

CONCLUSIONS AND RECOMMENDATIONS

Introduction

The evidence examined in this report shows that over the previous programming periods (1989-93 and 1994-99) Community cohesion policies have had some notable success. This is perhaps most visible in the case of the regions where development is lagging behind, where there has been a general process of catching up in economic and social terms.

At the same time, looking ahead to the next period of Community regional policies, after the end of the current planning period in 2006, the analysis in this report suggests the need to take particular account of:

- the important increase in social, economic and territorial disparities resulting from enlargement;
- the far-reaching effects of ongoing social and economic trends such as globalisation, the radical transformation of the European economy towards knowledge-based activities, the changing structure of population and so on.

In addition, a future reform of cohesion policies should take the opportunity to increase the added value and the visibility of Community policy. Ideally, reform should be accompanied by a strengthening of the effort to ensure that the other Community policies contribute to cohesion as much as possible, consistent with the pursuit of the objectives which they are principally designed to achieve.

Drawing on the analysis of the report, the following sections attempt to set out the main issues to be addressed in order to prepare the basis for a debate on the future of cohesion policies. Here, it is important to place the main issues in their correct logical order. Past experience of reforming cohesion policy reveals an increasing tendency for discussion at Member State (Council) level to concentrate on financial aspects. For example, in the negotiations on the financial perspectives for 2000 to 2006 ('Agenda 2000'), discussions on cohesion policy probably focused more on the amount and division of funding between Member States than on the content of the policy. Arguably, a more logical order would be to begin with the content - and, in particular, to identify priorities for future cohesion policies - before going on to address issues relating to the delivery system and financial allocations.

Promoting the factors determining convergence

To remain credible, Community cohesion policy must support those actions that are most likely to contribute to the reduction of the economic, social and territorial disparities in the Union. A system based simply on fiscal transfers is not enough and the Union must support the factors that play a decisive role in promoting competitiveness and help to reduce the profound imbalances affecting its territory. In short, supporting investment in physical and human capital must remain the key objective of Community cohesion policy before and after enlargement.

Beyond this broad statement, it is not easy to identify the priorities, especially in the longer-term perspective of the period post-2006. For example, a decade ago few could have imagined the role and significance that the new information technologies would assume in today's economy and society. Today, it is difficult to imagine an economic and social development strategy which would not have the promotion of these technologies as a major component. In spite of the difficulties, there are, at the same time, certain points of reference for considering future priorities.

In general, it is evident that the level of productivity is a key factor in the process of growth and the convergence, in real terms, of national and regional economies. Productivity is determined to a major extent by the quality of human resources, physical infrastructure endowment and the capacity for innovation.

The quality of the labour force is determined, in part, by the level of education and, in part, by the updating of knowledge and skills throughout working life. The evidence suggests that matching the available skills of the work force with those required by an economy undergoing fundamental change has become a major problem. The demographic outlook, and its likely consequences in terms of falling numbers in the labour force in the next decade in the EU15, can only add to this problem, although the demographic imbalances are less marked in a Union of 27 in view of the rising numbers of young people in the candidate countries. Making the best use of all its human resources is clearly a major long-term challenge to the Union.

An adequate endowment of physical infrastructure of a high standard remains a necessary condition for economic development. Within the Union, while the regional gaps have closed in certain sectors such as telecommunications or road transport, more remains to be done in others (for example rail transport, centres of research, etc), especially in the least developed regions. In the candidate countries, the information is incomplete but the assessments available at present point to major gaps in key economic infrastructures. Priority needs to be given to promoting the development of the major trans-European networks in transport, telecommunications and energy and their connection with regional secondary networks.

Investment in knowledge and in new communication technologies is likely to continue to be the basis of long-term growth in Europe. This is a positive factor for the Union as a whole, although the new activities associated with the knowledge society are tending to concentrate in certain urban centres giving rise to a dense network which inter-connects the economies of Europe's central heartland. In order to avoid a widening of the imbalance between centre and periphery, a long-standing feature of the EU15, ongoing investment in the new technologies will be needed in order to link the peripheral regions into the major European networks, including the 'new periphery' resulting from enlargement to the East and South. Moving to a knowledge based economy and society depends also on an integrated approach combining the various dimensions of knowledge: education, training, research and development, innovation and the information society.

Finally, strengthening the capacity to innovate requires a greater focus on the environment in which businesses operate. In particular, there is a need to improve the interaction between firms, especially small firms, and research centres, universities and public bodies.

A key reference point for future actions: environment and sustainable development

Efforts to raise productivity and promote growth for one generation must not, however, be at the expense of the next. In other words, the *development path followed must also be a sustainable one*, a general point which needs to be reflected in all investment decisions.

A key consideration is that economic development can only be secured in the long-term by the prudent use of natural resources. In this regard, the availability and quality of water are particular problems in the Mediterranean. Cooperation between countries is one way of addressing water problems but certainly not the only one. Investment in waste water treatment, water pricing, environmental control of emissions into the water are others.

In addition, it is important to encourage investment which serves to limit the damage which industry, agriculture and households can do to the environment, which means, in particular, the construction of facilities for treating wastewater and household and industrial waste. Investment in this area is a priority in the candidate countries.

Identifying priorities for economic and social cohesion

According to the Treaty, the Community must act ‘to promote overall harmonious development’ with the particular aim of ‘reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas’ (Article 158).

Based on the analyses in the report with regard to the long-term problems as well as the opportunities, facing the Union, it is possible to identify certain priorities with an economic, social or territorial dimension for future cohesion policy.

Among the priorities which have an important *territorial dimension*, the following are suggested for illustrative purposes:

- **The least developed regions.** This remains the principal priority of EU cohesion policy and the analysis of the report confirms that there are major gaps in income and opportunity between the least developed regions and the rest of the Union, although a process of gradual convergence is discernible within the EU15. With enlargement, however, the gaps widen once again.
 - With the reduction of gaps in endowments in certain types of infrastructure in the less developed regions of the EU15, less emphasis will need to be placed on basic investment and more on raising business competitiveness. Basic infrastructure needs remain considerable in the candidate countries.
 - The challenge for all of these regions in an enlarged Union is one of creating an innovative environment based around a qualified workforce, research and development and the information society.
 - Even if the human resource gaps are closing, eliminating the weight of the past in terms of the low level of qualification of the adult labour force is a long-term challenge in the EU15. In the candidate countries, the challenge is to adapt rapidly the workforce to a modern market economy.
- **The urban question**, which is at the heart of economic, social and territorial change. Cities are a key location for the pursuit of a strategy for cohesion and sustainable development.
 - Many kinds of disparity are concentrated in cities, where problem areas in which exclusion and deep poverty prevail are in close proximity to areas of high prosperity.
 - It is in the urban areas where the environmental pressures are the most acute.
 - Cities are economic centres for the development of the surrounding suburban and rural areas.
 - Networks of large cities can stimulate a more balanced and polycentric form of development in which medium-sized towns and cities can play a key role.
- **The diversification of rural areas.** These areas continue to experience large-scale changes. Their future depends in large measure on their links with other areas, including towns and cities.
 - Agriculture is no longer a major source of employment though it continues to be the main user of rural land as well as the key determinant of the quality of the countryside and the environment.
 - The revitalisation of rural areas and the maintenance of population depend on the development of new activities outside agriculture, notably in services.
 - Cohesion policy must play the major role in the diversification of the rural economy, complementing rural development policies financed by the CAP which is focused on

adapting agriculture to new economic realities as well as on strengthening the competitiveness of rural areas.

- **Cross-border, transnational and interregional cooperation.** This is a priority *par excellence* for the Union in order to promote integration and reduce the economic and social fragmentation created by national borders. The internal market and cross-border cooperation have enabled border regions to become more integrated with the rest of the Union.
 - The internal border regions of the EU15 have, with the support of INTERREG, developed new forms of cooperation which the elimination of frontiers alone would not have been sufficient to create. Their social and economic situation has improved significantly over recent years, with closer integration into the internal market.
 - With enlargement, there will be a renewed need for cross-border measures to promote cooperation between the candidate countries and the Union, as well to assist the regions within the candidate countries that share common frontiers with third countries to the east and to the south, including the Mediterranean rim.
 - The Union should promote transnational cooperation areas, within a framework adapted to the development of networking between regional and local economies and to new forms of administration.

- **Areas undergoing industrial restructuring.** The return of sustained growth across the European continent has to some extent hidden the often serious territorial and regional effects of industrial restructuring.
 - Job losses are continuing in many industries such as textiles, cars, coal and steel production, as well as some service sectors. In this regard, the liberalisation of trade in 2005 for textile imports represents a particular challenge.
 - Where such sectors are concentrated geographically, there can be severe consequences for the local and regional economy, with the need to promote new opportunities and the retraining of workers who lose their jobs.
 - While encouraging economic diversification, territorial policy should also take account of the distribution of activity across the different parts of the Union.

- **Areas with severe geographical or natural handicaps.** In certain parts of the Union, efforts to achieve full integration with the rest of the European economy run into difficulty because of particular geographical or natural handicaps.
 - These areas – outermost regions, islands, mountain areas, peripheral areas, areas with very low population density – are often a key component of the Union’s environmental and cultural heritage.
 - There are often acute difficulties in maintaining population.
 - Additional costs for basic services including transport can impede economic development.

Among the priorities under economic and social cohesion policy relating to *employment and social* policy, which have both a general and regional dimension, are:

- **More and better jobs.** the rate of job creation in some parts of the Union remains low, while significant skill gaps persist to constrain economic and social convergence between regions.
 - A more strategic approach to employment policy across the EU could provide a valuable framework for coordinating Community intervention. Negotiations over

current ESF programmes have demonstrated the value of a strategic dimension as provided by the European Employment Strategy.

- Employment policy needs to adopt a proactive approach to anticipate the effects of industrial change.
 - There needs to be more targeting on the specific requirements of both individuals and particular regions, given that a major factor underlying disparities in prosperity across the Union is the difference in the qualifications and skills of the labour force.
- **Supporting the New Economy and the Knowledge Society.** The impact of the new economy is far-reaching in terms of both the pace of change and its consequences for policy. The dangers of an emerging digital divide highlight the need to tackle risks of exclusion from the information society.
 - Life-long learning is an essential response to economic change. It is important, however, that access to this is not confined to those already in the most highly qualified jobs.
 - There must be a more affordable access to the tools of the information society accompanied by ICT literacy.
 - Over the past three decades, the level of educational attainment in the Union has increased markedly, especially in the least developed regions. But there remains scope for improvement in their education and training systems to reduce the emerging digital divide. This applies also to the candidate countries where vocational training systems in particular are often poorly adapted to the needs of new sectors.
 - **Promoting social inclusion:** The level of poverty and social exclusion remains unacceptably high in the European Union. Many of the causes can be traced directly to the labour market and to the failure of policy to address the needs of those without the skills necessary to compete for jobs.
 - Better access to the labour market, creation of new employment opportunities and skill development are of major importance in the fight against social exclusion.
 - In order to address the deep-seated problem of pockets of social exclusion, labour market policies are becoming increasingly localised, involving broader local partnerships and responding to specific local needs. Local employment development, the ‘third element’ in the European Employment Strategy, could be strengthened in future Community policy.
 - The concept of policy additionality (extending or deepening national policy) must be applied to social inclusion policies and could be supplemented with the concept of ‘*policy territoriality*’ aimed at increasing the spatial concentration of scarce resources to achieve a greater impact.
 - **Equality of opportunity.** Discrimination in all its forms is a waste of talent and resources in a situation where the evidence points to the growing need to make the best use of a work force set to decline in the coming years. Equal access to the labour market is both a fundamental right and a sound economic policy.
 - A strong policy commitment to the creation of a labour market open to all is essential to cohesion.

- Policies to promote and support the participation of women in the labour market are a key part of the employment rate targets set at Lisbon.
- The most significant progress will come about reducing narrowing the employment gap between men and women.

While the above target areas are not entirely new in themselves, they represent a difference of approach compared to that which has been characteristic of the priority 'Objectives' up to now. It is an approach inspired to some extent by the experience of certain Community Initiatives such as URBAN or LEADER which have shown how efforts focused on a clearly defined European priority can, if deployed at the right level, attract a great deal of interest, generate new thinking and activities. An aspect not to be ignored is that these actions, where they have been operated successfully, have probably done most to create a positive image of Union cohesion policy among its citizens.

The priority areas should not be seen as a simple substitutes for the existing Objectives. Given the rapid pace of economic change, and the challenges that it poses, the formulation of future policy - and perhaps the territorial dimension in particular - needs to take account not only existing problems but, more importantly, to anticipate future ones. Accordingly, there is a basic need for a cohesion policy which has a more global and longer-term vision and which seeks to follow a proactive approach. This would also mean that future policy would focus not just on *problems* but also on *opportunities* for economic and social cohesion and the reduction of territorial imbalances.

This was the kind of approach that characterised the work undertaken by the Member States and the Commission on the European Spatial Development Perspective (adopted in Potsdam in 1999) which had as an objective the promotion of more balanced territorial development in Europe. Inspired by this work, the Commission could at a later stage propose a strategy for territorial development to the other institutions of the Union as a basis for future policy in this field.

In sum, future cohesion policy should be targeted on the factors that promote convergence and on a limited number of priorities of Community interest, in order to achieve concentration of scarce resources.

How should the delivery system for future economic and social cohesion policy be organised ?

While Agenda 2000 achieved many advances in improving the delivery system which are set out in the report, the new circumstances of enlargement, the reshaping of priorities and the need to continue to the drive to achieve greater value-for-money call for further reflection on the means by which the policy is delivered. At this stage it is only possible to address the broad issues and consider options. The third cohesion report in three year's time would have the role of specifying more clearly how the next generation of cohesion policies should be delivered. The principal issues addressed in the following sections are as follows:

- the effective targeting ('concentration') of the limited resources available in an enlarged Union
- the particular challenge of enlargement in the current period
- cohesion policy in an enlarged Union after 2006, including certain financial aspects.

The effective targeting of the limited resources available in an enlarged Union

The starting point is that a future cohesion policy needs to be able to address not only the new Member States and regions, but also the regions in the present EU15 where the analysis of the report confirm the existence of often profound regional and territorial disparities.

It is clear, however, that when the next programming period begins in 2007, the presence of new Member States composed almost entirely of regions with a general need for support for economic development, will necessitate a massive refocusing of the effort in order to achieve a significant catching up within a reasonable period. At the same time, the least developed regions of EU15 will have ongoing needs even if they appear less severe in relative terms.

The basic principle must be the same as in the past in that limited resources must be concentrated on a limited number of problems of Community interest and areas, in order to achieve the necessary critical mass.

Maintaining priority support for regions where development is lagging behind

For the less prosperous regions, the maintenance of direct zoning (see box), for reasons of objectivity and transparency, represents the most appropriate method for concentrating support on regions most in difficulty.

The use of GDP per head (measured in terms of purchasing power standards - PPS) as a criterion and its level of application (NUTS 2 regions) still seem to be appropriate, as indicated by the comparative analysis presented in the first part of the report. For reasons of transparency and efficiency, however, there is a need to determine the principles which should apply to the definition of statistical territorial units – ie the regions.

How should the threshold for eligibility be set?

The eligibility threshold (currently set at 75% of the EU average GDP per head, see box) needs to be decided on the basis of the following two considerations. First, enlargement will automatically reduce the average level of GDP per head in the Union substantially. On the latest data available (1998), the application of a threshold of 75% of GDP per head in a Union of 27 Member States would reduce the population in the present EU15 eligible for Objective 1 assistance by more than half. This raises the question of how to treat regions in EU15 that have improved in *relative* terms even if underlying conditions are the same as before enlargement.

Secondly, disparities between lagging regions in the enlarged EU would be wider than at present, with some regions having a level of GDP per head of three-quarters of the EU average and others only around a quarter. The number of regions involved is not only greater, they have more profound needs.

Methods of defining eligible regions and areas

The different Objectives and Community Initiatives of the Structural Funds are currently targeted either vertically (regionally) or horizontally (by theme).

Horizontal targeting applies to the present Objective 3 financed by the European Social Fund, which has become the Community instrument for supporting the European Employment Strategy at national level. Following this approach, actions aimed at improving national education and training systems can be supported across the whole of the Union, within the limit of the resources available.

A regional targeting approach begins with the definition of a list of eligible regions and areas. Actions can be supported only within these localities. In practice, two methods have been applied in this respect:

Direct regional zoning

The Commission constructs an exclusive list of areas eligible for support. These can be defined in cooperation with the national authorities, as in the case of the present Objective 2, or by the Commission alone on the basis of statistical criteria applying to the Community as a whole, as for the current Objective 1.

This method enables intervention to be concentrated in eligible areas in a direct and transparent way. In the case of Objective 1, the use of the criterion of low GDP per head (defined as less than 75% of the EU average), expressed in terms of purchasing power standards, which is a simple, comparable and relatively robust indicator, has enabled the list of regions receiving assistance during the 2000-2006 period to be drawn up objectively.

Direct zoning, however, lacks flexibility in the face of changing regional circumstances, which, in the case of Objective 2, has led to the Commission being directly involved in the definition of very detailed maps, a task for which its competence and the legitimacy of its involvement are in doubt. In particular, outside the larger, least developed regions of the Union, the Commission has insufficient statistical and other information necessary to identify problem areas, a difficulty which has been compounded by the increasing complexity of the problems themselves and their spatial distribution.

Indirect zoning

In this method, eligible areas are decided by national governments on the basis of a set of parameters established by the Commission. This is the approach adopted by some Community Initiatives.

Indirect zoning has the advantage of being flexible and can resolve difficulties experienced under Objective 2, so long as the resources available attain the critical mass needed to be effective (as in the case of URBAN). This method can also be applied to horizontally-targeted policies, and some Member States have chosen on their own initiative to introduce regional targeting of intervention under Objective 3.

Insofar as there is cofinancement by the state, it is important that state aid rules (both geographical and sectoral) are respected.

Four options for determining eligibility and temporary support

In the light of the foregoing, the exercise of Community cohesion policy in relation to lagging regions could take one of the following four forms:

- the application of the present threshold of 75% irrespective of the number of countries joining the Union. This option on its own would eliminate a large number of regions in EU15. Their future eligibility for EU support would depend on the priorities and criteria for support outside the least developed regions.
- the same approach, but where all regions above this threshold but currently eligible under Objective 1 should receive temporary support (phasing-out), the level being higher the closer their GDP to the eligibility threshold. Two levels of temporary support could be envisaged, one for regions which, because of the extent of their convergence at the end of the 2000-2006 period, would no longer be regarded as having lagging development in an EU15, the other, set at a higher level, for those which would have been below the 75% threshold without enlargement;
- the setting of a GDP per head threshold higher than 75% of the average, at a level which would reduce or even eliminate the automatic effect of excluding those regions in the EU15 simply because of the reduction in the average EU GDP per head after enlargement. It should also, however, be set at a level which excludes those regions which would no longer qualify at the end of the current programming period in an EU15 without enlargement;
- the fixing of two thresholds of eligibility, one for the regions in EU15 and one for the candidate countries, and leading *de facto* to two categories of lagging region. This could have a similar result to the previous solution in financial terms in a situation where the aid intensity per head from Union funds is related to regional prosperity.

A further consideration relates to cofinancing rates (the ratio of Community to national support). After enlargement, the prosperity gap within the group of regions defined as least developed would be so large that a special maximum co-financing rate might be need to be set (relatively high) level to reflect the lower prosperity, and national budgetary capacity, of the very poorest Member States concerned.

A distribution of finance according to objective criteria

In the light of the needs, it would be difficult to sustain the case for a reduction in the resources allocated to the lagging regions – including any temporary support – as a share of the total funds available.

The essential question is that of how to ensure that the distribution of financial resources is as objective as possible according to needs. The decisions in this field under Agenda 2000 reflect considerable progress with regard to the use of objective criteria applied across the Community, at least as far as the least developed regions are concerned. This was one the more significant outcomes of the implementation of Agenda 2000. This way of proceeding should be maintained in the future, as a major element of the cohesion ‘acquis.’

But a number of questions need to be addressed, including the following:

- Should the existing criteria which have been used - population, regional and national prosperity and unemployment - be extended in the next round to include the employment rate, given the present prospects for the labour market and the conclusions of the Lisbon European Council on this? This is a question to consider in the light of the way the level of structural unemployment develops in Objective 1 regions over the next few years. At present, many of these regions still have a very high rate of unemployment.
- Should the structural gaps between the regions and the Community average become part of the criteria for allocating funds?
- Should the performance reserve become a more significant part of the Structure Funds? It would almost certainly be desirable to strengthen the conditionality attached to this instrument to achieve the expected results, including in relation to the pursuit of good financial management.

Maintaining the momentum in favour of an objective methodology depends heavily on the joint efforts of the Commission's statistical office, Eurostat, and national statistical offices to improve the quality of the harmonised data at the Community level. The extension of data series to cover the candidate countries, and to make available data on purchasing power standards at regional level, are major priorities for the success of future exercises to determine the next list of regions in which development is lagging.

For the rest of the territory: indirect zoning?

Lagging regions are not the only ones with structural problems. Cohesion policy also needs to continue providing support to other parts of the Union to encourage actions of common interest. But in the light of the greater limitations on resources compared to the least developed regions, an appropriate means of targeting is essential.

In the light of the problems that have emerged in the direct zoning of aid under Objective 2 for the period 2000-06, it would seem that the process of concentration could be more satisfactorily achieved by opting for an indirect zoning method. Here, the defining feature is that the concentration of resources is an integral part of the programming process (see Box). The Commission would no longer set rigid eligibility criteria, only a lower limit on the level of overall public financial support – from Community and national sources - in order to ensure that the resources mobilised achieve the critical mass to have a real impact (as under the URBAN Initiative).

In such circumstances, the programming of the different priority domains would need to be undertaken on the basis of an allocation of resources by Member State. There are a number of ways in which this could be done, but the simplest would probably consist of a national allocation according to population (outside the least developed regions) adjusted by an appropriate indicator, or indicators, of socio-economic conditions. On the basis of the national allocation the Member States would programme actions at national and regional level, drawing from a limited number of the priority areas of the sort illustrated above. A strategic vision of the priorities and opportunities drawn up by the Commission with regard to the subjects of Community interest would play an important role in setting the efforts in each Member State in a Community context.

Consideration also needs to be given to the national and/or transnational methods of programming, focusing especially on the role of the Member States and the Commission, on the conduct of partnership, on the techniques required for territorial analysis and on the criteria for guiding Community action.

Particular cases

The present **border regions** in the Union have in general reached much the same level of development as the rest of the Union, as shown in Part I of this report. This fact demonstrates the value of past Community intervention in this area. There is therefore a case for including cross-border cooperation programmes in the general programming of the Structural Funds (“mainstreaming”).

Border regions with lagging development would, of course, be eligible for support in the same way as any other region if they comply with the general criteria adopted.

The **outermost regions** of the Union have particular handicaps as result of their distance from the rest of the Union and their special position is reflected in the Treaty. Article 299(2), as a policy instrument, allows the European Union to maintain and reinforce actions to promote the integration of the outermost regions into the Community, taking account of their unique character. To this end, in March 2000 the Commission established a strategy for sustainable development in the outermost regions. It has already introduced new initiatives in the fields of State Aids, agriculture, the Structural Funds, tax and customs policy, as well as promoting the co-ordination of the Structural Funds and the European Development Fund in the areas containing these regions. The Commission has undertaken to consider how their needs should be best reflected in future cohesion policies.

The particular challenge of enlargement in the current period

Since the reform of the Structural Funds in 1988, the management of Community cohesion policy in terms of monitoring, evaluation and control has been steadily reinforced.

This is the context in which the candidate countries are preparing to join the Union. At present, the pre-accession instruments are assisting their preparations, while the PHARE programme will in the future devote a large part of its resources to Objective 1 type programmes, within a medium-term planning framework, which although ‘indicative’ will prepare the way for the overall strategic programming of future Community support from the Structural Funds.

The Commission must take all necessary steps to ensure that, as in the case of the EU15, programmes take account of the situation and the specific difficulties in the new Member States. It should aim to help the authorities concerned to define their programmes in the light of Community priorities.

The question of the administrative capacity of the candidate countries

The implementation of regional development policy is a new task for the authorities in the candidate countries, which have limited funds at their disposal. Indeed, there is no tradition of such a policy, and the decentralisation which it implies, in countries used to centralised planning arrangements.

The process of administrative construction (or ‘institutional building’) is therefore very important, especially as compared with previous occasions of Union enlargement, when all that was required was the simple adaptation of policies and national legislation to the need to implement the Structural Funds.

The first objective is to create a policy at the national level. This was the subject of a special assistance programme (SPP) enabling the candidate countries to prepare, with the support of PHARE, for the implementation of the Structural Funds by establishing a competent authority and the necessary procedures, particularly for coordination between Ministries. Budgetary procedures also need to be put in place to enable them to co-finance programmes and to manage and control the use of Community resources.

There is a need, in addition, to support decentralisation, which is related to the general effort to achieve three major objectives – the consolidation of democracy, the development of partnership and an increase in economic efficiency.

The second aspect is the definition of an intervention strategy aimed at ensuring the effective use of Structural Fund resources and at reducing development disparities in global terms and within countries to avoid the risk of excessive concentration.

The candidate countries also have to build the administrative capacity to define strategies, prepare programmes and manage the corresponding budgets, particularly the funds which come from the Community budget, under the same conditions as the present Member States. During the accession negotiations, the Commission will examine very closely the ability of the candidate countries to meet all the conditions required for them to be able to receive financial transfers.

The financial resources up to the end of 2006

Given that there will be a number of new Member States during the current planning period 2000-06, there are certain matters to be considered in relation to finance during this period. The first relates to the financial perspectives until 2006 decided by the Member States at the European Council in Berlin, including a package to support both interventions in EU15 as well as in the candidate countries for the period before and after accession. After the European Council in Nice in December 2000, it seems likely that the first accessions will take place in 2003-2004. This enlargement scenario differs from that which was the basis of the Berlin decision. It will therefore be necessary to take account of the effective date of accession of new Member States. A phasing-in system may be necessary for the assisted regions in the future Member States, where Structural Funds would be progressively increased over time, in line with their capacity to absorb aid, as was indeed the case during the two previous planning periods.

A second matter concerns the distribution of resources between the Cohesion Fund and the Structural Funds. These funds will, in effect, succeed ISPA, in the first case, and PHARE and SAPARD, in the second (with a ratio at present of one-third and two-thirds, respectively, in terms of their financial weight). Allocating a higher proportion, say one-third, to the Cohesion Fund seems to be justified by the needs of the countries concerned in respect of transport infrastructure and the environment.

Two other considerations argue for a larger weight being accorded initially to the Cohesion Fund in the candidate countries in relation to the proportion allocated to the present Member States. First, a management-by-project approach might prove to be more suited to the authorities who still lack programming experience; secondly, the high rate of co-financing and the fact that the principle of additionality does not apply to the Cohesion Fund would facilitate the absorption of Community funding.

The distribution of Structural and Cohesion Fund resources between the new Member States will be determined according to the same principles, methods and objective criteria as applied to the present Member States.

Cohesion policy in an enlarged Union after 2006, including certain financial aspects.

As the report explains, important modifications to the different aspects of the management of cohesion policy were made during the adoption of Agenda 2000. These were aimed at increasing decentralisation, promoting partnerships and integrating evaluation more effectively into the decision-making process. More rigorous financial management and control, based on a clearer and

more meaningful division of responsibilities between the Member States and the Commission, was also introduced. On this last point, the objective is to reduce significantly the incidence of fraud, but above all of irregularities which represent the overwhelming majority of the cases brought to the attention of the Commission.

The new system is only now beginning to be applied. The next Cohesion Report will contain a first assessment of results of the changes, but certain elements can already be outlined, which need to be further examined in the context of the preparation of the new planning period after 2006.

In relation to **partnership**, there has been a growing tendency to decentralise decision-making as regards national and Community policies. There is a undoubtedly a need to strengthen the role of regional and local authorities and of those on the ground by, for example, programming at the local level when appropriate. In addition, if in the future indirect zoning is the method retained for targeting resources, it would be essential that it is accompanied by guarantees regarding the involvement of regional and local authorities.

Programming of actions could operate in two phases. In a first step, the Commission could set out a global strategy comprising the different economic, social and territorial dimensions in partnership with the Member States at national level and transnational level with a view to identifying priorities including those of particular Community interest. This would help to determine how finance is allocated by priority. Afterwards, programming would be decentralised to the appropriate level, for example at regional, urban or transnational level.

For lagging regions, integrated programming remains a major means of obtaining positive results in terms of their economic, social and territorial development.

It may be possible to make use of a call for tender procedure for the implementation of some programmes, enabling the best proposals to be selected completely transparently. The selection could be made at different levels (regional, national or transnational and in cooperation with the Commission) which would strengthen the links between the results achieved and the finance allocated.

The principle of **additionality** (requiring Community funds to add to, rather than substitute for, national funds) was simplified considerably for the period 2000-06. Experience will confirm if it has become more effective as a way of contributing to the added value of Community cohesion policy. At the same time, it remains a highly aggregate figure in the sense that it does not apply to individual programmes, but to all programmes under a single Objective in a given Member State.

It is therefore lacking in transparency, and it might be worth considering the possibility of calculating additionality at the programme level rather than (as at present) at the Member State level especially for programmes aimed at the less developed regions. At the same time, it is important not to underestimate the difficulties in terms the availability of data that this would imply, a traditional constraint on attempts at improvement in this field. The methodology will be evaluated in the light of the experiences in the implementation of the additionality principle which will take place in 2003 and 2005.

Evaluation has now been firmly established definitively as an integral part of programming procedures. The 'performance reserve' is one of the important innovations brought about by Agenda 2000. As already discussed, the link between the finance allocated and the results achieved needs to be strengthened.

Improving the coherence between the Cohesion Fund and the Structural Funds

The Cohesion Fund, which was established by the Treaty is targeted on Member States in which GNP per head is less than 90% of the Community average and which have established a programme

for macro-economic convergence. As a complement to the Structural Funds, it has proved a useful instrument for promoting investment and in helping the cohesion countries to catch up.

Matters for consideration for the future concern the amount of financial resources which should be allocated to the Fund in absolute terms and to strengthen the coordination of the support provided with that provided by the Structural Funds.

The Treaty limits the Cohesion Fund to the financing of investment projects in transport networks and the environment. While the Cohesion Fund applies at national level, there would be clear advantages in selecting projects so as not to increase regional disparities and to avoid excessive concentration in the more prosperous capital cities and surrounding regions.

At present, the share of the Cohesion Fund in total expenditure on structural policies in the Member States concerned is around 18%. Whether the same balance between the Cohesion Fund and the Structural Funds is appropriate to the new Member States is a matter for further consideration, possibly after a transition period.

The allocation of the resources of the Cohesion Fund between recipient countries should be decided on the basis of purely objective criteria as in the case of the Structural Funds at present. The need for objectivity will become more important for all Member States after the accession of new countries.

In order to strengthen the coordination between actions supported by the Cohesion Fund and those supported by the Structural Funds, the two should be made part of a unique framework. For cohesion countries, the Cohesion Fund should become the only instrument for financing large transport and environmental projects in lagging regions.

The financial aspects of cohesion policy in an enlarged Union after 2006

The evidence presented in the report on national, regional and social disparities demonstrate that there is an increased need for cohesion policy in an enlarged Union. The analysis in Part I of the main report shows that economic and social disparities within the Union will widen considerably with enlargement. The challenge of maintaining economic and social cohesion will therefore increase.

Inevitably the bulk of the financial effort would be addressed to the new Member States. In a real sense, the size of the global financial package will determine the level of ambition on the part of the Union in tackling problems which persist in the EU15, especially in its lagging regions. It is within this framework that discussion on the budget for cohesion policy has to be set.

While it is premature to put forward budgetary proposals for cohesion policy after 2006 - which in any event would have to be considered as part of a global discussion on future Community policies - it is appropriate to recall a few figures and to give a few reference points to assist debate.

Between the 1988 reform and 1999, the Union strengthened its cohesion policy in terms of the financial resources devoted to it in absolute terms and relative to the Community budget as a whole. Under Agenda 2000, the Commission initial proposal was to maintain the level of financial support reached in 1999 for the EU15 (0.46% of GDP) throughout the 2000-2006 period.

In the event, the European Council in Berlin allocated €213 billion to structural measures in the 15 Member States for the 2000-2006 period, an average of €30 billion a year. The resources given as pre-accession aid (€3 billion) and the sums reserved for the countries which join between 2002 and 2006 form an additional part of the overall package for cohesion policy. In addition, cohesion policy for new Member States *after* accession was set at a progressively increasing figure reaching €12 billion in 2006. These decisions together set the total amount *in effect* at 0.45% of the GDP in the enlarged Union of 21 Member States in 2006, virtually the same as at the beginning of the period for EU15.

The same percentage needs not necessarily be taken as a reference point for future cohesion funding but it must be clear that, in order to remain credible, regional and cohesion policy needs to deploy resources commensurate with needs in the circumstances which prevail.

Enlargement and the ceiling on transfers

Under the current rules for the period 2000-06, transfers from the Structural and Cohesion Funds are limited up to a maximum of 4% of national GDP a year in all Member States. As a figure determined in relation to the situation in the present Member States, in an effort to keep the transfer from the Union to levels that can be managed by the recipient administrations, it is a ceiling that will have important consequences for some of the least prosperous candidate countries when they join the Union.

In the new context, the following constraints must therefore be reconciled:

- Addressing the cohesion objective, especially the enormous development needs of the candidate countries;
- Taking proper account of the absorption capacity of these countries in economic, financial and administrative terms.

Taking full account of the relative prosperity of the countries concerned would give rise to significant risks as regards their absorption capacity and the balance of public expenditure. Consequently, addressing the question of the ceiling would only be relevant in exceptional circumstances, such as in the case of projects financed by the Cohesion Fund which represent a particular Community interest.

Continuing pre-accession for other candidate countries

Assistance for pre-accession, modified if necessary, should continue to apply to the candidate countries which have not yet joined the Union on the 1st January, 2007. The amount of finance required should be the subject of an objective evaluation in relation to needs, the capacity for absorption and the number of countries in receipt of the support.

Increasing the contribution of other policies

Community policies have their own objectives and their effect on cohesion is difficult to assess in a number of cases, but it is necessary, as a complement to a stronger geographical and thematic concentration of the Funds, to reinforce synergies and the complementarity between cohesion and other community policies.

Certain community policies contribute indirectly to economic and social cohesion by helping to create more favourable conditions for development in less prosperous Member States and regions.

This is true of Economic and Monetary Union which helps to achieve macroeconomic stability in the cohesion countries in particular which, because it is favourable for investment and economic growth, is a necessary, though not a sufficient, condition for real convergence.

The same is true of the internal market, which, together with structural reforms, has an important influence on social cohesion across regions. The Union is undertaking a major effort to reform product, capital and labour markets. The reduction of the disparities between regions requires investment aimed at increasing the economic potential of the less developed regions.

Faster growth does not automatically lead to closer regional integration and reduced income inequalities. Accordingly, further reforms, a reduction in barriers to competition in some markets, especially in services, and the support of cohesion policy are needed to reap the full benefits from the catch-up process in some Member States and to reduce existing inequalities between regions.

EMU like the internal market needs to be complemented by accompanying policies so that all Member States and regions can benefit fully from economic and monetary integration. In this respect, maintaining structural spending which complements the Structural Funds, particularly in the fields of education, training and employment, as well as research and technological development, is essential for the overall effectiveness of cohesion policy.

Competition and cohesion policies are complementary, since the ceiling imposed on regional State Aids benefits the less prosperous countries most of all. This thrust of policy needs to be pushed further to establish more equitable conditions for competition, while taking account of the role played by services of general interest in territorial cohesion.

The European Employment Strategy, is necessary for cohesion. It should, however, be adapted to different regional and local circumstances in order to respond better to the very different performances of labour markets. This objective has already been taken into account in the measures supported by the Structural Funds for the period 2000 to 2006. But national budgets do not identify clearly the way in which strategic objectives are translated into financial commitments, which makes it difficult to detect such a move.

Other Community policies have a major effect on the territorial structure of the Union

The Common Agricultural Policy has largely achieved the objectives set, which focus on improving the competitiveness of European agriculture. The change in the CAP means that it benefits some cohesion countries today more than before, but its contribution to territorial cohesion remains very variable and depends on regional systems of agricultural production. The second pillar of the CAP, rural development policy, needs to be on a quite different scale, especially in areas which are affected most by the continuing changes in agricultural policy.

In some small coastal areas, fisheries accounts for a significant share of employment. For the Common Fisheries Policy, the challenge is to restore a sustainable balance between fish stocks and fishing. Since activities linked to fishing are concentrated in less favoured areas, accompanying social and economic policies are required to enable diversification to take place.

The trans-European transport networks are an instrument of territorial development and can have a significant effect on regional disparities as highlighted by the European Spatial Development Perspective (ESDP). There needs, however, to be greater complementarity between the policy on large networks and Structural Fund programmes and when the guidelines for trans-European networks are revised, more account should be taken of the cohesion objective.

All the analysis carried out in the Cohesion Report shows the importance of research and innovation for competitiveness. Despite some progress under the 5th Framework Programme, research and development (RTD) is still concentrated in the most central and competitive regions. To make the European Research Area a concrete reality, the emphasis needs to be put on the regional dimension of RTD through networking and improving the coordination with the Structural Funds. The challenge here is to ensure that lagging regions become full partners in this area.

Environmental policy, with economic and social cohesion, is one of three pillars of sustainable development. The design of this policy should give more consideration to territorial disparities and specific features as well as to the financial effect on regions of the measures envisaged.

The Community budgetary system and cohesion

As regards the overall Union Budget, a balance between contributions and the distribution of expenditure for each Member State is not an objective in itself. Individual Member State contributions are, however, becoming more proportional to GNP. Union expenditure reflects the content and priorities of Community policies, only cohesion spending being inversely related to regional GDP per head.

Strengthening the contribution of other policies to the cohesion effort

With enlargement, the globalisation of the economy and the development of the knowledge society, the Union is facing unprecedented economic and social changes. It is, therefore, necessary for other Community policies to increase their contribution to economic and social cohesion, as foreseen in the Treaty.

It is important to consider the response to the greater need for coherence, complementarity and efficiency of Community policies and the instruments necessary to make this happen. This consideration forms part of the work initiated by the *White Paper on Governance*.