn Ogilvie and Alyson Ross for editorial, coordination and secretarial support respectively. In addition, the European Policies Research Centre gratefully acknowledges the financial support provided by the members of the EoRPA Consortium.

Disclaimer

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

TITLE

TABLE OF CONTENTS

TITLE

EXECUTIVE SUMMARY

After a protracted period of informal consultation and debate, the European Commission published its budgetary proposals for the 2014-2020 Multi-annual Financial Framework at the end of June 2011, followed by the tabling of the Cohesion policy regulatory package in October 2011. The aim of this paper is to provide a review and assessment of the debate on the reform of EU Cohesion policy over the past year. It begins with a review of the context for reform, examining EU crisis management measures and broader policy developments. The Commission's proposals on the MFF are then examined, followed by an analysis of the implications for national and regional eligibility and financial allocations under EU Cohesion policy. The policy dimensions of the post-2013 Cohesion policy proposals are reviewed in detail, and the paper concludes with issues and questions for discussion.

Context for reform

The context for EU policy reform over the last year has been difficult to say the least. The fragile recovery and the Euro crisis have unleashed economic and political uncertainty, hostile public reactions against the EU's responses, and threats against the Union's fundamental principles. Nevertheless, various measures have been agreed to strengthen economic governance and the pressure to find a more sustainable institutional design for the Euro is rising. Progress in the EU's overarching Europe 2020 strategy for smart, sustainable and inclusive growth includes the formal adoption of the integrated guidelines, the tabling of all seven flagship initiatives and the completion of the first European semester. For its part, DG Regio issued two Communications on 'smart growth' and 'sustainable growth', highlighting the contribution of Cohesion policy to Europe 2020 objectives and flagship initiatives as well as setting out a series of recommendations to increase their alignment further during the remainder of the 2007-13 period and beyond

A budget for Europe 2020

The Commission presented its proposals on the Multi-annual Financial Framework 2014-20 at the end of June 2011. A total budget of €1,025 billion in commitment appropriations is envisaged, representing a 3.2 percent increase compared to 2007-2013 or 5 percent if the 'outside MFF' items are included. The main budget headings have been repackaged to emphasise Europe 2020 objectives, Cohesion policy and a new infrastructure fund (the 'Connecting Europe facility') being grouped into a sub-ceiling of the 'Smart and inclusive growth' heading.

The CAP and Cohesion policy would see their total allocations fall, although both would still remain the largest items of EU budgetary expenditure with the Cohesion share overtaking that of agriculture for the first time. Cohesion policy funding would fall by some five percent, from €354.8 billion to €336 billion. This equates to a 36.7 percent share of the 2014-2020 MFF, slightly higher than the 35 percent share in 2007-13.

On the income side of the budget, the Commission proposes two new own resources, a Financial Transaction Tax and an EU VAT component in order to render the financing of the EU more transparent and fair; and proposes to simplify the system of corrections and rebates by replacing these by a system of fixed annual lump sums.

Cohesion policy scenarios 2014+: eligibility and allocations

A somewhat different budgetary and eligibility landscape emerges from the Budget 2020 proposals for Cohesion policy. This partly owes to regional economic growth and the use of EU27 averages which together have the effect of reducing significantly the coverage of the Convergence regions. In particular, regional growth would result in several German and Spanish regions losing Convergence status, along with the capital regions of Poland and Romania. The introduction of a new definition of transitional region will also alter the pattern of intervention. This will comprise: former Convergence regions that have 'outgrown' that status – this is in line with past transitional arrangements; and regions with GDP in the range 75-90 percent of the EU27 average. This is a break with past practice creating a new category of assisted area covering over 11 percent of the EU15 population.

Overall, the Budget 2020 proposals suggest a modest decrease in the Cohesion Policy budget. This is largely borne by a reduction in Convergence spending, although per capita spend on Convergence would rise slightly; RCE spending would rise significantly both in absolute and per capita terms; and Transition region spending would increase by half. The absorption cap will be critical in determining financial allocations for the least prosperous Member States. For these countries, the cap proposed is substantially lower than it was in 2007-13.

Cohesion policy directions 2014+: the new regulatory framework

The tabling of the Cohesion policy regulatory package is due to take place on 6 October 2011, although the key directions of reform were already well-known since the publication of the Fifth Cohesion Report in November 2010: closer alignment with and thematic concentration on the Europe 2020 Strategy; greater strategic coherence across shared management funds; a more binding contractual relationship with the Member States; a new performance framework; more use of new financial instruments; and greater proportionality and simplification in administrative rules.

An intensive examination of the draft legislative package of Cohesion policy regulations will be undertaken in the Structural Actions Working Party during the latter half of the Polish Presidency. Nevertheless, mixed reactions to the reform options and proposals were already evident in the various consultations and informal discussions held in EU working groups, seminars and meetings organised by the previous Presidencies over the past year. Amongst the most contentious issues are the proposals on: thematic concentration on Europe 2020 objectives, particularly the level of flexibility available for countries and regions in the programming of the funds; the scope of conditionalities and use of sanctions under the performance framework; and the degree to which simplification will be achieved in practice.

Issues for discussion

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

- *How should eligibility and aid intensity be structured to accommodate the mix of regions falling into the Transition category?*
- *How can an optimal balance be struck between thematic and territorial objectives and priorities?*
- *Would the (re)introduction of multi-fund OPs encourage more integrated approaches?*
- *Has the Commission found an appropriate balance between the need to improve performance and ensure that the conditionalities are acceptable to, and manageable by, Member States? What changes could improve the proposals?*
- *What specific changes to the regulations would facilitate a more proportionate, risk-based and fair approach to shared management?*
- *To what extent would an umbrella regulation, and the harmonisation of (some) rules, be seen as desirable? What are the priorities for harmonising rules?*

A Budget and Cohesion Policy for Europe 2020: Let the Negotiations Begin

1. INTRODUCTION

The stage has been set for the formal negotiations on the reform of Cohesion policy post-2013. After an extended period of informal consultation and debate, the European Commission published its budgetary proposals for the 2014-2020 Multi-annual Financial Framework at the end of June 2011 setting out the key financial parameters and reform principles for all EU policies. The tabling of the Cohesion policy regulatory package is due to take place on 6 October 2011, although the key directions of reform were already well-known since the publication of the Fifth Cohesion Report in November 2010:

- close alignment with and thematic concentration on the Europe 2020 Strategy;
- greater strategic coherence across shared management funds;
- A more binding contractual relationship with the Member States through partnership contracts;
- A new performance framework involving conditionalities and performance review of the achievement of milestones with the possibility of financial sanctions;
- more use of new financial instruments;
- greater proportionality and simplification in administrative rules; and
- the introduction of a new category of 'Transition' regions.

It is now the task of the Member States to reach a budgetary settlement on the budget, negotiate an agreement on the package of regulations and achieve a compromise with the European Parliament. The context for the negotiations is difficult. The fragile recovery and the Euro crisis have cast a long shadow of uncertainty over the EU and even brought into question some of the Union's fundamental values. The principle of solidarity is openly contested due to fears of a 'Union of transfers', and the threat of a two-speed Europe looms large with the mounting pressure of a Greek default and potentially a break up of the Eurozone. Some progress on economic governance has been made, albeit timidly and in reactive mode. A 'six pack' of legislative measures to strengthen surveillance and sanctions were adopted by the Commission, and the pressure to agree a more sustainable institutional design for the Euro is rising.

Times of economic crisis and fiscal constraint inevitably bring a harder line towards the EU budget and greater demands for value-for-money. The Commission's proposals on the 2014-2020 MFF have unsurprisingly elicited negative reactions from net contributors for being too high in the present circumstances of fiscal consolidation and austerity. With Cohesion policy set to become the largest budgetary item of EU expenditure, overtaking agriculture's share

for the first time, it is likely to face pressure for cuts in the upcoming negotiations. Give the redistributive stakes involved, decisions on the Cohesion budget, eligibility and allocations across countries and regions, and the split between funds and priorities are likely to be contentious.

An intensive examination of the draft legislative package of Cohesion policy regulations will be undertaken in the Structural Actions Working Party during the latter half of the Polish Presidency. Mixed reactions to the reform options and proposals were already evident in the various consultations and informal discussions held in EU working groups, seminars and meetings organised by the previous Presidencies. Amongst the most contentious issues are the proposals on: thematic concentration on Europe 2020 objectives, particularly the level of flexibility available for countries and regions in the programming of the funds; the scope of conditionalities and use of sanctions under the performance framework; and the degree to which simplification will be achieved in practice.

The aim of this paper is to provide a review and assessment of the debate on the reform of EU Cohesion policy over the past year. It begins by reviewing the context for the reform debate with respect to political and economic developments over the past year (section 2). It then summarises the European Commission's proposals for the next multi-annual financial framework, the initial reactions of Member States and the negotiation stance of the European Parliament (section 3). The implications of the proposals for EU Cohesion policy eligibility and allocations in 2014-2020 are assessed on the basis of the latest data (section 4). The paper then turns to the policy dimensions of the Cohesion policy reform through a detailed assessment of the Commission's proposals and national reactions (Section 5). Finally, the paper presents some conclusions and issues for discussion (Section 6).

2. THE CONTEXT FOR POLICY REFORM

The context for EU policy reform over the last year has been difficult to say the least. The fragile recovery and the Euro crisis have unleashed economic and political uncertainty, hostile public reactions against the EU's responses (or lack thereof), and threats against the Union's fundamental principles. Nevertheless, various measures have been agreed to strengthen economic governance and the pressure to find a more sustainable institutional design for the Euro is rising. Progress in the EU's overarching Europe 2020 strategy for smart, sustainable and inclusive growth includes the formal adoption of the integrated guidelines, the tabling of all seven flagship initiatives and the completion of the first European semester.

2.1 EU Crisis Management and Economic Governance Reform

Economic and financial developments over the last year underscore the **fragility of the recovery in many EU countries and the ongoing legacy of the crisis across Europe**. As documented in the EU's annual growth survey for 2011,[1] there has been a large loss of economic activity, a substantial increase in unemployment, a sharp fall in productivity, and badly weakened public finances. Eleven Member States are forecast to remain at lower output levels than before the crisis by the end of 2012, and EU gross government debt in the Euro area increased to around 85 percent of GDP in 2010 or 80 percent EU-wide. Government deficit ratios (relative to GDP) were greater than the target reference value of -3 percent of GDP in 22 of the Member States in 2010, the highest being in Ireland (-32.4 %), Greece (-10.5 %),the United Kingdom (-10.4 %), Spain (-9.2 %) and Portugal (-9.1 %).[2] As a result, the sustainability of public finances has become *"the key policy concern in the wake of the crisis"*.[3] A concerted shift towards fiscal consolidation has been undertaken in many European countries, with important implications for the negotiation of the post-2013 EU Budget.

Continued uncertainty and speculation about sovereign indebtedness has led to **important changes to EU economic governance**. The Stability and Growth Pact is being reformed to reinforce economic and fiscal coordination, including a new excessive imbalances procedure. An agreement was reached on the creation of a European Stability Mechanism in December 2010 as a permanent rescue funding programme to succeed the European Financial Stability Mechanism which expires in 2013. A Euro-Plus Pact was subsequently adopted in March 2011 committing eurozone members (joined by Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania) to a list of reforms intended to improve fiscal strength and competitiveness on the basis of the open method of coordination.

Renewed pressure from the sovereign debt crisis led to an agreement on a new package of measures at a special summit of Heads of State in the Euro area in July 2011. Additional

---

[1] European Commission (2011) *Annual Growth Survey: advancing the EU's comprehensive response to the crisis*, COM(2011) 11 final, 12.1.2010, Brussels.

[2] Eurostat, Government finance statistics, August 2011.

[3] European Commission (2011) Public finances in EMU - 2011, *European Economy,* 3/2011, Directorate-General for Economic and Financial Affairs Brussels, European Commission, Brussels.

loans would be granted to Greece amounting to €109 billion, including private sector contributions, and lending terms were relaxed. The length of repayment terms were doubled for Ireland and Portugal, which had also received bail-outs, and additional powers were granted to the European Financial Stability Mechanism to buy up bonds and to make credit available to countries such as Spain and Italy that were facing growing borrowing costs.

Of particular note in relation to Cohesion policy is the decision to allow Member States that have received financial assistance under a programme from the European Stabilisation Mechanism for the euro countries or from the Balance of Payments (BoP) mechanism for non-euro countries (Greece, Hungary, Ireland, Latvia, Portugal, Romania) to higher EU co-financing rates on a temporary basis. [4]

With respect to domestic politics, **EU policy responses to the crisis have elicited public hostility in various countries.** The strict conditionality terms imposed to qualify for bail outs has led to a wave of protests in Greece, Ireland and Portugal, while strikes in France were sparked by the government's acceptance of the Euro-plus pact which includes measures on wage restraint and pensions. In parallel, public opposition in the creditor countries is causing electoral backlashes, particularly in Germany and Finland, but also in the Netherlands and Austria. The majority of the EU population now have an overall negative opinion of the EU; in only three countries (Bulgaria, Ireland and Romania) do more than half the population have a positive view of the EU. Further, in the new Member States, support for joining the euro and its perceived benefits, has been declining for two years.[5]

In this turbulent context, and with lower than expected growth in both Germany and France, **Chancellor Angela Merkel and President Nicolas Sarkozy agreed to commit to greater integration in the eurozone during a Franco-German summit** in August 2011.[6] A joint letter to President van Rompuy included pledges to prepare annual budgets on harmonised economic outlooks, to work towards a common corporation tax by 2013 and to hold twice yearly summits with other eurozone members.[7] The French and German leaders went on to recommend that eurozone members adopt commitments to balance their budgets in their constitutions or other legislation and backed the idea of a European tax on financial transactions.

Cohesion policy also featured in the Franco-German letter, offering **support for the Commission's proposals on macro-economic conditionalities and even calling for the**

---

[4] European Commission (2011) *Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) 1083/2006 as regards certain provisions relating to financial management for certain Members States experiencing or threatened with serious difficulties with respect to their financial stability*, COM(2011) 482 final, 1.8.2011, Brussels.

[5] European Commission (2011) Public opinion in the European Union, Eurobarometer 75, DG Communication, Commission of the European Communities, Brussels. European Commission (2011) Introduction of the euro in the new Member States – Round 12, Flash Eurobarometer 329, DG Communication, Commission of the European Communities, Brussels.

[6] Financial Times (2011) Merkel and Sarkozy pledge to defend euro, 18 August 2011, Financial Times.

[7] The letter can be downloaded from the Élysée website: http://www.elysee.fr/president/root/bank_objects/lettre_english_final_version.pdf

Commission to be involved in project selection in countries receiving bail-outs or the creation of an EU fund to be administered by the Commission:

> *Structural and cohesion funds should be used to support essential reforms to enhance economic growth and competitiveness in the euro area. Macro-economic conditionality of the Cohesion fund should be extended to the structural funds. They should be targeted at improving competitiveness and reduction of imbalances in the Member States receiving recommendations in the excessive imbalance procedure. In programme countries, the European Commission should automatically check to ensure that structural and cohesion funds provide the optimum support for the macroeconomic adjustment programme and be involved in the selection and implementation of projects. Within the European Commission, the Commissioner for Economic and Financial Affairs, should play a decisive role in this process. Funds not used by programme countries could be combined in a fund for growth and competitiveness administrated on the European level by the Commission. In the future, payments from structural and cohesion funds should be suspended in euro area countries not complying with recommendations under the excessive deficit procedure. These changes should be implemented in the new structural and cohesion funds regulations to be proposed for the next multiannual financial framework.*

2.2 EU Policy Priorities

The **Commission's policy priorities** over the short to medium terms were set out in its annual work programme published on 27 October 2010,[8] building on the political priorities presented by Barroso in the first State of the Union Address in September 2010.[9]

1. **Restoring growth for jobs by accelerating towards 2020:** strengthening economic governance and initiating the European Semester, completing financial regulation reform, progressing Europe 2020 delivery, and tapping the potential of the Single Market.

2. **Pursuing the citizens' agenda:** in the areas of freedom, security and justice.

3. **Europe in the World - pulling our weight on the global stage:** a comprehensive trade policy, EU enlargement, neighbourhood development policies and humanitarian aid.

4. **From input to impact - making the most of EU policies:** including a modern budget for Europe's future and promoting smart regulation.

[8] European Commission (2010) *Commission Work Programme 2011*, COM(2010) 623 final Vol.I, 27.10.2010, Brussels.

[9] Barroso J.M (2010) *State of the Union Address 2010*, SPEECH/10/411, 7 September 2010, European Parliament, Brussels. The second State of the Union Address is scheduled for 28 September 2011.

Published in the wake of the Europe 2020 strategy,[10] the Digital Europe Strategy,[11] the Fifth Cohesion Report[12] and the Single Market Act,[13] the Commission's work programme identifies a raft of legislative and non-legislative initiatives to be pursued over the following two years. The main initiatives noted in relation to Cohesion policy were the legislative reform package for the post-2013 period and the second strategic report for the current period.[14] Also of relevance to Cohesion policy are the progression of the Europe 2020, discussed in below, and the reform of the EU budget, examined in detail in Section 3.

The Commission's broad priorities were largely reflected in the 2011 European Council Presidency priorities of Hungary and, subsequently, Poland. An important development was the finalisation of accession negotiations with Croatia on 30 June 2011. The Accession Treaty will be signed in December 2011 enabling Croatia to join the EU on 1 July 2013 after the conclusion of the ratification process.

2.3 PROGRESSING EUROPE 2020

The Europe 2020 strategy is the EU's overarching development strategy for smart, sustainable and inclusive growth over the 2010-2020 period. Endorsed by the Council in June 2010, **further progress over the last year includes the approval of the 'Integrated Guidelines' and 'Flagship Initiatives'.** The first six guidelines (or Broad Guidelines for Economic Policies) establishing the Europe 2020 Strategy had already been approved by the Council on 13 July 2010, while the last four employment-related guidelines (6-10) were approved on 21 October 2010 following consultation with the Parliament (Box 1).[15] These guidelines are central to the reform of Cohesion policy post-2013 as a sub-set will provide the strategic reference framework for future thematic priorities and, potentially, conditionalities.

---

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

[11] European Commission (2010) *Digital Agenda for Europe*, COM(2010) 245 final/2, 19.5.2010, Brussels

[12] European Commission (2010) *Investing in Europe's Future: Fifth Report on economic, social and territorial cohesion*, Publications Office of the European Union: Luxembourg; European Commission (2010) *Conclusions of the Fifth Report on Economic, Social and Territorial Cohesion: The Future of Cohesion Policy*, COM(2010) 642 final, Brussels.

[13] European Commission (2010) *Towards a Single Market Act For a highly competitive social market economy: 50 proposals for improving our work, business and exchanges with one another*, COM(2010) 608 final/2, 11.11.2010, Brussels. Subsequently agreed as: European Commission (2011) *Single Market Act: Twelve levers to boost growth and strengthen confidence: "Working together to create new growth"*, COM(2011) 206 final, 13.4.2011, Brussels.

[14] European Commission (2010) Annexes to the 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 2011, COM(2010) 623 final, VOL. II, 27.10.2010, Brussels: http://ec.europa.eu/atwork/programmes/docs/cwp2011_annex_en.pdf

[15] Council of the European Union (2010) Council Decision 2010/707/EU of 21 October 2010 on guidelines for the employment policies of the Member States, Official Journal L 30, 24/11/2010, p0046 – 0051.

Box 1: 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 R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy.
5. Reducing greenhouse gas emissions and using resources efficiently.
6. Improving the business environment and modernising the industrial base.
7. Increasing labour market participation of women and men, reducing structural unemployment and promoting job quality.
8. Developing a skilled workforce responding to labour market needs and promoting lifelong learning.
9. Improving the quality and performance of education and training systems at all levels and increasing participation in tertiary or equivalent education.
10. Promoting social inclusion and combating poverty.

As regards the flagship initiatives, the Commission had presented by the end of 2010 'A Digital Agenda for Europe',[16] 'Youth on the Move',[17] 'Innovation Union',[18] 'An Industrial Policy for the Globalisation Era',[19] 'An Agenda for New Skills and Jobs'[20] and 'A European Platform against Poverty and Social Exclusion'.[21] The final flagship initiative, 'A Resource-efficient Europe', was presented in January 2011.[22] **DG REGIO responded to these developments by issuing two Communications on 'smart growth'[23] and 'sustainable growth',[24]** highlighting the contribution of Cohesion policy to Europe 2020 objectives and flagship initiatives as well as setting out a series of recommendations to increase their alignment further during the remainder of the 2007-13 period and beyond (Box 2 and Box 3).

16 European Commission (2010) *Digital Agenda for Europe*, COM(2010) 245 final/2, 19.5.2010, Brussels

17 European Commission (2010) *Youth on the Move*, COM(2010)477, 15.9.2010, Brussels

18 European Commission (2010) *Innovation Union*, COM(2010)456, 6.10.2010, Brussels

19 European Commission (2010) *An industrial policy for the globalisation era*, COM(2010) 614, 27.10.2010, Brussels

20 European Commission (2010) *An agenda for new skills and jobs. A European Contribution towards full employment*, COM(2010)682, 23.11.2010, Brussels

21 European Commission (2010) *A European Platform against Poverty and Social Exclusion: A European Framework for Social and Territorial Cohesion*, COM(2010)758, 15.12.2010, Brussels

22 European Commission (2011) *A Resource-efficient Europe*, Brussels, COM(2011) 21, 26.1.2011, Brussels.

23 European Commission (2010) *Regional Policy contributing to smart growth in Europe 2020*, COM(2010) 553 final, Brussels. Brussels, 6.10.2010; European Commission (2010) *Commission Staff Working Document on Regional Policy contributing to smart growth in Europe 2020*, SEC(2010) 1183, Brussels.

24 European Commission (2011) *Regional Policy Contributing to Sustainable Growth in Europe 2020*, COM(2011)17 Final, 26.1.2011, Brussels; European Commission (2011) *Commission Staff Working Document of Regional Policy contributing to sustainable growth in Europe 2020*, SEC(2011) 92 final, 26.1.2011, Brussels.

Box 2: 'Smart Growth' Recommendations for Cohesion policy

Member State Actions

1. Developing smart specialisation strategies drawing on support for technical assistance and subjecting them to international peer review.

2. Make more extensive use of financial engineering instruments in support of innovation

3. Pursuing the possibility to finance interregional cooperation to promote research and innovation and better access to international research and innovation networks under FP7 and CIP.

4. Ensuring coherence between supply push and demand pull research and innovation policy, by making use of the opportunities offered by public procurement co-financed by the ERDF to increase the innovation content of products, processes and services.

5. Using international peer review by independent experts for research projects more systematically to enhance the effectiveness of support.

6. Considering the use of the ERDF for financing suitable shortlisted FP7 and CIP projects.

7. Exploiting the possibilities for improving regional innovation policy through peer learning: offered by FP7, CIP and INTERREG IV C platforms and networks.

European Commission Actions

1. Facilitate smart specialisation strategies by developing (a) a 'Smart Specialisation Platform' to help identify needs, strengths and opportunities (b) data, policy analysis and information on research and innovation performance and specialisation from an EU-wide perspective (c) platforms for mutual learning

2. Assist education, research and innovation projects through knowledge transfer and diffusion of good practice, with the help of the 'Regions for Economic Change' initiative and by providing technical support to innovation-based Fast Track regional networks and to interregional collaboration supported

3. Work with financial institutions to leverage funding and maximise the use of existing financial instruments, including by establishing a RSFF window/facility for Convergence regions, more intensive use of JEREMIE, as well as by examining ways of extending the scope of existing financial engineering instruments to new research and innovation activities.

4. Facilitate business opportunities for SMEs' through consolidating and reinforcing the Enterprise Europe Network (EEN), the partners of which should, in turn, help organisations to make better use of ERDF financing for innovation.

5. Improve the coherence and complementarity of EU policies for education, research and innovation, with the aim of: promoting the take-up of good practice; expanding and upgrading the 'Practical Guide on EU funding opportunities' and establishing a single web-based portal on Commission support for research and innovation linked to the FP7 Participant Portal.

Box 3: 'Sustainable Growth Recommendations for Cohesion policy'

Member State Actions

1. To consider realigning expenditure to boost the transition to resource efficient and low-carbon economy and examine the need for OP modifications, drawing on complementary support offered by other EU policies as regards

2. To ensure the systemic integration of the sustainability principles in each step of the project life-cycle with particular attention to increase resource efficiency

3. To address climate change in their territorial planning, including local, regional and macroregional strategies involving supranational areas linked to sea or river basins in particular.

4. To carry out specific evaluations and to include a dedicated section within OP Annual Implementation Reports assesssing support to the guidelines set out in the Communication;

5. To consider the flexibility being offered within the Operational Programmes to reorient regional policy funding towards Europe 2020 priorities;

6. To prepare for the next round of OPs in terms of: a greater thematic focus on green investment and a shift to a low carbon and climate resilient economy while ensuring an integrated approach to sustainable urban and/or rural development, and fully taking into account the territorial context and opportunities; capacity building, using technical assistance budgets, to involve local, regional and NGO actors in regional climate change adaptation and mitigation strategies.

European Commission Actions

1. Commit to swift consideration and support to any request for reprogramming for funding towards Europe 2020

priorities.

2. Work with financial institutions to leverage resources and maximise the use of financial instruments (including JEREMIE and JESSICA), with a particular focus on sustainable energy in residential buildings to build on the recent amendments to Structural Funds regulations.

3. Work with the Member States and regions to develop targeted pilot initiatives and seminars to deploy proposals outlined in the Communication.

4. Assist national and regional authorities with thematic expertise in the implementation and monitoring of programmes.

5. Mobilise the available resources in existing OPs to build up institutional capacity in order to ensure the application of the sustainable development principles, and unblock bottlenecks, especially with JASPERS.

6. Assist Member States in mobilising the available Technical Assistance of their OPs for boosting regional sustainable growth and to facilitate at all administrative levels the project pipeline.

7. Identify and encourage further exchange of good practice between Member States in areas related to sustainable growth through initiatives such as Regions for Economic Change or ESPON.

The completion of the first 'European Semester' during 2011 is an important milestone in the economic governance component of the Europe 2020 strategy. The central aim is to reinforce budgetary and structural policy coordination while major budgetary decisions are still under preparation. The key steps were as follows.

- The Commission's Annual Growth Survey initiated the first stage of the six-month cycle in January 2011, providing analysis of progress towards Europe 2020 targets, a macro-economic report and the joint employment report, and setting out an integrated approach to recovery and growth.

- At the Spring Council in March 2011, Member States identified the main challenges facing the EU and gave strategic advice on policies, essentially endorsing the Commission's growth survey.

- Taking this guidance into account, the Member States presented and discussed their medium-term budgetary strategies through Stability and Convergence Programmes and, at the same time, drew up their 2011 National Reform Programmes. These documents were sent to the Commission in April and May 2011 for assessment.

- Based on the Commission's assessment, the European Council and Council of Ministers issued country-specific guidance in July 2011, before Member States finalised their budgets for the following year.

As will be discussed later, the National Reform Programmes may take on increased strategic importance in Cohesion policy post-2013, particularly if the Commission's proposals on macro-economic and structural conditionalities are approved by the Council and European Parliament.

3. A BUDGET FOR EUROPE 2020

Following three years of informal consultation and debate under the Budget Review, **the Commission presented its proposals on the Multi-annual Financial Framework (MFF) 2014-20 at the end of June 2011,** marking the launch of the formal budgetary negotiations among the Member States in the Council and with the European Parliament.[25] In presenting the proposals, President Barroso dubbed them as being ambitious, innovative, responsible and rigorous at once, and stressed the focus on added value, contribution to Europe 2020, pan-European benefits, commitment to solidarity and simplification drive.[26] Member State negotiations are at an early stage, although key issues of contention are already clear from the informal and formal exchanges of views and statements, while the European Parliament had already approved its initial negotiating stance in May 2011.

The following sections discuss these issues in more detail, beginning with a review of the Commission's proposals, the first round of informal and formal reactions by Member States and then outlining the European Parliament's stance.

3.1 COMMISSION PROPOSALS ON THE 2014-2020 MFF

The Commission's legislative proposals and associated documents on the 2014-2020 Multiannual Financial Framework were presented at the end of June 2011, including:

- a Commission Communication on 'A Budget for Europe 2020' (in two parts);[27]
- a Regulation adopting a new Multiannual Financial Framework;[28]
- an Inter-Institutional Agreement (IIA) on budgetary matters and sound financial management;[29]
- a Decision and two Regulations on own resources;[30] and

[25] For a review, see: Mendez C, Bachtler J and Wishlade F (2011) Setting the stage for the reform of Cohesion policy after 2013, *European Policy Research Papers*, No 77, European Policies Research Centre, University of Strathclyde, Glasgow; Bachtler J, Mendez C and Wishlade F (2010) Challenges, Consultations and Concepts: Preparing for the Cohesion Policy Debate, *European Policy Research Papers*, No 74, European Policies Research Centre, University of Strathclyde, Glasgow.

[26] José Manuel Barroso (2011) Remarks by President Barroso on the Commission's proposals for the 2014-2020 Multi-Annual Financial Framework Press Conference, 29 June 2011, Brussels.

[27] European Commission (2011) *Commission Communication, A budget for Europe 2020*, SEC(2011)868, 29.06.2011, Brussels.

[28] European Commission (2011) *Proposal for a Council Regulation laying down* the multiannual financial framework for the years 2014-2020, Communication from the Commission, COM(2011)398, 29.06.2011, Brussels

[29] European Commission (2011) *Proposal for an Interinstitutional Agreement between the European Parliament, the Council and the Commission on cooperation in budgetary matters and on sound financial management*, Communication from the Commission, COM(2011)403, 29.06.2011, Brussels

[30] European Commission (2011) *Proposal for a Council Decision on a system of own resources for the European Union*, COM(2011)510, Brussels, 29.06.2011; European Commission (2011) *Proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union,* COM(2011) 511 final, Brussels; European Commission (2011) *Proposal for a Council*

- a series of staff working papers, one providing general background information on the challenges ahead and reform options, a second on the operation of the own resources system, and the third focusing on the added value of the EU budget.[31]

The Commission envisages **a total budget of €1,025 billion in commitment appropriations** over the 2014-2020 period, compared to €993.6 billion (2011 prices) in the current period (Table 3.1). As a share of Gross National Income, commitments would fall from the current 1.12 percent to 1.05 percent. However, this figure rises to 1.11 percent if items included outside the multi-annual framework are added, such as financial reserves to respond to crises and emergencies.[32] In absolute terms, the commitments budget rises by 3.2 percent, or by around 5 percent if the 'outside MFF' items are included.

Table 3.1: Budget shifts in 2014-2020 MFF Proposals for Commitment Appropriations

BUDGET HEADING	€ billion (2011 prices)		Change (in %)
	2007-13	2014-20	
1. SMART AND INCLUSIVE GROWTH	445.5	490.9	10.2
Competitiveness	77.8	114.9	47.7
Infrastructure	12.9	40.0	209.7
Cohesion policy	354.8	336.0	-5.3
2. SUSTAINABLE GROWTH: NATURAL RESOURCES	421.1	382.9	-9.1
Market related expenditure and direct payments	322.0	281.8	-12.5
3. SECURITY AND CITIZENSHIP	12.4	18.5	49.9
Freedom, security and justice	7.6	11.6	53.0
Citizenship	4.8	6.9	44.9
4. GLOBAL EUROPE	56.8	70.0	23.2
5. ADMINISTRATION	56.9	62.6	10.1
Administrative expenditure of EU institutions	48.4	50.5	4.2
6. COMPENSATIONS	0.9		
TOTAL COMMITMENT APPROPRIATIONS	993.6	1,025.0	3.2
In % of EU27 GNI	1.12%	1.05%	

Source: Lewandowski (2011) A budget for Europe 2020, Presentation by Commissioner Lewandowski, 29.06.2011, Brussels

With respect to the **components of the budget**, the main headings have been repackaged to emphasise Europe 2020 objectives: 1) 'Smart and inclusive growth', comprise one heading (including cohesion and infrastructure together under a single 'sub-ceiling') 2) 'Sustainable growth' (mainly the Common Agricultural Policy) 3) 'Security and citizenship', merging the two previous sub-headings into one budget heading 4) 'Global Europe' and 5) 'Administration'.

Regulation on the methods and procedure for making available the traditional and GNI-based own resources and on the measures to meet cash requirements, COM(2011) 512 final, Brussels.

[31] European Commission (2011) *Commission Staff Working Paper on A Budget for Europe 2020: the current system of funding, the challenges ahead, the results of stakeholders consultation and different options on the main horizontal and sectoral issues,* Accompanying the document - Commission Communication, A budget for Europe 2020, SEC(2011)868, 29.06.2011, Brussels; European Commission (2011) *Commission Staff Working Paper on Financing the EU Budget: Report on the operation of the own resources system*, SEC(2011) 876 final, Accompanying the document Proposal for a Council Decision on the system of own resources of the European Union {COM(2011) 510 final}, 29.6.2 011, Brussels; European Commission (2011) *Commission Staff Working Paper on The added value of the EU budget*, Accompanying the document – Commission Communication, A budget for Europe 2020, SEC(2011)867, 29.06.2011, Brussels.

[32] The Commission proposes to include €58 billion outside the MFF, significantly more than the €40 billion allocation in the previous period.

The main financial increases would be in three areas:

- **Infrastructure:** would see a major increase of more than 200 percent to €40 billion under the new 'Connecting Europe Facility' for trans-European networks. Centrally managed by the TEN-T agency, this facility would fund pre-selected transport, energy and ICT priority infrastructures where there are market failures and insufficient national priority.[33] The financing of projects would be supported by EU project bonds and closely linked to Cohesion Policy: the co-financing rates for projects would be higher in Convergence regions than in Competitiveness regions; and the Cohesion Fund would provide an additional €10 billion of funding for transport projects, particularly in the newer Member States.

- **R&D, innovation and education:** would increase by 48 percent to €115 billion. Existing research and innovation instruments would be regrouped under a Common Strategic Framework (*Horizon 2020*), concentrating on three priorities: excellence in the science base; tackling societal challenges; and creating industrial leadership and boosting competitiveness. Complementary investments would be received from the Structural Funds (at least €60 billion, as at present).

- **Global Europe:** including development aid, the instrument for pre-accession and the European neighbourhood would increase by 23 percent to €70 billion. The main increase would be in the Neighbourhood instrument, while the Development and Cooperation Instrument, including a new pan-African instrument, would maintain its current funding levels in order to enable the EU to achieve its commitment to allocate 0.7 percent of GNP to overseas development between 2011 and 2015.

By contrast, the CAP and Cohesion policy would see their total allocations fall. Both would still remain the largest items of EU budgetary expenditure (see Table 3.1), with the Cohesion share overtaking that of agriculture for the first time.

- **Common Agricultural Policy** expenditure would fall by around ten percent to €372 billion. This would leave its overall share of the budget at 36.2 percent, compared to 39.4 percent in 2007-13. However, it is necessary to add 15.2 billion earmarked for the agricultural sector under other budget headings (i.e. R&D within Horizon 2020 (€4.5 billion), food safety under the 'Security and Citizenship' heading (€2.2 billion), food aid for the most deprived regions under 'Smart and Inclusive Growth' (€2.5 billion), and, outside the MFF, aid from the European Globalisation Adjustment Fund (€2.5 billion) and a new reserve for crises in the agriculture sector (€3.5 billion)). The two pillar structure is retained, with €281.8 billion earmarked for direct payments and market measures in support of farmers (Pillar 1), down from €289 billion in the current budget; and the rest (€89.9 billion) for rural development (Pillar 2), a decrease from €96 billion in 2007-13. Beyond these headline figures, the Commission proposes:

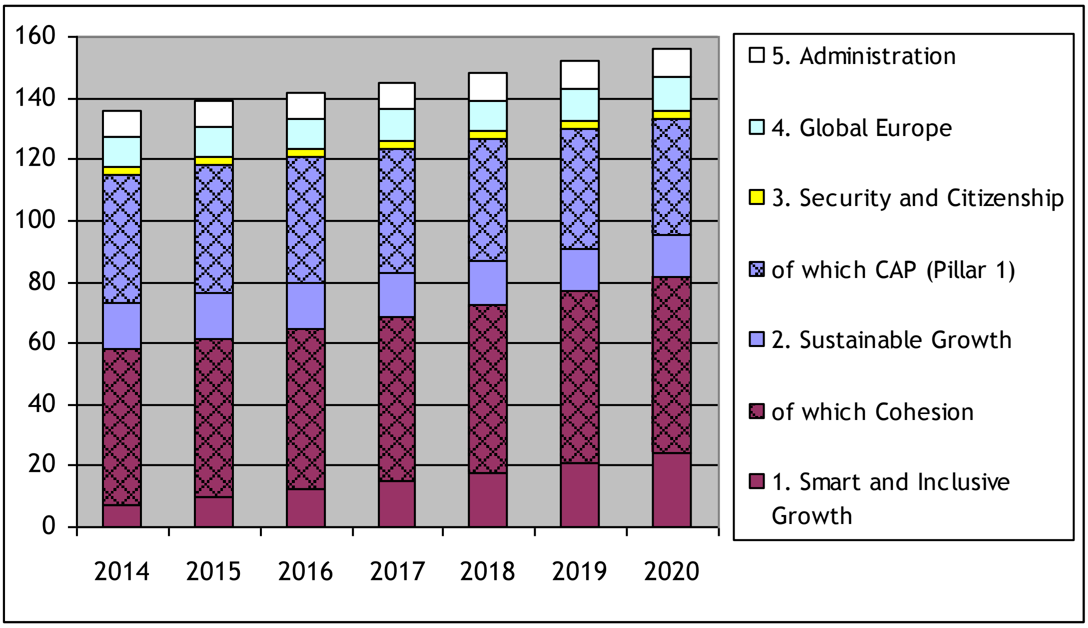
[33] A preliminary list of the proposed infrastructures - the 'missing links' – is included in the 'Policy Fiches' (Part II) document accompanying the Communication.

  - the 'greening' of 30 percent of direct payments;
  - Convergence of direct support per hectare to ensure a more equal distribution of direct payments;
  - revised allocation of rural development funds on the basis of more objective criteria and better targeted to the objectives of the policy; and
  - capping of direct payments to large agricultural holdings.

- **Cohesion policy** funding would fall by some five percent, from €354.8 billion to €336 billion. This equates to a 36.7 percent share of the 2014-2020 MFF, as compared to 35 percent in the previous period. The distribution of funding would be as follows:
  - *Convergence regions* (€162.6 billion): eligibility remaining at GDP per capita below 75 percent of the EU average;
  - *Transition regions* (€38.9 billion): a new category to replace the phasing-in/out arrangements, which also includes regions with GDP per capita between 75 percent and 90 percent which have not previously had Convergence status;
  - *Competitiveness regions* (€53.1 billion): for the remaining regions with GDP per capita above 90 percent of the EU average;
  - *Territorial cooperation* (€11.7 billion): under the current three strands of cross-border, transnational and interregional cooperation;
  - *Cohesion Fund* (€68.7 billion): for Member States with GNI per capita below 90 percent of the EU average; and
  - *An extra allocation for outermost and sparsely populated regions* (€926 million).

As noted, the Cohesion budget sub-heading also includes €40 billion for the 'Connecting Europe facility'. A further €10 billion would be earmarked for this new facility under the Cohesion Fund. Within Cohesion policy, the financial split between funds would also change. An increase in the relative share of the ESF is proposed, which would represent at least 25 percent of the cohesion envelope (or €84 billion), with different thresholds depending on the category of region (25 percent for Convergence/40 percent for Transition/52 percent for Competitiveness), not taking into account the Connecting Europe facility.

Figure 3.1: Multi-Annual Financial Framework Commitment Appropriations (€ billions)



On the **income side of the budget**, the Commission proposes two new own resources, a Financial Transaction Tax and an EU VAT component in order to render the financing of the EU more transparent and fair; and proposes to simplify the system of corrections and rebates by replacing these by a system of fixed annual lump sums.

- The resource based on the harmonized VAT base would be replaced with a VAT resource and a financial transaction tax. According to Commission estimates, the two new own sources of income could generate 18.1 percent and 22.7 percent of the EU's own resources in 2020. It also proposes to lower the 25 percent share of traditional own resources (agricultural levies and customs) retained by Member States to ten percent.

- All current corrections and rebates would be abolished giving way to a simpler system based on a comparison of the budgetary burden and the relative prosperity of each Member State. Compensation would be in the form of a gross annual reduction in national contributions based on gross national product (GNP). The Commission considers that Germany (€2,500 million), Sweden (€350 million), Netherlands (€1,050 million) and the United Kingdom (€3,600 million) should be eligible for annual gross reductions in their GNP contributions. All members would contribute to the financing of gross reductions for the four countries according to their GDP share.

As regards **financial programming and management**, the duration of the MFF would be seven years (2014-2020) to tie in with the Europe 2020 targets, with a mid-term review foreseen in 2016. More flexibility within and across budgetary headings is proposed to enable new challenges to be addressed and to facilitate the decision-making process. As noted, five instruments would be included outside the financial framework (the Emergency Aid Reserve, the Flexibility Instrument, the Solidarity Fund and the Globalisation Adjustment Fund, and a new instrument to react to crisis situations in agriculture), as would the ITER (fusion reactor) and GMES (environment monitoring programme) projects due to the difficulty in funding large-scale projects through the EU budget and their low

predictability. Greater use of 'delegated acts' would provide further management flexibility in the use of instruments. Lastly, more stringent rules for financial planning and management of EU funded programmes will be proposed, particularly for the Structural Funds.

Under its **simplification** agenda, the Commission stresses the need for cost-effective implementation and control rules. To this end, a Communication on simplification will be issued at the end of 2011 once all of the Commission's sector specific proposals have been tabled. The main proposals in the Budget 2020 Communication include the following.

- **Reducing the number of programmes:** Complex programmes which have not been successful will either be redesigned in a simplified and more effective form or discontinued (notably in maritime affairs and fisheries, justice and fundamental rights, home affairs, education and culture).

- **Single strategic frameworks with common rules:** for instance, by bringing together the three main sources of funding for research and innovation (FP7, the innovation part of the competitiveness and innovation programme and the European Institute of Innovation and Technology) within a single Common Strategic Framework, as is also the case for the shared management funds (the ERDF, the ESF, the Cohesion Fund, the European Agricultural Fund for Rural Development and the future European Maritime and Fisheries Fund) under EU Cohesion policy.

- **Externalisation:** more extensive use of existing agencies, particularly for smaller programmes that have not yet been externalised and which involve a critical mass of homogenous or standardised operations (e.g. education and culture programmes).

- **Mainstreaming priorities across policies:** Climate action and environment objectives need to be reflected in all relevant instruments. The relevant share of the EU budget will increase as a result of effective mainstreaming in all major EU policies (such as cohesion, research and innovation, agriculture and external cooperation).

- **More efficient administration:** through simplification and rationalisation, including a five percent reduction in staffing levels and changes to staff regulations (e.g. to increase working hours without compensatory wage adjustments and to increase the pension age).

The planned **timing of the legislative process** anticipates the negotiations to last at least until the end of 2012 under the Cypriot Presidency, paving the way for the adoption of the legal bases in 2013 and the implementation of the new MFF from 1 January 2014 onwards.

3.2 Member State reactions

Negotiations on the future MFF are at an early stage, the Commission's proposals being first presented and discussed at an informal ministerial meeting of EU Affairs Ministers on 29 June 2011 in Poland, followed by a first formal exchange of views at the General Affairs Council meeting in Brussels on 12 September 2011. The focus of the Polish Presidency work during the remainder of 2011 is on gaining a better understanding of the Commission's

proposals and Member State positions, particularly through technical meetings under the Friends of the Presidency group, to provide a basis for the subsequent Presidencies to oversee negotiations and achieve a compromise agreement with the European Parliament.

Initial reactions to the Commission's proposals by some net contributors were unsurprisingly negative (e.g. France, Germany, UK). A British cabinet spokesman criticised them as being "unrealistic",[34] while the German Foreign Minister considered the total budget proposed to be "irresponsibly high".[35] France issued a more detailed statement, also opposing the proposed spending levels, but placing particular emphasis on the need to retain the CAP in its current form (Box 4).

Back in December 2010, these countries along with Finland and the Netherlands had signed a letter calling for budgetary restraint, including: progressive limits to growth in payments to the EU budget in 2012 and 2013; payments over the next MFF to grow by no more than inflation and commitments at a level consistent with stabilisation of budgetary contributions of Member States; and commitments to not exceed the 2013 level and grow below the rate of inflation.

In response, **a letter signed by 12 (current) 'net beneficiary' countries** (Bulgaria, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Portugal, Romania, Slovakia, Slovenia, Spain) stressed the need to use the EU budget as an instrument to support an exit from the crisis, bolstering EU competitiveness and strengthening internal cohesion.[36] Though a common stance was not adopted on the size of the budget, not least because Spain will no longer be a net beneficiary,[37] a particular emphasis was placed on the need for **"an ambitious Cohesion policy" with a share in the EU budget "of at least its present level".** On the issue of geographical eligibility and allocations, an all-region approach is supported concentrating on the less-developed regions as at present, while finding a transitional solution for phasing-out regions leaving the Convergence objective.

More generally, the letter called for the continuation of funding under current budgetary instruments for climate change, energy efficiency and security, biodiversity, integration of migrants and democratic changes. Increased funds were requested for policies under the current Heading 3 (freedom, security and justice), particularly in relation to migratory flows and integrated border management.

---

[34] Brand C (2011) Member states asked to clarify spending positions, 20.07.2011, *European Voice*; Euractiv.com (2011) Barroso tables €1 trillion budget for EU until 2020, *Euractiv.com,* 30 June 2011, Brussels.

[35] The Local (2011) 'Germany blasts proposed EU budget' 30 June 2011, www.thelocal.de.

[36] Sebag G (2011) Twelve member states defend share of cohesion policy, *Europolitic*s, 30.5.2011, Brussels.

[37] Spain will join the 'net contributors' for the first time in the next period and the government has stated that it wants to see domestic fiscal consolidation efforts reflected in the future EU Budget: Diario de Sesiones de las Cortes Generales (2011) Comparecencia del Secretario General de Presupuestos y Gastos Espadas Moncalvillo para informar en relación con la materia objeto de estudio de la Ponencia sobre la revisión de las perspectivas financieras, la reforma del sistema de recursos propios, y la reforma de las políticas de cohesión y agraria común, constituida en el seno de la Comisión, Comisiones Mixtas para la Unión Europea, Año 2011 IX Legislatura Núm. 192, Sesión núm. 68, 3.5 2011, Palacio del Congreso de los Diputados, Madrid.

Box 4: France's reactions to the EC's MFF proposals[38]

1. Stabilisation of the CAP budget and the common fisheries policy in current Euros is an important achievement. The CAP will remain the leading policy area of the European Union. France will accept no financial framework that does not guarantee such a stabilisation. Further points to stress are that:

- the creation of a reserve to cover crises in the agricultural sector, which must be responsive, supplements the first pillar regulation instruments needed for farmers income stabilisation to cope with price volatility;
- the budget choice made by the Commission will limit the potential for undertaking a certain redistribution of direct payments between Member States and their "greening"; and
- the extension to farmers of the Globalisation Adjustment Fund should not prejudge current and future trade negotiations and France reiterates that it will refuse any trade agreement that may jeopardise European agricultural interests.

2. Against the backdrop of very strong European and national budgetary constraints, France regrets that the Commission is not proposing to apply the same fiscal discipline and reform effort to the other policies that it is proposing for the CAP. France will strive to correct this in the upcoming negotiations because time has come for better spending instead of more spending. The EU must share the effort made by Member States to achieve budgetary discipline.

- as regards Cohesion policy, the Commission has not fully taken account of the fact that some 20 regions have achieved a level of development making them no longer eligible under the convergence objective: savings are possible;
- the sharp increase in funds earmarked for "Competitiveness" regions is unacceptable at a time when the implementation and the effectiveness of such funds are questioned and when the Heads of State and Government have clearly called for in-depth reform: an increase in the budget for this policy - especially to this extent - before having reformed it in depth is not and option.

3. France has continuously called attention to the need to stabilise its contribution to the EU budget. The Commission's proposal does not meet this objective. The French national budget, which is already devoting nearly €20 billion to the EU budget, cannot accommodate the nearly €250 billion (i.e. almost 30%) increase in payments proposed by the Commission for the coming period. France calls for annual payment appropriation ceilings to be set at a realistic level and to cover all European expenditure (including large-scale projects such as ITER and GMES) in order to constitute a genuine cap on their increase.

4. With regard to own resources, France has always opposed rebates and cannot consider continuing them. No extension is possible. What is required is more simplicity, transparency and fairness. The Commission suggests the creation of new own resources. France is open to discussion on this idea, on the condition that these resources would fully substitute for existing resources and that it would thus reduce contributions paid out of national budgets. The type of own resource to be selected should be carefully examined. France is willing to explore some of the solutions put forward by the Commission, particularly the idea of a levy on a European share of an international Financial Transaction Tax.

With respect to the distribution to be determined in line with overall spending control, the EU should have the appropriate level of resources to cover its external action, particularly with regard to its neighbourhood policy.

More recently, the General Affairs Council met in September 2011 to hold the first formal exchange of views on the duration, structure and flexibility of the next MFF on the basis of a questionnaire sent out by the Polish Presidency. The overall size of the MFF was not on the agenda, but **eight net contributors met ahead of the meeting at the initiative of**

[38] Propositions de la Commission européenne pour le cadre financier de l'Union européenne 2014-2020, Communiqué du ministère des Affaires étrangères et européennes, du ministère du Budget, des Comptes publics et de la Réforme de l'État et du ministère de l'Agriculture, de l'Alimentation, de la Pêche, de la Ruralité et de l'Aménagement du Territoire, 30 June 2011, Paris: http://www.diplomatie.gouv.fr/fr/article_imprim.php3?id_article=93753

Sweden to agree a common position on spending restraint in opposition to the Commission's proposals.[39] The non-paper was signed by Austria, Germany, Finland, France, Italy, the Netherlands, Sweden and the United Kingdom, stating that:[40]

> *"The Commission's proposal for the next Multi-Annual Financial Framework (MFF) 2014-2020 comes at a time Member States are making considerable financial efforts to support Europe and at the same time are undertaking tough consolidation efforts. European public spending cannot be exempt from these considerable national efforts.*
>
> *The Commission proposal is too high. The increases of spending over the next MFF are significantly in excess of what is needed for a stabilisation of the European budget. The new MFF should not lead to an increase in national contributions to the EU budget. Accordingly, total spending for the 2014-2020 period needs to be substantially lower in order to meet these criteria.*
>
> *At the same time, the MFF should cover all spending in a complete and transparent way.*
>
> *We need to make the best use of the European budget to create better conditions for growth and make Europe more competitive. We need to spend better, not to spend more."*

Specific figures are not mentioned in the non-paper, although the German Minister is reported to have called for a reduction in the order of €100-120 billion in commitments during the lunch discussions following the General Affairs meeting.[41] Denmark was not a signatory to the non-paper, perhaps because the government's attention was on the general election of 15 September 2011 or reflecting its imminent EU Presidency role, but earlier in the year, it was reported that Danish Prime Minister Lars Løkke Rasmussen had written to Commission President Barroso calling for a rebate in Denmark's budgetary contribution to the value of €940m (7bn Danish kronor).[42]

As regards the issues on the agenda of the Council meeting, the discussions revealed **consensus on the proposed duration of the MFF and the need for flexibility, although mixed views were apparent on the structure of budget, particularly in relation to Cohesion policy, and the inclusion of certain items outside of the MFF.**[43] For instance,

---

[39] Sebag G (2011) Eight net contributors say Commission proposal "too high", 12.9.2011, *Europolitics*, Brussels; Taylor S (2011) Call for lower budget for 2014-20, 12.9.2011, European Voice, Brussels.

[40] FCO (2011) 'We need to spend better, not to spend more' FCO News, 12.9.2011, Foreign Commonwealth Office, London: http://www.fco.gov.uk/en/news/latest-news/?view=PressS&id=654555082.

[41] Sebag G (2011) Eight net contributors say Commission proposal "too high", 12.9.2011, *Europolitics*, Brussels.

[42] Danmark kræver EU-rabat på syv mia, *Berlingske,* 16 May 2011. *http://www.b.dk/nationalt/danmark-kraever-eu-rabat-paa-syv-mia*

[43] Council of the European Union (2011) *3109th General Affairs Council meeting*, Press release 13587/11, 12.9.2011, Brussels.

opposition was expressed against the proposed merger of the current sub-headings 1a and 1b into a single heading 1 ('smart and inclusive growth') and on the creation under the new heading 1 of a sub-ceiling for expenditure on cohesion. Some Ministers considered that a separate sub-heading should be maintained for Cohesion policy and called for guarantees that cohesion expenditure would not be undermined by the proposed structure. Related concerns were raised about the link between cohesion expenditure and the proposed Connecting Europe Facility.

The proposal to include instruments outside the financial framework (such as a new reserve fund for crises in the agricultural sector or the ITER project, the International Thermonuclear Experimental Reactor) is also contentious. This was implicit in the letter of the eight net contributors, which stated that "*the MFF should cover all spending in a complete and transparent way*", and explicit in the French government reactions (Box 4).

3.3 The European Parliament's position

The European Parliament's formal position was adopted prior to the publication of the Commission's proposals, at the plenary of 8 June 2011, following an intense year of work by its 'Policy Challenges' (SURE) Committee.[44] Containing no fewer than 176 paragraphs, the key messages of the resolution can be summarised as follows.

- **Total budget:** If all the objectives and policies agreed for the EU are to be completed, a minimum increase of five percent is needed compared to the 2013 budget. Freezing the budget at the 2013 level "is not a viable option". An increase of at least five percent over the 2013 level would mean that the EU budget would be roughly 1.11 percent of the EU's total GNI, compared to the 1.06 percent expected for 2013.

- **Structure:** the MFF should be structured into three main budget headings: (1) Europe 2020, including subheadings 'Knowledge for growth' (1a), 'Cohesion for growth and employment' (1b), 'Management of natural resources and sustainable development' (including agriculture, 1c), 'Citizenship, freedom, security and justice' (1d); (2) Global Europe; and (3) Administration.

- **Policies:** Cohesion policy and CAP spending should remain at current levels.

- **Own resources:** A system of "real" own resources would be "fairer, more transparent, simpler and equitable". Budget reform need not affect the size of the budget and would not increase the overall tax burden on citizens. An end to rebates, exceptions and correction mechanisms is called for.

[44] European Parliament (2011) *European Parliament resolution of 8 June 2011 on Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe* (2010/2211(INI)), Brussels.

- **Flexibility:** a "global MFF margin" should be created, consisting of unused margins, de-committed and unused appropriations from the previous year to allow new, unexpected expenditure to be accommodated.

- **Timing:** a seven-year cycle is proposed, to be followed by five-year-cycles or 5+5-year cycles in the next period to bring the MFF's duration into line with the European Parliament's five-year mandates. If budget cycles are to exceed five years, then the EU should have a mandatory mid-term review, with a fixed date.

4. COHESION POLICY 2014+: ELIGIBILITY AND ALLOCATIONS SCENARIOS

A critical factor influencing Member State positions on the future EU budget and Cohesion policy is the issue of their eligibility under the different Cohesion policy objectives; this in turn 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. It begins with a brief overview of the current (2007-13) position in order to highlight the scale of the differences brought about by statistical changes since then and in the Commission's recent budgetary proposals.

4.1 Current position: 2007-13 Criteria and coverage

4.1.1 Policy architecture

The architecture of Cohesion policy in 2007-13 is set out in the general Regulation on the Structural Funds.[45] It distinguishes three objectives:

- *Convergence,* which aims at "speeding up the convergence of the least-developed Member States and regions" and which is considered the "priority of the funds";[46] the Convergence objective is financed by the European Regional Development Fund (ERDF) the European Social fund (ESF) and the Cohesion Fund.

- *Regional competitiveness and employment,* which aims at "strengthening regions' competitiveness and attractiveness as well as employment by anticipating economic and social change";[47]the Competitiveness and Employment objective is financed by the ERDF and the ESF.

- *European territorial cooperation,* which aims at "strengthening cross-border cooperation… …. transnational cooperation… …and interterritorial cooperation";[48] the Territorial cooperation objective is financed by the ERDF.

The overall resources available to Cohesion policy for 2007-13 are €308,041 million (2004 prices).[49] This sum yields the annual allocations set out in Table 4.1.

[45] Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, OJEU No L 210 of 31 July 2006.

[46] Article 3.2(a) of the General Regulation.

[47] Article 3.2(b).

[48] Article 3.2(c).

[49] Article 18.

Table 4.1: Commitment appropriations for 2007-13 (€m, 2004 prices)

2007	2008	2009	2010	2011	2012	2013
42,863	43,318	43,862	43,860	44,073	44,723	45,342

Source: Council Regulation (EC) No 1083/2006, Annex I.

Within the Regulation this is broken down between the objectives as set out in Table 4.2.

Table 4.2: Commitment appropriations by objective 2007-13

		€ m (2004 prices)	% of objective	% of total
Convergence				
	Regional convergence	177083.6	70.5	57.5
	Phasing-out	12521.3	5.0	4.1
	Cohesion Fund	61558.2	24.5	20.0
	Total	251163.1	100.0	81.5
Competitiveness & Employment				
	C&E regions	38742.5	78.9	12.6
	Phase-in	10385.3	21.1	3.4
	Total	49127.8	100.0	15.9
Territorial cooperation				
	Cross-border	5576.4	72.0	1.8
	Transnational	1581.7	20.4	0.5
	Interregional	392.0	5.1	0.1
	PEACE	200.0	2.6	0.1
	Total	7750.1	100.0	2.5
TOTAL		308041.0		100.0

Source: General Regulation Articles 81 to 21 and Annex II para 22.

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.

4.1.2 Cohesion Fund

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 4.3). Recipients of the Cohesion Fund in 2000-6 were Greece, Portugal and Spain. Ireland ceased to be eligible at the end of 2003, following a mid-term review. For 2007-13, 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 4.3: 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
Slovakia	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.

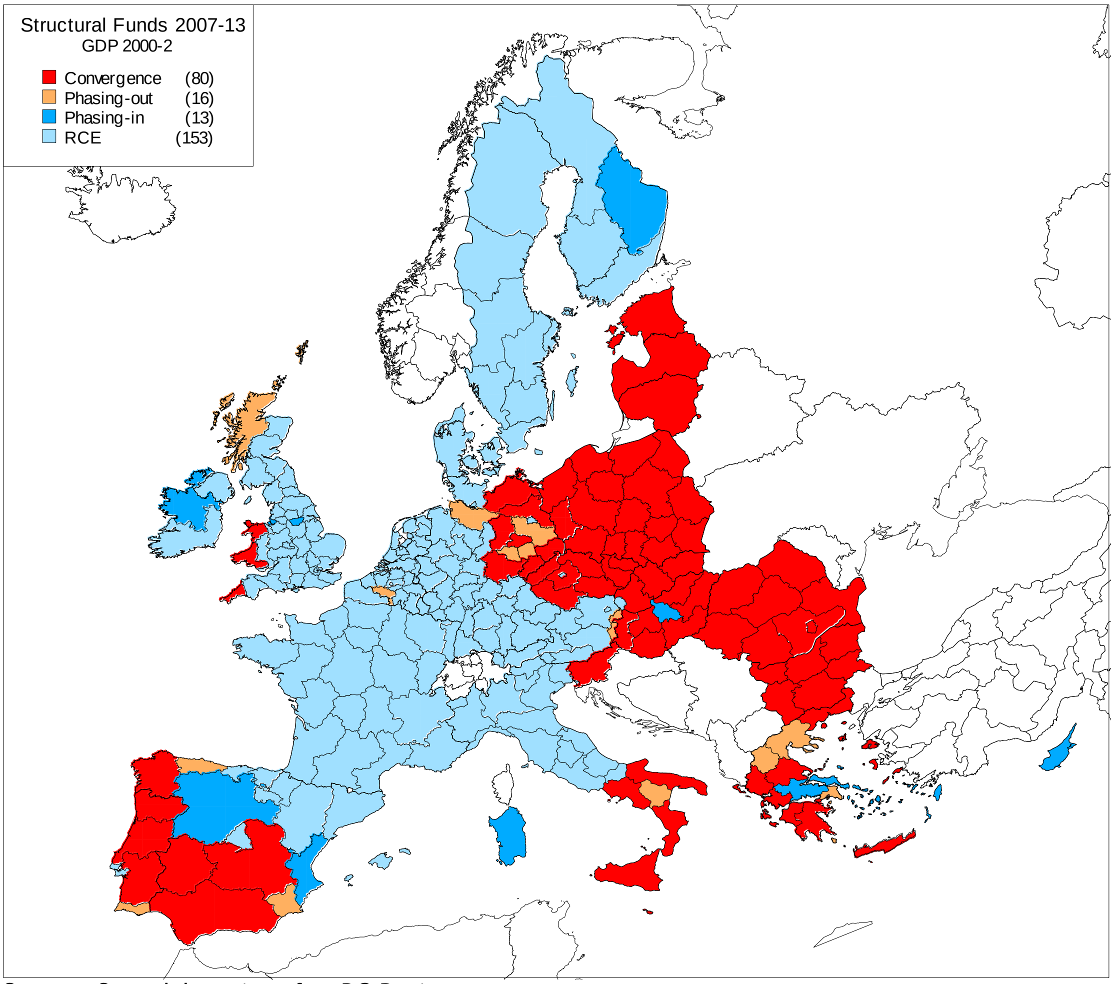
4.1.3 Structural Funds

Eligibility in 2007-13 for the *regionally*-based elements of Cohesion policy is illustrated in Map 4.1. 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 the statistical effect 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.

Map 4.1: Structural Funds eligibility 2007-13



Source: Own elaboration after DG Regio.

(i) Convergence regions

As Table 4.4 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.

Table 4.4: 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
Slovakia	4790.6	88.9	3.1
United Kingdom	2364.9	4.0	1.5

Source: Own calculations from Eurostat data.

(ii) Phasing-out regions

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 4.5). 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 4.5: 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

(iii) Phasing-in regions

Coverage of **Phasing-in** regions is also modest at the EU27 level, covering just 3.9 percent of the population (see Table 4.6). 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 4.6: 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

(iv) Regional Competitiveness and Employment (RCE) Regions

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 4.7: 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
Slovakia	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 2014+ Criteria and coverage

Some important indications were given about future eligibility criteria for the Structural Funds in the Commission's budget proposals published on 29 June 2011.[50] Of particular note:

- the definition of Convergence regions would remain unchanged, save for being based on the EU27, rather than the EU25 average;
- the current Phasing-out and Phasing-in categories would be abolished;
- a new Transition category would be established, comprising:
    - regions with Convergence status in 2007-13, but where GDP has grown to more than 75 percent of the EU27 average;
    - all regions where GDP(PPS) per head is between 75 percent and 90 percent of the EU27 average;
- the eligibility criterion for the Cohesion Fund would remain the same, except that it would be based on the EU27 rather than the EU25 average.

[50] European Commission (2011) *A budget for Europe 2020*, COM(2011)500 final of 29 June 2011.

4.2.1 *Statistical data*

In principle, the key criteria for determining eligibility for the Convergence objective will be:[51]

- GNI(PPS) per head 2008-10
- National GDP(PPS) per head 2007-9
- Regional GDP(PPS) per head 2007-9

Of these, regional GDP(PPS) per head data are currently only available for 2007-8. However, neither 2007-8 nor 2008 are capable of reflecting accurately the likely outcome for 2007-9. This is essentially because the recession began and ended at different times in the different Member States, with the result that, in relation to EU27 average GDP(PPS) per head, some countries are on an upward trend over 2007-9, some are on a downward trend and for some 2008 is a 'peak' year. In consequence, for the purposes of this report, estimates of regional GDP(PPS) per head for 2009 have been made in order more accurately to reflect likely outcomes for 2007-9. For this and other reasons, not least the inconsistency of some of the data currently available from Eurostat and the absence of complete information on the allocation methodologies for 2007-13, the outcomes presented here should be treated with caution.

4.2.2 *Cohesion Fund*

Eligibility for the **Cohesion Fund** on the basis of 2008-10 GNI data[52] is illustrated in Table 4.8. The main change in relation to the current position is that, in principle, Cyprus would cease to be eligible for the Cohesion Fund. However, Cyprus 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.

[51] Unemployment rates are also used for calculating a very small proportion of the Convergence region allocation, but this is not considered further in this paper, and this element has not been used in the supporting calculations.

[52] In principle, as indicated above, this is the data that would determine eligibility for the Cohesion Fund from 2014, though they may be subject to revision.

Table 4.8: Eligibility for the Cohesion Fund 2014+? (GNI(PPS) per head 2008-10)

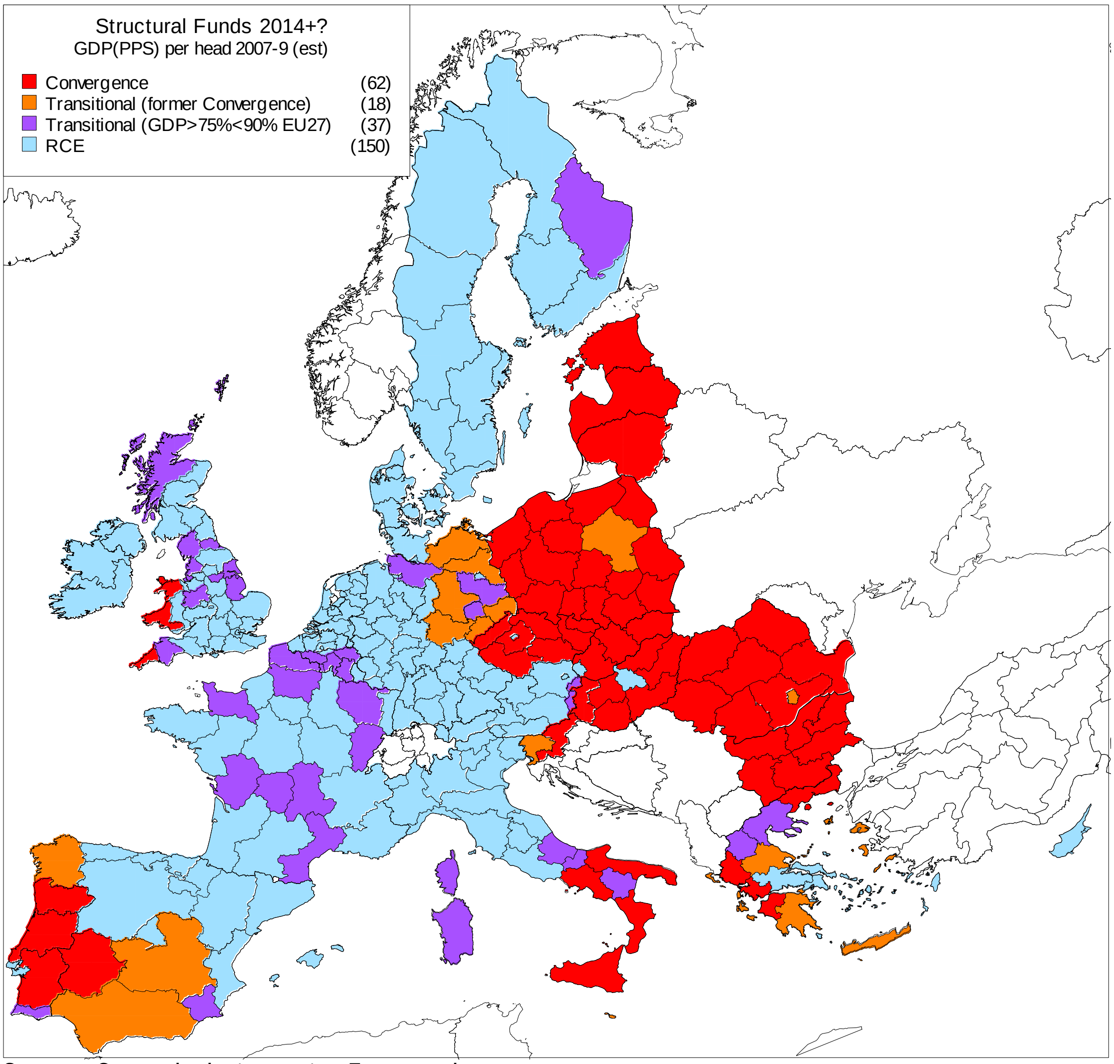
Eligible	GNI(PPS) per head EU27=100		Ineligible	GNI(PPS) per head EU27=100
Bulgaria	42.6		Cyprus	94.6
Romania	45.3		Spain	100.8
Latvia	54.8		Italy	102.4
Lithuania	56.6		Ireland	107.5
Poland	58.0		France	108.7
Hungary	61.4		United Kingdom	115.4
Estonia	63.0		Finland	116.8
Slovakia	72.5		Belgium	117.5
Malta	76.2		Germany	119.2
Portugal	76.7		Austria	123.6
Czech Republic	77.2		Denmark	124.0
Slovenia	87.3		Sweden	125.0
Greece	89.5		Netherlands	130.2
			Luxembourg	199.1

Source: Own calculations from AMECO online data.

4.2.3 Structural Funds

Coverage of eligible areas determined at the *regional* level for the post-2014 period is illustrated in Map 4.3. As mentioned above, this is based on published GDP(PPS) per head data for 2007-8 and an estimate of regional GDP(PPS) per head for 2009; 2009 data are due for release by Eurostat in February 2012. Map 4.3 takes account of the Budget 2020 proposals, distinguishing the new categories of transitional area.

Map 4.2: Structural Fund areas 2014+ under the Budget 2020 proposals



Source: Own calculations using Eurostat data.

Compared with Map 4.1, Map 4.2 shows a very different pattern of area designation. In particular:

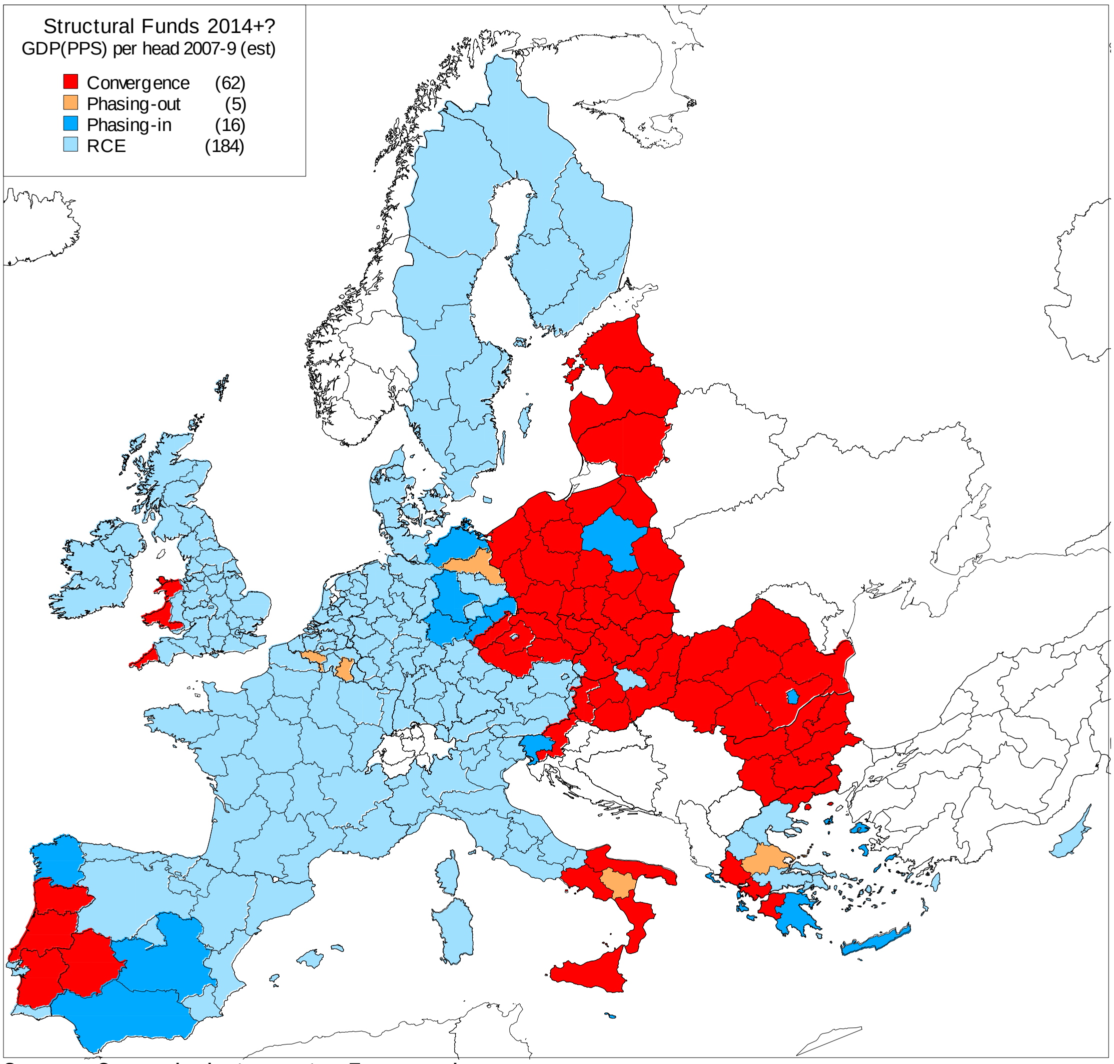
- Convergence coverage is reduced; and
- the new Transition category comprises areas which have never had Convergence status, notably in Belgium, France and the United Kingdom.

It should be noted in passing that caution is necessary 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.

It is also interesting to note what the situation would have been had the existing approach been rolled forward. This is illustrated in Map 4.3. This shows that while the coverage of the Convergence regions obviously remains the same under the two approaches, the impact on the other categories is significant. In particular, the Budget 2020 proposals result in 55 transitional regions, compared to 21 under a 'rolling forward' approach. Related, the

number of RCE regions falls from 184 under the Budget 2020 proposals, compared to 150 under a 'rolling forward' approach.

Map 4.3: Structural Fund areas 2014+ under a 'rolling forward' approach



Source: Own calculations using Eurostat data.

(i) Convergence regions

Looking first at the coverage of Convergence regions, several key points emerge from the calculations based on the most recent data (see Table 4.9).

At a global level, coverage would fall from 31.7 percent to 24.1 percent of the EU27 population, with coverage concentrated in 16 rather than 18 Member States, as previously. Eight Member States would lose population coverage; and eight would remain unchanged (save for changes in regional population). Specifically:

- *Germany* would cease to have any Convergence regions;
- coverage in *Greece* would fall from 36.6 percent to 15.1 percent of the population, with five regions losing Convergence status;

- *Spain* would have only one Convergence region (Extremadura);
- in *France*¸ Martinique would lose Convergence status, although the other *départements d'outre mer* would retain it;
- *Poland* and *Romania* would no longer have Convergence status in their entirety: the capital regions of Mazowieckie and Bucureşti-Ilfov would become transitional regions;
- *Malta* would lose Convergence status and become a transitional region; and
- *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, with the remainder becoming a transitional region.

Table 4.9: Convergence region coverage 2014+?

	Population	% of population	Share of total
EU27	119,780	24.1	100.0
EU25	92,830	19.9	77.5
EU15	30,711	7.8	25.6
Bulgaria	7,603	100.0	6.3
Czech Republic	9,123	88.2	7.6
Estonia	1,339	100.0	1.1
Greece	1,695	15.1	1.4
Spain	1,079	2.4	0.9
France	1,459	2.3	1.2
Italy	16,909	28.5	14.1
Latvia	2,280	100.0	1.9
Lithuania	3,386	100.0	2.8
Hungary	7,175	71.5	6.0
Poland	32,939	86.4	27.5
Portugal	7,149	67.5	6.0
Romania	19,347	90.1	16.2
Slovenia	1,086	53.8	0.9
Slovakia	4,792	88.9	4.0
United Kingdom	2,419	4.0	2.0

Source: Own calculations from Eurostat data.

(ii) Transition regions

As noted earlier, the Budget 2020 proposals envisage two categories of Transition region:

- ex-Convergence regions: 2007-13 Convergence areas where GDP(PPS) per head will exceed 75 percent of the EU27 average in the next period;
- what might be termed 'sliding scale' regions:[53] NUTS 2 regions where GDP(PPS) per head is between 75 percent and 90 percent of the EU27 average.

[53] No specific terminology for the new categories is indicated in the proposals.

The regions concerned are illustrated in Map 4.2.

The coverage of the 'ex-Convergence' Transition regions is shown in Table 4.10. This shows that around 35 million of the EU27 population falls into this category, and that over 80 percent of the total is in Germany, Spain and Poland.

Table 4.10: 'Ex-Convergence' Transition region coverage 2014+?

	Population	% of population	Share of total
EU27	34,874	7.0	100.0
EU25	32,642	7.0	93.6
EU15	26,127	6.6	74.9
Germany	10,714	13.0	30.7
Greece	2,364	21.1	6.8
Spain	12,650	28.2	36.3
France	399	0.6	1.1
Malta	408	100.0	1.2
Poland	5,172	13.6	14.8
Romania	2,232	10.4	6.4
Slovenia	934	46.3	2.7

Source: Own calculations from Eurostat data.

'Sliding scale' Transition regions would, according to the calculations for this report, cover around 44 million inhabitants or almost nine percent of the EU27 population (see Table 4.11). This population lies entirely within the EU15 Member States and covers substantial parts of Belgium, Greece, France and the United Kingdom. Together, France and the United Kingdom would account for almost two-thirds of the population in this category.

Table 4.11: 'Sliding scale' Transition region coverage 2014+?

	Transitional	% of population	Share of total
EU27	44,123	8.9	100.0
EU25	44,123	9.4	100.0
EU15	44,123	11.2	100.0
Belgium	3,074	29.0	7.0
Germany	4,171	5.1	9.5
Greece	2,222	19.8	5.0
Spain	1,393	3.1	3.2
France	17,573	27.5	39.8
Italy	3,891	6.6	8.8
Austria	281	3.4	0.6
Portugal	424	4.0	1.0
Finland	660	12.5	1.5
United Kingdom	10,434	17.1	23.6

Source: Own calculations from Eurostat data.

(iii) Regional competitiveness and employment (RCE)

Regional competitiveness and employment (RCE) is essentially a residual category for regions not qualifying under the Convergence or transitional headings. Reflecting the impact of the new transitional category for 75-90 percent areas, the RCE population would remain more or less the same (it would otherwise have increased substantially – see Map

4.3). It would also be heavily concentrated in the EU15: eight countries (Bulgaria, Estonia, Latvia, Lithuania, Malta, Poland, Romania and Slovenia) have no RCE regions; by contrast, six countries (Denmark, Ireland, Cyprus, Luxembourg, the Netherlands and Sweden) are entirely covered by RCE status (see Table 4.12).

Table 4.12: RCE region coverage 2014+?

	RCE	% of population	Share of total
EU27	297,704	60.0	100.0
EU25	297,704	63.7	100.0
EU15	292,231	74.3	98.2
Belgium	7,544	71.0	2.5
Czech Republic	1,198	11.6	0.4
Denmark	5,464	100.0	1.8
Germany	67,394	81.9	22.6
Ireland	4,366	100.0	1.5
Greece	4,904	43.8	1.6
Spain	29,744	66.4	10.0
France	44,350	69.5	14.9
Italy	38,588	65.0	13.0
Cyprus	785	100.0	0.3
Luxembourg	480	100.0	0.2
Hungary	2,881	28.7	1.0
Netherlands	16,378	100.0	5.5
Austria	8,026	96.8	2.7
Portugal	3,050	28.8	1.0
Slovakia	608	11.3	0.2
Finland	4,633	87.5	1.6
Sweden	9,182	100.0	3.1
United Kingdom	48,130	79.0	16.2

Source: Own calculations from Eurostat data.

4.3 Financial allocations

Under the 2007-13 Multiannual Financial Framework (MFF), projected commitment appropriations amounted to 1.048 percent of GNI. This is equivalent to €987.5 billion (2011 prices); of this €352 billion (2011 prices) was allocated to Heading 1b for Cohesion Policy.[54]

For 2014-20,[55] the Commission has proposed commitment allocations amounting to 1.05 percent of GNI within the MFF.[56] This being €1,025 billion (2011 prices), of which €336 billion is allocated to Cohesion policy.

In real terms, this therefore represents a modest decrease – just under five percent – in the funds allocated to Cohesion policy. A more detailed comparison is provided in Table 4.13.

[54] 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; converted on the basis of DG ECFIN AMECO online GDP deflators.

[55] European Commission (2011) *A budget for Europe 2020*, COM(2011)500 final of 29 June 2011.

[56] A further sum amounting to €58.3 billion, or 0.06 percent of GNI was proposed outside the MFF.

This shows that funding for two strands of policy (Convergence regions and the Cohesion Fund) the commitment appropriations would *decrease* - by almost a fifth in the case of the Convergence regions. In contrast, appropriations for the Transition regions would *increase* by almost half, those for territorial cooperation by over a third and those for RCE by a fifth.

Importantly, however, the shifts in allocations partially reflect shifts in coverage. As a result, the *per capita* amounts differ less significantly. For example, although the Convergence total would go down by almost 20 percent, the aid intensity would actually rise slightly because the Convergence population will be lower than before.

Overall aid intensity for the Transition regions is significantly lower under the Budget 2020 proposals than under MFF 2007-13, reflecting the extension of transitional provisions to regions which have never had Convergence status. Moreover, aid intensities can be expected to vary widely between former Convergence regions, which will receive two-thirds of their previous allocation, and other Transition regions, which will receive more than RCE regions, but on a sliding scale depending on prosperity.

Interestingly, aid intensity for the RCE regions is proposed to be significantly higher in 2014-20 as against 2007-13, rising from €21.4 to €25.5 per head per annum.

Table 4.13: Cohesion policy 2007-13 and Budget 2020 proposals compared (2011 prices)

	2007-13			2014-20			
	€ m	**% of total**	**€ per head pa**	**€ m**	**% of total**	**€ per head pa**	**% Change in total**
Convergence regions	202320	57.5	187.9	162590	48.4	193.9	-19.6
Cohesion Fund	70331	20.0	60.6	68710	20.4	78.9	-2.3
Transition regions, of which:	26170	7.4	105.6	38952	11.6	70.4	48.8
• ***Phasing-out***	*14305*	*4.1*	*124.6*				
• ***Phasing-in***	*11865*	*3.4*	*89.2*				
RCE	44263	12.6	21.4	53143	15.8	25.5	20.1
Territorial cooperation	8626	2.5	2.5	11700	3.5	3.4	35.6
OMR and LPD				926			
TOTAL	**351710**	**100.0**		**336021**	**100.0**		**-4.5**

Notes: (i) The 2007-13 figure for the Cohesion Fund includes the transitional arrangements for Spain; excluding Spain, per capita annual aid intensity would be around €76. (ii) Allocations for Outermost regions and low population density regions were not disaggregated in 2007-13, but the additional amount per head per annum was €35.
Source: Own calculations from 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, European Commission (2011) *A budget for Europe 2020*, COM(2011)500 final of 29 June 2011, Eurostat data and AMECO online.

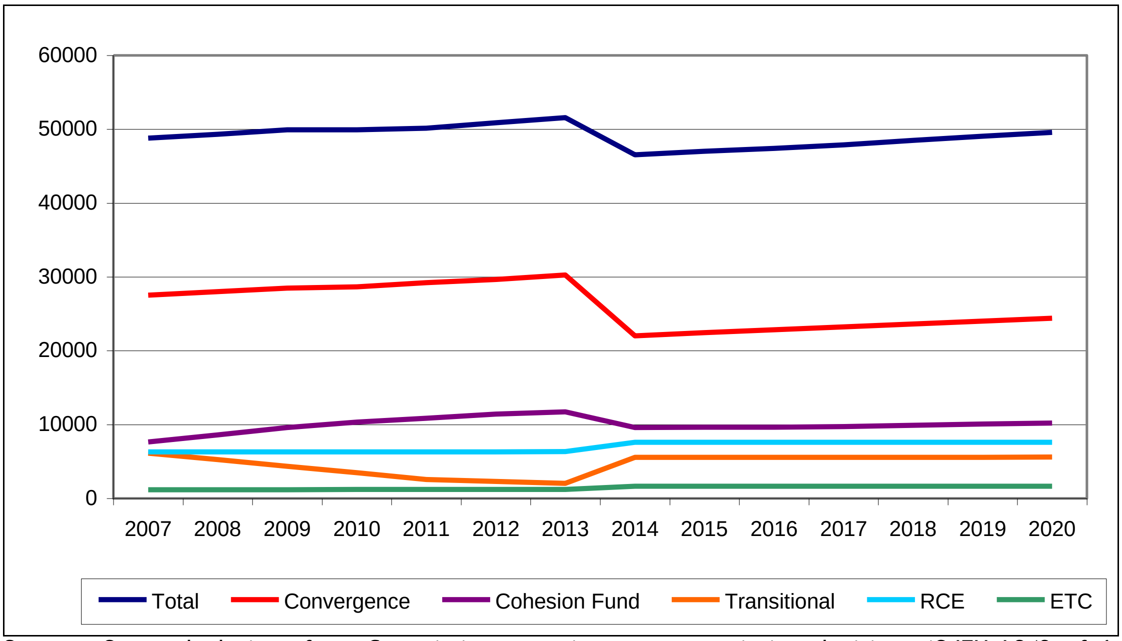
(i) Long-term trends

The long-term spending profiles implied by the Budget 2020 proposals are illustrated in Figure 4.1. This shows planned Cohesion policy expenditure steadily rising over the period 2007-13, largely reflecting the spending profiles for the Convergence regions and the Cohesion Fund, the allocations for which were mainly driven by the impact of capping in

the EU12. In this period, RCE and ETC spending essentially remain static, while spending under the transitional arrangements – Phasing-in and Phasing-out – declines over the period. In fact, by 2013, transitional spend will be at just one-third of 2007 values, reflecting the tapering of support.

Between 2013 and 2014, total commitment appropriations would decline quite steeply before rising steadily over the period. The initial decline is the consequence of the allocations to the Convergence regions and the Cohesion Fund for 2014, which are significantly lower than in 2013, but then rise slightly over the period, albeit not as steeply as in 2007-13. In contrast, allocations to Transition, RCE and ETC actually increase between 2013 and 2014. Perhaps most surprising is that there is no apparent tapering of Transition region spend from 2014-20 – this, like RCE and ETC spend - remains essentially static over the period, rather belying its supposedly transitional nature.

Figure 4.1: Trends in Cohesion policy commitment appropriations (€m, 2011 prices)



Source: Own calculations from Commission commitment appropriation decisions (OJEU L243 of 6 September 2006) and AMECO online; European Commission (2011) *A budget for Europe 2020*, COM(2011)500 final of 29 June 2011.

(ii) Financial allocation mechanisms

The Budget 2020 proposals contain some important changes to the mechanisms for allocating funding under the different strands. At the same time, it appears that some key elements will remain unchanged, but there are also a number of uncertainties.

Among the apparent changes to funding allocations are:

- Capping of Cohesion policy allocations at 2.5 percent of GNI. This contrasts with the approach for 2007-13 in two main respects. First, for 2007-13, the cap is set as a percentage of GDP, not GNI. Second, the level of the cap varies according to prosperity as measured by GNI(PPS) per head from almost 3.8 percent of GDP in the case of Latvia, to less than one percent for Luxembourg. Of course, although the

capping system was in principle generalised to all Member States, in practice it applied only to nine of the EU12 – it did not bite in the case of Malta, Cyprus and Slovenia, nor did it apply to any of the EU15.

- The abandonment of the one-third/two-thirds split between the Cohesion Fund and the Structural Funds for the then 'new' Member States; this is not mentioned in the Budget 2020 proposals which give a total budget for the Cohesion Fund, rather than an initial per capita allocation as for 2007-13.

- The introduction of a fixed proportion (two-thirds) of the previous Convergence allocation for all regions losing convergence status.

Among the uncertainties are:

- the role (if any) of growth forecasts in determining the level of capping;

- the methodology for allocations to the 'sliding scale' transitional regions;

- the baseline for determining allocations to ex-Convergence regions, eg. post-transfers to rural development and fisheries, post-capping, post-Cohesion Fund adjustment;

- the formulae for allocating RCE and ETC monies.

Despite the 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; the Budget 2020 proposals do not explicitly indicate any changes to the Berlin formula. It could be argued that the use of a 'distribution key' for allocating Cohesion Fund monies has also become entrenched.

Of central importance, however, and notwithstanding the Berlin formula and the Cohesion Fund key, it is clear that for least prosperous Member States the GNI cap, however defined, will continue to determine funding allocations. This is illustrated in the discussion in the following sections, which focuses primarily on the Convergence regions and the Cohesion Fund.

(iii) 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 5.

Box 5: 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 – EU25=100	National prosperity coefficient
< 82	4.25%
>82 <99	3.36%
>99	2.67%

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

4. Add €700 per person unemployed in excess of the Convergence region average, if applicable. (This is not applied in the discussions that follow; the data are not readily available and the addition makes little difference to the outcome, especially given the impact of capping).

In looking forward, the main change applied to the methodology in the calculations presented here has been to adjust the national prosperity criterion to reflect enlargement from EU25 to EU27.[57] The outcome of applying this formula (excluding the unemployment premium) is shown in Table 4.14, alongside the Convergence region allocation for 2007-13, but expressed on a common price footing (2011) for the purposes of comparison.

The most striking aspect of Table 4.14 is the budgetary impact of applying the Berlin formula *without* capping. Even though the calculations presented earlier suggested that the Convergence population would *fall* by almost 34 million (see Table 4.4 and Table 4.9), Table 4.14 suggests that a straight reapplication of the Berlin formula – i.e. *without* capping - would require the Convergence region budget to rise from €201 billion to €391 billion (2011 prices); this contrasts with the proposed sum of €162.59 billion indicated in the Budget 2020 proposals.

[57] It should be stressed that these calculations rest on the assumption that the so-called Berlin method would be reapplied essentially unchanged save for updating, but this is by no means certain.

Table 4.14: Uncapped Convergence region allocations 2014+? (€m, 2011 prices)

	2007-13	2014-20
EU27	201,814	391,192
EU15	87,799	56,441
EU25	184,700	266,362
Bulgaria	4,414	33,286
Czech Republic	17,265	21,844
Germany	12,027	-
Estonia	2,271	3,357
Greece	9,550	3,014
Spain	21,342	1,400
France	3,234	2,571
Italy	21,502	27,277
Latvia	3,017	7,858
Lithuania	4,519	10,726
Hungary	14,421	29,060
Malta	564	-
Poland	45,000	120,487
Portugal	17,368	18,960
Romania	12,700	91,544
Slovenia	2,744	1,713
Slovakia	7,100	14,877
United Kingdom	2,776	3,219

Source: Own calculations from Commission Decision of 4 August 2006 (2006/594/EC - as amended), Eurostat data and AMECO online.

(iv) 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.[58] 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. 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 Budget 2020 proposals specify a fixed budget - €68.710 billion - for the Cohesion Fund (rather than an indicative per capita amount) and make no mention of the one-third/two-thirds rule. The calculations presented below take the proposed budget and divide it among the eligible Member States according to the distribution key described above; the one-third adjustment for the EU12 is not applied.

As mentioned earlier, it is almost certain that some form of transitional arrangement would be made for Cyprus – assuming that the criteria remained unchanged; however, as for

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

Ireland and Spain in the past, this would be the subject of negotiation. On the basis of 2008-10 GNI data, Greece and Portugal are the only EU15 countries that would qualify.

Table 4.15: Cohesion Fund allocations 2007-13 and 2014+? (€m, 2011 prices)

	2007-13	2014-20
EU27	70,155	68,710
EU25	61,284	46,664
EU15	10,554	12,045
Bulgaria	2,296	6,898
Czech Republic	8,923	5,625
Estonia	1,162	1,282
Greece	3,748	8,133
Spain	3,704	0
Cyprus	221	0
Latvia	1,554	2,038
Lithuania	2,318	2,289
Hungary	8,649	4,348
Malta	288	165
Poland	22,294	16,041
Portugal	3,102	3,912
Romania	6,575	15,147
Slovenia	1,412	720
Slovakia	3,912	2,111

Source: Own calculations from Commission Decision of 4 August 2006 (2006/594/EC - as amended), Eurostat data and AMECO online, together with indications from Budget 2020.

(v) Transition regions – 'ex-Convergence'

As mentioned above, special provisions are proposed for regions losing Convergence status. These are to retain two-thirds of their current receipts. This is not straightforward to calculate given the uncertainties outlined above. Nevertheless, some estimates can be made and these are set out in Table 4.16.

Table 4.16: Transition regions ('ex-Convergence') allocations 2014+?

	€ million (2011 prices)
EU27	26507
EU25	25982
EU15	24154
Germany	8018
Greece	3207
Spain	12646
France	282
Malta	376
Poland	1173
Romania	525
Slovenia	279

Source: Own calculations from Commission Decision of 4 August 2006 2006/594/EC (as amended), Eurostat data and AMECO online, together with indications from Budget 2020.

These figures suggest that the transitional arrangements for former Convergence regions could involve around €26.5 billion. Of this, the bulk would be accounted for by Germany, where no Convergence regions would remain on the basis of the calculations in this paper,

and Spain. Also of note, these figures suggest that around €12.5 billion would remain for the 'sliding scale' Transition regions.

(vi) Outcomes and the impact of capping

As noted, 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 4.17 shows, the system of limits was not *meaningfully* generalised, as the cap only 'bites' in the case of the least prosperous countries. Of crucial importance, the cap was applied to *forecasts* of GDP over the planning period, so that predictions of annual GDP growth rates had a direct and material impact on the Cohesion policy allocations to those countries where the cap applied.

Table 4.17: 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
Slovakia	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 online, Eurostat data and Multiannual Financial Framework 2007-2013, Fiche No. 1b.

Looking forward, a somewhat different approach is implied by the Budget 2020 proposals. Under these, the cap would be set at a *uniform* rate of 2.5 percent of GNI (not GDP), but no information is provided about whether this cap would be applied to a single year's GNI or to forecasts, as in 2007-13.

That said, the scale of the reductions required suggests that the cap may have been applied simply as a proportion of 2011 GNI. The potential impact of capping on this basis is illustrated in Table 4.18. These figures should be treated with some caution. All are based on assumptions and very limited information about how they might be calculated in practice. An important missing element is whether any *a priori* breakdown between the Cohesion Fund and the Structural Funds is envisaged – in the past a one-third/two-thirds breakdown applied to the EU12. This is an important detail since, for example, for Bulgaria the absorption cap as suggested in the table is actually *lower* than the theoretical allocation to the Cohesion Fund. This implies that some further mechanism to determine the allocation of monies between the Convergence region objective and the Cohesion Fund is envisaged. Notwithstanding these cautionary remarks, these data are probably adequate to provide some general orders of magnitude based on the information currently available. Values for the Transition 'sliding scale' and RCE regions, as well as ETC are excluded from the total, but, if the same approach were adopted as before, would be included in capping. Countries which are set only to receive 'sliding scale', RCE and ETC funds are excluded from the table.

Table 4.18: The impact of capping 2014+? (€m, 2011 prices)

	Convergence Region	Cohesion Fund	Transition: Ex-Con	Total	Absorption cap
EU27	391,192	68,710	26,507	486,409	
EU25	56,441	46,664	25,982	129,087	
EU15	266,362	12,045	24,154	302,561	
Bulgaria	33,286	6,898		40,184	6,513
Czech Rep	21,844	5,625		27,469	25,214
Germany			8,018	8,018	459,052
Estonia	3,357	1,282		4,639	2,576
Greece	3,014	8,133	3,207	14,354	37,850
Spain	1,400		12,646	14,046	186,406
France	2,571		282	2,853	355,658
Italy	27,277			27,277	276,293
Latvia	7,858	2,038		9,896	3,265
Lithuania	10,726	2,289		13,015	5,084
Hungary	29,060	4,348		33,408	17,646
Malta		165	376	541	1,065
Poland	120,487	16,041	1,173	137,701	64,511
Portugal	18,960	3,912		22,872	28,729
Romania	91,544	15,147	525	107,216	22,655
Slovenia	1,713	720	279	2,712	6,371
Slovakia	14,877	2,111		16,988	11,954
United Kingdom	3,219			3,219	308,579

Note: Total excludes 'sliding scale' transitional regions, RCE and ETC.
Source: Table 4.14, Table 4.15, Table 4.16 and own calculations from Eurostat data and AMECO online.

The key point to note about Table 4.18 is the very significant impact of capping on some countries. It would seem that the same nine countries would be affected by capping as in 2007-13; however, the scale of the impact varies very widely. It would be limited in the

Czech Republic (where the cap is just over 90 percent of the estimated Cohesion policy total – excluding RCE and ETC) but very dramatic in several other countries, such as Bulgaria (where the cap is 16 percent of the Convergence and Cohesion Fund total), Romania (21 percent), Latvia (33 percent), Lithuania (39 percent) and Poland (46 percent). Moreover, in several cases, notably the Baltic states and Hungary, the 'new' cap would impose a substantial reduction in Cohesion policy receipts compared to 2007-13.

4.4 Member State reactions

Decisions on geographical eligibility and financial allocations are always the most politically contentious negotiation issues in Cohesion policy reviews due to the financial stakes involved and connections to broader budgetary politics in the EU. As noted earlier (see Section 3.2), five Member States (Finland, France, Germany, the Netherlands and the United Kingdom) signed a letter to the Commission calling for a real-terms freeze in the overall post-2013 budget, while the more recent non-paper (adding Austria, Italy and Sweden to the previous five signatories) has criticised the Commission's Budget 2020 proposals as being too high. Although Cohesion Policy was not mentioned, two of these countries (Netherlands, UK) have stated that Cohesion Policy funding should fall in their responses to the Fifth Cohesion Report, while Sweden had argued for a reprioritisation of funding away from the CAP and Cohesion Policy in its earlier budget review position. In the opposing camp, the letter from 12 'net beneficiaries' has called for "an ambitious cohesion policy" with a share in the EU budget "of at least its present level".

A second area of political division concerns the question of national versus regional eligibility and financial concentration. The 'group of 12' maintain that all EU regions should remain eligible, but that the focus should remain on the less prosperous regions. By contrast, the UK government is calling for a phased withdrawal of funding in the wealthiest Member States, and other responses to the Fifth Cohesion Report argue that there should be more concentration on less-developed countries and regions (Denmark, Latvia, Netherlands). In this context, Portugal and the UK share the view that the national prosperity coefficient should be given more weight in the allocation formula, albeit for different reasons. Other countries would like to see greater focus on less-developed regions (Belgium, Germany, Greece, Latvia), involving a higher level or at least the retention of the current level of concentration on the Convergence objective (Czech Republic, Hungary, Latvia).

The proposal for a new intermediate category of Transition regions is also contentious. While a significant number of countries have offered support or consider that the idea is worth examining (Austria, Belgium, Cyprus, Germany, Ireland, Czech Republic, Slovakia, Spain), Austria, Denmark and Sweden state that funding should be limited or reduced for this category, while Italy and the Netherlands have rejected the proposal. In the French government's response to the Budget 2020 proposals, it states that the increase in funds for Competitiveness regions is *"unacceptable"*.

Another critical issue is the proposal for financial envelopes to be decided ex-ante for the ESF and ERDF/CF. Almost every Member State that expressed a view on this rejected the

idea e.g. Belgium, Cyprus, Czech Republic, Estonia, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Poland, Slovakia, Sweden). They insisted, instead, that the split between funds should remain a Member State decision, albeit decided in partnership with the Commission during programme negotiations. Nevertheless, in the subsequent Budget 2020 Communication, the Commission proposed that minimum shares for the ESF should be established for each category of regions, with specified percentages (25 percent for Convergence regions, 40 percent for Transition regions and 52 percent for Regional Competiveness and Employment regions).

Lastly, the creation of a Connecting Europe facility, absorbing some of the Cohesion Policy budget, has elicited negative reactions from some Member States. Regional stakeholders and the European Parliament fear that it may lead to greater centralisation and sectoralisation of Cohesion Policy.[59]

4.5 Concluding points

The analysis in this section provides an assessment of the implications of the Commission's reform proposals for eligibility of financial allocations. It has been careful to include a number of caveats, partly because the calculations here have, in some cases, been based on estimates and partly because the Budget 2020 proposals do not contain sufficiently detailed information for making firm assessments.

Notwithstanding these cautionary remarks, it is fair to say that a somewhat different policy landscape emerges from Budget 2020. This partly owes to regional economic growth and the use of EU27 averages which together have the effect of reducing significantly the coverage of the Convergence regions. In particular, regional growth would result in several German and Spanish regions losing Convergence status, along with the capital regions of Poland and Romania. The introduction of a new definition of transitional region will also alter the pattern of intervention. This will comprise: former Convergence regions that have 'outgrown' that status – this is in line with past transitional arrangements; and regions with GDP in the range 75-90 percent of the EU27 average. This is a break with past practice creating a new category of assisted area covering over 11 percent of the EU15 population.

Overall, the Budget 2020 proposals suggest a modest decrease in the Cohesion Policy budget. This is largely borne by a reduction in Convergence spending, although per capita spend on Convergence would rise slightly; RCE spending would rise significantly both in absolute and per capita terms; and Transition region spending would increase by half.

Financial allocation mechanisms are difficult to replicate in the absence of methodological detail, although past practice does provide some guidance. In spite of the difficulties the key point to note is the overriding importance of capping in determining financial allocations, especially for the least prosperous Member States. Moreover, for these countries, the cap proposed is substantially lower than it was in 2007-13. As a result, for

[59] Euractiv.com (2011) Regions fear being sidelined in new EU infrastructure fund, *Euractiv.com*, 28 June 2011, Brussels.

main beneficiaries of the Convergence and Cohesion Funds the outcomes of the allocation formulae are hypothetical and the appropriations are set to be determined purely as a proportion of GNI.

5. COHESION POLICY 2014+: A NEW REGULATORY FRAMEWORK

The package of draft regulations is scheduled to be tabled by the Commission on 6 October 2011. Detailed work on the draft Regulations will then begin in the Council's Structural Actions Working Party on the basis of an intensive schedule of meetings organised by the Polish Presidency.

Much is already known about the key directions and content of the proposals. The building blocks were set out by the Commission in the Fifth Cohesion Report (November 2010) and further clarified in the Budget 2020 proposals (July 2011). Commission thinking and Member State reactions have also been sounded out in advance through the creation of informal working groups, the 'High Level Group to Reflect on the Future of Cohesion Policy' and the 'Task Force on Conditionalities'. Further indications of country positions are available from the national responses to the Fifth Cohesion Report consultation (ending in January 2011) and the informal meetings organised under the Hungarian Presidency, including the Council conclusions on the Fifth Cohesion report issued in June 2011.

The following sections reviews this material in detail, drawing on a meta-analysis of national positions and broader academic and policy literature relating to the reform of Cohesion policy undertaken by the authors for the European Parliament's REGI Committee.[60]

5.1 Objectives: Europe 2020 and the territorial dimension

The Fifth Cohesion Report restates the Treaty objectives and close association with Europe 2020 goals: 'Cohesion Policy aims to promote harmonious development of the Union and its regions by reducing regional disparities (Article 174 of the Treaty). It also underpins the growth model of the Europe 2020 strategy including the need to respond to societal and employment challenges all Member States and regions face.' Similarly, the Budget 2020 Communication underlines that the 'primary objective of EU cohesion policy is to reduce the significant economic, social and territorial disparities that still exist between Europe's regions' and that 'Cohesion policy also has a key role to play in delivering the Europe 2020 objectives throughout the EU'.[61] A strong case is made for increasing the alignment between Cohesion Policy and Europe 2020 in these documents, including a series of governance-related proposals. The Cohesion Report also acknowledges, albeit with less conviction, the addition of 'territorial' cohesion to the goals of economic and social cohesion and sets out several implications for the governance of Cohesion Policy.

[60] Mendez C, Bachtler J and Wishlade F (Forthcoming) *Comparative Study on the Visions and Options for Cohesion Policy after 2013*, Policy Department B: Structural and Cohesion Policies, DG for Internal Policies, European Parliament, Brussels.

[61] European Commission (2011) *A budget for Europe 2020* - Part II: Policy fiches, COM(2011)500 final, Brussels.

From a Member State perspective, the need for **alignment of Cohesion objectives with Europe 2020 objectives** has widespread support. There are, however, concerns that this may undermine traditional cohesion goals. Several of the national responses to the consultation on the Fifth Cohesion Report stressed that the primary and overarching objective must remain economic, social and territorial cohesion irrespective of the alignment with Europe 2020 (e.g. Cyprus, Czech Republic, France and Hungary). By contrast, the German contribution presented the relationship in positive sum terms.[62] Similarly, the Council Conclusions on the Fifth Cohesion Report underline that 'the objectives of the Europe 2020 Strategy can only be achieved in a sustainable manner if disparities between the levels of development in the European Union continue to be reduced.'[63]

The main Commission proposals in relation to **the new territorial dimension of cohesion objectives** are to support or reinforce the urban agenda, functional geographies, areas facing specific geographical or demographic problems and macro-regional strategies.

- **The role of cities:** an 'ambitious' urban agenda is required, involving a clearer identification of urban actions, resources and targeted cities. Urban authorities should also play a stronger role in the design and implementation of urban strategies.

- **Programme management adapted to functional areas:** Greater flexibility to organise OPs in accordance with the geography of development processes by, for instance, designing and managing programmes at the level of groups of towns or of river and sea basins.

- **Areas facing specific geographical or demographic problems:** Targeted provisions are required to address the problems of outermost regions, northernmost regions, island and cross-border and mountain regions, in line with Treaty objective on Territorial cohesion. Urban-rural linkages and social exclusion should also be addressed.

- **Macro-regional strategies:** should be reviewed and supported by a reinforced transnational strand, although funded mainly through national and regional programmes and other sources.

A broader perspective on the new territorial cohesion objective is provided in the analytical section of the Report. It does not identify concrete proposals as such, but it does suggest that more attention should be given to access to services, sustainable development, functional geographies and territorial analysis (Box 6).

---

[62] Stating that 'Cohesion Policy has made a substantial contribution to spreading growth and prosperity throughout the European Union and to reducing economic and social disparities and should continue to play an important role so that smart, sustainable and inclusive growth can be attained in line with the priorities of the Europe 2020 Strategy, whilst the reduction in regional disparities fosters a harmonious development in the European Union and its regions.'

[63] Council of the European Union (2011) Council Conclusions on the Fifth Report on economic, social and territorial cohesion, 3068th General Affairs Council meeting, 21 February 2011, Brussels.

Box 6: Territorial Cohesion themes in the Fifth Cohesion Report

Access to services of general economic interest: including education, health care and commercial, financial and business services. In remote and sparsely populated regions, physical accessibility is a prominent concern. This is increasingly being overcome by e-services such as e-health, e-education, e-government and e-banking. In other regions, access may be hindered by cost or a lack of knowledge of the system or, among migrants, of the local language. In some cases, discrimination may also limit this access.

The environment and sustainable development: Environmental protection, climate change and renewable energy production have a strong territorial dimension. The territorial dimension of environmental protection, which ranges from air quality and waste water treatment to protected habitats and species under Natura 2000 and the provision of ecosystem services, is increasingly recognised. The growing threat of climate change and the political goal to radically increase the share of renewable energy in the EU underlines the fact that policies at different levels will need to be coordinated to respond to these various threats and opportunities in an efficient and effective way and to avoid them counteracting each other.

Functional geographies: the pursuit of territorial cohesion implies a more functional and flexible approach. Depending on the issue, the appropriate geographical dimension ranges from a macro region, such as the Baltic Sea or the Danube region, to metropolitan and cross-border regions or a group of rural areas and market towns. Such a flexible geography can better capture the positive and negative externalities of concentration, improve connections and facilitate cooperation and so be more effective in furthering territorial cohesion.

Territorial analysis: There is need for better knowledge of the EU in territorial terms and more robust ways of estimating the territorial impact of EU policies. Eurostat, the Joint Research Centre (JRC) and the European Environmental Agency (EEA) have significantly increased the data available for more finely defined geographical areas. The Urban Audit and the Urban Atlas provide more indicators for cities, Eurostat and the National Statistical Institutes have increased data at NUTS 3 level, and the JRC and EEA are providing more grid data and developing more detailed models. ESPON is making use of these new data and undertaking territorial trend analyses, impact assessments and prospective studies.

Source: European Commission (2010) Investing in Europe's future, Fifth Report on Economic, Social and Territorial Cohesion, Office for Official Publications of the European Communities, Luxembourg.

A notable development in the territorial cohesion debate is the adoption of the EU Territorial Agenda for 2020, agreed at the EU Informal Ministerial Meeting of Ministers responsible for Spatial Planning and Territorial Development on 10 May 2011 under the Hungarian Presidency in Gödöllő (Box 7). It underlines that all EU policies should take territorial cohesion into consideration, while identifying Cohesion Policy as a key framework for delivering the agenda. However, like the previous Territorial Agenda agreed in 2007, it is not a legally binding framework as such, but rather 'an action oriented policy framework' providing 'strategic orientations' to support the new Treaty goal of territorial cohesion.

Box 7: The Territorial Agenda for 2020

The objective of the TA2020 is 'to provide strategic orientations for territorial development, fostering integration of territorial dimension within different policies at all governance levels and to ensure implementation of the Europe 2020 Strategy according to territorial cohesion principles.' The key territorial priorities identified to meet the EU's territorial challenges are:

1. Promoting polycentric and balanced territorial development: is a key element of territorial cohesion to foster territorial competitiveness of the EU. Cities should form innovative networks to improve their global competitiveness and promote sustainable development. Polycentric development is necessary at the macro-regional, cross-border and national and regional levels. Polarization between capitals, metropolitan areas and medium sized towns should be avoided and policy should contribute to reducing territorial polarisation and regional disparities by addressing bottlenecks to growth in line with Europe 2020 Strategy.

2. Encouraging integrated development in cities, rural and specific areas: cities are seen as motors of smart, sustainable and inclusive development and attractive places to live, work, visit and invest in. Integrated and multilevel approaches in urban development are needed. Cities should focus on functional regions where appropriate. Rural areas should take develop their unique characteristics. Urban-rural interdependence should be recognised through integrated governance and planning based on partnership. Coastal zones, islands, including island states, mountainous areas, plains, river valleys and lake basins and other types of territories have special features, or suffer from severe handicaps, while outermost regions have specific constraints. These potentials can be unleashed and problems tackled in an integrated way.

3. Territorial integration in cross-border and transnational functional regions: is an important factor in fostering global competitiveness, utilising valuable natural, landscape and cultural heritage, city networks and labour markets divided by borders. Attention should also be paid to external EU borders. Cross-border and transnational functional regions may require proper policy coordination between different countries. The focus should be on developments and results of real cross-border or transnational relevance. European Territorial Cooperation should be better embedded within national, regional and local development strategies.

4. Ensuring global competiveness of the regions based on strong local economies: the use of social capital, territorial assets, and the development of innovation and smart specialisation strategies in a place-based approach can play a key role. The global and local strands are mutually reinforcing. Integration of local endowments, characteristics and traditions into the global economy is important in strengthening local responses and reducing vulnerability to external forces. It is important to preserve and improve the innovation capacity of all regions. Diversification can decrease local vulnerability.

5. Improving territorial connectivity for individuals, communities and enterprises: fair and affordable accessibility to services of general interest are essential for territorial cohesion. Emphasis is placed on access to road, rail, waterway and air transport, broadband and trans-European energy and transport networks. Inter-modal transport solutions are important within city-regions; as are secondary networks at regional and local level.

6. Managing and connecting ecological, landscape and cultural values of regions: well-functioning ecological systems and the protection and enhancement of cultural and natural heritage are important conditions for sustainable development. Joint risk management is particularly important, taking geographical specificities into account. The ▫integration of ecological systems and areas protected for their natural values into green infrastructure networks at all levels is supported. The protection, rehabilitation and utilization of heritage through a place-based approach is of key importance.

Source: Territorial Agenda for 2020

More recently, the Commission has made a number of proposals to promote the use of the EGTC instrument in the next period.[64]

[64] European Commission (2011) *The application of the Regulation (EC) No 1082/2006 on a European Grouping of Territorial Cooperation (EGTC)*, Report from the Commission to the European Parliament and the Council, COM(2011) 462 final, Brussels.

- First, several targeted regulatory modifications should be introduced to allow EGTCs to be created between public bodies from only one Member State and from non-Member States, and to expedite EGTC set up in the absence of reasoned objections by national authorities; to extend the purpose of an EGTC to cover strategy and the planning and management of regional and local concerns in line with EU policies; and to introduce an insurance-based solution for setting-up of EGTCs with limited liability.

- Second, the Commission will seek to clarify that that the convention establishing an EGTC must state clearly under which laws it will operate, that private bodies submitted to public procurement rules may be members of EGTCs and that the EGTC's statutes must clearly set out the rules under which it will operate.

- Third, the use of EGTCs in other policies will be encouraged - including macro-regional strategies and inter-regional cooperation projects outside ETC, environmental policy, research collaboration, education and culture etc - and problems linked to cross-border public procurement will be resolved.

- Lastly, to diffuse information on the implementation of the EGTC Regulation in the Member States more widely, to collaborate pro-actively with the Committee of the Regions on the EGTC Platform, and to encourage sharing of know-how, networking and regular exchange of views.

Returning to the Fifth Cohesion Report conclusions, national policy-maker reactions to some of the proposals were provided in the High-Level Group on the Future of Cohesion Policy.[65] Beginning with the local/urban development agenda, the idea of introducing a more precise regulatory framework, potentially including minimum earmarked shares of funding, received a lukewarm response. Some policy-makers consider that stricter regulatory requirements are necessary to guarantee a more systematic approach, while others would prefer flexibility in identifying target cities and financial allocations in line with the present arrangements. Related, proposals for EU-level 'zoning' - designation of minimum and maximum areas' population size for targeting interventions - were universally rejected. While there are lessons that could be learned from the more prescriptive rural development (LEADER) approach, on which the Commission's ideas appear to be grounded, national experts noted significant implementation difficulties with this model in practice and did not support its transfer *en masse* to the ERDF. A more promising idea could be the adoption of single strategic framework for local development, although it was noted that the harmonisation of delivery rules for all Funds (ERDF, CF, ESF, EARDF and EFF) was more urgent, especially to facilitate an integrated approach.

At the political level, similar views were expressed in the official responses to the Fifth Cohesion Report. While a number of countries argued that the urban agenda merits special attention (Austria, Belgium, Latvia), particularly the role of cities and city regions as engines of growth, creativity and innovation (Netherlands, Sweden), others underlined that

[65] DG Regio (2010) Report of Sixth Meeting, High Level Group Reflecting on Future Cohesion Policy, 23-24 September 2010, Brussels; DG Regio (2010) Report of Seventh Meeting, High Level Group Reflecting On Future Cohesion Policy, 2-3 December 2010, Brussels.

this is already possible under existing provisions (Denmark, Ireland, Sweden) and that the priority given to the theme will very much depend on the domestic context (Bulgaria, Estonia, Latvia). In this respect, several countries rejected the idea of setting earmarking thresholds or requiring global grants to be set up (Belgium, Denmark, France, Germany, Ireland, Italy). Other issues that may merit closer attention in the future are how to reinforce the integrated approach in urban policies (France, Hungary, Slovakia) or improve linkages to rural areas (Hungary, Poland, Slovakia, Sweden).

A second territorial theme discussed in the High-Level Group on the future of Cohesion Policy was the European Territorial Cooperation Objective. Three main issues dominated the discussions.

- The need for more strategic focus was recognised, but some expressed scepticism about the addition of new goals or subordination to Europe 2020 objectives.

- More strategic alignment is required with mainstream programmes, external cross-border cooperation and macro-regional strategies. The main concern with respect to macro-regional strategies is that they should not replace the transnational strand as this would exclude some Member States and regions or encourage the creation of artificial macro-regions.

- Simplification of administrative requirements is required, arguably more so than in the mainstream programmes because of the additional challenges arising from the multi-regional/national nature of territorial cooperation. On the other hand, there were also calls for more detailed regulatory provisions on territorial cooperation in the regulation, including EU-wide eligibility conditions and a more active Commission role through guidance and neutral arbitration.

The urgency of reviewing and simplifying the implementation rules and structures was particularly evident in the national positions on the Fifth Cohesion Report (Austria, Belgium, Cyprus, Finland, Greece, Hungary, Ireland, Italy, Latvia, Luxembourg, Netherlands, Poland). Many countries called for harmonised eligibility rules (Cyprus, Finland, France, Greece, Hungary, Italy, Latvia, Sweden), and some would welcome the establishment of a specific regulation on territorial cooperation (Austria, Spain). Most of the responses did not offer concrete suggestions for improving the strategic impact or effectiveness of territorial cooperation, beyond better coordination with other programmes (Belgium, Netherlands, Poland, Sweden) or thematic concentration (Netherlands, Poland).

The macro-regional approach is considered to be an important expression of territorial cohesion (Austria, Estonia, Czech Republic, Latvia, Slovakia, Sweden, United Kingdom). However, many countries consider that more evidence is needed of the benefits (Belgium, Finland, France, Germany, Hungary, Italy, Latvia, Slovakia, UK); that their relevance is limited to specific areas (Belgium, France, Luxembourg, United Kingdom); and that there should be no new instruments, funding or implementation structures (Belgium, Czech Republic, Hungary, Italy, Latvia). And while there may be lessons for improving transnational cooperation, some responses underlined that macro-regions should not lessen

the significance of the existing transnational strand of the European Territorial Cooperation Objective (Italy, Luxembourg, United Kingdom).

The idea of more flexible management arrangement to support the targeting of functional areas received limited support; the creation of new management structures is regarded as being expensive or not feasible without appropriate responsibilities being in place (Austria, Germany, Hungary, Latvia, Poland).

More generally, there is agreement among the Member States that the overarching objective of territorial cohesion should not be imposed from above in a dogmatic manner through narrowly-defined territorial priorities. As the Presidency conclusions on the Fifth Cohesion Report put it:

> *Territorial cohesion should be taken into account in programming and implementation, as a comprehensive and integrated concept, leaving it to the Member States at the appropriate level, to define the most suitable level of intervention, that takes due account of differences among territories with a view to promoting the harmonious and balanced development of the European Union.*

The risk is that territorial cohesion will not be systematically addressed in the post-2013 strategies. In the absence of a firm EU commitment to the operationalisation of the concept, solutions could include the publication of a toolkit or guidance at EU level (as proposed by Hungary), or further clarification through the EU's Territorial Agenda for 2020 (France). The ongoing work of ESPON could be useful in this respect. However, on the basis of the 2007-13 applied and targeted analyses reviewed for this study (Annex 1), it is clear that, while ESPON studies have provided a rich source of data on the nature of territorial problems in the EU, the policy implications proposed tend to be rather bland and generic. Recognition of this by the Member States is evident in the recent Presidency Conclusions, calling for improvements in the policy relevance/utility of ESPON outputs.[66]

5.2 Strategic Coherence and Programming

The Commission's proposed changes to the strategic planning framework in the Budget 2020 Communication and Fifth Cohesion Report mainly aim to ensure a greater focus on the Europe 2020 strategy. The basic structure would involve a progression of the existing system of Community Strategic Guidelines, National Strategic Reference Frameworks and Operational programmes, as follows.

- A **Common Strategic Framework** would translate the objectives and headline targets of Europe 2020 into investment priorities. The framework would be more comprehensive than the current guidelines, extending beyond the ERDF, CF and ESF to the EAFRD and EFF and also cover coordination with other EU policies. To speed up the approval process and ensure strategic coherence, the Commission proposes that

[66] Annex to the Presidency Conclusions of the informal meeting of Ministers responsible for spatial planning and territorial development on 19 May 2011.

the strategy is adopted by the Commission, rather than requiring Council approval as under the CSG.

- **Development and Investment Partnership Contracts** would set out for each Member State the investment priorities, allocation of national and EU resources between priority areas and programmes. The main difference with respect to the current NSRF would be the inclusion of conditionalities and targets based on agreed indicators.

- **Operational Programmes** would remain the main management tool. Greater thematic concentration on Europe 2020 priorities would be achieved by limiting the number of priority axes in programmes, particularly in more developed regions, or by introducing compulsory priorities. In the Budget 2020 Communication the Commission proposes that Transition regions and Regional Competitiveness and Employment regions should focus the entire allocation of Cohesion policy funding (except for the ESF) on energy efficiency and renewable energy (representing at least 20 percent of programme allocations), and SME competitiveness and innovation, while Convergence regions would be able to fund a wider range of priorities reflecting their needs. [67] Unlike the present period, integrated programming would be encouraged through multi-fund programmes including the designation of a 'lead fund' where appropriate.

Notwithstanding the widespread support for the strategic alignment of Cohesion Policy with other EU policies and Europe 2020, national experts have raised several key concerns.[68] First, the obligations arising from the Partnership Contract may increase administrative burdens and costs, particularly if they necessitate the establishment of an additional management layer at national level. Related, the contractual approach may be difficult to implement at national level in regionalised or federal countries where economic development competences are devolved. Third, the requirements for greater thematic concentration and alignment with National Reform Programmes may reduce the flexibility to devise and implement tailor-made programmes. Fourth, ownership of the CSF may be diminished if the Member States are not involved in the development and adoption of the document.

There is widespread support among Member States for the introduction of a **Common Strategic Framework.** Many national responses to the Fifth Cohesion Report consultation underlined the potential for greater strategic coherence across EU Funds and policies (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Estonia, Germany, Hungary, Portugal, Sweden), reiterated in the Council Conclusions on the Fifth Cohesion Report.[69] Links with rural development were highlighted as being especially important by some (e.g. France and

[67] European Commission (2011) A Budget for Europe 2020 - Part II: Policy fiches, COM(2011) 500 final, Brussels.

[68] DG Regio (2011) Report of Eighth Meeting, High-Level Group Reflecting on Future Cohesion Policy, DG Regio, Brussels.

[69] Which noted 'that a common strategic framework has the potential to ensure greater complementarity, coordination, coherence and synergies among the different Funds of cohesion, rural development and fisheries policies.' Council of the European Union (2011) *Council conclusions on the Fifth Report on economic, social and territorial cohesion,* 3068th General Affairs Council meeting, Brussels, 21 February 2011.

Slovakia), while others emphasised the need to build bridges with other EU policies (Austria, Germany, Portugal, Latvia, Poland, Portugal). Issues that require further clarification include the relationship between the CSF and the EU Territorial Agenda (France, Italy, Poland), and the legal status and force of the document (Czech Republic). By contrast, one Member State rejected the need for a CSF altogether (Finland), arguing that it adds an unnecessary strategic layer and would increase coordination complexity.

National positions on the **Partnership Contract** were similarly mixed. Again, one Member State rejected the need for change, arguing that the current NSRF is fit for purpose (Netherlands). Elsewhere, there were different views on the appropriate reach of the contract, with some countries supporting the idea of extending its scope beyond Cohesion Policy (Cyprus, France, Hungary, Poland), especially to Rural Development and Fisheries policies (Estonia, Greece, Hungary, Latvia), while others arguing that it should primarily or only cover Cohesion Policy (Czech Republic, Belgium, Germany, Italy, Netherlands, Luxembourg). Key concerns are that the Partnership Contract should not introduce another management layer or increase administrative burdens (Cyprus, Estonia, Finland, Latvia, Sweden) and that it should respect the subsidiarity principle (Belgium, Germany).

Many countries consider that further clarification of the contract's content and requirements is needed before a firm position can be taken (Cyprus, France, Finland, Germany, Hungary), a point that was underlined in the Council Conclusions.[70] For instance, there is a lack of clarity on the relationship with National Reform Programmes (Belgium, Hungary, Netherlands), which according to some Member States should not represent the sole reference framework for Partnership Contracts or Cohesion Policy (Belgium, Germany, Slovakia). As highlighted in a recent High-Level Meeting under the Hungarian Presidency: 'the NRPs differ from the development strategy of Cohesion Policy in nature, approach, function and time scope.'[71]

Turning to **thematic concentration,** there is widespread support for concentrating funding on a few Europe 2020 priorities (Austria, Denmark, Estonia, France, Germany, Hungary, Latvia, Netherlands, Poland, Slovakia, Sweden, United Kingdom). In line with the Commission's justification, the Council Conclusions on the Fifth Cohesion Report concurred on the need to 'achieve a critical mass and maximise the impact and the visibility of cohesion policy investments as well as help to reinforce European added value.'[72] Despite the apparent consensus on the principle and rationale for thematic concentration, national authorities have strong reservations about the imposition of a top-down, prescriptive approach focusing on narrow thematic priorities relating exclusively to Europe 2020 objectives and targets. The need for flexibility to adapt EU priorities to national / regional contexts was underlined in virtually every Member State submission to the consultation and in the Council Conclusions. Related, the proposal to introduce obligatory priorities has little support, with the exceptions of the Italian and the Dutch responses. It is considered

[70] Council of the European Union (2011) *op.cit.* p5.

[71] Ministry of National Development (2011) Conclusions of the High Level Meeting on the Future of Cohesion Policy, 31 March – 1 April 2011, Budapest.

[72] Council of the European Union (2011) *op.cit.* p3.

necessary to recognise the diversity in absorption capacities (Austria, Bulgaria, Ireland) and to provide scope for other priorities that are less prominent in the Europe 2020 strategy: basic infrastructure needs remain paramount in less-developed countries (Bulgaria, Czech Republic, Latvia, Lithuania, Slovakia),[73] remote areas (Finland) and outermost regions (France), while culture and tourism is regarded as an important development priority in Greece. There is also resistance to the idea of limiting the menu of priorities under the Regional Competitiveness and Employment Objective (e.g. France and Germany).

Some Member States expressed concern that thematic concentration may hamper the pursuit of territorial priorities (Belgium, Greece, Latvia) or an integrated approach (Belgium, France, Greece, Sweden); many responses underlined the need to avoid the 'sectoralisation' of Cohesion Policy by, for instance, providing incentives or freedom to use multi-fund programmes (Cyprus, Estonia, Italy, Latvia, Portugal, Sweden). This proposal was reiterated in the Presidency Conclusions on the Fifth Cohesion Report, which called for the ESF, ERDF and CF to work together in a more integrated manner.

5.3 Conditionalities and Incentives

The idea of reinforcing the use of conditionalities and incentives in the post-2013 Cohesion Policy was first suggested by the Commission in its proposals for reforming EU economic governance in the aftermath of the economic and financial crisis.[74] It proposed making Cohesion policy disbursements conditional on structural and institutional reforms and to introduce a new system of financial sanctions related to fiscal policy rules. The document also suggested that a performance reserve could be established and that co-financing rates could be modulated to incentivise better performance. These ideas were further clarified in the Budget Review Communication, the Fifth Cohesion Report and the papers and discussions in the High-level Group on the Future of Cohesion Policy as well as a specific EU Task Force on Conditionalities.

As stated in the Fifth Cohesion Report, the main aim of the conditionality proposals is to 'help countries and regions to tackle the problems that past experience has been show to particularly relevant to policy implementation.' The Commission has identified several principles that are required for an effective framework of conditionalities - they should be enforceable, non-prescriptive, credible and shared[75] - and has suggested several different types of conditionality that could be introduced or reinforced.[76]

---

[73] See also: Council of the European Union (2010) *Presidency Conclusions, Informal Meeting of the Ministers in Charge of Cohesion Policy*, 22-23 November 2010, Liege.

[74] 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.

[75] DG Regio (2011) *Strengthening Performance through conditionality and incentives*, High Level Group Reflecting on the Future of Cohesion Policy, DG Regio, Brussels.

[76] See also the Commission's Budget 2020 Communication: European Commission (2011) *A budget for Europe 2020*, COM(2011)500 final of 29 June 2011, Brussels.

- **Ex-ante conditionality** would aim to ensure preconditions for effective support by making allocations at the programming stage conditional on the transposition of EU legislation (e.g. water pricing, small business regulation), the existence of strategic plans or frameworks (innovation, research, climate change), the efficiency of project planning (in transport, energy) and institutions (budget planning, public procurement). During the preparation of the partnership contracts and programmes, each Member State would carry out a self-assessment aimed at checking whether it fulfils the prerequisites for each priority theme. When the programmes are being negotiated with the Commission, the Member States would commit to taking the necessary measures to fulfil the conditionalities. Until this is the case, the Commission could delay programme adoption, freeze payments or, following mid-term review, require a transfer of resources to another priority.

- **Structural conditionality** would make disbursements to Member States conditional on the implementation of the structural reforms specified in their National Reform Programmes (i.e. flexicurity policies and education and training policies under the European Social Fund). Conditionality would be compulsory in the event of a Member State being the subject of a Council recommendation under the Europe 2020 Strategy surveillance process in an area directly related to Cohesion policy. The Member State would then commit to a schedule and a deadline for implementing the reform. Funding would be suspended or cancelled if the reforms were not carried out in time.

- **Macroeconomic conditionality** links disbursement to Member States with compliance of Stability and Growth pact criteria. This would extend the rules currently applicable to the Cohesion Fund to the other Structural Funds (ERDF and ESF), implying that all countries would be treated equally by the rule (not just those eligible for the Cohesion Fund).

- **Performance conditionality** would reward programmes that progress towards the targets of the Europe 2020 Strategy. A five percent share of the budget would be held back in a reserve at EU level and allocated, during a mid-term review, to the Member States and regions whose programmes have contributed most to these targets compared to their starting-points.

The discussions with national experts in the Conditionality Task Force suggest that there is general agreement on the need to improve the performance framework in Cohesion policy. Nevertheless, a range of perceived challenges and objections emerged.

The strongest opposition concerns the proposals on structural reform conditionalities, particularly the idea of linking disbursements to country-specific recommendations and to the annual cycle of the European semester. Participants noted that the national recommendations would have too wide a scope, covering areas that are not directly linked to Cohesion policy (where the EU only has soft coordination competences), which may take several programme periods to resolve, while the annual cycle of the European semester is not aligned with the Cohesion policy timeframe of programming, implementation and reporting. Related, conditionalities should not raise the overall administrative burden.

Ex-ante conditionalities are viewed more positively, but they would need to focus on improving effectiveness in Cohesion policy, have a direct link to Cohesion policy investments, be limited in number, respect subsidiarity and be based on a joint agreement between the Member States and the Commission. As regards their application, the main points raised were that: clear criteria are needed for assessment; the Commission's role requires clarification; a sectoralised implementation model should be avoided; and administrative burdens should not increase.

The Conditionality Task Force did not examine the macroeconomic or performance conditionality proposals, but national experts did provide some reactions in the High-Level Group on the future of Cohesion Policy.[77] The introduction of an EU performance reserve was questioned by some experts, preferring instead an optional national reserve as at present. On macroeconomic conditionality, the responses were mixed. For some, the extension of the provisions to all Cohesion policy funds would be a positive move in terms of equality of treatment for all countries, yet others highlighted that the proposals would exacerbate the problems of indebted countries, would penalise regions for decisions outside their competence and would run counter to the Treaty objective of cohesion.

Similar views can also be found in the national position papers. Several Member States explicitly rejected the idea of macroeconomic conditionalities (Belgium, Greece, Italy, United Kingdom). The main drawbacks identified were that poorer Member States and regions would be disproportionately affected (Bulgaria, Hungary, Poland), that sanctions would worsens the fiscal position of the country and that regions would be unfairly punished for national behaviour (Hungary). By contrast, other countries offered support for macroeconomic conditionalities (Estonia, Germany), particularly if they are applied to all EU funds (Austria, Finland, Latvia, Portugal, Slovakia). As noted, a joint letter issued by France and Germany in August 2011 on economic and fiscal governance also supported for the use of macroeconomic conditionalities. By contrast, a recent paper by the German authorities has adopted a more cautious stance on the introduction of ex-ante or structural conditionalities (Box 8).

Box 8: German Federal and *Länder* paper on internal conditionalities

The German authorities paper of June 2011 on conditionalities states that they are open to the introduction of conditionalities as long as:

- the conditionalities are clearly defined ex-ante, only apply to areas closely connected with Cohesion policy funding, are tailored to raising the programmes' efficiency, do not interfere with the competences of Member States or regions, and respect the principle of subsidiarity;
- Member States retain the authority and responsibility for carrying out their own economic and labour-market policy reforms, particularly their right to decide on specific measures and the right policy mix;
- the country-specific recommendations continue to be just that, and do not acquire a binding nature for which there is no legal basis – an issue which could arise if Structural Funds were withheld from a country deemed not to have implemented the recommendations adequately;

[77] DG Regio (2010) *Report of Seventh meeting*, High-Level Group Reflecting on Future of Cohesion Policy, Brussels.

- the concept allows public-sector budgets and multi-annual funding programmes to be planned reliably and does not threaten the implementation or finalisation of projects lined up for the funding programmes;
- the efficiency of long-term funding programmes and development strategies is not diminished by the annual mechanisms for surveillance of the country-specific recommendations and National Reform Programmes.

Further, it states that they would reject conditionalities if:

- the Structural Funds were used merely as a lever to achieve political aims in other areas (this also applies to the implementation of EU Directives);
- the European Commission were to gain de facto authority to decide whether the country-specific recommendations … have been implemented adequately… or by seeking to make the disbursement of Structural Funds subject to its assessment

While many countries stated a clear preference for incentives over sanctions (Cyprus, France, Germany, Greece, Hungary, Portugal), it was also argued that a performance reserve should be optional at Member State level or that it was not necessary (Bulgaria, Finland, Greece, Germany, Hungary, Italy, Latvia, Netherlands, Poland, Spain). Aside from the administrative burden (Austria, Estonia), there would be risks associated with planning or financial uncertainty (Estonia, United Kingdom), the rewarding of the wealthiest regions and Member States with better performance (Latvia, United Kingdom) and the selection of easily achievable goals / targets (Czech Republic, Netherlands). The main methodological challenges are that performance would be difficult to compare across Member States (Czech Republic, Estonia, Hungary, Italy, Latvia, Slovakia) and the inability to measure meaningful results in the short-term (Greece, Latvia, Poland). Lastly, if such a reserve were introduced, key conditions are that it does not prioritise spending over quality, lead to risk aversion (Estonia, Hungary, Latvia, Poland, Sweden) or is assessed solely on the basis of Europe 2020 objectives and targets (Czech Republic, Italy).

5.4 Monitoring, Evaluation and Capacity

In the Fifth Cohesion Report the Commission set out several ideas on how to improve the approach to monitoring and evaluation, subsequently fleshed out in more detail in a working paper presented to the Member States in DG Regio's evaluation network.[78]

- **Programme objectives:** each priority/sub-priority should identify one or a limited number of result indicators that best express the intended change, the direction of the desired change, a quantified target or a range, and a baseline. Output indicators should cover all parts of a programme, use indicators from the list of common EU indicators and be linked to categories of expenditure. Targets should be set for the end of the programming period. Output baselines would not be required.

[78] DG Regio (2011) *Concepts and Ideas: Monitoring and Evaluation in the practice of European Cohesion Policy 2014+ (European Regional Development Fund and Cohesion Fund)*, draft paper for discussion between DG Regional Policy and the Member States evaluation network, 14-15 April 2011, DG Regio, Brussels.

- **Annual Implementation Report (AIR):** aside from financial implementation data, AIRs should provide cumulative values for output indicators from the second year including actual and expected values. Progress should be reported towards the desired result. A qualitative analysis should be provided of the contribution towards the change of result indicators, using financial data, output indicators, managerial knowledge and evaluations. Analysis of why the objectives / priorities are being achieved or not should be provided. The Fifth Cohesion Report notes that progress reporting would be aligned with the Europe 2020 governance cycle, including a regular political debate in Council and Parliament.

- **Ex ante evaluation**: should appraise the justification for the thematic priorities and their consistency with the Europe 2020 strategy, the Common Strategic Framework and partnership contract; the relevance and clarity of the proposed result indicators and output indicators; the plausibility of the targets and for the explanation of the contribution of the outputs to the results; consistency between financial resources and the targets for output indicators; administrative capacity for management and implementation; the quality of the monitoring system, and how data will be gathered to carry out evaluations.

- **Evaluation during the programming period:** theory-based evaluation, counterfactual evaluation and implementation evaluation should play a role, with an increased focus on the first two. Implementation evaluations are more likely to be useful in the early stages of implementation. Evaluation capturing the effect of priorities and looking into their theory of change are more likely to occur at a later stage. Each priority should be covered at least once by an impact evaluation. A summary evaluation in 2020 could collate the main evaluation findings.

- **Evaluation plan:** after programme approval, the Member State or region would adopt an evaluation plan specifying an indicative list of evaluations and rationale; methods and data requirements; provisions for data collection; an evaluation timetable; the human resources involved; and the indicative budget for evaluation. The Monitoring Committee would review the evaluation plan once per year and adopt necessary amendments.

- **Ex post evaluation:** would continue to be the Commission's responsibility but facilitated by evaluations of Member States during the programming period, especially by the Member States' summary of evaluations undertaken.

- **Transparency:** All evaluations should be made public, preferably via the internet. English abstracts are recommended to allow for exchange of evaluation findings across countries.

Monitoring, reporting and evaluation was discussed in several HLG meetings on the future of Cohesion policy, including the work of a team of academics and experts commissioned by DG Regio to provide recommendations on indicators and targets (Box 9).[79]

Box 9: Towards a new system of monitoring and evaluation in EU Cohesion Policy

Coordinated by Fabrizio Barca and Philip McCann, the first note produced by the group proposes a system of outcome indicators, drawing on previous experiences and emphasising the need to ensure a more results-driven approach. The aim would be to create a system where Member States and regions could choose appropriate performance indicators according to agreed methodological principles. Both outcomes and measureable aspects of these outcomes would be chosen at the programme design stage and then monitored and reported periodically. The proposed approach would need to be accompanied by increased thematic concentration and the establishment of baselines and targets in order to become an effective managerial tool. The main proposals are:

- to clearly distinguish outcome/results (collapsed into outcome) from outputs and express the objectives in the programming documents and at project level in terms of changes in outcome measured by indicators chosen by Member States and assessed, whenever possible, with reference to explicit targets;
- to ensure the quality of outcome indicators through adherence to clear-cut methodological principles that need to be met by these indicators;
- to ensure that Member States report progress of outcome indicators; and
- to reinforce ex-ante and prospective planning of policy impact assessment and clearly distinguishing it from the monitoring of changes in outcome indicators.

Source: Barca and McCann (2011) *op.cit.*

The Barca/McCann paper received a mixed reaction from national policy-makers. While welcoming the general thrust of the proposed system, the main message was that sufficient flexibility is needed to allow Member States and regions to choose the indicators most appropriate to their socio-economic situation and development priorities. Concerns were expressed about the breadth of indicators, relating to themes that go beyond the Treaty goals of cohesion, or an overly sectoral/thematic approach, and about the potential administrative burden for public authorities and beneficiaries of additional reporting. It was underlined that auditors should not use the system as a punitive tool that leads to financial corrections, and that a shift away from the focus on spending and control would be required to free up resources for designing and monitoring indicators and targets. Some policy-makers would like greater proportionality, requiring indicator choices to be informed by the cost of their application, and greater support for administrative capacity.

The need for annual high-level political debate on Cohesion Policy was supported by some policy-makers in the High-Level Group, potentially including a more active role for the European Parliament. On the other hand, some participants consider that the existing structures (e.g. Informal Ministerial meetings) are sufficient or that EU debates should remain flexible rather than following a rigid timetable.

[79] Barca F and McCann P (2011) *Outcome Indicators and Targets: Towards a new system of monitoring and evaluation in EU Cohesion Policy*, DG Regio, Brussels.

Feedback on monitoring and evaluation in the national responses to the Fifth Cohesion report consultation was patchy, presumably because of the rather generic nature of the proposals contained in the Cohesion Report. There was recognition of the need for measurable, clear, uniform indicators and targets (notably, Denmark, Latvia, Poland, Slovakia) and some support for common EU indicators (Belgium, Cyprus, France, Germany, Hungary, Netherlands, Latvia). Yet, it was also noted that EU indicators should not limit the choice of programme priorities (Cyprus) and must be feasible to implement in practice (Austria). Few responses offered an opinion on the idea of stronger performance reporting, aside from Hungary's call for AIRs and Strategic Reports to be raised to a higher strategic level.

In line with the Commission's evaluation proposals, some countries would welcome reinforced ex-ante evaluations (Bulgaria, Hungary, Latvia), obligatory evaluation plans (Bulgaria, Hungary, Latvia, Slovakia, United Kingdom) and a greater evaluation focus on results to support performance (Austria, Cyprus, United Kingdom, Denmark, Finland). Other proposals included more Member State involvement in the Commission's ex-post evaluation (Hungary), greater support for strengthening evaluation capacities (Italy), requiring better evaluations of European Territorial Cooperation programmes (Italy) and avoiding the creation of new administrative burdens on evaluation (Germany, United Kingdom). The need for balance between administrative obligations and a stronger performance focus was reiterated in the Council conclusions on the Fifth Cohesion Report, which acknowledged the need for:

- a common understanding of performance, including a methodology of its assessment established in advance;
- a strong and dedicated focus on the actual outcomes and results of the policy underpinned by the improvement of current evaluation, monitoring and indicator systems, concentrating on a limited number of well-defined, easily measurable targets and a limited set of core indicators, without increasing the overall burden of reporting; and
- efficient programme-design and institutional frameworks, while making sure that administrative burden remains as limited as possible.

The need for **institutional capacity** to enhance the policy's performance orientation is well-recognised. The most prominent Commission proposal in this respect is the introduction of ex-ante conditionalities on administrative and institutional capacity, including implementation assessments. In addition, the Cohesion Report states that funding would continue to be available for developing administrative and institutional capacity, but that eligibility would be extended to all countries and regions (that is, outside convergence regions and cohesion countries). Opposition to an interventionist Commission role in developing institutional capacity is evident in the Council conclusions on the Fifth Cohesion

Report, which states that the main priority should be to ensure that there is 'enough flexibility' for Member States and regions to fund capacity building 'where relevant'.[80]

5.5 Shared Management

The strapline for the Fifth Cohesion Report proposals for reforming the assurance system is a 'streamlined and simpler delivery model,' while 'greater flexibility' and 'greater reduction of the risk of error' are identified as core priorities in the Commission's Budget reform proposals on Cohesion policy [81] The key proposals include changes to the management and control system, reforms to the reimbursement methods, the extension of simplified costs options and more proportionality and differentiation.

5.5.1 Management and control systems

The key principles of the proposed changes to the delivery system are derived from the amendments to the Financial Regulation relating to all shared management policies, which would essentially apply the existing model used for the agricultural funds to Cohesion policy.

- **Accredited body:** An accreditation process would be established for the main management body, which would assume sole responsibility for the management and control of the funds. Separate managing and certification authorities would not be needed as the system is based on two control layers, the accredited body (fusing managing and certification functions) and an audit body (for independent audit and control). There would be no restrictions on the number of accredited bodies in a country (i.e. a single body at national level or a body per programme or region) and the body's tasks could still be delegated to intermediate bodies. The main difference is that overall responsibility would be concentrated in the accredited body.

- **Accreditation process:** The objective of the accreditation would be to provide ex-ante assurance on the set-up of management and control systems on the basis of an independent audit, as was the case under the compliance assessment. The main difference would be that the Commission's role would be reduced, either by not requiring its validation or by limiting its involvement e.g. to cases with high risk due to the failure to provide assurance during this period, or where significant changes to systems are introduced. Detailed rules and criteria would be needed in the regulations to determine minimum standards for the approval of management and control systems and to establish when and how the Commission can intervene in the approval process. The underlying rationale is to increase the commitment by Member States to assurance and to simplify the process.

[80] Council of the European Union (2011) *op.cit.*

[81] European Commission (2011) *Commission Staff Working Paper on A Budget for Europe 2020: the current system of funding, the challenges ahead, the results of stakeholders consultation and different options on the main horizontal and sectoral issues*, Accompanying the document - Commission Communication, A budget for Europe 2020, SEC(2011)868, 29.06.2011, Brussels.

- **Annual management declarations:** The accredited body responsible for managing programmes (i.e. the current Managing Authority) would provide the Commission by 1st February each year with: (a) accounts of payments and control activity; (b) a management declaration on the reliability of systems and the legality and regularity of expenditure; and (c) an independent audit opinion. At present only some of this information is provided annually (e.g. annual statements on recoveries and the audit opinion, but with different timing requirements), while a management declaration is not required. The rationale for this proposal is to link annual assurance from national authorities more explicitly to the expenditure of the financial year covered by the annual activity report and budget discharge process at EU level.

- **Annual clearance of accounts and rolling closure:** The approval by the Commission of the above documents would provide the basis for an annual clearance of accounts, which would facilitate a rolling partial closure of programmes. At present, closure takes place after the programme period has ended. Although partial closure is possible, it is not mandatory. The main advantage of the proposals is timely clearance of accounts (strengthening the discharge exercise), while a rolling closure approach could increase legal certainty and reduce the audit trail burden associated with rules on the retention of documents.

The requirements of this proposed model prompted several concerns among national policy-makers in the High-Level Group discussions. First, complexity, administrative burden and costs could increase, as the model involves substantial organisational change and requires additional reporting obligations. Second, and related, the proposed timetables for reporting to the Commission are tight and could be difficult to follow. Third, the requirement for a management declaration could be problematic in some countries due to the dispersed distribution of responsibilities and because the signatories may not be in a position to take full responsibility. Last, the introduction of the two-layer control framework may reduce the reliability of existing systems in some Member States, where the certifying authority provides a useful and effective check on the first level controls of the managing authority.

As regards political feasibility, there seems to be little support among the Member States for the changes. In fact, they were arguably the most criticised aspect of the Commission’s proposals (Box 10). The only country to offer (qualified) support was the United Kingdom, noting that there were potential efficiency and rationalisation savings from a common, integrated system for financial management, audit and control across all the shared management Funds. However, it also underlined that change would have to be managed carefully to avoid disruption and that it could only support the proposals if they were accompanied by a more risk-based and proportionate approach to financial controls with reduced administrative burdens.

Box 10 National Positions on management and control systems proposals

- Proposals could be beneficial in the long-term under specific conditions (UK)
- Stability needed rather than reform (AT, BE, CZ, DK, ES, FR, LU
- Existing rules and practice should be rigorously evaluated (DK, PT, SE)
- The rules need to be ready early and prepared with MS (CZ, HU)
- Major concerns among many Member States
    - increased administrative burden (AT, ES, IE, HU, IT, PL, SK)
    - increased uncertainty and risks (DE, ES, HU)
    - may decrease assurance (DE), particularly by eliminating the certification authority (HU)
    - limited or no simplification and proportionality (FR, IE)
    - no added value or evidence base for changes (AT, CZ, ES, FR, HU, SK)
    - disregards CP specificities (AT, BE, IT), i.e. multi-annual approach (IT, SK), ETC OPs (HU)
    - no account taken of current improvements in systems and learning (FR, GR, HU, IE, PL, PT, SK)
    - unrealistic deadlines for conducting audits, finalising findings and reporting (AT, FR, HU, PL)
    - enforces major organisational change unnecessarily (DE, PL, SK)
    - duplication problems as the system would have to co-exist with the current one (PL, SK).
    - operational difficulties with annual declarations in highly devolved systems (FR)

5.5.2 Reimbursements

The Cohesion Report puts forward three options for reforming the approach to reimbursements. First, they could be **paid by the Commission on the basis of payments made by the Member States to beneficiaries**, again following existing arrangements for the agricultural policy funds. At present, national authorities are not required to reimburse the public contribution to beneficiaries prior to certifying the expenditure to the Commission, although it is standard practice in some countries.

The rationale behind the proposal is to encourage Member States to speed up payments and to incentivise stronger checks of expenditure before submitting claims. The main drawback is that it could lead to decreased liquidity in some countries, unless it is accompanied with increased advances from the Commission. Related, there could also be a greater risk of decommitment, if domestic procedures or approaches to administering and transferring committed funding to beneficiaries are not expedited.

Political support for this proposal seems to be limited. Only one Member State offered support in the Cohesion Report consultation, noting that the idea should be given consideration (Latvia). Several other countries expressed disapproval (Belgium, Cyprus, France), but most others did not offer an opinion.

A second proposal is the introduction of **output or results-based disbursements** for OPs or parts of OPs, potentially in the form of 'joint action plans'.[82] The underlying rationale is to reinforce the results-based approach by increasing the incentives and pressure on programme administrators and beneficiaries to deliver outputs. The main drawbacks are threefold. First, liquidity difficulties could arise, as payments would be withheld until targets are reached. Second, there would be methodological challenges in establishing and measuring reliable targets and in assessing the causal links between actions and outputs/results. Third, the costs of programme administration would rise because of the need to establish, negotiate and report on targets, as well as increasing the reporting burden on beneficiaries.

This proposal received limited attention in the national responses to the reform consultation questions on assurance, although it is closely related to the issue of conditionalities discussed in detail earlier. Those countries that did respond provided a mixed assessment. For instance, Germany was sceptical on the basis of the drawbacks identified above. By contrast, the Dutch response argued that it was a necessary condition for moving towards a results-based system, on the assumption that it would be accompanied by a shift towards performance auditing and away from financial checking and auditing of real costs and detailed eligibility rules. Yet, other countries note that eligibility of costs, application of procurement rules and other principles would still have to be verified (Estonia).

A performance shift is implicit in the rationale of the final proposal on reimbursements, which is to **promote the simplified costs approach**. Specific measures or options on how this can be achieved in practice are not provided in the Cohesion Report, but the principle does offer potential for increasing simplification and shifting the financial management, control and audit focus to outputs instead of the costs of projects.

As regards political feasibility, a limited number of Member States expressed clear support for an extension of the simplified costs options in the reform consultation (Belgium, Cyprus, Latvia, Slovakia). Mirroring discussions in the high-level group on the future of Cohesion Policy, several proposals were put forward on how this could be supported:

- by agreeing, at EU level, standard rates by types of expenditure at the start of the period for all Member States and only requiring justification to the Commission if the rate is exceeded (Belgium);

- by relaxing the requirements for small projects, such as allowing higher ceilings (e.g. €100,000 instead of €50,000) for lump sums (France); and

- by providing flexibility to apply the approaches used in other EU policy areas (Cyprus), e.g. the standard unit costs used in EU research policy (Framework Programmes) for research and innovation grants.

[82] European Commission (2011) *A budget for Europe 2020* - Part II: Policy fiches, COM(2011)500 final of 29 June 2011, Brussels.

5.5.3 Proportionality

The Commission suggests that it would be useful to examine how control measures could be made more cost-effective and risk-based in order to improve their effectiveness and efficiency while ensuring adequate coverage at a reasonable cost.

Again, no specific options were put forward in the Cohesion Report, although **the proportionality principle** does provide a promising avenue for pursuing administrative simplification measures. A potential drawback, implicit in the nature of the principle, is that it will lead to unequal treatment, particularly if it is applied on the basis of the size of financial allocations to programmes as is the case at the moment (i.e. by providing more flexibility in richer countries / regions and stricter obligations for the main beneficiaries).

This issue of fairness was underlined in several of the national contributions to the Cohesion Report (e.g. Czech Republic, Hungary, Italy), yet the need for greater proportionality has universal support in the national position papers. The critical question, for which there is no political consensus, is how this can be done. The main criteria proposed for determining the application of the principle include not only the financial size of the programme (Belgium, Cyprus, Denmark, Finland, Ireland, Netherlands, Sweden), but also the size, type, form and targets of assistance (Bulgaria, France, Italy) or track record / risk (Belgium, Cyprus, Denmark, Finland, Ireland, United Kingdom).

An approach based on risk or track record to differentiation is implicit in the notion of a 'single-audit' model. As a guiding principle for reforming the assurance model, this concept commands widespread support because it implies that greater reliance and trust would be placed on national systems or, at a minimum, that there should be more coordination between the different levels in the system (e.g. Cyprus, Estonia, Finland, France, Greece, Finland, Italy, Latvia, Netherlands, Portugal, Spain, Slovakia, Sweden and United Kingdom). In this vein, several countries called for the concept of 'contracts of confidence' to be reintroduced (e.g. Estonia, France), implying a more legally-binding commitment to the single-audit model, while others proposed specific limits to Commission audits, for example: reducing its scope of action to completed projects (Bulgaria); to Member States' systems (Finland); or to performance audits (Poland).

5.5.4 Tolerable risk of error

The concept of Tolerable Risk of Error was first suggested by the Court of Auditors in its 2004 opinion on the Single Audit Model.[83] It acknowledged that different areas of policy expenditure are subject to different risks profiles due to their management mode, the nature of the actions and the interaction with final beneficiaries. The implication is that the current threshold of two percent may need to be increased for some policy areas to reflect these differences. The Commission has included the concept in the draft Financial Regulation and proposals were made for several policy areas in 2010 (rural development,

[83] Opinion 2/2004 of the Court of Auditors of the European Communities on the single audit model (and a proposal for a Community internal control framework), OJ C107, 30.4.2004, p. 1.

research and energy transport policies). At time of writing, proposals for Cohesion policy were expected shortly.

As noted, the rationale for introducing different levels of materiality for different policy areas is that variation is necessary to reflect the different levels of complexity and the associated costs of the additional controls that would be required to reduce error levels to acceptable levels. The main drawback from a Cohesion Policy perspective is that it could reduce the incentive to undertake more fundamental simplification of the existing regulatory framework, which is arguably the main reason for the high level of errors and the administrative burden associated with the assurance model.

Although proposals or consultation questions on the tolerable risk of error were not included in Fifth Cohesion Report, several Member States did offer support for differentiation across policy areas or an increase in the threshold for Cohesion Policy in their responses (e.g. Greece, Hungary, Latvia). By contrast, one country cautioned against reform in the absence of a through assessment of the current regime (United Kingdom). Further, it was argued that this debate should not detract from the simplification agenda, which must remain a top priority if the underlying structural problems in the assurance model are to be addressed (Hungary, United Kingdom). Other proposals included the need for more clarity and accuracy in the definitions of error, irregularity and fraud (Hungary, Slovakia).

5.6 Added Value

The budget review placed the question of European added value at the heart of the debate on the future of all EU expenditure policies. More recently, a working paper accompanying the Budget 2020 Communication has defined European added value as ‘the value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone.’[84] Key criteria for determining added value are:

- effectiveness: where EU action is the only way to get results to create missing links, avoid fragmentation, and realise the potential of a border-free Europe;
- efficiency: where the EU offers better value for money, because externalities can be addressed, resources or expertise can be pooled, an action can be better coordinated; and
- synergy: where EU action is necessary to complement, stimulate, and leverage action to reduce disparities, raise standards, and create synergies.

The paper notes that EU added value is particularly prominent in areas of spending linked to core competences (e.g. agriculture, where more than 70 percent of spending is at EU level); closing missing links (e.g. cross border infrastructures in energy, transport and ICT);

[84] European Commission (2011) *The added value of the EU budget*, Commission Staff Working Paper accompanying the document Commission Communication, A budget for Europe 2020, SEC(2011) 867 final, 29.6.2011, Brussels.

and where objectives would be difficult to reach through national action (e.g. large-scale research infrastructures or the combating the consequences of climate change). In the chapter on Cohesion policy, added value is discussed in general terms and linked to:

- the key effects of Cohesion Policy
    - redistributive transfers to poorer regions;
    - the contribution to EU priorities for growth, jobs and sustainable development;
    - spillover effects via increased trade flows;
    - institutional/administrative change, promoting long-term planning, partnerships, monitoring and evaluation culture, and reinforcing control and audit capacities; combating the effects of the crisis through anti-cyclical spending.
- contribution to convergence, underlining the impacts on GDP and on infrastructure outputs and results in less developed regions;
- support for smart, sustainable and inclusive growth across the EU;
- territorial cooperation through joint programmes addressing issues that cut across national/regional boundaries and bring EU citizens closer together; and
- social cohesion support through the ESF, which supports common objectives, leverages funding and provides financial stability.

As regards reform proposals, the Budget 2020 Communication states that the Commission 'proposes to strengthen the focus on results and EU added-value by tying cohesion policy more systematically to the Europe 2020 objectives', particularly by concentrating on a smaller number of priorities, closer monitoring of progress and through the establishment of conditionalities. The Fifth Cohesion Report conclusions contain a specific section entitled 'enhancing the European added value of Cohesion policy', to be pursued through:

- reinforced strategic programming;
- increased thematic concentration;
- strengthening performance via conditionalities and incentives, including revisions to additionality and co-financing;
- improving evaluation, performance and results; and
- supporting the use of new financial instruments.

As some of these proposals have already been examined earlier, the focus here will be on new financial instruments, additionality and co-financing. In addition, reform ideas on the

partnership principle will be examined, being one of the most commonly cited areas of added value in Cohesion Policy.

5.6.1 New financial instruments

To encourage the use of new **financial instruments** the Commission's proposals envisage:

- greater clarity and differentiation between rules governing grant-based financing and rules governing repayable forms of assistance, especially on eligibility of expenditure and audits; and

- extending the scope and scale of financial engineering instruments, particularly for generic forms of business support which should be primarily channelled through financial engineering schemes.

The discussions in the High-Level Group on the Future of Cohesion Policy indicate that national policy-makers recognise the added value of non-grant financial instruments, but do not want to see this type of support replacing grants in specific policy domains such as business support. Where there is more agreement with the Commission is on the need for simpler, clearer and more flexible rules (particularly regarding the scope of actions and geographic coverage), potentially involving the establishment of a separate set of rules for financial instruments. There is also widespread support for setting up a European technical support facility as well as enhanced dissemination and sharing of good practice.

Some of these views were reiterated in the Fifth Cohesion Report consultation. The most commonly raised point is the need to review the complexity of the financial engineering rules and reduce administrative burdens (France, Germany, Cyprus, Czech Republic, Hungary, Poland, Spain, United Kingdom), including an assessment of current practice (Belgium, Slovakia). Several countries consider that the choice and balance of financial instruments should remain a domestic decision (Austria, Cyprus, Estonia, Latvia, Poland) and stressed that direct grants for business support remain important (Czech Republic, Estonia, France, Poland). To support planning and reduce legal uncertainty, it was underlined that the new rules should be available in a timely manner (Belgium) and should include auditors in the drafting process (Germany).

A more critical stance on the Commission's proposals is taken by Austria, which argues that there is no stakeholder demand or evaluation evidence for increasing the use of financial engineering instruments and that it would in any case involve more administrative burdens.

Alternative proposals raised in the submissions include the extension of simplified costs options to new financial instruments (Slovakia) and to use the instruments to incentivise an integrated approach across the ERDF, ESF and Cohesion Fund (Poland).

5.6.2 Additionality and co-financing

A task force has been set up at EU level to review **financial additionality** reform ideas. Although the group's findings have not been made public, the main idea put forward by the Commission in the Fifth Cohesion Report is to link the verification of the principle to the EU

economic surveillance process, using the annual indicators already provided by the Member States in Stability and Convergence Programmes.

National views on financial additionality were only provided in a limited number of responses to the Fifth Cohesion Report. Two of these welcomed the Commission's proposals for a closer articulation with the Stability and Convergence Programmes (Portugal, Slovakia). Others called for greater simplification and clarity (Czech Republic), to restrict verification to national co-financing (Austria) and to use the internationally accepted COFOG methodology (Hungary). By contrast, Latvia proposed eliminating the principle due to its methodological limitations.

A second principle connected to financial added value is **co-financing**. In the Cohesion Report, the Commission has proposed that co-financing should be reviewed and, possibly, differentiated to reflect better the level of development, EU added value, types of action and beneficiaries. The national responses to these proposals are mixed. Some countries offered support for differentiation according to development (Hungary, Latvia, Poland, United Kingdom), EU added value, types of activities and beneficiaries (Latvia, Poland), while others would like to reduce the EU co-financing rate for all countries (Sweden), including a lower maximum rate of 75 percent (instead of 85 percent) (Austria, Finland).

Beyond these financial dimensions of additionality, the need for more systematic and demonstrable **policy additionality** is recognised in the Fifth Cohesion Report's proposal to make additional resources available for the Commission to promote 'experimentation and networking.' Most of the national responses did not offer feedback and those that did were unsupportive (Finland) or suggested that if such a fund were to be created it should be managed by Member States (Hungary and Latvia).

A well-known constraint on policy added value is the **decommitment rule,** often criticised for incentivising financial absorption over the selection of quality projects with genuine added value. To increase the flexibility associated with the rule, the Commission has proposed to extend it by one year (i.e. to n+3) for the first year of the new period and to apply the rule to all programmes. The proposal has received a mixed response from Member State. While several support the proposal (Austria, Belgium, Germany, Italy, Greece, Netherlands, United Kingdom), some countries would prefer the current approach to be retained (Demark, France), while others would consider that more flexibility is needed, such as an N+3 rule for the whole period (Poland), especially for territorial cooperation programmes (Czech, Estonia), or by applying the rule at the country (rather than programme) level (Czech Republic, Slovakia, Hungary) as proposed in the Barca Report.

5.6.3 Partnership

The Fifth Cohesion Report underlines the positive role of Cohesion Policy's partnership principle in the delivery of Europe 2020 objectives. It goes on to propose that 'representation of local and regional stakeholders, social partners and civil society in both the policy dialogue and implementation of Cohesion Policy should be strengthened.' Aside from the ideas on reinforcing the local dimension, the report does not provide specific proposals on how this can be achieved in practice, nor was the partnership principle

discussed by the Commission and Member States in the High Level Group on Cohesion Policy.

However, the parallel committee (ad hoc group) on the ESF did devote part of a session to the partnership principle. The discussions drew on the work of a focus group (including experts from managing authorities, from regional/local stakeholders and from the Commission) set up to examine reform ideas. The presentation of the focus groups' work stressed the need to distinguish between two different levels of partnership application: involvement of partners at the programme level (design, implementation, monitoring and evaluation of programmes); and their involvement at the project level (i.e. local development project or third sector projects implemented by sub-regional or non-governmental bodies). At the programme level, the key reform ideas discussed in the group included more precise requirements in the regulations, the introduction of a soft law approach and extended use of technical assistance.[85] Similar ideas have been put forward in a European Parliament resolution on governance and partnership-working [86] and an exploratory opinion by the ECSC[87], including the elaboration of a guide containing a clear definition and assessment criteria as well as setting out instruments, tools and good practices; the allocation of earmarked funding to implement the partnership principle; a requirement for managing authorities to inform partners of their influence on programming; and the introduction of a legally-binding principle with verifiable criteria.

The responses of national policy-makers to these ideas in the ESF committee were overwhelmingly negative. The majority did not see the need for additional regulatory requirements on partnership, preferring instead a flexible approach to allow the implementation of the principle to reflect domestic specificities and institutions; only one participant welcomed the idea of clearer and more stringent requirements, including the establishment of a code of good practice. Nor was it considered necessary to change technical assistance provisions, which may already be used to strengthen the administrative capacity of partners.

Ambivalent positions on the need for change are also evident in the national positions on the Fifth Cohesion Report. Most underlined their support for the principle, although very few made reform proposals. Some stressed that the current regulations are clear and that any challenges that arise are due to implementation challenges (Sweden). Austria, which has long-standing experience with partnership-based, neo-corporatist practices, underlines that appropriate, stable working arrangements are key for the partnership principle to succeed in practice. Related, some responses noted that subsidiarity and proportionality

[85] Lefebvre M (2011) *Involvement of local actors in ESF programmes and promotion of local initiatives European Commission*, Sixth Meeting of the ESF committee Ad-Hoc Group on the Future of the ESF, Brussels.

[86] European Parliament (2008) *Resolution of 21 October 2008 on Governance and partnership at a national, regional and project basis in the field of regional policy*, (INI/2008/2064), Brussels.

[87] ECSC (2010) *Opinion of the European Economic and Social Committee on how to foster efficient partnership in the management of cohesion policy programmes, based on good practices from the 2007-2013 cycle*, ECO/258, 14 July 2010, Brussels.

must be respected (Estonia, Germany, Greece) and that a standardised approach should be avoided (Denmark).

On the other hand, there were also calls for clearer provisions on, and definitions of, partner responsibilities, competences and even sanctions for national, regional and local authorities that do not comply with the principle (Bulgaria). The monitoring of partnership performance could also be required (Denmark) and, at a minimum, the national contracts should outline the approach to partnership (Czech Republic, Italy).

6. CONCLUSIONS - ISSUES FOR DISCUSSION

The aim of this paper has been to review the debate on the post-2013 reform of Cohesion policy over the past year. It began by setting out the context for reform in terms of economic and fiscal governance developments in response to the Euro difficulties, broader policy priorities over the medium-term and progress with Europe 2020 strategic initiatives. The Commission's proposals on the next multi-annual financial framework - a Budget for Europe 2020 – were then reviewed, including national reactions and the European Parliament's initial negotiating stance. A prospective analysis of eligibility for Structural and Cohesion Funds and the likely financial allocations followed, based on the latest Eurostat data and regional growth estimates. Lastly, the policy dimensions of the Commission's proposals on Cohesion policy reform and Member States reactions were reviewed on the basis of a meta-analysis of national position papers and reports from the informal expert working groups discussing the future of Cohesion policy. This final section draws together some of the key conclusions and provides some questions for discussion at the EoRPA meeting in relation to four key themes: financial allocations and eligibility; strategic objectives and programming; the performance framework; simplification and assurance.

ELIGIBILITY AND ALLOCATIONS

Decisions on geographical eligibility and financial allocations are always the most politically contentious negotiation issues in Cohesion policy reviews due to the redistributive consequences and connections to broader budgetary politics in the EU. Reaching agreement on the overall size of the EU budget, the share allocated to Cohesion policy and the split between funds, objectives and categories of eligible region will arguably be even more difficult in the present context of a fragile EU recovery and strained public finances.

The changing economic landscape has important consequences for eligibility. Regional economic growth and the use of EU27 averages have the effect of reducing significantly the coverage of the Convergence regions, particularly through the loss of Convergence status for several German and Spanish regions along with the capital regions of Poland and Romania. The introduction of a new definition of Transitional region will also alter the geographical map of intervention. This will comprise: former Convergence regions that have 'outgrown' that status, in line with past transitional arrangements; and regions with GDP in the range 75-90 percent of the EU27 average. This is a break with past practice creating a new category of assisted area covering over 11 percent of the EU15 population.

The creation of a transitional category deals with two immediate concerns. First, it smoothes the profile of aid, ensuring that economic development in less-developed regions is not endangered by the sharp differences in aid intensity and resources in moving from Convergence to Regional Competitiveness status. Second, in the political economy of the 2011-12 budget negotiations, it provides a mechanism for disbursing a significant volume of Structural Funds across a wider range of Member States and, in particular, to Germany and Spain. However, it also has longer term consequences. By creating a new 'regional objective' defined on the basis of specific minima and maxima of GDP per head, it redefines

the parameters for future Cohesion policy reforms; a larger group of regions and Member States could have expectations of sizeable Structural Funds receipts until their GDP pc exceeds 90 percent rather than the 75 percent threshold used hitherto. For critics of the policy this will be seen as prolonging 'subsidy dependence'.

The Commission's proposals on a Budget for Europe 2020 suggest a modest decrease in the Cohesion Policy budget. This is largely borne by a reduction in Convergence spending, although per capita spend on Convergence would rise slightly; RCE spending would rise significantly both in absolute and per capita terms; and Transitional region spending would increase by half. A key conclusion to emerge from the paper's analysis is the overriding importance of capping in determining financial allocations, especially for the least prosperous Member States. The cap proposed is, moreover, substantially lower than it was in 2007-13. As a result, for the main beneficiaries of the Convergence and Cohesion Funds the outcomes of the allocation formulae are hypothetical and the appropriations are set to be determined purely as a proportion of GNI.

- ***Are Member States willing to support the Transitional regions proposal?***
- ***How should eligibility and aid intensity be structured to accommodate the mix of regions falling into the category?***

STRATEGIC COHERENCE AND PROGRAMMING

The Commission has proposed to reinforce the strategic approach in Cohesion Policy through the introduction of a Common Strategic Framework for shared management funds, more binding national Partnership Contracts and greater thematic concentration on Europe 2020 priorities. The aims are to strengthen the coherence, coordination and complementarities among the funds, to integrate them more firmly into the EU's overarching Europe 2020 strategy and to increase visibility and impact.

While there is strong support for the establishment of a Common Strategic Framework for all shared management funds, there are concerns in some Member States about the dominance of the Europe 2020 discourse and the lack of attention to the territorial dimension which is at the heart of Cohesion Policy and is reaffirmed in the new Treaty. That said, territorial cohesion remains undefined and it is not clear what the relationship is between the recently agreed Territorial Agenda for Europe 2020 and the future Common Strategic Framework.

A challenge with the introduction of Partnership Contracts is the additional administrative workload and costs, particularly if it implies the establishment of a new management layer, resembling the Community Support Frameworks in previous programme periods. For federal countries, there are important constitutional implications for the relationship between federal and state levels of government given the devolved nature of economic development competences.

A rigorous approach to objective-setting and defining thematic priorities would ensure concentration of resources and possibly greater and more visible impact. On the other hand, there is a serious risk of the sectoralisation of the policy. Especially in Member States

receiving limited resources under the Structural Funds, governments may decide to channel support through sectoral or thematic programmes, without the kind of territorial approach used hitherto.

- ***How can an optimal balance be struck between thematic and territorial objectives and priorities?***
- ***What level of flexibility should there be in Partnership Contracts and OPs?***
- ***Would the (re)introduction of multi-fund OPs encourage more integrated approaches to programme design and delivery?***

THE PERFORMANCE FRAMEWORK

The Commission envisages the introduction of a new performance framework centred on conditionalities, incentives and performance review. At the most basic level, conditionalities have always been part of the Cohesion policy regulatory framework, but the conditions have been mainly 'passive' once the programmes were agreed. The 2000-06 marked the first period when 'active' conditionalities, related to the operation and performance of programmes, were introduced - in the form of the decommitment rule and the performance reserve. The Commission is now proposing to take conditionalities to another level, with a mix of ex ante economic and institutional conditions that must be in place before programmes are adopted and ex-post sanctions when pre-agreed milestones are not achieved. Additionally, macro-economic conditionalities linked to Stability and Growth Pact compliance would be extended form the Cohesion Fund to other Structural Funds including stricter enforcement.

In this regard, the Commission is responding to the findings of evaluation research and other critical analysis of the policy: that its effectiveness has been undermined by inadequacies in the macro-economic environment, structural policies and administrative capacity. Equally, the lessons from the use of conditionalities within Cohesion policy and international institutions is that they can be counter-productive if not applied sensitively and in partnership between the donors and recipients of aid.

Has the Commission found an appropriate balance between the need to improve performance and ensure that the conditionalities are acceptable to, and manageable by, Member States? What changes could improve the proposals?

SIMPLIFICATION AND ASSURANCE

A common complaint of Member States and regions is that the bureaucracy and complexity of the Funds cause great difficulty in maintaining a strategic approach to regional development. Financial control and audit have taken up a hugely disproportionate amount of time and effort relative to the resources involved, compounded further by the lack of harmonisation of rules across funds.

As part of the review of the Financial Regulation, the Commission has proposed to transfer the current management and control model of the Common Agricultural Policy to Cohesion

policy through annual accreditation, clearance of accounts and reporting; the merger of control levels; and a more risk-based or proportionate approach. It argues that this would reduce the duplication of functions and controls, avoid problems associated with the retention of documents for long periods of time and minimise administrative burdens for low-risk programmes. However, such changes may entail more administrative costs and disruption, at least in setting up the systems, as well as greater uncertainty at the implementation stage. And if the Commission interprets risk narrowly, in terms of the size of programmes, it could lead to complaints of unequal treatment from the main beneficiary countries.

The Commission is also known to be looking at the possibility of an 'umbrella regulation' to provide an overarching regulatory framework for all the 'Structural funds' (ERDF, ESF, CF, Rural Development, Maritime and Fisheries Fund). Possible areas for common regulatory requirements could include: technical definitions (e.g. beneficiary, operation, public support / contribution etc.); Operational Programmes (preparation, content, adoption, revision); and audit and control requirements (e.g. on eligibility, durability, payment recoveries etc.). This would respond to the frequent demand from some Member States and other interests for harmonisation of rules. However, in several Member States, the funds are administered by different government departments, implementing bodies and beneficiaries, which have well-established systems in place for each of the funds - change could be seen as unnecessarily disruptive, especially where the resources are relatively small.

- ***What specific changes to the regulations would facilitate a more proportionate, risk-based and fair approach to shared management?***

- ***To what extent would an umbrella regulation, and the harmonisation of (some) rules, be seen as desirable? What are the priorities for harmonising rules?***