New Horizons for the Structural Funds:

Review of Programme Developments: Spring/Summer 2004

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Improving the Quality of Structural Fund Programming through Exchange of Experience

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PREFACE

The research for this paper was undertaken in preparation for the third meeting of Phase III of the Structural Fund exchange of experience network IQ-Net, which is taking place in Toscana, Italy in November 2004. The paper has been written by Professor John Bachtler, François Josserand, Fiona Wishlade and Professor Douglas Yuill.

This paper is the product of desk research and fieldwork visits among national and regional authorities in Member States (notably among partners in the IQ-Net Consortium) as well as Commission services during Summer 2004. The field research team comprised:

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This paper is a draft version and will be revised following the Toscana meeting in line with the comments of partners and the substance of discussions at the meeting. These revised versions will then be circulated among he partners for wider dissemination.

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EU Cohesion Policy up to 2006: Progress with Programming

For the immediate future, programme managers are looking ahead to the challenges associated with the effective implementation of programmes for the remaining years of the current period. These include: the programmes' financial progress, which varies depending on the type of funds involved and on the availability of domestic co-funding; the declining room for manoeuvre of programmes; and, the need to meet the requirements of the N+2 rule and ensure the smooth financial management of programmes, whilst also making certain this translates into concrete progress towards the programme's physical targets.

EU Cohesion Policy up to 2006: Following up on the Mid-Term Evaluation

Following the extensive self-examination of the mid-term evaluation and mid-term review, programme authorities are now implementing the key recommendations. These include the need to maintain the pace of commitment and, more commonly, expenditure. In this context, some programmes must also cope with continued difficulties in meeting N+2 requirements. In some cases, changes to the programme's strategic focus or thematic re-orientation are also on the agenda. However, the focus is more often on operational changes to management and delivery systems, particularly with the aim to improve communication channels. Areas of concern include the ban on retroactive changes to financial plans as well as the question of the Commission's approval of proposed transfers of funds between priorities or between funds.

EU Cohesion Policy up to 2006: Preparing for Programme Closure

As the mid-term review exercise draws to a close, forward plans for programme managers include the start of preparations for programme closure and preliminary thinking about the next period. Implications differ widely between regions, depending on whether they can be confident of retaining a sizeable programme in the new programming period, or whether there are uncertainties as to what funding levels will be available. Regions are keen to draw lessons from their experience of closing the previous programming period in order to avoid going through the same difficulties again. This includes preparing timetables to make use of all available funding resources thanks to well-prepared financial and physical monitoring systems.

EU Cohesion Policy after 2006: Commission Proposals

The publication of the Third Cohesion Report makes clear the scale of the disparities and the need for effective use of EU cohesion policy resources. The parallel publication of the European Commission's proposals for the new financial framework for 2007-2013 advocates significantly higher spending to meet the challenge of enlargement and to continue addressing regional problems throughout the EU25, and also to accelerate the fulfilment of the Lisbon and Gothenburg goals. In addition, the Commission's detailed proposals for the content of future cohesion policy are contained in the draft regulations, submitted to the Council in July. They put forward a broader rationale for Structural and Cohesion Funds and a new 'architecture' for cohesion policy based around the objectives

of convergence, competitiveness and cooperation, and new implementation arrangements.

EU Cohesion Policy after 2006: Reactions to the EC Proposals

Although programme managers have only recently begun to think about programme closure, attention is already turning to the post-2006 situation. Extensive consultation is underway in many countries on the Commission's regulatory proposals. For many Objective 1 regions, the future is relatively clear, with the guarantee of sustained funding for the next programming period, either with full eligibility for the Convergence objective or with reasonably generous arrangements for the 'statistical effect' regions. For the current Objective 2 regions, the prospects are less certain, partly because of the debate about funding but also because the criteria for the geographical allocation of support have yet to be decided. It is not only the eligible areas and resources that are being reviewed; in some regions, the implementation arrangements may also change.

EU Competition Policy and Regional Aid after 2006

At the same time, the Commission is undertaking a review of its regional aid guidelines, which could also have far-reaching implications. There is widespread concern about the implications of the Commission's proposals for future regional aid in areas not eligible for the Convergence priority. Indeed, it is recognised that DG Competition's proposals could have a greater impact than reduced funding from EU cohesion policy.

New Horizons for the Structural Funds

Recent Programme Developments: Spring/Summer 2004

1. INTRODUCTION

Over the past nine months, the agenda for programme managers has been dominated, on the one hand, by the strategic and operational actions arising from the mid-term review, and on the other hand, by the intensifying debate on the reform of EU cohesion policy after 2006.

For the immediate future, programme managers are looking ahead to the challenges associated with effective implementation of programmes for the remaining years of the current period. Following the extensive self-examination of the mid-term evaluation and mid-term review, programme authorities are now implementing the key recommendations. The main issues are:

- reorienting programme implementation, in some cases through changes to strategic focus, but more often operational changes to management and delivery systems;
- maintaining the pace of commitment and, more commonly, expenditure;
- for some programmes, coping with continued difficulties in meeting N+2 requirements; and
- beginning to consider the preparations for programme closure.

These short and medium-term tasks are accompanied by the longer-term question of how Structural and Cohesion Funds will be deployed after 2006. The enlargement of the EU and the launch of the 'interim' three-year programmes in the new Member States highlight the long-term challenge of achieving convergence between the new members and the EU15. In this context, the publication of the Third Cohesion Report makes clear the scale of the disparities and the need for effective use of EU cohesion policy resources. The parallel publication of the European Commission's proposals for the new financial framework for 2007-2013 advocates significantly higher spending to meet the challenge of enlargement, to continue addressing regional problems throughout the EU25 and also to accelerate fulfilment of the Lisbon and Gothenburg goals. However, several of the richer Member States are clearly opposed to higher spending and are advocating a 'renationalisation' of competencies for regional policy.

The Commission's detailed proposals for the content of future cohesion policy are contained in the draft regulations, submitted to the Council in July. They put forward a broader rationale for Structural and Cohesion Funds and a new 'architecture' for cohesion policy based around the objectives of convergence, competitiveness and cooperation, and new implementation arrangements. At the same time, the Commission is undertaking a review of its regional aid guidelines, which could also have far-reaching implications.

Although programme managers have only recently begun to think about programme closure, attention is already turning to the post-2006 situation. Extensive consultation is underway in many countries on the Commission's regulatory proposals. For many Objective 1 regions, the future is relatively clear, with the guarantee of sustained funding for the next programming period, either with full eligibility for the Convergence objective or with reasonably generous arrangements for the 'statistical effect' regions. For the current Objective 2 regions, the prospects are less certain, partly because of the debate about funding but also because the criteria for the geographical allocation of support have yet to be decided. It is not only the eligible areas and resources that are being reviewed; in some regions, the implementation arrangements may also change.

The following paper provides an overview of all these issues. It begins with an update of recent developments with respect to programming on the part of the regional and national partner authorities in IQ-Net. Section 2 discusses the recent experience with programme progress, focusing in particular on financial management issues. Section 3 considers the strategic issues being addressed and the operational changes being introduced. Section 4 looks further ahead at the extent of thinking about programme closure and preparations for the next generation of programmes.

The paper then considers the debate about EU cohesion policy after 2006, first with a summary of the European Commission's proposals (Section 5) followed by a discussion of the reactions among national and regional authorities to the overall financial framework, the specific proposals for EU cohesion policy (Section 6) and the planned review of the regional aid guidelines (Section 7). The paper concludes with a list of questions for discussion at the Toscana meeting (Section 8).

2. EU COHESION POLICY UP TO 2006: PROGRESS WITH PROGRAMMING

2.1 Financial progress

2.1.1 Different rates of progress

For the most part, partner programmes appear to be 'on track' with respect to financial progress, and – notwithstanding some continued problem with N+2 (see below) – they are reasonably confident of committing and spending all resources by the end of the programme period. The situation appears to be most advanced in Sweden where almost all funds have already been committed: in Norra Norrland, 99 percent of the programme was committed in summer 2004, and 92 percent in Norra.

Expenditure is also very high in the Bizkaia Province component of the Objective 2 Programme for País Vasco, with 82.5 percent of all total programmed funds already spent as of 30 June 2004. Measure's 2.2 (Integrated management of urban and industrial waste) and 2.6 (Rehabilitation of damaged sites – urban, industrial, military) had already absorbed all available funds by the end of 2002. Furthermore, Measure 4.1 (Roads and motorways), accounting for around 84 percent of the DFB programme allocation (or €126.8m), has already spent around nine tenths of its total allocation. More typical is the position in Western Finland, where commitments (in Spring 2004) were over 60 percent of planned levels, with payments at 38 percent of total planned spend.

The different experiences of programmes with respect to the recent pace of financial progress are illustrated by País Vasco, Denmark and France. In Denmark, the past six months have been relatively quiet, as the number of project applications submitted to NAEH has not been as high as usual. This is seen as a consequence of the on-going process of redistribution of funds from Objective 2 programmes to a new venture capital fund which has been established (see below). Another possible explanation is the slow rate of economic growth which Denmark is currently experiencing.

In France, by contrast, the simplification measures adopted by the French government in the summer of 2002 have had a radical impact. They have considerably increased the speed of financial absorption, to such an extent that current levels of spending are above the expected levels at this stage in the optimal scenario. Paradoxically, these measures have resulted in the saturation of budget lines for a significant number of measures and priorities, whereby the amounts requested in applications far outweigh available resources. Consequently, managing authorities have considerably increased project selectivity. Project applicants and managing authorities are now confronted with a situation where EU co-funding is scarce and very selective. This is perceived as a very positive development in terms of preparations for the next programming period, as the probable reduction of available budgets will only allow the provision of support to the best projects. However, there is still a considerable degree of disparity between commitment levels (which are now above the 'optimal curve') and expenditure levels, across all Objective 1 and 2 programmes. Expenditure levels are still much below their optimal levels and are lagging approximately one year behind. Therefore, there are still significant risks associated with the second application of the n+2 rule in 2004, all the more since the regional elections of March 2004 slowed down the programmes. The risks are particularly acute in Auvergne and Alsace.

2.1.2 *Private sector funding*

Generally, there appear to be particular difficulties associated with measures involving significant financial contributions from the private sector. In Austria for instance, there are large differences between Niederösterreich, which has the highest level of financial absorption in the country and Steiermark, which saw the decommitment of a small amount of funds under its ESF Priority. The key reason is that the former programme largely focuses on infrastructure projects, and public authorities therefore have a reasonable degree of control over financial absorption. This is confirmed by the general trend for better financial absorption for interventions that do not directly depend on take-up from businesses, because private enterprises in Austria in recent years have tended to reduce or to postpone investment projects in the ongoing weak economic climate.

Broadly similar remarks can be made for Wales regarding the differences in progress within the programme. Welsh partners pointed out that the main areas of intervention that are running slowly in the Objective 1 programme are those where investments tend not to be proactive but instead are prompted when improvements need to be made – for example, as a result of European directives. These fields include energy, environment and ICT. The fact that some of this type of work cannot be done without the private sector adds complications which slow things down further. Progress in some areas also depends on how much political attention is focused on them, and this has arguably contributed to the good recent progress in research and innovation support measures.

2.1.3 *Declining room for manoeuvre*

Although rates of progress differ between programmes, and some measures are under-subscribed, the overall feeling among most partners is that there is only limited room for manoeuvre still available for programme managers at this stage of the programming period. This is exemplified in Nordjylland, where almost all ESF funds for the remaining programming period have been spent. In fact, the remaining ESF funds available to the county are now so limited that policymakers are considering whether other regions might be willing to trade ERDF funds with ESF funds.

The situation is similar in France, where not all programmes have already run out of resources but the potential for influencing their orientation is now very limited, even for those measures that have not yet been actually ‘closed’ (i.e. for which no more applications will be accepted). The total number of files submitted so far already represents the total amount of available resources in three quarters of the regions, except in Alsace and Auvergne. As noted at the start of this section, the situation is yet more extreme in Sweden, where virtually all available resources have already been committed.

2.1.4 *Availability of co-finance*

One issue of concern for a number of programmes relates to the availability of domestic co-funding to match EU contributions to projects. In Finland, this is perhaps more of a challenge than in some other countries because of the complex way in which funding is allocated within the subsumed Finnish system. First, funding goes to each of the seven regions within the programme area, following a formula agreed at the start of the programme, and then to the regional organisations, the five to six funding bodies within each region. Careful planning and decision-making is required at the programme level to ensure that the commitments made by priority and measure are matched by appropriate national and regional co-finance. In certain areas, the availability of appropriate municipality funding is a particular concern and is

the subject of detailed monitoring by the programme secretariat. A detailed Excel sheet has been developed to trace through all these issues and ensure that programme closure takes place as planned.

The availability of co-funding also remains an issue for several Objective 2 programmes in Vlaandern, including in Limburg. The new Flemish government's policy declaration published in July 2004 mentioned the possibility of a Flemish-wide fund which would provide the domestic counterpart of EU co-funded projects. However, this development now seems somewhat unlikely. This has been an issue in some programmes where co-funding is scare, and it is sometimes difficult to assign projects to particular ministries so that they provide the necessary co-funding. For instance, projects under the measure Technology and Innovation could not go ahead because of lack of co-financing from the Flemish Region. The budget for projects is usually divided up in three tranches, with one third provided by the EU, one third by a municipality and one third by the Flemish Region. In most cases it is the latter third which is most problematic and takes too long to obtain. The problem is made worse in Limburg which recently saw its special provincial fund withdrawn and now must rely on co-funding provided from the Flemish Region, for which there is less experience in the Province. In this context, the Programme Secretariat has been reorganised to improve the way in which it directs project applicants to various Flemish budgets.

2.2 Financial management

2.2.1 Budgetary execution of the Structural Funds

An overview of the budgetary execution of the Structural Funds in 2003 was published earlier this year by DG Budget[1]. Compared to past years, when the budgetary implementation of the Funds was heavily criticised by the Court of Auditors, the report notes *"significant improvement in the execution of payment appropriations".* 89 percent of the appropriations available in 2003 were paid out compared to 72 percent in 2002.

The report also comments on the N+2 situation. In 2003, the first year that decommitment applied, the total decommitted under the N+2 rule was €31 million. Given the late start date of many programmes (and the delay in the application of N+2 until 2004), decommitment only applied to Objective 1 (27 percent of the decommitment total) and Objective 3 (73 percent). Six Member States – Belgium, Denmark, Ireland, the Netherlands, Portugal and the United Kingdom – were affected, the Netherlands accounting for the most of the decommitted funding.

With respect to the outcome of N+2 in 2004, the report only has provisional estimates, but considers that *"the N+2 decommitments in 2004 will still be fairly limited (though, in absolute terms, significantly higher than in 2003)".*

2.2.2 Maintaining vigilance

For IQ-Net partners, the first application of the N+2 rule in 2003 has produced contrasting outcomes. In a first group of regions, no major difficulties were experienced last year and neither are they anticipated in 2004. Denmark, for instance, has not been in a position of being forced to spend funds at the very last minute in order to comply with the N+2 rule. Programme managers aim to ensure that projects are carried out as quickly as possible and the N+2 rule may actually have increased

[1] *Analysis of the budgetary implementation of the Structural Funds in 2003,* DG Budget, Commission of the European Communities, Brussels, May 2004.

awareness of project manager that they must ensure that funds are claimed in good time.

Similar remarks can be made for Finland although the reason why the N+2 rule is not a significant concern is that budgets available are relatively low, certainly once divided by year and by region. In addition, the issue of decommitment is addressed each year in the annual allocation of funds under the programme. Funds are channelled away from areas where there are implementation difficulties and towards areas where implementation is going smoothly. As a result, actions against decommitment are essentially ongoing. Further, priority is now being attached to ensuring that the remaining funds are drawn down fully.

In the same way, País Vasco (Bizkaia Province component) has not experienced any problems in relation to the N+2 rule last year and does not anticipate any this year. According to the programme managers, this is due to good planning at the start of the programme period. Other reasons include the fact that the budgets available are relatively low; the majority of spending is on public infrastructure which is easier to control; and, there are no difficulties in raising co-finance to fund projects, partly related to the fiscal autonomy of the Basque government.

Reference can be made here to other programmes such as Sachsen-Anhalt where no problems in meeting the N+2 rule were experienced in 2003, and none are expected in 2004, although the authorities note the need for ongoing vigilance. The Managing Authority provides a quarterly report to the State Cabinet on the situation of financial implementation at a disaggregated level of programme intervention. Lastly, Toscana also successfully passed the N+2 test so far, and indeed it appears to be the only region in Italy (with perhaps the exception of Valle d'Aosta) to have met de-commitment spending targets without making use of the available seven-percent advance.

2.2.3 Drawing lessons from N+2

In a second group of countries, the first application of the N+2 rule in 2003 was somewhat more eventful. Having only met the N+2 rule with some difficulty in 2003, the authorities in Nordrhein-Westfalen have examined the reasons for the problems encountered, and the steps that can be taken to address them. A key issue is that many project-holders put in their claims only in Nov-Dec each year. The paying authority has analysed the trend of payment claims, revealing that these claims are constant for the first 10 months of the year and then rise steeply in November-December. This means that the paying authority has difficulties in doing the necessary checking and sending on payment claims to EC at the end of the year. Staff in the Nordrhein-Westfalen Managing Authority and Secretariat are therefore focusing on implementation issues at project level, in order to ensure that they have a good overview of individual projects, so that they are able to identify those which are critical to overall absorption. The aim is thus to act in time in order to encourage project holders to make claims early, persuading them to claim more often and in smaller tranches.

Objective 2 programmes in France have very similar concerns and DATAR encourages regions to monitor closely the progress of projects and ensure that bills and claims for expenses are submitted in good time. Efforts are still needed in this area but the whole process is seen as significantly detrimental to the programming quality. The impact of the N+2 rule was particularly difficult in 2003 as this was the first year it applied. All actors are now mobilised on this issue and DATAR prepares an update of the situation every month, based on an extraction of data contained in the PRESAGE database. The frequency of these updates will be increased to every other week from the first of November until the end of the year.

This echoes experiences in the United Kingdom, where it is hoped that the n+2 crisis faced in 2003 will be the first and last one of its kind, and that programmes would have gained sufficient momentum and improved their financial management enough not to be affected by this again. Indeed, the overall n+2 situation is looking far better this year than it did at this stage last year. Some programmes, including the larger ones, have already met their targets and many are now well on the way to dos. Even the worst performers have reached some 70 percent of their 2004 targets, with a further 4 months to go. However, the overall picture reveals strong contrasts. While the North East of England is amongst programmes for which progress is on schedule, more difficulties are being faced in the West of Scotland and by both Welsh programmes.

Last, Italy and Flanders provide other examples of pro-active changes to ensure a smooth application of the automatic decommitment rule. In Limburg, special efforts are made to ensure the smooth collection of expenditure bills. Special mail-outs are sent project managers who fail to submit a claim for their first project payment within the first six months after the project start date. In Italy, the OP LED already committed around 90 percent of its total resources in the first three years of the current period. In this context, IPI/Ministero delle Attività Produttive are focusing their efforts on accelerating the rate of expenditure of committed resources. This has consisted so far in making arrangements to shorten the process of preliminary project appraisal by the banking sector, as well as normative changes to simplify the payment of expenditure, whereby the final balance is paid out to beneficiaries before the Ministry's investigation.

2.3 Physical progress

The overall positive situation concerning financial progress amongst partners contrasts with some less encouraging developments as far as physical indicators are concerned. In Finland for instance, in contrast to what is viewed as a relatively good performance in terms of commitments and payments, progress has been less good when measured in terms of a number of the indicators laid down for the programme. In particular, the number of new enterprises created (as at the end of 2003) is just 21.8 percent of the 2000-2006 targets and is only 19.3 percent for women. Across the board, female indicators are much lower than their male equivalents except for ESF participants, a point which was commented on at length in the mid-term evaluation. Such outcomes are considered to derive from the fact that the programme has focussed on traditional approaches and sectors and that these tend to be male-dominated. The mid-term evaluation argued that there needs to be extra support provided for women, for instance to assist female entrepreneurship.

2.4 Uncertainties

Several partners raised questions about the Commission's recent semi-formal advice that the managing authorities would be allowed to go on committing funds until the end of 2008 for the main programmes, and until the end of 2007 for phasing out programmes. This would be a very significant development for programmes which are currently experiencing difficulties in committing funds. However, several partners have expressed doubts about the reality of this proposal.

Another difficulty highlighted by a number of partners relates to the Commission's statement in June 2004 that financial plans should be strictly adhered to, particularly in terms of the balance between public and private contributions. In other words, should the level of total measure costs be reached, it would not be possible to claim any more funds under the Structural Funds. The Managing Authorities' concern is that total measure costs may be reached early if private co-financing or domestic public

co-financing rates are higher than had been anticipated at the start of the programming period. Should this statement actually be implemented, it would probably result in EU monies being under-spent and/or it would require detailed changes to financial plans. This issue is particularly acute in the phasing-out programme for Niederösterreich, where a number of measures have already committed 100 percent of their planned total costs. It is not yet fully clear whether the Commission will insist on this approach being implemented, but it would be seen by Austrian partners as highly bureaucratic and contrary to the Structural Funds rationale as it would penalise interventions with high leverage effects.

3. EU COHESION POLICY UP TO 2006: FOLLOWING UP ON THE MID-TERM EVALUATION

3.1 Mid-term evaluations: learning the lessons

As previously noted in IQ-Net reports, the mid-term evaluation exercise was completed at the end of 2003. Since then, several initiatives have been undertaken at EU and national levels to assess the effectiveness of the mid-term evaluation (MTE) process and identify lessons for the future. The Evaluation Unit of DG Regio has prepared a comparative report taking stock of the process and results of the MTE and to consider how good practice can be built on in the future[2]. Following discussion with Member States, the report is expected to be published by DG Regio in early November 2004.

Some national authorities also undertook comprehensive reviews of regional mid-term evaluations in an attempt to draw comparative lessons from the exercise and disseminate these widely to programme managers and more widely in the policymaking community. This was the case in France, where DATAR undertook to assess mid-term evaluation reports. In Sweden, NUTEK prepared a brochure containing an executive summary highlighting the key conclusions across all regional MTE reports. In relation to this exercise, a national conference is also being planned on Structural Funds experiences and regional development. This should be followed by regional seminars and conferences providing a platform to discuss the main conclusion of the mid-term evaluations.

As the mid-term evaluation exercise draws to a close, partner programmes are reflecting on the pros and cons of the exercise, with a view to drawing lessons for the future and sometimes for their own domestic practice of evaluation. The general view is that the exercise was very useful in stimulating debate and discussion in the regions at a strategic level. In Finland, the exercise gave programme managers the opportunity to raise their focus above technical administrative issues to consider what should be done, and why, at the programme level. Given the nature of the Finnish system, the evaluation was never likely to result in dramatic change but the fact that it stimulated a strategic discussion about the programme is viewed very positively. In addition, the interactive nature of the evaluation was perceived to be useful. The regions saw drafts of the evaluation, the evaluators presented their views in the regions and the Management Committees in each region discussed the results. Thus, although there may not have been major new proposals arising directly from the evaluation, the key issues have been widely discussed and may lead to new policy orientations over the longer term.

In France as well, DATAR recognises that substantial progress has been made vis-à-vis the previous programming period in terms of the evaluation methodology used. In addition, the mid-term exercise was much better integrated into the programming cycle than during the previous generation of programmes where there was often disconnection with the strategic decisions taken subsequent to the mid-term evaluation. In this period, the link between the two was made explicit and often led to concrete decisions being taken. Another positive outcome of the mid-term evaluation exercise is that it encouraged programme managers to increase their degree of selectivity in approving projects and to review their selection criteria. This can be seen in recent monitoring committee meetings which summarised all proposed

[2] *The Mid-term Evaluation in Objective 1 and 2 Regions – Growing Evaluation Capacity,* Draft Report for discussion by the Technical Group on Evaluation at a seminar on the Mid-Term Evaluation in October 2004, DG Regio, Commission of the European Communities, Brussels.

modifications, highlighting the main orientations of the mid-term revision exercise. In this context, Rhône-Alpes is an interesting example where all priorities became 'saturated' about a year go. As a result, the *préfet* decided to stop temporarily all new commitments as of 15 July 2003 so that the programme would not have to be closed as early as 2004. Programme managers reviewed all remaining projects in the region's eight *départements* and opted for a thematic approach to the mid-term revision. Six priorities were identified, including the regeneration of business locations, to which remaining funds, including the performance reserve, should be reoriented.

On the other hand, a number of partners have stressed the need to address caveats associated with the mid-term evaluations, which in some cases are felt to have undermined the exercise and its usefulness. In Flanders, some programme managers thought that the analysis provided by the mid-term evaluations sometimes lacked a strong basis (whereby one remark formulated by one interviewee could become a definitive conclusion of the mid-term evaluation). For instance, the report for Limburg recommended that the Secretariat should improve its communication with the monitoring committee. However, monitoring committee members did not confirm this view at subsequent meetings.

The view in France was that the overall quality of the MTEs in France had been mixed. First, evaluation reports did not have the scope and impact intended since most evaluators had to revise their conclusions in the last three months of their work, given how quickly the rates of commitment increased at that time, due to the implementation of national simplification measures. Second, DATAR's own review and assessment of all MTEs concluded that some reports were not very convincing. Last, many regional programme managers felt that the mid-term revision exercise was of limited use given the absence of real room for manoeuvre. In particular, it was not possible to reconsider and potentially revise the programme's strategies in terms of regional economic development.

Preparations are underway to prepare the update of the MTEs, which are due by the end of 2005. For some partner programmes, this represents an opportunity to address potential weaknesses or shortcomings of the MTEs. In Sachsen-Anhalt, a call for tender for the update was issued in mid July 2004, with the study due to start in October and to report by the end of 2005. The update should essentially focus on: how to implement the changes recommended in the MTE; the changing socio-economic analysis of the region; case studies of specific actions supported by the programme (for instance, technology and innovation support); as well as three key themes (SME support, rural development and gender mainstreaming). Sachsen-Anhalt decided explicitly to differentiate this update from the process of elaborating the post-2006 programme. This contrasts with the approach adopted in some other German *Länder*.

3.2 Strategic changes

3.2.1 Scope of changes

The changes proposed as part of the mid-term review vary in scope depending on programmes. For some partners (Austria, Vlaandern), a number of strategic changes had to be introduced before the start of the mid-term review. As a result, the scope for additional change was more limited. In any case, changes have overall been relatively minor for a significant number of partners. In Denmark and in País Vasco for instance, no major strategic changes have been made – only small adjustments, since it was concluded that the overall approach remains correct. This is also the

case in Italy, where the mid-term evaluations of the programmes reaffirmed the validity of the strategic frameworks adopted.

Managing authorities have now submitted their proposed strategic changes to the Commission are awaiting approval from the Commission. This has been a long-drawn out process (at least for some programmes). Although some of the delay can be attributed to the slow submission of proposals to the Commission, this is not the full story. For instance Sachsen-Anhalt was told that the Commission would send final formal agreement by the end of June 2004, but still had not received it in July. In this context, the issue for programme managers is the extent to which authorities can assume that the proposed changes will be approved and thus can proceed to introduce some changes even before final Commission approval has been received. In Sachsen-Anhalt, the authorities have introduced a pre-emptive measure (*vorzeitige Massnahme*) that allows the funding bodies (*Referate*) to allocate commitments on the basis of the post-mid term report financial plan, notably those bodies seeing an increase in their funding allocations. This does not apply to actual payments, which are still being made in accordance with the old financial plan. This approach is in a sense at the *Land's* own risk, although the Managing Authority notes that the risk is very small because the Commission had already stated that it agreed with the changes. The authorities felt that it was necessary to go ahead and make provision to allow those bodies receiving additional funds to make commitments, particularly as regards funding to support business investment.

3.2.2 Retroactive changes to financial plans

One issue of concern for several partner programmes has been the ban imposed by the Commission on retroactive adjustments to financial tables, i.e. the transfer of financial allocations from past years. This issue led to serious discussion with the Commission in Sachsen-Anhalt. The geographical unit of DG Regio was prepared to accept changes in December 2003 but this was not the view of the audit unit in DG Regio. The latter argued that in principle such changes are only allowed up until the end of September in any given year. However, the concern was that the changes were recommended as a result of the MTE, which did not report until later in 2003. In the end, the Commission agreed that an exception could be made because of the mid-term evaluation argument.

The ban on retroactive transfers also caused some delays in the United Kingdom, as new proposals had to be formulated. According to ODPM, the Commission made the helpful concession that, if programmes had submitted their revised SPDs in 2003, then funding in the 2003 tranches could be transferred between priorities. Otherwise, programmes would only have been able to transfer funds in annual tranches from 2004 forward. Western Scotland resolved its issues with the financial tables through a complex, time-consuming process of rebalancing budgets which allowed the Commission’s rules to be respected, whilst giving broadly the desired outcome for the programme. This involved significant work driven by respecting the detail of rules, but which added no value to the overall process – time which could have been better spent on other aspects of programme management. Some programmes, which knew they needed to transfer resources at an early stage, waited for their MTEs to be completed to provide the evidence for this. This proved to be an error in a context where retroactive transfer was not being allowed. A lesson from this is that, in future, any necessary transfers should be requested as and when the need arises.

3.2.3 Transfer between measures or between funds

A significant area for strategic changes relates to financial transfers between measures or between funds, with contrasting informal reactions from the

Commission. In the experience of DATAR, there seems to have been no opposition from the Commission in relation to proposed transfers between priorities within a programme, as opposed to transfers between funds. It is true however that the amounts at stake here were smaller than for transfers between funds. The situation is more complex in Nordrhein-Westfalen as the Commission initially gave informal approval of the mid-term evaluation changes, but since then it has come back twice to the Managing Authority to ask for technical alterations in relation to ESF measures. The problem is that there is an ESF measure in each priority, rather than a single priority for the ESF. This means that, in practice, it is very difficult to shift funds between ESF measures. The design of the SPD makes sense from a strategic or content point of view, but it does not work well in administrative terms.

This remark also applies to a number of Objective 2 programmes in France. About 12 regions have requested approval to transfer funds from the ESF to the ERDF. By the end of July 2004, just seven of these requests had been accepted by the Commission and approved by the respective monitoring committees. The other five requests have been rejected and the management committees are now either preparing new arguments or requesting smaller transfers. This situation echoes that of Sweden, where the Fisheries Fund measures in Objective 1 Norra Norrland are experiencing difficulties. The mid-term evaluation suggested the transfer of funds from the FIFG to the ESF to try and alleviate decommitment associated with the N+2 rule. The original proposal was to transfer SEK 10 million but only SEK 7 million has been transferred so far, and there is still a risk that funds might be returned to the Commission.

3.2.4 Changes to programme architecture

More radical strategic changes are also being implemented across a number of programmes, resulting in the re-organisation of their internal architecture. In the United Kingdom, a tool being used in Wales and in North East England to simplify programmes, and thereby facilitate programming, has been the merger of some measures, for example bringing capital and revenue projects in under the same heading. This also allows for more integrated capital and revenue proposals to be brought forward. This is also the situation in Steiermark, where the ESF measures have been merged based on the MTE's recommendation.

In Denmark, the most significant change is that the division into measures has been abolished leaving only priorities to define projects. This has greatly increased the available flexibility. Last, Toscana took the more radical step of withdrawing one measure relating to Environmental Protection (Measure 3.5 in Priority 3). This reflected the fact that it had not yet been launched but that its resources had already been allocated to other measures in the same priority.

3.2.5 Thematic re-orientation

At a more strategic level, a number of programmes have introduced more long-term changes by proposing re-orientations of their strategic focus. For instance, the changes made to the North East of England programme largely reflected the aim of refocusing efforts on more strategic activities, including supporting fewer but larger applications under key measures. In addition, as funds are progressively committed, there has been a need to start closing off some avenues where no more funding is available and also to halt the flow of applications where the programme's new strategic approach means that the available funding has already been earmarked. This needs to be managed diplomatically, to keep the partners 'on board' and supportive of the direction the programme is taking.

Steiermark is also proposing to introduce a new strategic focus for the programme. The Managing Authority has proposed the reallocation of one half of the Performance Reserve allocation (€4 million) for interventions in the field of nanotechnology. Similarly in France, an increased focus has been placed on urban policy priorities within the programmes through the creation of a national agency for projects in problem urban areas. The objective is to maximise the leverage effect of EU-funded projects in 'sensitive' areas, such as urban regeneration operations.

In Western Finland, a series of recommendations from the MTE included the fact that extra support should be provided for women, for instance in the field of female entrepreneurship and that more should be done to create female jobs. In the same vein, as a consequence of the both Norra and Norra Norland MTE's critique of the lack of integration of the horizontal themes, both programmes have now implemented procedures to improve the mainstreaming of the themes in the projects and to ensure that they are taken into account in the application procedure.

3.3 Management and implementation

3.3.1 Administrative structures

A number of changes to administrative structures have taken place among a significant number of programmes. These vary in scope and breadth although they do not represent radical departures for programme management. Also, these changes are closely related to the specific institutional set-ups of Member States and region in which the programmes operate.

In Finland, criticisms formulated by the MTE relate to the subsumed nature of the Finnish system. These included the large size and heterogeneity of the programme area and the resulting fragmented and complicated structure of EU intervention. Varying administrative cultures and practices within different funding bodies have created tensions between regional and national influence and power, which are made worse by the large number of parties involved in the funding and administration of the programme. Obviously most of these issues cannot be dealt with in the short term, (i.e. within the current programme period), but the evaluation team felt that they should be actively debated within the programme area to prepare the way for the next period.

Objective 2 programmes in France present strong analogies with the Finnish case, reflecting the similar subsumed nature of the French structure for programme management. One conclusion of the mid-term evaluation of the National Technical Assistance Programme (PNAT) is that regional programme authorities resent the programmes being too focused on the needs of central administrative departments. A closer involvement in the PNAT would help derive stronger benefits. In this context, a call for tender was issued to regions in the summer of 2004 to develop a 'strand for regional initiatives' within the PNAT. In other words, the national level should refocus its priorities to assist regional authorities in helping themselves.

Last, the MTEs in Wales prompted the authorities to remodel some of their structures. In particular, the Objective 1 programme has sought to streamline its implementation arrangements which had become too complex, by replacing its regional and strategic partnerships with Thematic Advisory Groups for each priority. Advisers are being selected for these groups on the basis of their knowledge rather than their organisational affiliation, ensuring that officers in charge of project selection are able to take a critical and strategic view. The new system has produced positive outcomes, with discussions being more strategic and focusing on project quality and value. As a result, underperforming measures have improved, and sufficient bids are coming in to

over-commit measures. More generally, there is growing awareness that the different organisations and parts of organisations involved in running Structural Fund programmes have been too disjointed and that coordination has been difficult to achieve.

3.3.2 Improving communication channels

A number of changes to administrative structure have been motivated by the need to improve linkages within the programme partnership and beyond. In some cases, this was one of the recommendations of the MTEs. In Niederösterreich, the MTE concluded that authorities should aim to involve the *Regionalmanagements* (local development bodies which promote networking and project development) in order to facilitate the bottom-up identification of new projects in the field of environmental protection. In addition, the MTE suggested that an approach which had been piloted for the innovation support measure should be mainstreamed to all other measures. This consists in sending a questionnaire to all project-holders to collect feedback on administrative and implementation aspects, the results of which survey are entered in an electronic database and analysed periodically.

In Vlaanderen, Limburg provides a best practice example of special efforts undertaken to create linkages between the variety of actors involved in the Objective 2 programme and to reconcile their different agendas. An Information Day was organised on 24 May 2004. It attracted a large number of visitors and received a considerable level of interest from the media. The event had three objectives: to facilitate the exchange of experience between project managers; to raise awareness at the political level of the need to reflect on the future of the Province under the new EU cohesion policy and the likely reduction of EU budgets available; and to publicise the EU contribution to the province. The event had a positive impact, with politicians' engaging with the issue and agreeing to take part in a special working group on Limburg after 2006. Project managers who took part in the event were also satisfied. Highlights included a *causerie* (roundtable discussion) with 80 key decision-makers in attendance, a *boerse* (information exchange) with project managers and programme secretariats from other Objective 2 programme, as well as a debate with politicians on future economic perspectives for the Province and the new EU policy. This was the first event to take place on this scale, and it may be repeated on a larger scale in 2006.

In France, the 'animation' of programmes was strengthened in 2002, and an overview of 'animation' mechanisms was subsequently undertaken by DATAR. Since then, the need for 'animation' has decreased given the increasing pace of commitments and the fact that 'animation' essentially aimed at generating new projects. Therefore 'animation' has been refocused on assisting project managers to develop their application. As part of this reorientation, a new internet version of the REPERE intranet system has been introduced to provide an information resource for all programme managers will be turned into an Internet website. There will be three different levels of access: for the general public, for programme managers and for project applicants. However, this late development is perceived by some as a duplication of efforts already undertaken by the regions themselves, particularly for the sections of the website targeting the general public and project applicants.

This echoes development in the United Kingdom, where an EMAG Working Group is interested in how exchanges between programmes can be enriched and enhanced. Some investment is being considered in this area. A further development in England is the development of a new internet based information system, TESA. This should provide access to: application forms and guidance (although applications will not be processed on it); training and briefing materials; and facilities to administer payments.

The system is for use by government actors rather than being available more widely. The ERDF monitoring database will remain separate from it.

3.3.3 *Further work on monitoring systems*

A common conclusion of many MTEs was the need for further development of monitoring systems, with respect to indicators, data collection procedures, the effectiveness of monitoring systems or the use of results. Three regional examples, from Germany, Sweden and Italy, exemplify the changes being made.

One of the most comprehensive exercises being undertaken is in Sachsen-Anhalt. As previously noted in IQ-Net reports[3], in the first half of 2004, the Managing Authority had proposed some changes to the monitoring system, notably as regards the monitoring of physical outputs, results and impacts, largely due to the fact that the programme has 300 different indicators, which means that it is impossible to make clear comparisons across different measures and sub-measures. The Managing Authority wanted to drastically reduce the number of indicators, by dividing them into sub-groups (e.g. economic growth; construction of infrastructure; employment creation; environment). The aim was to allow for greater manageability and comparability across the programme's many sub-measures, in order to facilitate strategic decision making. This proposal was raised at the programme's steering group (*Lenkungsgruppe*) which, however, decided not to pursue this approach at the present time, although it recommended that the Managing Authority could continue to work on this approach in order to see how improvements might be made in future. Instead, the steering group – and subsequently the Monitoring Committee – decided that a lighter approach be taken to monitoring physical indicators. The 300 indicators have been divided into two groups, according to whether they can or cannot be quantified. If they cannot (which applies to around 200 indicators), the implementing agencies and units (*Referate*) can still decide to include them in their own analyses and use them for assessment purposes. However, the Monitoring Committee has decided that only those indicators that can be quantified (around 100 indicators) will be included in reports to the Commission, which has agreed with this approach. This will allow for a more manageable approach to monitoring physical outputs etc although the use of 100 indicators means that comparability will still be difficult.

In Sweden, two issues were raised in the MTEs for both programmes, relating to indicators and databases. As mentioned in previous IQ-Net Review Paper, the STINS database system will be replaced next year by a new system called NYPS, which will be more user-friendly and will make data collection more robust. The development of this new database system has suffered a three-month delay, but it is still expected to be in use from Spring 2005. The planned random testing of STINS by NUTEK has not been carried out as yet, but final preparations for this exercise are being made. In 2005, the Ministry of Industry, Communications, and Employment will set up a Working Group to deal with the issue of indicators, with the aim of improving indicators and clarifying definitions.

Lastly, in Toscana, changes to monitoring indicators are being introduced. It was felt that there were too many result and impact indicators in use, and that many of these were too specific (some were also not applicable). This was a problem for project implementers and regional measure managers alike, in terms of the provision and management of the data, but it had also led to a loss of consistency between the hierarchy of objectives of the SPD and the indicators of the programming

[3] *Programmes at the turning point: Challenges, activities and developments in partner regions: Autumn 2003 - Spring 2004,* Laura Polverari, Sara Davies and Rona Michie, IQ-Net Review Paper 14(1).

complement. After a long and time-consuming process of revision (involving all of the programme measure-managers and the programme's technical assistance consultant and evaluator), the resulting revised list of indicators, inserted in the new version of the programming complement, is a simpler and shorter list, and it is much easier to implement.

4. EU COHESION POLICY UP TO 2006: PREPARING FOR PROGRAMME CLOSURE

As the mid-term review exercise draws to a close, the forward plans of programme managers include the start of preparations for programme closure and preliminary thinking about the next period. This section aims to provide some insight into the current thinking or planning that is being undertaken in IQ-Net partner regions. Implications differ widely between regions, depending on whether they can be confident of retaining a sizeable programme in the new programming period, or whether there are uncertainties as to what funding levels will be available.

4.1 Preparations for programme closure

Most IQ-Net partner programmes are still in the very early stages of their preparations the closure of their programme, if they have initiated any at all. Assessing the degree of preparation for programme closure is in part a matter of interpretation. For instance, steps to ensure that all paperwork and databases are in order can be regarded as part of the day-to-day running of the programme but can also be seen as part of the preparations for the final reports. In addition, differences in progress on this issue can also be explained by the size and the complexity of programmes. For instance in Germany, the two partner programmes seem to be taking different approaches to programme closure. Sachsen-Anhalt has already taken a number of steps in preparation for closure, while preparations in Nordrhein-Westfalen seem to be more limited.

4.1.1 Lessons drawn from previous experience

The challenges associated with programme closure are recognised by all partners but for the vast majority the issue is not considered to be a major one at the moment. As a result, most partner regions have yet to undertake any concrete preparations for the closure of their programme. Programme managers have been occupied by more pressing issues or feel that it would be premature to focus their efforts in this area.

In France for instance, programme closure is not seen as a current priority and DATAR has yet to issue any recommendation on the subject to regional programme managers. Given current levels of commitments, the closure of programmes will ideally start at some point in 2006. This is also the case in Finland, where those aspects which caused difficulties last time round were generally minor and were often related to staff problems and the lack of the necessary expertise, or to coordination problems between implementing agencies. Lessons have been learnt from that experience, and it is not anticipated that there will be similar problems again. The same applies to the Toscana and Italian OP LED programmes, where no major difficulties are anticipated with programme closure since the problems experienced in the past programming period have been addressed.

In other partner regions, programme managers have adopted a cautious approach whilst awaiting EU or domestic guidance. This is the case in Denmark (NAEH) where it is felt that too many variables are still missing to solve the equation for programme closure. Some guidance is expected to be provided to counties by the national government by the end of 2004 and preparations are only likely to start subsequently. In Austria too, both Niederösterreich and Steiermark have opted to wait and see whether the Commission will provide guidelines on how to proceed with programme closure, for instance in a Working Paper devoted to programme closure, before taking any specific steps. There seems to be some reluctance to start planning before receiving such guidance as this may represent a waste of time and efforts.

A number of national-level partners have already issued some elements of guidance for programme closure to their constituency of regional programme managers. In the UK for instance, the ODPM has prepared guidelines on the timetable requirements for programme closure. This is also the case in Sweden, where by contrast with the last programme period in which NUTEK had the overall responsibility, programme closure is now the responsibility of each regional Managing Authority. This may result in procedures differing from region to region. NUTEK undertook a nationwide initiative over the course of the summer 2004 to help programme managers be better prepared than in the previous programming period, for which programme closure is still being finalised. A seminar on lessons drawn from the past programming period was attended by representatives from all relevant authorities as well as the EC.

4.1.2 Timetables for programme closure

The process of programme closure involves essentially two steps: (i) fulfilling the technical requirements to the specified timetable and standard; and (ii) managing the partnership, i.e. communicating with programme partners as measures are closed to ensure that they understand their obligations. In the UK for instance, most partners have prepared timetables for the final stages of programmes – up to the end of June 2009 – and projects have been informed of the deadlines for final claims. It is anticipated that closure will be complex this time, with more issues to take into account than previously and potential difficulties to secure 100 percent of available resources.

In addition, there is some degree of uncertainty as to the final date for project approval. In the last programming period, all grant approvals had to be issued by the end of 1999, the last year of the programmes. Current regulations are considered to be rather unclear on this aspect, so that programmes are theoretically allowed to continue to approve projects after the end of 2006. This is the option given by the ODPM to English regional programmes, although the overall message is a prudent one. The aim is for English Structural Fund programmes to achieve as much commitment as possible as soon as possible and certainly to use up each annual tranche, rather than to use the available flexibility after 2006 to extend the programming period. This additional room for manoeuvre is instead seen as a useful safety net. Should projects approved during or before 2006 fail to be implemented, or should funds be underspent, there should still be an opportunity to increase their size or extend their duration or to approve new projects in the period after 2006. For instance, North East England anticipates increasing the size of some projects rather than accommodating new ones.

One additional area of potential difficulty is represented by EU co-funded domestic schemes which operate under timescales that are different from the current Structural Fund programming period. This problem was highlighted in France at a recent meeting of all Structural Fund programme managers convened by DATAR[4]. A new urban regeneration agency (ANRU) has been created at the national level to provide long-term and comprehensive assistance to deprived urban areas through EU co-funded projects. The agency's two-fold objective is to bring together all partners in a single decision-making body and to increase the speed of procedures and the progress of projects. However, there is some uncertainty as to whether ERDF monies are best suited to the global approach promoted by ANRU. ERDF components of ANRU-sponsored projects are likely to be implemented at the very end of the projects' lifespan, because ERDF-eligible operations (regeneration, landscaping, etc.) will only start after the key project elements have been realised, such as the construction of new social housing. However, all ERDF claims must be submitted by

[4] *Rencontre nationale des responsables Europe SGAR et Régions,* Paris, 14-15 October 2004.

the end 2008 so that it will not be possible to commit any ERDF funds on ANRU projects beyond 2005. In short, there is a clear contradiction between the two approaches at stake here – on the one hand, the N+2 rule which applies to ERDF management, and on the other hand, the global strategic approach promoted by ANRU. Similar difficulties may be experienced in Wales, where Objective 1 and 2 projects need to supply their final audit certificates by the end of June 2008 to ensure that there is time for the programme management to achieve all their tasks. However, a large loan initiative called *Finance Wales* has already been approved to run until the end of 2008, which may result in a clash of timetables.

4.1.3 Making use of all available resources

One of the key objectives in the programme closure process, for all managers, is to make full and best use of all the resources available. Managing authorities have adopted different strategies to pursue this aim, including the identification of thematic priority areas for the remainder of the programming period. In Nordrhein-Westfalen, for instance, the main explicit steps being undertaken for programme closure relate to the assessment of how the remaining funds should be allocated and which projects or types of project should be targeted. This approach has been adopted in the field of technology and innovation, which is an important part of the NRW programme, but it may also be applied to other aspects of the programme. All the various actors involved, including the implementing bodies (*Referate*), have been brought together to focus on this area.

Another strategy to ensure smooth programme closure with no financial losses consists of over-committing some of the programme measures. In France for instance, according to DATAR, funds have already been over-committed in some programmes, and some projects are awaiting the transfer of funds between measures or priorities before their implementation can start. The objective pursued by management authorities is to optimise their management of financial flows to avoid losing any funds through automatic decommitment. A similar approach is adopted in the OP LED in Italy, where managing authorities increasingly rely on over-commitment as an instrument of financial management. Some measures have been over-committed by up to 30 percent, an increase from the average of 20 percent in the past programming period.

A third approach consists in ‘over-programming’ measures, in addition to, or instead of, over-committing them. In the UK for instance, a minority of programmes are over-committing some measures either to ensure the full use of resources or because of uncertainties regarding budget changes due to exchange rate fluctuations. The UK Treasury is unhappy with this development as the national government will have to find additional resources to pay for projects if they do go to plan – even though there is typically some 10 percent of slippages on programmes. However, ‘over-programming’ is allowed and recommended by ODPM as an alternative strategy. Essentially, a stock of ‘reserve projects’ can be created which are eligible, meet programme aims, are ready to go, and could start at their own risk, i.e. with no guarantee of a European grant. If need be, these projects could be issued an approval at short notice and could thus replace a failed or downsized project. This approach has a key advantage from the programme managers’ viewpoint – it provides the flexibility to approve projects late in the programming period without the financial risks associated with over-commitment for domestic funding bodies.

4.1.4 Readiness of information systems

Among the challenges relating to programme closure is the need for appropriate documentation, particularly in institutions where there is a high turnover of staff

involved in Structural Funds programmes. The state of readiness of operational systems varies between partners. In Austria for instance, general operational systems such as data monitoring and financial audit are fully functioning so that there may be less need to address administrative weaknesses before programme closure. In Vlaanderen on the other hand, a new computer system for programme management is still being introduced after considerable delays. This system was first developed in the Walloon region and was acquired by the Flemish Region. However, the necessary process of translation and adaptation to Flemish specificities has taken considerably longer than expected. Once it is set up, the system will be articulated around a comprehensive database, including both financial and physical monitoring data. This should facilitate programme closure, including the writing-up of annual reports.

A common concern is the need for accurate and reliable financial and physical data on projects to ensure a trouble-free closure of programmes. In Italy, for instance, lessons have been drawn from the past period when the preparation of the final claim for expenditure to the Commission was a long and laborious process undertaken manually. A new monitoring and accounting information system has just been introduced with the possibility of recording in real time the list of invoices under each measure and the exchange of financial, physical and control information. Sachsen-Anhalt faces similar difficulties and changes are being made to the electronic data system to ensure that project data are input correctly and consistently. This situation is complicated by the very large number of projects co-funded under the programme (over 41,000 to date) and the number of different implementing agencies involved which work with different administrative procedures including in the way they input data. However, data must be provided on a consistent basis in the final reports to the Commission and all mistakes corrected, for instance in cases where data on payments are higher than data on commitments.

4.1.5 Special provisions for transition areas

The closure of transitional programmes gives rise to contrasting views amongst partners. The key question relates to whether special provisions should apply for transitional programmes or whether they should be treated as one with full Objective 2 programmes. In the UK for instance, although transitional programmes finish a year sooner than full Objective 2 programmes, the ODPM suggests that they should be managed in practice as part of the overall closure process at the end of programmes, with closure by the end of June 2009. In Wales, however, it is reported that the programme authorities are working to December 2007 for final audits for transition projects.

4.2 Preparations for post 2006

4.2.1 Degree of preparedness

Current debates on the financial perspectives for the cohesion policy budget and the EC proposals for new management procedures (see Section 4) have wide-ranging implications for the scope and shape, if not the existence, of programmes in partner regions after 2006. As a result, there are differences in the amount and nature of activities undertaken so far by managing authorities to prepare for the new programming period. In Germany for instance, preparations have already started for post 2006 in Sachsen-Anhalt and also, apparently to a lesser extent, in Nordrhein-Westfalen. The difference in approach probably reflects the greater certainty in Sachsen-Anhalt that the *Land* will receive significant EU funds after 2006, whereas Nordrhein-Westfalen faces uncertainty as to whether or how much it is likely to receive.

This typology can be applied to other partner programmes. A first group of programmes has not introduced any specific arrangements so far to prepare for the next programming period. This includes partners in Denmark, where the general view is that there is too little clarity regarding financial allocations and the role of actors in the new programming period to take any concrete steps. In Sweden as well, no special arrangements have been implemented so far to prepare for the next period. However, it is already clear that the new Regional Growth Programmes would be the basis of any new programming documents, as part of the increasing stress on policy co-ordination in the country.

In a second category of programmes, managing authorities have initiated discussions at various levels to start preparing for the next programming period. This has taken the forms of internal meetings between programme managers or of seminars bringing together various programme partners. In Austria for instance, a seminar was organised by the Federal Chancellery in September 2004 and further preparations are now underway. In Niederösterreich, a working group with a wide membership has been set up in the *Land* with a view to start discussion in the autumn, whilst a smaller sub-group will focus on the future programme strategy. In a number of programmes, such as Finland, the intensive debates that were held as part of mid-term evaluation exercise are seen as contributing to the preparations for post-2006. Last, in a third group of countries, more concrete steps are now being taken. This is the case in Steiermark, where the *Land* will probably award a contract to an external adviser to write a draft programme, with the work due to start in early 2005.

4.2.2 Debating the status of regions in the new period

The preparations for the new programming period also raise the issue of the status of regional authorities in the future cohesion policy. Within Vlaanderen for instance, discussions have started regarding the future role of the Provincial Administrations, which currently act as the Programme Secretariats for Objective 2 programme. A number of workshops are being conducted to prepare the Flemish input into the Belgium position in the negotiations on the future of cohesion policy. Whilst there is overall support for the end of the current process of area designation and its replacement by special themes, provincial participants in this process, including from Limburg, stress the need for special attention to be given to areas which experience socio-economic difficulties. A paper is being prepared at the Limburg level to emphasise the particular needs of the region. Limburg will argue that, beyond the proposed theme of ‘regional competitiveness’, the Province should have a special place within the overall Flemish strategy. This claim is partly based on the experience of the special programmes for Limburg of the late 1990s such as RECHAR. These special programmes focused on certain sectors and areas that were experiencing serious difficulties. The view of policymakers in Limburg is that a similar initiative would now probably be needed for the automotive sector which is in disarray following major plant closures in the past few years.

Similar discussions are taking place in Finland on the weight to be given to regional priorities. The Finnish context is similar to other ‘subsumed’ systems, whereby tensions can arise between regional priorities and the goals and objectives of the national ministries, through which most of the funding flows. The need for regional priorities to be more effectively taken on board is being increasingly recognised and some steps have been made in this direction. In the longer term, the programme management would like to see this process taken further with, for instance, a single point of contact for potential applicants and with more stress on regional goals and priorities. The mid-term evaluation team raised a similar issue, calling for a debate as to whether a smaller number of administering bodies should be involved in programme administration. In the Finnish system, the Regional Management Committees have an increasingly important role with their own source of funding and

regional strategies. This places them in an increasingly strong position to counter the influence of national sectoral ministries and operate according to regional priorities.

4.2.3 Analysing the EC proposals

Efforts undertaken so far to prepare for post 2006 have primarily focused on analysing the proposal formulated by the European Commission in the Third Cohesion Report published February 2004 and the draft Structural Fund regulations issued in July 2004.

As noted in Section 5.1 below, several countries have established consultative groups. France is typical of other Member States: DATAR has been instrumental in setting up a working group on regional policy reform. A large number of partners will devote nine meetings between September and December 2004 to various thematic aspects of the EC proposals. The objective is both to examine the coherence of the EC proposals and their compatibility with national priorities, but also to explore priority areas for the proposed national strategic planning framework in France. Similarly, the last national meeting of Structural Fund programme managers was devoted to the analysis of the EC draft regulations and assessing their likely impact at the regional level.

This echoes efforts undertaken in Sachsen-Anhalt, where the Managing Authority is also analysing the draft regulations in order to assess the implications of specific technical aspects for their own programming and implementation. More general planning is also underway and the *Land's* recent position paper on Structural Fund simplification also includes an assessment of the administrative changes and procedures that would be needed in Sachsen-Anhalt in response to the EC proposals. Other entities are also involved such as the *Land's* Statistical Office which is preparing data on the context indicators to be used in planning post 2006.

4.2.4 Orienting current and new programmes on the proposed themes

In addition to analysing the EC proposals, some partner programmes are also exploring how the new thematic menu proposed under the objective 'competitiveness and regional employment' priority could be implemented in their own region. For instance in Toscana, the Managing Authority have already indicated that the core strategic elements of the future Objective 2 programme will be oriented towards the objectives of the Lisbon Agenda, and will be coordinated with the future Regional Development Plan. The same applies in Niederösterreich and Steiermark, where any future Objective 2-type programmes would include a strong focus on R&D and technological innovation. In Nordrhein-Westfalen as well, if Structural Fund support is still available after 2006, a significant share would be allocated to interventions related to support for technological innovation. However, the focus would essentially be on business support and technology diffusion and not on technology-oriented infrastructure (e.g. science parks, etc.), given the amount of funding allocated to this area in the 1990s. This approach is being supported across the political spectrum so it would not be affected by a potential change of political majority in the *Land* government after the elections due in 2005.

Beyond the definition of policy priorities for the next programming period, a number of programmes have also started work and experimentation on the likely consequences for implementation mechanisms and their translation into concrete projects. As part of the OP LED programme in Italy for example, the Ministero delle Attività Produttive is making use of the 10 percent of the programme resources not yet committed to experiment with new projects and initiatives which could form the core of new R&D and technology/innovation support programmes in the new programming period. In

Finland, there is a recognition of the need in future to define robust monitoring and evaluation systems tailored to an environment where particular stress will be placed on competitiveness. A common opinion is that indicators relating to competitiveness aspects are particularly difficult to define. The mid-term evaluators of Finnish programmes were asked to focus on this issue of competitiveness but it proved difficult to provide other than qualitative answers. As a result, it has been decided to examine this issue further with a view to developing new indicators and appropriate monitoring systems to deal with the competitiveness issue. This issue should form part of the updated mid-term evaluation report due by the end of 2005, with the hope that useful answers and new competitiveness-related methodologies will be available in time for the next programming period.

4.2.5 Ensuring a smooth transition to the new period

Several partner programmes stress the need to ensure that the transition to the new programming period takes place smoothly, regardless of whether funding will continue or not. Concretely, this can translate into the introduction of special mechanisms which aim to provide a bridge to the new programming period. This is the case in Nordjylland, where a new venture capital fund is being set up to redistribute Objective 2 funds through loans, in cooperation with NAEH. The venture capital fund will overlap across the two programming periods, although deadlines for project approval and financial claims will be the same. The fund should represent a real alternative to Objective 2 support and the County Council is in the process of drafting administration guidelines which will require EC approval.

Other innovative management solutions have been introduced to prepare for the likely termination of funding to partner areas. In Vlaanderen for instance, a new mechanism has been introduced in this programming period for innovation support projects. Rather than being supported directly through Objective 2 programmes, project managers are encouraged to submit their applications to the regional agency for innovation (IWT). If these are approved, the IWT acts as the interface between project managers and the programme Secretariat. It distributes grants provided under Flemish innovation policy and channels the additional EU co-funding of 15 percent of project costs. Effectively, the IWT is considered as the project manager from the programme’s perspective, although its tasks consist essentially in selecting and supporting projects on behalf of the Secretariat. Beyond the obvious benefit for project applicants in terms of leaner administrative costs, one of the key objectives of this system is to anticipate the end of EU funding to the region.

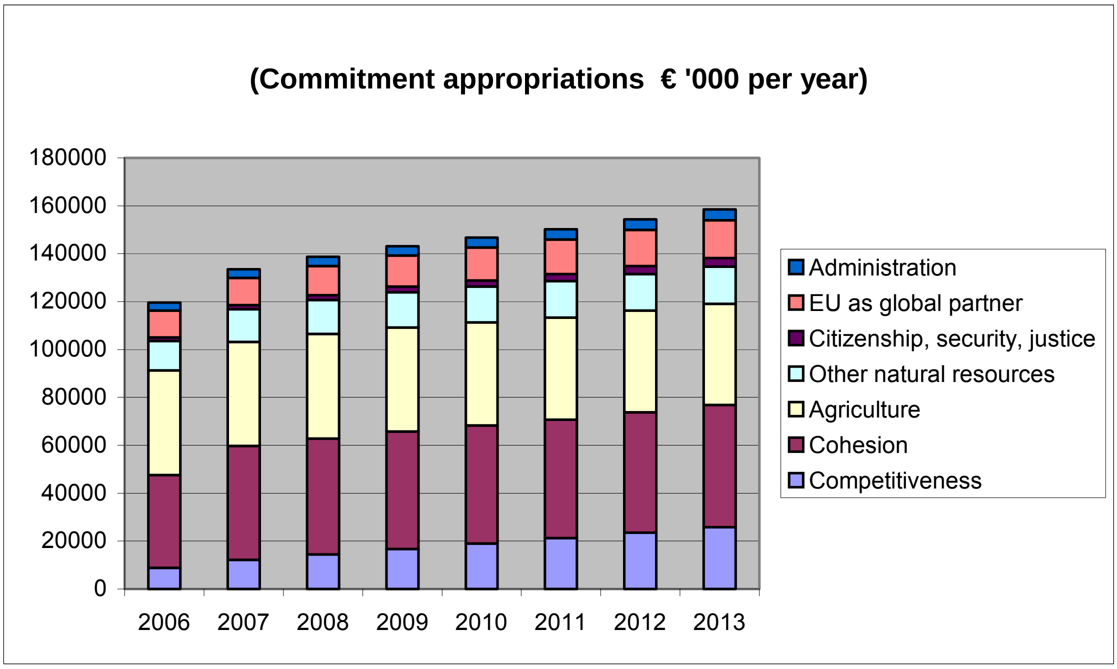
5. EU COHESION POLICY AFTER 2006: COMMISSION PROPOSALS

5.1 The financial framework for 2007-2013

The EC put forward its proposals for the EU Financial Framework for the 2007-13 period in February 2004.[5] The Commission envisages keeping the current 'own resources' ceiling of 1.24 percent of the EU's Gross National Income (GNI), with appropriations for payments averaging 1.14 percent over the period. In cash terms, the EU would commit an average of €146 billion per year over the 2007-2013 period. This compares with a figure of €121 bn for the final year of the current period (2006), and would represent an increase of 31 percent in planned EU spending from 2006 to 2013.

With respect to the components of the EU budget, the EC has reorganised and rationalised the budget into five main headings in the interests of simplifying budgetary management. These are: sustainable growth (including competitiveness and cohesion); conservation and management of natural resources; citizenship, freedom, security and justice; the EU as a global partner; and administration (see Figure 1).

Figure 1: New Financial Framework, 2007-13



Comparing planned spending in 2007-13 with 2006:

- cohesion policy spending (excluding rural development) would increase by 31 percent, from €38.8 bn in 2006 to €51 bn in 2013;

[5] Communication from the Commission to the Council and the European Parliament *Building our common future: Policy challenges and budgetary means of the enlarged Union 2007-2013,* COM(2004) 101 final, Brussels, 10.2.2004

- agricultural spending would remain virtually static over the period, averaging €43 bn per year;

- a new budget sub-heading called 'competitiveness' has been created to implement the Lisbon agenda with planned spending on areas such as R&D and trans-European networks etc rising three-fold from €8.8 bn in 2006 to €25.8 bn in 2013;

- increased resources have also been allocated to EU internal policies (citizenship, freedom, security and justice) and external relations (EU as a global partner).

5.2 EC proposals for cohesion policy

The European Commission published an outline of its proposals for the future of EU cohesion policy in the Third Cohesion Report.[6] This was followed by the submission of the Commission's formal legislative proposals in July 2004 as a basis for debate and negotiation. The Commission is proposing to change EU cohesion policy in several important respects: a substantially increased budget; a broader rationale; a new architecture of Community priorities; a different implementation system; and radical changes to State aids control.

5.2.1 Increased resources

The Draft General Regulation presented by the Commission in July 2004 indicates a proposed budget of €336.1 billion for cohesion policy financed through the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. This would be divided among the three principal elements of the "new architecture" of cohesion policy as set out in Table 1.

Table 1: EU Cohesion Policy Commitment Appropriations by, 2007-13 (2004 prices)

Priorities	**€ billion**	**%**	**%**
Convergence priority	***264.00***	***100.00***	***78.54***
• Regional convergence and employment	177.80	67.34	
• National convergence (Cohesion Fund)	63.00	23.86	
• Statistical effect	22.10	8.38	
• Outermost regions (OMRs)	1.10	0.42	
Regional competitiveness	***57.90***	***100.00***	***17.22***
• Phasing in	9.60	16.56	
• Regional competitiveness and employment	48.30	83.44	
Territorial cooperation	***13.20***	***100.00***	***3.94***
• Cross-border cooperation	35.61	4.70	
• ERDF strand of ENPI	12.12	1.60	
• Article 7(2) operations	47.73	6.30	
• Exchange of experience networks	4.54	0.60	
Technical assistance	*1.0*		*0.3*
TOTAL	**336.1**		**100.0**

Source: *Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund*, COM(2004)492 final, 14 July 2004, Brussels.

[6] *A new partnership for cohesion: convergence, competitiveness, cooperation – Third report on economic and social cohesion,* Commission of the European Communities, Brussels, February 2004.

5.2.2 *A broader rationale*

The Commission lays great stress on the links between cohesion and the Lisbon/Gothenburg agendas, arguing (as under many national regional policies) that promoting regional competitiveness will boost the growth potential of the EU economy as a whole. More importance is also accorded to territorial cohesion. The EC is keen to broaden the remit of EU cohesion policy to address issues such as the polycentric development of urban areas, infrastructure endowment in educational, health and social services, and the specific problems of areas with geographical handicaps (e.g. islands, mountain areas).

5.2.3 *A new architecture*

The Commission proposes that future EU cohesion policy should focus on a limited number of Community priorities, reflecting the Lisbon and Gothenburg agendas. The future regional programmes would be targeted on three themes: innovation and the knowledge economy; accessibility and services of general economic interest; environment and risk prevention. These would be complemented by employment programmes focusing on the themes of employment, training and adaptation, and social inclusion under the European Employment Strategy.

The current Objectives 1, 2 and 3 would be superseded by three new Community objectives:

- *Convergence*: supporting growth and job creation in the least developed Member States and regions;

- *Regional competitiveness and employment*: anticipating and promoting change;

- *European territorial cooperation*: promoting the harmonious and balanced development of the Union territory.

Under the EC proposals, the current instruments linked to rural development policy (EAGGF Guidance Section, FIFG) would be grouped in one single instrument under the Common Agricultural Policy. The Community Initiatives (INTERREG, URBAN, EQUAL, LEADER+) would be discontinued as separate initiatives and integrated within the mainstream programmes.

5.2.4 *A new delivery system*

The Commission is proposing to make significant changes to the way that EU cohesion policy is implemented. The new system would retain the key principles underlying the Structural Funds – multi-annual planning, integrated development strategies, partnership, co-financing and concentration – but aims to simplify and decentralise the process (see Table 5.2). Several features of the proposals are worth noting:

- A new planning framework would be introduced. At EU level, the European Council would adopt an overall strategic document for cohesion policy, defining priorities for Member States and regions. This would be reviewed annually on the basis of progress reports by Member States.

- Each Member State would draw up a policy document on its development strategy as a framework for thematic and regional programmes. At the

operational level, Member States would draw up programmes – defined at an "aggregate or high priority level" – for adoption by the EC.

- The current multi-Fund programmes would be replaced by ERDF and ESF interventions operating on the basis of one fund per programme. The procedures for financial management, financial control and additionality would be rationalised and decentralised (within limits).

- Partnership would be enhanced by requirements to involve social partners and civil society representatives to a greater degree. Tripartite agreements between Member States, regions and local authorities are proposed.

- Performance and quality would be ensured by retaining the principle of decommitment (N+2). The EC would also be expecting a more rigorous approach to monitoring and more results-oriented evaluation.

5.2.5 Reform of State aid control

In parallel with the reform of EU cohesion policy, DG competition has put forward some important proposals for the future control of State aid. Specifically, DG Competition would approve future regional aid on the following basis:

- regions with GDP per capita below 75 percent of the EU average would be eligible for State aid under Article 87 (3)(a);

- regions affected by the 'statistical effect' would be eligible under Article 87 (3)(c) but with a degressive reduction of State aid limits to bring them down from Article 87(3)(a) levels at the beginning of the period to Article 87(3)(c) levels by 2013;

- other special cases (outermost regions, phase in regions and regions with sparse population) would also be earmarked for Article 87(3)(c) support; and

- other regions (i.e. those regions eligible for the competitiveness and employment priority) would not have regional aid maps approved but would have to operate aid schemes in line with general State aid rules.

These proposals could radically reduce the ability of Member States to operate regional aid schemes providing investment support to large firms. In order to reduce the impact, the Commission has undertaken to provide more flexibility for Member States with respect to lower-level aid. It has produced two draft communications proposing a new framework (LASA) for the assessment of lesser amounts of State aid (30 percent of project costs up to €1 million over a three-year period) and a new framework (LET) for the assessment of State aid which has limited effects on intra-Community trade.

These issues are discussed in more detail in Section 7 below.

Table 5.2. Proposed simplification of Structural Fund regulation (EC proposals of 16 July 2004) with comparison with 2000-06 programming period

Domain	2000-2006	2007-2013	Impact
General aspects	▪ Different rules for the Cohesion Fund and for the Structural Funds ▪ 8 regulations enforced by the EC	▪ Uniformity of management rules for different funds (Cohesion, ERDF & ESF) ▪ Only one, simplified regulation	▪ Simplification of the system's architecture, notably through the harmonisation of rules relating to Cohesion Fund and Structural Funds ▪ More visibility and more legal security for regional policy actors
TITLE I Objectives and rationale for intervention	▪ Definition of main concepts necessary for programme implementation ▪ 3 Objectives and 4 Community Initiatives ▪ Additionality verified on Cohesion Policy as a whole, no mechanism for correction in case of non-respect	▪ Definition of principles governing relations between the Commission and Member States. Introduction of the principle of proportionality ▪ More precise definition of elements required for programme implementation ▪ 3 Objectives ▪ Additionality verified only within the 'convergence' objective, with possibilities for financial corrections	▪ Clearer distribution of tasks between Member States and the EC ▪ Increased legal security for Member States thanks to more precise definitions, less subject to subsequent interpretations ▪ Concentration of community intervention ▪ Proportionality in the application of, and strengthening of the principle of additionality
TITLE II Strategic approach to cohesion	▪ Community priorities are only indicative and too numerous ▪ National and regional priorities	▪ EU strategic priorities adopted by the Council after approval from Parliament and annual debate for strategic monitoring ▪ Better integration of EU priorities into programming ▪ National framework to ensure the coherence of interventions, but not used as a management tool ▪ Territorial specificities better taken into account	▪ Strengthened legitimacy ▪ Better monitoring of the impact of Structural and Cohesion Funds as well as of EU priorities ▪ Coherence between community priorities and national/regional priorities established prior to the programme design stage

TITLE III Programming	▪ Double, parallel programming structure for Community Support Framework, Operational Programme and Programming Complement, or for Single Programming Document and Programming Complement ▪ Multi-fund programmes ▪ Community Initiative Programmes ▪ Presentation and management of programmes at the measure level	▪ Only one programming and management tool, the single-fund Operational Programme (with the possible exception of the Cohesion Fund and the ERDF) ▪ More flexibility with financial management at the priority level only	▪ Simplification of decision-making process and of program design process at the Member State, through the suppression of the Community Support Framework and of the Programming Complement ▪ Greater flexibility in the management of Operational Programmes, particularly regarding the financial management of resources
TITLE IV Efficiency	▪ Ex ante, mid-term and ex post evaluations compulsory for all interventions ▪ Performance reserve allocated at the national level	▪ Ex ante evaluation for each programme under the 'convergence' objective ▪ For the 'regional competitiveness and employment' and 'territorial cooperation' objectives, Member States decide what level of evaluation is required based on their needs (programme, groups of programmes, themes, Funds) ▪ Mid-term evaluation if needed ▪ Performance reserve at the community level decided by the Council, based on objective criteria ▪ National reserve to respond to unforeseen circumstances (disasters, etc.)	▪ Increased flexibility through significant reduction in the number of evaluations required ▪ Subsidiarity principle strengthened, by allowing Member States to implement evaluations adapted to their needs ▪ Improvement of transparency and efficiency of policy ▪ Increased policy flexibility and greater speed of reaction to face sectoral or local crises

TITLE V Financial participation	▪ Need to ensure at all times that annual financial plan at the priority level is coherent with global multi-annual plan at the measure level (amounts, rates, etc.) ▪ Common eligibility rules for community-level expenditure under EC detailed regulations (EC 1685/2000 for Structural Funds and EC 16/2003 for Cohesion Fund) ▪ Decisions on the contribution of Funds based on the total cost or on total public costs, which creates subsequent management problems	▪ Contribution of Funds (co-funding rate) fixed at the priority level ▪ Replacement of measure-level rates by priority-level rates ▪ National eligibility rules, save exceptions explicitly provided for in regulations adopted by the European Parliament and the Council if required for the implementation for cooperation interventions ▪ Rates of Funds participation calculated vis-à-vis public expenditure of programmes	▪ Simplification of eligibility rules, facilitating programme implementation and reducing probability of conflicts between national and community rules ▪ Increased flexibility in financial management of Operation Programme, and monitoring made easier for all stakeholders ▪ Simplification of the definition of community participation
TITLE VI Management, monitoring and control	▪ Definition of functions and tasks of each authority in two regulations (Council 1260/1999 and EC 438/2001 for Structural Funds, EC 1386/2002 for Cohesion Fund) ▪ Same rules applicable to management and control systems for all programmes, regardless of the importance of EU co-funding ▪ Conformity of management and control systems assessed on the basis of regulations (Council 1260/1999 and EC 438/2001) ▪ Lack of clarity of procedures relating to reporting and their linkages with financial management	▪ Functions of three main authorities and Member States responsibilities clearly defined in the Council's general regulation ▪ Rules applicable to management and control systems are proportional to the amount and the intensity of EU participation in programmes ▪ Conformity of management and control systems assessed at the beginning of the programming period by independent Member State body, according to rules defined in new Council's regulation ▪ Introduction of national audit strategy to allow annual and final certification of systems in place ▪ Cooperation strengthened between national authorities and the EC. Audits	▪ Clarification of commitments and responsibilities of each actors from the start of the programming period ▪ Possibility for Member States to make use of national system for management and control, without creating new structures for programmes with low share of EU co-funding ▪ 'Shared management', i.e. consistency checks of audit and control procedures at the start of the programming period to avoid duplication and efforts between Member States and the EC and to provide the EC with guarantees on the systems in place

		undertaken by EC services only in exceptional circumstances ▪ Clarification of procedure through annual and final reports	
TITLE VII Financial management	▪ Pre-funding of up to 7 percent ▪ Intermediary payment at the measure level with application of the rate for the measure defined in the Programming Complement, with levelling for high amounts ▪ Automatic decommitment rule (n+2) with exceptions not clearly defined ▪ 2-month payment period after which introduction of formal suspension procedure ▪ Closure for the whole programme at the end of the period	▪ Pre-funding of 7 percent for Structural Funds and 10.5 percent for Cohesion Fund ▪ Intermediary payment at priority level with application of the rate for the priority to the amount of public expenditure presented by the Member State ▪ Possibility to operate partial programme closure for completed operations ▪ Introduction of transparent rules for the interruption, suspension or retention of payments in case of difficulties	▪ Simplification of payment procedures ▪ Retention of elements which proved to work in current programming period (down payments/pre-funding, n+2) ▪ Improvement of legal security for actors and greater transparency of EC payment procedures ▪ Simplification of closure through 'partial closure', a simpler procedure requiring less documentation ▪ Clarification of payment procedures under Structural Fund regulation, which is brought into line with the Council's general financial regulation applicable to EU budget

Source: Document prepared by the Dutch Presidency of the EU for the Structural Actions Ad hoc group, October 2004.

6. EU COHESION POLICY AFTER 2006: REACTIONS TO THE EC PROPOSALS

6.1 The reform debate

Member States are currently engaged in analysing the Commission's communication, clarifying issues and providing feedback. COREPER is examining the structure and associated mechanisms of the financial perspective (spending categories, flexibility, institutional aspects), the content of the financial perspective and the content and mechanisms of the own resources system, while detailed work on the draft regulations is currently under way within the Structural Actions Working Party.

The timetable envisaged in the European Council's 'Multiannual Strategic Programme' aims to reach political agreement on the financial perspective at the European Council in June 2005, with a view to final adoption of the new financial perspective and the detailed legislation under which it will be implemented by end 2005. Over the next six months, the objective of the Dutch Presidency is, in accordance with the Multiannual Strategic Programme, to make it possible for the European Council to reach decisions in December 2004 on *"principles and guidelines in respect of the 2007-2013 Financial Perspective"*.[7]

Debate and consultation is also under way within Member States. In most EU countries, the national negotiating position is determined or influenced by the views of sub-national authorities, which may have quite different perspectives from those of the national government.

This applies particularly to federal countries – Belgium, Germany and Austria. In Belgium, reflecting the highly federal nature of the state, any national position is wholly determined by the views of the three Belgium Regions. The regions have exclusive competence for regional policy and, as a result, any national position involves a reconciliation of the three regional positions. The situation is further complicated by the fact that regions have some degree of competence for international relations, which is reflected in the fact that they often sit separately in European meetings.

In Germany and Austria, the federal and State governments need to go through an often protracted process of reconciling the different perspectives of the central government level and various sets of views among the *Land* governments. In Germany, there are at least three distinct 'blocs' of *Länder* (states): the eastern states, most of which benefit heavily under Objective 1; a group of western states which benefit little from Structural Funds (e.g. Bayern, Baden-Württemberg); and other western states (notably Nordrhein-Westfalen) which are major beneficiaries under Objective 2. Differences are also evident in Austria, between the eastern *Länder* of Burgenland, Niederösterreich and Steiermark, which are recipients of significant EU funding, and other states which have less of an interest in Structural Funds.

The need to recognise regional, local and sectoral interests applies in other countries also, especially where a measure of devolution exists (e.g. France, Italy, Spain, the UK). In Spain, for example, the regions are consulted trough informal regional policy forums and some regions such as País Vasco have independently submitted their position to the EU .g.). In France, Italy and the UK, by contrast, formal consultation

[7] Presidency Note CADREFIN 12 - 11441/1/04

mechanisms have been established to integrate regional views within the national government position:

- France – a 'Working Group' on EU regional policy reform (*Groupe de travail opérationnel sur la réforme de la politique régionale*) has been constituted which brings together the central government ministries concerned, the SGCI (Secretariat-General for the Inter-Ministerial Committee – which coordinates the French position in EU matters), various associations of elected officials from local authorities (mayors, regions, *départements*), the SGARs and the Regional Councils.

- Italy – a 'Contact Group' brings together representatives of eleven regions (Lazio, Toscana, Sicilia, Valle D'Aosta, Emilia Romagna, Marche, Campania, Veneto, Puglia, Abruzzo, Friuli VG) and four national administrations (Foreign Affairs, Economy and Finances, Welfare and Agriculture).

- United Kingdom – a Structural Fund Steering Group is chaired by the Department of Trade and Industry, involving relevant central government departments, the Devolved Administrations (Northern Ireland, Scotland, Wales) and representatives of some English regional Government Offices)

In other countries, the consultation process is less structured, In Sweden, for example, there is no formal consultative body between the government and regional authorities, but informal consultation is undertaken (the Cohesion Report was sent out by the Ministry of Industry to all regional authorities and organisations for feedback on the proposals). In Finland, the Federation of Municipalities is represented on the official committee dealing with the issue of Structural Fund reform, and there are close links between the Ministry of the Interior and the regions.

Several regions have produced their own position papers, in some cases individually (e.g. Niederösterreich, Nordrhein-Westfalen, País Vasco, Sachsen-Anhalt, Scotland, Steiermark), in other cases as part of national groupings of regions (e.g. the English Alliance for Regional Aid, the Europaforum Northern Sweden, German *Länder*, the Danish regional authorities, the Western Finland Alliance) or as part of regional networks such as the Assembly of European Regions, CPMR or the network of 'regions affected by the statistical effect'. In some regions – Vlaanderen, Niederösterreich, Steiermark – separate papers have also been produced on the Commission proposals for the future of regional aid.[8]

6.2 Member State perspectives on the financial framework

The main and widest differences between the Member States concern the level of future EU spending. The Commission's proposals for the 2007-2013 financial framework have had a very mixed response.[9]

Supporting the Commission position on the question of financial resources are Spain, Portugal and Greece (and also Belgium), as well as many new Member States, which have explicitly called for an increase in EU cohesion policy spending at or beyond the current 0.45 percent of EU GDP, although without specifying what level of increased expenditure would be required. The argument is that EU enlargement – but also other

[8] Most of these papers are listed on the DG Regio website at: http://europa.eu.int/comm/regional_policy/debate/contri_member_en.htm

[9] The review of Member State views on the EU budget in this section is based on the positions of national government authorities. The review is based on a recent paper by John Bachtler and Fiona Wishlade, *Searching for Consensus: the Debate on Reforming EU Cohesion Policy,* presented at a meeting of the EORPA Regional Policy Research Consortium (3-5 October 2004) and soon to be published in the EPRC European Policy Discussion Paper series.

challenges to cohesion such as European competitiveness and the effects of economic and monetary union – require a strengthening of EU cohesion policy. For example, the Portuguese government considers that *"the current threshold of 0.45% of the Union's GDP allocated to cohesion policy is the minimum necessary to pursue its objectives".*[10] Spain takes the same view: *"agreement below this level would be very difficult".*[11]

Among the new Member States, the position papers of several countries argue for at least maintaining (Slovak Republic, Malta) or increasing (Hungary, Lithuania) the proportion of EU GDP spent on cohesion policy. The Czech Republic is also keen on maintaining a strong EU cohesion policy, although it has also indicated that, with respect to the overall EU budget, 1.14 percent may be a useful starting point for budgetary discussions, and an even lower figure may be feasible if savings on administration or agriculture can be identified.[12]

A very different view on the financial perspective is taken by the richer EU countries. Prior to the publication of the EC proposals, several Member States had sought to re-emphasise the perceived need for budgetary restraint. Six countries – Austria, France, Germany, the Netherlands, Sweden and the UK – wrote to the EC President stating categorically that:[13] *"We see…no room for an EU budget near the current ceiling for own resources. Average expenditure during the next financial perspective should in our view be stabilised around current expenditure levels and should not exceed 1.0% of GNI, including agriculture spending within the ceiling set by the European Council in October 2002."* The German, Austrian and UK finance ministers reiterated this point in February and again at the Third Cohesion Forum in May. There are several arguments put forward by this group of countries in support of budgetary restraint: the difficult economic conditions in some net payer countries (Germany); the questionable added value of the Structural Funds (UK); and the greater efficiency to be gained from concentrating EU cohesion policy resources wholly in the poorer countries (Netherlands, Sweden).

Between the views of the EC, Greece and Portugal, on the one hand, and the larger net contributors, on the other hand, is a set of 'intermediate positions' held by countries such as Finland, Ireland and Italy, which are in favour of a more 'open approach'. For example, the fact that Italy is becoming one the larger contributors to the EU's budget makes it extremely cautious on financial questions, but it believes that EU cohesion policy is required in non-lagging as well as lagging regions.[14] Despite being a signatory to the December 2003 letter, the French Government also sees itself as having an 'intermediate position'; while concerned at the prospect of a steep increase in its net budget contribution, EU cohesion policy is regarded as important.[15] Ireland similarly finds itself on a 'cusp' between the 'one percent group' and the poorer countries. Arguably, the Czech Republic might be included in this group, given its view on the feasibility of having a 1.14 percent EU budget. The views taken by this 'intermediate group' of countries are generally that, while savings may be necessary, a well-resourced EU cohesion policy in the EU15 remains important. Seeking a compromise between the EC proposals and the views of the major

[10] Portuguese Position on Economic and Social Cohesion Policy Reform,

[11] Speech by Minister Miguel Angel Fernández Ordoñez, Secretary of State for Finance and Budget, Spain to the Third Cohesion Forum, Brussels, 10-11 May 2004.

[12] Draft Speech by Czech Prime Minister Vladimír Špidla to the Third Cohesion Forum, Brussels, 10-11 May 2004.

[13] Letter from the Governments of Austria, France, Germany, the Netherlands, Sweden and the United Kingdom to the President of the European Commission, 15 December 2003.

[14] Second Italian Memorandum. The Reform of the EU Cohesion Policy: Notes about the Italian position and the orientations in the forthcoming period.

[15] *Audition par la délégation pour l'Union européenne de M. Pierre Sellal, Ambassadeur, Représetantive permanent de la France auprès de l'Union européenne*, in Yann Gaillard and Simon Sutour, *Op. cit.*, Sénat: 2004, pp.60-72.

contributors, countries in this intermediate group have advocated a level of future expenditure between 1 percent and 1.14 percent of EU GNI.

In addition to the size of the overall budget and the budgetary balances, there are several other important financial issues that have been raised as part of the debate on the financial framework. First, there is concern among new Member States that the proposed division in funding, allocating broadly equal shares of the cohesion budget between old and new Member States, is unfair. Some richer Member States, such as Germany, have also argued that this runs counter to the principles of solidarity and concentration. Second, while most old Member States insist that the four percent absorption limit should be applied, several new Member States have called for a more flexible approach. Third, concerns have been expressed about the structure of the proposed financial framework, notably the steep increase in proposed spending under 'competitiveness' (Heading 1a).

6.3 Reactions to the proposals for cohesion policy[16]

6.3.1 Rationale for cohesion policy

In general, there has been a positive response to the EC's proposals for a broader rationale for EU cohesion policy, which places more stress on the links between cohesion and the Lisbon agenda, and the concept of balanced development which encompasses all regions. Italy is a particular supporter of a cohesion policy focus on the themes of sustainable development, growth and competitiveness, evident in the papers prepared for the Informal Meeting organised under the Italian Presidency. In other countries also (e.g. Netherlands, Sweden, UK), the thrust of the EC proposals is regarded as representing a good 'policy fit' with the trend in their national regional policies, which increasingly are concentrating on growth and competitiveness objectives. The Swedish government has pointed to the need for there to be a long-term and coherent approach to the Lisbon and Gothenburg agendas that links the regional competitiveness actions under cohesion policy with the Heading 1a competitiveness objectives.

However, other countries have drawn attention to the dangers of focusing excessively on the Lisbon agenda, noting that EU cohesion policy exists to meet specific Treaty objectives related to economic, social and territorial disparities and problems. Ireland, among others, would be concerned at a too restrictive interpretation of competitiveness, on the basis that some less-developed regions simply do not have the capacity to absorb the more sophisticated types of competitiveness support, and that there continues to be a need to promote convergence through investment in basic infrastructure, the productive sector and human resources. German national authorities have pointed out that the Lisbon goals will be achieved primarily through structural reforms such as market liberalisation and not via instruments such as cohesion policy.

Although several countries support the idea of all regions being eligible for cohesion policy – which again fits in with the 'whole-country' approach of some national regional policies (e.g. Belgium, Denmark, Finland, Netherlands, UK) – some Member States are opposed to this idea. The German federal government, in particular, is sceptical about a universal cohesion policy, arguing instead that the EU should focus on those regions with specific structural economic problems. Italy is also concerned

[16] The detailed nature of the reforms means that it is not possible to list the position of every national and regional authority on every issue. The purpose of this section is to discuss the range of views put forward in the debate, with illustrative references to individual authorities. Country names are used where the views are taken from national position papers or representatives of national government departments; the names of regions or regional groupings are used in other cases.

about the potential for a fragmentation of resources and the risk of reducing the effectiveness of EU support. Unsurprisingly, the more prosperous regions have supported this aspect of the EC proposals, while the traditional recipient regions of Structural Funds would like to maintain some EU influence on the spatial focus of assistance.

6.3.2 Architecture of cohesion policy

Overall, there appears to be a broad level of support for the new architecture proposed by the EC: the three objectives of convergence, competitiveness and cooperation; the concentration on thematic priorities of innovation, accessibility and the environment; and the spatial focus (especially the abandonment of micro-zoning at EU level under the competitiveness strand).

The main issue is the division of funding between convergence, competitiveness and cooperation, with some richer countries seeking to minimise any funding outside of the convergence objective. For example, the German federal government argues that a maximum of 5-10 percent of total Structural Fund resources should be allocated to non-convergence objectives. Others take a different view: Belgium, France and Italy are concerned to ensure that the competitiveness budget is large enough to be meaningful. Nordrhein-Westfalen would prefer to see support for phasing-in regions funded out of the Convergence objective, or more funds allocated to the Competitiveness/Employment heading if the current arrangement is maintained.

While there is widespread support for the territorial cooperation objective, which is generally seen as having added value, there are differences about the balance of emphasis on external versus internal borders. Some national and regional authorities have questioned the tangible benefits arising from transnational cooperation programmes (by comparison with cross-border or inter-regional programmes). This becomes of more importance given the planned increase in resources, associated with the question of whether the funding can be absorbed. The integration of inter-regional cooperation within mainstream programmes has found little support, and many national and regional authorities are arguing for the continuation of INTERREG IIIC under the territorial cooperation objective. Sweden has given specific attention to the European Neighbourhood and Partnership Instrument which it regards as important for strengthening the integration of partner countries and Member States; it has also put forward proposals for a more coherent approach to cooperation through ‘regional framework operations’ (multiannual framework projects) for groups of regions in the Baltic Sea region.

6.3.3 Thematic concentration

The proposed thematic priorities are generally regarded as fitting well with the Lisbon and Gothenburg agendas. It was frequently noted that many programmes have progressively increased the focus on innovation, research and development and clusters – as part of wider trends in regional development policies and strategies – over successive programming periods. In País Vasco, for example, innovation, R&D and the information society is already a major focus for support, accounting for almost one-third of spending in the SPD. However, the precise scope of eligible expenditure under the thematic priorities is subject to differing viewpoints.

In several Member States, IQ-Net partners considered that the EC’s proposals do not imply sufficient concentration: the views expressed in Germany, Italy and the Netherlands, for example, is that virtually everything would be eligible under the competitiveness objective. Some national and regional authorities (e.g. Western Finland, Netherlands) consider that they might have institutional difficulties if Structural Funds were to extend into areas that have not traditionally been covered

under the heading of regional policy. An interesting insight into the relationship between national and EU policymaking is illustrated in the view of some Swedish regional partners that the (domestic) Regional Growth Programmes would probably follow the EU programme in becoming more thematically focused, since in the past national regional policy has tended to adapt to EU objectives and priorities.

There is also a view that the EC definition of themes is too narrow. Some national governments (Finland, Denmark) consider that cohesion policy needs to be broad enough to complement other (national and regional) programmes which aim to boost growth and competitiveness. The Austrian regions and the Western Finland Alliance have also argued for flexibility in addressing particular regional situations and needs, a view shared by some partners in Scotland. Although innovation is recognised as the 'way forward' in regional development, there is a perceived need to complement this with broader, more generic forms of support.

Specific concerns of partner authorities – not all of which are in agreement – with respect to the thematic priorities are as follows:

- the definition of accessibility needs to be broader than just transport infrastructure (Austrian regions);

- investment in infrastructure should be limited to projects having a genuine European dimension and contributing to the functioning of the internal market (Sweden);

- more stress should be placed on entrepreneurship (France), reflecting the stress being placed in France on local platforms for innovative start-up companies;

- greater emphasis is required on start-ups, business consolidation, strengthening firms' own capital, and exporting (Nordrhein-Westfalen);

- there is a need for an additional theme under the 'competitiveness' strand to support 'regional capacity building' or funding for holistic endogenous regional development such as village and town regeneration, innovative types of tourism and leisure etc (Austrian regions);

- a wide definition of R&D and high-tech should encompass technology transfer, business modernisations, technology centres etc (Niederösterreich);

- the target of 50 percent of competitiveness funding going to projects which are innovative could be regarded as over-ambitious and needs clearer definition if it is to be workable (UK ODPM);

- a more positive approach to the role of cities (Italy) is recommended – rather than focusing on urban problems, they should be seen more as motors of economic development, addressing issues such as activation of the 'creative class';

- local urban and community development should be explicitly included in the eligible expenditure list (País Vasco, Scotland) to enable current EU-funded action in this area to continue;

- the Structural Funds are not necessarily the right instrument to fund environmental risk protection (North-East England).

6.3.4 Spatial coverage

a. Statistical effect regions and phasing-in regions

Member States clearly differ in whether they regard the proposed treatment of statistical effect (phasing-out) and phasing-in regions as being favourable. For the most part, national and regional authorities are still considering the implications of the EC's proposals for their own eligibility for Structural and Cohesion Fund resources and have requested more information from the EC on the way that the methodologies would be operationalised. In a joint statement, Spain, Portugal and Greece have recently advocated that phase-in regions should receive 45 percent of receipts as opposed to the 33 percent proposed by the Commission (a figure been chosen because it was previously applied in the Berlin Summit in 1999). Spain is looking for statistical effect treatment to apply in the case of the Cohesion Fund, given its loss of eligibility. For regions like Sachsen-Anhalt, there is concern about the administrative complexity arising from different parts of the state having different status (full convergence or statistical effect eligibility).

b. Sparsely populated areas

Germany, among others, has welcomed the EC's proposal to end special treatment for sparsely populated areas, but Finland has made it clear that a "sustainable financial solution" which guarantees permanent special treatment of the sparsely populated regions is a "threshold question" for the negotiations. The EC proposals are also of concern in Sweden; notwithstanding the national position on funding, Norra Norrland considers that the regional competitiveness priority is not appropriate for the sparsely populated regions (which lack some of the pre-conditions for effective competitiveness strategies), and that ongoing 'special treatment' under Objective 1 is important for the sake of continuity.

c. Regional competitiveness areas

As noted above, there is some support for the proposal that all regions should be eligible in principle for cohesion policy under the competitiveness objective, but uncertainty as to how this will operate in practice. The EC proposals to make Member States responsible for geographical concentration has been received positively, but it is unclear what level of EU influence there would be (in terms of guidance on criteria, weightings etc) in any partnership between the EC, Member States and regions to establish the zoning of support. Some regions (Niederösterreich, Nordrhein-Westfalen) advocate EU guidelines for common zoning criteria to be applied across the EU, with an emphasis (in the view of Nordrhein-Westfalen) on socio-economic indicators (e.g. unemployment, job loss, employment etc) which indicate structural needs.

Several partners explicitly welcome the prospect of reducing the (current) geographical fragmentation of Objective 2 areas. The proposals to eliminate geographical zoning is attractive to some (Austrian regions, Vlanderen, North-Rhine Westphalia) because of potential flexibility to provide support within regions to 'areas of opportunity' as well as 'areas of need' in a more coherent fashion. Western Finland is also prepared to trade off less aid per head for a broader coverage. On the other hand, there is concern (Nordjylland) that the lack of EU-level geographical zoning may shift funding away from the 'traditional' problem regions, and there are questions (Vlanderen (Limburg), Western Finland) about the appropriate territorial units for future programmes, relative to the current situation.

A specific concern in Italy (Toscana) is how the funding for urban support under the regional competitiveness objective is to be organised since there is less experience

with urban regeneration programmes in Italy compared with some other Member States. Given the specific characteristics of the Italian urban hierarchy, the definition of urban areas is important here; if the eligible urban areas have a minimum size limit of 100,000 inhabitants, this would make most Tuscan towns ineligible.

6.3.5 Rural development

In many (but not all) countries, authorities appear to be in favour of the transfer of rural support to the CAP. The general reaction is that the real impact of the change will depend on: (a) the interpretation made of the new regulation at national level; and (b) the translation of the regulation in the rural development programmes.

Some national and regional authorities (in Finland, France, UK) are concerned to ensure that rural development is adequately financed, and that an 'holistic approach' to the development of rural areas (e.g. though multi-activity entrepreneurship and diversification of employment) is not undermined in favour of aid to farmers. Changes should not be too fundamental, allowing continuity with the current period (UK ODPM). Several partners pointed out the importance of sufficient differentiation between the interventions financed respectively under Structural Funds and the CAP second pillar (how will tourism in rural areas be supported, for instance?). There are also concerns about coordination between cohesion policy and rural development programmes, associated with the more general issue of coordination under a mono-fund approach (Norra Norrland, Sachsen-Anhalt, Toscana). Additionally, Norra Norrland takes the view that rural development funding needs to become more flexible, enabling adaptation to the needs and situation of individual Member States (rural development in northern Sweden, for example, differs markedly from the needs of rural areas in parts of Continental Europe).

6.3.6 New planning framework

There has been a broad welcome for the Commission's proposals for simplifying the management and implementation of the Structural Funds and the clarification of the division of responsibilities between the EC, Member States and sub-national authorities. Again, Member States are still at an early stage in considering the proposals and getting more feedback from the EC, but several themes emerge from the reactions to date.

The EC's proposal for a new planning framework, with a Council-level strategy and national regional development strategies, has received a mixed response. The Dutch government regards the idea very favourably, on the basis that this approach will help establish a necessary 'vertical hierarchy' to policy and policymaking, allowing objectives to be set and performance subsequently to be reviewed. The Italian and Swedish authorities also consider the framework to be an important opportunity for coordination, aligning cohesion policy at national and European levels in meeting the objectives of Lisbon and Gothenburg.

However, both federal and state authorities in Austria and Germany are more sceptical; as federal states, they are concerned that the EC proposals do not undermine the principle of subsidiarity by strengthening the national government role in economic development at the expense of the *Länder*. Other countries, such as France, are also wary of the impact that the framework might have on national-regional planning processes.

Some Finnish regions are concerned at the prospect of a loss of programme development responsibilities at regional level (Western Finland). The same is true at regional level in Italy, where authorities are wary at the prospect of recently granted autonomy being restricted by a national framework (Toscana). This reflects a wider

concern in some countries, such as Spanish regional and provincial authorities and various UK regions, about the Commission proposals leading to a potentially increased concentration of implementation authority at national level, reducing the scope for regional and local consultation and influence.

Many partners are concerned at the practicalities of the proposal, in particular the role of the Member States in the formulation of the Council-level strategy, the degree of detail to be contained in the national strategy documents, the sequencing of the drafting process (especially in relation to the operational programmes), the flexibility of the system and the potentially disproportionate administrative cost. The Austrian regions, for example, are concerned that the national strategy should have very general goals to allow maximum room for manoeuvre at *Land* level; ideally they would prefer the national strategy and operational programmes to be drafted almost concurrently to avoid loss of subsidiarity. The potential coverage of the new strategic framework is of concern in Vlanderen (Kempen), where there is a perceived danger that the new strategic framework will focus on 'horizontal' or non-economic issues that have little to do with regional development.

The key question for several partners is what leverage the EU would have over Member State strategies. Initial reports suggested that the Commission envisaged the strategic frameworks as more of a 'political exercise' intended to ensure that the Council and Member States paid more regular attention to cohesion policy spending and took more responsibility for the implementation of the Funds. As some national and regional authorities note, however, the draft regulations suggest a more far-reaching approach. The Commission proposes that the main priorities of each national strategic reference framework should be quantified and a limited number of performance and impact indicators identified to allow annual reporting of the Member State contribution towards implementing the Community strategic guidelines. In turn, the annual report by the Commission (from 2009 onwards) would *"state the follow-up measures to be taken by the Member States and the Commission in the light of its conclusions"*. This is of concern to several partners which would like the strategic frameworks at both EU and national levels to be operated with a 'light touch'.

6.3.7 Implementation arrangements

National and regional authorities across the EU have reacted positively to the simplification proposals, albeit with some reservations. The main area of doubt is whether simplification will actually be delivered, partly because any new system can only be judged once it is in place, and partly because of the experience of the changes introduced in 1999, which promised a simplification that did not subsequently occur. A wide range of specific points about the regulatory proposals for implementation arrangements have been noted by partners.

a. Programme complement

Some partners support the elimination of the programme complement. In Toscana, for example, the iterative process of developing the programme complement led to a lack of consistency between the goals of the programme and the physical indicators and targets used to track the progress towards its implementation (indeed, the Commission's proposals were foreshadowed by regional proposals for a tripartite contract objective between regional, national and EU levels).

For other authorities, however, the withdrawal of the programme complement is not regarded as a panacea. Managing Authorities often find that they need a detailed planning and management document, accepted in common by all regional bodies, for effective management of programmes. This applies in Austria, Germany and Spain, in particular, where the institutional arrangement for programme delivery can be

complex. It has been suggested that the end-result may be a return to the style of SPD used before 1999 (North-East England).

b. *Clarity and proportionality of controls*

Partners in Vlanderen, Norra and Norra Norrland noted the importance of an effective control system, built on a clear division of responsibility between the Member States and the Commission and with the avoidance of work duplication. Proportionality in financial control (and other administrative systems) needs to distinguish between large and small programmes in line with funding and programme objectives. As noted in previous IQ-Net reports, the complexity of the Structural Fund rules may inhibit certain types of spending because of the disproportionate work involved in relation to the funding. One of the valuable aspects of the Structural Funds is the scope provided to experiment and innovate but this can be discouraged by applying a common set of rules to all types of project.

c. *Interpretation and application of rules*

A common concern for many partners is that problems have arisen in the past not so much because of the regulatory frameworks but due to the way that they have been interpreted, e.g. ad hoc decisions being taken by desk officers with differing degrees of stringency in applying the rules. Partners have stressed the need for consistent and unchanged application of the regulatory procedures throughout the new period. This is not just a question for the Commission; the interpretation of rules made at national (and in federal states at state level) can also introduce complications. The potential delegation of (some) responsibility for determining what constitutes eligible expenditure could be a positive development in simplifying the reliance on the interpretation of Commission desk officers but equally could introduce new uncertainties.

d. *Mono-fund programmes*

Many partners view the proposal for mono-fund programmes positively, given the potential reduction in complexity of planning, delivery, reporting and evaluation procedures. On the other hand, it has been noted (Sachsen-Anhalt) that separate programmes may introduce new complexity because of the potential for separate ERDF and ESF implementation rules, leading to inconsistencies between programmes and strategies; taken together with the separate rural development programmes, a region like Sachsen-Anhalt (with two types of eligible area) could end up with as many as six programmes. There is also a need to clarify whether the balance between ESF and ERSF resources will be calculated at national level or within each region (Toscana).

e. *Private costs*

A particular concern (France, North-East England, Western Scotland) is that, under the Commission's proposals, Structural Fund programmes will only be budgeted in terms of public cost, and no longer in terms of total cost (public + private). The consequence of this is that programmes will be more and more oriented towards 'public projects' (i.e. projects where the project leaders are public bodies) because any private counterpart/contribution would have no impact on the financial progress of programmes. In particular, this could stand in the way of future venture capital funds, which tend to have the participation of banks. This would be regarded as a step backward.

f. *Horizontal themes*

Western Scotland points out that there is little in the draft regulation about equal opportunities and no reference to 'mainstreaming'. The Commission has had considerable influence in this area in the past, notably the strengthened requirements in the 1999 regulations; this has been dropped in favour of a more optional approach, which is regarded as a missed opportunity, undermining programmes that have made efforts in this area in the current period. It also appears that the environment and equal opportunities are not being coordinated together, and that the definition of equality is still focused exclusively on that between men and women.

g. *Integrated operations*

The reference in the draft regulations to 'operations or groups of operations' has been welcomed in Toscana, where the experience with integrated interventions through the PISL[17] (as in other Centre-North regions – Lombardia, Emilia-Romagna, Piemonte, Veneto) has been positive, allowing the best projects to be selected and the use of scare resources maximised.

h. *Decommitment (N+2)*

There are big differences among national and regional authorities in their view of N+2. Many regard it as valuable for budgetary discipline – placing pressure on those parts of programmes that are not performing – and some would like to see it retained unchanged (Denmark NAEH, Vlanderen, Niederösterreich, North-East England, Norra, Norra Norrland, Sachsen-Anhalt, Toscana). At the same time, there is a widespread view (e.g. among partners in France, Scotland and Wales) that more flexibility could be applied, since the rule has had a significant effect on their ability to manage the smooth and strategic delivery of programmes. There are clear cases – cited in Vlanderen and elsewhere – of funding for innovative projects not being committed because their implementation would take too long.

Potential changes suggested include an N+3 rule, at least for the first year(s) of programme implementation. It has also been proposed that N+2 should only be applied at the programme level rather than the priority level. The rule could also be redesigned to fit better with the realities of programming, notably amending the flat profile of spend which does not necessarily coincide with the realities of the programme calendar.

i. *Performance reserve*

Nordrhein-Westfalen questions whether the Commission's proposals for an EU-wide performance reserve are sufficiently thought-out. Experience to date with the reserve does not necessarily support this approach. Indeed, while there is a need for additional national or regional flexibility, it is not clear that this requires a national flexibility reserve. Some UK partners share this view, arguing that the design of the reserve should be reconsidered; allocating the reserve to areas where the economy is performing well is not necessarily the best policy.

j. *Reporting requirements*

Several partners (e.g. Denmark NAEH) take the view that the proposed simplification of programme planning and the greater decentralisation of aspects of programme implementation will be offset by heavier reporting requirements, with respect to

[17] *Achieving the aspirations of the 2000-06 programming period,* Sandra Taylor, John Bachtler, François Josserand and Laura Polverari, IQ-Net Thematic Report 14(2), European Policies Research Centre, University of Strathclyde, Glasgow

financial management, monitoring and evaluation. However, as Danish partners point out, the Commission is in a difficult position since it is accountable to the Council, Parliament, Court of Auditors and public opinion on sound financial management, but it is proposing a reduced responsibility for what is happening ‘on the ground’. Since Member States and regions are responsible for implementation, bureaucratic procedures and high administrative costs to ensure accountability before approval, during and after implementation may be inevitable.

The proposed removal of programme-level Annual Implementation Reports would be regarded as a loss by some partners (Western Scotland), which see the AIRs as a valuable exercise for bringing together the activities and results of the programme over the past year. Others (Wales) would prefer a more forward-looking exercise, comparable to the Annual Monitoring Business Plans prepared by Welsh programme managers to set out strategic priorities.

7. EU COMPETITION POLICY AND REGIONAL AID AFTER 2006

There is widespread concern about the implications of the Commission's proposals for future regional aid in areas not eligible for the Convergence priority. Indeed, it is recognised that DG Competition's proposals could have a greater impact than reduced funding from EU cohesion policy. For example, in the western Finland programme, aid to business makes up some 40 percent of the programme's funding; and many of the Austrian programmes have a heavy reliance on business aid schemes. The following section examines the key elements of the new State aid rules, their implications and the reactions of some Member States[18].

7.1 The new State aid rules

The current rules controlling the award of regional aid[19] cover the 2000-06 period. Like the Structural Funds Regulation, they are at present being reviewed for the post-2006 period. The approach adopted for 2000-06 was to discipline regional aid by controlling the coverage of those areas eligible for support and by setting aid maxima for the different categories of designated aid area. DG Competition took the view that regional aid should be the exception rather than the rule and therefore concluded that coverage should not exceed 50 percent of the EU population.

Given the enlargement then envisaged, and the desire to achieve a degree of coherence between the national and EU (ie Structural Fund) maps, coverage of 42.7 percent of the EU15 population was judged to be appropriate; this compared with previous coverage of 46.9 percent. The global 42.7 percent quota was then divided amongst the Member States. Article 87(3)(a) areas[20] were defined on essentially the same basis as Objective 1 and covered some 22 percent of the EU population. The remaining population was allocated to Article 87(3)(c) areas[21] and was initially divided among Member States on the basis of relative internal disparities in GDP per head and unemployment at NUTS III. However, various side conditions were then applied (including for instance the stipulation that no country should lose more than one-quarter of its designated aid area population coverage) in order to secure the acceptability of the allocation mechanism. Member States then designated aid areas within their population quota in line with various stipulations in the Guidelines before seeking map approval from DG Competition.

For a number of reasons, it will not be possible to re-apply the approach adopted for 2000-06. One is the impact of enlargement which means that the various side conditions cannot simply be reapplied without breaching the 50 percent global ceiling. Another is that the German authorities took the Commission to the European Court of Justice about the application of the side conditions; while they did not win the case on procedural grounds, the comments of the Advocate General made it clear that, were the same approach to be adopted in future, it would be open to legal challenge. In addition, the context for the control of regional aid has changed markedly in recent years. In line with the Lisbon agenda, the State aid mantra is now "less aid but better". At the same time, DG Competition has been striving to bring State aid policy on to the same basis as other aspects of competition policy (mergers, restrictive

[18] This review is based on a recent report by Fiona Wishlade, *The Beginning of the End or Just Another Chapter? Recent Developments in EU Competition Policy Control of Regional State Aid*, presented at a meeting of the EORPA Regional Policy Research Consortium (3-5 October 2004) and soon to be published in the EPRC European Policy Discussion Paper series.
[19] European Commission, *Guidelines on National Regional Aid*, OJEC No C74 of 10 March 1998
[20] Broadly speaking, areas deemed to be disadvantaged from an EU perspective
[21] Broadly speaking, areas deemed to be disadvantaged from a national perspective

practices) by simplifying and modernising procedures. Further, EU cohesion policy is now moving to a more theme-based approach; as a consequence, policy coherence is now viewed less in map-based terms and more in thematic terms. Regional policy at the national level has also been changing, with less stress in most countries on spatially targeted regional aid and more on broader efforts to improve regional competitiveness in every region. For these various reasons, the proposals which have been made by DG Competition for the control of regional aid post 2006 are very different from the current regime.

7.2 DG Competition proposals

Following an earlier consultation exercise with Member States initiated in April 2003, DG Competition produced a consultation paper on regional aid control post 2006 in May 2004.[22] There were four main proposals made. First, Article 87(3)(a) areas should continue to be defined on broadly the same basis as at present (ie NUTS II areas with GDP(PPS) per head of less than 75 percent of the EU average). On the basis of current data, this would cover just over 27 percent of the EU25 population; however, within EU15, coverage would fall from around 22 percent to some 14 percent of the EU15 population.

Second, Article 87(3)(c) coverage would be limited to so-called "earmarked" regions, rather than being based on national population quotas as at present. Four types of earmarked region were identified:

- Statistical effect regions: that is, those regions which will lose their Article 87(3)(a) coverage due to the statistical effects of enlargement. These regions currently cover just over 4 percent of the EU population.

- Economic growth regions: that is, those regions which will lose their Article 87(3)(a) coverage due to growth (ie their moving above the 75 percent cut-off). These regions currently cover some 2.7 percent of the EU population.

- Outermost regions (under Article 299 of the Treaty): while most outermost regions qualify under Article 87(3)(a), both Madeira and the Canaries would no longer be eligible. These areas cover 0.43 percent of the EU population.

- Sparsely-populated areas: that is, areas with a population density at NUTS III of less than 12.5 inhabitants per km^2. These areas currently cover 0.41 percent of the EU population.

Combining these various categories, they cover less than 8 percent of the EU25 population. As a consequence, overall coverage (that is Articles 87(3)(a) and (c) together) is, under the Commission proposals, less than 35 percent of the EU population. Within EU15, current population coverage of around 43 percent would be reduced to just over 23 percent.

Third, aid ceilings would be reduced across the board. The new aid maxima (which would be in gross terms rather than their current net (ie after tax) terms) are set out in Figure 2.

The combined impact of reduced area coverage and the proposals with respect to award maxima can be seen most graphically in Figure 3.

[22] *Review of the Regional Aid Guidelines – a first consultation paper for the experts in the Member States*, available at: http://europa.eu.int/comm/competition/state_aid/regional/>

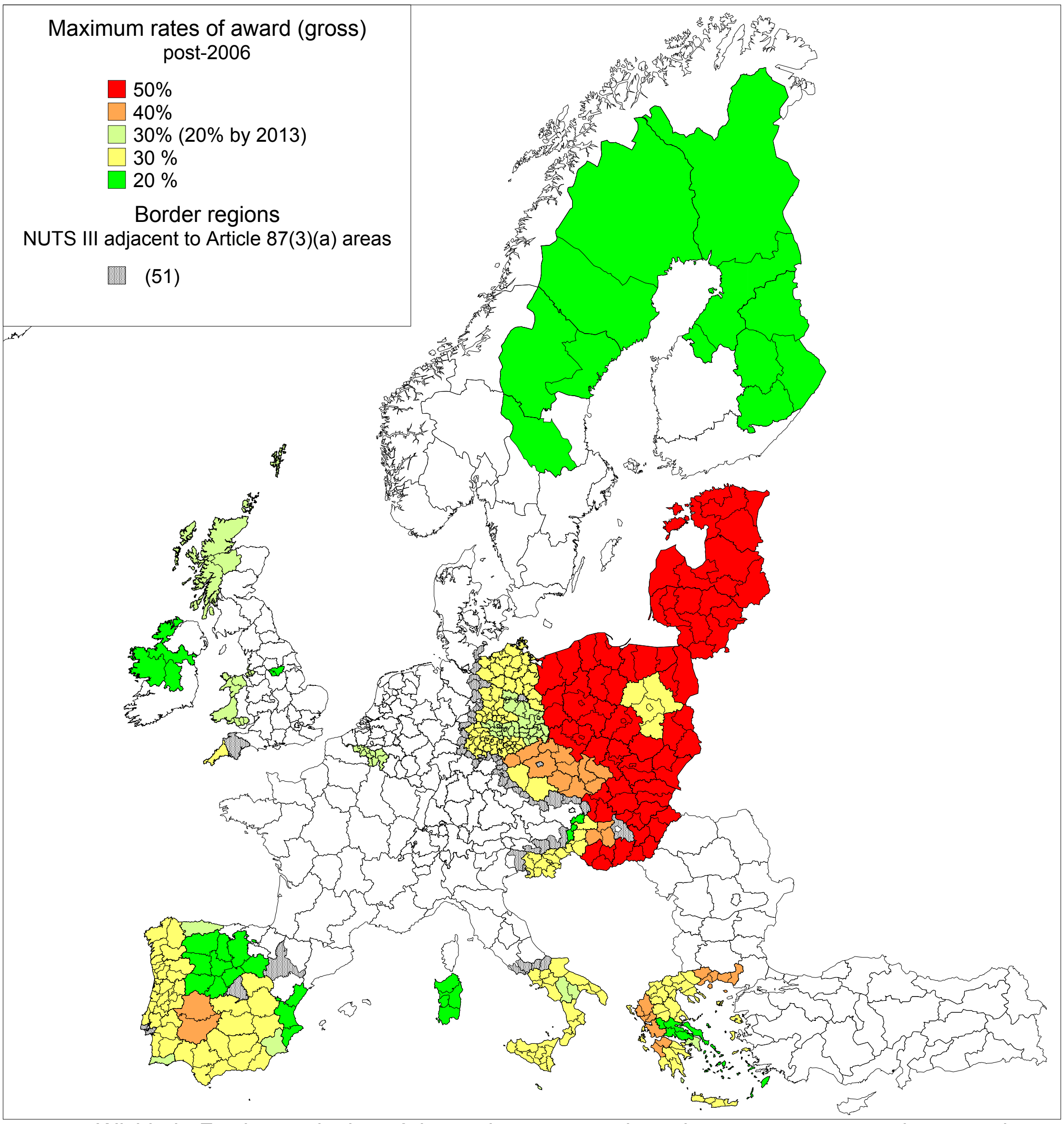
Figure 2: Rates of Award post 2006? (gross grant equivalents)

	Large	Medium	Small
Article 87(3)(a) ≤ 50% GDP	50	60	70
Outermost Article 87(3)(a) ≤ 60% GDP	50	60	70
Article 87(3)(a) ≤ 60% GDP	40	50	60
Outermost Article 87(3)(a) ≤ 75% GDP	40	50	60
Article 87(3)(a) ≤ 75% GDP	30	40	50
Outermost Article 87(3)(c) statistical effect	40 → 30	50 → 40	60 → 50
Article 87(3)(c) statistical effect	30 → 20	40 → 30	50 → 40
Other Article 87(3)(c) (low population density; economic growth)	20	30	40
Non-assisted	0	10	20

Source: Regional Aid Working Paper.

.

Figure 3: Award Values and Assisted Areas Post-2006?



Source: Wishlade F, *The Beginning of the End or Just Another Chapter? Recent Developments in EU Competition Policy Control of Regional State Aid*, EoRPA Paper 04/3, European Policies Research Centre, University of Strathclyde, September 2004

The map shows clearly the dramatic reductions in coverage being proposed, most obviously within EU15. There would be no aid area coverage at all in Denmark, Luxembourg and the Netherlands or in mainland France. In Austria, Germany, Ireland and the UK coverage would fall by more than half. In these countries, the ability to operate a traditional regional policy would obviously be very severely constrained. Moreover, the areas identified for support are determined on the basis of EU rather than national criteria. Also of note are the significant border problems highlighted in the map, with major rate differentials across borders, particularly between EU15 countries and the new Member States. Finally, mention is worth making of the transient nature of the data on which the above designations are based. In this context, it is of note that both Hainaut and the Highlands and Islands of Scotland are eligible for support even though they do not currently qualify as Article 87(3)(a) areas.

A fourth and final point to make about the Commission proposals is that, recognising the much more constrained approach being proposed for regional aid to large firms, they hold out the promise of higher rates of award for SMEs and more flexibility with respect to horizontal forms of aid (for instance, for R&D). Current SME ceilings of 7.5 percent (for medium-sized firms) and 15 percent (for small firms) are proposed to rise to 10 percent and 20 percent respectively. In addition, new horizontal aid frameworks may be introduced with “flexibility for regional differentiation”.

7.3 Reactions of EU Member States to the EC proposals

Member States were requested to respond to the above proposals by the end of June. Focusing on the responses made from the EU15 Member States, and particularly from the non-Cohesion Fund countries, the following were the main points raised with respect to the proposed eligibility criteria for Article 87(3)(a) and (c) areas:

- No adverse remarks were made about the definition of Article 87(3)(a) areas, though the UK has suggested that the 75 percent cut-off should apply at NUTS III rather than NUTS II.

- There was broad agreement about the special treatment accorded to the statistical effect regions. Germany proposed that the status of statistical effect regions should continue to be monitored so that the phasing out of statistical effect support could be stopped and indeed reversed should a statistical effect region subsequently meet the Article 87(3)(a) criteria.

- The treatment of areas of low population density drew a response from the Nordic Member States. In its consultation paper, the Commission had suggested that there should be special treatment for arctic regions, by which it probably simply meant areas in the far north. The Nordic Member State submissions all argued that arctic areas should coincide with the areas listed in Protocol 6 to the Accession Agreement as eligible for Objective 6. They also suggested that sparsely-populated regions should receive the same treatment as the outermost regions in terms of award values.

- A number of countries (Austria, Germany, Ireland, Italy) proposed that special provisions should be introduced to counter negative cross-border effects. This is clearly a major concern across a range of Member States.

- The position papers for Finland, France, Ireland and Italy also argued that islands should receive special treatment, a claim which has some backing from the Treaty of Amsterdam and in the Constitutional Treaty (Article III-116); the UK also argued that Northern Ireland should continue to receive the special treatment it was accorded under the 1998 Regional Aid Guidelines.

- Finally with respect to eligibility criteria, a number of countries were vociferous in their opposition to the withdrawal of Article 87(3)(c) areas designated on the basis of national criteria. The German position argues that the ability to support weak regions under Article 87(3)(c) is a core function of national independence, while the Austrian paper describes the “complete abolition” of Article 87(3)(c) as a “severe interference” with the policy of reducing regional disparities in Austria. The French position also describes the abolition of government support for significant projects in Article 87(3)(c) areas as unacceptable. Similar sentiments are expressed in the UK and Irish papers where there has been particular concern at the use of EU rather than national criteria and at the employment of NUTS II data which it is felt masks sub-regional disparities.

As far as award rates are concerned, there was considerable consensus that (a) the rates of award proposed for Article 87(3)(a) areas were too high and (b) that the 10 percentage point rate differentials proposed in Figure 2 were too great. While there was general consensus that rates were too high, several Member States proposed still higher rates in response to specific circumstances in their own countries – for instance with respect to the outermost regions (France), islands (Italy) and sparsely populated areas (Finland and Sweden). There was more diversity with respect to the proposed use of gross rather than net rate ceilings. These were supported by Finland, Germany, Sweden and the UK but were opposed by France and Italy.

It is anticipated that there will be further consultation and negotiation in the run-up to the new policy period. While the views of the Member States will doubtless be taken into account, it is important to note that the onus is on the Member States rather than DG Competition to reach agreement. If the Commission simply does nothing, the current maps and regional aid regimes will end in December 2006.

In most Member States, the lead on this issue has been taken by national governments, but some regions have contributed to the debate, as in the position papers produced by Vlaanderen and by Niederösterreich and Steiermark (see Box).

Proposals by Niederösterreich and Steiermark for future regional aid

- areas with a GDP per head well below the national average should retain Article 87 (3)(c) status;
- areas bordering the new Member States should have Article 87(3(c) status;
- appropriate phasing-out arrangements should apply to areas which lose Article 87 (3)(c) status, for example by being allowed to grant higher award rates for a temporary period;
- the disparity in award rates between neighbouring areas should be limited to a maximum of 15-20 percentage points;
- recognition should be given to the potentially heightened disparity in aid effects, associated with differing levels of taxation, in the move from net to gross subsidy equivalents for assessing aid intensities;
- more flexibility should be available to provide horizontal aid to medium-sized and large enterprises, for example by raising the *de minimis* threshold and higher award rates;
- the procedures for notifying state aid instruments should be simplified significantly.

8. ISSUES FOR DISCUSSION

This paper has provided an update of recent programming developments, covering both strategic and operational issues. It has also addressed the longer term debate about the future of EU cohesion policy (and of the competition policy control of regional aid), with a review of the reactions of national and regional authorities to the Commission's proposals for the new financial framework and the draft regulations for Structural and Cohesion Funds after 2006. This final section lists some questions as a starting point for discussion at the Toscana meeting.

1. What are the strategic and operational priorities for the remaining years of the current period? Specifically, what steps are being taken for:

- strategic refocusing of programmes?
- better implementation arrangements?
- effective strategies for coping with N+2?
- preparations for programme closure?

2. What are the key concerns for partner authorities with respect to the regulatory proposals for the future of cohesion policy, specifically with respect to:

- the objectives of convergence, competitiveness and cooperation?
- the regional development themes of innovation, accessibility and the environment?
- the geographical allocation of regional competitiveness funding?
- the new planning framework?
- the implementation arrangements?

3. What are the key concerns for partner authorities with respect to the Commission review of regional aid guidelines?

4. To what extent is there a need for the views of programme managers to be given a higher profile in the reform debate? Is there scope for an IQ-Net paper to be produced on behalf of the network?