EU Cohesion Policy: Challenges and Responses

The European Union's cohesion policy faces many challenges over the coming years, the most obvious one being that of the dramatic increase in social and economic disparities between Member States and regions after enlargement. The participants in this Forum discuss the key issues and review the different policy and budgetary perspectives on the future direction of EU cohesion policy.

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The Future of European Regional Policy

The cohesion policies of the European Union financed under the Structural Funds and the Cohesion Fund, with a total allocation of €213 billion for the period 2000-06, have grown to become the second largest expenditure in the Community budget after the Common Agriculture Policy (with 33% and 47% of the total, respectively).[1]

Their existence reflects the political agreement on the part of all of the Member States of the European Union on the principle that the process of increasing economic integration in Europe must be accompanied by efforts to ensure the widest distribution of the resulting rewards in both geographical and social terms. Through three generations of regional development programmes over nearly fifteen years, the Union has already contributed significantly to reducing the gaps between the regions against a background of the completion of the internal market and the introduction of a single currency. This work is by no means complete. Cohesion policy will need to be renewed and reformed if it is to respond to the widening gaps that will follow the next enlargement of the Union in 2004 and to the ongoing challenges to all of Europe's regions arising from globalisation.

The Added Value of EU Cohesion Policy

In the absence of the kind of fiscal equalisation mechanisms to redistribute resources between rich and poor that characterise federal states such as the US, the European Union's cohesion policy is its only instrument that explicitly addresses inequalities. It is, at the same time, a very specific instrument involving a transfer of resources between Member States via the budget of the European Union for the sole purpose of supporting investment in people and in physical capital, for example to develop research and innovation, new businesses or infrastructure networks. In short, the concept of cohesion that has applied has not been a passive one that *redistributes* resources but a dynamic cohesion that *creates* resources, through investment in regions and people.

The added value of the policy is considerable.

First, in economic terms, the additional investment provides the less developed regions, or those undergoing economic restructuring, with enhanced possibilities for growth enabling them to create new opportunities, to address mismatches in the labour market and to raise the quality of life of their citizens. In the period 1994-99, the Union contributed around 15% of total investment in both Greece and Portugal, 10% in Ireland and 6% in Spain. This has undoubtedly contributed to the observed reduction in income gaps. Between 1988 and 2003, for the three poorest Member States – Greece, Portugal and Spain – the gap in GDP

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[1] Cohesion policies are principally delivered in a highly decentralised manner through regional development programmes ("Objectives 1 and 2" of the Structural Funds). In addition, the Cohesion Fund contributes to infrastructure projects in the poorest Member States. There are also national-level labour market programmes that are targeted on social groups ("Objective 3") as well as "Community Initiatives" and innovative actions.

per head with the rest of the Union closed by between 11 and 13 percentage points. In Ireland, of course, the catching-up has been even more dramatic, with a doubling of income per head over the same period.

Second, European Union regional policies contribute directly to improving both political and geographical integration. In physical terms, one of the major items of expenditure has been that to develop infrastructure networks, including transEuropean networks, in transport, telecommunications and energy. For example, between 1994 and 1999, some €14 billion was invested in developing transport links in the least developed regions. In addition to the physical links, regional policies have helped to create networks that bring people together across Europe breaking down the national, cultural and other barriers. Organising such cooperation across national boundaries is a matter that can only be undertaken effectively at the supranational level.

Third, European Union regional policies help to achieve European priorities, by ensuring that the necessary physical capacities are created in the Member States and regions enabling them to implement other policies such as those in the fields of research, education and training, information technologies, etc. They help to encourage more precision in public expenditure so that it is more compatible with the single market and the maintenance of a level playing-field, such as the provision of public goods, infrastructure and training. They also help to maintain sound national macro-economic balances easing the pressures, within the framework of the single currency, on national resources for regional development, economic restructuring, and job creation.

Central to achieving the added value of European cohesion policy is the regional development "programme". The programme sets out within a single coherent framework the targets, the process and the resources for investment in equipment, infrastructure and human resources taking into account the specific circumstances (strengths and weaknesses) of the regions. They cover the medium to long term, thus allowing interventions to be planned within a stable, multi-annual framework which is essential for the realisation of major investments, for the creation of national, regional and local partnerships, and for institutional and administrative capacity building. As a result of co-financing arrangements, the programmes lever in additional expenditure from national public and private sources, thereby creating a greater impact on overall investment. Current experience suggests that each €1 from the EU budget attracts an additional €3 in national public and private contributions.

Reforming Cohesion Policy

While the achievements have been considerable over the period since the introduction of a modern European cohesion policy in 1989, much remains to be achieved. Europe's regions face many challenges over the coming years, the most obvious being that of the dramatic increase in social and economic disparities following enlargement. In the new Europe of Twenty-Five, the gap in income (GDP) per head between the 10% of the population living in the most prosperous regions and the same percentage living in the least prosperous regions will more than double compared to the situation within the Fifteen. Income per head in Inner London (UK), the most prosperous region, will be nine times that in Lubelskie (Poland).

While reducing these gaps will be the top priority for cohesion policy in the future, the whole of the Union will face challenges arising from a likely acceleration in economic restructuring as a result of globalisation, the effects of the technological revolution, the development of the knowledge economy and society, an aging population and a growth in immigration.

It was against this background that, in March 2000, the Heads of State and Government of the Union meeting in Lisbon set out a strategy designed to make Europe the most successful and competitive knowledge based economy in the world by 2013. The strategy has several elements designed to encourage enterprise, innovation and research so that Europe and its regions are better equipped to deal with the effects of economic and social change. At the Göteborg Council in June 2001, the strategy was widened, adding a new emphasis on protecting the environment and achieving a more sustainable pattern of development.

In the face of this new economic, social and political agenda, European cohesion policy needs to undergo a significant reform. The overriding aim for the new planning period beginning in 2007 must be to arrive at a policy that achieves a greater mobilisation of unused resources as represented today by unemployment and lagging regional development. One example: unemployment rates exceed one-in-five, 20%, in 28 regions, mostly concentrated in the peripheral parts of current Member States as well as in regions in Bulgaria, Poland and Slovakia.

The Structural Funds, 2000-06

Objective 1: Helping regions whose development is lagging behind to catch up. Some fifty regions, home to 22% of the Union's population, or some 83 million inhabitants, are concerned and they receive 70% of the funding available; between 2004 and 2006, a further 73 million people will be covered by this category.

Objective 2: Supporting economic and social conversion in industrial, rural, urban or fisheries-dependent areas facing structural difficulties. 18% of the population in the EU15, or 68 million people, live in these areas, which receive 11.5% of total funding.

Objective 3: Modernising systems of training and promoting employment. Measures financed by Objective 3 cover the whole Union except for the Objective 1 regions, where measures for training and employment are included in the catching-up programmes. Objective 3 receives 12.3% of total funding.

Four Community Initiatives are aimed at finding solutions to problems common to a number of, or all, member states and regions, such as the development of cross-border, interregional and transnational cooperation, the support of innovative strategies in cities and urban neighbourhoods, the promotion of rural development initiatives, and the fight against discrimination in the labour market. These instruments absorb 5.35% of the Structural Funds' budget.

In recognition of the challenges, a reformed regional policy needs to address three main priorities:

- achieving *convergence* for the least developed Member States and regions of the European Union, mainly in the new Member States, also helping them to make a greater contribution to Europe's economic performance. This would include an emphasis on building institutional capacities as well as achieving the Lisbon and Göteborg agendas.
- improving *competitiveness* and employment in the other Member States and regions of the European Union, in particular to respond better to economic and social restructuring in the industrial, urban and rural areas, to address other handicaps and to increase competitiveness.
- promoting *cooperation*, building on the success of INTERREG, with a view to reinforcing the integration of the Union. Action should focus on integrated programmes managed by a single authority in pursuit of key Community priorities linked to the Lisbon and Gothenburg agendas. The main priority is cross-border cooperation, while additional options include programmes for transnational and inter-regional cooperation to promote harmonious and balanced development.

The main delivery mechanism must remain that of the regional development programme. Its integrated, decentralised approach cannot be replaced by some form of centralised project selection administered bureaucratically from Brussels, above the heads of the regions and the regional actors who have the specialist knowledge of needs on the ground. At the same time, the quality of the programme approach could be enhanced by a number of innovations.

First, the policy needs to become more concentrated. The major concentration of resources must remain on the poorest regions, with an emphasis on the new Member States. In addition, the programmes need to address strategic investments linked to the Lisbon and Göteborg objectives as well as, in the least developed regions, on institutional capacity building. Second, efficiency could be enhanced with improved incentives towards better performance. Project selection criteria, for example, could reflect the achievement of Lisbon/Göteborg objectives. Thirdly, there is a need for more flexibility to enable adjustments to be made more readily during the life of the programme. One idea would be to retain at the centre a flexibility reserve, to be mobilised in the event of serious economic crises affecting a region or sector. Finally, European policies need to become more simple. While we need to be wary of those who criticise the European cohesion policy ostensibly on grounds of bureaucracy whereas their real agenda is one of reducing the Community budget, more could be done to simplify management. Even before the next period, the Commission has embarked on an exhaustive examination of ways of reducing the administrative charge associated with the management of the current programmes. For the future, the introduction of the principle of proportionality could help to link the administrative overheads to the financial importance of the programmes and/or of the Community co-financing. This would result in different degrees of decentralisation of financial and control functions. For the competitiveness strand the interventions should be less territorial, the emphasis shifting away from the micro-zoning of interventions in order to focus on the best strategy to improve the region.

Simplification also militates in favour of decentralisation and directly concerns the question of good governance in European cohesion policy. It concerns the involvement of the regions in the implementation of cohesion policies – for example, via a system of tripartite agreements between the Union, the Member State and the region. But in the future it should perhaps also create the conditions for the more active involvement of the regions, whatever their status, in the conception of these policies alongside the national administrations.

In that sense, the new policy could contribute decisively to the goal of a Europe for the regions.

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A Cohesion Policy for the Future

The European Union will enlarge next year and integrate new members coming mainly from Central and Eastern Europe, all of which are relatively poor and are expected to be large recipients of regional aid. In addition, the current fifteen Member States are about to negotiate the new financial perspectives to assure the financing of EU activities in the years to come. Expenditures for EU regional and employment policy or – as it is often called – EU cohesion policy are the second largest part of the EU budget, covering around 35 % of the total.

In March 2000 in Lisbon, the European Council set the goal of making the Union the most dynamic, competitive, sustainable, knowledge-based economy, enjoying full employment and strengthened economic and social cohesion by 2010. It was the intention of the European governments to face the problem of economic stagnation in the EU in the 1990s. This "Lisbon Agenda" also influences the future direction of EU cohesion policy.

Now is the crucial time to ask some fundamental questions:

- what is the purpose of the EU cohesion policy?
- how can it best contribute to growth and employment?
- can we expect that the European Internal Market will automatically lead to the convergence of Member States and regions or will the integration of national markets lead to increased regional concentration?

In January 2003, the European Commission presented the Second progress report on economic and social cohesion,[1] in which it analysed the current situation in the EU and the main challenges posed to EU cohesion policy by enlargement.

The document was followed by a series of initial positions on the matter by most of the Member States.[2] The European Parliament,[3] the Committee of the Regions[4] and the Economic and Social Committee[5] also responded to the proposals of the European Commission. The President of the European Commission also presented a report in July made by a high level group of economic experts led by the Belgian economist, André Sapir. This report, known since then as the Sapir report, not only concerned cohesion policy, as its aim was to offer a wider proposal to stimulate the growth of the European Union, dealing with issues such as the completion of the Internal Market and the Growth and Stability Pact. Nevertheless, the report, which defended a whole redistribution of the EU budget, also contained some conclusions on EU cohesion policy and made some proposals for reform.

The Committee of the Regions, as the EU institution representing the regional and local authorities of the EU, is very concerned by the outcome of this debate. In several opinions and studies,[6] it has shown a picture

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1 European Commission: Second progress report on economic and social cohesion, COM (2003) 34 final, Brussels, 30 January 2003.

2 The positions of most of the Member States regarding cohesion policy can be found on the web page: http://europa.eu.int/comm/regional_policy/debate/contri_member_en.htm.

3 European Parliament: Report on the Second progress report on economic and social cohesion, Rapporteur: Kastorakis, Brussels, 2 September 2003.

4 Committee of the Regions: Opinion on the Second progress report on economic and social cohesion, CDR 391/2002 final, Rapporteur: Schneider, Brussels, 2 July 2003.

5 Economic and Social Committee: Opinion on the Second progress report on economic and social cohesion. ECO 104, Rapporteur: Barros Vale, Brussels, 16 July 2003.

Table 1
Financial Programming 2000-2006 by Objective (without performance reserve)
current prices (euro)

	2000	2001	2002	2003	2004	2005	2006	Total
Objective 1	17,172.4	20,832.0	21,329.6	21,577.1	19,896.1	20,122.1	20,069.7	140,999.0
Objective 2	2,815.6	3,613.0	3,729.8	3,651.8	3,220.8	3,140.8	3,057.2	23,229.0
Objective 3	3,504.5	3,574.5	3,646.0	3,718.9	3,439.3	3,508.0	3,578.2	24,969.4
FIFG outside Objective 1	156.4	164.0	168.9	171.9	158.9	161.9	166.0	1,148.0
Community Initiatives	0.2	1,607.3	1,783.6	1,866.0	1,912.2	1,957.9	1,971.8	11,099.0
Total	23,649.1	29,790.8	30,657.9	30,985.7	28,627.3	28,890.7	28,842.9	201,444.4

Source: European Commission: Budget General Directorate.

of cohesion in the EU, and following a long debate the Committee was the first EU institution to present an overall position on the future of EU cohesion policy and to discuss it with representatives from regions all over Europe. On 5 and 6 May 2003, the Committee of the Regions organised a conference in Leipzig on the future of cohesion policy. Six hundred participants from EU regional and local authorities attended the conference, which issued a Declaration[7] on the future of EU cohesion policy.

This article will present some basic facts on EU cohesion policy. It will then analyse the different proposals for a cohesion policy for an enlarged EU.

Basic Facts about EU Cohesion Policy

The economic and social cohesion of the EU has been an objective established in the Treaties since the creation of the EU. Article 2 of the Treaty sets out that one of the objectives of the EU is to achieve "a harmonious, balanced and sustainable development of economic activities" throughout the Community.

This objective was reflected in the creation of the European Social Fund in 1958, the embryo of the current cohesion policy. This policy was developed and completed with the different enlargements of the EU. The first enlargement was accompanied by an EU regional policy with the creation of the European Regional Development Fund. The "Southern enlargement" in the 1980s reinforced and widened this policy, increasing substantially its instruments and resources. The result was the introduction of a section on economic and social cohesion in the Maastricht Treaty (articles 158- 162) and the creation of the Cohesion Fund.

The cohesion policy in its current form was designed for the period 1994-1999. It was reformed at the Berlin Summit of 1998, at which Member States agreed on the general guidelines for the period 2000-2006 on the basis of the proposals presented by the Commission in the Agenda 2000 document. Table 1 shows the allocation of financial resources for this period.

The current EU cohesion policy is structured by a series of instruments and objectives. Its basic principles are multi-annual programming, coordination and additionality. The main instruments of EU cohesion policy are the Structural Funds (ERDF, ESF, EAGFF and FIFG) and a number of Community Initiatives (INTERREG, URBAN, EQUAL and LEADER).

The Structural Funds are allocated on a territorial basis, except the Objective 3 regarding the whole territory of the Europan Union (with the restriction of the areas yet belonging to the Objective 1 eligible territories). The Funds (€195 billion) are concentrated on a number of clearly defined priorities.

- Objective 1 covers action in least developed regions with a GDP per head of 75% below the EU average. These regions represent 22% of the EU population and receive 70% of the total budget of the Structural Funds.
- Objective 2 assists economic and social conversion in areas experiencing structural difficulties. 18% of the population of the Union lives in such areas, which receive 11.5% of the Structural Funds.
- Objective 3 promotes the modernisation of the training systems and the creation of employment outside the Objective 1 regions. Objective 3 represents 12.3% of the Structural Funds budget.

The Cohesion Fund (€18 billion) is allocated on a national basis, as its beneficiaries are the Member

[6] "Territorial cohesion in Europe", COR studies 6/2002, Brussels, October 2002; Committee of the Regions, op. cit.; Committee of the Regions: Outlook report on Governance and simplification of EU Structural Funds, CDR 389/2002 final, Rapporteurs: Fitto and Van Cauwenberghe, Brussels, 2 July 2003.

[7] Leipzig Declaration on the Future of European Union Cohesion Policy, Leipzig, 5 and 6 May 2003.

States whose GDP is below 90% of the EU average. The allocated resources finance projects in the environmental and transport sector.

The Current Situation of Cohesion in the EU

There is almost unanimous agreement in recognising that EU cohesion policy has played an important role in the efforts by the less developed countries of the EU at convergence to EU levels. In this regard, economic and social data supports the idea that convergence between Member States is happening.

In the three least prosperous Member States (Greece, Portugal and Spain), the income per capita rose from 68% of the EU average in 1988 to 79% in 1999. Ireland, as the fourth of the cohesion countries, was especially successful, as it has passed from being the poorest EU Member State at the end of the 1980s (64% of the EU average) to an exceptional position in 2001 (118% of the EU average). This trend has been confirmed in the past three years. Regarding the levels of employment growth, the cohesion countries have performed better than the EU average.

Nevertheless, this approach does not take into account fully the principles set down in the Treaties. In fact, article 158 states, "In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas." This reflects a more complicated idea of cohesion stated in the Treaty, not only based on purely economic (divergences on economic performance) and social cohesion (differences of income between individuals), but an aspiration to a certain degree of territorial cohesion of the EU.

This concept of territorial cohesion (already present in article 16 of the Treaty) was developed by the European Spatial Development Perspective, agreed by Member States in the Potsdam Council in May 1999,[8] and used in the Commission's Second Report on Economic and Social Cohesion in the EU.

This approach demands the analysis of a series of cross-cutting factors of divergences between the regions and territories of the EU. Besides its economic performance, levels of employment, other factors determining the competitiveness of the regions like infrastructure, remoteness and specific territorial conditions have to be taken into account.

When we analyse cohesion from this approach, the picture is very different as it shows that differences remain and even tend to increase. We could conclude in this regard that while convergence between Member States is taking place effectively, territorial cohesion is far from being achieved.

Regarding GDP per capita at Purchasing Parity Standard (PPS) levels (considered the best criteria for evaluating the performance of countries and regions), whilst differences in GDP per capita levels between Member States have decreased, GDP levels have tended to diverge across regions, increasing inequalities between regions within Member States.[9]

In terms of unemployment rates, the disparities are still quite pronounced, varying from a 2.3% in regions where rates were lowest to 19.7% in those regions where rates were the highest. Differences remain very high within Member States, especially in Italy. In this case, the difference between the region with the lowest rate (Trentino-Alto Adige) and the region with the highest rate (Calabria) exceeds 21 percentage points.

The data regarding the factors determining the competitiveness of regions also show that there are considerable disparities among the regions of the EU. In particular, the European Commission estimates that "indicators of technological advance confirm a picture of lower activity relating to technological innovation and the growth of the knowledge economy in the Southern Member States, compared to the Northern Member States".[10]

In this regard, the data show a divide between regions concerning the level of patent applications, employment rates in the high tech sector and R&D expenditure. There is a correlation between these three indicators, thus indicating that regions with higher R&D expenditure (especially in the private sector) have bigger rates of patent applications per capita and higher rates of employed people in the high tech sector.

This idea is also underlined by the Sapir Report, which in a wider perspective notes that the differences in growth rates between the EU and the United States in the 1990s lie basically in the lack of adaptation to the knowledge economy by the EU compared to the USA. The Sapir report also identifies the differences in the high tech sector as a factor of divergence between regions in the EU.

[8] European Spatial Development Perspective, agreed by Member States in the Potsdam Informal Council of Ministers responsible for Spatial Planning in May 1999, published by the European Commission.

[9] European Commission: Second progress report ..., op. cit.

[10] Ibid.

Another important factor stated in the Sapir report is the quality of the local administration. The low quality of the administration in less developed regions would be also a factor explaining the gap, as these regions would also find it difficult to spend the EU funds allocated to them.

In this sense, the indicator used is the "disbursement ratio", or the difference between the EU money allocated to a country and the actual amount effectively paid. For Objective 1 regions, the EU average ratio in the period 1994-1999 was 79%, but the figures ranged from 67% in Italy, through 81% to 87% in Spain, Ireland and Greece to a maximum of 90% in Portugal.

The Challenge of Enlargement

If the current situation is one of persisting and even increasing disparities between regions in the EU, these disparities will experience a critical increase with EU enlargement. In fact, this will constitute a real challenge to the internal cohesion of the EU. Several factors have to be considered.

- The economic disparities within the EU will grow significantly. As the Commission indicates, "the gap in GDP per capita between the 10% of the population living in the most prosperous regions and the same percentage living in the least prosperous regions will more than double compared with the situation of the EU 15".[11]
- There will be a geographical shift in the pattern of disparities. The enlargement will increase the number of people living in regions below the 75% EU GDP average level. In an enlarged EU, 25% of the total population will live in regions with a per capita GDP below 75% of the EU average, which means 116 million people will live in Objective 1 regions. Six out of ten citizens living in Objective 1 regions will be living in regions in the candidate countries. This is an important change compared to the current situation in the EU15, where 68 million people live in Objective 1 regions, 18% of the total population of the EU15.
- The employment situation will significantly worsen. Enlargement will worsen the employment situation in the EU, as candidate countries have declining employment rates and high long-term youth unemployment rates. The Commission estimates (taking into account these facts) that three million jobs will have to be created in the candidate countries in order to align the level of the new Member States with that of the rest of the EU.

However, these arguments have to be weighed against the expected economic benefits that the enlargement process will bring. In this regard, there is a broad consensus in considering that enlargement will increase the economic growth of the EU, especially in the new Member States. Nevertheless, these benefits will be unevenly distributed across the EU.

Some authors[12] argue that the central and northern regions will reap most of these benefits in the short term, due to the concentration of economic activities in these areas of the EU. The loss of Funds in existing Member States' regions can also add more problems and undermine the efforts at convergence undertaken in past years.

The enlargement will also underline the problems regarding the capacity of the administrations to manage the Funds. Although all the new Member States already have experience in dealing with European cohesion instruments (ISPA, SAPARD, PHARE), which was not the case in previous enlargements, a significant effort will have to be made in these countries in order to use the funds they receive successfully.

Proposals for Reform

There seems to be broad agreement on the need to reform the existing EU cohesion policy. However, there are many different visions concerning the way this reform should be done.

The European Commission and the Committee of the Regions, as well as the majority of Member States,[13] have stated the need for a continued significant effort by the EU regarding cohesion policy, in what we can call the *cohesion approach*.

Other Member States (notably the UK and the Netherlands) defend a different perspective, demanding the devolution of cohesion policy to the Member States. The Sapir Report, although in a wider perspective of boosting economic growth in the EU, could also be included in this second perspective, which we shall call the *convergence approach*.

We shall examine the different proposals for a reformed cohesion policy according to these two different approaches.

[11] Ibid.

[12] Harvey Armstrong, Jim Taylor: Regional economics and policy, Oxford 2000, Blackwell.

[13] Conclusions of the Informal Council of Ministers for Regional Policy, Rome, 20 October 2003.

The Convergence Approach

What we here call the convergence approach is based on the assumption that the best way to deal with the problems of regional disparities is not an action at EU level but, according to the principle of subsidiarity, the devolution of this task to the Member States. According to this view, EU cohesion policy should concentrate on helping the new Member States to converge with the EU average, leaving the burden of dealing with regional differences to the level of the national state.

This is the approach supported by the UK Government in its document "EU framework for a devolved regional policy".[14] This document, elaborated by a wide discussion in the country, states that "it is both fair, and the most effective use of funds, to concentrate the EU's limited financial resources on the poorest Member states, where they will add most value", while concentrating the efforts of the EU on the achievement of the objectives of the Lisbon Agenda.

The Sapir report shows some similarities with this position, although it tries to deal with a far wider range of issues. In general, the Sapir report states that the EU's main effort should be the promotion of growth. In this regard, the EU budget should be reformed and reoriented in order to be better able to face this problem. Thus, the report defends a radical reform of the structure of the EU budget, which would be composed of three funds:

- a *Growth Fund*, focused on the objective of boosting the growth of the EU economy. This should primarily finance EU policies on research – with the aim of realising the European research area – education and training, and investment in infrastructure, primarily the Transeuropean Networks of Transport.
- a *Convergence Fund*, devoted to help the convergence process of the new Member States and the lagging areas of the old Member States. This Fund would also finance a phasing out for certain macro-regions of the current EU members. The money would be allocated to physical and human infrastructure investments and institution building.
- a *Restructuring Fund*, aimed at helping displaced workers in general, an aid for the restructuring of the EU agricultural sector and a phasing out for the activities currently covered by the CAP.

This structure would leave unchanged the total budget of the EU dedicated to social and economic activities at about 1%, which is equivalent to what is foreseen in the current financial perspectives for the period 2000-2006. Of this 1%, 0.45% would be allocated to the Growth Fund, 0.35% to the Convergence Fund and 0.20% to the Restructuring Fund.

This proposal could in fact facilitate a radical shift in the current EU cohesion policy, taking some of the arguments of the advocates of a "renationalisation" of EU cohesion policy, although maintaining an important EU effort for the convergence of the new Member States. These changes would be justified by the need to concentrate the budget according to concrete objectives and according to the principle "one fund, one objective", with a major effort directed to the growth fund and the achievement of the objectives of the Lisbon agenda.

The proposals of the report raise some questions. First, the report raises the question of the structure of the Convergence Fund. The current cohesion policy of the EU already has a quite complex architecture of actions and tools (Objectives, Funds etc.) and the report does not much clarify the possible structure of this Fund and the activities it would finance.

Secondly, regarding implementation, the report seems to leave the sole responsibility to the Member States. We consider this to be one of the weakest points of the report, as it fails to take into account the positive role of regional and local authorities as agents for regional development.

The Cohesion Approach

The cohesion approach is based on the idea that, according to article 158 of the Treaty, "the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas". According to this mandate, the cohesion approach states the need for a cohesion policy at EU level, rejecting any proposal for its renationalisation.

The Committee of the Regions shares this approach. It has stressed several times the need for the continuation of the cohesion policy as a Community policy, rejecting the devolution of this policy to Member States.[15] The Committee sees cohesion policy as an essential element of solidarity in the EU, and an in-

[14] Government of the United Kingdom: An EU framework for a devolved regional policy, London, March 2003.

[15] Leipzig Declaration, op. cit.; Committee of the Regions: Outlook report on Governance ..., op. cit.; Committee of the Regions: Opinion on the Second progress report ..., op. cit.

dispensable instrument for achieving cohesion among the regions of the EU.

According to this vision, the future EU cohesion policy should be placed on the following basis.

- *Actions regarding the least developed regions.* There seems to be a broad consensus among all the actors on the need to concentrate the allocation of the resources on the poorest regions, defined as the regions with a GDP of less than 75% of the EU GDP average. This was a main guideline proposed by the Commission in the Second progress report on economic and social cohesion, and this proposal appears to have the consensus of all Member States. The Committee of the Regions has stated the need for this concentration of resources in the poorest regions. It also endorses the idea of a compensation for regions affected by the statistical effect[16] and a phasing out for the regions leaving the Objective 1. As well, special treatment should be given to ultra peripheral and less populated areas that face structural constraints. The Committee strongly feels that without this compensation, a negative political message about enlargement would be sent to all those regions of the EU. All these actions would continue to be covered by a new Objective 1, which would be allocated around 80% of the cohesion budget.
- *Actions outside the least developed regions.* The Committee of the Regions has supported the need for the continuation of a cohesion policy covering all the regions of the EU. Nevertheless, it supports a shift towards a more flexible policy focused on the factors determining the competitiveness of the regions. The latest news from the Commission points in this direction for a future Objective 2, which would contain a kind of menu of political priority areas to be chosen by Member States, which would also have the freedom to determine the regions covered by the new Objective 2. These areas would be sustainable environment and risk prevention, adaptation to the knowledge economy and information society. This new Objective 2 would be complemented by an Objective 3 focused on the implementation of the European employment strategy, which would be managed by Member States and cover all the regions of the EU.
- *Regional cooperation.* The INTERREG programme has until now financed a wide range of cooperation among European regions, allowing partnerships at a cross-border, interregional and transnational level. We think that it has succeeded in creating an important network of actors throughout the EU, which share know-how on many different issues. That is why the Committee supported the proposals of the Commission for the continuation of this programme in the future cohesion policy of the EU.

Obviously, the different views on the allocation of resources mean different financial needs of cohesion policy in an enlarged EU. The European Commission, in the Second progress report, fixed 0.45% of the EU GDP as the minimal basis for maintaining a true cohesion policy at the EU level. This option has also been endorsed by the Committee of the Regions, which thinks that it would be impossible to maintain a cohesion policy with fewer financial resources.

But one of the most important issues of the debate concerns the implementation and governance of the cohesion policy. There is a consensus on the need for the simplification of the cohesion policy, reducing the number of the existing Funds and allowing a more flexible implementation of the EU cohesion policy. The cohesion approach thus shares the need for a significant reform of the management system of cohesion policy.

In this regard, the Committee of the Regions has taken the initiative. In order to prepare the outlook report on “Governance and simplification of Structural Funds”,[17] the Committee undertook a survey on this issue, collecting the opinion of many regional authorities involved in the management of cohesion policy. Thanks to this study it was the first EU institution to present a proposal on a new mode of governance for the EU cohesion policy.

The conclusions of the report reflect the general view that the instruments of cohesion policy should be simplified and reduced, allowing its better management. Second, the regions should be much more involved in all the phases of the cohesion policy (conception, implementation, control, evaluation). The Committee also supports the role of the Commission as the coordinator of this policy, as the practitioners see this element as an important added value of an EU cohesion policy.

[16] These are the regions belonging to current Member States that are now eligible under Objective 1 and which, not having completed the process of economic convergence, could become ineligible just as a result of the decline in average per capita GDP in the enlarged EU. According to the data of the European Commission, 18 regions with a population of 21 million people could be in this situation in 2007.

[17] Committee of the Regions: Outlook report on Governance ..., op. cit.

In fact, it is one of the conclusions of ex-post evaluation reports of the Objective 1 and Objective 2 interventions in the period 1994-1999. These evaluations[18] show that the EU cohesion policy has favoured the introduction of a more integrated approach in the design and implementation of regional policy in the countries of the EU, encouraging the launch of local and regional strategies for regional development throughout the EU.

We think that this is one of the most important things that EU cohesion policy has achieved, as it has encouraged Member States and regional and local authorities to develop regional and local strategies for growth and competitiveness which have an effective impact on the growth of the EU as a whole.

This also reflects the philosophy behind the Lisbon Strategy, which recognises the great need for growth strategies designed and implemented at the local and national levels but responding to objectives fixed by the EU, the European Commission being in charge of the evaluation of the results. In this regard, the Lisbon strategy introduces an interesting notion of multi-level governance into the European Union,[19] which could be reinforced in the future cohesion policy of the EU.

This empowerment and increased responsibility of local and regional actors for their development will need further encouragement after enlargement. Therefore, the new cohesion policy should be based on the principle of co-responsibility among all the actors involved (EU, national and regional and local levels).

Conclusions

This article attempts to draw a picture of cohesion in the EU, identifying the main issues and presenting the main positions in the debate on the future of cohesion policy after 2006. In this sense, we have identified two main approaches to this issue, which we have called the “convergence” and the “cohesion” approaches respectively, and which have quite different proposals for EU cohesion policy after 2006.

The Committee of the Regions has made the case for the cohesion approach, which recognises the need for reform of the current EU cohesion policy but rejects the proposals for devolution of this policy to the Member States. On the contrary, EU cohesion policy should continue in order to tackle the important challenges that the EU will face in the future.

The first challenge relates to enlargement. Territorial imbalances will increase significantly after enlargement, and therefore cohesion policy should be reinforced in its ambitions and its tools and not the contrary.

Secondly, the EU is facing a period of stagnation of economic growth and the Sapir Report is correct in stating the need for further EU investment in the sectors reinforcing the competitiveness of the EU. Recently, the European Council has endorsed the Initiative for Growth[20] presented by the European Commission. This Initiative proposes launching a series of EU projects in the research and transport sector in order to reinforce the competitiveness of the European economy in the long term. The opinions of the Committee of the Regions underline that the EU cohesion policy also constitutes a major instrument to boost the growth of the European economy. Its reform could improve this contribution, by more effectively linking the objectives of cohesion with those of the Lisbon agenda.

Finally, the Draft Constitutional Treaty elaborated by the European Convention[21] amended article 3 of the EU Treaty by introducing territorial cohesion (jointly with economic and social cohesion) as one of the objectives of the EU. The new article 158 also reflects this territorial dimension of EU cohesion policy, reinforcing the mandate of the EU to act together with Member States against inequalities among the territories of the EU.

In fact, cohesion policy has always been a complementary balance of the Single Market and the Economic and Monetary Union. Whilst the Single Market meant an increase of liberalisation and competition in order to boost economic growth, cohesion policy has been the instrument created to ensure that all the countries and territories would benefit from the economic advantages of a Single Market.

Thus, cohesion policy should ultimately be seen as an instrument for the deeper integration of the European Union, a Union that is not only an economic project, but also a social, cultural and political one. The question is that of finding a consensus for a European model of society which is based on economic growth, competitiveness and solidarity at the same time.

[18] European Commission, Directorate General for Regional Policy: Report: ex-post evaluation of Objective 1 programmes, Brussels, June 2003, http://europa.eu.int/comm/regional_policy/sources/docgener/evaluation/doc/obj1/synthesis_final.pdf.

[19] M. J. Rodrigues (ed.): The New Knowledge Economy in Europe: A Strategy for International Competitiveness and Social Cohesion, Cheltenham 2002, Edward Elgar.

[20] European Commission: A European Initiative for Growth, COM (2003) 579 final, Brussels, 18 October 2003.

[21] European Convention: Draft Treaty establishing a Constitution for the European Union, Brussels, 18 July 2003.

John Bachtler*

Reforming EU Cohesion Policy: An Assessment of the Debate

The EU is approaching one of the key milestones in the reform of EU cohesion policy with the publication of the Third Cohesion Report. This is expected to set out the European Commission's latest analysis of the reform debate and provide the basis for EC proposals for the formal negotiations among Member States. The difficult process of drafting the Third Cohesion Report reflects the contested debate within and outside the Commission about the content and time period of the post-2006 financial perspective.

On the one hand, the accession of ten new Member States in May 2004 will have a major impact on the maps of socio-economic disparities across the EU. The eight countries from Central and Eastern Europe, accounting for one-fifth of the EU-25 population, have low per capita income levels, averaging 48 per cent of the EU average and ranging from 62 per cent in the Czech Republic to 34 per cent in Latvia. On the other hand, there appears to be little likelihood of substantial extra budgetary resources being made available to the EU to deal with economic and social cohesion in an enlarged EU. The priority given to cohesion policy in the EU budget is also being challenged by the need to promote EU competitiveness against a backdrop of slow rates of economic growth and faltering progress towards achieving the Lisbon objectives. Other spending pressures come from the greater attention being given to the external EU borders under the "new neighbourhood" policy and the evolving common positions on counter-terrorism, foreign and security policy.

This article examines the debate on the reform of EU cohesion policy. It discusses the key issues and reviews the different policy and budgetary perspectives on the future direction of EU cohesion policy, as well as the individual determinants of the allocation and application of the policy.

Key Questions

EU enlargement is forcing the most fundamental reappraisal of EU regional policy in almost 20 years. Searching questions are being asked about the purpose and funding of EU cohesion policy, the respective roles of the EU and the Member States, and the added value of Community intervention. Under the objective of economic and social cohesion, the scope, resources and complexity of EU intervention have increased enormously over the past two decades, with the aims of promoting convergence, restructuring regional and local economies and fostering inter-regional and trans-national cooperation. The EU clearly has ambitions to do still more, as indicated by the desire to maintain intervention in all parts of the EU (in promoting growth, competitiveness and employment), the long list of spatial and thematic priorities advocated by DG Regio over the past year and the proposals to include the promotion of territorial cohesion as an EU objective in the draft constitutional treaty. Countering these ambitions is the pressure on the EU to recognise the limitations of its resources and to focus its efforts on what is achievable.

The primary concern for EU cohesion policy is clearly to enable the new Member States to catch up economically with the EU-15. Previous experience with the Cohesion Countries, and projections for the new Member States, suggest that achieving convergence in national income per head could take 30-40 years or more. The poorer parts of the current EU also demand further policy attention. In these regions, Structural and Cohesion Funds have evidently had an impact on investment, GDP and employment, but research suggests mixed progress in reducing regional disparities.

At issue is whether the EU should have a role outside the poorer countries and regions. In the view of some richer countries, such support should largely cease. They argue that the implementation of the Structural Funds in the more prosperous EU countries has constituted a "circular flow of money". Instituted as a means of returning some of the budgetary payments of the net contributors, Structural Funds have become an exceedingly complex policy instrument, often spread thinly over too many small areas to make a difference, with multiple policy objectives, priorities and instruments. Obtaining eligibility for Structural Funds has frequently become a totem for regional and sectoral interests, achieving a political and public

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profile out of all proportion to the impact of the Funds. Regional development priorities have sometimes been distorted to suit EU policy requirements, and the administrative cost of implementation has been disproportionate.

An alternative view – often advocated by regional interests – is that the Structural Funds, while marginal in terms of economic impact, have had important "process" benefits outside the Objective 1 areas. The EU programming approach is said to promote more strategic coherence, integration and stability in economic development. It has influenced the deployment of resources for economic development, safeguarding or increasing the level of spending. The partnership principle has brought enhanced transparency, cooperation and coordination to the design and delivery of regional development policy, and better-quality interventions as a result. Accountability and learning have been improved by the emphasis placed on monitoring and evaluation. In political terms, the Funds have made the EU more "visible" to citizens, communities and businesses.

This leads on to wider questions about the future interrelationship between EU cohesion policy and national regional policies. Outside of the Cohesion Countries, there has been considerable tension between the policy objectives of the Structural Funds and those of national regional policy. Over the past 15 years, the EC has attempted to achieve more coherence between the two policy areas, principally by trying to bring into line the maps of eligible areas under Structural Funds and national regional aid (approved by the EU competition policy authorities). In a post-2006 policy environment, with limited EU funding for the richer countries, and a changing "paradigm" of national regional policy, involving whole-country approaches to promoting regional growth and competitiveness, a different approach to policy coordination is required. This includes reconsidering the EC control of regional aid and the scope given to richer countries to implement aid as part of their regional policies.

The Reform Debate

In the prolonged run-up to the Third Cohesion Report, there has been extensive and open debate among European institutions, Member States and regional and sectoral interest groups about these key questions. Most Member States, existing and new, have produced position papers, focusing primarily on the budgetary resources to be allocated to EU cohesion policy and the preferred models for allocating and implementing the resources.

The most radical thinking on the future of EU regional policy has been undertaken in some of the "net contributor" countries (Netherlands, UK, Denmark, Sweden). They advocate a rationalisation or renationalisation of spending and an exclusive focus of Structural and Cohesion Funds on the poorest parts of the EU, with eligibility determined on the basis of national disparities in GDP per head. This *cohesion model* was first advocated by the Netherlands, which argues that richer countries should be able to deal with their own regional problems. A variant on this approach was put forward by the UK which proposed a "devolved framework" for EU regional policy, whereby the EU would establish overall policy objectives, but the Member States (outside Objective 1) would be responsible for resourcing and implementing policy responses. The case for this model has been boosted by the Sapir Report,[1] which proposes a radical restructuring of the EU budget to support the Lisbon growth agenda.

Some of these views are shared by the federal German government, which would envisage Member States being primarily responsible for their own internal disparities and would also like the EU regional policy budget to be reduced. However, the German approach would continue to focus EU support on a regional basis. The so-called *concentration model* foresees EU structural resources being concentrated on Objective 1 areas with a GDP per capita of less than 75 per cent of the EU average. Outside Objective 1, it supports special measures where there is particular value added and with only very limited funding (not more than 5-10 per cent of the overall Structural Fund budget). Objectives 2 and 3 would cease to be independent objectives.

The third approach – which commands most widespread support among Member States and European institutions – is for a continuation of the *current policy model*, albeit with considerable simplification of regulations and implementation procedures. This approach would involve focusing between two-thirds and three-quarters of resources on Objective 1 regions, but with a sizeable share of funding (minimum of 25 per cent of resources) on Objective 2/3 interventions and interregional, cross-border and transnational support.

[1] An Agenda for a Growing Europe – Making the EU Economic System Deliver, Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission, Brussels, July 2003.

These different models for future EU cohesion policy are reflected in the views of how much money should be spent on Structural and Cohesion Funds after 2006. At one end of the spectrum, Spain, Portugal and Greece, as well as many new Member States, have explicitly called for an increase in EU spending at or beyond the current 0.45 per cent of EU GDP, although without specifying what level of expenditure would be required. The Belgian view also implies that more resources might be needed. Italy and Finland believe that the current ceiling should be maintained, but not exceeded, a view shared by the European Commission, which "considers the level of 0.45% of EU GDP as a reference of credibility for the resources to be allocated to Cohesion Policies for the period after 2006."[2]

By contrast, the net contributor countries – Austria, Germany, the Netherlands, Sweden, UK – argue in favour of a level of spending considerably below the current 0.45 per cent ceiling. Indeed, the German federal government position implies a target level of 0.34 per cent of EU GDP, and maintains that spending should be discussed in absolute rather than percentage terms. An indication of the differences in funding associated with these proposals is that basing EU cohesion policy spending for 2007-2013 on the absolute amount of spending in 2006 might be around €270 billion, while calculating spending as a percentage of EU GDP could yield about €340 billion (at 1999 prices).

One other factor that has a bearing on the debate is the utilisation of the current budget. Recent Court of Auditors reports have noted significant surpluses in revenue over expenditure, implying scope for savings, especially with respect to Structural and Cohesion Funds. There have been similar problems with the utilisation of pre-accession aid. The state of public finances and administrative capacity in the new Member States may also limit the amount of funding that can be spent in some countries. On this basis, several Member States have noted that the EC could arguably conduct an efficient cohesion policy with significantly less than the current level of appropriations.

Critical to the discussion on future funding of EU cohesion policy is the position taken by different countries on the various determinants of the budget. There is universal agreement among Member States that EU cohesion policy should focus principally on the least-developed parts of the EU through both Structural and Cohesion Funds; the main difficulty is how such areas should be defined.

Most Member States consider that Objective 1 areas should continue to be designated on the basis of GDP per capita, but several (Finland, Slovenia, Spain) would prefer other criteria to be used also, such as unemployment in the case of Spain, and low population density and permanent disadvantages in Finland's case. Some old and new Member States argue for a higher percentage of spending to be allocated to Objective 1 (Greece, Italy, Latvia, Portugal).

The Cohesion Countries, and some less-developed regions, are clearly concerned at the possibility of currently eligible areas losing Objective 1 status on statistical grounds alone i.e. rising above the threshold of 75 per cent of average EU GDP per head in an EU-25/27. They have variously proposed that such regions should be considered as Objective 1 regions or at least receive "favourable treatment" close to the level of intensity they would have been entitled to within Objective 1. On the basis of precedent, some Member States maintain that the phasing-out regions should receive transitional support comparable to the current transitional Objective 1 regions (over a five-year period), while others are in favour of a shorter phasing-out period. DG Regio has suggested that they should be accorded special "phasing in" support for future non-Objective 1 assistance.

With respect to support for the accession countries, the majority view, among virtually all of the EU-15 and several new Member States is that the current absorption limit on the transfer of EU budgetary resources (4 per cent of national GDP) should apply in the new period. However, there is opposition from some countries – Czech Republic, Latvia, Lithuania – which are concerned that their budgetary transfers will be curtailed by the rules. The conclusions of the Halkidiki Informal Ministerial meeting in May 2003 indicated that the application of the absorption limits should take account of "the special characteristics of certain accession countries".

There is general support for a continuation of the Cohesion Fund. A critical issue for Spain is the potential loss of future eligibility for support as a result of the statistical effect (exceeding the threshold of 90 per cent of average per capita GNI in an EU-25). Several new Member States are in favour of a different balance between the Cohesion Fund and the Structural Funds – wishing to maintain the two-thirds:one-third split in

[2] La Politique de Cohesion Dans une Union Elargie, Project de discours de M Barnier, Informal Ministerial Meeting Chalkidiki, 16 May 2003.

the 2004-06 period beyond 2006 and also wanting to see more flexibility in using the Fund.

While there may be broad agreement on aiding the poorer parts of the EU, there is little sign of consensus on the role of the EU outside Objective 1. The views of the Member States and European institutions are divided between those who consider that resources for future EU cohesion policy should be restricted to the poorest countries, those who would like to concentrate virtually all resources on the poorest regions, and those who advocate a sizeable level of resources for EU actions outside the lagging regions.

There are also competing models of whether and how the goals of EU cohesion policy should be pursued and whether policy tasks should be allocated primarily to one level or shared. The EC, other European institutions and many Member States and subnational interests support the current model of policymaking whereby the task of addressing economic and social cohesion is shared among European, national and subnational levels. A fundamentally different approach to EU cohesion policy has been advocated by countries such as the Netherlands, Sweden and the United Kingdom, which consider that the current approach is no longer sustainable outside Objective 1. The UK's proposal foresees broad policy objectives being established at European level (based on the Lisbon agenda) but with the implementation of these objectives being undertaken by the Member States and regions without the transfer of EU resources. This would imply EU cohesion policy in the richer countries being governed by the "open method of coordination".

Conclusions

Looking forward, it is anticipated that formal negotiations will begin under the Irish Presidency, with the aim (as far as the EC is concerned) of achieving agreement on an "Agenda 2007" package during 2004 to allow legislative texts to be prepared and agreed in 2005 and programmes to be negotiated during 2006. At this stage, the timetable appears optimistic given the complex mix of issues relating to the overall budgetary structure, policy objectives and delivery mechanisms that need to be agreed.

The challenge for the EU is to shape an effective cohesion policy in the context of an enlarged EU, which needs to improve its economic performance. Previous reforms of EU regional policy have been marked by protracted negotiations and a desire for each country to maximise its share of the Funds. Such an approach may be understandable but is counter-productive on several counts. First, it encourages Structural Fund eligibility and receipts to be seen as a sign of "success" and promotes a subsidy mentality among regions. Second, the terms of the debate do not take account of the relative *gains* that countries and regions achieve from European integration. Finally, and most importantly in the long term, the approach undermines public perceptions of the principle of solidarity in the European Union. The message that the EU is making a significant and important commitment to cohesion is often lost amidst the debate on whether supposed national interests have been advanced or not. In the context of EU enlargement, a protracted argument over the share-out of Structural and Cohesion Funds risks promoting division and political conflict when a show of unity and solidarity is most needed.

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The European Structural Funds under Discussion

In the coming phase of enlargement European cohesion policy will be faced with new regional and employment policy challenges which will have significant effects on the cohesion and structural policies of Europe in general.[1] According to calculations made by the European Commission,[2] with the onset of the next round of enlargement the differences in income and employment at the regional level will increase sharply. The relationship of per capita income between the upper and lower 10% of the NUTS III regions in the year 2000 in the present EU (EU-15) was 2.6, in the enlarged EU (EU-25) it will be 4.4 and (if Bulgaria and Rumania join in 2007) in the EU-27 6.0. Consequently, in an EU of 25, 67 regions would lie below 75% of the average per capita income (in the EU-15 it is currently

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48 regions). Of these, 30 regions would be from the EU-15 and 37 from the new Member States. This income threshold (below 75% of the average GDP per capita) is equivalent to today's limit in order to be listed under Objective 1 of the European Structural Funds as a region lagging behind average EU development and receiving the highest funding priority.

Likewise, the coming EU enlargement will bring structural changes to essential aspects of the European labour market. The employment rate will sink and the unemployment rate rise.[3] On the one hand the level of employment in the countries applying for accession is below that of the EU-15 (2001: 6 percentage points lower). Only Cyprus and Slovenia were above the EU average in the year 2001. On the other hand, the high level of unemployment presents a big problem in the countries applying for accession, where in recent years it has risen steadily. The average (in 2001) was 13% and thus above the average within the EU-15. High levels of unemployment among young people (28.6%) are a particular problem as this is more than double the EU average. In the acceding states the average level of unemployment within the upper 10% of the regions was 3.6% and in the lower 10% of the regions it was 24.3%. In comparison the regional unemployment levels in the EU-15 in the upper and lower 10% of the regions was 2.3% and 19.7% respectively.

At the same time the sectoral employment structure will be subject to change. As agriculture plays a larger role in the acceding states than in the present EU, a shift in employment share will take place. According to calculations for 2001 the proportion employed in agriculture in an EU of 25 would be 5.5% (EU-15: 4.1%), and in addition the proportion in the service sector would decrease. Agriculture in the acceding countries is facing – even without the aspect of enlargement – a far-reaching restructuring process which will have considerable influence not only on employment and unemployment, but on the rural regions in general. In other areas of industry (e.g. coal and steel) and the service sector (e.g. the health service) a process of adjustment in both the old and new Member States will occur. In the end a new European division of labour will crystallise out, whereby it has not been possible, to date, to predict the winners and losers in this process.

Apart from these predictable structural changes in the economy in the enlarged Union, political integration continues to proceed in the EU.

- In recent months the Convent has been working on the draft of a European Constitution, with the aims of sustainable development and a social market economy. The draft also formulates as its aims full employment, the battle against social exclusion and discrimination and the promotion of economic, social and territorial cohesion and solidarity between the Member States (Article 1-3 (3)). This anchors important promotional aims and existing conditions of the European Structural Funds in the European Constitution and thereby further enhances the status of the political field of the European Structural Funds.
- Additionally, the "Lisbon Strategy" aims at making the EU the most competitive, most dynamic, knowledge-based economic area in the world. If this strategy is taken seriously, it will have immediate effects on the structural-political funding canon of the EU, whereby it remains open how this aim can be achieved, namely of integrating those regions most seriously lagging behind the EU average, plus the most disadvantaged groups of people on the labour market, into this "most competitive, most dynamic, knowledge-based economic area in the world".
- The current funding period of the European Structural Funds is already subject to the influence of the common European employment strategy. After enlargement the EU intends to hold on to its quantitative targets and to bring the general level of employment as far as possible up to 70% by 2010, and the level of employment of women up to 57% by 2005 – and to 60% by 2010. There is no simple way to achieve these high employment targets in an enlarged EU. In the next funding period, too, the European Structural Funds will have to make a large contribution to European employment strategy.

Consequences for the European Structural Funds

Owing to the fact that the development of the majority of regions in the accession countries is considerably lagging behind the EU-15 average, there will be serious problems in regard to economic and

[1] Reasons for structural reform do not result from the coming round of enlargement and the foreseeable end of the current funding phase, but from the structural change within the economy itself – such as the internationalisation and globalisation of decision-making within the economy, decentralisation and regionalism. Although these trends will have a big influence on the structural development of Europe, they are not entered into in depth here. Cf: European Commission: European Regional Development Concept. On the way to a balanced and sustainable development of the European Union, Luxembourg 1999.

[2] European Commission: Second Interim Report on Economic and Social Cohesion, p.11.

[3] Ibid., p 14.

social cohesion. In the course of enlargement the regional differences in respect to the economy and the labour market will increase. Not only will the number of structurally weak regions be higher, but their structural weakness will be more far-reaching. The existing regions in the EU-15 which lag behind in development will be joined by regions in the new Member States whose economic and social problems will far exceed anything previously known. The structurally weak regions of the existing EU-15 will continue to remain in need of funding.

After accession it is planned to supplant the present introductory aid with funding from the European Structural Funds. To maintain the priority aim of European cohesion policy – that is, to concentrate primarily on those regions with the greatest developmental deficits – the largest amount of future financing for cohesion policy will flow into the structurally weak regions of the new Member States.

After enlargement, according to 2001 figures, because the EU average will sink, 18 of the current Objective 1 regions eligible for funding would then be below the level of eligibility – without their economic situation having changed in any way ("statistical effect").[4] From 2007, almost all east German Objective 1 regions would – because of the statistical effect alone – be excluded from funding, if the previous 75% criterion were to be maintained as the limit for Objective 1 regions in the EU-25.[5] Whether the results of this calculation will still be relevant in 2006/2007, after data updating, is not certain as the development of the economy in east Germany has constantly lagged behind the Federal and Union average since 1997.[6] It is certain that Germany will lose a considerable portion of European funding. With the pending integration of new Member States into the European Structural Funds there will be a reduction of funding for Germany, even though there will still be a need for national and European funding in Germany after 2006.

Not only the European Structural Funds influence the design of the national funding systems in the area of labour market and structural policy, but in recent years also increasingly the system for the monitoring of European financing. This has less to do with frictional loss within the national systems where the promotion of human resources and measures relating to the infrastructure are concerned, than with the concrete support for enterprise. Member States are obliged to approach the European Commission regarding their national regional policy for example, providing information on the situation of the region to be funded and the percentage of the population living there, before receiving approval. Regional aid can only be provided to those enterprises based in the funding regions approved by the European Commission. Under status quo conditions any new structuring of the European Structural Funds would lead to further cuts in the national system. In order to prevent this – in the face of the challenge facing the old EU – European aid policy must be reformed. Two points are necessary: in a first step the national funding requirements must be recognised at the European level. In a second step the framework aid for the Member States must change, so that they can apply a regional policy of their own. The aim should be to coordinate regional policy at the various levels so that a meaningful extension is achieved.

Without adequate financial support from the future European Structural Funds it will not be possible to overcome the pending structural problems in the old and new Member States. In the face of the unique extent of the economic and social disparities in an enlarged EU, it can be assumed that intensive, long-term efforts will be necessary. Since the end of the 1980s the financial framework of the European Structural Funds has been expanded together with each reform. However, the tight public budget in many EU countries will mean that this trend cannot simply be continued. On the other hand, the new Member States will only make negligible contributions to the EU budget. That means that, from 2007, funding flowing into the new Member States will have to be provided by the old ones. As the payments from the Structural Funds are limited to the top limit of national GDP (at present 4%), it is to be anticipated that the net transfer to the (relatively poor) new Member States will not overburden the old Member States.

The Current Reform Discussion

At the start of the current funding period, in the year 2001, the European Commission presented the Second Cohesion Report and opened the debate on

[4] A GDP per inhabitant of 75% of the EU-15 average will, after enlargement, be equivalent to 83% of the EU-25 average. Cf. Markus Eltges: Die Auswirkungen der EU-Osterweiterung auf die europäische Strukturpolitik, in: WSI-Mitteilungen, No. 1, 2003, p.14.

[5] In Germany, only Dessau in Saxony-Anhalt and Chemnitz in Saxony would remain below the 75% limit in the EU-25. European Commission: Second interim report….., op.cit., Table 5(b).

[6] Cf. inter alia Jan Priewe: Ostdeutschland 2010 – Perspektiven der Investitionstätigkeit, Deutschland 2002, pp. 27-34. Cf. the relevant assessment by Markus Eltges, op. cit.: "Due to the rather unfavourable development in the regions of the new Länder in comparison to other areas of Europe, there is much to be said for the regions there maintaining their Objective 1 status. A complete cut in funding is probably unlikely. In addition, regulations governing the loss of funding will soften the blow."

the form and structure of future cohesion policy after 2006. At that point the Commission had prepared the Member States for the idea that cohesion policy after 2006 would change considerably – to the advantage of the new Member States and to the disadvantage of the old Member States. If, and to what extent, this will occur depends on the results of the negotiations amongst the Member States. Measures agreed upon for AGENDA 2007 will be carried out according to the rules set down in the Treaty of Amsterdam. Here the unanimity principle must be applied. It will take some time until the new concept has finally been passed, but past reform debates indicate the general direction that future European Structural Funds will be taking.

How this debate is resolved is of great significance for Germany. If, for example, the current exclusion criteria for Objective 1 and Objective 2 regions are maintained, there will be hardly any more Objective 2 regions in west Germany, and in the new German Länder all regions, apart from Dessau and Chemnitz, would by-and-large be excluded from the Objective 1 framework (see above). In connection with the subsidy reservations on the part of the EU,[7] the Federal Republic of Germany would have no room for manoeuvre as far as its structural-political intervention is concerned. It therefore comes as no surprise that in Germany, in recent months, there have been voices raised in a number of places,[8] all introducing their own proposals into the debate. As the discussion process advances, however, alterations in the basic attitude can be recognised.

During this first phase two equal but opposing reform models confronted each other: a region-centred approach based on the previous level of development and a country-centred approach based on the level of national wealth. In the meantime it is clear that only a regionally centred model, based on the status quo, has any chance of being accepted.[9] In initial comments, the European Commission has maintained its preference for the regional approach in the next funding period, and the Federal Republic of Germany (as the most important potential supporter of the net fund model) has come out in favour of a concentration of European Structural Funds on the most needy regions according to the previous criteria of Objective 1 (and not the most needy Member States).[10] Germany has therefore joined in the support for the recommendations of the European Commission. It appears that in the coming funding phase the European Structural Funds will also give priority to promoting the regions lagging behind the EU average. Objective 1, as a central component of EU structural policy, is therefore not called into question. A uniform solution for the regions, which would be based on the statistical effect of the Objective 1 promotion, is not in sight. In this connection two options are favoured: raising the threshold level or the introduction of temporary regulations, whereby the European Commission itself speaks of a generous phasing-out period. To date, many positions assume that even after 2006 there will be funding beyond the Objective 1 funding. The contours of the new Objective 2 programme, however, remain unclear. The European Commission has also made non-committal remarks about re-formulating the strategies for regions outside the Objective 1 funding, and designing a new policy which would contribute more to economic and social cohesion.[11] There is also a lack of concrete statements and perspectives on the future of employment policy objectives of the European Structural Funds (Objective 3), the Community Initiatives (with the exception of cross-border cooperation and support for urban problem areas) and further basic principles of European Structural Funds (like partnership, programme planning, additional responsibility and efficiency).

Some Considerations for the "New" Concept after 2006

The reform of European structural policy for the time after 2007 will, in all probability, be relatively closely oriented to the status quo, and in future the resources of the Structural Funds will be concentrated on the most needy regions, and particularly on the regions in the new Member States. The European Structural Funds as the political field of the European Commission will not be called into question. On the contrary, they will be responsible for the economic and social integration of the new Member States into the EU. However, the challenges of the enlargement process

[7] Cf. the discussion in Bernd Reissert: European Framework Conditions for German Structural Policy, and in Frank Gerlach, Astrid Ziegler: The Future of Structural Policy, Maarburg 2003 (forthcoming).

[8] Individual proposals on the form and structure of future European structural policy were presented by, amongst others, the Federal German Government, the Minister Presidents of the Bundesländer, the east German *Länder*, the Standing Conference of Ministers for Economic Affairs and the *Land* of Berlin.

[9] The individual reasons as to why a net fund model could not gain acceptance can be foound in Bernd Reissert, op. cit.

[10] Cf., among others, European Commission: Second Interim Report…, op. cit.; Astrid Ziegler: Synopse wichtiger Positionen, in: Frank Gerlach, Astrid Ziegler, op. cit.

[11] Cf., among others, European Commission, ibid.; and Astrid Ziegler, ibid.

are linked to a revision of the funding amounts for the previous regional and employment policies.

After 2006 the acceding Member States will also have transformation problems to contend with, which will demand solutions of a far more intensive nature than the economic and social problems in the structurally weak areas of western Europe. On the other hand, the preparatory phase could be used by the acceding states to build up the regional administrative structures needed to implement the European Structural Funds but despite many efforts the formerly centrally structured new Member States would be overtaxed by the funding philosophy of the Structural Funds. This demands, not least, some thought regarding the setting of targets for the Objective 1 funding and, from a German point of view, about possibilities of lessening the statistical effects in the old Objective 1 regions.

The pending structural and transformation problems in the EU-25 can only be solved if the European Structural Funds have an adequate financial budget. Although many Member States are faced with their own desolate financial budget, securing comprehensive funding is of central importance for the next funding period. It would seem that keeping the 0.45% threshold of EU-GDP for the financial budget of the European Structural Funds is the thing to do. Similarly, the top limit of 4% of national GDP, as the maximum payment from the Funds to the Member States, should not be encroached upon. In this way the ability to absorb the costs would not be overtaxed, particularly for the new Member States.

Coping with the pending structural problems after 2006 will be too much for a single fund. For this reason, in order to be able to promote integrated regional development and sustainable employment effectiveness after 2006, a number of funds will be necessary. Against the background of economic and social cohesion, the regional fund – and the social fund – should be regarded as independent funds in the coming funding period. The previous concept of the cohesion fund would not apply under the new conditions of the enlarged EU. In particular, the reason for its introduction – to prepare the southern European countries and Ireland for economic and monetary union – is no longer valid. In the face of the pending entry of relatively "poor" states into the EU, it would appear that support for Member States in parts of the EU-15 is outdated. In the next funding period an integrated application of funds should be pursued, or even made compulsory. In order to solve the structural and employment policy problems it is necessary to apply several funds simultaneously.

There will be considerable structural problems in the regions of the old Member States after the coming round of enlargement. Apart from the Objective 1 programme, regional policy must also be targeted to encourage development in those regions affected by structural crisis, for example former industrial regions and rural areas. The regionally oriented Objectives programme should concentrate on integrated, sustainable regional development which should be initiated according to the principle of a wide-based partnership. At the same time, the centre of the development of the infrastructure should be the "soft" areas of infrastructure, which provide support for enterprises in an employment-effective way – by setting up and expanding networks and promoting human resources.

Against the background of the strained labour market situation in many EU countries, it is indispensable to have a horizontal aim that supports measures to promote labour market policy and focuses on target groups within the labour market. On the one hand, in most Member States it is still necessary to carry out active labour market policy, which is essential for those persons and regions in the greatest difficulties. Although, on the other hand, the majority of Member States are currently fighting considerable employment problems, labour market forecasts assume that in a few years there will be a lack of employees and in the EU the individual countries will be competing with each other to get a hold of the best qualified workers. It is particularly Objective 3 which, within the framework of European Structural Funds, is the link to the aims of the Lisbon Strategy and European employment policy guidelines. Also in the next funding period the Objective 3 programme is to encourage employment chances for the unemployed by improving measures towards active labour market policy and guaranteeing equality in the labour market.

The Community Initiatives (CI), as the structural policy instrument of the European Commission, have become an important and indispensable instrument within the European Structural Funds. The CI take up issues in the interests of Europe and are of specific benefit to European development. The current CI are successful, above all because of their aim to encourage cooperation structures within development projects, to encourage cross-border cooperation and balanced and sustainable development. The content of these innovative approaches, which focuses on cooperation between those involved in sectoral, regional and local affairs, and thereby sets in motion new and dynamic approaches to the labour market, is to be taken over in the new funding phase to serve as a model for the mainstream promotion operated by the Structural Funds. Especially the aim of encouraging partnerships within the framework of EQUAL is to be taken over as a principle of the ESF.

There are, however, aspects of the existing 4 Community Initiatives which are in need of reform. On the one hand, the 3 CIs – URBAN, EQUAL and LEADER – are not clearly separated as regards objectives. On the other hand there will be a large number of regions which are situated on the outer boundary of the EU, whereby it is less the number, and more the dimension, of these regions which is of concern to INTERREG. In the new funding phase it will be necessary, in the border areas between the old and new states, to uphold the cooperation structures established in the current phase. The border areas along the new EU outer frontier will have to be the focus of cross-border and inter-regional cooperation, it will also be necessary to coordinate existing resources in INTERREG. In addition, in the former border areas of the EU a process of adaptation will be vital.

Apart from a harmonious, balanced and sustainable development of the EU, the European Commission, with the aid of the European Structural Funds, wants to encourage a high level of employment, equality of opportunity between men and women, a high degree of environmental protection and the improvement of environmental quality.[12] In the new funding phase these objectives will also have precedence and be an indispensable element of the European Structural Funds. This simultaneously guarantees the link between European Structural Funds on the one hand, and the European Constitution, the Lisbon Strategy and European employment strategy on the other. But these basic principles must be taken into account more intensively than before when distributing the Structural Funds. For the future, it will be important that all structural measures are given a strong orientation towards employment, that sustainable development and principles of gender mainstreaming are automatically anchored in the aims, and that the system of evaluation places emphasis on maintaining those aims determined to be of paramount importance.

The aim of horizontal concentration is the solving of structural problems through the integrated application of European Structural Funds. This principle has been a central theme since the fundamental reforms of European Structural Funds in 1988 were adopted. In practice, however, reality is different. These principles have not been adequately put into practice. The core problem pertaining to the principles is the egoism which characterises the areas of responsibility at all levels, and which prevents any real interdisciplinary cooperation or integrated promotion of structural and labour market policy measures. An important idea is the regional development concept, on the basis of which the regions put in their applications. The regional development concept is to be continued in the new funding phase, to be developed and applied according to the principle of partnership. This can improve the efficiency of the application of funds, so that, for example, strategic priorities can be established and funding criteria fixed, synergy encouraged and the possibilities for courses of action amongst the participants coordinated.

The sectoral concentration contributes to qualifying structural policy through the promotion of product chains and business associations. This support is aimed at promoting the strengths of a region. Within the framework of future European Structural Funds this means that the consideration of economic connections and the demands of clusters should be given more priority in a) the development of infrastructure, b) the promotion of innovation links between business and universities, c) an increase in the prestige of science and research and d) the improvement of human resources.

Outlook

European Structural Funds will continue to exist after 2006. There is a wide political consensus that also in the future the European Structural Funds should give priority to the structurally weak regions and to those who are socially excluded. This applies, above all, to the process of bringing the new Member States up to the average European level of wealth, but also to the regions within the EU-15 that are economically underdeveloped. Beyond that, it remains contentious which areas of structural policy will demand European intervention. At the end of the year the European Commission will present its 3rd Cohesion Report, and present comprehensive ideas pertaining to future European Structural Funds. The debate on the future of European Structural Funds will, however, continue well beyond that point in time.

[12] European Commission: Structural Policy Measures 2000 – 2006, Comments and Directives, Luxembourg 2000, p.33.