

COTER-017
Brussels, 15 July 2003

OUTLOOK REPORT
of the
Committee of the Regions
of 2 July 2003
on
Governance and simplification of the Structural Funds after 2006

THE COMMITTEE OF THE REGIONS,

HAVING REGARD TO the White Paper on European Governance presented by the European Commission in 2001, which called on the Committee of the Regions to "play a more proactive role in examining policy, for example through the preparation of exploratory reports in advance of Commission proposals";

HAVING REGARD TO the cooperation protocol of September 2001 between the European Commission and the Committee of the Regions, which encourages the Committee of the Regions "to draw up strategic documents reviewing matters which the Commission regards as important; these "outlook reports" shall explore in greater depth problems in areas where the Committee of the Regions has the appropriate local information resources";

HAVING REGARD TO the letter of 10 September 2002 from **Commissioner Palacio** to the CoR president, **Mr Bore**, suggesting that the Committee of the Regions "prepare the outlook and impact reports and outlook opinions listed in the appendix to this letter";

HAVING REGARD TO the letter of referral of 23 July 2002 from **Commissioner Barnier** to the CoR president, **Mr Bore**, requesting a Committee of the Regions opinion on implementation of programmes financed under the Structural Funds, to consider for example how management of cohesion policy could be simplified after 2006, in accordance with the first paragraph of Treaty Article 265;

HAVING REGARD TO Treaty Article 161 on economic and social cohesion, which stipulates that "Without prejudice to Article 162, the Council, acting unanimously on a proposal from the Commission and after obtaining the assent of the European Parliament and consulting the Economic and Social Committee and the Committee of the Regions, shall define the tasks, priority objectives and the organisation of the Structural Funds, which may involving grouping the Funds. The Council, acting by the same procedure, shall also define the general rules applicable to them and the provisions necessary to ensure their effectiveness and the coordination of the Funds with one another and with the other existing financial instruments";

HAVING REGARD TO the decision of its Bureau of 9 October 2002 and the document entitled *Outlook and impact reports: the CoR's priorities and working methods*;

HAVING REGARD TO its Opinion of 15 February 2001 on *The structure and goals of European regional policy in the context of enlargement and globalisation: opening of the debate* (CdR 157/2000 fin) ¹;

HAVING REGARD TO the Second Report on Economic and Social Cohesion of 31 January 2001 (COM(2001) 24 final) and the Committee of the Regions opinion on that report (CdR 74/2001 fin) ²;

HAVING REGARD TO the First Progress Report on Economic and Social Cohesion – Conclusions and next steps (COM(2002) 46 final) and the Committee of the Regions opinion on that report (CdR 101/2002 fin) ³;

HAVING REGARD TO the Second Progress Report on Economic and Social Cohesion (COM(2003) 34 final);

HAVING REGARD TO the draft outlook report (CdR 389/2002 rev. 1) adopted on 30 April 2003 by its Commission for Territorial Cohesion Policy (co-rapporteurs: **Mr Raffaele Fitto**, President of the Puglia region (IT, EPP) and **Mr Jean-Claude Van Cauwenberghe**, Prime Minister of Wallonia (BE-PES));

adopted the following outlook report at its 50th plenary session of 2 and 3 July 2003 (meeting of 2 July):

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PART ONE

APPROACH ADOPTED

1. Objectives

Following the political decision taken by the Heads of State and Government to enlarge the European Union with the accession of 10 new Member States, it seems necessary to reformulate the economic and social cohesion policy of the European Union.

Cohesion policy, as already enshrined in the Treaties, is an instrument by which to achieve the principles of solidarity, cooperation and redistribution and is a cornerstone of integration of the EU's peoples and territories. For more than two decades cohesion policy has acted as a visible policy instrument illustrating the commitment of Member States to tackle structural deficiencies together. The overall impact has been profound and positive, as shown by the Cohesion Reports regularly adopted by the European Commission.

Nevertheless, major disparities remain across the Union, between Member States, between regions and inside regions. These wide disparities act as a drag on the competitiveness of the Union as a whole. The forthcoming enlargement will significantly exacerbate territorial imbalances within the EU: this reinforces the general case for maintaining and improving a strong European cohesion policy.

The current debate concerns both enlargement and the Convention and reform of the Treaties, i.e. the need for a new model of governance for cohesion policies.

It is on the basis of the new provisions contained in the cooperation protocol signed by the European Commission and the Committee of the Regions that **Commissioner Barnier** has asked the Committee of the Regions for its views (in the form of an outlook report) on implementation of the programmes financed by the Structural Funds, and in particular on ways in which management of cohesion policy could be simplified after 2006.

The European Commission will take this report into account when drawing up its Third Report on Economic and Social Cohesion (planned for December 2003), which will set out the future course of cohesion policy.

The objectives of this report are: (1) to evaluate the current state of implementation of programmes financed through the European Structural Funds, specifically by local and regional authorities, based on the broadest possible consultation of managing authorities and regions in the European Union; and (2) to draw conclusions and make concrete proposals with a view to reforming cohesion policy after 2006.

2. Methods

This report is based on the findings of the consultation exercise (in the form of a survey) which used the four key tools described below. It does not summarise the findings, but supplements them as part of a proactive initiative designed to enable the Committee of the Regions to contribute significant added value to the debate on the future of European cohesion policy

2.1 Questionnaire sent to the political authorities responsible for the bodies currently administering the European Structural Funds

A questionnaire was sent to the presidents of all the EU regions before Christmas 2002. The response rate was high – around 70% - testifying to the regions' interest in this initiative.

An analysis of the trends observed and proposals made was presented to the COTER Commission and is appended to this document, together with the questionnaire and the list of regions that responded.

2.2 National *focus groups* with the political authorities responsible for administering the Structural Funds, within the national delegations to the Committee of the Regions

During February 2003 national focus groups met in virtually all the Member States under the political responsibility of the relevant member of the COTER Commission working group. The work was coordinated by the CoR secretariat, with a team of experts providing technical and organisational assistance. Some essential points drawn from the questionnaire were discussed, namely:

- the role of the regions and local authorities in framing and implementing policies and programmes: subsidiarity and co-responsibility;
- the added value of European cohesion policies: the Structural Funds and Community initiatives;
- governance in relation to the Structural Funds: responsibility and monitoring;
- day-to-day management of the programmes.

A report of the focus groups' work was submitted to the COTER Commission. A summary of the views expressed in the focus groups was also prepared by the two rapporteurs and presented to the COTER Commission (on 19 February 2003) at a meeting also attended by representatives of the European Commission and the Parliament.

A table listing the focus groups and the reports made is attached.

2.3 Debate in the COTER working group

The working group is chaired by the two rapporteurs. The 15 members of the group are responsible for organising the meeting of the focus group in their own country. A preliminary meeting of the working group was held in Brussels on the sidelines of the COTER Commission meeting of 19 February 2003 and concentrated on the issues raised by the questionnaire and the conclusions of the focus groups.

2.4 Regular contacts between the rapporteurs and their experts and the European Commission, especially the DGs that manage the Structural Funds

Information is exchanged for example on statistics relating to implementation of the Structural Funds. This information has been used by the rapporteurs in formulating their proposals.

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PART TWO

RESULTS OF THE SURVEY

As a basis for discussion, the following comments are consistent with the Opinion of the Committee of the Regions on the First Progress Report on Economic and Social Cohesion (CdR 101/2002), notably that "cohesion policy, as enshrined in the Treaties, is an instrument by which to achieve the principles of solidarity, cooperation and redistribution and is a cornerstone of integration of the EU's peoples and territories". In that opinion the Committee also reaffirms "as a consequence of applying the subsidiarity principle, ... the need for increased and more effective involvement of Member States and regional and local authorities in the framing of cohesion policies, without this leading to a *re-nationalisation* of regional development policies".

When the analysis of the questionnaire's findings refers to the views of "the regions", this should be understood to refer to all those infra-state authorities (*either regional authorities or, where there are no regional government structures, the local authorities representing the region*) whose representatives took part in the consultation exercise conducted by the Committee of the Regions.

Before presenting the questionnaire's findings it is important to spell out the basic message they contain:

- The regions are calling for greater coherence with respect to the Structural Funds:
 - a) internal coherence (between the Funds, between the different departments of the European Commission, and between the different departments of central government);
 - b) external coherence (vertical and horizontal coordination between Community, national and regional programmes).
- The regions are also calling for better application of the subsidiarity and proportionality principles: this means re-establishing the original concept of subsidiarity, with due respect for constitutional limits of each national system, and considering whether the regions' role should be set out in the Treaty. As far as Structural Fund policy is concerned, the regions represent the most efficient level of government, and therefore subsidiarity in this policy area must start at the regional level, especially since most European regions have embarked, partly on the basis of European programmes, on a learning process which has enabled them to move towards integrated regional development.
- A paradox seems to be emerging: improving the coherence and effectiveness of policies would tend to strengthen the role of the European Commission, whereas actual application of the subsidiarity principle means powers and responsibilities being exercised by the most efficient, grassroots level.

To resolve this apparent paradox, the Committee of the Regions proposes a **new model of governance for European regional and cohesion policy**, based on the general principles and practical recommendations made in this report.

The information gathered from the survey is set out below. It is important here to bear in mind the heterogeneity of the EU regions considered, in terms of institutional factors, legislative powers and programming objectives.

I Role of the regions in the governance of the structural policies

I.1 How the regions participate in Structural Fund programming and in management and decision-making bodies

The overwhelming majority of the regions consider themselves to be involved in all stages of programming, mainly in drawing up strategies and in the planning and implementation of programmes.

However, the regions feel that they are less involved in the process of deciding on programmes, particularly in the very centralised Member States where regions have few institutional powers. In those countries, the regions would also like to be more directly involved in decisions taken by the Member State with the Community authorities.

As far as participation in management and decision-making bodies is concerned, it seems that although the regions are critical of the remit and working methods of those bodies, most take part in annual meetings (over 75% positive responses), in the Member States where the regions have more institutional powers.

Involvement of the regions in the Structural Fund programmes also seems to be based mainly on implementing programmes within the Monitoring Committees, for which the regions express strong support. However, there is a paradox here. The work of the Monitoring Committees is appreciated because they can have a positive impact on the process of regional development by strengthening the role of the regional authorities and partnerships in implementing an integrated development policy and by enhancing consensus between development players. However, the way the Monitoring Committees currently work is criticised for focusing too much on regulatory and technical issues. On the other hand, opinions are mixed on the current consultative role of the Commission within the Monitoring Committees.

I.2 Internal coherence of Structural Fund policy at Community level

Given that there are currently problems of coherence at Community level between the policies pursued by each of the Funds, as well as problems of coordination and of uniformity of standards and operation between the Directorates-General, exacerbated in some cases by practices in the Member States, a very large majority of respondents are in favour of merging the three Structural Funds into a single fund to ensure coherence in structural policy, which by its nature is horizontal.

Many regions point to problems in coordinating administrative procedures for the three Funds in view of their specific objectives and advocate maintaining flexible management practices for each fund within a single structure.

In general, it is felt that the way the three Funds are currently coordinated does not work well in practice, and that there are major problems with the current operation of the European Social Fund (ESF), whose management methods are deemed inefficient.

The regions feel that the objectives of the Structural Funds should be geared towards a regional and integrated approach to development and prioritise the approach initiated with the ERDF. The same approach should be adopted for the two other funds, the ESF and the EAGGF Guidance section, especially the ESF. Some respondents rightly consider that account must still be taken of the fact that

non-eligible areas also have training needs. All regions of the Community must be covered by Objective 3, but ESF measures should be managed regionally so as to be consistent with the horizontal approach to regional development.

Aligning the objectives of the EAGGF Guidance section with those of the ERDF poses fewer problems, given that their objectives are very similar. In the interest of rural areas, many respondents favour a single type of programming similar to that of the ERDF.

It is also proposed that a programming approach based on a regional strategic development platform should be preferred to focusing on measures limited to a specific area within a region.

The regions endorse the innovative character of Community initiatives, but note that such initiatives are designed and implemented without being directly linked to strategy and to the priority measures of the structural programmes. This results in a loss of efficiency and synergies. It also seems that the administrative and financial cost-benefit ratio is better for Community initiatives than for Mainstream Programmes.

Finally, the regions deplore the lack of coordination between the Cohesion Fund and the other Structural Funds, as well as the lack of a regional and territorial approach for the Cohesion Fund.

I.3 Co-responsibility of the Commission, the Member States and the regions, and the future role of the regions in cohesion policy and the Structural Funds

The regions' position on the future of co-responsibility is almost unanimous and very clear. They consider it necessary to apply effectively the principles of subsidiarity and proportionality in co-responsibility relations between the Commission, the Member State and the regions, while strengthening the regional decision-making level.

Thus:

- the purpose of structural programmes is regional development. In theory, according to the principle of subsidiarity, the regional level and regional authorities should be the most suitable decision-making and management level. The regions must therefore be treated as direct partners of the Commission on the same basis as the Member States;**
- regions must take the lead in defining a regional project as the basis for a strategy for which instruments and actors – regional, cross-border, national or transnational – will be mobilised;**
- regions must play a more active role in framing the new regional policy after 2006 by helping to set priorities, implement legislation, allocate resources and delegate management and administration tasks. Co-responsibility must not be one-sided and must be practised only when there is an obligation to do so, as happens now. Co-responsibility requires a contractual partnership between the Commission, the Member State and the region concerned.**

In this context, it is necessary to formally establish regional responsibility as the driving force for operational implementation of all the Community programmes that affect a given region and to clearly define the division of powers and responsibilities between the three decision-making levels.

I.4 Application of the subsidiarity principle and its inclusion in the Treaty

Under the Treaty, deciding how the subsidiarity principle is to be applied is a prerogative of the national authorities, and there is a strong correlation between the institutional structure of a Member State and the way the subsidiarity principle is applied there. The regions consider this situation unsatisfactory; over half of them feel that they are not adequately involved by their government in implementing structural policies in accordance with the subsidiarity principle. Regions with strong institutional powers are amongst the most satisfied.

It is therefore necessary to confirm that a Europe of the regions is recognised in the Community context and to emphasise the need for a clear and unambiguous legal basis. The role of the regions as stakeholders in Community cohesion policy must be explicitly recognised and incorporated into the Treaty.

Various arguments are advanced for changing the substance of the subsidiarity principle in the Treaty, and are worth considering. We would summarise these as follows:

- A Europe of the regions must be recognised in the Community context, which requires a clear and unambiguous legal basis. The role of the regions as stakeholders in Community cohesion policy must be explicitly recognised.
- Proper application of the subsidiarity principle requires that the Commission take action "only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States and their regional and local authorities and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Union". The White Paper on European Governance recognises local and regional authorities as key actors in implementing Community law and policies, and the European Commission plans to test the use of tripartite agreements or contracts of objectives between the Commission, a Member State and a regional or local authority.
- Since structural policies are intended to promote regional development, the regions are not just the most appropriate decision-making level, but also the most effective implementing level, because they work closely with local players on policies they apply in their own territory.
- The subsidiarity principle should restore the balance between the most effective decision-making level and the concern to ensure that policy implementation is close to ordinary people.
- The regions are better able to identify the priority areas of regional development than other decision-making levels.
- This does not mean neglecting the role of the Member State: under the subsidiarity principle, central governments should play a coordinating and unifying role between the Commission and the regions while respecting the powers of both.
- The regions with strong institutional powers base their support for the subsidiarity clause referring only to regions on the argument that the local level is too small, except in the case of large cities, and not appropriate for implementing an integrated development policy, although local authorities must be involved when their interests are affected in the context of a partnership. Regional authorities are close enough to local situations, and at the same time they are sufficiently distanced to better weigh the different interests of the local authorities concerned.

- Regions in highly decentralised countries consider that their role should be strengthened and that it would be preferable for that role to be explicitly recognised in the Treaty.

I.5 External coherence of Structural Fund policy

Most of the regions believe that there is substantial coherence at regional level between European, national and regional programmes, and efforts have been stepped up recently to ensure coherence between regional, national and Community strategies and issues. This should continue.

Given their importance, it is felt that coherence is necessary above all at the programming and implementation stages.

I.6 Added value which EU programmes contribute to regional development

The regions all recognise the added value of Structural Fund measures. This added value does not relate to funding alone, although funding is considered of prime importance, but rather to the "Community method".

Community added value relates above all to the content of regional strategy and secondly to the design of programmes. Next in importance are the effects on management of programmes. However, the impact of Community measures on the implementation of public-private partnerships does not seem to be crucial.

II Management of programmes and monitoring

II.1.1 Organisational management of programmes: requirement to achieve results, and checks by the Commission

The regions consider that it is more difficult for the Commission, as the guarantor of cohesion policy, to play its role in maintaining the strategic coherence of projects than in monitoring the budgetary implementation of programmes. These observations must be seen in the context of the operation of the annual meetings and Monitoring Committees and the respective roles played in them by the various players.

As we have seen, opinion is divided on whether the Commission should have a purely consultative role in the Monitoring Committees. Whilst a majority are happy with this situation, others feel that the Commission should be a full partner in programme management, provided application of the subsidiarity principle is reviewed.

There is virtually unanimous agreement that the monitoring requirements which Member States have to meet under Regulation 438/2001 are too strict and that they are unclear. On the other hand, application of these requirements is considered to be relatively effective.

With regard to the audits carried out by the Commission and the Court of Auditors, the balance of opinion is definitely that they are sufficient in number and administratively cumbersome. Their effectiveness is not in doubt: most respondents state that they are fully or at least partly effective. Criticism focuses mainly on the lack of clear monitoring standards and poor coordination with national and regional monitoring systems.

II.1.2 Organisational management of programmes: day-to-day management and monitoring

The day-to-day management and monitoring of programmes represent key roles for the regions in Structural Fund policy because almost all regions in the Community are directly involved in operational management of the programmes.

With respect to day-to-day management, the regions consider coordination between project operators and management authorities to be a crucial aspect of the day-to-day management of structural programmes, but this sphere also presents the biggest difficulties. Generally speaking, programming inadequacies are most noticeable at the level of coordination with those running the projects, given the gap between local conditions, the concern to achieve coherence and the regulatory and institutional framework that determines how programming works. These inadequacies relate for instance to delays in decision-making and to the effectiveness of programmes and projects, criteria and procedures for selecting projects, and the difficulty of developing innovative projects etc.

For all regions the main problems in follow-up monitoring of project implementation concern the interpretation of Community rules and lack of clear instructions for monitoring.

These problems in interpreting rules relate to financial matters, in three main areas: eligibility of expenditure, control of expenditure and financial management rules (in that order of importance).

II.1.3 Organisational management of programmes: evaluations

The principle of the programme evaluations is not called into question, but opinion is very divided as to how effective they are. However, the commonest view is that they are effective either fully or in part.

The effectiveness of these evaluations is recognised with regard to current revision of the programmes, mid-term changes and future revisions. They are considered to be effective in part with respect to designing programmes, implementing programmes and project selection (in that order of importance).

Opinion is very divided regarding the effectiveness of ex-post evaluations in measuring the impact of programmes on the development of a region. The regions express a strong desire to be involved in the evaluations, in order to ensure that more account is taken of specific local contexts when measuring the programmes' impact.

Most regions consider that they have been involved in ex ante and ongoing evaluations. A large majority also feel that the Commission should be more involved in these evaluations.

II.2.1 Financial management of programmes: compatibility between national (including regional) and Community financial systems

National and Community financial systems are considered to be rather incompatible, resulting in substantial problems.

A large majority feel that these incompatibilities can be overcome. However, at this level, the specific features of the national systems and the differences between them affect the capacity to simplify them. A country-by-country approach is necessary here, but the ideal solution would be to have a single reference framework at European Union level.

II.2.2 Financial management of programmes: Community financing methods

Opinion is also divided on the cofinancing mechanism and application of the additionality principle, again with two broad views: on the one hand, a feeling that the mechanism is satisfactory and, on the other, that it is only partially satisfactory. Specific national situations come into play here.

There is almost universal opposition to cofinancing by the N+2 rule (Article 31(2): automatic decommitment). The regions feel that this mechanism does not take sufficient account of the time needed for efficient management of programmes, especially at the end of the funding period; that it causes considerable problems in the routine management of programmes; and that it excludes innovative or groundbreaking practices or projects. The vast majority of regions think that this rule should be changed.

Finally, a small majority of regions are satisfied with the rule on repayment of the payment on account after an 18-month time limit (date of decision + 18 months) (Article 32(2)). Other regions suggest changing it to "date of decision + 30 months".

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PART THREE

TOWARDS A NEW MODEL OF GOVERNANCE IN COHESION POLICY: PROPOSALS AND RECOMMENDATIONS

We interpret the strong interest shown by the regions in this report and the basic messages contained in the findings obtained as a call for the introduction of a new model of governance in European cohesion policy, within which the emergence of the regions as key players acting as anchors and centres of gravity for integrated regional development strategies must be recognised as a major factor.

This new model must be systematically developed on the basis of concepts such as subsidiarity, co-responsibility, internal and external coherence, flexibility, procedural simplification, additionality and partnership.

The new model of governance for cohesion policy should be based on five principles.

1st principle: cohesion policy must remain a Community policy.

Cohesion policy is a policy of solidarity towards regions with structural or specific problems, designed to let them take full advantage of the EU and to implement Europe's major political objectives of balanced development, competitiveness and growth.

To achieve this it is therefore essential to determine common guidelines in order to promote convergence between the regions benefiting from cohesion policy.

Otherwise the European Union would become no more than a "cash dispenser" where everybody could go and collect their dues to pursue their own policy. Obviously there is a risk that this approach will increase disparities between the richest and poorest regions, interrupt the continuity of long-term programmes and allow Member States to divert resources allocated for helping disadvantaged regions to other uses.

Finally, the Community character of economic and social cohesion policy is also justified by the persistence of substantial regional disparities within the current Member States, which demonstrates the need for a Community policy to stabilise – and then reduce – those disparities that national policies are unable to eliminate.

"Renationalisation" would therefore represent a step back for European policy as a whole and would aggravate regional disparities within the EU.

2nd principle: a future cohesion policy with reduced resources is inconceivable.

The added value of Community policies is indisputable. Moreover, enlargement will increase the need for economic and social cohesion in the EU. The resources currently allocated for cohesion

policy must be regarded as a minimum baseline. Any questioning of the 0.45% of EU GDP target for cohesion policy would undermine the policy's meaning and credibility. It is necessary to ensure that the impact of enlargement does not harm the regions with slower development, which still need support, or regions hit by the so-called statistical effect. Such an approach does not imply that there is no need for reform. But reform must also be designed to enhance the impact of structural policy in favour of all the other regions experiencing structural problems.

This also means that cohesion policy must be fair and must take into account the absorption capacity of the beneficiary regions. To be able to further strengthen these factors that provide Community added value, an equitable distribution of resources must be ensured between Europe's regions and each must be allowed to use all the resources allocated to it. This principle must be observed by maintaining the current limit on resources allocated to the Structural Funds (4% of Member States' GDP).

3rd principle: sectoral policies must contribute to cohesion policy.

The goal of regional development must not be pursued through cohesion policy alone. The goal of cohesion, which is an expression of solidarity between Europe's regions, is relevant to all European policies (transport, environment, research, CAP, competition, etc.).

Because of the spatial impact of farming and forestry, the CAP is particularly relevant among these sectoral policies; the final form of the CAP will determine whether rural areas are given a new impetus or whether, at least in the case of the weaker areas, they turn into desert, with the resulting disturbance of the rural/urban territorial balance in the affected areas.

However, it is necessary to identify the instruments and means by which each Community policy contributes to cohesion policy.

Thus a close link must be ensured between competition policy and economic and social cohesion policy. State aids should still be granted in order to make allowance for differences in development between the regions or local or subregional areas, in line with the provisions of the Treaty relating to competition.

In this context there must surely be a geographical link and similarity in approach for regions receiving support from the Structural Funds and areas designated eligible for regional aid.

4th principle: cohesion policy must be based on a regional approach and genuine application of the subsidiarity and proportionality principles.

Enlargement will require more targeting of resources where they are felt to be needed and will prompt calls for greater efficiency in the use of the Structural Funds.

One way of ensuring such targeting and efficiency is to emphasise the regional approach to granting resources, on the basis of clear criteria and in relation to EU political objectives.

The Commission reports show that regional situations in each Member State are often characterised by disparities that are not reflected by using national criteria as a basis for assessment. This problem can be overcome by basing all allocations on regional criteria.

Regional authorities, in partnership with local authorities, are also the best placed to decide on the projects, objectives and location of Community action, while strictly respecting the subsidiarity principle. Both as an allocation criterion and as a method for implementing programmes, this regional approach is a guarantee of good governance and effectiveness.

The principles of subsidiarity and proportionality are intended to give greater legitimacy to the European Commission's role as guarantor of the "Community method" and of general principles, rather than its role in monitoring procedures. The regional level should also be incorporated into the institutional framework of the subsidiarity principle and Treaty Article 5 should be amended, which means that Article 274 should also be revised.

5th principle: regional policy in the context of economic and social cohesion must be very flexible owing to the different regional situations: different institutional powers, geographical differences (especially in the case of the new Member States) and different objectives.

Rules should therefore only lay down general principles, which will require uniform application and a transparent, coherent and stable legal framework. Application rules should be linked to specific conditions in the Member States on the basis of co-regulation and the approach of tripartite (or bipartite⁴) contracts. It should then be possible to organise the national and regional levels of governance in such a way as to be coherent with the situation of the Member State. This could be applied most immediately with respect to audits, financial management, eligibility of spending and the process of designing and managing programmes.

These five principles, which can be used as a basis for simplifying and at the same time strengthening and streamlining cohesion policy, can be broken down into the following recommendations:

Recommendation 1

Simplifying procedures: coherence of the Structural Funds

The key points are: flexibility of rules, a regional approach⁵, evaluation of results (rather than monitoring of procedures), merging of funds (with differentiation of models according to context) and emphasising the essential purpose of Community initiatives.

Recommendation 2

Strengthening the concept of co-responsibility: taking action at the most efficient level

It makes sense to envisage using tripartite contracts⁶ and taking more account of the key role played by regions as managers of their territorial development strategy, which would imply a genuine decentralisation of responsibilities. This approach should be adopted for simplifying audits, for example.

Recommendation 3

European added value: coherence of objectives

Coherence of objectives is the main added value of the European Union in cohesion policy. Only a European institutional framework can guarantee complementarity of sectoral policies, financial instruments and procedures to be followed to achieve the objective of cohesion, and a fair balance between solidarity and competitiveness.

Recommendation 4

The future of regional cooperation as an instrument of integration

Strengthening the cohesion policies requires that more use be made of regional cooperation as an instrument, both within the frontiers of the Union and to support the integration process of the accession countries.

Operational proposals

The following proposals are formulated at a more operational level on the basis of the above five principles and four recommendations.

I Role of the regions in the governance of the structural policies

I.1 Application of the subsidiarity principle and its inclusion in the Treaty

We propose that the subsidiarity principle be applied as it was originally conceived, i.e. to mean action being taken and responsibility exercised at the local, regional, national and Community levels in accordance with their respective capacities. This means amending the Treaty to insert an explicit reference to regional and local government in the article on subsidiarity.

I.2.1 Involvement of the regions in Structural Fund policy

Involvement of the regions, drawing on their partnerships with local authorities, in every phase of the Structural Fund management process (programming, negotiation, follow-up – annual meetings and Monitoring Committees – implementation and evaluation) must be considered an essential aspect of taking regional problems into account in Structural Fund policy. On the one hand, the fact of having a single programming document covering the whole programming period for all the Structural Fund programmes enhances the legitimacy of a specific regional policy as an integrated whole. On the other hand, the Commission's definition of guidelines and priorities for a whole programming period is a valuable indication of the approach the regions should adopt in accordance not only with specific regional circumstances, but also with a Community approach to cohesion policy objectives, while showing greater flexibility with respect to implementation in view of regional factors not fully appreciated by the Commission.

Involving the regions in the decision-making process is a key aspect of the process of involving them in Structural Fund programming. It is therefore important to review the terms of this involvement, since the general rule linking the Commission and the Member State in the Community context means that it has not been achieved. This situation is all the more inconsistent with the fact that most of the regions carry broad implementing responsibilities in the management of programmes.

The regions must be fully involved in all decisions at every stage of the decision-making process.

In the Member States whose legal systems or constitution do not permit such participation, the regional authorities, or, where there are no regional government structures, the local authorities representing the region, must be involved as priority partners, for instance during the programming and monitoring phases. Tripartite contracts are the most appropriate solution here.

I.2.2 Participation of the regions in the decision-making bodies of Structural Fund programming

The annual meetings should have three objectives:

- to address basic questions relating to the coherence of the programmes implemented in connection with the strategies and imperatives of territorial cohesion and coordination between the Funds;
- to be a forum for tripartite discussion and consultation with the aim of finding joint solutions to the general problems posed by development of the programmes, not just a technical forum;
- to develop more professionalism in the way the meetings are run: agenda, preparing the decisions to be taken, identifying strategic issues, etc.

Since they are responsible for operational management of the programmes, the regions must attend the annual meetings so that the regional and local implications of the programmes can be better highlighted in relation to their general objectives.

The regional authorities of the more centralised countries, or, where there are no regional government structures, the local authorities representing the region, should be involved so that they can better understand the requests and recommendations of the Commission. By the same token, it is equally necessary for a representative of the subregional authorities to participate.

Since the work of the Monitoring Committee ties in more with the annual meetings and with the work of the authorities responsible and the Commission, it should be a body that discusses problems of substance and not just financial issues, and which ensures coherence between projects and the strategies of the programmes. It should be granted more powers, greater decision-making responsibility and more autonomy to this end.

I.2.3 Programming documents of the Structural Funds

Programming documents must be simple and modifiable. The programming document can be adjusted on a more or less ongoing (*step-by-step*) basis after the mid-term review, using simple and relevant indicators. In this context the programme complement must become a flexible instrument used solely to manage the programme while it is running.

I.3 Internal coherence and content of Structural Fund policy at Community level

Our proposals concern the near future and the period after 2006.

In the short term we think it is necessary to try and improve coordination between the Structural Funds at Community level. To this end an internal system should be set up in the Commission to coordinate measures supported by the three funds, as happens at regional level in many countries. We also suggest strengthening the coordinating role of the REGIO DG in relation to the other DGs concerned.

This coordination should at least involve harmonising the working rules of the different funds. The technicality of the rules governing each of the funds very often means that the initiating departments and departments responsible for implementing the SPDs tend to specialise in one fund, which often leads to a lack of overview over the Structural Fund measures both within a single programme and between different programmes implemented in a given region. In addition, the existence of several funds governed by different rules impedes the integrated approach desired at project level.

The aim should be to have an identical financial regulation and general regulation for the three funds. In this connection we suggest that a single system of management rules be introduced for all the funds,

both at the financial management level (e.g. disbursements or requests for reimbursement) and with respect to monitoring operational aspects of the programmes (e.g. reports, evaluations).

In this context it would have to be ensured that the corpus of rules governing all the Structural Funds did not amount to just the sum of the individual sets of rules governing the current funds, but that there was a streamlining on the basis of the lowest common denominator.

Looking beyond 2006, we propose that "mono-fund" programmes be introduced and that the Structural Funds be merged to form a single fund. This solution is recommended as the most coherent way of integrating and coordinating Community measures in order to develop a regional Community policy. It would allow synergies and complementarities to be identified between the funds, as well as facilitating management and coordination tasks.

The CoR also proposes that clear rules be introduced for eligible expenditure and that the European Commission respond to requests clearly and swiftly in order to facilitate day-to-day management.

In this context and in the light of the information provided by the four key tools used for the consultation, it seems necessary to pursue three inseparable priority objectives after 2006:

- **closing the regional development gap: this key policy would concern regions with a GDP per capita of less than 75% of the EU average, maintaining the current Objective 1 definition, with particular focus on those regions that have experienced an artificial fall in this average owing to enlargement. Special attention should also continue to be given to all the outermost regions and particularly sparsely populated regions in accordance with Treaty Article 299(2);**
- **endeavouring to achieve economic and social restructuring of the regions with development problems: this policy would cover current Objectives 2 and 3 on the basis of objective criteria relating to employment and unemployment rates by region. The regions, in partnership with local authorities, could then decide whether to allocate funds received to all or part of their territory, with a level of aid per inhabitant requirement, in order to implement the Community geographical (urban, industrial and rural areas) and thematic (employment, training, environment, natural risks, etc.) guidelines adopted;**
- **and finally, maintaining the innovative character of Community initiatives and on this basis seeking and stepping up regional cooperation (cross-border, transnational and interregional); efforts should be made to adapt these initiatives better to overall regional development strategy but without reducing their autonomy in relation to the SPD.**

I.4 Co-responsibility of the Commission, the Member States and the regions, and the future role of the regions in cohesion policy and the Structural Funds

Again, the aim is to apply effectively the principles of subsidiarity and proportionality in co-responsibility relations between the Commission, a given Member State and the regions, while strengthening the regional decision-making level.

In this context, it is necessary to formally establish regional responsibility as the basis for operational implementation of all the Community programmes that affect a given region and to

define clearly the division of powers and responsibilities between the three decision-making levels.

This means, for instance, establishing effective co-management rules between the various regional, national and Community partners, e.g. on the basis of tripartite contracts between the Commission, the Member State concerned and the regions. At a more practical level it is also necessary to establish a more direct relationship between the Commission and the regions. As already noted, the tripartite⁷ contracts (confidence pact, responsibility pact, etc.) are identified as methods for achieving this, which will allow general rules to be drawn up for specific national contexts.

I.5 External coherence of Structural Fund policy

For the longer term it is necessary to better define the nature of the future link between the national and regional programmes on the one hand and Community programmes on the other, in order to determine whether or not the former should be included in the programming design phase, whether their timing should be coordinated with the implementation of Community programmes and whether uniform rules should be applied in order to integrate them.

Flexibility should be the watchword in seeking coherence between the three types of programme and there will not necessarily be a need to introduce rigid, standard rules for each type.

II. Management of programmes and monitoring

II.1.1 Organisational management of programmes: requirement to achieve results, and checks by the Commission

In trying to achieve strategic coherence between the programmes, a *modus operandi* must be developed that enables the Commission to discharge its responsibilities towards Parliament in terms of ensuring coherence between the cohesion objectives at Community level and the programmes. To this end the Commission must be able to assess the strong points of a region and the resulting projects and to relate these to cohesion policy as a whole.

With respect to the application of Regulation 438/2001 and the audits of the Commission and the Court of Auditors, guidelines and clear rules must be drawn up governing audits and in each context a simple and effective *modus operandi* must be identified, avoiding any overlap of audits and auditors.

Audits should be carried out by the European Commission mainly during the second phase of the programming period, depending on the results obtained during the first phase.

Finally, the purpose of audits must be to check whether expenditure is eligible and whether Community rules have been observed, avoiding verification of implementation procedures provided for in the programming complement (selection criteria, etc.).

II.1.2 Organisational management of programmes: day-to-day management and monitoring

In these areas there should be greater recognition of the role played by regional and local authorities in implementing Structural Fund measures and more emphasis on the need for contracts or agreements between the Commission, the Member State concerned and the regions.

At the same time an attempt should be made to define clear and simple management rules and to establish an effective management and coordination system for all the Funds and all the programmes at regional level.

Simplifying the rules in this way must bring about a balance between guaranteeing transparent management and efficiency of the Funds on the one hand and providing a flexible management structure for those in charge of the programmes and operators on the other.

Finally, better information should be provided for project operators.

II.1.3 Organisational management of programmes: evaluations

Ex-post evaluations are too late to be taken into account in the next programming period. A less cumbersome method must be found so that lessons can be drawn from the current programming period more quickly with a view to 2006. One solution would be to combine evaluation of the final report with an ex-ante evaluation of the next programming period.

Similarly, more account should be taken of the results of previous programming periods when drawing up programming documents, and the aims of the ex-post evaluation should be better defined in general. This should be the basis for a global evaluation of the impact on a region of all Community measures over the long term and be carried out in close collaboration with the regions.

II.2.1 Financial management of programmes: compatibility between national (including regional) and Community financial systems

Simplification could be achieved by creating a single legal framework and setting up a single regional fund to provide Community financial assistance that would no longer pass via the budget of the Member State. This solution is being put into practice in certain countries, but it is too early to assess whether it is really effective.

Payment application procedures should also be harmonised and made more flexible.

II.2.2 Financial management of programmes: Community financing methods

The N+2 rule should be amended, since its application may hamper the implementation of large-scale projects, is time-consuming and induces management authorities to favour less structured projects that absorb the available funding more rapidly. An N+36 months rule, dating from approval of the programming document, would overcome these problems while maintaining the restrictive nature of the rule.

By analogy, the rule on repayment of the payment on account must be adapted on the basis of an N+30 months formula.

¹ OJ C 148, 18.5.2001, p. 25

² OJ C 107, 3.5.2002, p. 27

³ OJ C 66, 19.3.2003, p. 11

⁴ Bipartite contracts between the Commission and the region in the case of regions with exclusive powers in the area concerned.

⁵ See point I.3, second indent, p. 20

⁶ Or bipartite contracts, see previous footnote.

⁷ Or bipartite, see footnote 4.

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