



Cohesion policy: the 2007 watershed

Legislative proposals by the European Commission for the reform of cohesion policy (2007–13 period)

On 14 July 2004, the European Commission adopted its legislative proposals on cohesion policy reform. With a total allocation of EUR 336.1 billion, or approximately one third of the Community budget, this reform aims to make structural actions:

- **more targeted on the EU's strategic priorities (Lisbon and Gothenburg agendas for a sustainable and competitive 'knowledge economy', European employment strategy);**
- **more concentrated on the least favoured regions while anticipating change in the rest of the Union;**
- **more decentralised with a simpler, more transparent and more efficient implementation.**

The proposals include:

- **a general regulation laying down a common set of rules for the three sources of financing for structural actions during the 2007–13 period;**
- **a regulation for each of these components, namely: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund; and**
- **a proposal for a completely new regulation allowing the creation of a cross-border cooperation structure.**

The purpose of this factsheet is to help the regional development actors to identify the key elements in these proposals in the context of the ongoing debate between now and the final adoption of the new legislative framework.

The proposed reform is on a major scale as it is designed to redraw the European solidarity landscape in an enlarged Union and in the context of economic globalisation and the development of a knowledge-based economy. The strategy and resources of cohesion policy will be grouped into three new priority objectives for structural actions (in short: convergence, competitiveness and employment cooperation). The important innovations and simplifications proposed include:

- the introduction of annual strategic dialogue with the Member States within the Council as well as with the European Parliament, the European Economic and Social Committee and the Committee of the Regions to ensure that European priorities are respected throughout the period;
- full recognition and increased financing for areas with natural handicaps and more attention given to the urban dimension;
- a wider delegation of responsibilities to the Member States and regions, including in the field of control, while maintaining financial rigour;
- a reduction in the number of financial instruments for cohesion (three rather than six);

- the inclusion of the field of action of the present URBAN and EQUAL Community initiatives and of the innovative actions among the priorities of the operational programmes of the Member States and regions;
- financing of the operational programmes out of a single fund (ERDF or ESF), with the exception of 'infrastructure' programmes that will be financed jointly by the ERDF and Cohesion Fund;
- for the Cohesion Fund, multiannual programming and the same regulations as for the Structural Funds;
- last but not least, all the Union's territories and citizens being able to benefit from a new cohesion policy that is focused on the most disadvantaged but adapted in line with specific situations.

The context: a wide-ranging and ongoing debate

These proposals do not in any way emanate from the Commission alone, but from the wide-ranging debate it launched three years ago that fuelled the 'Third report on economic and social cohesion', adopted on 18 February 2004, and that culminated in May 2004 at the third Cohesion Forum. Regular discussions are also continuing within the Structural Funds Working Group at the

Council and the European Parliament's new Committee on Regional Policy (REGI).

During the first half of 2005, the European Council under the Luxembourg Presidency will make a decision on the financial perspectives for the 2007–13 period and on the proposal presented by the Commission in February 2004. The Parliament and Council will then be able to agree on the new regulations. Within the following three months, the Council will adopt the 'Community strategic guidelines on cohesion', on the basis of which the Member States and the regions will draw up 'national strategic reference frameworks'. It will then be possible to draw up the new generation of 'operational programmes' during 2006. The aim is for actions to start up from the beginning of 2007.

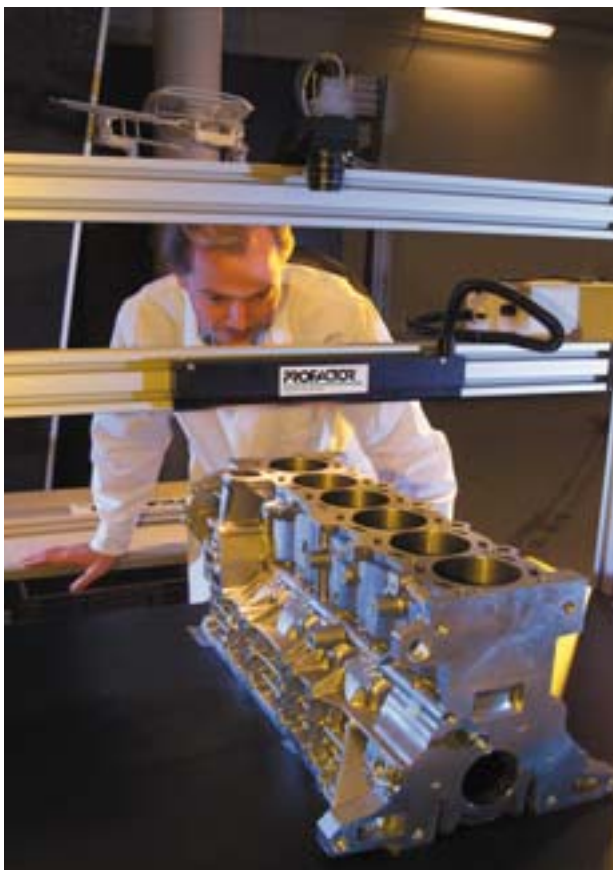
Proposal for a general regulation

The linchpin of these proposals is the regulation laying down the general provisions for the two Structural Funds for the 2007–13 period (ERDF and ESF) and for the Cohesion Fund. Here is a summary of the key components.

Objectives, eligibility, resources

The three current priority objectives of the Structural Funds — Objective 1: regions lagging behind in development; Objective 2: regions undergoing economic and social conversion; Objective 3: training systems and employment promotion — will be replaced in 2007 by the following three objectives.

- **'Convergence' objective** (ERDF, ESF, Cohesion Fund). Close to the present Objective 1, the purpose of the convergence objective is to speed up the economic convergence of the



Innovative company in Steyr (Austria): the ERDF also supports industrial research.

less-developed regions, by means of: improving conditions for growth and employment by investing in human and physical capital; innovation and the development of the knowledge society; encouraging adaptability to economic and social change; protection of the environment; improving administrative efficiency. The convergence objective will play a particularly vital role in the new Member States whose accession confronts the Union with unprecedented development gaps.

Eligibility

- The convergence objective will concern first and foremost those regions whose per capita gross domestic product (GDP) is less than 75 % of the average for the enlarged EU, calculated on the figures available for the three years prior to adopting the regulation. This is mainly the case for the majority of the new Member States.
- To consolidate what has been achieved under previous programmes, temporary and specific 'phasing out' support will be granted, on a decreasing basis through to 2013, for regions whose per capita GDP exceeds the 75 % figure due solely to the statistical effect of enlargement.
- Whether or not they qualify for aid under the convergence objective, the outermost regions (Azores, Madeira, Canary Islands and French overseas departments) will benefit from specific aid under the ERDF as a means of allowing for their specific constraints in integrating into the internal market.
- As in the past, the convergence objective will cover intervention by the Cohesion Fund in Member States whose gross national income (GNI) is below 90 % of the EU average and that is aimed at helping them to fulfil the Union's conditions for economic and monetary convergence.

The list of regions or Member States that fulfil these conditions will be published by the Commission immediately following the entry into force of the regulation.

Resources

The total amount of EUR 264 billion allocated to the convergence objective — or 78.54 % of contributions by the Funds compared with the present 75 % — will be distributed as follows:

- 67.34 % for regions whose per capita GDP is below 75 % of the average,
- 8.38 % for regions concerned by the 'statistical effect',
- 23.86 % for countries benefiting from the Cohesion Fund,
- 0.42 % for the outermost regions.

- **'Regional competitiveness and employment' objective** (ERDF, ESF). For the rest of the Union, a twofold approach is proposed. On one hand, the regional development programmes (ERDF) will strengthen regional competitiveness and attractiveness by anticipating economic and social change and supporting innovation, the knowledge society, entrepreneurship, protection of the environment and risk prevention. On the other hand, programmes at the national or appropriate territorial level financed by the ESF will help workers and companies, on the basis of the European employment strategy, to adapt to change and encourage the development of job markets that award priority to social inclusion. The competitiveness objective will play a key role in

avoiding the emergence of new imbalances to the detriment of regions that would otherwise experience the negative effects of unfavourable socioeconomic factors without sufficient public aid.

Eligibility

- All the regions not covered by the convergence objective will be liable to benefit under the competitiveness objective. It will be for the Member States to present the list of regions for which they will be submitting a programme to be co-financed by the ERDF; the Community zoning of the present Objective 2 will thus no longer apply.
- Regions under the present Objective 1 that, in 2007, will no longer be eligible under the convergence objective due to the economic progress achieved, will receive specific 'phasing in' support on a decreasing basis through to 2013 to consolidate the process of catching up. The Commission will publish the list of these regions immediately after the regulation enters into force.

Resources

The competitiveness objective will have a budget of EUR 57.9 billion, or 17.22 % of the total, to be distributed as follows:

- 83.44 % for regions not emerging from the present Objective 1,
- 16.56 % for the 'phasing in' regions.

The ERDF/ESF will contribute on a fifty-fifty basis in the case of regions not emerging from the present Objective 1; for the 'phasing in' regions, the ESF's share will be a maximum of 50 %.

- **'European territorial cooperation' objective** (ERDF). The purpose of this objective, inspired by the experience of the Interreg Community initiative, is to strengthen cooperation at three levels: cross-border cooperation through joint programmes; cooperation between transnational zones; networks for cooperation and the exchange of experiences

throughout the Union. In this way, the cooperation objective will encourage a balanced, harmonious and sustainable development throughout the European area.

It should be noted that, outside the cooperation objective, the programmes under the convergence and competitiveness objectives will cover specifically inter-regional actions between the participating authorities in a programme and those in at least one other Member State.

Eligibility

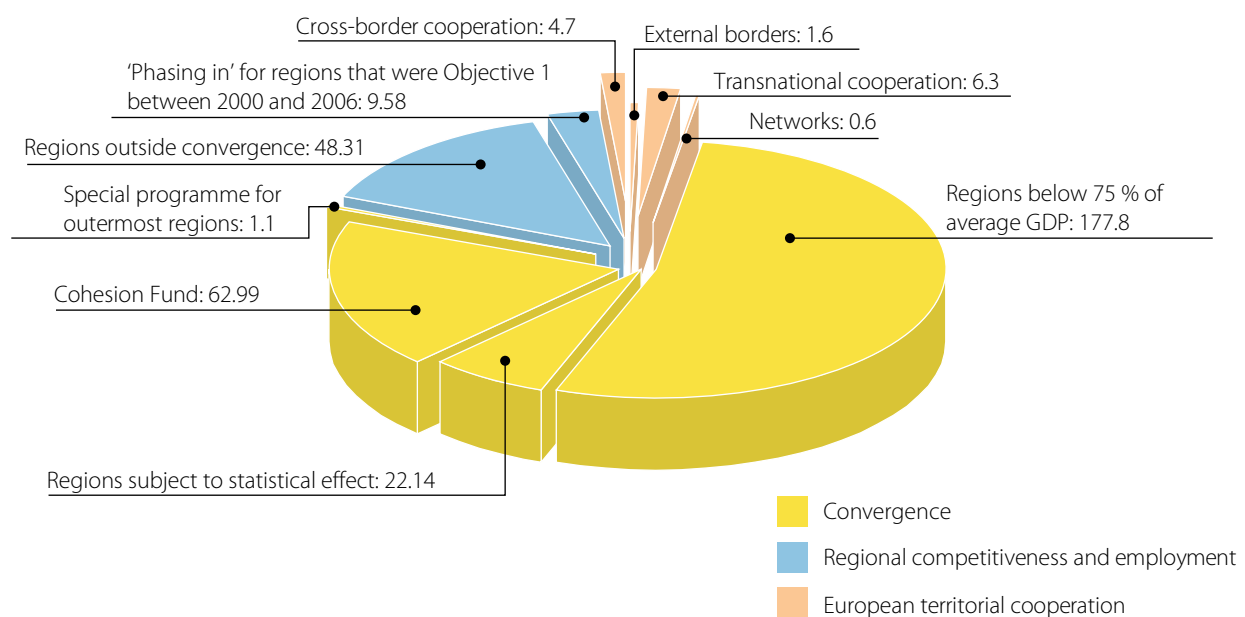
Cross-border cooperation will cover regions lying along internal land borders and certain external land borders, as well as some regions lying on sea borders. It will also contribute to the cross-border components of the future 'European neighbourhood and partnership instrument' and 'Instrument for pre-accession'. These will replace the present Phare, Tacis, MEDA, CARDS, ISPA and Sapard programmes. When the regulation enters into force, the Commission will adopt the list of eligible cross-border regions and of transnational cooperation zones. The whole of the Union territory is eligible for financing of European cooperation and exchange networks.

Resources

The total allocation for territorial cooperation is EUR 13.2 billion, or 3.94 % of the total, to be distributed as follows:

- 47.73 % for cross-border cooperation, of which 35.61 % for cross-border cooperation in EU territory and 12.12 % for the contribution to the cross-border component of the European neighbourhood and partnership instrument and the Instrument for pre-accession, the participation of the latter having to at least match this amount;
- 47.73 % for transnational cooperation zones;
- 4.54 % for European cooperation and exchange networks.

Cohesion policy 2007–13: breakdown by objectives (billion EUR)



Specific territorial characteristics

The programming will take particular account of the following specific territorial characteristics:

- the cities and towns, and medium-sized towns in particular, whose role in regional development will be boosted with aid for urban regeneration drawing on the experience of the URBAN Community initiative, and which could be sub-delegated direct responsibilities;
- rural areas and areas dependent on fisheries, which will be the subject of actions to encourage a more diverse economy financed by the Structural Funds on the basis of complementary and consistency with the new European Agricultural Fund for Rural Development (EAFRD) and the European Fund for Fisheries (EFF). The latter will replace the Guidance Section and the specific contributions of the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) for rural development and the Financial Instrument for Fisheries Guidance (FIFG), but will cease to be a part of the Structural Funds;
- the outermost regions, regions with a natural handicap (islands, mountains), sparsely or very sparsely populated areas, and

former Community external border areas which ceased to be so on 30 April 2004.

Community participation and increased participation rates

Totalling EUR 336.1 billion, total resources allocated to cohesion policy for the 2007–13 period will represent approximately one third of the Community budget and 0.41 % of the EU's GNI (0.46 % including resources now allocated under rural development). For each operational programme priority, the contributions of the Funds to public expenditure must be at least 20 % of the total, and will be subject to the following limits:

- 85 % for the Cohesion Fund;
- 75 % for the ERDF and ESF under the convergence objective, and exceptionally as much as 80 % for countries benefiting from the Cohesion Fund;
- 50 % for the ERDF or the ESF under the competitiveness objective;
- 75 % for the ERDF under the cooperation objective;

Cohesion policy 2007–13 (EUR 336.1 billion)

Programmes and instruments	Eligibility	Priorities	Allocations
Convergence objective including the special programme for the outermost regions			78.5 % (EUR 264 billion)
National and regional programmes (ERDF, ESF)	Regions with per capita GDP < 75 % of EU-25 average	<ul style="list-style-type: none"> • Innovation • Environment/risk prevention • Accessibility • Infrastructures • Human resources • Administrative capacity 	67.34 % = EUR 177.8 billion
	Statistical effect: regions with per capita GDP < 75 % of EU-15 and > 75 % of EU-25		8.38 % = EUR 22.14 billion
Cohesion Fund	Member States with per capita GNI < 90 % of Community average	<ul style="list-style-type: none"> • Transport networks (TEN-T) • Sustainable transport • Environment • Renewable energy 	23.86 % = EUR 62.99 billion
Regional competitiveness and employment objective			17.2 % (EUR 57.9 billion)
Regional programmes (ERDF) and national programmes (ESF)	The Member States propose a list of regions (NUTS1 or NUTS2)	<ul style="list-style-type: none"> • Innovation • Environment/risk prevention 	83.44 % = EUR 48.31 billion
	'Phasing in' regions covered by Objective 1 between 2000 and 2006 and not covered by the convergence objective	<ul style="list-style-type: none"> • Accessibility • European employment strategy 	16.56 % = EUR 9.58 billion
European territorial cooperation objective			3.94 % (EUR 13.2 billion)
Cross-border and transnational programmes and networks (ERDF)	Border regions and large transnational cooperation regions	<ul style="list-style-type: none"> • Innovation • Environment/risk prevention • Accessibility • Culture, education 	35.61 % cross-border cooperation 12.12 % European neighbourhood and partnership instrument 47.73 % transnational cooperation 4.54 % networks

- 50 % for the new additional allocation by the ERDF to the outermost regions (compensation for extra costs);
- 85 % for operational programmes in the outermost regions and the outlying Greek islands.

The following increases are also proposed for the ERDF contribution: + 10 % for inter-regional cooperation actions under the convergence and competitiveness objectives; + 5 % under the competitiveness objective, for regions with a natural handicap (islands, mountain areas), sparsely or very sparsely populated areas — especially areas in the far north which will no longer qualify automatically under the convergence objective — and areas which were external border areas until 30 April 2004. The increases for these areas can be combined up to a total Community participation of 60 %.

The pre-financing of 7 % of the contribution from the Structural Funds — 10.5 % for the Cohesion Fund — will continue to apply. The proposed regulation also defines the conditions for improved coordination between the contribution by the Funds and loans from the European Investment Bank (EIB) and European Investment Fund (EIF), especially for complex financial operations and public–private partnerships.

Quality and performance reserve and national contingency reserve

The performance reserve — now known as the ‘Quality and performance reserve’ — constitutes 3 % of the resources allocated to the ERDF and ESF under the ‘Convergence’ and ‘Regional competitiveness and employment’ programmes. It aims to reward progress made on the basis of the following criteria:

- for the convergence objective, on the basis of the 2004–10 data, the increase in per capita GDP and employment rate;
- for the competitiveness objective, the allocation of at least 50 % of the ERDF resources to innovation-related activities between 2007 and 2010 and an increase in the employment rate on the basis of the 2004–10 data.

The new national contingency reserve, constituted by the Member States which transfer to it 1 % of the convergence allocation and 3 % of the competitiveness allocation, will cover unforeseen local or sectoral crises linked to economic and social restructuring or to the consequences of the opening up of trade.



The Cohesion Fund co-finances the Patras–Athens–Thessaloniki motorway in Greece.

Durability of operations

Reflecting a concern that is often expressed, the proposed regulation stipulates that aid from the Funds is recovered if, within a period of seven years, substantial modifications are made regarding a firm or public body or resulting from the cessation of a productive activity, following relocation for example. A firm that is or has been subject to a recovery procedure can no longer benefit from a contribution from the Funds.

Strategy, decentralisation, simplification

The reform proposal maintains the basic principles of structural actions: multiannual programming offering a Community guarantee of sufficient duration and concentration, a broad and effective partnership of the actors concerned at various levels, co-financing based on the complementarity of Community and national aid, evaluation of performance and quality at the various stages in the process. At the same time, it introduces a series of major innovations aimed at making cohesion policy more effective. Here is a summary of the principal innovations.

Strategy

- The programming approach will be more strategic, centred on the 'Community strategic guidelines on cohesion', the Commission's priorities and the new national strategic reference frameworks. These reference documents will replace the present Community support frameworks (CSFs), single programming documents (SPDs) and programming complements. Providing a succinct description of the Member State's strategy and the principal operations that stem from it, they will each represent a political charter for the drawing up of operational programmes. Member States will have exclusive responsibility in managing interventions.

It is in this context that, every year, the European institutions will examine the progress made in achieving the Union's strategic priorities, on the basis of a Commission report drawn up after consulting the national activity reports and submitted to the

Council together with the implementation report concerning the broad economic policy guidelines (BEPGs).

Decentralisation and simplification

- The proposal aims to clearly delimit the framework, the nature, and the division of responsibility between the different actors charged with managing the Community budget and ensuring effective programme implementation: the Member States, regions and implementing bodies on the one hand, the Commission on the other. Decentralisation will be combined with a simplification and increased efficacy of the process. The proposed regulation lays down the general provisions of the management and control systems and the functions of the managing authority for each programme, of the expenditure approval authority, of the audit authority and of the monitoring committee.
- In the field of financial management, three important simplifying elements are introduced. First of all, payments and financial management will be carried out at the level of priorities rather than measures. Secondly, the Community contribution will be calculated on the basis of public expenditure only. Finally, the rules of eligibility for expenditure will be largely national rather than Community based, with the exception of a limited number of fields, such as VAT, which will remain ineligible.
- In the field of controls, increased confidence will be placed in the national systems of financial control and certification of expenditure when the Member States are the principal financial contributors and the Commission has obtained an assurance of the reliability of these systems, based in particular on the opinion of an independent audit body. This new principle of 'proportionality' will enable the Commission to limit its own controls and audits.
- Financial corrections made by the Commission will be applied on a progressive basis. If there is any doubt regarding the proper functioning of management and control systems or the regularity of operations, the payment period may be interrupted and a 20 % deduction applied to interim payments. In the most serious cases, all or a part of these payments may be suspended.



Professional training supported by the ESF.

- The 'Community strategic guidelines on cohesion', the national strategic reference frameworks and the operational programmes will all be subject to evaluation. The general regulation lays down the respective responsibilities of the Member States and of the Commission for *ex ante* and *ex post* evaluations. The mid-term evaluation is not mentioned in the proposal, but the Member States will carry out evaluations when the programme follow-up indicates a significant discrepancy between realisations and the initial aims, as well as at the time of proposals for substantial programme review.

- Concentration will be improved by balancing the geographical, thematic and financial aspects. This is the reason for the proposal to abandon the current

Objective 2 system of pre-established 'micro-zoning' for the programmes under the 'Regional competitiveness and employment' objective. While it is important to concentrate resources in the most disadvantaged pockets or areas, it must also be acknowledged that — while avoiding the dilution of actions — the solution to problems is linked to the implementation of a coherent strategy for an entire region.

- The action of each Structural Fund (ERDF, ESF) will be rendered more coherent by virtue of the principle of 'one Fund per programme', coupled with the possibility of financing, up to a maximum of 5 %, activities covered by the other Fund but linked directly to the programmed operations. This margin can be as much as 10 % for the ESF in the case of programmes for the social regeneration of urban areas.
- On the other hand, for a better coordination of heavy investments by the ERDF and Cohesion Fund, the latter will no longer finance individual projects but priorities — including 'major projects' which exceed EUR 25 million in the environment field and EUR 50 million in other fields — within joint ERDF/Cohesion Fund programmes. The interventions will be subject to the same rules as for the ERDF and ESF, thus the rule of automatic reimbursement of unused amounts within two years of being allocated ($n + 2$).

Proposals for the ERDF, ESF and Cohesion Fund regulations

Independently of the points under the general regulation, we can also briefly outline elements that stem from the proposed regulations for the three financial instruments.

ERDF

- Under the convergence objective, in addition to strengthening infrastructures — transport, environment, energy, education, health — and aid for SMEs, new stress is placed on research and innovation as well as on risk prevention.
- Actions under the competitiveness objective will focus on three priorities: innovation and the knowledge economy, the environment and risk prevention, and access — outside urban centres — to transport and telecommunication services of general economic interest.
- Under the cooperation objective, the cross-border programmes will concentrate on encouraging entrepreneurship, joint management of the environment and the sharing of infrastructures. Transnational programmes will include water conservation and management, access to major networks and the interoperability of systems, risk prevention and related research and technological development activities.
- The ERDF regulation also includes specific provisions for the urban dimension, areas with natural handicaps, outermost regions and rural areas and areas dependent on fisheries. In the latter, ERDF intervention will assist activities other than farming and fishing as well as accessibility and the improvement of links between the towns and rural areas.

ESF

- There will be a stronger link between the ESF, the European employment strategy and Union priorities in the field of social inclusion, education and training, and equal opportunities in

order to anticipate changes due to economic and social restructuring, the development of the knowledge economy and demographic change.

- The main aim under the convergence objective will be to strengthen human resources so as to increase employment prospects, boost labour productivity and stimulate growth, as well as to support good governance and the strengthening of the institutions and administrative capacities.
- Under the competitiveness objective, the action will concentrate on the ability of workers and firms to adapt to change, access to the job market, the social inclusion of the most disadvantaged, the fight against discrimination and the development of partnerships and networks for employment and social inclusion.
- The innovative activities will be included in full in the ESF programmes and transnational cooperation actions.

Cohesion Fund

- The regulation proposal retains the conditionality of Cohesion Fund intervention: respect for economic convergence criteria, control of public expenditure and implementation of stability programmes.
- In regard to trans-European transport networks (TEN-T), the action of the Funds is focused in particular on priority projects of European interest.
- To meet the major needs of the new Member States, interventions will not only cover major transport and environmental protection infrastructures but also fields with a clear environmental dimension such as energy efficiency and renewable energy or intermodal transport, urban and collective transport, etc.

Proposed regulation for European groupings of cross-border cooperation (EGCCs)

The last proposed regulation will make it possible to set up entities with a legal personality, the EGCCs, to oversee the implementation of programmes under the cooperation objective on the basis of agreements between national, regional or local administrations or other public bodies of which the groupings are composed. This would be a means of overcoming the major difficulties encountered by the Member States, the regions and the local authorities in carrying out cross-border, transnational or inter-regional cooperation actions due to the many national laws and procedures.

Each EGCC will have its own statutes, organs and budgetary rules and will carry out the tasks with which it is charged by its members on the basis of the agreement. This agreement will determine the law (that of one of the Member States concerned) that governs the EGCC's activities. The existence of the EGCC will not, however, affect the financial responsibility of the Member States and other authorities.

Cohesion 2007–13: the objectives and instruments proposed by the Commission

2000–06		2007–13	
Objectives	Financial instruments	Objectives	Financial instruments
Cohesion Fund	Cohesion Fund	Convergence	ERDF
Objective 1	ERDF		ESF
	ESF EAGGF — Guarantee and Guidance FIFG		Cohesion Fund
Objective 2	ERDF ESF	Regional competitiveness and employment • regional level • national level: European employment strategy	ERDF
Objective 3	ESF		ESF
Interreg	ERDF	European territorial cooperation	ERDF
URBAN	ERDF		
EQUAL	ESF		
Leader+	EAGGF — Guidance		
Rural development and restructuring of the fisheries sector outside Objective 1	EAGGF — Guarantee FIFG		
EAGGF — Guarantee			
9 objectives	6 instruments	3 objectives	3 instruments

References

Cohesion policy

- Proposal for a Council regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, 14 July 2004, COM(2004) 492 final.
- Proposal for a European Parliament and Council regulation on the European Regional Development Fund, 14 July 2004, COM(2004) 495 final.
- Proposal for a European Parliament and Council regulation on the European Social Fund, 14 July 2004, COM(2004) 493 final.
- Proposal for a Council regulation establishing the Cohesion Fund, 14 July 2004, COM(2004) 494 final.

- Proposal for a European Parliament and Council regulation establishing a European grouping of cross-border cooperation (EGCC), 14 July 2004, COM(2004) 496 final.

The full text of the proposals and other information on the reform process is available at the Regional Policy DG website: http://www.europa.eu.int/comm/regional_policy/debate/forum_en.htm

Rural development and fisheries

- Proposal for a Council regulation on support for rural development by the European Agricultural Fund for Rural Development, 14 July 2004, COM(2004) 490 final.
- Proposal for a Council regulation on the European Fund for Fisheries, 14 July 2004, COM(2004) 497 final.



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