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The Modernization of European Cohesion Policy

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The Modernization of European Cohesion Policy

Cohesion Policy has been one of the European Union's central policy concerns since the mid-1980s. This is reflected both in the proportion of the EU budget devoted to associated activities and in the important role this policy field has come to play in advancing the European integration process.

This Community policy is subject to unyielding pressure to adapt and reform. Hardly have the principles, objectives, funds, priorities and administrative procedures been agreed for one funding period, the next reform debate begins. This is also the case following the agreement on the financial perspective for 2007 to 2013. There are two opposing models for Cohesion Policy structuring the current debate:

- a) The "old" policy looks to promote the most backward regions in the EU. This traditional approach supports development in the fields of infrastructure and employment policy to strengthen the economic and social cohesion of the EU. This task is anchored in the European treaties, and is to that extent a self-imposed legal commitment of the EU. Traditional Cohesion Policy is thus the most visible sign of solidarity within the Community.
- b) The "Lisbonized" approach aims to increase competitiveness, growth and employment. Accordingly, the most recent reform of Cohesion Policy – for the funding period 2007 to 2013 – brought the European Structural Funds into line with the objectives of the Lisbon Strategy for economic and social modernization of the EU. The classical infrastructure projects have been joined by measures to expand regional and sectoral growth poles, to promote education, research and technological innovation, and to improve the business environment. New planning and management tools are being inserted into the system and the distributive function hitherto associated with the European Structural Funds is being supplanted by a growth-led modernization policy. Here Cohesion Policy and the European Structural Funds become the central operational tools of the Lisbon Strategy.

So the two models differ fundamentally with respect to their goals and instruments, their legal basis and priorities, and the beneficiaries and interests involved. The two approaches – classical infrastructure policy supporting the poorest regions and a "Lisbonized"

Cohesion Policy promoting growth poles – have to be brought into an appropriate equilibrium. Neither model will be viable on its own. Cohesion Policy in the accustomed form of unquestioning Community solidarity and unchallenged financial compensation for potential losers of integration can no longer be justified – especially in an age of scarcity of resources and a limited EU budget. Conversely, a strictly utilitarian policy defined in terms of the efficiency criteria and growth rates of the Lisbon Strategy fails to satisfy the function of Cohesion Policy as an instrument of solidarity and integration policy compensation, given that “reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas” remains a treaty-defined objective of the European Structural Funds.

Resolving this tension between the two models should consequently figure at the centre of the discussion about the future of European Cohesion Policy that is just beginning. This discussion will be conducted parallel to the broader debate about a revision of the EU budget and will depend to some extent on the outcome of the financial negotiations, because the decisive question for the future of Cohesion Policy – the maximum amount of funds available – will not be decided until the conclusion of the negotiations over the Financial Perspective for 2013 to 2020.

The current reform of Cohesion Policy will have to find a compromise between “Lisbonized” priorities and the treaty-anchored goals of solidarity and regional cohesion. It will have to remain within the integration and treaty frameworks, because crossing those lines or attempting to start from scratch – in other words changing the system itself – would be impossible without amending the European treaties, and therefore condemned to failure. Thoughts should therefore revolve around pragmatic adaptations, remaining in those realms where compromise solutions are absolutely plausible and feasible.

From the German perspective Cohesion Policy must concentrate more strongly on priority goals and regions and be implemented in accordance with the principles of subsidiarity in order to ensure a funding policy that is effective, targeted and tailored to the needs of the recipients. Where it is necessary to choose between flexible implementation (associated with weakened monitoring and reporting requirements) and greater effectiveness of Cohesion Policy, Germany as the biggest net payer in the EU should work for more efficient use of scarce resources. This includes

improving evaluation and monitoring in order to measure the impact of programmes, and if required to correct unsuccessful policies. So the crux is to find a new balance between flexible regional implementation on the one hand and strategic control and outcome monitoring on the other. This could be accomplished through a new system of incentives and restrictions where successful regions whose programmes demonstrably produce positive effects are granted greater freedoms for their programmes or longer funding periods. Regions that fail to meet their targets, on the other hand, would have to submit their programmes to tighter control and coordination by the EU Commission.

With such a system it would be possible to achieve a more efficient Cohesion Policy. In the face of limited resources, this would also make it easier to communicate the redistribution between contributors and recipients politically, which would in turn help to legitimize Cohesion Policy in the whole EU and safeguard the *raison d’être* of this Community policy, which is crucial for the continuation of the integration process.

Tasks and Function of Traditional European Cohesion Policy

Through its Cohesion Policy the European Union attempts to reduce the differences in prosperity within the EU, working towards the objective of economic and social solidarity. The European Structural Funds are the central instruments deployed. For some years now the term “Cohesion Policy” has become established, replacing the previously widely used “structural policy” and “regional policy”. Cohesion Policy is a broader designation for a policy promoting not only regional infrastructure measures but also activities in the field of environmental, employment and education policy. This means that Cohesion Policy is broader than regional infrastructure policy or sectoral and horizontal funding programmes, because it has come to cover social policy responsibilities too, and serves to compensate geographical disadvantages. The primarily regional support of the Structural Funds has been supplemented by a Cohesion Fund giving assistance directly to individual member states.

European Cohesion Policy has grown enormously in its financial and political significance, especially since 1988.¹ Whereas until 1975 the Structural Funds made up less than 5 percent of the Community budget, the figure rose to more than 15 percent by 1988 and is now about 36 percent (see Figure 1, page 6). The first major reform – instituted in 1988 by the first Delors Commission along with the internal market programme and the first multiannual financial framework for 1988 to 1992 (the so-called Delors I-package) – had the effect of doubling the volume of the Structural Funds in just five years.² In 2008 European Cohesion Policy became the biggest spending block in the EU budget for the first time, its €46.9 billion (36.3 percent of the EU budget) exceeding even the direct pay-

ments to farmers under the Common Agricultural Policy. The current funding period of 2007 to 2013 provides a total of €308 billion for Cohesion Policy (at constant 2004 prices), making it the most visible expression of solidarity within the Union

Cohesion Policy as a Treaty Commitment

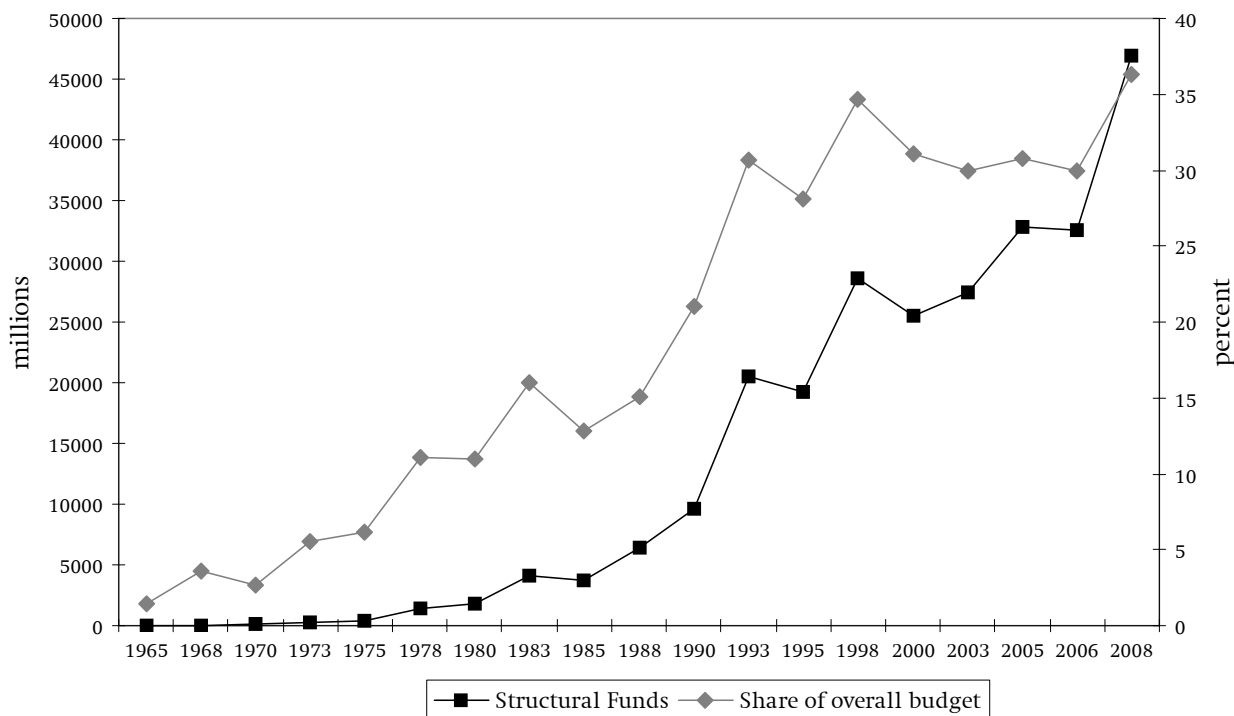
The preamble to the Treaty of Rome establishing the European Economic Community (EEC) expressed already in 1957 the wish shared by the six founding states, to promote the harmonious development of their economies and to help less-developed regions of the Community to catch up. But the required instruments were only set up step by step: in 1957 the European Social Fund (ESF), in 1958 the European Investment Bank (EIB), in 1962 the European Agricultural Guidance and Guarantee Fund (EAGGF) and in 1975 the European Regional Development Fund (ERDF). The Single European Act of 1987 made “economic and social cohesion” an explicit policy objective with its own title (V) in the EC Treaty.

Today European Cohesion Policy rests on a multi-layered legal foundation: the integration and cohesion goals listed in Article 3 of the EC Treaty are taken up in Article 158, the general statement of cohesion policy, and specified further in Articles 159 to 162 dealing with the individual funds. Here the task of strengthening the economic and social cohesion of the EU is joined by a firm commitment to promote “overall harmonious development” of the Community. The regional approach as the cornerstone of European Cohesion Policy is defined in the second paragraph of Article 158 of the EC Treaty, which states the objective to be reducing development disparities between more and less developed regions, not between member states. There is also a specific reference to the most strongly disadvantaged regions such as islands and rural areas. In the EU’s understanding, cohesion means reducing the social and economic disparities between the regions, measured in terms of regional per-capita GDP in relation to the EU average. The further a region lags behind the average, the greater the social and economic gap and the stronger the need for Cohesion

¹ Heinz-Jürgen Axt, *Solidarität und Wettbewerb: Die Reform der EU-Strukturpolitik: Strategien für Europa* (Gütersloh, 2000); David Allen, “Cohesion and Structural Funds”, in *Policy-Making in the EU*, ed. Helen Wallace and William Wallace, 5th ed. (Oxford, 2000), 213–243; Robert Leonardi, *Cohesion Policy in the European Union: The Building of Europe* (Houndsmill, 2005).

² The Delors II package brought another big increase; the second Financial Perspective (1993 to 1999) approved by the Edinburgh European Council in December 1992 increased the Structural Funds’ share by 61 percent to nearly 36 percent of the EU budget.

Figure 1
Development of the Structural Funds 1965–2008



Sources: European Commission, *EU budget 2007: Financial Report* (Luxembourg, 2008) and European Commission, *General Budget of the European Union for the Financial Year 2008* (Luxembourg, January 2008).

Policy. So the yardstick of cohesion is a relative variable dependent on the prevailing EU average.

European Solidarity and Legitimacy

Article 2 of the EC Treaty names the principles of cohesion and solidarity as political targets that belong together. These goals underline the importance of Cohesion Policy as an expression of Community solidarity in practice. The European Union implements this kind of solidarity by redistributing financial resources through the European Structural Funds.

But European solidarity is always a two-way street and never unlimited. While the beneficiaries of Cohesion Policy – so to speak the “receivers of solidarity” – always assert the principle of Community solidarity when demanding expanded redistribution and greater resources for the Structural Funds, the “providers of solidarity”, wishing to limit their payments, point to the reciprocity of solidarity, saying that the recipients

should not overtax their donors.³ Further, European Cohesion Policy is “programme-based” by design. Cohesion Policy functions not as a financial compensation scheme (where richer member states or regions pay in and poorer regions receive support) but as a supplementary European funding scheme for multi-annual regional reform programmes based on an analysis of weaknesses and strengths. It is explicitly not intended to replace national structural and regional policies. The logic of European Cohesion Policy is based on the idea that solidarity is about helping recipients to help themselves.

One special aspect of the Structural Funds, above and beyond their redistributive functions, is the mobilization of a feeling of European togetherness:

³ Günter Gloser, “Bekanntnis zur richtig verstandenen europäischen Solidarität”, in *Solidarität und Beitragsgerechtigkeit: Die Reform der EU-Strukturfonds und die Finanzielle Voraussetzung*, ed. Ines Hartwig and Wolfgang Petzoldt (Baden-Baden, 2005), 49–56.

legitimacy through solidarity.⁴ The addressees of this policy of solidarity are not the assisted regions or member states, but the EU citizens who live in regions eligible for European funding. The EU consciously uses, promotes and strengthens this function of Cohesion Policy.⁵ These days about half of EU citizens feel they are informed about the EU's structural measures, and a large majority welcomes Cohesion Policy as an instrument of Community solidarity.⁶ Nonetheless, the level of funding from the EU budget allows no conclusions to be drawn about the level of approval for the European integration process or the degree of legitimacy of the EU in the respective regions and member states.⁷

Economic Policy Aspects

The European Structural Funds have always served as instruments of economic policy and are as such intimately bound up with Europe's broader economic policy priorities. However, there are obviously

4 Ines Hartwig, "Herausforderungen an die europäische Solidarität: die Reform der EU-Strukturpolitik", in *Solidarität und Beitragsgerechtigkeit*, ed. Hartwig and Petzoldt (see note 3), 159–167, and Ines Hartwig and Phedon Nicolaides, "Ein knappes Gut? Solidarität in der erweiterten EU", in: *Osteuropa*, 54, no. 5–6 (May–June 2004): 147–59.

5 For that reason the Regulation defining the rules for implementation of the Structural Funds provides for the creation of a detailed communication plan and other measures to make citizens aware of the role played by the Community in funding programmes. The Commission justifies these plans with the observation that "citizens of the European Union are insufficiently aware of the role played by the Community in funding programmes aimed at reinforcing economic competitiveness, creating jobs and strengthening internal cohesion." Commission Regulation (EC) No. 1828/2006 of 8 December 2006 Setting Out Rules for the Implementation of Council Regulation (EC) No. 1083/2006 Laying Down General Provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No. 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund, preamble, item 2, *Official Journal of the European Union*, L371 of 27 December 2006, 1–173.

6 The Gallup Organization, *Flash Eurobarometer 234, Citizens' Perceptions of EU Regional Policy: Analytical Report*, February 2008.

7 The two unsuccessful Irish referendums on the Treaties of Nice and Lisbon certainly speak against any causal connection between receipt of EU Structural Funds and approval for advancing the development of the EU. See also Isabella Eiselt, *What Is Wrong with EU Cohesion Policy? Observations of an Over-ambitious Policy Design*, EIF Working Paper 29 (Vienna: Institut für Europäische Integrationsforschung, 2007).

conflicting goals of achieving and maximizing overall economic growth on the one hand and the desired convergence and cohesion of the regions on the other.⁸

At the beginning of the European integration process cohesion was supposed to be achieved by unleashing market mechanisms and forces rather than through intervention in the markets. It was hoped that intensifying trade and opening up the national markets would boost economic growth and as a consequence lessen regional disparities. State interference, on the other hand, for example in the form of subsidies for structurally weak regions, was rejected with the argument that this would altogether slow down the equalization of economic factors and thus impede the poorer regions' efforts to catch up.⁹

Not until the 1980s and 1990s and the debate on the centre/periphery conflict was an economic reasoning developed to expand the volume and scope of Cohesion Policy. It was now argued that the opening of markets and liberalization of trade could after all work to the disadvantage of individual market participants and lead to an unequal distribution of integration benefits – if for example the attractiveness of a core region led to further marginalization of the weaker-growth regions on the periphery, which were then unable to profit from the growth effects of the integrated markets.¹⁰ For that reason, it was said, imperfect markets required intervention to resolve economic and social disparities between centre and periphery. The EU Commission argues that the Union can only fully exploit its economic potential if all regions are included in joint efforts to boost growth.¹¹ Through public structural and regional policy, especially infrastructure measures and investment in

8 Michele Boldrin and Fabio Canova, "Inequality and Convergence in Europe's Regions: Reconsidering European Regional Policies", *Economic Policy* 16, no. 32 (April 2001): 207–53.

9 At that time, as already mentioned, the only accompanying instruments were the European Social Fund and the European Investment Bank, since 1958 the European Union's most important funding institution for making loans with longer terms and interest-free phases and providing guarantees for public and private investors. In its 2007 annual report the EIB reiterates its medium-term goal: to channel 40 to 45 percent of its overall lending into promoting convergence in "the assisted areas in the European Union that also receive grant aid from the Structural Funds". In 2007 €13.8 billion were earmarked for projects in the convergence regions.

10 This economic core of the EU is currently the pentagon defined by London, Paris, Milan, Munich and Hamburg.

11 European Commission, *A New Partnership for Cohesion – Convergence, Competitiveness, Cooperation: Third Report on Economic and Social Cohesion* (Brussels, 2004), vii.

education and training, the periphery is to be brought up to the level of the central region.¹²

Compensation for Integration

In the history of the Structural Funds it is impossible to overlook the close interdependence between integration projects seeking to expand and deepen the EU and the growth of Cohesion Policy.¹³ The beginnings of Community regional policy can be traced back to the first enlargement of the EEC in 1973. In the accession negotiations the United Kingdom – with the support of Italy and Ireland – won the agreement to set up the European Regional Development Fund (ERDF), which began its work in 1975. This marked the real beginning of regional structural policy. As the following examples clearly show, developments in Cohesion Policy were almost always driven by deepening and expansion processes:

- ▶ The second southern expansion of 1985 led to the creation of the Integrated Mediterranean Programmes to promote infrastructure and training measures in Greece and the Mediterranean regions of France and Italy. Only then did Greece agree to the accession of Spain and Portugal.
- ▶ The first comprehensive reform of European treaty law in 1987 (the Single European Act and the Community's ambitious internal market programme) incorporated a special title on economic and social cohesion in the EC Treaty and greatly increased the European Structural Funds, because the new members Spain and Portugal made adequate compensation a condition for their agreement to setting up the internal market.
- ▶ The unanimous decision to set up the European Economic and Monetary Union through the Maastricht Treaty of 1993 was only possible because, at

¹² See also Konrad Lammers, "Die EU-Regionalpolitik im Spannungsfeld von Integration, regionaler Konvergenz und wirtschaftlichem Wachstum", *Raumforschung und Raumordnung* 65, no. 4 (2007): 288–300.

¹³ Heinz-Jürgen Axt, *EU-Strukturpolitik: Eine Einführung in die Politik des wirtschaftlichen und sozialen Zusammenhalts* (Opladen, 2000), Daniel Tarschys, *Reinventing Cohesion: The Future of European Structural Policy*, SIEPS Report 17 (Stockholm, September 2003), 19–31; Jeffrey J. Anderson, "Die 'soziale Dimension' der Strukturfonds: Sprungbrett oder Stolperstein?" in *Standort Europa: Europäische Sozialpolitik*, ed. Stephan Leibfried and Paul Pierson (Frankfurt am Main, 1998), 155–95; Konrad Lammers, "Europäische Regionalpolitik – Treibende Kraft für Aufholprozesse?" *Wirtschaftsdienst*, 2007, no. 2: 101–5.

Spain's urging, the Cohesion Fund was set up at the same time to benefit the poorest member states.

- ▶ During the Northern expansion of 1995 (Sweden, Finland and Austria) a new funding objective was agreed for the thinly populated regions of northern Scandinavia.

Each time, the expansion of the EU's Cohesion Policy instruments and the associated increase in funding were justified in economic terms. Deepening integration (for example through the internal market and economic and monetary union), it was said, had to be coupled with help for the poorer regions and member states; otherwise a situation would arise where the rich states and regions at the centre of the EU profited from further integration steps while the poorer regions and peripheral member states did not. Worse still, it was said, if they were not connected to the economic growth poles through investment in infrastructure and financial incentives for private investment they actually threatened to get left further behind.¹⁴

The Question of Efficiency

Since its rise to become a central Community policy during the 1980s and 1990s, European Cohesion Policy has come in for sometimes massive criticism, generally focusing on the charge that it fails to live up to its goals.¹⁵ The most frequent points of criticism are:

- ▶ inefficiency and lack of empirical evidence for convergence effects resulting from Structural Fund payments;¹⁶
- ▶ lack of accurate targeting of subsidies;¹⁷
- ▶ misallocation and reinforcing of deadweight effects through interference in market mechanisms;
- ▶ lack of transparency, violation of the subsidiarity

¹⁴ Fritz Franzmeyer, "Erfordert die Errichtung der europäischen Wirtschafts- und Währungsunion den Ausbau der gemeinschaftlichen Kohäsionspolitik?" in *Maastricht: Königsweg oder Irrweg zur Wirtschafts- und Währungsunion*, ed. Rolf Caesar and Hans-Eckart Scharrer (Bonn, 1994), 290–304.

¹⁵ Daniel Tarschys names the points of criticism most succinctly in *Reinventing Cohesion* (see note 13).

¹⁶ See e.g. André Sapir et al., *An Agenda for a Growing Europe: Making the EU Economic System Deliver* (Brussels, July 2003); Indhira Santos, *Is Structural Spending on Solid Foundations*, Bruegel Policy Brief 2/2008 (Brussels, 2008); and Tarschys, *Reinventing Cohesion* (see note 13).

¹⁷ In the last funding period, 2000 to 2006, about 40 percent of the EU-15 population lived in supported regions, half of them in economically weak Objective 1 regions.

principle, excessive bureaucratic costs.

A wealth of studies come to the conclusion that although Europe achieved clear progress on convergence during the 1950s and 1960s, this occurred principally between member states rather than between regions.¹⁸ In those early years (when the European Social Fund was concentrating on encouraging labour migration from southern Italy to Germany and France) one can hardly speak of a deliberate and visible European cohesion policy, so the convergence successes are attributed above all to the expansion of intra-Community trade. The same applies, it is said, to the development of the countries of central and eastern Europe in the 1990s, which up until their accession in 2004 were associated with the EU internal market through the so-called Europe Agreements but were not yet enjoying the benefits of EU Structural Funds. In the 1980s, on the other hand, when EU funds flowed freely, it is reported that the economic convergence of poorer and richer countries almost came to a standstill.¹⁹ The convergence processes within the European Union, it is concluded, are not necessarily derived from financial support through the Structural Funds.

Other studies come to different conclusions.²⁰ The European Commission, for example, infers from its calculations that during the 1990s the annual economic growth achieved by the cohesion countries Greece, Spain, Ireland and Portugal was generally above the EU average and that the economically active proportion of the population had also grown faster than average.²¹ In other words, the disparities

between richer and poorer member states had lessened.

So neither the attempts to empirically prove the effectiveness of the European Structural Funds nor the corresponding econometric models are uncontroversial.²² But no overall assessment of Cohesion Policy can ignore the integration policy benefits. Although Cohesion Policy is justified in terms of economic benefits and treaty-based commitments, the crucial incentive for its expansions seems to be the possibility to use the policy for fundamental integration objectives and interests. Ultimately, Cohesion Policy is a financial instrument for compensating particular member states that fear an expansion or deepening of the EU might leave them bearing disproportionate political or economic costs. The individual funds function as a fiscal quid pro quo for progress on integration. There is a direct connection between this compensation logic and the benefits or drawbacks of a further integration step (expansion or deepening): the potential beneficiaries have to pay compensation, a “political price” for the consent of those who stand to lose out.²³ With the cycles of the multi-annual funding programmes and the multiannual financial framework coinciding, Cohesion Policy has been consciously made into an important element of the EU funding negotiations and instrumentalized for creating package deals. The Structural Funds represent a second redistribution mechanism to compensate for the immense one-sidedness of EU spending on the agriculture side and the automatic undesirable side-effects

18 For an overview see Hans-Friedrich Eckey and Matthias Türk, *Convergence of EU-Regions: A Literature Report*, Volkswirtschaftliche Diskussionsbeiträge 80/06 (Kassel: Universität Kassel, Institut für Volkswirtschaftslehre, 2006).

19 Aadne Cappelen et al., “The Impact of EU Regional Support on Growth and Convergence in the European Union”, *Journal of Common Market Studies* 41, no. 4 (2003): 621–44.

20 Whereas most of the econometric studies show the Structural Funds having only a small influence on regional convergence in the EU, or none at all, simulation models generally demonstrate positive effects; see Sjef Ederveen et al., *Funds and Games: The Economics of European Cohesion Policy* (Den Haag: CPB Netherlands Bureau for Economic Policy Analysis, 2002); John Bradley and Gerhard Untiedt, *EU Cohesion Policy and “Conditional” Effectiveness: What Do Cross-section Regressions Tell Us?* GEFRA Working Paper 4 (Münster, May 2008).

21 On the concrete progress in development made by member states see European Commission, *Growing Regions, Growing Europe: Fourth Report on Economic and Social Cohesion* (Luxembourg, May 2007), 95ff. The Commission bases its calculations on three different macro-economic models: HERMIN, QUEST

and EcoMod.

22 See “The Evaluation of European Union Cohesion Policy”, ed. John Bachtler and Colin Wren, special issue, *Regional Studies* 40, no. 2 (2006); Roberto Esposti, “Regional Growth Convergence and EU Policies: Empirical Evidence and Measuring Problems”, *CESifo Forum* 9, no. 1 (2008): 14–22.

23 Cay Folkers calls this compensation an “integration-based equivalency principle”. “The decisive criterion for assessing operative policies, for example in regional policy, is not their effectiveness in the sense of allocative efficiency concepts, but the question of whether the degree of integration is enhanced; i.e., their effectiveness with respect to a concept of integration efficiency. Integration progress is determined not by the effectiveness of the operative programmes, but by the approvability of the associated compensation transfers. That means that regional policy can be necessary and effective integration policy regardless of whether it produces concrete regional policy results.” Cay Folkers, “Welches Finanzausgleichssystem braucht Europa”, in *Regionalentwicklung im Prozess der Europäischen Integration*, ed. Helmut Karl and Wilfried Henrichsmeyer (Bonn, 1995), 87–108, here 96.

for regions that do not profit from the Common Agricultural Policy.

Seen from this broader vantage point of integration, Cohesion Policy is highly effective, for without the possibility of compensation payments through the Structural Funds decisive integration advances and difficult financial compromises would hardly have come about. It must be assumed that this function of the Structural Funds will remain uppermost in future, perhaps more strongly than the actual goal of internal cohesion and convergence – and stronger than the question of the quality, efficiency and effectiveness of the programmes themselves.

“Lisbonized” Cohesion Policy

Cohesion Policy underwent yet another reform for the funding period 2007 to 2013 (see Table 1 in the Appendix). The three new priorities of “convergence”, “regional competitiveness and employment” and “European territorial cooperation” were established and the resources – the funding intensities – shared out accordingly. The European Structural Funds were also modified, although to a lesser extent. For the first time each of the three funds – the European Regional Development Fund, the European Social Fund and the European Cohesion Fund – has been assigned a funding goal of its own.²⁴ The new principle of mono-funding means that any given operational programme is now only funded from one fund;²⁵ the previous possibility of tapping different funds for the same purpose falls away.²⁶ This increases the transparency of funding policy.

The background to the reform is the EU’s eastern expansion, which left the Community again facing grave differences in prosperity within its borders. Average per-capita GDP fell by about 12 percent and the gap between the three regions with the highest per-capita GDP and the fifteen least prosperous regions grew enormously. According to data for 2007 from Eurostat, the Statistical Office of the European Communities, the richest region, Inner London, achieved a wealth figure of 303 percent of the EU average, followed by Luxembourg with 265 percent and Brussels with 241 percent. By contrast the poorest region, Nord-Est in Romania, attained only 24 percent

of the EU mean. The fifteen poorest regions are all in Bulgaria, Romania and eastern Poland.²⁷

The immense socioeconomic disparities between old and new member states have repercussions for the internal cohesion of the EU and the competitiveness of its economy. The European Union responded to this challenge with two fundamental shifts in Cohesion Policy:

1. *More money for the poorest regions.* In the current funding period, 2007 to 2013, the reformed Structural Policy reserves a significantly increased sum for the most backward regions of the European Union. The new member states, with about 21 percent of the EU population, will receive more than 52 percent of all the EU resources channelled through the Structural Funds; the old member states, which in 2000 to 2006 still received €235 billion from these sources, will have to make do with just €150 billion for the years 2007 to 2013 (see Table 2 in the Appendix). The centre of gravity of funding shifts to central and eastern Europe. Poland with a total of about €60 billion will become the biggest recipient of European structural funding, followed by Spain (€31.5 billion) and Italy (€25.6 billion). Germany is distributing its €23.45 billion mainly among the poorest regions in the eastern part of the country (for the breakdown see Table 3 in the Appendix).

2. *Realignment with the EU’s Lisbon Strategy.* The Community funding priorities for 2007 to 2013 focus clearly on the goals of the Lisbon Strategy: “strengthening growth, competitiveness, employment and social inclusion and ... protecting and improving the quality of the environment”.²⁸ Within this realignment the concept of earmarking is crucial. In the regions of the EU-15 that are assigned to the “regional competitiveness and employment objective” at least 75 percent of Structural Fund spending must be spent on Lisbon-related programmes and measures; in the most backward regions (convergence regions) at least 60 percent of available structural funding must be used for work-

²⁴ In 2007 the European Agricultural Fund for Rural Development (EAFRD) ceased to be one of the actual Structural Funds; it was transferred to the Common Agricultural Policy to fund its second pillar, promoting rural development.

²⁵ Article 34(1) of Council Regulation (EC) No. 1083/2006 of 11 July 2006 Laying Down General Provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and Repealing Regulation (EC)

No 1260/1999, *Official Journal of the European Union*, L210/25 of 31 July 2006, cited in the following as the General Regulation.

²⁶ In the past, Objective 2 programmes to support the economic and social conversion of areas experiencing structural difficulties were often funded from the ERDF and the ESF.

²⁷ Eurostat, *Jahrbuch der Regionen 2007* (Brussels, 2007) and “GDP per Inhabitant in 2005 Ranged from 24% of the EU-27 Average in Nord-Est in Romania to 303% in Inner London”, Eurostat News Release 19/08, 12 February 2008.

²⁸ Article 3(1) of the General Regulation (see note 25).

ing towards to the Lisbon goals.²⁹ European Cohesion Policy becomes the implementation tool of the Lisbon Strategy, which will in future be the decisive instance for the multi-annual structural policy programmes, the Operational Programmes (OPs).³⁰

Reconfiguring Cohesion Policy also required legal modifications. The strategic realignment of Community funding objectives, the distribution of funds totalling €347.4 billion among those objectives and the coordination of the policy instruments are governed by new Structural Fund regulations (a new General Regulation with provisions affecting all the funds, specific regulations covering the individual funds and an implementation regulation).³¹

²⁹ In Article 9(3) of the General Regulation (see note 25) the Commission and the member states agree to these percentages for furthering the priorities of the Lisbon Strategy in the EU-15. The figures are treated as averages for the entire programming period. To concretize the new goals, a long list in Annex IV defines seventy-four earmarking categories for spending.

³⁰ This refocussing of Cohesion Policy on the goals of the Lisbon Strategy was the outcome of a difficult negotiating process. In June 2005 British Prime Minister Tony Blair was willing to accept temporary failure of the budget negotiations in order to lend weight to his demand for “modernization” of the EU budget. In the end, in order to get the interrupted talks moving again, Commission President José Manuel Barroso proposed on 20 October 2005 that the member states should use structural funds (and in a similar way also agricultural funds) largely for purposes serving the Lisbon Strategy for economic and social modernization of the EU – and thus satisfy the British desire for modernization. This fundamental “refocusing” of European Cohesion Policy onto growth, employment and competitiveness was finally adopted by the Brussels European Council on 15–16 December 2005 and became a yardstick for the negotiations on the legal basis of the Structural Funds, which were still ongoing at that point in time.

³¹ Alongside the General Regulation (see note 25) these are:
– ERDF Regulation: Regulation (EC) No. 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and Repealing Regulation (EC) No. 1783/1999, *Official Journal of the European Union*, L210/1 of 31 July 2006.
– ESF Regulation: Regulation (EC) No. 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and Repealing Regulation (EC) No. 1784/1999, *Official Journal of the European Union*, L210/12 of 31 July 2006.
– Cohesion Fund Regulation: Council Regulation (EC) No. 1084/2006 of 11 July 2006 Establishing a Cohesion Fund and Repealing Regulation (EC) No. 1164/94, *Official Journal of the European Union*, L210/79 of 31 July 2007.
– EGTC Regulation: Regulation (EC) No. 1082/2006 of the European Parliament and of the Council of 5 July 2006 on a

New Strategic Management Tools

The two fundamental goals of Cohesion Policy laid down in the EC Treaty – creating social and economic cohesion and promoting the convergence of more and less developed regions – have been joined by a third: the Lisbon strategy for growth and employment. In order to adequately pursue all three objectives it was necessary to introduce new management tools and alter the planning and coordination procedure. In this connection two innovations are especially important:

1. *Vertical hierarchization*: In order to ensure that the regional funding programmes actually pursue joint Europe-wide goals, substantive planning is carried out as a hierarchical process. European, national and regional funding priorities are defined so as to interlock like building blocks and are differentiated down to the concrete project starting from the general frame. So priority-setting is centralized.
2. *Horizontal integration*: The planning and management documents of the “Lisbonized” Cohesion Policy reference the strategic management tools of the Lisbon Strategy; this applies both to the European and the member states’ programmes and plans. It is hoped that these two measures will lead to better utilization of synergy effects.³² The Structural Funds provide sufficient resources from the EU budget to support the economic and social modernization and adaptation processes for more growth, competitiveness, employment and social integration in the member states. The European Cohesion Policy, in turn, acquires a political objective that transcends the intra-Community redistributive function and is designed to strengthen the Community as a whole, in other words to increase the European added value.

European Grouping of Territorial Cooperation (EGTC), *Official Journal of the European Union*, L210/19 of 31 July 2006.

– Implementation Regulation: Commission Regulation (EC) No. 1828/2006 of 8 December 2006 Setting Out Rules for the Implementation of Council Regulation (EC) No. 1083/2006 Laying Down General Provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No. 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund, *Official Journal of the European Union*, L371 of 27 December 2006.

³² European Commission, *Member States and Regions Delivering the Lisbon Strategy for Growth and Jobs through EU Cohesion Policy, 2007–2013*, COM (2007) 798 final, 11 December 2007.

Vertical hierarchization

The hierarchical cascade of planning instruments extends from general formulation of goals in the Strategic Guidelines for the whole EU-27 through national-level framing in the form of Strategic Reference Frameworks down to regional concretization of the Community objectives in the Operational Programmes of the regions and in the individual grants (see Figure 2, page 16).

The Strategic Guidelines on Cohesion for 2007–2013, which passed the Council with a qualified majority,³³ contain the European Commission's proposals for more strongly aligning the EU Structural Funds on growth, competitiveness and employment (i.e. the central thrust of the Lisbon Strategy). These priorities form a "single indicative framework which Member States and regions are invited to use when developing national and regional programmes, in particular with a view to assessing their contribution to the Community's objectives in terms of cohesion, growth and jobs".³⁴

The three strategic guidelines serve in turn as the basis for more specific "guidelines for action"; both together cover almost all the funding possibilities. However, new priorities emerge: investment in innovation represents the overarching priority of Cohesion Policy; the Lisbon goal of "knowledge-based economic growth" becomes the central funding priority of the European Structural Funds.

The main purpose of the Strategic Guidelines is explicitly "to foster an increase in the strategic content of Cohesion Policy with a view to strengthening synergies with, and helping to deliver, the objectives of the renewed Lisbon agenda".³⁵ In order to ensure this and to facilitate accountable monitoring of the Lisbon orientation of the Structural Funds, the member states agreed, in the negotiations over the European legal basis for the Structural Funds for the new funding period, to the aforementioned *earmarking* of funds.

³³ Council Decision of 6 October 2006 on Community Strategic Guidelines on Cohesion (2006/702/EG), *Official Journal of the European Union*, L291/11 of 21 October 2006. These guidelines were the subject of Commission Communication COM (2005) 299 of 5 July 2005, entitled *Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007–2013*.

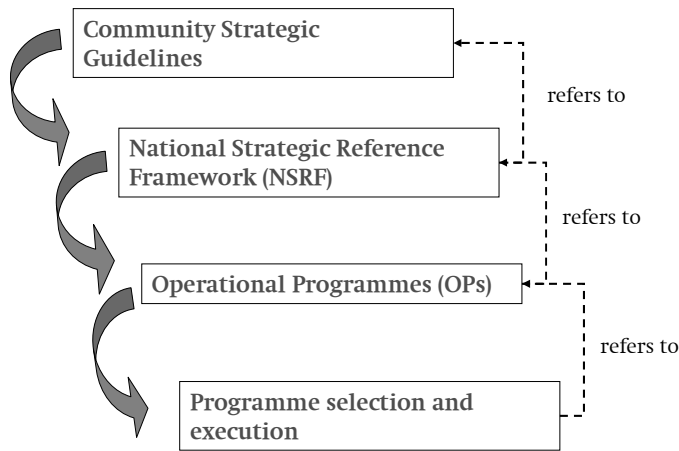
³⁴ Council Decision of 6 October 2006 on Community Strategic Guidelines on Cohesion (see note 33), preamble, item 17.

³⁵ Council Decision of 6 October 2006 on Community Strategic Guidelines on Cohesion (see note 33), preamble, item 6.

Community Strategic Guidelines on Cohesion for 2007–2013

1. *Making Europe and its regions more attractive places in which to invest and work*
 - Expand the required transport infrastructure (promote the 30 most important European transport projects, shift to environmentally sustainable means of transport, expand rail network and public transport, interoperability of transport links)
 - Invest in environmental protection (environmental infrastructure, environmental research, meeting Kyoto climate protection targets, improving environmental services, safeguarding water quality, waste disposal and land decontamination, prevention of environmental risks and disasters)
 - Improve energy security (energy efficiency and development of renewable and alternative sources of energy)
2. *Improving knowledge and innovation for growth*
 - Promote knowledge-based economy (expand research and development capacities, education, innovation)
 - Use new information and communication technologies (expand IT infrastructure)
 - Improve the business environment (promote technology transfer and exchange of expertise, economic assistance for research, development and innovation, formation of high-technology clusters)
 - Provide non-grant loans and risk capital (for start-ups in innovative fields, for ecological innovations and for an open and competitive digital economy)
3. *More and better jobs*
 - Create new and better jobs (through incentives for flexibility and adaptability on the employee side and through additional investment in human capital by businesses)
 - "Drive for full employment and higher productivity" (promote employment, modernize social systems, incentives for adaptability of employees and employers, flexibilization of labour markets, improve education and training)

Figure 2
Vertical Hierarchization – Cascaded Planning Instruments



However not all guidelines are equally relevant for all regions. Thus – unlike the purely sectoral policies – the territorial aspect of Cohesion Policy is retained under the Lisbon Strategy; Cohesion Policy still takes account of the specific geographical difficulties and opportunities in order to ensure that all regions contribute to the agenda for growth and employment. Assistance and funding programmes tailored to the respective needs of rural and urban areas, border regions and regions facing particular challenges (mountainous, thinly populated, coastal, peripheral, Arctic) continue to be offered. Thus the catch-all approach of the Strategic Guidelines provides space for old and new priorities and is of necessity very general and unspecific.

When drawing up their National Strategic Reference Frameworks (NSRFs), which build on and concretize the Cohesion Guidelines, the member states certainly exploited the imprecision and overloadedness of the Community guidelines. The NSRFs have a dual function:

(a) They develop a national funding strategy for the use of the EU Structural Funds, which is supposed to follow the joint European objectives. At the same time they set out the implementation of the Community Guidelines in national funding policy so that “the available national and Community resources, including the EU Structural Funds, and the resources for

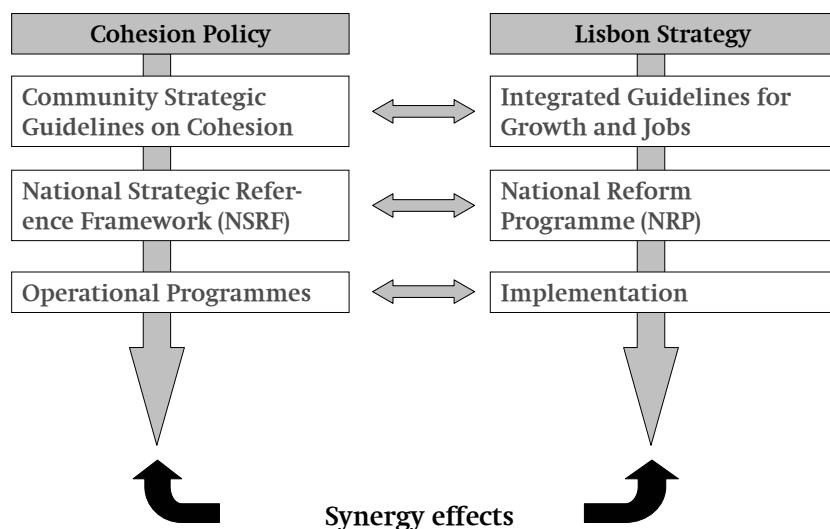
developing rural regions are mobilized and fitted into a coherent overall strategy”.³⁶

(b) The NSRFs also prescribe the framework for the Operational Programmes prepared at the regional level: their priority axes must follow the national priorities.

But in the process of practical implementation a reversal of the usual procedures occurred. Whereas the legally decisive regulations for the funding period 2007 to 2013 – the one pillar of the “Lisbonized” structural policy – were ready to be adopted by the Council Working Group on Structural Measures on 11 July 2006 after a negotiating process lasting about two years, the Council did not pass the Strategic Guidelines on Cohesion until 6 October 2006. This means that the negotiations about fundamental issues including the priorities and the sharing out of funds for implementing Cohesion Policy were concluded *before* the strategic goals and guidelines had been defined. In other words, implementation measures were formulated before agreement had been reached on objectives and strategy. This constellation was repeated at national and regional level. In order to ensure programmes were able to start in 2007 the member states and regions had to begin drafting their Operational Programmes before agreement had been reached on the strategic principles on which the programmes

³⁶ *Nationaler Strategischer Rahmenplan für den Einsatz der EU-Strukturfonds in der Bundesrepublik 2007–2013*, ed. Bundesministerium für Wirtschaft und Technologie (Berlin, 19 March 2007), 9.

Figure 3
Horizontal Integration – Efficiency through Synergy



were to be based. The concretization of funding goals in regional development programmes was under way before the strategic framework had been finalized.

This parallelization of the negotiations on the strategic principles, the instruments and the implementation programmes exacerbated the contradictions and ambiguities already contained in the stated objectives.³⁷ Disregarding the staged progression from the general to the specific meant that the European objectives had to be formulated retrospectively, and that meant they had to be vague and open enough for the funding priorities of the regions that were already fixed – the aforementioned priority axes – to fit into the general framework. Of course, really strategic planning should work the other way round. The influence of the guidelines evaporated.

Horizontal integration

As well as vertical hierarchization, the new management tools of Cohesion Policy are also meshed with the strategic instruments of the Lisbon Strategy at both the European and national levels. The Strategic Guidelines on Cohesion and the National Strategic Reference Frameworks build on the corresponding planning documents of the Lisbon Strategy: the “Integrated Guidelines for Growth and Jobs” of the

EU and the National Reform Programmes (NRPs) of the member states.³⁸ The annual implementation reports on the progress of the Lisbon Strategy in the member states refer to the Structural Fund programmes, and conversely the National Strategic Reference Frameworks of the Cohesion Policy are drawn on to improve implementation of the National Reform Programmes putting the Lisbon Strategy into practice (see Figure 3).

Nonetheless, the extent to which the objectives of the Integrated Guidelines and the National Reform Programmes are actually reflected in concrete Cohesion Policy measures remains debatable. Especially member states with great regional disparities (such as Spain and Germany) and those with strong regions tend to use flexible and vague formulations in their National Strategic Reference Frameworks. The NSRF often functions only as an umbrella for the regional funding programmes, without a comprehensive, national coordinated development and funding strategy being recognizable. As a rule general declarations of principles dominate. That is partly because of the hybrid nature of this management tool: On the one hand the Strategic Reference Frameworks are supposed to supply a flexible set of rules for various regional and sectoral measures, targets and requirements, and thus compensate for the wide range of inevitable conflicts of interests in the member states. On the other, the Strategic Reference Framework must name priorities as clearly and specifically as possible

³⁷ The German government and the Bundesrat for that reason initially questioned the necessity and added value of the Strategic Guidelines.

³⁸ European Commission, *Integrated Guidelines for Growth and Jobs (2005–2008)*, COM (2005) 141 final, 12 April 2005.

in order to provide efficient and effective implementation and a measurable control of success of the measures in terms of the Lisbon goals. But the quantification, i.e. assigning funds to specific implementation measures, often has to wait until the stage of the Operational Programmes in the regions, and implementation of the Lisbon goals at the level of the strategic management tools remains correspondingly vague.³⁹

Modernization through “Lisbonization”?

In its assessment of the national Cohesion Policy strategies and programmes, the EU Commission concludes that – alongside the concentration of funding on the growth and employment objectives of the Lisbon Strategy – the negotiating process between member states, regions, partners and local actors had itself also acted as “a catalyst for change”. “The added value of the negotiation process goes well beyond the financial resources”, writes the Commission in its communication. “As a result of the negotiation process, the quality of the programmes has improved substantially, and their content has become more closely aligned with major Community priorities.”⁴⁰ That can also be read as an admission that the non-binding and relatively unquantifiable objectives of the NSRFs have turned out to be less than satisfactory.

In the eyes of the Commission “the substantial increase, compared to the past, in investments supporting the growth and jobs agenda, especially in the areas of innovation, research, skills and human capital” provides clear evidence of the Lisbon orientation of the Structural Funds.⁴¹ The Commission assumes that there will be an increase in funds for investments in growth and employment totalling 25 percent compared to the 2000–2006 period; altogether, through the earmarking of the Structural Funds, about €210 billion will be available for implementing the Lisbon strategy, which in the view of the Commission is “central” to the new Cohesion

Policy strategies and programmes.⁴² Cohesion Policy, the Commission says, now follows a more precise and transparent approach with a clear focus on the Lisbon priorities.

These, it must be said, were already uppermost during the previous funding period. Although the Operational Programmes for 2000 to 2006 were written in 1998 and 1999 – well before the adoption of the Lisbon Strategy in March 2000 – their funding priorities already matched its objectives. In many regions in 2000 to 2006 more than two thirds of the funds were spent on Lisbon-type projects.⁴³ In the former Objective 2 regions affected by economic conversion between 50 and 80 percent of planned investment was classified as “Lisbon-type”,⁴⁴ while even in the Objective 1 regions of the EU-15 – areas classified as economically underdeveloped – between 18 and 33 percent conformed to the later Lisbon goals. Plainly, promoting competitiveness, growth and employment is not a revolutionary new approach, but the obvious thing to do in structurally weak regions. Indeed, what other goals could a policy of economic and social cohesion and convergence pursue?

So it was rarely necessary to develop and formulate completely new funding priorities for the Operational Programmes of the new funding period 2007 to 2013.⁴⁵ Adaptations were often accomplished by reweighting the funding areas, by shifting funds from one area to another. In its discussions with the regional adminis-

³⁹ Peter Becker and Natascha Zaun, *Die neue strategische Planung der europäischen Kohäsionspolitik in Theorie und Praxis*, SWP-Diskussionspapier, Forschungsgruppe EU-Integration (Berlin: Stiftung Wissenschaft und Politik, December 2007).

⁴⁰ European Commission, *On the results of the Negotiations Concerning Cohesion Policy Strategies and Programmes for the Programming Period 2007–2013*, COM (2008) 301 final, 14 May 2008, 2.

⁴¹ *Ibid.*, 3.

⁴² European Commission, *Member States and Regions Delivering the Lisbon Strategy for Growth and Jobs through EU Cohesion Policy, 2007–2013*, COM (2007) 798 final, of 11 December 2007.

⁴³ Danish Technological Institute, *Thematic Evaluation of the Structural Funds’ Contribution to the Lisbon Strategy, Synthesis Report, Report to the European Commission*, February 2005.

⁴⁴ For more detail see Herbert Jakoby, “NRW und die europäische Strukturpolitik”, in *Landespolitik im europäischen Haus: NRW und das dynamische Mehrebenensystem*, ed. Ulrich von Alemann and Claudia Münch (Wiesbaden, 2005), 189–208.

⁴⁵ Laura Polverari et al., *Strategic Planning for Structural Funds in 2007–2013: A Review of Strategies and Programmes*, IQ-Net Thematic Paper 18/2 (Glasgow, September 2006); John Bachtler et al., *The 2007–2013 Operational Programmes: A Preliminary Assessment*, IQ-Net Thematic Paper 19/2 (Glasgow, January 2007); John Bachtler, Fiona Wishlade and Carlos Méndez, *New Budget, New Regulations, New Strategies: The Reform of EU Cohesion Policy*, European Policies Research Paper 63 (Glasgow: European Policies Research Centre, October 2006); John Bachtler and Irene McMaster, “Sustainable Growth, Competitiveness and Employment: Will EU Cohesion Policy Deliver on the Lisbon Strategy?” *Raumforschung und Raumordnung* 65, no. 4 (2007): 259–73; Becker and Zaun, *Die neue strategische Planung der europäischen Kohäsionspolitik* (see note 39).

trations and in the process of approving the OPs, the European Commission attempted to place the funding goals of the Lisbon Strategy more squarely at the centre but its success was limited.

A high degree of continuity can also be identified in the specific funding programmes of the regions. Formulations are kept as general as possible to maintain maximum scope for later concretization and implementation of funding measures. The regional managing authorities had two reasons to urge for the continuation of existing funding concepts: for one thing they wanted to avoid any abrupt termination of ongoing programmes; for another they wanted to be able to use the existing instruments and documents in drafting the new programming plans. In the negotiations between the regions, the EU member states and the European Commission about the concrete form of “Lisbonization” and the extent of earmarking it became clear that while there was a fundamental wish for “modernization” of the budget, greater obligations and the concretization of structural policy measures were not, however, desired to the same extent. Instead the regions tried to largely preserve their flexibility in the application of the instruments and with it their autonomy in setting funding priorities.

The lack of concreteness is also seen in the specific “language of Lisbon” in the new Structural Fund regulations; astonishing banalities and redundancies are the consequence.⁴⁶ Formulations from the repertoire of the Lisbon Strategy and its special vocabulary – statements about promoting research and development, innovation, information and communication technology (ICT), human capital, the knowledge-based society and life-long learning, and terms such as “flexicurity”, “benchmarking” and “indicators” are used almost to excess in the NSRFs. There is often a complete lack of specification or of weighting policy goals through the funding measures. The “Lisbonization” of European Cohesion Policy further amplifies the existing tendency for maximum flexibility in definitions of funding priorities.⁴⁷

Problems arise from the different funding philosophies of the Lisbon Strategy and the Cohesion Policy. There is a tension, for example, between the priority of maximizing economic growth rates set by the

former and the idea of solidarity and the redistributive character of the latter. A strictly growth-led policy would promote only the regions and “clusters” where the highest economic growth rates were to be expected. The backward regions, the free-market liberals hope, would be drawn along by the growth engines. Cohesion Policy, on the other hand, is based on the idea that the most backward regions should be promoted even if this occurs at the expense of the growth poles. For example, building physical infrastructure – a classical task of the European Structural Funds – is not always compatible with the Lisbon goals.

There is a growing danger that the conflicts between economic liberalism and social policy priorities, inherent to the Lisbon strategy as well, will resurface in the new strategic management tools of Cohesion Policy. Whereas some member states emphasize the social policy and employment dimension of the Lisbon Agenda in their national reform programmes and use it to justify their Cohesion Policy funding priorities, other member states understand the same strategy as being primarily orientated on growth, competitiveness and promoting a knowledge-based economy and consequently set different priorities in their NSRFs. This tension is not resolved by meshing Cohesion Policy with Lisbon targets.

That is all the more so given that the conflict of goals exists at all levels. The Structural Funds strive for regional convergence and decentralized implementation, while the Lisbon Strategy pursues EU-wide targets and central control and coordination of the processes. Cohesion Policy is a primarily inwardly-orientated policy of intra-Community redistribution. The trigger for the Lisbon Strategy, on the other hand, was a primarily external orientation: the wish to overtake the EU’s most important global rivals, the United States and Japan.

In the course of “Lisbonization” a primarily political set of coordinating instruments was applied to a strongly bureaucratized field of policy concerned primarily with European, national and regional administrative acts (funding approvals, public subsidies, etc.). Such administrative acts require a statutory basis if they are to be legally binding. This must be remembered if pursuit of the Lisbon objectives and close integration with the special management tools of that strategy is not to fray and weaken the legal foundations of Cohesion Policy.

⁴⁶ For example, the British NSRF states in connection with Northern Ireland that promoting innovation (priority axis 1) serves the goal of promoting innovation (Community Strategic Guidelines).

⁴⁷ Bachtler, Wishlade and Méndez, *New Budget, New Regulations* (see note 45), viii.

Future Cohesion Policy: Need, Possibilities, Limits

European Cohesion Policy has undergone an ongoing process of modification since the mid-1980s, which has also continued through into the current funding period beginning in January 2007. In May 2007 the EU Commission published its fourth Cohesion Report, which as already mentioned comes to positive overall conclusions for the concluded funding period.⁴⁸ According to the report, the GDP of the most strongly subsidized member states grew faster than average, which means that their development lagged less far behind the EU mean.⁴⁹ As well as the recognizable progress on convergence, the Commission also counts as European added value the special contribution of Cohesion Policy to implementing the Lisbon Strategy in the fields of research, development and innovation and in investment in “improving the quality of human capital” through education and training.

With respect to the future development of Cohesion Policy beyond 2014, the Commission names four challenges that provide starting points for the reform discussion.⁵⁰

- ▶ Globalization and its consequences: Especially in southern and eastern Europe there is a growing need for further restructuring and modernization measures. Continuous innovation in products, management and processes is needed to enhance competitiveness.
- ▶ Climate change: Global warming will have consequences for agriculture, fishing and tourism; in certain regions it will be necessary to invest more in

preventing and coping with drought, forest fires and flooding.

- ▶ Energy security: Rising energy prices demand investment in the development and expansion of renewable sources of energy and fuel efficiency.
- ▶ Demographic change: The shrinking and ageing of the population of the EU is initially a social problem but will become an economic challenge from 2017 as the economically active population declines.

The subsequent consultation phase on the cohesion report saw the emergence of a clear consensus that the member states continue to regard the convergence goal and thus the promotion of the poorest and most backward regions and the new member states as the priority of Cohesion Policy.⁵¹ Although there is also fundamental support for an orientation on the objectives of the Lisbon Strategy, the scepticism and reservations here cannot be overlooked. The member states agree that globalization, climate change, energy security and demography represent future challenges. However, the net payers in particular plainly fear that the Commission could use this list to justify new funding priorities. The opinions submitted by many member states reflect their interest in formulating their positions as open-endedly as possible and – especially with an eye to EU budget reform – to avoid making any advance commitments in the important field of Cohesion Policy.⁵²

⁴⁸ European Commission, *Growing Regions, Growing Europe* (see note 21).

⁴⁹ For the eastern German Objective 1 regions the Commission calculated that European Cohesion Policy in the period 2000 to 2006 had increased GDP growth by 0.9 percentage points and employment growth by 0.7 percentage points.

⁵⁰ The EU Commission has in the meantime published a working paper analysing the impact of these four challenges on the different regions in the EU; see European Commission, *Regions 2020: An Assessment of Future Challenges for EU Regions*, SEC/2008/2868 final, 14 November 2008. The decisive impulse for the discussion will not come until 2010, with the publication of the fifth cohesion report where the European Commission will have to concretize and elaborate its ideas for future Cohesion Policy.

⁵¹ By January 2008 a total of 99 opinions had been submitted (by 18 national governments, 37 regional and local authorities and the most important European regional bodies). It is conspicuous that few regions from the cohesion countries participated in the discussion with standpoints of their own: from Ireland, Luxemburg, Austria, Slovenia, Hungary and Cyprus there were no statements at all from any public institution; Greece, Portugal and Romania presented only position papers by their central government. In Denmark, the Netherlands, Poland and Sweden by contrast only the regions prepared joint papers; one Czech region and one Slovak region also submitted an opinion.

⁵² The joint statement submitted by the German national and state governments says for example (item 2): “The debate about the future of the European Cohesion Policy initiated by the cohesion report also stands in the context of the upcoming review of the European budget system. It must not substitute that discussion, and must avoid making advance commitments concerning the EU budget. Questions about the

On 18 June 2008 the Commission published an interim report on the consultation phase. Cohesion Policy as Community policy, it concluded, has as a whole been strengthened. "Any attempt to re-nationalise the policy is almost unanimously rejected."⁵³ But otherwise the report is decidedly equivocal. The main goal of Cohesion Policy, it says, remains to even out the differences in economic and social development between the regions. But it is not a simple solidarity mechanism, which is why strengthening competitiveness represents its "heart". Nonetheless, the report says, the successes of Cohesion Policy are not reflected only in numbers. Among the positive aspects of Cohesion Policy the Commission also counts social progress and solidarity, multi-year strategic and financial planning, the transfer of know-how, the expansion of a productive culture of evaluation and partnership, and the increased level of information about the EU among its citizens. From the Commission's perspective it is the totality of all these factors that characterizes the European added value of Cohesion Policy.⁵⁴

The discussion about future Cohesion Policy is directly and immutably tied to the review of the EU budget.⁵⁵ The outcome of the reform discussion will depend decisively on the outcome of the budget revision and the subsequent negotiations for the financial framework for 2014 to 2020. Because the overall budget has to be passed unanimously, a consensus will have to be reached about the question of how much money is to be provided for EU Cohesion Policy.

But the two processes follow different timetables. The Community's discussion on the EU budget will open in 2009 with the publication of a Commission report and will move into the "hot" phase in 2010/11 with the actual budget negotiations. The reform debate on Cohesion Policy will begin earlier but also

financial framework of future Cohesion Policy cannot be explored at the current point in time. They will have to be clarified in the scope of the review of the past Financial Perspective (planned for 2008/9) and the next Financial Perspective." The British government took a similar position, while the Polish government spoke of coupling the two processes and called for adequate provision of funding for Cohesion Policy in the EU budget.

⁵³ European Commission, *Growing Regions, Growing Europe: Fifth Progress Report on Economic and Social Cohesion*, COM (2008) 371, 18 June 2008, 4.

⁵⁴ *Ibid.*, 5, and European Commission, *A New Partnership for Cohesion* (see note 11), 138.

⁵⁵ Peter Becker, *Auf dem Weg zur Reform des EU-Haushalts: Eine Zwischenbilanz des Konsultationsprozesses*, SWP-Aktuell 57/08 (Berlin: Stiftung Wissenschaft und Politik, June 2008).

go on for longer and will only be able to move on to specifics when the main outlines of the budget begin to emerge from the negotiations; it follows in the wind-shadow of the budget negotiations, so to speak. The diverging timelines cause advantages and disadvantages too. The reform debate might have to proceed in uncertainty for quite a while, but the danger of politicization can perhaps be kept within limits and a pragmatic focussed discussion might be possible.

Under these circumstances it will be advisable not to stick to debates on fundamental principles and concentrate instead on concrete reform steps on which consensus can be achieved. That does not mean restricting the discussion to administrative minutiae, but does suggest that the available time should be used to clarify the new priorities and challenges. Here it will be necessary to observe not only the broader European political picture, but also the diverse and varied dimensions of this field of policy:

- ▶ The compensation function of Cohesion Policy will continue to be indispensable for deepening and expanding the European integration process. Just as certain member states are unwilling and unable to give up their expected integration gains, neither can it be assumed that member states fearing major integration losses will selflessly set aside their national (or even just sectoral) interests for the sake of integration. One effect of the way the European consensus machinery works is that in fundamental matters the solution arrived at is not always the best one. If the possibility of using deals involving the Structural Funds to increase the willingness of individual states to compromise were also lost, integration might proceed even more slowly and less ambitiously.
- ▶ The legal basis and provisions for promoting underdeveloped regions set out in the EC Treaty (or the Treaty on the Functioning of the European Union) continue to apply. A fundamental change to a system of financial compensation between rich and poor member states is thus out of the question.⁵⁶ Proposals to give up the project- and region-linked programmes appear to have little prospect of success,

⁵⁶ Such a change of system (going under the name of "net fund", solidarity fund or compensation fund) would abandon the regional perspective in favour of a national one. The richer member states would both do without returns from the EU Structural Funds and contribute financially to the support of needier member states. In exchange they would be given greater freedom to make up lost funding from Brussels through their own national-level regional policies.

whereas system-immanent adaptations are realistic. If the different functions of Cohesion Policy are accepted as given, in particular the logic of compensation, reforms must take that multi-dimensionality into account and avoid an overly one-sided emphasis on either economic efficiency or the redistributive function. The point is both to use the Funds more efficiently and also to promote solidarity and cohesion.

Reform Needs and Proposals

Although the governments of the member states tried to avoid naming specific reform proposals in their opinions in the course of the consultation process, a number of themes and starting points are emerging for the future development of European Cohesion Policy. These certainly also include the new challenges listed by the EU Commission. But the prevailing framework conditions have clearly deteriorated. Growing demands on the European Structural Funds resulting from eastern expansion collide with increasing unwillingness of net payers to provide additional funds for the EU budget. The economic and financial crisis will further exacerbate this conflict. So the EU needs to target its measures more precisely and at the same time to supply a political justification for Cohesion Policy that motivates the participants to be determined and flexible even in difficult times. Apart from the fundamental budget questions, five conflicts of goals will be central.

Conflict 1: Cohesion and convergence vs. competitiveness, growth and employment

The discussion of “Lisbonization” raises fundamental questions about the meaning and purpose of Cohesion Policy and the appropriate funding philosophy: Should policy concentrate on supporting the most backward regions or on promoting so-called growth poles?⁵⁷

⁵⁷ “But, while cohesion policy must make its contribution to innovation and research in the framework of the Lisbon Strategy, a flexible approach to earmarking funds is needed in order to ensure balanced development of territories. This because to regard cohesion policy as a financial instrument of the Lisbon Strategy would mean that neither the objectives of cohesion policy nor those of the Lisbon Strategy were achieved. Cohesion policy cannot be seen as a mere tool for achieving the objectives of other sectoral policies; rather, it is a Community policy of high European added value with its own *raison d’être* – cohesion”, Ambroise Guellec, *Report on the Fourth*

In the course of the consultation it became clear that the political challenge lay not in choosing one or the other but in finding the optimal balance between the two.

In view of their infrastructure deficits, the new member states in central and eastern Europe will continue to need classical capacity-building measures in the medium term.⁵⁸ But one should not leave it there. Sectoral measures to promote competitiveness and growth make sense in these regions too. Taking all the convergence regions into consideration, it would be useful to go beyond the idea of simply concentrating funding priorities on the most backward regions and undertake a further differentiation of funding intensities to account for the immense disparities within this group.⁵⁹

The reorientation of traditional Cohesion Policy that began in 1999 – away from widely cast but thinly spread funding and towards a focus on growth poles and clusters in the poorest regions of the EU – should therefore be continued. It can be left to the member states and regions to identify the growth-relevant sectors and clusters as long as the EU organs retain responsibility for monitoring and measuring progress.

For the current period, defining funding regions on the European level has already been dispensed with for the “regional competitiveness and employment” objective (which concerns the less backward regions) in order to allow the promotion of growth poles and clusters as required by economic growth theory and the Lisbon Strategy. However, the danger of dead-weight effects increases when richer regions are subsidized.⁶⁰ Therefore the volume of this support for the strong should be clearly limited and the pattern of

Report on Economic and Social Cohesion, A6-0023/2008, 29 January 2008.

⁵⁸ Henning Sichelschmidt, “Europäische Infrastrukturpolitik: Die Infrastrukturpolitik der Europäischen Gemeinschaft im Rahmen der Neuausrichtung der Strukturfonds”, *Die Weltwirtschaft*, 2005, no. 1: 93–134.

⁵⁹ Philipp Mohl and Tobias Hagen conclude that since 2000 EU Cohesion Policy has led to more growth in the poorest regions (Objective 1 funding), but inhibited economic growth in the less backward regions (Objective 2 and Objective 3 funding), see Philipp Mohl and Tobias Hagen, *Does EU Cohesion Policy Promote Growth? Evidence from Regional Data and Alternative Econometric Approaches*, ZEW-Discussion Paper 08-086 (Mannheim: Zentrum für europäische Wirtschaftsforschung, December 2008).

⁶⁰ Gesa Mische-Nordmeyer, “Optionen zur Weiterentwicklung der EU-Strukturpolitik”, *Wirtschaftsdienst* 87, no. 10 (2007): 656–63.

funding priorities – for the fields of research, development, innovation and education – should be preserved.

Conflict 2: Efficiency and concentration vs. subvention mentality and deadweight effects

In order to increase the success of cohesion measures and minimize deadweight effects it would make sense to increase the self-interest of regional and national programme administrators in running the most effective and sustainable funding measures. Although the European Performance Reserve originally introduced to serve this goal was abolished for the current funding period after harsh criticism from certain member states, it still seems sensible to grant a bonus to regions that plan and implement efficiently.⁶¹ This could be accomplished by raising the prospect of a reduction in national co-financing rates in the second half of the funding period. A second proposal would be to pay out a bonus to the ten best regions in Europe, supplied from a reserve administered by the Commission. These incentives would have to be linked to measurable successes of the funded programmes, reflected for example not only in economic growth and the creation of new jobs but also in rising per capita income in the region, faster transport links, reduced CO₂ emissions, improved energy efficiency, increased number of patent registrations, or higher level of education and degree of training.

In order to restrict deadweight effects in more affluent regions the additionality principle (that contributions from the Structural Funds must not replace a member state's own public structural spending) should be reinstated to the "regional competitiveness and employment" objective.⁶² Although a fundamental principle of Cohesion Policy, the additionality principle is currently applied only to the convergence regions, in other words the least developed regions.

The proposal to limit project funding from the Structural Funds to a maximum of two funding

periods is less practicable.⁶³ The principle of promoting self-help requires that the entrenchment of funded status must be avoided. But this end would be better served by tying funding grants to success and expanding the evaluation, control and monitoring of Cohesion Policy measures rather than by disadvantaging yet further regions that fail to meet their targets by stopping their Structural Fund assistance. It would be conceivable to severely restrict the funding freedoms of regions whose programmes produce no measurable growth and employment effects, and at the same time increase the EU Commission's influence and control over regional funding policy. Conversely, regions that demonstrate convergence successes should receive further incentives to continue on their growth-oriented course.

The Commission initiative "Regions For Economic Change" is an important step in this direction. This pilot project, funded to the tune of €375 million, "provides the Union with a new instrument with which to prompt economic modernisation and enhanced competitiveness, with a clear role for the Commission within the fast track option",⁶⁴ and allows the Commission to establish special networks between member states, regions and cities on Lisbon-type themes. In these projects the Commission can itself take on the lead role and in its own words create a "rapid testing ground" for its own ideas for economic modernization.

The increased use of loans rather than grants for special funding priorities and in special target regions also serves to encourage more efficient use of the Structural Funds. The newly introduced revolving funds JASPERS, JEREMIE and JESSICA add soft loans to the classical grant-aid instruments.⁶⁵ The available funding volume is to be increased by combining classical Structural Fund grants with EIB loans and private funding, and because the funds are supplied as loans, the capital stock is largely preserved – unlike with

⁶³ A "sunset clause" was considered, see OECD, *Economic Survey of the European Union 2007* (Paris, September 2007).

⁶⁴ European Commission, *Regions for Economic Change*, COM (2006) 675 final, 8 November 2006, 6.

⁶⁵ The JEREMIE initiative, working through regional credit banks in cooperation with the ERDF, grants microcredits on favourable terms to small and medium-sized businesses. The objective of the JESSICA initiative is to support programmes for sustainable urban development, for example in social housing. JASPERS is a programme through which the Commission, the EIB and the European Bank for Reconstruction and Development (EBRD) supply technical expertise and administrative assistance for major infrastructure projects.

⁶¹ The member states had criticized that the bureaucratic expense was out of proportion to the level of funding. In the current funding period there is merely a national performance reserve on a voluntary basis. Under Article 23 of the General Regulation (see note 25) a member state can pay 3 percent of the funds assigned to it for the goals of "convergence" and "regional competitiveness" into this reserve.

⁶² Article 15 ("Additionality") of the General Regulation (see note 25). The Commission had suspended the additionality principle for these regions, citing the principle of proportionality and the wish to reduce bureaucracy.

non-repayable grants – and altogether more businesses can be provided with capital (one after another).

Attempts to instrumentalize new funding categories to establish new funds – for territorial cohesion or to tackle the new challenges listed by the Commission – should be rejected.⁶⁶ The same applies to the Commission's wish to turn the Globalization Fund into an additional instrument of Cohesion Policy.⁶⁷ Experience shows that creating new funds lead not to a more sustainable use of financial means but instead to a risk greater of deadweight effects and subsidy mentality.

Conflict 3: Central strategic control vs. subsidiary and flexible implementation

In putting its weight behind the “Lisbonization” of Cohesion Policy, the EU Commission has consciously withdrawn from the regions' programming and the implementation of individual measures, concentrating instead on the strategic thrust of Cohesion Policy. But nonetheless, the Commission still makes specific recommendations. For example in approving the Operational Programmes it urged for observance of the Lisbon earmarking, and set up its own coding system for that purpose. Even with strategic control of a reformed Cohesion Policy, tension still arises between the regional approach to setting funding priorities and the overarching European goals.

Regional and infrastructure policy in the member states and regions is accordingly to be orientated on the European priorities; European goals are to take precedence over the state's own regional funding priorities. Regions that wish to continue to enjoy European Structural Funds will have to adapt their funding goals accordingly. In view of limited budgets it will hardly be possible to find additional funds for a parallel infrastructure policy aligned on purely regional concerns. The originally bottom-up approach of Cohesion Policy (which applied at least to the

⁶⁶ In October 2008 the Commission published its Green Paper on territorial cohesion, setting off a discussion about the term. European Commission, *Green Paper on Territorial Cohesion: Turning Territorial Diversity into Strength*, COM (2008) 616 final, 6 October 2008; see also Andreas Faludi, “From European Spatial Development to Territorial Cohesion Policy”, *Regional Studies* 40, no. 6 (August 2006): 667–78.

⁶⁷ This could explain the Commission's response to the low level of use of the Globalization Fund created in 2007; rather than reassessing the purposefulness of the fund it suggested altering the funding criteria and expanding its remit, and thus de facto establishing a new structural fund.

regions in the fifteen old member states) is in practice replaced by a top-down policy. The meshing of the management tools will further amplify this tendency for Europeanization of infrastructure policy.

The long cycles of the programmes curtail the possibilities to adapt to changing economic conditions. The Operational Programmes are drawn up by the regional planning authorities before the start of the funding period on the basis of an analysis of strengths and weaknesses, and run for seven years. This timeframe demands extremely far-sighted planning, especially given that the analysis on which the planning is based uses even older data. Therefore mid-point evaluation of the programmes should focus on the problems actually occurring during implementation, and the Commission and the regions must be able to agree amicably on corrective measures.

The described conflict of goals could be lessened by having a permanent interplay between central monitoring and control on the one hand and regional freedoms on the other. This would include on the part of the EU (and especially the Commission) a self-imposed restriction to strategic objectives and control issues; a continuous and institutionalized integration of the regions in the strategic management of Cohesion Policy could also be helpful.

Conflict 4: Strict evaluation and spending control vs. decentralized responsibility and reducing administrative burdens

Administering the European Cohesion Policy is extremely complicated and ties up capacities at all levels, and is therefore associated with high administrative costs. Changes in this area should therefore concentrate on more efficient use of funds, better evaluation and monitoring mechanisms, and reducing the burden on the respective bureaucracies.

The Structural Funds are for the most part administered by the member states, and these are obliged to “produce an annual summary at the appropriate national level of the available audits and declarations”.⁶⁸ So continuous oversight, verification and control of the fund-administering agencies is imperative. For one thing, the respective national audit offices must cooperate with the European Court of Auditors, the EU Commission and the European Anti-

⁶⁸ Article 53b (3) of the Financial Regulation applicable to the general budget of the European Communities.

Fraud Office (OLAF). For another, the member states must conduct checks themselves and ensure there are adequate auditing procedures. But the member states have very different ideas about what is meant by monitoring of proper procedures; the question will therefore have to be addressed again.⁶⁹ From the perspective of the European Commission and many member states there is certainly room for improvement in the evaluation of the Structural Funds.

Every reform of the Structural Funds and Cohesion Policy also brought with it modifications of the administrative procedures; this will be the case with the upcoming reform too, and will lead to the usual complaints about excessive administrative burdens.⁷⁰ Because Structural Fund administration has to balance the needs of central management and control with the requirements of decentralized implementation and the wish for regional freedoms in defining funding priorities this is a tension that cannot be resolved. Many difficulties in the daily work of fund administrators result from technical discrepancies between European and regional funding guidelines, which a further harmonization could at least minimize.⁷¹

However, the question is not just proper administration of the Structural Funds, but also the efficiency of the funds deployed. To this end there must be negotiation over the introduction of measurable criteria in the form of performance and development indicators. For example, agreeing interim targets and final outcomes for individual programmes would provide another yardstick for the impact of Cohesion Policy.⁷²

⁶⁹ Working Group on Structural Funds, *Report to the Contact Committee of the Heads of the Supreme Audit Institutions of the EU Member States and the European Court of Auditors on the Parallel Audit on the Processes for Identifying, Reporting and Following Up on Irregularities* (2006), http://circa.europa.eu/irc/eca/sai/info/data/cc_website/cc/resolutions_and_reports/pdf/2006/report_2006_struct_funds_de.pdf.

⁷⁰ Although the Commission speaks of a clear simplification of Structural Fund administration there are still complaints about bureaucracy running wild.

⁷¹ This applies for example to the Commission's new IT system for the Structural Funds, SFC2007. In its *Fourth Report on Economic and Social Cohesion* (see note 21), p. 127, the Commission praises the new system as a model of "Electronic government in practice"; users, on the other hand, regard it as an example of bureaucratization of Structural Fund administration. The SFC2007 systems requires all projects to be entered in forty-one data fields with their own codes; the regional financial controlling systems will now have to modify their data systems accordingly.

⁷² This is also the recommendation of the OECD, which even proposes a European "Performance Reserve" to allow funds

It would have been desirable to have allowed the priorities of the Cohesion Policy planning and management tools to be altered after the mid-point evaluation.⁷³ That would increase the flexibility of the multi-annual programmes without giving up their decisive advantage, the reliability of regional development concepts through medium-term planning. For the current funding period 2007 to 2013 three evaluation points were introduced: an ex-ante analysis of the starting situation in a funding region, the mid-point evaluation, and an ex-post evaluation of the sustainability of a programme. The evaluation is conducted jointly by the member states and the Commission, with the member states responsible for the ex-ante evaluation and the European Commission for the ex-post evaluation.

The merging of the management tools of the Lisbon Strategy and Cohesion Policy also demands certain harmonizations. This applies for one thing to the planning cycles, which still diverge hugely.⁷⁴ For another there is discussion about introducing the open methods of coordination that are inseparably associated with the Lisbon Strategy into the Cohesion Policy too. This form of coordination below the level of law-making is designed to allow the EU to intervene anywhere where it possesses no legislative powers.⁷⁵ That contradicts the way Cohesion Policy has been run to date, which has been based exclusively on statutory instruments. Using the open coordination method could perhaps increase the flexibility of Cohesion Policy as a whole and expand the decision-making freedoms of the regions without giving up the possibilities of strategic control. But there would also be a danger of importing the weaknesses of this method too, including an over-abundance of reports and evaluations with no legally binding consequences and

assigned to a member state in the indicative distribution to flow back into the EU budget if the funding goals were not achieved – and thus be available for distribution to other member states; OECD, *Economic Survey of the European Union 2007* (see note 63), 150.

⁷³ See also European Court of Auditors, Special Report No. 1/2007 Concerning the Implementation of the Mid-term Processes on the Structural Funds 2000–2006 Together with the Commission's Replies, *Official Journal of the European Union*, C124, 5 June 2007, 1–16.

⁷⁴ The Cohesion Policy programmes for a seven-year funding cycle are currently being prepared, as are the guidelines for the Lisbon Strategy for a three-year planning cycle.

⁷⁵ For this form of political control a whole set of instruments (reports, best practice comparisons, structural indicators and benchmarks) has been developed and continuously expanded.

an excessive diversity of themes leading to a dissipation of focus.

Adopting the Lisbon management tools in Cohesion Policy would potentially multiply the administrative burden and lead to a duplication of guidelines and reform programmes. So it would make sense to synthesize the two into a single graduated set of strategic management instruments under the Lisbon Strategy with a concrete chapter on Cohesion Policy – especially given the repeated calls for unburdening Cohesion Policy from bureaucracy and administrative expense. Such an integration of Lisbon Strategy and Cohesion Policy would amount to a comprehensive European modernization agenda.

Conflict 5: Comprehensive regional and thematic funding policy vs. concentration on sectoral and growth-promoting policies

The new Lisbon priorities of Cohesion Policy clearly intersect with other policy fields and multi-year programmes, for example the Seventh Research Framework Programme, the Community's education programmes (Erasmus Mundus), the Competitiveness and Innovation Framework Programme, the Trans-European Networks (TEN), social policy programmes, and initiatives promoting SMEs. So why does another source of funding need to be established in the EU budget for the objectives of the Lisbon Strategy, alongside the specific Lisbon budget heading 1a, "Competitiveness for growth and employment"? The decisive difference between the two headings is that the Community programmes listed under heading 1a are administered by the Commission, while the cohesion programmes under heading 1b come under the remit of the member states and regions. So merging the Lisbon funds in heading 1a would lead to a concentration of Lisbon policies under the Commission and end the co-funding of national policies with EU money. But because the member states and especially the net payers will not want to give up the flows from the European Cohesion Policy that improve their net balance, still less to strengthen the EU Commission by expanding the Community programmes and the abandonment of the Fund management, the second "Lisbon pillar" inside the European Cohesion Policy will remain. But its financial resources could be significantly reduced relative to the first pillar concentrating on promoting the most backward regions and member states.

Problems of coordination exist in other areas too. The most recent reform of the Structural Funds established the new European Agricultural Fund for Rural Development (EAFRD) as a part of the second pillar of the Common Agricultural Policy.⁷⁶ So instruments similar to those used in the Lisbon Strategy and the reformed Cohesion Policy were being developed in the CAP at the same time and for the same policy area – rural development. Here too, Community Strategic Guidelines were developed to set the frame for corresponding national strategy plans for 2007 to 2013.⁷⁷ Although the EAFRD certainly serves agricultural goals,⁷⁸ the strategic EAFRD guidelines go beyond a purely sectoral policy, addressing the attractiveness of rural areas above and beyond agricultural production and setting regional, economic and employment priorities. In the 1990s rural development was assigned to both the CAP and the EU's structural and regional policies.⁷⁹ Now it may be the second pillar of the CAP, but there are still clear overlaps with the funding objectives of the Structural Funds. The European Parliament has already formulated reservations and "is concerned, in this connection, about the usefulness of a separate approach to cohesion and rural development (via the European Agricultural Fund for Rural Development)".⁸⁰

Aside from agricultural production, the regional funding priorities for rural areas should be brought together under Cohesion Policy, also from the perspective of territorial cohesion. This could minimize the existing frictional losses in the administration of the Funds and would help to target the use of limited funds.

⁷⁶ Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), *Official Journal of the European Union*, L277, 21 October 2005.

⁷⁷ Council Decision of 20 February 2006 on Community Strategic Guidelines for Rural Development (Programming Period 2007 to 2013), *Official Journal of the European Union*, L55, 25 February 2006, 20ff.

⁷⁸ The EAFRD Regulation (see note 76) names three thematic priorities: a) improving the competitiveness of agriculture and forestry, b) improving the environment and the landscape and c) improving the quality of life in rural areas and diversifying the rural economy.

⁷⁹ Astrid Häger and Dieter Kirschke, "Politik für den ländlichen Raum 2007+", *Raumforschung und Raumordnung* 65, no. 4 (2007): 275–87.

⁸⁰ Guellec, *Report on the Fourth Report on Economic and Social Cohesion* (see note 57), item 32.

Conclusion

The European Cohesion Policy has been continuously modified and reformed since 1988, all the time subject to strong pressure of legitimization – which has only been further increased by the considerable expansion of EU budget funding to €308 billion for the funding period 2007 to 2013.

In the most recent round of reforms the EU responded to the charge of inefficiency by focussing the European Cohesion Policy on the objectives of the Lisbon Strategy. In the process the Community addressed the criticism of many economists that the cohesion and convergence effects of the European Structural Funds were largely unproven, and their calls for a stronger orientation on growth. “Lisbonization” represents the attempt to place Cohesion Policy on a modernized footing and to give it a new political justification. However, this modernization opened up new conflicts between traditional structural funding based on infrastructure expansion and the “Lisbonized” concept of promoting growth poles.

The EU Cohesion Policy fulfils a function that extends beyond its actual task of ensuring intra-Community cohesion, one that is indispensable for the integration process and practically irreplaceable. It is used to channel financial compensation to the potential losers of integration and is thus both the most visible sign of Community solidarity and the most effective instrument for creating integration policy compromises. The reform debate about the future shape of European Cohesion Policy will not produce an “either or” outcome – either “Lisbonization” or traditional Cohesion Policy. Instead the pragmatic resolution of existing conflicts will be at its heart. It will therefore be a matter of bringing the new instruments of the “Lisbonized” Cohesion Policy with its focus on growth and competitiveness into line with the treaty-anchored objectives of cohesion and convergence and to close the economic and social gap between rich and poor regions. To this end it will be necessary to reassess the Lisbon orientation of the reformed Cohesion Policy and weigh up the different funding philosophies and priorities. The discussion should concentrate on advancing the policy within the system’s legal and integration policy bounds. The crucial thing is to find a new balance between flexibil-

ity and freedom on the one side and strategic control and hierarchical management on the other. Pragmatic proposals are on the table, and the path to agreement is signposted.

Appendix

Abbreviations

CAP	Common Agricultural Policy
EAFRD	European Agricultural Fund for Rural Development
EAGGF	European Agricultural Guidance and Guarantee Fund
EBRD	European Bank for Reconstruction and Development
EGTC	European Grouping of Territorial Cooperation
EIB	European Investment Bank
ERDF	European Regional Development Fund
ESF	European Social Fund
GDP	Gross domestic product
ICT	information and communication technologies
NRP	National Reform Programme
NSRF	National Strategic Reference Framework
OLAF	Office européen de lutte anti-fraude / European Anti-Fraud Office
OP	Operational Programme
SMEs	small and medium-sized enterprises

Table 1
The architecture of European Cohesion Policy 2007–2013

<i>Objective</i>	<i>Funding catalogue</i> (Article 3, General Regulation)	<i>Fund</i>	<i>Eligibility</i> (Article 5, General Regulation)	<i>Funded regions/ member states</i>	<i>Volume (million euros, 2004 prices)</i>	<i>Total volume</i> (Article 18–21, General Regulation)
Convergence	<ul style="list-style-type: none"> ▶ Improving conditions for growth and employment through the increasing and improvement of the quality of investment in physical and human capital ▶ Development of innovation and of the knowledge society ▶ Promoting adaptability to economic and social changes ▶ The protection and improvement of the environment ▶ Administrative efficiency 	ERDF, ESF	The most backward regions, whose gross domestic product per capita (measured in purchasing power parities) is less than 75 percent of the average GDP of the EU-27 for the same reference period	84 regions in 16 member states (31.7 percent of the EU population)	177,083 (57.5 percent of total volume)	251,162 (81.5 percent)
			The poorest regions of the EU-15 which lose eligibility because their nominal GDP per capita level exceeds 75 percent of the average GDP of the EU-27 are eligible for transitional financing (phasing out)	16 regions in 7 member states (3.4 percent of the EU population)	12,521 (4.1 percent of total volume)	
Regional competitive-ness and employment	<ul style="list-style-type: none"> ▶ strengthening regions' competitiveness and attractiveness as well as employment by anticipating economic and social changes, including those linked to the opening of trade ▶ Promotion of the adaptability of workers and businesses 	Cohesion Fund	The poorest member states, whose gross national income per capita is less than 90 percent of the EU average	All the new member states, plus Portugal and Greece	58,308 (18.9 percent of total volume)	49,127 (15.9 percent)
			Those states of the EU-15 which lose eligibility because of the statistical effect of enlargement receive transitional support until 2013	Spain	3,250 (1.0 percent of total volume)	
Regional competitive-ness and employment	<ul style="list-style-type: none"> ▶ strengthening regions' competitiveness and attractiveness as well as employment by anticipating economic and social changes, including those linked to the opening of trade ▶ Promotion of the adaptability of workers and businesses 	ERDF, ESF	All regions not covered by the convergence objective	Regions according to national distribution of funds (61 percent of the EU population)	38,742 (12.6 percent of total volume)	49,127 (15.9 percent)
			Regions covered by Objective 1 in the 2000–2006 funding period but whose GDP per capita now exceeds 75 percent of the average of the EU-15 will be eligible for transitional financing (phasing in)	13 regions in 9 member states (3.9 percent of the EU population)	10,385 (3.4 percent of total volume)	

	<ul style="list-style-type: none"> ▶ Increasing and improvement of the quality of investment in human capital ▶ Innovation and the promotion of the knowledge society ▶ Promotion of entrepreneurship ▶ Protection and improvement of the environment ▶ improvement of accessibility and development of inclusive job markets 				
European territorial cooperation	<ul style="list-style-type: none"> ▶ Strengthening cross-border cooperation through joint local and regional initiatives ▶ Strengthening transnational cooperation ▶ actions conducive to integrated territorial development ▶ Strengthening interregional cooperation and exchange of experience 	ERDF	<ul style="list-style-type: none"> a) Cross-border cooperation (regions with internal EU land and maritime borders) b) Transnational cooperation (regions in 13 eligible transnational areas) c) Interregional cooperation (all regions and regional cooperation networks) 	7,750 (2.5 percent of total volume)	7,750 (2.5 percent)

Global volume (million euros) : 308,041

Source: Article 34(1) of Council Regulation (EC) No. 1083/2006 of 11 July 2006 Laying Down General Provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and Repealing Regulation (EC) No 1260/1999, *Official Journal of the European Union*, L210/25 of 31 July 2006.

Table 2
Cohesion Policy 2007–2013: Distribution of funds (in million euros, constant 2004 prices)

	Convergence objective			Regional competitiveness and employment objective	
	Cohesion fund	Convergence	Phasing out	Regional competitiveness	Phasing in
Austria			159	914	
Belgium			579	1,268	
Bulgaria	2,015	3,873			
Czech Republic	7,830	15,149		373	
Cyprus	194				363
Denmark				453	
Estonia	1,019	1,992			
Finland				935	491
France		2,838		9,123	
Germany		10,553	3,771	8,370	
Greece	3,289	8,379	5,779		584
Hungary	7,589	12,654			1,865
Ireland				261	420
Italy		18,867	388	4,761	879
Latvia	1,363	2,647			
Lithuania	2,034	3,965			
Luxembourg				45	
Malta	252	495			
Netherlands				1,477	
Poland	19,562	39,486			
Portugal	2,722	15,240	254	436	407
Romania	5,769	11,143			
Slovakia	3,433	6,231		399	
Slovenia	1,239	2,407			
Spain	3,250	18,727	1,434	3,133	4,495
Sweden				1,446	
UK		2,436	158	5,349	883
Unspecified					
Total	61,558	177,083	12,521	38,742	10,385

The distribution listed in the table corresponds to the official calculations of the European Commission.

However, the totals do not correspond exactly to the respective sum of the individual values, probably because of rounding differences.

Source: European Commission, *Die Strategie für Wachstum und Beschäftigung und die Reform der europäischen Kohäsionspolitik: Vierter Zwischenbericht über den Zusammenhalt*, KOM (2006) 281 endg., 12 June 2006, Annex p. 12, and author's calculations of per-capita figures.

<i>European territorial cooperation</i>	<i>Total</i>	<i>Per-capita funding in euros (population data for 2004)</i>	
228	1,301	159.1	Austria
173	2,019	193.8	Belgium
159	6,047	777.1	Bulgaria
346	23,697	2,321.6	Czech Republic
25	581	785.0	Cyprus
92	545	100.9	Denmark
47	3,058	2,255.2	Estonia
107	1,532	293.7	Finland
775	12,736	204.4	France
756	23,450	284.2	Germany
186	18,217	1,646.5	Greece
344	22,452	2,221.4	Hungary
136	815	200.8	Ireland
752	25,647	440.9	Italy
80	4,090	1,768.3	Latvia
97	6,097	1,774.4	Lithuania
13	58	128.0	Luxembourg
14	761	1,897.8	Malta
220	1,696	104.2	Netherlands
650	59,698	1,563.6	Poland
88	19,147	1,820.0	Portugal
404	17,317	799.0	Romania
202	10,264	1,907.1	Slovakia
93	3,739	1,872.3	Slovenia
497	31,536	738.7	Spain
236	1,682	187.0	Sweden
642	9,468	158.2	UK
392	392		Unspecified
7,750	308,041	Ø 629.0	

Table 3
Distribution of funds in Germany by region
(in million euros, without funds in territorial
cooperation objective)

<i>Federal state</i>	<i>Convergence</i>	<i>Regional competitiveness</i>
Brandenburg	2,119	
Mecklenburg-Western Pomerania	1,670	
Lower Saxony, Lüneburg region	799	
Saxony	3,963	
Saxony-Anhalt	2,576	
Thuringia	2,107	
Baden-Württemberg		409
Bavaria		886
Berlin		1,212
Bremen		231
Hamburg		126
Hesse		450
Lower Saxony (without Lüneburg region)		876
North Rhine-Westphalia		1.967
Rheinland-Palatinate		331
Saarland		284
Schleswig-Holstein		474

Source: Bundesministerium für Wirtschaft und Technologie, *Nationaler Strategischer Rahmenplan für den Einsatz der EU-Strukturfonds in der Bundesrepublik Deutschland 2007–2013* (Berlin, 19 March 2007).