ANNEX A

Profiles of EU Policy

Regional Policy of the European Union

Regional problems

The following challenges necessitated regional policy at EU level: economic and social disparities across member countries and their regions; the need to increase solidarity and competitiveness and promote growth and employment; and responses to new challenges such as globalisation, climate change and ageing.

General objectives of regional policy

EU regional policy took its current shape around 20 years ago, when the first regulation adopted in 1988 integrated existing financial instruments under what is now commonly called EU Cohesion Policy. Although the objective of reducing regional disparities was already present at the beginning of the European integration process in the late 1950s, by the end of the 1980s cohesion had become a fully fledged and explicit objective to encourage the integration of less developed regions and countries into the single market and encourage investment in EU priorities supporting growth and employment. Cohesion was officially enshrined as an objective in the Treaty of the European Union in 1993. With the integration of ten new countries in 2004, then of Bulgaria and Romania in 2007, this attempt at harmonisation had to be reinforced.

However, recent EU policy focuses on growth-oriented activities based on the Lisbon Strategy. Community Strategic Guidelines for Cohesion, adopted in 2006, require future Cohesion Policy to target resources in three priority areas (**Lisbon targeting**): improving the attractiveness of member countries, regions and cities; encouraging innovation, entrepreneurship, and the growth of the knowledge economy; and creating more and better jobs. Cohesion Policy 2007-13 regards the following activities as eligible for meeting the "Lisbon earmarking requirement" because they contribute to one of the 24 priorities of the Lisbon Strategy: research and technological development; innovation and entrepreneurship; knowledge-based society; transport; energy; environmental protection; adaptability of workers and firms; improving access to employment and sustainability; improving the social inclusion of less-favoured persons; and improving human capital. At least 60% of member countries' spending on the Convergence Objective and at least 75% of expenditure on the regional Competitiveness and Employment Objective must be assigned to these priorities.

In the current programming period of 2007-13, the main objectives are *i)* **convergence** (to promote growth-enhancing conditions and factors leading to real convergence for the least-developed member countries and regions); *ii)* **regional competitiveness and employment** (to reinforce regions' competitiveness and attractiveness as well as employment, by anticipating economic and social changes); and *iii)* **European territorial co-operation** (to reinforce co-operation at cross-border, trans-national and inter-regional levels).

Legal/institutional frameworks of regional policy

EU regional policy, managed by the Directorate General for Regional Policy at the European Commission (DG Regio), is delivered through the **Structural Funds** which redistributes part of member countries' budget contributions to the least prosperous ***regions*** of the EU, and through the **Cohesion Fund** which is directed to the least prosperous ***member countries.***[1] There are five main principles guiding the implementation of Structural and Cohesion Fund policies: concentration on specific objectives, multi-annual programming, partnerships between the European Commission and competent authorities in the member countries, additionality (to prevent the substitution of national funds by EU resources) and proportionality (modulating the obligations of the member countries contingent on the total amount of expenditure on an operational prgoramme). EU Cohesion Policy mobilises traditional regional policy instruments: infrastructure construction, training and human resources, and incentives for productive investments. Since 1988, there have been three programming periods (1989-93, 1994-99, 2000-06) and a fourth is currently in progress (2007-13).

The EU Council and EU Parliament take decisions on budgets and rules of regional policy based on the proposals of the European Commission. Following very close co-operation with member countries, the European Commission proposed the **Community Strategic Guidelines on Cohesion Policy**, which were officially adopted by the Council Decision of 6 October 2006. The priorities include the improved attractiveness of cities, regions and member countries; the promotion of innovation, entrepreneurial activities and knowledge-based economic development; and the creation of more and higher valued employment.

Each member country presents a **National Strategic Reference Framework (NSRF)** conform to the Community Strategic Guidelines, and which will serve as a benchmark for the programming of funds. The NSRF is a programming instrument, instead of a management instrument. It defines policy priorities whilst suggesting key implementation elements. After the adoption of the Community Strategic Guidelines by the Council of the European Union, the member country has five months in which to send the NSRF. Once it is received, the Commission then has three months to comment on it. Next, the Commission takes a decision on the following points of the NSRF of each member country: the list of operational programmes, the contribution from each fund to each programme, and the level of expenditure to guarantee the Convergence Objective's principle of additionality.

Rural development policy, managed by the Directorate General for Agriculture, is based on a different framework than Cohesion Policy: EU Strategic Guidelines for Rural Development, Council Regulation on Support of Rural Development by the European Agricultural Fund for Rural Development (EAFRD) and the Commission Implementing Regulation. The main priorities include improving the competitiveness of the agricultural sector (Axis 1), enhancing the environment and the countryside (Axis 2) and enhancing the quality of life in rural areas and promoting the diversification of economic activities (Axis 3). The three thematic axes are complemented by a "methodological" axis dedicated to the LEADER approach which promotes activities of local action groups (Leader Axis). Member countries adopt the National Strategy Plan and Rural Development Programme. The **National Strategy Plan** translates EU priorities to the member country's domestic situation and ensures complementarities with Cohesion Policy. The **National or Regional Rural Development Programme** articulates the four axes through different measures. The EAFRD has been allocated a budget of

EUR 96.3 billion for the period of 2007-13, 20% of which is dedicated to the Common Agricultural Policy (CAP). The fund may finance rural development programmes up to a ceiling of 4% of the total amount for each programme.

Main implementation tools

Member countries' **operational programmes (OPs)** cover the period from 1 January 2007 to 31 December 2013. The Commission evaluates each programme in order to determine if it contributes to the objectives and priorities of the Community Strategic Guidelines and the NSRF. The OPs must include an analysis of the eligible area (strengths and weaknesses); a justification of the priorities retained (in terms of Community Strategic Guidelines and the NSRF); the specific objectives of the key priorities; funding plans; the implementation of the programmes (designating management, auditing and certification authorities; a description of the evaluation and follow-up systems); and an indicative list of large projects (environmental projects which exceed EUR 25 million and other projects which exceed EUR 50 million). At least 20% of the public expenditures must be dedicated to its key priority. There are thematic OPs (which cover national territory targeted at one theme) and regional OPs. The state (and the authority designated by the state such as a regional government) must present its OPs to the Commission no later than five months after the adoption of the Community Strategic Guidelines. The Commission adopts each programme no later than four months after it is formally presented. However, the two decisions can nevertheless be taken simultaneously. Once adopted, programmes can be revised at the request of the member country or by the Commission, with the agreement of the member country. The OPs are the only programming and management tool and are more strategic than they used to be. The programme is less detailed and the amounts involved are mentioned at a priority rather than an action level. Details concerning management as well as project selection criteria are defined at regional and national level and do not feature in the programme. The member country therefore has a higher level of autonomy to implement its programme. As of 2009, 316 programmes had been established.

A **management authority** (the state or the authority designated by the state) is responsible for the efficient, effective and proper management and implementation of an operational programme. It delivers an annual performance report to the Commission by 30 June at the latest. A final report must also be delivered no later than 31 March 2017. A **certification authority** draws up and sends the Commission a certified inventory concerning expenditure and requests for payment. It must also certify the accuracy and the compliance of expenditure in terms of Community and national rules. It takes charge of accounting and assures the recovery of Community credits in the case of irregularities. An **auditing authority** is an operationally independent body designated by the member country for each operational programme. It is in charge of audits which are carried out on the basis of an appropriate sample, writes up annual control reports and offers an opinion on the audits carried out. The same authority can be assigned to a number of operational programmes. **A follow-up committee (or monitoring committee)**, created for each OP by the member country and presided over by a representative of the member country or the management authority, assures the efficiency and the quality of the implementation of the operational programme.

Budget structure

Policy objectives are financed by the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. In the programming period of 2007-13, the available resources amount to around EUR 347 410 million (in 2007 prices), which is 35.7% of the total EU budget. There are cases where the ERDF and the ESF (and the Cohesion Fund combined) are termed as "Structural Funds". Depending on the policy objectives and fund, target areas and projects to be financed are defined (Table A.1). Based on factors such as the eligible population, regional and national prosperity, and the rate of unemployment, the fund is allocated across the member countries (Figure A.1). In total, 81.5% is allocated for the Convergence Objective, followed by the regional Competitiveness and Employment Objective (16%) and European Territorial Co-operation objective (2.5%). Member countries decide the regional allocation.

Table A.1. **Fund allocation by objectives**

Objectives	Structural Funds			Targeted areas
Convergence	ERDF	ESF	Cohesion Fund	NUTS 2 regions whose per capita GDP is less than 75% of the Community average (ERDF and ESF) Member country whose per capita GNI is below 90% of the community average (Cohesion Fund)
	EUR 199.3 billion+EUR 14 billion (84 regions and 16 phasing-out regions)		EUR 69.5 billion	EUR 282.8 billion (81.5%)
Regional Competitiveness & Employment	ERDF	ESF	–	All the regions not covered by the Convergence Objective (NUTS 1 or NUTS 2 regions according to the member country)
	EUR 43.6 billion+EUR 11.4 billion (155 regions and 13 phasing-in regions)		–	EUR 55 billion (16%)
European Territorial Co-operation	ERDF	–	–	Cross-border, trans-national and inter-regional co-operation area
	EUR 8.7 billion			EUR 8.7 billion (2.5%)
Projects	Infrastructure, innovation, investment, etc.	Job training, employment support, etc.	Transport infrastructure, environment	Total 347.41 (35.7% of total EU budget of 2007-13)

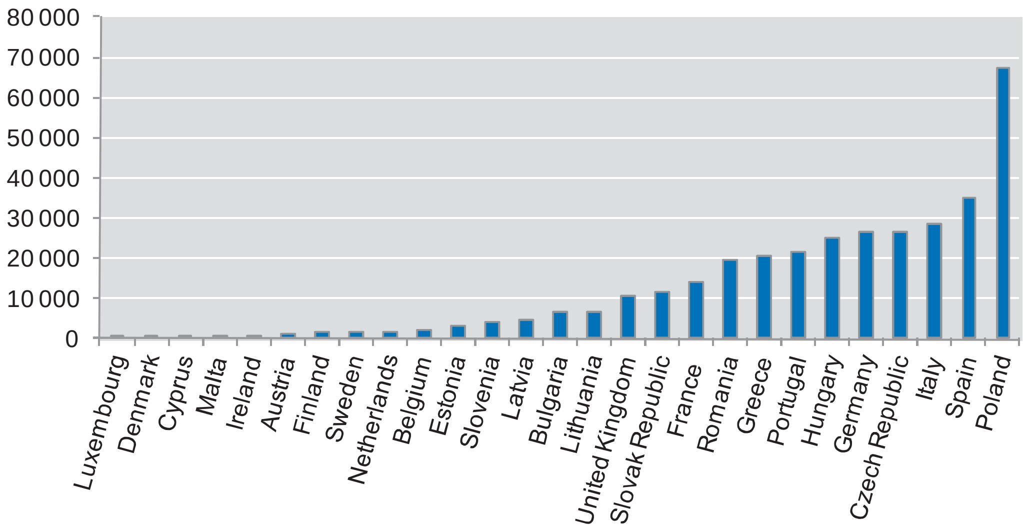
Note: The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).

Source: OECD adaptation based on European Union (2007), "Cohesion Policy 2007-13".

The **European Regional Development Fund (ERDF)** is to promote investment and reduce the main regional imbalances of the European Union. Financing is aimed primarily at research, innovation, environmental challenges and risk prevention, whilst infrastructural investment continues to play an important role, notably in the least developed areas. The **European Social Fund (ESF)** contributes to the Union's economic and social policy by improving employment and the possibilities of employment. To this effect, it supports member countries' actions in improving the adaptability of workers and enterprises, increasing access to employment, reinforcing the social inclusion of disadvantaged people, combatting discrimination, increasing and improving investment in human capital and strengthening the capacity and efficiency of administrations and public services. The **Cohesion Fund** aims to strengthen economic and social cohesion in the Community, in the interest of promoting sustainable development, particularly in the domains of trans-European transport networks (TEN-T) and environmental protection. It represents a third of the budget allocation given to new member countries. Some 167.2 million Europeans (34.4% of the EU-27 population) live in a region aided by the Cohesion Fund.

Figure A.1. **Allocation of EU funding by member countries**

Millions EUR



Source: OECD adaptation based on European Union (2007), "Cohesion Policy 2007-13".

The "One Operational Programme = one of the three objectives = one fund" principle was introduced in order to simplify the management of the Funds. The only exception is that the ERDF and the Cohesion Fund participate together for infrastructure and environmental programmes. The budgetary commitments related to OPs are delivered by annual instalments concerning each fund and each objective. Payments by the Commission are made in three steps: pre-financing, interim payments and payment of the final balance. The Commission pledges the first annual instalment before the adoption of the operational programme. The rate of pre-financing is 7.5% for the EU-15 and 9-10.5% for the EU-12, spreading over two or three years. Thereafter, it pledges the instalments by 30 April of each year. Part of the budget is automatically released by the Commission if it has not been used or no request for payment has been received by the end of the second year following the budgetary commitment (**N+2 de-commitment rule**).[2]

There are ceilings for co-financing rates. Maximum co-financing rates are: Convergence (between 75% and 85%), Regional Competitiveness and Employment (between 50% and 85%), European Territorial Co-operation (between 75% and 85%), and Cohesion Funds (85%) (Table A.2).

Table A.2. **Maximum co-financing rates**

	ERDF/ESF		Cohesion Fund
A: Member country with 2001-03 average GDP lower than 85% of the EU27 average	85%		
B: Member country not included in A but receiving Cohesion Funds (only Spain)	Convergence area plus phasing-in area of Regional Competitiveness and Employment: 80%	Regional Competitiveness and Employment area excluding phasing-in area: 50%	85%
C: Member country not included in A and B (non-Cohesion-Fund-receiving countries)	Convergence area: 75%	Regional Competitiveness and Employment: 50%	–
D: Outermost regions (only in France, Portugal and Spain)	85%		–

Source: OECD adaptation based on European Union (2007), "Cohesion Policy 2007-13".

Governance structures

In the 2007-13 programming period, member countries and regions are accorded more confidence when they are the main financial contributors to development programmes. Expenditure eligibility rules are now national rather than Community based. Once the Commission approves the overall strategy, it is often the regions that have the responsibility for key decisions such as project selection and management. The principle of proportionality modulated the obligations attributed to member countries (*e.g.* evaluation, auditing) contingent on the total amount of expenditure on an operational programme.

Project monitoring: Documents and activities are evaluated in order to improve the quality, efficiency and coherence of their intervention. Evaluations are carried out by independent evaluators and their results are made public. The regulation for the 2007-13 programming period offers greater flexibility by reducing the number of obligatory evaluations. While *ex ante* evaluation is needed for each Convergence Objective programme, member countries choose the level of evaluation according to their needs (programme, theme, funds) for each of the other two objective programmes. Mid-term evaluation is carried out on a needs basis. In 2000-06, the Commission allocated a certain sum to the most effective programme in the mid-term (performance reserve system). In 2007-13, each state can take a direct initiative increasing a national performance reserve to 3% of its total allocation for each of the Convergence and Regional Competitiveness and Employment Objectives.

For strategic follow-up of the Cohesion Policy, member countries had to submit a **Strategic Report** to the European Commission to address the contribution of the OPs to the Cohesion Policy or the Commission's Strategic Guidelines before the end of 2009, then again before the end of 2012. The Commission had to prepare the Commission's Strategic Report summarising member countries' strategic reports or a Cohesion Report before 1 April 2010, then again in 2013. Within the framework of the Lisbon Strategy, member countries have adopted national reform programmes (NRPs). As a follow-up to the Lisbon Strategy, for the first time in 2007, annual reports on the NRP implementation had to include a section explaining the contribution of the OPs to the implementation of the NRP. The European Commission presents the annual report to the European Council summarising member countries' annual reports.

Notes

1. This is why EU regional policy is often called "Structural Policy" or "Cohesion Policy".
2. For Greece, Portugal and member states which joined the EU after 2004 (Bulgaria, the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovenia and the Slovak Republic), the delay is fixed for the end of the third year (n+3) between 2007 and 2010 in respect of their programmes.

Bibliography

OECD/TDPC Reports

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Further information/main sources

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