

Part 4 — Impact and added value of structural policies

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Introduction

This part of the report reviews the results and the added value of the interventions under EU cohesion policy for the period 1994–1999. It also takes account of the main changes introduced in the period 2000–2006 as well as preliminary results on the implementation of programmes during this period.

The analysis draws mainly on *ex post* evaluations carried out for almost all types of intervention for the period 1994–1999. Significant progress has been achieved in terms of quantifying the impact of intervention, especially in large Objective 1 regions, where the overall effects can be measured by using macroeconomic models. Despite the difficulties in identifying the impact of policy outside Objective 1 regions, recent evaluation studies provide quantitative evidence of the positive effects of EU support, in terms, for example, of jobs saved, created or redistributed. Nevertheless, as experience demonstrates, there are still a number of difficulties in quantifying the consequences of intervention as a result of a lack of systematic data collection on the part of the monitoring systems.

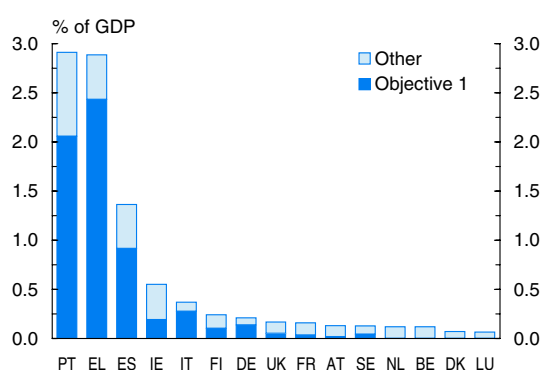
Most of the effects of cohesion policy, however, cannot readily be expressed in quantitative terms. Beyond the net impact of policy on GDP or employment, its added value arises from other aspects, like the contribution made to regional development by factors such as strategic planning, integrated development policies, partnership, evaluation and the exchange of experience, know-how and good practice between regions. These are also reviewed here, drawing on the evidence from evaluation studies as well as on Commission views as to how the Structural Funds are currently implemented.

It should be emphasised at the outset that the effectiveness of intervention also depends on favourable conditions being achieved on the ground, in particular on:

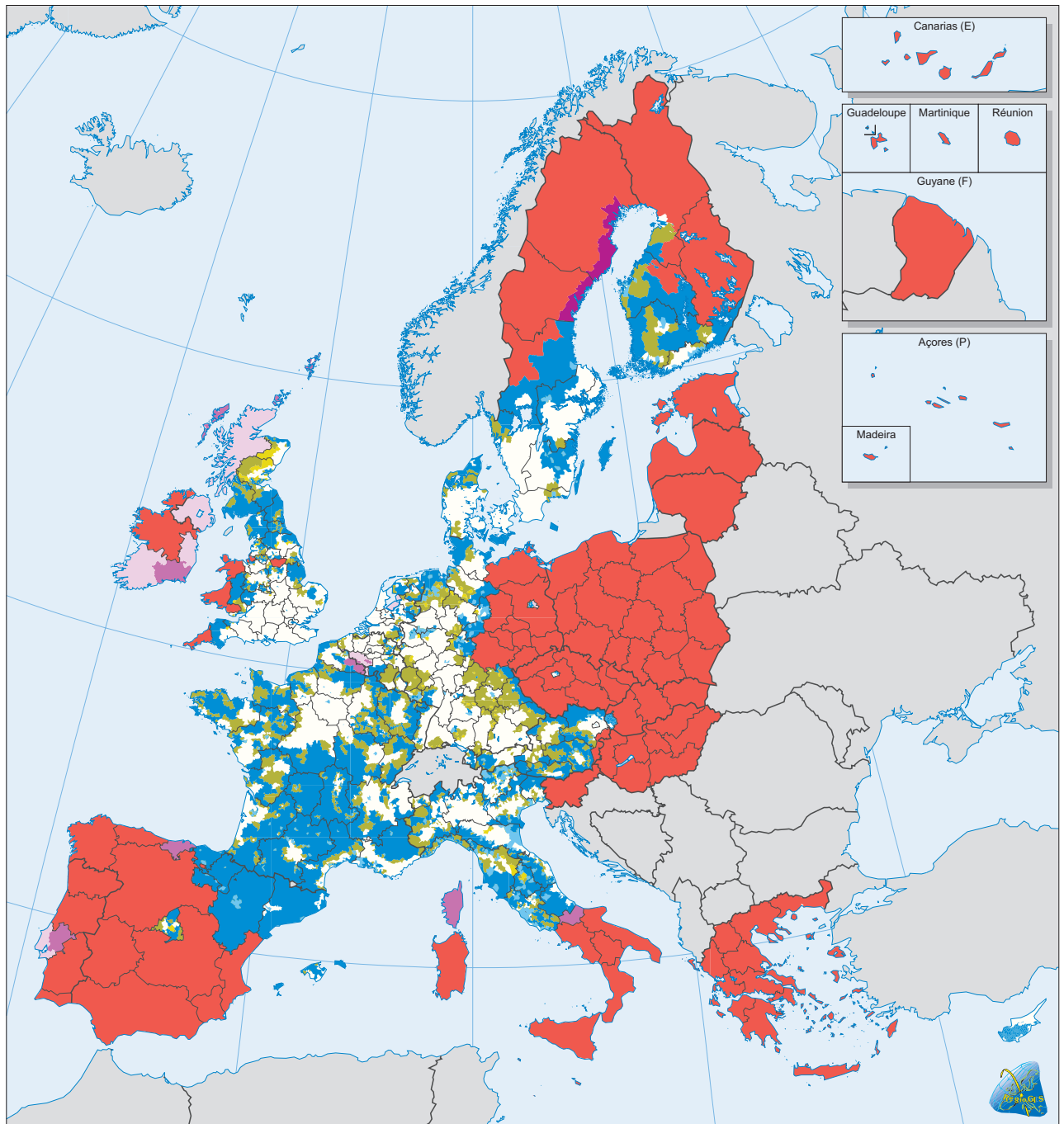
- a sound and stable economic framework;
- a judicious choice of strategic priorities (certain programmes, such as transport networks or investment in human capital make a stronger contribution than others);
- the rate of financial absorption, which depends on administrative and institutional capacity;
- the quality of projects, implying the need for effective selection and implementation systems.

Six major aspects of Community cohesion policy are examined below: first, the contribution of structural policies to supporting growth in lagging regions and to strengthening their performance while helping to bring about closer economic and social integration; secondly, the effects of these policies outside of Objective 1 regions; thirdly, the specific role of the European Social Fund (ESF) in promoting employment, education and training; fourthly, the role of structural policies in terms of encouraging cooperation and networking, not least at the local level; fifthly, the methods used to implement the Structural Funds and their contribution to modernising the management of government policies; and finally, the achievements of pre-accession support in the new Member States and the first lessons which can be drawn for the 2004–2006 programming period — Map 4.1.

4.1 Structural Funds (all objectives) by country, 2000-2006



Source: DG REGIO



4.1 Structural Funds, 2004-2006: areas eligible under Objectives 1 and 2

Objective 1

- Objective 1
- Phasing-out (till 31/12/2005)
- Phasing-out (till 31/12/2006)
- Special programme

Objective 2

- Objective 2
- Objective 2 (partly)
- Phasing-out (till 31/12/2005)
- Phasing-out (partly) (till 31/12/2005)

Source: DG REGIO

0 100 500 km

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Structural interventions in Objective 1 regions: growth, convergence and integration

The scale of transfers and their mobilisation

While the overall size of the Structural Funds is modest in relation to EU GDP (under 0.5%), resources are concentrated on assisting the least prosperous regions with the lowest GDP per head. In the 2000–2006 period, almost three-quarters of the Funds, therefore, go to regions which are home to a quarter of the EU population.

Over the period 2000–2006, transfers to Objective 1 regions of the EU15 are equivalent to EUR 127.5 billion (or EUR 18.2 billion a year), amounting to 0.9 % of GDP in Spain, 2.1% in Portugal and 2.4 % in Greece. The average amount of aid per head to lagging regions is the same in this period as in 1999, the last year of the previous programming period (Graph 4.1 and Table A4.1).

These transfers have the effect of enabling the least wealthy Member States to achieve higher levels of investment in human and physical capital in lagging regions than would otherwise be the case, so helping to improve their long-term competitiveness. In 2000 to

2006, transfers are estimated to amount to around 9% of total investment in Portugal, 8% in Greece, 7% in the Italian Mezzogiorno, 4% in the German new Länder and 3% in Spain.

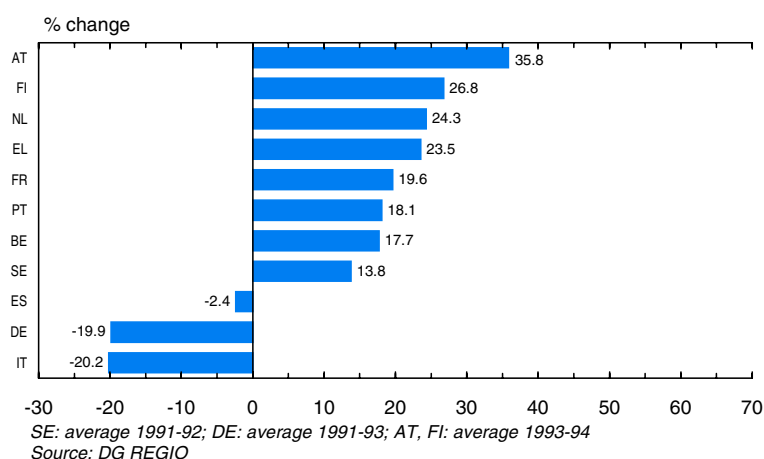
Additionality: measuring overall public expenditure

Despite the efforts made to consolidate their public finances at the end of the 1990s in preparation for EMU, Member States continued on the whole to respect the principle of additionality, under which they are obliged to maintain public, or equivalent, expenditure on structural policies in the regions concerned, taken together, at the same level as the average over the preceding programming period — excluding, of course, the Structural Fund contribution (Graph 4.2).

In the countries wholly, or mostly, eligible for support under Objective 1, there was a marked increase in public investment — of 66% in Ireland, 24% in Greece and 18% in Portugal. In other Objective 1 or Objective 6 regions, the increase ranged from 36% in Austria to 14% in Sweden¹.

In three cases, Germany, Spain and Italy, expenditure over the years 1994 to 1999 was below the level in the previous period. In Germany and Spain, however, where public expenditure declined by 20% and 2%, respectively, between the two periods, the reduction did not infringe the principle of additionality, since the level was exceptionally high in the period before.

4.2 Additionality – Change in average annual national expenditure on Structural Fund programmes, 1989-93 to 1994-99



The leverage effect as a means of increasing funding for development

The requirement for Community grants to be co-financed from national sources, which examination shows to be largely respected, also increases the finance available for investment. Although this may not

Leverage effects of private-public partnerships

Public-private partnerships (PPPs) may be an appropriate method of financing investment when there is significant scope for involving the private sector so as to provide a more efficient and cost-effective service. Although PPPs are well developed in a number of countries, in particular in the UK and France, experience to date has been limited partly due to restrictions under the current regulatory framework. If projects offer the prospect of an acceptable rate of return, there is no need for public intervention at all. Indeed, in some cases the provision of government grants to a PPP scheme might reduce the cost of capital to the private sector, resulting in over-investment.

In considering whether to undertake a particular project through a PPP arrangement, due consideration must be given to the potential costs in contracting out the provision of goods and services. In the case of major physical infrastructure, where future demand is uncertain, there may be a high cost to a long-term contract, unless it is flexible. If, for example, forecasts of future use are too low, then inappropriate contracts could lead the private operator to under-invest in additional capacity in the future.

In current programmes co-financed by the Structural Funds, PPP can take several forms.

1. In road and water transport, there is a growing acceptance of PPP as an efficient means of financing construction. In projects like the Vasco de Gama Bridge in Portugal or the Drogheda motorway in Ireland, the private sector is generally responsible for design, construction, operation and financing, while the cost of construction is recovered over time through user charges. The role of the public sector is to oversee the project while concluding an appropriate contractual arrangement.
2. PPP arrangements can also be applied to contracts for the provision of specific services, the government remunerating a private contractor directly for these with no charges being levied on end users. This concept is increasingly used for R&D and technology transfer between universities and businesses. The Octopus project in the Oulou region, an

Objective 2 programme in the north of Finland, for example, created a PPP in order to stimulate innovation and business start-ups. The two-year project (2002–2004) has established a cooperation network under the direction of the city of Oulou, which is a centre for mobile telephone applications, with many high-tech companies, telecom operators and education and research institutes.

3. PPP arrangements may, in addition, be applied to situations where public sector involvement can be justified on grounds of achieving broader policy objectives. PPP in these cases may be a means not only of securing finance but also greater efficiency, by, for example, speeding up implementation. In the UK, for instance, access to new sources of capital has allowed promoters to carry out projects more quickly without being constrained by government budget cycles. A case in point is the Merseyside Special Investment Fund, an Objective 1 programme established in 1995 providing equity capital, mezzanine finance and small loans to SMEs in the region.

PPP arrangements appear to be particularly attractive for the accession countries in view of their co-financing requirements, budget constraints, the need for efficient public services, growing market stability and the process of privatisation. The EIB and EBRD have both been involved in such partnerships in the past to provide loans to the private sector. PPP, however, works only if there is an explicit policy commitment by national government to involve the private sector in public sector projects. A clear framework is needed for the application of PPP in different policy areas, since specific arrangements need to vary from case to case depending, for example, on how far costs can be recouped through user charges and the extent of social objectives. Any PPP framework applied in the context of the Structural Funds should include an obligation, for all projects above a certain scale, to evaluate the possibility of using some kind of PPP arrangement. The EIB and the EIF could provide a valuable contribution in this regard.

be additional in the same way as Community funding, insofar as the money in question is likely to have been spent in this area anyway, the Structural Funds contributed to shifting the investment to those areas where expenditure can have the greatest impact and added value. For each Euro contributed by Structural Funds in Objective 1 regions in the period 1994–1999, the leverage effect on national public expenditure was on average 0.6 Euro ranging from 2.5 Euro in the Netherlands and 0.4 Euro in Germany.

In addition, Structural Fund interventions in some cases secured significant private sector investment, though initial expectations about the scale of this were not always realised in Objective 1 regions. In the period 1994–1999, the leverage effects were strongest in Austria, Germany, the Netherlands and Belgium where for each Euro contributed by Structural Funds the private expenditure varies between 3.8 and 1.2 Euro. In the Cohesion countries, as well as in France and the UK, the leverage effects were less significant. (Table A4.2).

These differences also reflect the nature of the interventions, which in the Cohesion countries were directed more towards infrastructure and human resources, which attract smaller private contributions than those aimed at supporting business development. On average, private investment amounted to 18% of total expenditure in Objective 1 regions as opposed to some 40% in Objective 2 areas, largely reflecting the greater focus on business development in the latter (support for business services, finance for SME investment and so on).

Expenditure planned for the period 2000–2006 indicates that the leverage effect on public investment is similar, in terms of the relative scale in different countries, as in the preceding period, though it seems to be smaller in respect of private investment.

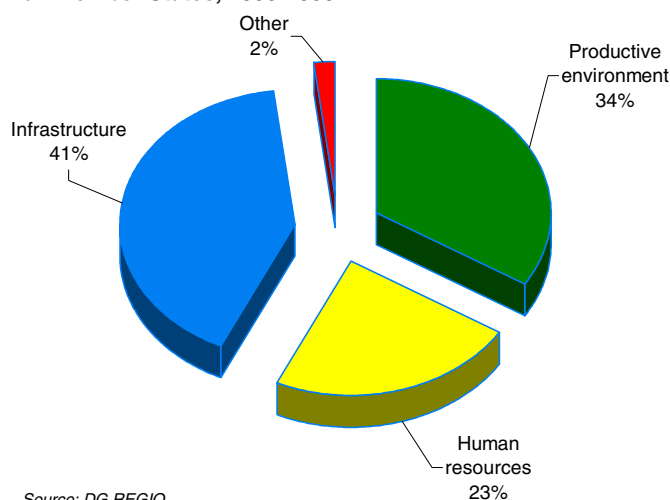
Complementarity between Structural Funds and EIB loans

The European Investment Bank (EIB) has more than doubled its lending for regional development over the past 15 years². Over the period 2000–2002, lending for this purpose averaged around EUR 20 billion a year, while lending in the accession countries amounted to some EUR 3 billion a year. These two together accounted for around two-thirds of the Bank's total lending. Over 50% of the lending to assisted areas in the EU over this period went to Objective 1 regions, including those receiving transitional support (Table A4.3).

Some 35% of individual loans went to transport, the main area funded in Objective 1 regions, while around 16% went to private businesses in industry, services and agriculture, the remainder being divided between energy, telecommunications, the environment and health and education. Though a relatively small amount went to support investment in human capital, through loans to health care and education, the amount involved increased significantly between 2000 and 2002, so helping to tackle disparities in the provision of education and training in assisted areas.

The main recipient sectors in accession countries are transport, environment and energy, which

4.3 Breakdown of Structural Fund allocation in Objective 1 regions: all Member States, 2000-2006



Source: DG REGIO

together accounted for 90% of individual lending over the period 2000–2002, though support for education and training showed the largest rise (an increase of three times in 2002 compared with 2001). In addition, some 14% of lending goes through financial intermediaries to support SMEs and local infrastructure projects.

In recent years, several innovative operations have been aimed at improving the effectiveness of EIB lending in support of cohesion through, for example, direct co-financing of individual projects. The EIB has also been involved in supporting the Lisbon strategy, such as through loans for investment in education and

health care and in high-tech sectors, particularly in the accession countries, so helping to tackle regional disparities in skills and innovative capacity, as well as to improve the attractiveness of regions as places for businesses to invest.

The priorities financed: contribution to the pursuit of EU objectives

As indicated in Part 1 of this report, disparities in many of the main structural factors affecting the long-term competitiveness of regions have been reduced over the past 10–15 years. The gaps in infrastructure endowment targeted by the Structural Funds have narrowed significantly, while education attainment levels have increased throughout the EU but most markedly in lagging regions, so increasing human capital, and

Improving accessibility in Spain

The main emphasis of cohesion policies in Spain during the period 1994–1999 was on infrastructure, regarded as the main bottleneck to regional development. This was particularly the case for transport, which absorbed about 40% of structural assistance and which resulted in considerable improvement in communications. The Structural Funds (including the Cohesion Fund) co-financed around 2400 kms of motorways and 3400 kms of primary roads constructed in Objective 1 regions during this period. In the current 2000–2006 period, motorways are being extended by some 2500 kms and other roads by around 700 kms. Accessibility will be improved significantly as a result, with reductions in average travel time of around 20% and in accidents by some 40% by 2006.

Investment in the rail network was aimed mainly at improving existing lines rather than extending them. Increases in electrification and the construction of double track lines between 1989 and 1999 affected over a third of the network. As a consequence of these improvements, the number of passengers has risen continuously since 1989. In the current programming period, the high speed rail network will be further extended from 623 kms of track to 1140 kms by 2006, while around EUR 6 billion from the Cohesion Fund will be used to upgrade the Madrid-Barcelona-French border line.

Leipzig: Enterprises and science under one roof

In May 2003 the city of Leipzig opened a unique biotechnology centre, “Biocity”, providing 20,000 square meters of modern facilities to researchers from the University of Leipzig and business enterprises. The ERDF contributed EUR 17 million of the total investment cost of EUR 50 million.

Six professors from the University of Leipzig with links to biotechnology moved to the new complex. Biocity has been an immediate success, with 60% of available space taken soon after its opening: in December 2003. The centre provides extended consulting and coaching services to new businesses, including in such areas as finance and patent rights. Four of Leipzig’s well-established biotech enterprises have located in the centre in order to be close to the research being undertaken and potential cooperation partners.

The Leipzig project forms part of a policy in Saxony of supporting clusters in biotechnology, a “Bio-innovation centre” to be opened in Spring 2004 in Dresden being the next step. The longer-term plan is to create a biotech development axis encompassing the cities of Dresden, Leipzig, Halle and Jena.

improvements have also been made to the environment (Graph 4.3 and Table A4.4).

Improving accessibility

The Structural Funds have supported the development of trans-European transport networks (TEN-T) in Objective 1 regions and the Cohesion countries. Over the present period, 2000–2006, some EUR 1.3 billion a year from the Cohesion Fund and EUR 850 million to 1.4 billion a year from the ERDF will be used for this purpose out of total finance for transport from the Funds of around EUR 4.1 billion a year, around a third of which is intended for motorway or road building (Table A4.5).

Access to regions has been improved through the construction or upgrading of at least 4,100 km of motorway and 32,000 km of other roads. For example, the Structural Funds contributed to the construction of over 500 km of motorway in Greece during the 1990s, while in Spain, almost 400 km of track for high-speed trains are already in service, linking Seville with

Madrid, and another 1,100 km or so are under construction, so reducing travel times substantially and making the peripheral regions concerned more accessible.

The deployment of the Structural Funds in relation to the TEN-T is based on a long-term approach integrating within a coherent strategy both for transport and regional development as a whole. This makes it possible for it to be coordinated with other measures and with the development of secondary networks. It also enables emphasis to put on both inter-connectivity between modes of transport and alternative modes to road in the interests of sustainable development.

Community added value from support of transport could potentially be higher if priorities were better coordinated and more funding were given to INTERREG-type programmes, which apply the principle of planning across border areas, so avoiding a break in trans-European networks when they reach a national frontier. The Somport road tunnel through the Pyrenees, which was opened at the beginning of 2003, is an example of such a lack of cross-border planning, since the new motorway, financed by the Cohesion Fund on the Spanish side of the border, turns into a old national road on the French side.

Online educational community in Greece

The EU-funded Greek schools network (GSN) project is designed to exploit the latest information and communication technologies and e-learning applications to establish a new educational network. Endowed with EUR 35 million (75% of this provided by the Structural Funds), the network includes primary and secondary schools, as well as the administrative offices of the Ministry of Education, and comprises over 8,000 connections in total.

The project has 4 different stages. First, schools obtain computers and local network hardware (the 'school laboratories'). Secondly, these laboratories are connected to a communications network. Thirdly, the GSN provides telematic services for education, collaboration and communication to its users. Fourthly, GSN users have access to educational content, provided through a portal specifically designed for the project.

Reinforcing the European research area

Over the past decade, structural policies have contributed much to increasing research capacity, especially in Objective 1 regions. For the 2000–2006 period, about EUR 1.2 billion a year has been allocated to finance R&D and innovation programmes.

The added value of the Structural Funds has been to help develop new research capacity in lagging regions so increasing their prospects of sustaining growth. In some cases, however, there appears to have been over-investment in research centres in relation to both needs and potential, so leading to their under-utilisation. Nevertheless, at the same time,

there are evident examples of success, especially in Ireland and the Nordic countries.

Since it is recognised that investing in infrastructure and equipment is not sufficient in itself to develop the knowledge-based economy, structural policies have also helped to initiate regional strategies for R&D and innovation geared towards meeting local needs and local opportunities for development.

The Structural Funds as a means of developing the Information Society

Overall some EUR 700 million a year of finance from the Structural Funds, just under 4% of the total, is allocated to developing the Information Society in Objective 1 regions, reflecting the priority given to this by

national and regional authorities and contributing to the pursuit of the Lisbon objectives and the eEurope Initiative.

The scale of expenditure from the Funds in this area is determined by such factors as the degree of maturity of the ICT market, population density, the availability of skills to use the technology and the capacity to plan such development. The top 20 regions, ranked according to ICT expenditure per head, include 6 Greek regions and two Spanish; 7 are islands or mainly islands and a large proportion are Objective 1 regions, which see ICT as strategically important to their development.

In terms of policy formulation, regional priorities in this area are broadly consistent with those set out in the eEurope 2002 Action Plan. In Objective 1 regions, however, there tends to be more emphasis on developing ICT skills and government online services.

Wind farms on the Portuguese coast

The idea of building a wind farm in Portugal occurred in 1990 to a group of Danish businessmen, one of whom had visited Melides. The coastal area, exposed to winds from the west, seemed to be a good location for such a project. A seven hectare site was chosen on Monte Chaos, a hill some 100 metres high situated 3 km from the sea at Sines. Work began in April 1991 and six months later, the first wind turbines were completed.

Today, the farm consists of 12 Danish-made Wind World W-2800 turbines, which will last for at least 20 years. Each turbine is 31 metres high and has a rotation diameter of 28 metres. The turbines are distributed in three groups of four, interconnected by a fibre optic system, which makes it possible to control the turbines remotely.

The farm generates a current of 380 volts collected by three transformer stations where the voltage is converted into 15,000 volts and fed into the national grid. The maximum power of each generator is 150 kWh, which is attained when the wind speed reaches 40 km per hour. The annual output is around 2.5 million kWh, which is equivalent to the energy consumed by domestic users in the town of Sines.

Fostering employment and skills through investment in human capital

Some EUR 9 billion a year is allocated to the development of human capital and to fostering employment in the 2000–2006 programming period through the European Social Fund (ESF). Of this, just over half (EUR 4.5 billion a year) goes to Objective 1 regions, with Spain accounting for some 28%, the German new Länder for 19% and Greece, Portugal and Italy for 12–13% each. The measures funded consist predominantly of active labour market programmes aimed at increasing the employability of disadvantaged groups, young people entering the labour market for the first time and the long-term unemployed, and at providing education and training for both the unemployed and those at work, especially those vulnerable to job loss working in SMEs. The measures also include support for improving national education and training systems and public employment services.

Over the 1994–1999 period, when the overall amount going to Objective 1 regions totalled some EUR 3.1 billion a year, the ESF provided substantial support for

Econometric evidence on regional convergence

Econometric analysis confirms that there has been some convergence in GDP per head across the Union. Taking the real growth in GDP per head for 197 (NUTS 2) regions between 1980 and 2001 and dividing this into three periods (1980–88, 1988–94 and 1994–2001), a significant tendency is evident for growth to be inversely related to initial GDP per head. This tendency, known technically as beta convergence, is evident for each period, signifying that regions with the lowest levels of GDP per head in the base year experienced, on average, the highest growth in GDP per head. Moreover, the pace of convergence defined in this way (as indicated by the value of the beta coefficient) increased in each successive period as Structural Fund support for Objective 1 regions was first introduced (in 1988) and then increased (in 1994).

Moreover, within Objective 1 regions, those with the lowest initial levels of GDP per head tended to grow the fastest in both the 1988–1994 and 1994–2001 periods in particular (again as indicated by the beta coefficient).

Beta convergence, therefore, occurred both within the Objective 1 group and between these regions and the rest of the Union. (Beta convergence within the Objective 1 group was particularly strong in the 1988–94 period, partly reflecting high growth rates in the new German Länder.)

Analysis of this period also indicates that regional disparities in GDP per head narrowed between 1980 and 2001 (as measured by the variance of the logarithm of GDP per head across regions), so that what is known technically as sigma-convergence also occurred over this period. The extent of convergence in this sense, however, was relatively small between 1994 and 2001. (It should be noted that beta convergence does not necessarily imply sigma convergence since it is possible for the regions with the lowest GDP per head to grow faster than average without overall regional disparities narrowing.)

Regional convergence

	No. of regions	GDP per head (% growth rate)	Beta convergence rate per year (%)	R-Squared
1980-88				
All EU15 regions	197	2.0	0.5	0.94
Objective 1 regions	55	1.9	0.4	0.87
Other regions	142	2.0	2.1	0.92
1988-94				
All EU15 regions	197	1.3	0.7	0.97
Objective 1 regions	55	1.4	3.1	0.94
Other regions	142	1.2	0.8	0.95
1994-2001				
All EU15 regions	197	2.3	0.9	0.97
Objective 1 regions	55	2.6	1.6	0.92
Other regions	142	2.1	0.0	0.96

Source: DG REGIO

active labour market measures, financing around 40–50% of all such measures in Spain and Portugal in 1998, for example. It also helped finance the restructuring and expansion of public employment services in Greece, Ireland and Portugal. In addition, in Portugal, it contributed to raising the proportion of students in tertiary education from 26% of the total to 34% over the programming period and, in Spain, to encouraging a large number of firms to provide continuing training for the first time.

Evaluation studies carried out on the present programming period estimate that structural interventions in Objective 1 regions are likely to lead to the creation of around 700,000 jobs, adding almost 4% to employment in Portugal (187,000 jobs) and 2.5% in Greece (100,000 jobs). The effect on employment is also estimated to be significant in the new German Länder, the south of Italy and Spain (adding 1–2% in each case).

Contributing to sustainable development

Environmental sustainability is critical to maintaining regional development over the long-term. The current generation of Structural Fund programmes was adopted before the present EU sustainable development strategy was launched. Nevertheless, structural interventions include the environment as a horizontal priority and take explicit account of environmental considerations while pursuing economic and social cohesion objectives. According to a recent evaluation, the effectiveness of intervention could in many cases be increased by making potential trade-offs between these three objectives more explicit, as well as by seeking better integration with sectoral and national policies.

Improving the environment and protecting it against further damage are integral objectives of structural interventions. A large part of the Structural Funds has, therefore, been allocated to financing investment in environmental infrastructure, notably for waste management and waste water disposal, mainly in the south of the EU.

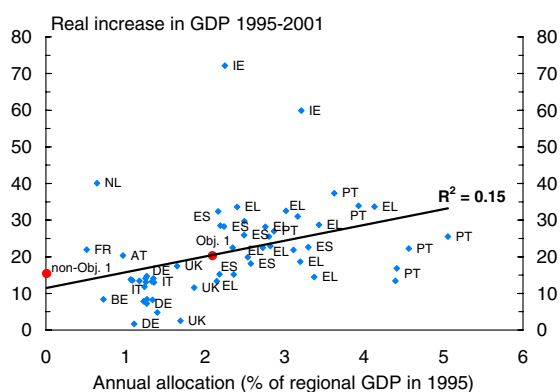
Growth and real convergence between regions ...

As indicated in Part 1, there has been a significant growth since 1989 in GDP per head in Objective 1 regions, taken together, in relation to the EU15 average, while both employment and productivity have risen as compared to the increases elsewhere. These favourable developments are supported by recent empirical studies which have analysed the extent of regional convergence which has occurred³ (see Box on Econometric evidence).

The main conclusion which can be drawn from econometric analysis is that there has been significant catching up of Objective 1 regions in terms of GDP per head as well as a narrowing of disparities among them. At the same time, there has been a consistent reduction in the productivity gap between Objective 1 regions and the rest of the EU15 over the past 20 years, especially in the most disadvantaged regions in the Cohesion countries, suggesting that the catch-up in GDP per head is soundly based, offering the prospect of continuing convergence in future years. This reduction in the productivity gap was most marked in the growth years of the latter part of the 1980s, in part because of new entrants to the EU benefiting from the removal of trade barriers.

Analysis also indicates that there is some relationship between the amount of structural aid provided and the real growth of GDP. Those regions which received the most aid per person, therefore, tended to grow by more and vice versa. Many of these regions were in Greece and Portugal. At the same time, GDP in a number of Greek and Portuguese regions grew by less than implied by the amount of structural aid, given the average relationship. This was also the case in most Objective 1 regions in Germany and Italy, where, as noted in Part 1, growth seems to have been depressed by low growth in the rest of the country. On the other hand, in most Spanish regions, growth was higher than implied by the amount of aid received, reflecting perhaps the influence of a buoyant national economy (Graph 4.4).

4.4 Structural Fund allocation and growth of GDP by Objective 1 region, 1995-2001



Source: Eurostat, *Regional accounts* and DG REGIO calculations

... and Member States

In all four Cohesion countries, as noted in Part 1, growth of GDP was higher than that in the rest of the EU over the period 1991 to 2002. Although the difference was relatively small in the case of Portugal (2.2% a year as against an EU15 average of 2%), it was just over ½% a year higher in both Greece and Spain, while in Ireland, it was substantially higher (an average of around 4½% a year higher).

Simulations⁴ indicate that structural interventions⁵ have boosted growth both through increasing demand and through strengthening the supply side of the economy (through improving infrastructure and human capital) and so have contributed to convergence. As a result of such interventions, it is estimated that GDP in real terms in 1999 was some 2.2% higher in Greece than it otherwise would have been, while in Spain, the figure was 1.4%, in Ireland, 2.8% and in Portugal, 4.7%. These differences reflect to a large extent the high degree of openness of the Irish and Portuguese economies in relation to Greece and Spain, especially the latter because of the larger size of its internal market (Tables A4.6 and A4.7).

Growth of GDP was linked to a significant extent to manufacturing, where the effect of intervention was more pronounced in Portugal than in the other countries, leading to 'knock-on' effects on market services,

and where inflows of foreign direct investment led to a radical transformation of the sector, much as in Ireland at the end of the 1980s. Intervention was also associated with a significant increase in investment — which was estimated to be 24% higher in Portugal and 18% in Greece in 1999 as a result — taking the form particularly of an increase in infrastructure and human capital.

GDP growth is also linked to growth in labour productivity, disparities in which tended to narrow over the period. In Portugal, where manufacturing is still concentrated in highly labour-intensive industries, the gain in productivity from structural intervention is estimated to have been twice the increase in employment. In Spain, increases in labour productivity (2%) and employment (1.5%) contributed much the same to growth of manufacturing output.

In the German new Länder, the effect of Structural Fund intervention on GDP is estimated to have been significant (raising the level by around 4% in 1999), partly because of the more depressed starting conditions. Growth in manufacturing in the first three years following unification was associated, as in Portugal, with strong growth in employment, followed later by gains in productivity from the introduction of new technologies embodied in the increased investment financed in part by the Structural Funds.

In Northern Ireland, estimates suggest that the effect of structural intervention was modest, raising the level of GDP by just over 1% in 1999. The effects are most visible in market services (especially in business services and vocational training), while there seems to have been hardly any impact on manufacturing.

Is there a trade-off between national and regional convergence?

It is often argued that internal disparities, in terms of differences in GDP per head between regions, tend to widen initially, in the first stages of convergence, as growth at the national level increases to a relatively high level. On this view, growth of the national

economy is regarded as being boosted by the effect of economic activity being concentrated in a few areas, especially large cities and conurbations. Accordingly, the first stages of an economy catching up tend to be characterised by a conflict between national and regional convergence.

This potential conflict is relevant not only for the Cohesion countries but also for the development strategy which accession countries in central Europe should follow. With the exception of Bulgaria, the regional dispersion of GDP per head is wider in all the larger accession countries than in the Cohesion countries. Moreover, it has increased significantly since the mid-1990s, principally because of the high rate of growth of the largest cities, the main growth poles. By contrast, as noted in Part 1, regional disparities in the Cohesion countries — the major recipients of structural assistance — have not changed much, despite national growth being higher than the EU average. The one exception is Ireland, where economic activity has become even more strongly centred on Dublin.

The possibility of there being a ‘trade-off’ between national convergence and regional convergence suggests that accession countries face a choice in the short-term between higher national growth of GDP per head and reducing regional disparities. In some cases, structural aid seems to have favoured national convergence (Ireland), while in others, it has tended to counteract the effects of polarisation of economic activity (Spain). Experience indicates, however, that the extent to which a trade-off of this kind exists depends in part on the spatial distribution of economic activity and of settlements across the country in question.

The Structural Funds as a means for economic integration

European economies are becoming more closely integrated as reflected in growing trade and investment flows between them. This has been actively promoted by EU policies, most especially in relation to the completion of the internal market, the

introduction of a common currency and prospective enlargement. Closer integration has led, with the support of cohesion policies — which have stimulated trade flows and influenced the location of economic activity — to a narrowing of disparities between economies.

Trade of the Cohesion countries with the rest of the EU has more than doubled over the past decade. Some of this increase reflects the gains to other countries from structural aid to less favoured regions. Estimates from input-output tables, therefore, suggest that around a quarter of such expenditure returns to the rest of the EU in the form of increased exports, on machinery and equipment in particular, as GDP and investment grow. This ‘leakage’ is particularly large for Greece (42% of structural aid) and Portugal (35%) (Table A4.8).

A substantial proportion of the Structural Funds goes on transport infrastructure which both affects the location of industry, by increasing the attractiveness of the regions concerned, and boosts economic activity there by increasing earnings and real incomes. Simulations of the effects of a range of transport projects financed by the Cohesion Fund suggest that income gains can be significant (the combined effect of the Egnathia and Pathe motorway projects, for example, added an estimated 9% or so to income in East Macedonia). Taking account of the wider effects of structural intervention in reducing the costs of production in the region concerned, not only through reduced travel time but also through higher productivity resulting from a strengthening of the supply side of the economy, further increases the effect on GDP (which is estimated to be 3% higher in Andalucía and around 2% higher in the Mezzogiorno in 2006 as a result of EU co-financed programmes).

According to a recent study, Structural Fund interventions can also affect the location of R&D intensive activities, encouraging them to set up in assisted regions, so helping to bring about a more equitable distribution of growth opportunities across the EU.

Regeneration in Wolverhampton, UK

Efforts have been made in Wolverhampton for some years to generate new jobs to replace those lost in steel and other industries. The EU has played a major role in facilitating change. In the early 1990s, the EU encouraged a more strategic approach to regeneration rather than simply funding individual infrastructure projects, as was the case in the 1980s. Following an extensive audit and consultation with the local community and businesses, a detailed urban regeneration programme was drawn up. EU funding was targeted on two main areas of the town:

- the Cultural Quarter: the Chubb building, where locks and safes were once manufactured, now houses a number of multimedia SMEs and is the focal point of the quarter. Schemes to improve the Art Gallery, the Grand Theatre and the University's Arena Theatre, combined with training and business support initiatives, are creating economic opportunities in cultural and media activities;
- the All Saints area: the Urban Village project is a community-based approach to improving living conditions in one of the most deprived areas in the region, by setting up community businesses, supporting the most disadvantaged groups and fostering cultural and media businesses.

Between 1993 and 1998, the regeneration programme generated 1500 jobs and led to 75 SMEs being established, including 32 specialising in cultural activities.

Intervention in Objective 2 regions: restructuring and job creation

In addition to assisting Objective 1 regions, the Structural Funds also help to support economic development in other parts of the EU suffering from structural problems rather than lagging development. The main effects of these over the period

1994–1999, as revealed by recent evaluation studies, are examined below.

During the period 1994–1999, a total of 82 regions with 62 million inhabitants (17% of EU15 population) received Objective 2 assistance, aimed at helping areas affected by industrial decline, down from the 73 million living in the areas assisted in the previous period. The amount of expenditure was increased from EUR 1.2 billion a year to EUR 2.8 billion a year, 11.5% of the Structural Funds total, so raising the aid per person in these areas from EUR 16 a year to EUR 44. In the 2000–2006 period, this amount has been set at EUR 3.2 billion a year (at 1999 prices), to deal with rural as well as industrial areas in decline (covered by Objective 5b in the 1994–1999 period), implying a slightly smaller average amount of aid per person (EUR 41).

In the 1994–1999 period, assistance was concentrated in a large number of small areas in 12 Member States, with the UK receiving almost one third of the total and France almost a quarter, the two countries together accounting for just under 60% of the total number living in Objective 2 regions. Spain and Germany between them received another quarter of the total and 8 other countries the remaining 20%. EU Structural Fund contributions made up almost a third of total eligible expenditure on Objective 2 programmes, national government sources providing about the same amount and the private sector the rest.

In terms of the types of project supported, expenditure on infrastructure amounted to 27% of the total in the 1994–1999 period (down from 36% in the previous period). This went, in particular, on the reconversion of old industrial sites and the construction of new buildings. A further 25% went on support for business, more than double the amount in the preceding period, and, in particular, on strategic measures such as facilitating access of SMEs to advanced business services and consultancy, promoting financial engineering, and providing support for involvement in international trade and for business start-ups, as well

NOVI, Denmark

When the north of Denmark became eligible for structural assistance under Objective 2, it was suffering high unemployment as a result of a decline in fishing and other traditional industries. Instead of deploying EU funding in these sectors, however, it was decided to focus on developing knowledge-based activities.

NOVI is a unique combination of science park, innovation environment and venture capital provider. Established in 1989, NOVI has served as a catalyst for the development of knowledge-based companies in northern Denmark, in close cooperation with Aalborg University. As a centre of technology and innovation, it has played an important role in business development and has contributed significantly to job creation in the area.

The NOVI Science Park accommodates one of the largest clusters of R&D-based companies in Denmark. In addition, NOVI Innovation has encouraged active collaboration between research centres, businesses and capital markets to ensure the commercial exploitation of new ideas. NOVI has been involved in venture capital investment since 1989 and has grown into a significant national resource with a capital base of over EUR 67 million. It has also helped to establish NorCOM, a cluster of industrial firms in the region specialising in the development and production of mobile communications and navigation equipment, which has attracted increasing amounts of foreign investment.

Total expenditure in NOVI up to now is around EUR 35 million, EUR 21.5 million of which has been financed by the private sector and some EUR 12.5 million by the Structural Funds.

The Structural Funds were essential to the success of NOVI, having made it possible to establish and develop, on a medium-to-long-term perspective, the concept to a size where cooperation between entrepreneurs, industry and research centres has been most effective.

as on assisting individual firms. Just under 20% of assistance took the form of support for training and developing the skills of the work force, financed mainly from the ESF. In addition, just under 10% of spending went on support for R&D and ICT (Table A4.9).

This expenditure has had an important effect in helping to restructure traditional industries and to diversify economic activity in Objective 2 areas. It is estimated from detailed evaluation studies that Structural Funds intervention led to the creation of some 700,000 jobs in areas assisted over the 1994–1999 period, or just under 500,000 in net terms if account is taken of displacement effects (ie the new jobs created displacing some existing jobs)⁶. At the same time, around 300 thousand SMEs received assistance, helping them both to improve their methods of production and to seek out new markets, in addition to strengthening the business support services available to them.

This is reflected in a reduction in unemployment in these areas by more than in the rest of the EU over the programming period (on average, by 3.1% of the labour force between 1996 and 2000 as against a decline of 2.3% in the EU as a whole⁷). The reduction was especially marked in areas with a heavy preponderance of traditional industries in the process of restructuring, often accounting for close to 40% of total employment, which indicates that the loss of jobs in these industries was more than compensated by a growth of new jobs, especially in services. Although the growth in GDP per head in these regions was less than in the EU as a whole over the period (2.1% between 1995 and 2000 as opposed to 2.4%), the difference was small, which suggests their long-term decline was arrested to some extent. On the other hand, the slightly slower growth of GDP in combination with a larger rise in employment implies that labour productivity increased by less in Objective 2 areas than in other parts of the EU.

Detailed analysis indicates that support for expenditure on R&D, innovation and technology transfer seems to have been particularly effective in creating new jobs as well as saving existing ones.

Nevertheless, except for a number of prominent exceptions (such as Nordrhein-Westfalen or the North West of England), the capacity of most Objective 2 areas for innovation remains much less well developed than in the most successful regions in the EU and their research base tends not to be well attuned to the regional structure of production. Accordingly, for the most part, they do not occupy a central place in the European technological space.

This contrasts with their endowment of infrastructure and human capital. In most Objective 2 regions, transport and telecommunication systems, in particular, are of a relatively high standard, providing good connections both internally and to the rest of the EU, while population of working age is comparatively well educated. In addition, the skills of the work force have been improved and extended with the help of the Structural Funds, which has helped speed up the restructuring process as well as to slow down the loss of jobs. Training programmes have, therefore, been put in place to combat skill shortages and the rapid obsolescence of qualifications. Specific measures have also been taken, notably in the UK, to assist disadvantaged groups to access training programmes and to enter the labour market. Overall some 3.6 million people across the EU received training in Objective 2 areas between 1994 and 1999 as a result of Community assistance.

In addition, with the support of the Structural Funds, substantial efforts have been made to clean up industrial wasteland, to reconvert old industrial sites and buildings (around 115 million square metres of land in industrial areas is estimated to have been reconverted as a result of Objective 2 programmes) and, generally, to improve the environment, especially in urban areas. This has radically changed the aspect of many industrial areas and enabled them to be put to new productive use, such as for leisure and cultural activities.

Nevertheless, traditional industries, though in decline, are still causing environmental damage to many areas and areas which have been abandoned

remain to be treated. Restructuring, therefore, is by no means yet complete in many parts of the EU. Evaluation studies indicate that the extent of restructuring in Objective 2 areas has varied markedly from region to region, reflecting their development potential and the effectiveness with which public funds, both from Community and national sources, have been used. While in coal and steel areas, in particular, economic activities have been restructured and modernised, there are a number of areas where traditional industries remain important and significant structural change still lies ahead, with potentially important effects on both employment and real income levels.

At the same time, lessons need to be learned from the experience of Objective 2 interventions. The positive effects which are evident need to be seen in relation to two major constraints on the effectiveness of the programmes supported which arise from the way the policy has been applied. First, the small size of many of the areas eligible for support has made it difficult to follow an efficient integrated strategy as regards the deployment of financial resources in the regions concerned. Because of the small size of the operations financed, it has been difficult in a number of cases to achieve a sufficient amount for funding projects which could have a decisive effect on regional development. Secondly, the limited time period over which funding has been given (because of the sub-division into two periods of three years) has had the effect of favouring short-term projects (for supporting jobs in times of recession, for example) at the expense of those of strategic importance for regional development.

Support for agriculture, rural development and fisheries

Measures undertaken under Objective 5a (Regulations (EC) Nos 950/97 and 951/97) and Objective 5b programmes over the period 1994–1999 have been the subject of recent evaluations. The results of these are summarised below.

Intervention in Objective 5a

The overall objective of intervention under Regulation 950/97 was to improve the overall efficiency and competitiveness of farms, while maintaining a viable agricultural community and helping to safeguard the environment and preserve the countryside. A number of measures were adopted to achieve this objective:

- the farm investment scheme gave farmers a choice of support options. In the south of the EU, mostly covered by Objective 1, the choice was to increase the efficiency of farming methods and to advance structural change, while elsewhere, more emphasis was put on diversification, animal welfare and the environment. The scheme proved more effective in areas where restructuring was a major element, such as in small farms in Objective 1 regions;
- the young farmers scheme was aimed at helping young farmers set up in operation. It was implemented in different ways across the EU and was more effective when combined with training and/or supplementary support measures. Other factors, however, such as inheritance laws, availability of milk quotas, interest rates and the tax system, seem often to have more influence on the decision to start a business. There was, however, some increase in the number of farm heads under 45 in 10 Member States;
- the less-favoured areas scheme was intended to encourage farming in such areas by compensating for natural, social, economic and other constraints. The scheme remained largely unchanged from the mid-1970s on and for the most part was never fully integrated into rural development strategies. Because payments were flat-rate, there was possible under-compensation in the most severely disadvantaged areas (eg Objective 1 mountainous areas where co-financing capacity is limited).

Intervention under Regulation 951/97 was more directly oriented toward increasing the competitiveness of the agri-food sector. Assessment of the investment funded over the period 1994–1999 suggests some improvement in the value added chain in 4 Member States, the establishment of new outlets in half the Member States, the acquisition of new machinery and use of more efficient technologies which helped limit emissions and pollution, and improvements in marketing channels in 5 Member States.

The effect of the scheme on primary producers was limited because of the increasing concentration of marketing and processing facilities in large firms and the market power of retailers and wholesalers. There were greater gains to primary producers when marketing and processing activities were organised by producer associations.

Interventions in Objective 5b areas

Objective 5b areas comprised 26% of the land area of the EU in the period 1994–1999 with 9% of the total population (around 32.7 million people). Overall funding amounted to around EUR 1.1 billion a year (42% from the EAGGF, 44% from the ERDF and 14% from the ESF) and was divided between the development of non-agricultural activities and job creation (46%), increasing the income of agricultural households (23%), improving the attractiveness of areas and the quality of life (17 %) and afforestation (4%).

The effects of assistance under objective 5b over the period 1994–1999 can be distinguished at three levels:

- in agriculture, there is no evidence of a positive effect on income, though some strengthening of the agricultural sector is apparent as well as some diversification (a shift to higher value-added production and the development of agri-tourism and environmental services, in particular);
- in non-agricultural activities, Objective 5b programmes have contributed to modernisation of

infrastructure and productive potential in enterprises, the expansion of tourism and a higher growth of employment than in other regions;

- in terms of the attractiveness of regions and the quality of life, programmes have helped to renovate villages, develop public service facilities and protect the environment.

While the effect of Objective 5b has been positive overall, some weaknesses can be identified:

- although a territorial approach is appropriate for this kind of intervention, some Objective 5b areas were not in line with the economic development process underway or the strategy being followed;
- intervention should have been based more on the promotion and spread of good practice in order to realise the potential of the areas assisted better.

In overall terms, population increased by much the same in Objective 5b areas, insofar as they can be distinguished given the data available, as in other parts of the EU over the programming period (by 0.3% a year between 1995 and 2000), while GDP growth was slightly less (2.4% a year as opposed to 2.7%) and unemployment fell by less (by 1.9% of the labour force as against 2.3%). Nevertheless, in 2000, the average unemployment rate in these areas remained below the EU average (6.5% as compared with 8.3%).

The 2000–2006 programming period

The adoption of a new Community Regulation ((EC) No 1257/99) has enabled a range of previously separate measures to be assembled under a single piece of legislation, facilitating the integration of different measures for rural development within an overall strategy, whether in Objective 1 or 2 regions or in relation to a horizontal application. This has increased the coherence and complementarity of the measures concerned (Table A4.10).

Nevertheless, the co-existence of two systems of programming, management and control, one based on Structural Fund regulations and the other on those of the EAGGF-Guarantee, has often been regarded as a source of complication and rigidity and as difficult to understand by Member States, especially those comprising Objective 1 and non-Objective 1 regions. The rules of the EAGGF-Guarantee, designed for policies for agricultural markets, have frequently been considered to be ill-adapted to, and too restrictive for, multi-annual programming.

Interventions in fisheries

Although the fishing sector contributes very little to GDP in Member States, in the regions in which it is concentrated, it tends to be an important source of both income and employment. The regions concerned are predominantly located in peripheral parts of the EU, in which there are often relatively few other job opportunities. Interventions under the Common Fisheries Programme can, therefore, make a significant contribution to regional income and to the development of other economic activities including fish farming.

Promoting employment, education and training through the ESF

The effect of the ESF on employment, training and education

During the 1994–1999 programming period, the European Social Fund (ESF) which accounted for a third of Structural Fund expenditure, provided support for the development of human resources, some EUR 22.1 billion, or 49% of the total for the period, in Objective 1 regions. At the same time, interventions under Objective 3 amounted to EUR 13 billion and were aimed at integrating young people, the long-term unemployed and those at risk of exclusion into employment, as well as at promoting equal opportunities in the labour market. In addition, Objective 4 interventions amounted to

EUR 2.2 billion and were aimed at helping workers adapt to industrial change.

The ESF provided significant support for the implementation of active labour market policies, especially in the Cohesion countries, largely on training (46% of ESF spending); integration pathways and similar schemes (20%); employment incentives (7%); counselling (4%) and job placement (3%), though the relative importance of these varied considerably between countries. Support was divided between the long-term unemployed, especially in Objective 1 regions (21% of the budget), young unemployed (17%) the socially excluded (15%), older workers (6%), those employed in SMEs (3%) and those with disabilities (2%).

Evaluation evidence suggests that, in the main, the most successful measures were those offering a combination of assistance, such as guidance, training and job search, tailored to individual needs.

In addition to helping individuals directly, the ESF contributed to the modernisation of education and training systems in Member States both at national and regional level, increasing access to training of both employers and employees and helping to expand the amount of public investment in these areas.

ESF interventions in Objectives 2 regions and under Objective 4 gave a new focus on the importance of the adaptability of the work force to industrial change and supported innovative measures which encouraged greater commitment to training and lifelong learning. They also helped to strengthen the link between the need for training and its provision through the introduction of mechanisms for anticipating employment trends.

Such interventions helped in addition to strengthen the human capital base for R&D in Objective 1 and 2 regions and in the latter were increasingly used to support knowledge based activities in SMEs, through training in management skills, advanced technologies and ICT, to encourage new methods

of work organisation and to finance temporary work placements for science and technology graduates.

Although statistical data are often lacking, there is evidence that ESF programmes have influenced national policies on gender and Objective 3 interventions, in particular, seem to have played an important role in helping women disadvantaged on the labour market to find work.

In addition, the ESF has encouraged both the adoption of a stronger long-term approach to labour market measures in Member States through its multi-annual programming and the decentralisation of employment and training policies. Some 30% or more of ESF programmes are, therefore, managed at regional level, while the application of the partnership principle has led to increased involvement of social partners and NGOs as well as regional and local authorities in both the composition of Monitoring Committees and the design and implementation of operational programmes.

The 2000–2006 programming period: a closer link between the ESF and the EES

In the 2000–2006 programming period, the link between the ESF and the European Employment Strategy (EES) has been strengthened. The ESF, with a budget of EUR 60 billion, is the main financial means of supporting the EES, while the latter provides the policy framework for ESF interventions.

Around 60% of the ESF (EUR 34 billion over the period) is devoted to training and modernising education and training systems, to improve the suitability of job-seekers for new employment opportunities. Some 14% (EUR 8 billion) goes on supporting the development of entrepreneurial skills, business start-ups, the establishment of business networks and so on to promote enterprise and so help to improve competitiveness, while some 19% (EUR 11 billion) goes to assist firms and employees to adapt to technologies and new market conditions. The remaining 7% or so (just under EUR 4 billion) is devoted to measures for

supporting gender equality, which are combined with a wider commitment to incorporate the principle of equal opportunity in all programmes and activities.

The reform of the EES in 2003 should help to achieve the Lisbon objectives in an enlarged Union more effectively. The Employment Guidelines have been simplified in pursuit of three strategic objectives: full employment, quality and productivity at work and social and regional cohesion and inclusion. Specific priorities include greater emphasis on the development of human resources, the integration of those with disadvantages into employment, and a reduction of regional disparities as well as increased adaptability, lifelong learning and equality between men and women.

In addition, there is more emphasis on the importance of the participation of the social partners and on the need for Member States to implement the EES at regional and local as well as national level.

Community Initiatives: promoting cooperation and networking

A number of Community Initiatives based on partnership and trans-border cooperation supplement the support provided for cohesion under the different Objectives. Most of them have been maintained, sometimes in a modified form, over the period 2000–2006.

INTERREG

Cooperation between countries and regions is an essential element of EU cohesion policy. The activities involving such cooperation are very diverse reflecting differences in levels of development and institutional and administrative contexts. They are also more complicated to implement than other Structural Fund programmes.

Compared to mainstream programmes, the overall financial size of INTERREG II programmes was relatively limited at about EUR 400 million a year (although resources were increased significantly over

the period 2000–2006 with its successor, INTERREG III).

Over the period 1994–1999, 75 INTERREG II programmes were supported under three strands: cross-border cooperation (Strand A), completion of energy networks (Strand B) and cooperation in regional and spatial planning (Strand C). Within Strand A, 59 programmes were implemented along internal and external borders with a length of more than 15,000 km. The eligible programme areas covered around 36% of the total EU territory with around 27% of the total EU population. 11 INTERREG IIA programmes alone received more than two-thirds of the total support.

Larger INTERREG programmes have produced significant output in the form an extension of road networks, improvements in border entry points, an upgrading of rail connections and, as in the INTERREG IIB programmes, the creation of new transport links and the development of alternative energy supplies. Such projects contributed to closer economic integration in the EU.

Main achievements and added-value

Strands A and B cover a large group of diverse programmes in terms of the size of funding, the geographical area concerned and orientation. The results of the INTERREG II evaluation show marked effects in the case of Strand A, by far the largest strand. Programmes seem, in particular, to have had a beneficial effect on the quality of life through improving the environment and supporting cultural activities. They also seem to have brought gains to tourism, established services for SMEs and improved, education, training and health care as well as transport. Direct participation by businesses in programmes and cooperation between firms were, however, much more limited.

The results in terms of reducing isolation have been mixed. In the case of programmes in the more isolated Objective 1 regions, most funding went to transport. In

a number of border areas, particularly in Greece, Germany and Finland, road connections at the border, cross-border crossings and port facilities were improved significantly, while there were more limited effects in areas along the Spanish-Portuguese border and in Austria.

Part of the added value of INTERREG IIA programmes is their contribution to establishing and strengthening a culture of cross-border cooperation both inside the EU and between the EU and neighbouring countries. The main benefits have come through increased daily contact and the building of mutual trust and understanding between various entities, including public authorities and private and semi-public organisations.

In many cases, a particular contribution of INTERREG was to enable specific problems to be tackled which could not have been addressed through other support programmes. The Initiative therefore constituted the initial stimulus to bringing about widespread cross-border cooperation, so making it possible for other projects to be undertaken.

The relatively small number of large-scale projects funded under Strand B (in Greece, Italy, Spain and Portugal) were directed towards extending and integrating gas and electricity networks, though these were confined to individual countries.⁸

INTERREG II was also aimed at encouraging networking between countries, the exchange of experience between regions and the dissemination of knowledge in order to spread good practice across the EU. A key feature of Strand C projects is their experimental nature. They, therefore, included studies, the development of databases and mapping, integrated planning methodologies and pilot projects. Although it is difficult to determine their effect in quantitative terms, they have helped to define methods and arrangements for cooperation.

The continuity and sustainability of activities, however, need particular consideration. Although

Examples from INTERREG

Reducing isolation and eliminating bottlenecks along the Ireland/Northern Ireland border

The Ireland/Northern Ireland programme allocated EUR 30 million of Structural Funds to a 'Roads & Transport Infrastructure' scheme, helping to finance 69 projects for improving some 110 kms of secondary roads, which were regarded as either "bottlenecks" or "missing links". Another 104 projects, involving some 166 kms of road, were aimed at alleviating constraints on economic development in border regions and improving economic opportunities in wider areas on both sides of the border. Some of the projects also led to improvements in access to major international transport corridors, including TEN-T.

The programme also contributed to improvements in public transport. Between 1994 and 2000, three bus station improvement projects contributed to increasing the number of local and cross-border services as well as passenger numbers.

Cross-border business development and cooperation between SMEs in Scandinavia

The INTERREG IIA programmes covering the border areas between Denmark, Sweden and Finland and the external borders with Norway, which have involved network building, the organisation of exhibitions, the construction of databases and business promotion, are examples of good practice in relation to the development of cross-border business activities and strengthening SMEs. In the Øresund region on the Denmark-Sweden border, support for cross-border business activities has led to the creation of clusters of new industries, including in biotechnology (e.g. Medicon Valley) and food processing (e.g. the Øresund Food Network). The 41 projects involving the creation of business networks have led to some 300 additional jobs in the area. The programmes along the Swedish-Norwegian border involved over a thousand companies in various business development networks, including one for women entrepreneurs.

examples of self-sustaining activities are evident in most INTERREG IIA programmes, Community support is still necessary to ensure the viability and stability of many projects, especially those involving the establishment of networks.

Factors influencing effectiveness

Under Strand A, the most successful programmes were those jointly developed around a limited number of objectives and priorities with a long-term strategic focus. They also tended to involve extensive and close cross-border partnership, both formal, as expressed in the institutional arrangements for programming and management, and informal.

Management capacity (including an efficient secretariat) is vital but its importance has often been underestimated. Proactive support to potential recipients of funding and to project promoters is the key to generating and sustaining sufficient numbers of good, genuine cooperation projects and making the most of the results produced.

In some areas bordering third countries, the complex arrangements put in place because of the specific regulations of the different funding bodies involved (Phare, Tacis, Cards, Meda, in particular) have undermined the effectiveness of programmes.

The fundamental problem of managing cross-border and trans-national programmes is the often very different legal and administrative rules and traditions in the different countries involved, quite apart from language differences. Part of the aim of INTERREG is to overcome such differences (e.g. by the creation of common management structures and joint technical secretariats). The difficulties encountered require *ad-hoc* legal arrangements on the part of the Member States concerned. A number of these arrangements have involved several Member States, some consisting of bilateral agreements, some multilateral and a few using the European Economic Interest Grouping approach. None of these arrangements, however, provides a European-wide solution to the problem of implementing cross-border cooperation.

URBAN

The URBAN Initiative covers 44% of EU population who live in urban areas with over 50,000 inhabitants. It was introduced in 1994 following a number of pilot projects and the European Commission Guidelines for the 2000–2006 programming period, which requested Member States to pay special attention to urban policy in their Objective 1 and 2 programmes.

Over the period 1994–1999, URBAN provided EUR 148 million a year for urban pilot projects in 118 cities, while some EUR 104 million a year has been made available for the period 2000–2006 for projects in 70 cities. The main focus of the Initiative is on small urban neighbourhoods and on concentrating funds on a number of integrated programmes involving the active participation of local communities.

Evaluation studies indicate that the projects have led to some improvement in the quality of life in the 118 neighbourhoods participating, as a result of

The benefits of coordinated action at urban level

In the Magdeburg-Cracau project, URBAN provided support to very small firms by funding a scheme, which would not normally have been eligible for ERDF funding. Similarly, in the Hackney borough of London, URBAN tackled problems — the needs of socially-excluded groups in particular — which were not covered by the East London Objective 2 programme.

In Spain, around half of URBAN programmes had parallel aims to Objective 1 and 2 programmes and in 6 Spanish cities, there were strategic links with other Community Initiatives. In Portugal, all 6 URBAN programmes were designed to support Objective 1 investment, mainly on roads, the environment, and social infrastructure.

investment in public transport, education and cultural facilities and increasing access to public services so reducing social exclusion. They have also helped to realise the inherent economic potential of the areas concerned, often benefiting adjacent areas as well.

URBAN has focused, in particular, on creating and improving local social capital, in part by including active learning measures as an integral part of programmes. The involvement of local communities has, moreover, helped to raise the visibility of EU structural policy in many cities throughout the EU and the kinds of project undertaken have had a direct impact on people's lives.⁹ URBAN has also helped to shape national urban policies across the EU.

URBAN has, in addition, acted as a catalyst for regeneration and, in some cases, has had a major leverage effect on investment. In Rostock, in Germany, for example, a study estimated that for every Euro invested in renovation in the URBAN area, a further 3.9 Euros were generated in and around the area.

At the same time, concentrating support on small areas may have limited the impact of the Initiative, since it leaves out of scope projects aimed at tackling national or regional problems, including those concerned with the relationship between urban and surrounding rural areas or the creation of 'clusters' of particular industries if these spread beyond the immediate area.

Since Objective 1 and 2 programmes also devote substantial resources to tackling urban problems, the support provided needs to be better coordinated with these so as to increase the participation of local authorities in the design and management of programmes and projects affecting urban areas¹⁰ (Graph 4.5).

ADAPT, EMPLOYMENT and EQUAL

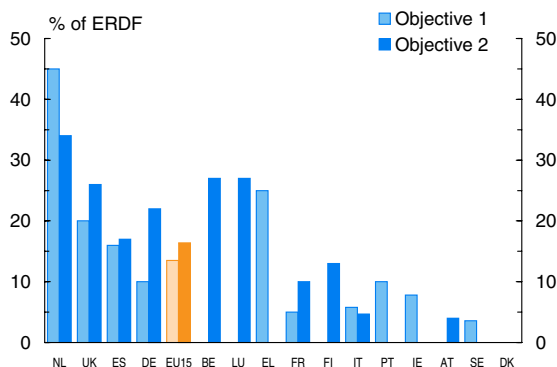
Two Community Initiatives, ADAPT and EMPLOYMENT, were launched in 1995 to support human resource policies. A new Initiative EQUAL, was introduced in the current programming period to combat discrimination and unfair treatment in the labour market. EMPLOYMENT and ADAPT received 7.5% of the total ESF budget. They were mainly co-financed by national governments, though they also attracted some private finance, especially ADAPT. The two Initiatives together provided funding for some 9,300 individual projects and involved around 1.6 million people.

ADAPT and EMPLOYMENT were aimed at involving local people and organisations in different countries in innovative programmes designed to:

- build local and regional partnerships, involving relevant parties in both the public and private sectors, to facilitate labour market integration and job creation;
- encourage an international exchange of ideas and experience to improve programmes and stimulate innovation;
- act as a catalyst for change, to feed new ideas into policy and practice in both the public and private sectors through the dissemination of project results and by demonstrating their relevance for meeting labour market needs.

Projects funded included measures to facilitate access to work and learning for all through individually-tailored 'pathway' programmes;

4.5 Estimate of urban spending in Objective 1 and 2 programmes, 2000-2006



Source: DG REGIO calculations

support for new sources of employment, such as in the social economy; help for SMEs to anticipate and adapt to market change; the provision of training; the encouragement of flexible working arrangements; and support for women to help them realise their potential in the labour market through desegregation of occupations and sectors of activity and making it easier for them to reconcile work and family life.

These Initiatives have been effective in a number of different ways. In Finland, the ‘Integrated Employment Model’, developed with the support of EMPLOYMENT, is now being applied in Objective 3 programmes. In Italy, a number of regional authorities have adopted policies based on EMPLOYMENT approaches. In Belgium, the EMPLOYMENT ‘Youthstart’ project was one of the inspirations for the introduction of a modular approach to vocational training in the Flemish education system and in the UK, for the ‘mentoring’ element of the ‘New Start’ Initiative. In Greece, a variety of innovative projects influenced the design of policies for people with disabilities.

In the case of ADAPT, a pilot project on job rotation led to a system for the temporary replacement of employees on training leave being set up in Portugal as part of labour market policy. In Sweden, approaches to the development of skills and competencies pioneered with ADAPT support have been taken up by national programmes. ADAPT projects have also led to regional agencies becoming involved in employment issues in Austria and Italy and to the activities of different organisations being better coordinated in France and Ireland.

Building on the experience gained from these two Community Initiatives, EQUAL is aimed at promoting new means of combating all forms of discrimination and inequality in the labour market, giving a strong emphasis to the development of partnerships and trans-national cooperation as well as to the incorporation of innovative approaches into policy.

LEADER

LEADER II covered more than 36% of the EU land area and 12% of the population in the 1994–1999 programming period. Almost 1,000 organisations received assistance for rural development under the Initiative, over 90% of which were local action groups (LAGs). The Structural Funds contributed some EUR 300 million a year to LEADER II out of a total of EUR 700 million a year, deployed to assist rural tourism (the main activity supported), SMEs and the development of local products and to provide technical support to LAGs. In addition to the direct support given, LEADER II had beneficial effects by:

- creating local partnerships, in the form of LAGs in particular, set up either in an area or field of activity;
- developing a bottom-up approach, implemented collectively, within an innovative, multi-sectoral and coordinated strategy for local development;
- helping to further cooperation and networking between areas;
- decentralising the management of available funding (from both the Structural Funds and national sources).

The number of recipients of LEADER II support as well as the area covered was over 4 times larger than under LEADER I in the previous programming period. The two Initiatives helped to create a culture of partnership and encouraged people and organisations on the ground to see local development as a matter which concerns them and to feel responsibility for what happens in their area. The LEADER approach has enabled local development strategies to adapt flexibly to different territorial circumstances. Under LEADER II, moreover, the accent was put on innovation which has since been applied very widely as a common method of tackling rural development problems.

Those supported by the Initiative tended to respond positively to the call to become involved in networking, but the exchange of experience mainly occurred between those who were already the most actively engaged before. On the other hand, the emphasis on cooperation gave rise to joint projects in a number of rural areas and led to some 600 such projects being set up involving participants in different countries.

The Initiative also encouraged the formation of informal networks and local activities, helping to open up new areas and improve local governance, the latter being encouraged further by the decentralisation of management of LEADER projects. In addition, it helped to develop local know-how in the areas assisted, in terms of the definition of objectives, methods of planning, management and evaluation. Nevertheless, the management of finance was often regarded as unwieldy and bureaucratic, in large part because of the coexistence of three Structural Funds, each with its own regulations.

LEADER+, introduced in the present programming period (2000 to 2006) with EUR 300 million a year, has been built on the experience of LEADER I and II. Without the basic principles being changed: emphasis has been put on the pilot nature of projects, with local development strategies being formulated, above all, around a limited number of themes of Community interest. The methods of partnership have been better defined and the conditions for cooperation simplified, while Community financing comes from the EAGGF alone.

Pilot innovative actions: what are the lessons?

The first experimental activities to support innovation in relation to regional and social policy were launched by the Commission in 1993–94, effectively pioneering the development of the knowledge-based economy at regional level. Today, nearly one in three regional authorities across the EU15 have formulated a Regional Innovation Strategy (RIS¹¹) or a Regional Information Society Initiative¹², aimed at developing effective

Setting the foundation of the knowledge-based economy in Castilla y León in Spain through Structural Fund support

Castilla y León, an Objective 1 region in Spain, was selected by the European Commission to prepare a Regional Technology Plan (RTP) in 1997. The Objective 1 Structural Fund programme was utilised to fund the policy priorities and actions stemming from this Plan in the R&D and innovation domain. The intention behind the plan was to involve as many relevant organisations as possible and to create a broad consensus between them. Initial results are encouraging: public expenditure has risen by over 11% a year and business spending on innovation rose by over 15% in the second half of the 1990s; at present nearly 1,400 businesses (95% of them SMEs) are taking an active part in publicly supported innovation programmes as opposed to just 600 or so in 1995.

Total R&D expenditure rose from 0.6% of non-agricultural gross value-added in the region in 1995 to 0.9% in 2000, while total spending on innovation increased from 1.4% to 1.7% between the two years. At the same time, the number of full-time research workers and equivalent technical staff increased from 3½ in every 1000 employed to 5. The region has now the second highest expenditure on R&D per head of Objective 1 regions in Spain and the eighth highest of all Spanish regions, despite the predominance of SMEs and the importance of agriculture and other traditional industries.

innovation systems and the spread of ICT know-how at regional level. The initial pilot actions, which in most cases have been extended over the years, were based on a demand-led, 'bottom-up' planning process, creating strong public-private partnerships involving businesses, universities, technology centres and public authorities in the regions concerned.

Around 30 regions provided support for clusters and business networks as part of their action plans and a range of business support measures targeted at SMEs were developed. In many cases, priority actions to support innovation identified by RIS have been incorporated into Objective 1 and 2 programmes,

resulting in better projects and more funds for public investment, while RISI increased awareness of the social and economic effects of the Information Society and the spread of ICT and encouraged the development of projects related to the eEurope action plan.

Innovative actions funded by the ESF also had positive effects on employment and social inclusion. The Local Social Capital pilot project (ESF funding of EUR 3.5 million a year) supported 3,350 micro-projects, each receiving an average grant of EUR 8,000 and reaching a wide range of people unlikely to obtain other types of support.

A new system for ERDF innovative actions was introduced in 2001 to underpin the Community priorities of increasing regional competitiveness, technology and innovation (as agreed in Lisbon in 2000), applying new forms of IT (the eEurope action plan) and promoting sustainable development. The aim is to ensure that every EU region has the means to explore new policies for developing the knowledge-based economy in order to increase the importance of innovation in Objective 1 and Objective 2 programmes. Under the scheme, regional authorities were able to apply for up to EUR 3 million of ERDF co-financing for two-year programmes, which needed to be based on strong public-private partnership, to have a substantial leverage effect in raising private finance and to incorporate a strategic approach to innovation. At present, three out of four regions in the Union are developing such programmes with a total budget of almost EUR 1 billion and ERDF funding of around EUR 400 million. In addition, separate networks have been set up on each of the three strategic themes involving over 40 regions, operated in cooperation with the Commission, in order to promote collective learning and the exchange of good practice.

Improving the effectiveness of management methods

In the last review of the Structural Fund regulations in 1999, there was an attempt to clarify the respective

roles and responsibilities of the Commission and the Member States. The aim was to simplify the system while also ensuring more decentralisation of responsibility to the Member States. In parallel, the Commission has attempted to play a less active role in day-to-day management.

There is still, however, a certain tension. While the Commission remains accountable to the European Parliament and Council for expenditure of the Funds, how the Funds are spent is increasingly the responsibility of Member States. Because of this tension, it has become evident that the management system for the Funds has not become simpler or more streamlined.

The recent simplification exercise¹³ sought to reduce complexity and confusion within the confines of the provisions of the current Structural Funds regulations, while also trying to improve coordination and flexibility. Consideration must now turn to the changes in the regulations which are required to maximise effectiveness, ensure proportionality and reduce unnecessary complexity. Such changes in administrative requirements need to be based on an analysis of the strengths and weaknesses of the present system and decided well before the implementation system for the new funding period is designed. To this end, the Commission held a seminar in 2003, which brought together more than 600 participants, as part of the wider debate on the future of the policy launched by the Commission in 2001¹⁴.

The core principles

Programming, partnership, concentration and additionality were introduced as the unifying principles of the Structural Funds in the 1988 reform and they remain at the heart of the management of the Funds, intended to increase their effectiveness and impact. A diversity of management practices has evolved which respect the core principles but take account of the institutional context and administrative capacity in individual Member States, which themselves tend to change over time.

Programming leads to stability and coherence but needs streamlining

Multi-annual programming has been one of the main successes of the Structural Funds method and the benefits of this approach have become clearer over time as Member State capacity to plan programmes over a number of years has developed. The relative consistency and coherence in programming since 1989 has facilitated longer-term and more strategic planning.

From a financial perspective, multi-annual programming gives rise to a greater degree of certainty and stability as regards the availability of funding than annual budgeting. This is particularly relevant in the context of major infrastructure investment which takes years to complete.

Different aspects of the programming process have developed over time:

- the inclusion into programming documents of baseline data to support the socio-economic analysis and quantified objectives, so leading to greater transparency in programme implementation;
- the lengthening of the programming period, reflecting growing capacity for multi-annual programming, but giving rise to the challenge of ensuring that procedures are flexible enough to allow programmes to be adapted in response to change;
- less positively, concerns have grown over the length of time and complexity involved in approving programming documents, which stem in part from the introduction of the programme complement.

Striking the right balance between the need for transparency and accountability of programmes (which requires more detailed information and monitoring mechanisms), for flexibility within programmes, and

for the partnership with the Commission to be transformed into a more strategic exercise rather than one of micro management, remains a difficult challenge for cohesion policy.

Partnership becomes stronger and more inclusive

Partnership has widened and deepened over the 15 years of cohesion policy and has extended in some cases beyond the Structural Funds into other areas of national and regional administration. While in 1988 partnership was conceived primarily as the vertical relationship between the Commission and national, regional or local authorities, the horizontal dimension of partnership, including a wider range of stakeholders at local, regional and national level, has grown stronger over time. When it works effectively, partnership adds value in many ways:

- in programme design, it helps to focus interventions on the needs of the region or particular target groups;
- it stimulates ideas for projects, through partners communicating opportunities in relation to Structural Fund requirements;
- it provides inputs to the monitoring process through knowledge of the operation of the programme on the ground, so helping to identify solutions to problems of implementation;
- it means that a broader range of views is brought to bear on the evaluation process;
- it helps disseminate information on the Funds and their impact in the area concerned more widely.

Partnership remains a core principle for management, monitoring and evaluation of the Funds and can add much value, particularly where the roles and responsibilities of the participants are clearly delineated. The Territorial Employment Pacts provide a good example of partnership working. These

added value to local development and employment through:

- enhanced resource deployment at local and regional level;
- the matching of supply and demand;
- reducing administrative overlap;
- encouraging policies to be more clearly defined.

Over time, mainstream Structural Fund programmes have also entailed increased involvement of the social partners in programming and management. The European Economic and Social Committee in September 2003 adopted an exploratory opinion on *Partnership for implementing the Structural Funds*, which recommended that partnership be strengthened since it contributes to the success of programmes by giving them greater legitimacy, by making it easier to coordinate them and by increasing their effectiveness as well as transparency. The benefits of partnership are particularly evident in ESF programmes where many actors at the local level have become directly involved in EU-funded programmes.

While there is broad agreement that partnership adds value to the effectiveness and impact of the Structural Funds, it also introduces new layers of complexity into the process of designing and delivering policies, which can slow down decision making. There is, therefore, a trade-off between the additional complexity resulting from partnership and the improvements in design and implementation which it can bring.

Concentration

Concentration is intended to ensure that the impact of the Structural Funds is not dissipated through resources being spread too thinly, whether geographically, financially or in terms of policy priorities, while at the same time making sure that all regions with serious structural problem receive assistance.

Geographic targeting has been guided by defining the eligibility of areas under the objectives for the Structural Funds. Some progress has been made in this regard, the 2000–2006 programming period having a higher level of concentration than the two previous periods, with 41% of the population of the EU being covered by Objectives 1 and 2. Nevertheless, the process of identifying Objective 2 regions in the present period was overly complex and led in some cases to fragmentation of regions and dispersion of resources. For the years 2004 to 2006, all regions of the 10 new Member States will be covered by Objective 1, except Prague, Bratislava and Cyprus, in which, taken together, 31% of the population will be covered by Objective 2.

Concentration on policy priorities is reflected in the Commission guidelines, which define priorities in relation to transport, energy, competitiveness, human resources, rural development and, increasingly, environmental considerations. The non-binding, and sometimes too broad, nature of these guidelines has, however, reduced their impact.

Indeed, while progress has been made, evaluations indicate that the Structural Funds are sometimes spread too widely and thinly. Programmes which include every possible eligible action are unlikely to have an effective impact, while their management is likely to be complex and unwieldy, involving numerous implementing bodies and an overly extensive system of indicators.

Additionality

Additionality — the principle that the Structural Funds must not be used to replace existing public investment — has ensured that the Structural Funds genuinely increase the finance injected to stimulate regional development. This principle has demonstrably been respected in Objective 1 regions, where, despite the complexities involved, it is possible to identify the amount of resources being invested. Establishing additionality for Objective 2 and 3 programmes, especially the latter, has been more difficult, undermining

its value as a core principle for all Objectives of the Funds.

The evolution of structural policy and the search for effectiveness

Expertise in implementing Structural Fund programmes has grown as experience has been gained. Over time, requirements have been specified more clearly in the regulations, with the respective roles and responsibilities of the Commission, national governments and regional authorities being defined in more detail. Achieving the right balance between rigorous management with the administrative cost involved, on the one hand, and the effectiveness of programmes, on the other, is a key challenge for the future.

Financial management and control — the right balance?

Provisions relating to financial management and control have been strengthened considerably over time. The Commission remains accountable to the budgetary authority and is subject to the external control of the Court of Auditors for Structural Fund expenditure, even in the context of greater decentralisation of responsibilities to Member States, which creates some tension between the role of the latter and that of the Commission.

Under the Treaty, the Community and Member States have a shared responsibility for safeguarding EU finances and the Commission has powers to combat fraud, corruption and illegal activities which prejudice Community interests. The introduction of more detailed control requirements midway through the 1994–1999 period resulted in a more effective and rigorous control regime in general in Member States, though — as problems encountered at the closure of programmes have shown — it has been difficult for Member States to give satisfactory assurances on the regularity of expenditure declared for the whole of the implementation period.

For the period 2000–2006, the Commission worked with Member States to develop control requirements further and to make clear the respective responsibilities of the managing authorities, on the one hand, and the paying authorities, on the other. The architecture developed for ensuring adequate financial management and control and the principles set out are widely accepted, although there is scope for wider application of proportionality in the requirements.

Furthermore, the late adoption of the regulation by the Commission well after the start of the programming period, together with the overlap with the closure of the preceding period, caused significant difficulties for the effective start-up of the measures required. The combination of this with the introduction of new rules on commitments and payments¹⁵ helps to explain the large accumulation of amounts still to be paid at the end of 2002.

Overall spending on structural intervention increased strongly in 2003, passing the 2000 level for the first time, with total payments reaching EUR 28.6 billion. This seems to reflect:

- for the 2000–2006 period, the combined effect of the financial discipline imposed by the 'n+2' rule, the simplification measures introduced and a real start-up of programmes on the ground;
- for the 1994–1999 period, a significant reduction in commitments waiting to be spent.

Spending in relation to commitment was highest for the Cohesion Fund, 100% of which was spent and the ERDF, 96.5% of which was spent.

While regional authorities recognise that checks and controls are designed to improve management and governance, the extent of the requirements is often seen as a burden for which the gain does not warrant the administrative costs involved. There is a perception of a lack of flexibility in the current programming period, particularly in view of the 'n+2' rule (under which budget appropriations have to be spent within

two years or be forfeited). There is also a concern that there is unnecessary duplication of procedures with national systems. A particular criticism is that the new requirements were decided at a late stage, forcing regions to modify systems which had already been defined. This led to delays in programme implementation, with knock-on effects because of the ‘n+2’ rule, creating pressure to spend at the expense of quality and innovation. According to some Member States and regions, the cost of implementing all the financial control procedures required by the Commission is too high compared to the benefits achieved. The issue of cost is particularly acute for Objective 2 interventions. For these, there is evidence that implementation costs are a high proportion of total expenditure.

Project selection and implementation

Except for large projects (over EUR 50 million total cost in the 2000–2006 period), project selection is the responsibility of the Member State or region concerned. According to evaluations carried out, project selection procedures were generally found to be formal but robust, with both competitive and queuing systems being used. In some cases, procedures were found to be too complex, which may discourage prospective project promoters. For Objective 1 programmes, a lack of transparency was observed in some cases, while in Objective 2 regions, there was evidence of increasingly widespread use of formal criteria and growing professionalism and transparency. In Objective 6 regions, however, project selection was at times confused and tended to involve only a narrow range of participants, while, because of the newness of the system, insufficient attention was paid in many cases to project development.

Despite the increase in the standard of management of public funds, there is still room for improvement, especially in relation to the selection and implementation of large investment projects. According to the *ex post* evaluation of Objective 1 programmes, only a third of projects reviewed were completed within the originally planned time scale and a third were over a year late, while two-thirds of projects examined ran over budget,

with 20% costing over 30% more than originally planned. Among the causes identified for these overruns were inadequate planning, including not anticipating land ownership problems, inadequate cost estimates and administrative delays.

Developing a more strategic role for monitoring systems

Though monitoring is a vital component of the system, experience suggests that the focus of monitoring committees is overwhelmingly on issues of financial management and, in particular, on trying to ensure absorption of the Structural Fund resources, rather than on strategic management. This focus influences the decision-making process, contributing to a tendency for resources to be spent where their absorption is tried and tested and militates against more innovative approaches and directions being followed. The development of a more strategic role for monitoring committees is one of the challenges for improving the functioning of cohesion policy. In this regard, it is important that the partnership role of monitoring committees is recognised by managing authorities and that they are not merely mechanisms for “rubber stamping” decisions taken elsewhere.

The evaluations of Structural Fund programmes have drawn attention to the poor quality of monitoring during the 1994–1999 period, even if improvements were evident, and emphasised the need for monitoring committees to have access to meaningful information on the progress of the implementation of programmes.

Though monitoring has been strengthened for the 2000–2006 period, with emphasis on the use of indicators and the setting of targets, problems persist. In particular, indicators often lack a clear definition and proliferate in some cases, especially where programmes have too broad a focus. In addition, monitoring systems are in many cases not yet fully operational, three years after the start of the programming period, and are complicated by the different requirements of the ERDF, ESF and EAGGF.

Evaluation

Evaluation of Structural Fund programmes developed and improved during the 1990s, leading to greater transparency and accountability in the management of the Funds. Whereas in 1988, the emphasis was mainly on auditing the operation of the Funds, the focus broadened over time to the results achieved from the expenditure carried out. While all Member States observe the requirement to undertake evaluation of the use of the Funds, and in some cases have introduced the practice in other policy areas, the way that it is implemented still varies considerably across Member States, reflecting different traditions and cultures.

In the past, evaluations had little impact because they were completed too late to influence the key decisions they were designed to inform. To address this problem, the current Structural Fund regulations specify deadlines for evaluation which are linked to the performance reserve. The Commission will prepare a communication on the results of the mid-term evaluations and the allocation of the performance reserve in the course of 2004.

Evaluations are now required to be undertaken at an *ex ante* stage by Member States, at mid-term by Member States in cooperation with the Commission and *ex post* by the Commission. The mid-term evaluation, with its time frame fixed to ensure that the results can be used, is perceived by some to be too rigid¹⁶. It has also been suggested that undertaking the *ex post* evaluation two years after the end of the programming period creates difficulty in making effective use of the results.

Greater involvement of regions and Member States is likely to improve the exercise and make it more useful and relevant, implying that more consideration needs to be given to designing programmes of evaluation which are adapted to regional and national needs.

First results from the mid-term evaluations

All Structural Fund programmes for the 2000–2006 period were subject to a mid-term evaluation. This

was completed before the end of 2003. An initial analysis of the results suggests the following:

- the relevance of the strategic choices made in 2000 is largely confirmed, particularly the emphasis on the Lisbon priorities (innovation, information society and networks), expenditure on which amounted to around EUR 60 billion or 30% of the Structural Funds. There is scope, however, for even greater focus on these priorities, particularly in relation to innovation and missing links in networks;
- despite a slow start, the rate of financial absorption has increased and the ‘n+2’ rule seems to have stimulated more rapid implementation of programmes. In certain cases, however, a too mechanical application of this rule seems to have had a detrimental effect on quality and innovation;
- systems for the selection and implementation of projects are judged to be better than in the past, but in certain cases heavy bureaucratic procedures have introduced inefficiencies;
- administrative modernisation, in part stimulated by the Structural Funds, needs to be accompanied by ‘intelligent’ information systems to enable managers and decision-makers to evaluate interventions on an ongoing basis and take corrective action where necessary. Monitoring systems based on an extensive range of indicators need to be simplified and focused on a more strategic use of information;
- the extent to which objectives have been achieved is relatively high for certain programmes, particularly on transport infrastructure.

While it is too soon to identify the effect over the 2000–2006 period as a whole, in Spain, the impact of investment made in 2000 to 2002 under the Community Support Framework (Structural Funds plus national public expenditure) is estimated at 0.4% of GDP (and is forecast to be 2.4% in 2006).

The performance reserve — rewarding achievement

The performance reserve combines several aspects of good management practice, specifically financial control, effectiveness of implementation, monitoring and evaluation. The reserve is an innovation under which, in the present programming period, 4% of Structural Fund resources are held back for allocation by 31 March 2004 at the latest on the basis of achievement of targets specified initially in the programming documents. The targets relate to effectiveness (outputs and results achieved), financial issues and management. Although the operation of the reserve is still to be tested in practice, it is a first step towards management by objectives and introduces for the first time a financial incentive for good management, an objective which Member States and regions have an obvious interest in achieving.

While some concerns have been expressed about the actual mechanism introduced, particularly its rigidity and complexity, the reserve has focused attention on important performance issues such as financial absorption and the quality of data used for monitoring. At the same time, concern has also been raised that the

Some preliminary results in Spanish Objective 1 regions for 2000–2002

- Improved accessibility: 476 kms of roads or motorways and 173 kms of railway lines built or improved; 810 kms of energy distribution networks constructed; 250 kms of gas pipeline built;
- support for the productive environment: 4,600 SMEs supported with a leverage effect on investment estimated at some EUR 12.2 billion;
- development of the knowledge society: 1,503 research centres and 48,199 researchers supported; installation of 26.864 ADSL lines;
- human resources: around 7 million people supported by the ESF, of which 57% received training.

The perception of EU structural policy in the regions

The case studies surveying the views of regional officials on EU policy referred to in Part 3 above also collected their opinions about the operation of the Structural Funds. There was unanimity among those surveyed about the positive impact of the Funds in Objective 1 regions, particularly on infrastructure and most especially in the Cohesion countries where convergence of GDP per head to the EU average was a major objective of national policy.

In other Objective 1 regions receiving smaller amounts of funding, it was recognised (in Flevoland and Highlands and Islands, for example) that eligibility for Objective 1 support had led to greater priority being accorded to them under national regional policy.

In Objective 2 regions, the case studies confirm the difficulty of finding data at an appropriate regional level to throw light on developments and the fact that the financial sums involved were generally not sufficient to reverse the deterioration in the situation in the regions concerned.

Yet, Objective 2 areas are often those in which most problems in the region in which they are located accumulate, whether they concern demographic trends, the level of education, the restructuring of traditional industries, unemployment, the environment and so on. Business investment tends to concentrate in other parts of the region or in neighbouring regions, leaving the Structural Funds alone to provide support.

In many cases, the focus was on the qualitative rather than the quantitative effect of the Structural Funds, especially in regions where Structural Fund receipts were relatively small, whether in relation to GDP, investment or the national budget. In these cases, partnership along with programming and the pursuit of an integrated strategy at regional level were the most frequently mentioned benefits from the introduction of the Community approach. This was considered to have strengthened institutional capacity and more especially the expertise needed

for evaluation, particularly in relation to horizontal themes, like equality of opportunity, sustainable development or innovation.

Except in regions with a high degree of autonomy, the application of Community policies does not seem, in general, to be formally coordinated. At the same time, the possibility of coordination is hindered by the lack of a strong regional management structure. The almost unanimous opinion, however, was that the present programming period involves more coordination than in previous periods because of the experience gained.

Nevertheless, the substantial increase in the costs of management, evaluation and control in the 2000–2006 programming period was greatly criticised (one of the studies mentioned an increase from 5% of total costs to 20%). There was also wide discontent over the complexity of the procedures for managing cohesion policy which has increased in each new programming period. On the other hand, cooperation with the social partners, businesses and other organisations was generally viewed as a significant advance that needs to be continued further.

Committee of the Regions proposals for improving the management of the Structural Funds

The Committee of the Regions was asked to prepare a report on the way in which the management of cohesion policy could be simplified after 2006, based on a broad survey of the authorities responsible for administering

the Structural Funds on the ground. The findings were discussed at a conference in Leipzig in May 2003 and presented to the European Commission in July 2003. The Committee's recommendations are as follows:

- greater coherence and closer coordination, both internally (between the different Funds, the different Commission services and different government departments) and externally (between Community, national and regional programmes);
- better application of the principles of subsidiarity and proportionality, with acceptance that regional and local authorities are generally the most appropriate bodies for taking policy decisions and implementing them efficiently;
- the continuation of a Community-based regional approach;
- the maintenance of resources, since a cohesion policy with reduced funding is inconceivable;
- the increased contribution of sectoral policies to cohesion;
- greater simplification of procedures and a strengthening of co-responsibility;
- greater recognition of the importance of regional cooperation as a means for achieving integration.

focus on financial absorption might shift attention away from quality on to spend.

Diversity of management practices

Although Structural Fund procedures have been described as “one-size-fits all”, the findings of evaluation and other studies demonstrate the great diversity of practices which exists as well as the growing capacity of authorities to manage the Funds. Best practice principles are enshrined in the regulations and they have been clarified and improved with each programming period. At the same time, every Member State has gone through its own cycle of development to

increase its capacity to implement the Funds more effectively over time.

Three main types of approach to managing the Structural Funds can be identified:

- a highly centralised approach which mainly involves sectoral programmes;
- a mixture of centralised and decentralised programmes;
- a decentralised approach which applies to more regional programmes.

Systems have evolved over time, often progressing from a centralised approach through a mixed one to a more decentralised approach. The results of evaluations indicate that either the centralised or the decentralised approaches are more efficient, though the latter tends to be more effective because it makes it easier to respond to regional needs.

A centralised approach tends to be more efficient because of faster decision-making and greater flexibility, but, as well as being less responsive to regional needs, it tends also to use more traditional procedures which can militate against innovation. While most of the Cohesion countries and the southern Italian regions operated centralised systems in the first programming period, more decentralisation is evident in later periods, though less so in Portugal than elsewhere, with Italy, Spain and Greece beginning to decentralise in the 1994–1999 period and Ireland in 2000 to 2006.

Elsewhere, Objective 1 regions in eastern Germany and those spread across other countries have decentralised systems, which though sometimes complex can also work efficiently.

Management of the Structural Funds in Objective 2 regions is in general decentralised. Even in countries with a centralised tradition, such as France and UK, there has been increasing devolution of decision making powers and administrative autonomy to Objective 2 regions. More generally, Objective 2 programmes have increasingly been integrated into regional policy structures.

Enlargement and cohesion policy: the challenges ahead

Structural Fund support will be of central importance to the new Member States in strengthening their economic competitiveness and catching up with the rest of the EU in terms of GDP per head. The experience to date of the various pre-accession funds is reviewed below and some lessons are drawn from the

negotiations on the National Development Plans and programmes for the implementation of the Structural Funds over the period 2004–2006.

Experience of the pre-accession funds

During the 2000–2006 period, the EU is providing around EUR 3 billion a year in financial support to accession countries. This comes from three different sources: ISPA (Instrument for Structural Policies for Pre-accession aid), which funds transport and environmental projects; SAPARD (Special Action for Pre-Accession measures for Agriculture and Rural development), which is self-explanatory and PHARE, which finances the strengthening of administrative and institutional capacity in preparation for accession.

Pre-accession assistance was intended, in part, to be a learning exercise for the countries concerned on how to use the finance effectively before receiving much larger funds after accession. They were, therefore, expected to develop institutional arrangements which would best reflect local circumstances and needs, while also meeting EU standards for managing public funds.

PHARE

From 2000, PHARE was aimed at helping the accession countries to prepare for accession, the budget being increased to EUR 1.6 billion a year with a focus on three main priorities:

- institution building (30%),
- investment in the regulatory infrastructure required to ensure compliance with the *acquis communautaire* (35%),
- support for economic and social cohesion (35%).

After the 10 new Member States enter the EU in May 2004, they will continue to receive PHARE assistance for at least three years, while in Bulgaria and Romania the programme might continue beyond this.

ISPA

ISPA corresponds broadly to the Cohesion Fund and supports investment in transport systems and environmental infrastructure, both of which were neglected for decades before the transition began and neither of which meets the needs of a modern economy. As regards transport, priority is given to major routes, defined in the Transport Infrastructure Needs Assessment study (TINA), which link the accession countries to current Member States, while aid for environmental improvement is focused on water supply and the treatment of waste water and solid waste.

Support, amounting to a total of just over EUR 1 billion a year, is given only to projects of above EUR 5 million. In 2000 and 2001, the first two years of implementation, great efforts were made to prepare eligible projects and the administrative structures necessary for implementation. By the end of 2002, 249 projects with ISPA commitments of EUR 3.2 billion had been approved by the Commission, divided fairly equally between transport and the environment, and within transport between road and rail, with most projects aimed at renovating and modernising existing infrastructure.

Increasingly, the countries have selected projects in line with national strategies on transport and the environment in order to make best use of the limited resources available.

ISPA has also contributed to building know-how and administrative capacity, which has been supported by technical assistance on training on procurement procedures, financial management, project preparation, the preparation of technical documentation, cost-benefit analysis and the use of the Commission's Extended Decentralised Implementation System (EDIS).

SAPARD

SAPARD allocates EUR 500 million a year to help accession countries to implement the *acquis*

communautaire in respect of the CAP and to restructure their agricultural sectors and rural areas. Support is based on development plans drawn up by the countries which include a limited number of measures, such as improving arrangements for ensuring quality, applying veterinary and plant health controls or setting up producer groups and land registers. The balance of support for different measures varies between countries, though a large part goes to investment in processing and marketing (26% of the total) and in agricultural holdings and rural infrastructure (a further 20% or so).

Despite slow implementation¹⁷, SAPARD has had a positive effect in the accession countries by encouraging them to set up financial structures and control systems similar to those in existing Member States, so helping to build up administrative capacity.

Lessons from the National Development Plans

The challenge of transition

For the accession countries, the first programming period when they will be eligible for aid from the Structural Funds is a relatively short one from 2004 to 2006. It represents both an opportunity for defining a coherent regional development strategy and a challenge for integrating the principles of EU structural policy into their national policy framework and establishing the appropriate mechanisms for implementation.

For this first short programming period, it has been agreed to concentrate structural intervention on a limited number of priority areas so as to achieve maximum impact and simplify implementation. In the four largest new Member States (Poland, Hungary, the Czech Republic and Slovakia), assistance will be implemented through a Community Support Framework, accompanied by Operational Programmes, and in the other countries, through a Single Programming Document.

The total support involved, including from the Cohesion Fund, amounts to just over EUR 7.3 billion a year,

at 1999 prices. This increases with national government co-financing, which itself represents a significant increase over existing levels, posing new challenges for public budgets, already depressed in a number of countries over recent years by relatively slow growth (Table A4.11).

Emerging strategies

The overriding objective in all accession countries is to achieve and sustain high rates of economic growth in order to increase living standards and levels of employment. The national development plans differ significantly in terms of the allocation of support to areas of intervention, reflecting variations in social and economic circumstances and perceived priorities. The share of funding going to investment in infrastructure, therefore, varies from 19% in Slovenia to 78% in Cyprus, that going on education, training and other programmes, from 14% in Malta to 28% in Slovenia and on productive investment, from 14% in the Czech Republic to 54% in Slovenia, much of it going to SMEs.

The programming documents prepared by the countries identify and address some of the main development needs, which is important given that the Structural Funds and national co-financing between them are likely to amount to around 25% of all public expenditure on structural investment. The overall approach to growth set out in the documents is in line with the Lisbon strategy. In Poland, Hungary and the Czech Republic, Operational Programmes for regional development have been designed, with central and regional authorities sharing responsibility for implementation, and a significant proportion of the overall budget has been allocated to these.

Nevertheless, the programmes for most countries identify a large number of different areas for intervention and too often lack a clear focus and strategic vision. The experience of current Member States indicates that, unless rectified, this will complicate the implementation of programmes and reduce their impact and sustainability.

The analytical methods and information sources used need, themselves, to be developed further to ensure higher quality programmes after 2006. For many programmes, there is only limited analysis of the interaction between the Structural Funds and national policies, while horizontal themes, such as the environment and equal opportunities, are not sufficiently integrated.

The formulation of programmes was supported in all the countries by *ex ante* evaluations of their effect, mostly carried out by teams of external experts. According to these, the Community Support Frameworks are estimated to increase GDP by around 4% in Hungary and just over 3% in Poland, once multiplier effects are taken into account (ie GDP will end up higher by this amount than it otherwise would have been), while investment in Hungary is estimated to be raised by 8% of GDP and unemployment in Poland reduced by almost 2% of the labour force in 2007.

The challenge of implementation

The Structural Funds require careful preparation in terms of the setting up of the necessary administrative structure and arrangements for managing the finance received. These preparations were begun some time ago during the negotiations on the accession Treaties.

During the preparatory stage, the accession countries have made visible progress in establishing more efficient cooperation between different parts of their administrative authorities, leading to more coordinated and effective programmes. Extensive efforts have been made to train staff, especially in the relevant ministries and implementing agencies, while improvements have been made in many regional and local authorities. The implementation of the Structural Funds, however, will affect many different parts of the administration in the accession countries, from strategic planning units in central governments to local authorities responsible for the selection of individual projects. The issue of administrative capacity is likely to remain a major concern throughout the 2004–2006

period and after. A further strengthening of this, which will partly come from experience, will be a necessary condition for further decentralisation of the implementation of programmes after 2006.

As a general conclusion, the programme documents and the activities planned reflect the transitional nature of the 2004–2006 period, preparing the ground for the strategies to be followed and the structures for implementing them in the next programming period.

The challenge ahead in the accession countries

While it is tempting to regard the accession countries as a single entity with uniform characteristics and problems, this is far from being the reality. Although structural problems are both acute and wide-ranging almost everywhere, with much of the basic infrastructure, in particular, being worn out, obsolete or non-existent, the nature and scale of these problems differ substantially between countries and regions. This is reflected in variations in GDP per head, which are wider than in the existing EU15 both between countries and the regions within these. More relevantly, disparities of all kinds tend to be much wider than across existing Objective 1 regions. This has important implications for the design of structural policy. For each region, the aim has to be to try to identify the major deficiencies which limit competitiveness and deter inward investment, to give priority to tackling these first so as to achieve a high rate of growth as soon as possible.

Regional disparities, moreover, are tending to widen further rather than narrow, with development being concentrated in and around major cities, especially the capitals, which are the focal points for the growth of new activities, particularly in services. This tendency is being reinforced by the parallel concentration of foreign direct investment in the same locations, attracted by the services, facilities and labour skills which are available there.

Communication links, however, are largely inadequate in all of the countries. In consequence, the scale of commuting, even to capital cities, is substantially smaller than in existing Member States (under a third of the size). Improvement in communications has to be a major priority, not only to make development possible but also to facilitate the expansion of trade between regions and countries. At present, trade among the new Member States remains depressed, despite them being natural trading partners, and needs to expand greatly to underpin their joint growth. Although they will gain from the planned extension of the trans-European transport network, the new routes planned are designed largely to connect them with existing Member States rather than with each other.

Achieving a **more dispersed pattern of growth** is constrained by the relatively low density of population in

many regions and the absence of cities of any size which might attract investment and act as centres for economic development. Only in Poland are there several large cities (of over 250 thousand people) which might serve as growth poles in addition to the capital. In 8 of the 41 NUTS 2 regions in the new Member States (5 in Poland, two in Slovakia and one in the Czech Republic), there are no cities with more than 100 thousand people and most of the population live in towns or villages with less than 20,000 inhabitants. This pattern of settlements, combined with the prevailing structure of economic activity, is liable to constrain development unless there are good transport links between towns to enable people to travel easily from one to another either to commute to work or to access services and facilities, which might be shared among a number of small towns.

While improving transport networks is essential for sustained development, it needs to be achieved without excessive damage to the **environment**, particularly since decades of neglect of the damage caused by industrial activity has already left a legacy of degraded areas. Given the lack of motorways and the poor state of roads generally, any transport improvement policy has to include a relatively large-scale programme for the construction of new roads and the widening of existing ones. Nevertheless, environmental — and congestion — considerations mean that there is a parallel need to strengthen the rail network in order to limit the shift from rail to road. This means improving the state of track, electrification and increasing double-track lines as well as ensuring inter-operability between countries (by fully standardising track gauges and electricity supply systems). It also means taking explicit account of variations in local circumstances so as to design a coordinated transport policy — something which is lacking in a number of existing Member States — which achieves development objectives in the region concerned while minimising environmental damage.

Transport improvements, however, are not enough on their own. They have to be part of a coherent development policy which gives due weight to reforming **education and training systems** so that they are attuned to labour market needs, which, like transport requirements, tend to differ from region to region reflecting the pattern

of economic activity. Although education levels are ostensibly high, in the sense that more people of working age than in the EU15 have qualifications beyond basic schooling, education and training programmes do not equip young people for employment in the new economy which is emerging. Moreover, relatively few people go on to complete tertiary education, while once in employment, the opportunities for continuing training — for life-long learning — are limited.

Support for **productive investment** is equally important, especially given the large-scale changes in the structure of activity which have to take place and which again vary across the countries reflecting the prevailing pattern. (Agriculture accounts for 19% of employment in Lithuania and Poland, 5% in the Czech Republic; 17% of employment is in business and financial services in Prague and Bratislava, 3% in parts of Poland.). Support for business investment, however, is difficult to organise effectively in a context where most firms in expanding service sectors are still very small (under 10 people) and where business services are largely lacking. This is particularly the case in regions where the service sector is most under-developed and where the need for restructuring is most acute.

Help in strengthening **innovative capacity** needs to be an important aspect of the support provided to business, along with the establishment of advisory services and financial assistance for business development. Again, the need for this differs between regions, reflecting the variation in the scale of expenditure on R&D, the presence of research centres and the extent of linkages between these and local business. (R&D expenditure, for example, varies from 1½% of GDP in Slovenia, and almost 4% in Stredni Cechy, the region surrounding Prague, to under ½% of GDP in Latvia, Bulgaria and Romania and only around 0.2% or less in a number of regions in Poland, Hungary and Bulgaria.)

Identifying structural needs, however, is only the first stage in the formulation of regional development strategies. All of these needs cannot be tackled simultaneously. It is equally important to identify a list of priority areas for action, to determine the order that investment projects are undertaken in the light of the long-term economic development path which it is intended to follow in the region concerned and with due regard to the

interactions between them, in order to maximise their effect on growth.

A central dilemma for policy-makers, which applies to all of the countries but especially the larger ones, is how far structural assistance should be concentrated on the main growth centres where returns from investment are likely to be most immediate and how far it should be dispersed across regions according to need. While strengthening the regions which are already the most competitive might give the best chance of achieving high growth in the short-term, allocating support according to need may be more likely to improve internal cohesion and secure balanced development in the long run. The choice is complicated, on the one hand, by the fact that for the weaker regions to gain significantly from the first type of strategy over the longer term, they are likely to require minimum levels of infrastructure and other forms of capital, implying that their needs cannot be neglected even in the short-term. On the other hand, it has to take account of the administrative constraints which exist on injecting large amounts of assistance into the least developed regions.

The latter point cannot be ignored. Regional development policy, it has to be recognised, is being implemented in a context in which the extent of **administrative capacity** to design and manage it is questionable, experience and expertise in tackling structural problems are inadequate and the means of coordination between the different authorities concerned are lacking. This inevitably constrains the programmes which can be implemented. It means that the provision of funding for structural investment has to be combined with ongoing support for improving administration on the ground, for training personnel and for developing effective means for managing, coordinating, monitoring and evaluating programmes, especially at regional level.

The debate on the future of cohesion policy

The Commission launched a debate on the future of the cohesion policy as early as the start of 2001. The College of Commissioners was also involved in this debate. The President of the Commission and some of the Commissioners were present in various conferences. The College has been kept abreast of all the issues raised during the debate through the series of reports that it has adopted over this period.

On 31 January 2001, the Commission adopted the Second Report on economic and social cohesion [COM(2001) 24 final]. The report analysed for the first time the challenges posed by enlargement and opened a discussion on the outlines of cohesion policy after 2006.

On 21 and 22 May 2001, the Commission held the second European forum on cohesion with a large number of participants (almost 2 000 registered and 1 700 others present) and political participation at a very high level.

At the 'General Affairs' Council on 11 June 2001, the Commission took note of the concern expressed by current and future Member States, in particular the memorandum presented by the delegation of Spain dealing with the effects of enlargement on economic and social cohesion. The Commission also declared that it would continue its work and regularly report to the Council. It would prepare the Third Report on Cohesion with a view to making appropriate proposals for cohesion policy after 2006.

Several Member States and representatives of the regions, towns and cities and the social partners were quick to give opinions on the issues in the debate. In line with the commitment given in June 2001, the Commission adopted two progress reports on economic and social cohesion, on 30 January 2002 [COM(2002) 46 final] and 30 January 2003 [COM(2003) 34 final]. These documents updated the

data in the Second Report on Cohesion (January 2001), especially those relating to economic and social disparities between regions.

The Commission held a number of discussion meetings in which a great many of those responsible for policy in this area from Member States, regions and towns and cities were involved:

- on 26 and 27 May 2002, a seminar on the Union's priorities for the regions, with about 600 participants;
- on 8 and 9 July 2002, a seminar on urban areas;
- on 30 September 2002, a seminar on priorities for employment and social cohesion;
- on 9 October 2002, a meeting of the ministers responsible for regional policy which reached broad agreement on simplifying the implementation of the Structural Funds for the 2000–2006 period.
- on 17 and 18 October 2002, a seminar on mountain areas;
- on 3 and 4 March 2003, a seminar on future management of the Structural Funds;
- on 8 July 2003, a conference on "Cohesion and Constitution: the role and responsibilities for the regions", attended by over 180 chief executives of regions and local/regional elected representatives from Member States and accession countries.
- on 13 November 2003, a conference on the future of rural development policy in Salzburg

More recently, the Commission's Directorate-General for Regional Policy has placed on its Internet site all the contributions received from Community Institutions, Member States, new Member States, regions, towns and cities, regional organisations, the social partners and research institutes:

http://europa.eu.int/comm/regional_policy/debate/reflex_en.htm

Over a hundred contributions are readily accessible there, taken largely from debates, seminars, inter-ministerial sub-committees and various studies. Together they represent an unprecedented collective effort to debate an area of Union policy.

Commission representatives have taken part in hundreds of meetings, conferences and seminars held throughout the Union on this subject. The Commission has also received hundreds of delegations to discuss the issues involved.

Three informal meetings of Ministers responsible for regional policy were organised by the Belgian Presidency (Namur, 13 and 14 July, 2001), the Greek Presidency (Halkidiki, 16 May, 2003) and the Italian Presidency (Rome, 20 October, 2003). Another ministerial meeting will take place on the initiative of the Irish Presidency on the 27 and 28, February, 2004.

A rich debate has also taken place in the European Parliament, ending with the adoption of several resolutions on cohesion policy, including:

- on 7 November 2002, a resolution on the Schroedter report (Green Party, Germany)
- on 3 September 2003, resolutions on the Mastorakis report (European Socialist Party,

Greece) and Pomés Ruiz report (European People's Party, Spain).

The Committee of the Regions adopted a declaration, in Leipzig on 5 and 6 May 2003, calling on the European institutions to strengthen EU' policy on regional development. The Committee also adopted two important opinions on this issue on 2 July 2003:

- the Schneider report on the Second Progress Report on Economic and Social Cohesion;
- the joint outlook report of Mr Fitto (European People's Party, Italy) and Mr Van Cauwenberghe (European Socialist Party, Belgium) on the governance and simplification of the Structural Funds after 2006.

The European Economic and Social Committee has also contributed to the debate of the future of cohesion policy by adopting opinions on the two Progress Reports and two exploratory opinions on 25 September, 2003 on:

- the Barros-Vale report on "Partnership for the implementation of the Structural Funds";
- the Dassis report on "The contribution of other Community policies to economic and social cohesion".

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- 1 Excluding Denmark and Luxembourg as well as the UK for which satisfactory information is still awaited.
 - 2 The main means by which the EIB assists regional development is through individual loans for large projects or programmes, and through global loans to financial intermediaries for smaller schemes. The European Investment Fund (EIF) for the development of SMEs invests in venture capital funds and provides portfolio guarantees through credit enhancement, credit insurance or structured transactions. EIB lending activities tend to complement grants from the Structural Funds, with a view to maximising the impact of budgetary and capital market resources.
 - 3 These studies have put forward numerous explanations for convergence and have come up with a range of estimates of the effect of cohesion policies, in part depending on the time period, countries or regions examined or on the available data and technical specifications of the model used. Most of them follow the 'common' approach of measuring regional convergence in relation to the national or EU average.
 - 4 Carried out using the Hermin macroeconomic model, which was constructed at the beginning of the 1990s and which has since been used largely to estimate the effect of Community support policy.
 - 5 Defined here as interventions under the Community Support Frameworks (CSF) which coordinate EU regional activities involving the Structural Funds and public co-financing expenditure.
 - 6 While the estimate of gross jobs created is relatively firmly based, the estimate of net jobs is inevitably uncertain given the difficulty of taking account of displacement and substitution effects. There is also some difficulty in isolating the effects of Community programmes from those of national policy measures implemented at the same time.
 - 7 Because of data problems, it is difficult to obtain reliable figures for the programming period 1994 to 1999.

- 8 In the 2000–2006 period, the MEDOC (“Méditerranée occidentale”) programme was initiated under INTERREG IIIB covering regions in Portugal, Spain, France, Italy and Greece (from 2003), as well as Gibraltar, with an overall contribution from the ERDF of some EUR 119 million. The general aim is to encourage cooperation between these regions in four broad areas (economic development, territorial planning, transport and ICT, and environmental protection), to strengthen relations with other Mediterranean countries and to include them in the projects undertaken.
- 9 Surveys carried out in a sample of programme areas across the EU found that 68% of respondents felt that the urban environment had improved or greatly improved over the past 10 years and 49% considered URBAN target areas had become more desirable as places to live.
- 10 Around EUR 16 billion are explicitly devoted to urban policy in the 2000–2006 period (around 14% of the Structural Funds). More than EUR 15 billion of this is provided under the mainstream programmes of Objectives 1 and 2, aimed mainly at regenerating city centres. In addition to these specific measures, almost all programmes are implemented to a large extent within cities without being labelled as “urban” measures. These cover all aspects of city development, including investment in infrastructure, support for SME and social inclusion activities.
- 11 6 Regional technology plans were launched in 1993–1994, 33 regional innovation strategies (RIS) in 1996, followed by 25 RIS+ (implementation of RIS) in 1999. These were based on a methodology proposed by the Commission. 30 of these projects are described and analysed in “Regional Innovation Strategies under the ERDF Innovative Actions 2000–2002”, European Commission, DG for Regional Policy, 2002.
- 12 6 RISI regions were launched in 1994, followed by 22 RISI pilot actions in 1996, and a dozen RISI+ in 1999.
- 13 Communication “on the simplification, clarification, coordination and flexible management of the structural policies 2000–2006”, C(2003) 1255.
- 14 “Managing structural funds in the future: which division of responsibility?”, Brussels, 3–4 March 2003.
- 15 In the 2000–2006 period, after an advance of 7%, payments are made only after expenditure has actually been incurred, while in the previous period, Member States could receive advance payments up to a certain limit providing that they could certify that previous advances had in part been spent.
- 16 Debate at the 5th Conference on Evaluation of the Structural Funds, Budapest, 26/27 June 2003.
- 17 The number of projects for which contracts with beneficiaries had been issued rose from 2,100 at the end of 2002 to over 4,300 at the end of April 2003. The EU budget committed to these projects corresponds to over 80% of the amount made available to the countries for the first year. At the end of 2002 only 40% of this amount was committed to final recipients. The total amount of payments amounted to over EUR 201 million by the end of May 2003.

Sources

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Statistical annex to Part 4

A4.1 Structural Fund allocation by objective and country, 2000-2006

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	EU15
Allocation 2000-2006 (EUR million at 1999 prices)																
Objective 1	0	0	19229	20961	37744	3254	1315	21935	0	0	261	16124	913	722	5085	127544
Phasing-out	625	0	729	0	352	551	1773	187	0	123	0	2905	0	0	1167	8411
Objective 2	368	156	2984	0	2553	5439	0	2145	34	676	578	0	459	354	3989	19735
Phasing-out	65	27	525	0	98	612	0	377	6	119	102	0	30	52	706	2718
Objective 3	737	365	4581	0	2140	4540	0	3744	38	1686	528	0	403	720	4568	24050
Other*	245	274	1748	858	2250	1273	159	1247	15	620	379	733	316	375	1061	11552
Total Structural Funds	2038	822	29797	21820	45137	15669	3247	29636	92	3223	1848	19762	2120	2223	16576	194010
Cohesion Fund				3060	11160		556					3060				17836
Total	2038	822	29797	24880	56297	15669	3803	29636	92	3223	1848	22822	2120	2223	16576	212010
Total (% of GDP in 2000 at 1999 prices)	0.1	0.1	0.2	2.9	1.4	0.2	0.6	0.4	0.1	0.1	0.1	2.9	0.2	0.1	0.2	0.0
Population covered (% of total)																
Objective 1	0.0	0.0	17.3	100.0	58.5	2.7	26.6	33.6	0.0	0.0	3.4	66.6	21.0	10.6	8.6	22.3
Phasing-out	12.6	0.0	1.6	0.0	1.3	1.9	73.4	0.6	0.0	1.8	0.0	33.4	0.0	0.0	3.5	3.4
Objective 2	12.5	10.2	12.6	0.0	22.2	31.3	0.0	12.9	28.3	15.0	24.8	0.0	30.9	13.0	23.4	18.1
Objective 3	87.4	100.0	81.1	0.0	40.2	95.4	0.0	65.8	100.0	98.2	96.6	0.0	79.0	89.4	87.9	74.3
Allocation per year per inhabitant (EUR)																
Objective 1	:	:	194.1	285.8	232.2	282.7	194.7	162.3	:	:	135.3	348.2	121.1	104.1	143.0	217.4
Phasing-out	69.5	:	80.2	:	95.3	70.7	95.2	80.7	:	63.2	:	125.3	:	:	81.9	93.6
Objective 2	41.4	41.4	41.4	:	41.4	41.4	:	41.4	41.4	41.4	41.4	:	41.4	41.4	41.4	41.4
Objective 3	11.9	9.9	9.8	:	19.2	11.3	:	14.2	13.0	15.8	9.7	:	14.2	12.3	12.6	12.3

* Community initiatives, non-Obj. 1 FIFG (Financial Instrument for Fisheries Guidance), Peace
Source: DG REGIO

A4.2 Leverage effect of Structural Funds on public and private expenditure under Objective 1, 1994-1999 and 2000-2006

EUR

	1994-1999*		2000-2006	
	National public funds per euro of SF	Private funds per euro of SF	National public funds per euro of SF	Private funds per euro of SF
BE	0.77	1.18	1.02	1.43
DE	0.37	1.53	0.58	0.02
EL	0.52	0.28	0.50	0.48
ES	0.51	:	0.52	0.04
FR	0.54	0.23	0.88	0.33
IE	0.43	0.34	0.76	0.25
IT	1.40	:	0.89	0.45
NL	2.49	1.42	2.15	0.55
AT	1.59	3.79	0.33	1.76
PT	0.42	0.30	0.60	0.46
UK	0.53	0.24	0.85	0.43
Total EU11	0.62	0.36	0.63	0.29

* based on actual expenditure 1994-2000

ES, IT: for 1994-1999, national public funds include private funds

EU11: excluding FI, SE

Source: DG REGIO

A4.3 EIB lending, 1989-2002

EUR billion

	1989-93	1994-99	2000-02
Total lending in EU15	70.9	128.9	95.3
Regional development, of which	47.2	86.7	59.3
Individual loans	37.8	66.6	40.7
Global loans	9.4	20.1	18.6
Annual average, of which	9.4	14.4	19.8
Objective 1	5.0	6.8	10.5
Objective 2	3.4	5.5	6.6
Mixed and other	1.0	2.1	2.7
Total lending in accession countries, of which	1.7	9.3	9.2
Individual loans	1.3	8.4	7.8
Global loans	0.4	0.9	1.4
Annual average	0.3	1.6	3.1

Source: EIB and European Commission

A4.4 Objective 1: indicative breakdown of Structural Funds by category of expenditure, 2000-2006

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	Total EU	Total by category
	EUR million																%
Productive environment	368	0	8041	4587	10693	1298	910	9838	0	57	190	6368	596	457	2500	45903	33.8
Agriculture	30	0	869	985	1543	244	122	1609	0	1	17	1165	83	72	135	6874	5.1
Forestry	3	0	98	127	884	55	32	249	0	0	5	391	23	6	33	1905	1.4
Rural development	8	0	2343	1099	2328	380	42	1552	0	11	14	773	80	53	205	8892	6.5
Fisheries	2	0	0	293	0	68	99	185	0	6	1	210	6	11	102	984	0.7
Assistance to large businesses	38	0	602	133	1084	80	0	235	0	3	23	123	75	0	157	2553	1.9
Assistance to SMEs & craft	152	0	2370	953	2368	231	306	2103	0	22	76	2638	201	179	1248	12849	9.5
Tourism	40	0	235	585	546	152	56	1404	0	8	36	389	8	42	206	3706	2.7
RTD	96	0	1524	410	1940	87	252	2501	0	6	19	678	119	94	412	8138	6.0
Human resources	190	0	5902	3975	8858	1237	844	4005	0	31	48	3868	259	149	2014	31378	23.1
Labour market policy	4	0	1994	766	4162	99	50	1140	0	17	29	397	67	13	493	9231	6.8
Social inclusion	27	0	1218	729	531	206	210	208	0	11	3	673	19	18	384	4237	3.1
Positive labour market action for women	0	0	546	345	240	25	10	384	0	1	2	51	19	19	96	1737	1.3
Education & vocational training	61	0	935	1411	1248	787	409	1552	0	1	1	2473	65	21	510	9473	7.0
Entrepreneurship	99	0	1209	724	2678	120	165	722	0	3	12	273	89	77	530	6701	4.9
Infrastructure	62	0	5664	11841	18363	1216	1319	7470	0	30	16	8433	44	102	1608	56169	41.3
Transport	9	0	3102	6497	9128	439	954	3134	0	3	0	3211	11	33	465	26986	19.8
Telecommunication & information society	6	0	177	1496	802	94	104	1103	0	7	8	496	11	56	363	4723	3.5
Environment	43	0	2373	2190	6405	451	218	2721	0	18	4	2429	7	6	569	17433	12.8
Energy	5	0	11	411	287	43	44	269	0	1	4	469	7	3	109	1663	1.2
Social & health	0	0	0	1247	1740	189	0	243	0	3	0	1827	8	4	102	5363	3.9
Other	5	0	353	559	182	54	15	809	0	3	7	360	14	14	130	2504	1.8
TOTAL	625	0	19959	20961	38096	3805	3088	22122	0	123	261	19029	913	722	6252	135955	100.0
Share of total Obj. 1 allocation (%)	0.5	0.0	14.7	15.4	28.0	2.8	2.3	16.3	0	0.1	0.7	0.2	0.5	4.6	14.0	100.0	

Source: DG REGIO

A4.5 Structural Fund expenditure on transport under Objective 1, 2000-2006

	<i>% of total</i>
Roads	33.1
Rail	29.4
Motorways	16.5
Urban transport	6.1
Ports	6.1
Multimodal transport	3.9
Airports	2.4
Other	2.0
Waterways	0.4
Intelligent Transport Systems	0.3
Total	100.0

Source: DG REGIO

A4.6 Ex post macroeconomic effects of structural policy 1994-1999: HERMIN simulation results

	<i>% difference from baseline without policy in 1999</i>					
	Greece	Spain	Ireland	Portugal	E. Germany	N. Ireland
GDP	2.2	1.4	2.8	4.7	3.9	1.3
Manufacturing output	3.4	3.7	4.7	10.6	3.2	0.6
Market services output	2.4	1.2	2.4	4.8	4.4	2.2
Fixed investment*	18.1	9.1	1.,1	24.8	7.8	1.2
Labour productivity*	2.3	2.1	2.2	6.6	1.2	0.5
Employment*	1.0	1.5	4.7	3.7	2.0	0.1

* only manufacturing sector
Source: DG REGIO

A4.7 Effect of structural policy on physical infrastructure and human capital, 1994-2010: HERMIN simulation results

% difference from baseline without policy in 2010

Years	Greece		Spain		Ireland		Portugal		East Germany		Nothern Ireland	
	Physical	Human	Physical	Human	Physical	Human	Physical	Human	Physical	Human	Physical	Human
1993	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1994	1.1	1.0	1.2	0.7	1.1	1.5	3.5	3.8	0.9	0.4	0.1	0.3
1995	2.7	1.9	2.3	1.4	2.3	2.9	6.3	7.2	1.6	0.8	0.2	0.5
1996	3.9	2.7	3.3	2.0	3.3	4.1	8.8	11.0	2.3	1.2	0.4	0.8
1997	4.9	3.5	4.3	2.6	4.3	5.5	11.0	14.2	2.9	1.5	0.5	1.0
1998	6.0	4.1	5.4	3.4	5.1	6.6	13.2	17.4	3.5	1.8	0.6	1.2
1999	7.0	4.8	6.5	4.0	5.8	7.6	15.3	20.5	4.0	2.1	0.7	1.4
2010	4.8	2.8	4.6	2.1	2.5	4.1	8.7	11.5	2.0	1.2	0.6	0.8

Source: DG REGIO

A4.8 Trade effects of Objective 1 intervention, 2000-2006

	Leakage to EU countries* (% of Obj. 1 intervention)	Leakage to non-EU countries* (% of Obj. 1 intervention)
Greece	42.6	3.8
Spain	14.7	13.2
Ireland	26.7	11.1
Portugal	35.2	6.7
New Länder	18.9	9.4
Mezzogiorno	17.4	8.6
Total	24.3	9.1

* Imports as % of expenditure under the Structural Funds
Source: Eurostat, Input-output tables

A4.9 Non-Objective 1: indicative breakdown of Structural Funds by category of expenditure, 2000-2006

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	Total EU	Total by category
	EUR million																%
Productive environment	451	153	2806	294	2177	3361	70	1605	21	573	770	309	442	414	3469	16913	29.1
Agriculture	29	0	28	45	30	42	3	18	0	0	3	26	11	12	0	246	0.4
Forestry	28	0	3	3	17	13	1	5	0	0	1	9	3	1	0	83	0.1
Rural development	14	25	317	144	560	443	51	247	2	187	84	182	71	63	211	2601	4.5
Fisheries	3	0	0	8	0	18	2	3	0	1	0	5	1	2	5	46	0.1
Assistance to large businesses	41	11	158	3	58	196	0	9	3	7	147	3	10	2	13	662	1.1
Assistance to SMEs & craft	159	39	1489	50	621	1324	7	867	3	265	265	60	202	222	2884	8456	14.6
Tourism	103	43	344	30	58	785	1	328	3	92	137	9	40	56	139	2168	3.7
RTD	73	35	467	11	832	511	6	104	10	21	132	15	103	56	219	2594	4.5
Other	0	0	0	0	0	30	0	25	0	0	0	0	0	0	0	53	0.1
Human resources	683	597	5700	206	3280	5831	53	4367	46	2149	710	204	594	902	5641	30963	53.3
Labour market policy	165	235	2387	45	1025	1074	7	1429	18	808	264	10	149	193	1269	9075	15.6
Social inclusion	222	142	1145	30	441	1496	14	266	15	745	140	53	81	146	1634	6571	11.3
Positive labour market action for women	108	0	581	20	298	342	2	451	2	21	83	19	41	63	366	2398	4.1
Education & vocational training	84	54	542	48	216	1545	18	1191	5	505	102	60	136	152	1418	6076	10.5
Entrepreneurship	105	166	1046	63	1300	1373	11	1030	6	71	121	62	187	349	954	6843	11.8
Infrastructure	225	41	998	327	1523	2259	32	1113	24	340	69	203	130	136	779	8198	14.1
Transport	22	5	191	169	501	593	21	251	1	38	8	73	29	52	82	2037	3.5
Telecommunication & information society	94	20	74	40	68	287	3	98	1	58	15	11	32	40	165	1006	1.7
Environment	73	8	662	68	792	1123	7	696	16	228	29	60	65	35	478	4343	7.5
Energy	7	4	34	14	32	70	1	28	5	0	11	11	2	4	8	229	0.4
Social & health	9	3	15	36	130	72	0	40	0	15	6	46	1	6	45	424	0.7
Other	21	0	22	0	0	114	0	0	0	0	0	2	0	0	0	159	0.3
Other	55	32	334	32	61	414	4	429	2	38	38	18	42	49	435	1981	3.4
TOTAL	1414	822	9838	858	7041	11864	159	7514	92	3101	1587	733	1208	1501	10324	58055	100.0
Share of total non-Obj. 1 allocation (%)	2.4	1.4	16.9	1.5	12.1	20.4	0.3	12.9	0.2	5.3	2.7	1.3	2.1	2.6	17.8	100.0	

Source: DG REGIO

A4.10 Structural Fund appropriations for rural development, 2000-2006

	EAGGF — Guidance section		ERDF	
	EUR million	% of total	EUR million	% of total
Agriculture	6786	39.1	88	6.3
Forestry	1842	10.6	27	1.9
Promoting the adaptation of the development of rural areas	8712	50.2	1276	91.8
of which outside agriculture and forestry	2588	14.9	664	47.8

Source: DG REGIO

A4.11 Commitment appropriations under the Structural Funds in acceding countries, 2004-2006*

EUR million, 1999 prices

	CY	CZ	EE	HU	LT	LV	MT	PL	SI	SK	% of total
Objective 1	0	1286	329	1765	792	554	56	7321	210	921	61.0
Objective 2	25	63	0	0	0	0	0	0	0	33	0.6
Objective 3 (outside of Obj 1)	20	52	0	0	0	0	0	0	0	40	0.5
Fisheries Instrument (FIFG)	3	0	0	0	0	0	0	0	0	0	0.0
Interreg	4	61	9	61	20	14	2	196	21	37	2.0
Equal	2	28	4	27	11	7	1	119	6	20	1.0
Cohesion Fund	48	836	276	994	544	461	20	3733	169	510	35.0
Total	101	2328	618	2847	1366	1036	79	11369	405	1560	21708

* Breakdown per country is indicative

Source: DG REGIO

A4.12 Indicative breakdown of commitment appropriations under the Structural Funds in acceding countries, 2004-2006

% of total

	CY	CZ	EE	HU	LT	LV	MT	PL	SI	SK
Basic Infrastructure		16.9	37.2	16.4	39.4	32.6		14.1		40.5
Competitiveness/Industry and Enterprise		17.9	19.7	21.5	25.3	25.0	60.0	15.2	57.5	14.5
Human Resource Development		21.9	20.5	28.2	18.3	21.2	17.0	17.8	31.9	27.2
Agriculture, Rural Development and Fisheries	67.5	12.0	18.7	15.9	15.3	18.5	11.0	16.7	9.9	17.7
Regional Development		31.2		18.0			10.0	35.9		
Urban Regeneration		30.0								
Other*		2.5	3.9		1.7	2.7	2.0	0.3	0.8	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* including Technical Assistance

Source: DG REGIO