Financial instruments and objectives of the EU cohesion policy

2000–2006		2007–2013	
Objectives	**Financial instruments**	**Objectives**	**Financial instruments**
Cohesion Fund objective	Cohesion Fund	Convergence and competitiveness	Cohesion Fund, ERDF, ESF
Objective 1	ERDF, ESF, EAGGF-Guidance, FIFG		
Objective 2	ERDF, ESF	Regional competitiveness and employment - regional level - national level: European Employment Strategy	ERDF, ESF
Objective 3	ESF		
INTERREG	ERDF	European territorial co-operation	ERDF
URBAN	ERDF		
EQUAL	ESF		
LEADER +	EAGGF-Guidance		
Rural development and restructuring of the fishery sector outside Objective 1	EAGGF-Guarantee, FIFG		
9 objectives	**6 instruments**	**3 objectives**	**3 instruments**

Source: Third report on economic and social cohesion, http://europa.eu.int/comm/regional_policy/sources/docoffic/official/reports/cohesion3/cohesion3_en.htm
Notes: ERDF – European Regional Development Fund; ESF – European Social Fund; EAGGF – European Agricultural Guidance and Guarantee Fund; FIFG – Financial Instrument for Fisheries Guidance.

The European Commission (EC) published its **Third Report on Economic and Social Cohesion** on 18 February, presenting the results of community regional policy with a focus on the last three years. The Report also brings the EC's vision of new cohesion policy in the enlarged EU for 2007-2013.
According to the Report, gaps in income and employment narrowed in the EU in the last ten years, especially from the mid-1990s onwards. In 1994-2001, growth in GDP per capita of cohesion countries (Spain, Portugal, Greece and Ireland) exceeded the average annual growth of the EU by about 1 percentage point even if Ireland, where growth was exceptional, is excluded (average annual growth was 3.1% in Greece and Portugal, 8.2% in Ireland, 3% in Spain's Objective 1 regions and 3.2% in Spain's other regions, and 2.2% in the EU-15 on average). Similarly, the share of employees in the working-age population increased more than on average, except in Greece where labour productivity growth was above the average. In spite of this improvement, gaps remain wide. GDP per capita of Greece and Portugal is still at about 70% of the EU average, while 6%-8% fewer people of working age are employed in Greece and Spain than the average. Objective 1 areas outside cohesion countries recorded lower economic growth, even somewhere below the EU average (the Italian Mezzogiorno).
After the **accession of new member-states**, regional disparities will increase. Enlargement will contribute just 5% to GDP, but it will increase the population by as much as 20%. According to the EC's estimates, this will reduce GDP per capita by about 12.5%. In new member-states, as much as 92% of the population lives in regions whose GDP per capita is below 75% of the EU25 average, while two-thirds live in regions whose GDP per capita is 50% below the average. The fall in the EU25 average will also affect some regions of current member-states; up to 18 regions whose GDP per capita is now below 75% of the EU15 average will exceed this average in the EU25. This will be a statistical effect rather than the result of lower development gaps. Employment will also suffer deterioration. In the ten acceding countries, only 56% of those of working age are in jobs as against 64% in the EU15, meaning there will be about 2.5 employed people per one retired person in the enlarged EU. The EC believes this ratio will deteriorate to 2:1 in 2025, assuming that the employment rate is unchanged. Development problems persist in current member-states and are particularly acute in lagging regions which lack the necessary infrastructure, labour skills and social capital to be able to compete on equitable terms with other parts of the Union. These are regions which receive assistance under Objective 1 of the Structural Funds and are largely concentrated in cohesion countries.
As a result of these changes, **cohesion policy** will remain one of the three Community policy priorities (growth, cohesion and employment); however, the EC has proposed some changes to cohesion policy. The proposed reformed cohesion policy should still be based on the same underlying principles: concentration, additionality, programming, partnership and co-ordination, financial control, monitoring and evaluation, while bringing better targeted activities, simplification and greater transparency. Cohesion policy will focus on **three priorities**: convergence and competitiveness, regional competitiveness and employment, and territorial co-operation. The number of objectives will be reduced from nine to three, while the number of instruments to support these objectives will go down from six to three. The following financial instruments will be retained: the Cohesion Fund, ERDF and ESF. The agricultural (EAGGF) and fisheries (FIFG) funds

will be restructured for improved transparency and simplification, and brought into a single instrument under common agricultural policy (CAP).

The **convergence and competitiveness** objective will replace the cohesion objective and Objective 1 currently supported by all four structural funds (ERDF, ESF, EAGGF-Guidance, and FIFG). It will be targeted at accelerating economic growth and creating jobs in the least developed areas. This objective will concern those regions in which GDP per capita is less than 75% of the EU average, member-states in which gross national income is less than 90% of the EU average (Cohesion Fund), and regions undergoing the so-called statistical effect of enlargement, which also applies to new members (including Slovenia). This objective will be supported by the financial resources of all three instruments: the Cohesion Fund, ERDF and ESF.

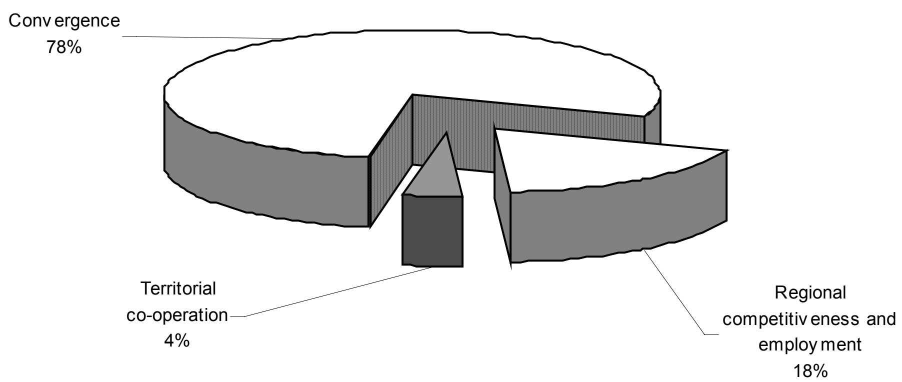
Outside the less developed member-states and regions, cohesion policy will pursue the **regional competitiveness and employment objective**, which will replace current Objectives 1 and 2. This will be implemented in two ways: (i) through regional programmes, cohesion policy will help regions accelerate restructuring and raise competitiveness; financial resources will be provided through the ERDF; and (ii) through national programmes, cohesion policy will help people anticipate and adapt to economic change in line with employment policy priorities; financial resources will be provided through the ESF.

The third objective concerns **territorial co-operation**, promoting the harmonious and balanced development of regions along external and internal borders of the EU. It will replace current Community initiatives. It will build on the positive experience of the INTERREG Initiative, which promotes cross-border and inter-regional co-operation between current member-states as well as member-states and acceding countries. The financial instrument will be the ERDF.

Financial resources for cohesion and structural policies currently represent a third of the Community budget (EU15) and this share will increase further. The EC proposes EUR 336.3 billion for cohesion policy in 2007-2013 (0.41% of gross national income of the EU27, including Romania and Bulgaria). Most funding should be given to the convergence and competitiveness objective (78%), while the regional competitiveness and employment objective and territorial co-operation should receive much less (18% and 4%). Distribution among member-states will follow economic, social and territorial criteria and will be subject to further discussions and negotiations.

An **indicative breakdown of financial resources** for new member-states for **2004-2006** has been known since December last year. The new members will receive over EUR 21 billion in total from the structural funds and the cohesion fund. The Single Programming Documents, or Community Support Frameworks, serving as a basis for allocating resources, will be formally adopted on 1 May, however, all acceding countries have had access to these resources since 1 January this year. Slovenia, which is treated as a less developed country and a single region in this period, should receive EUR 210 million for Objective 1, EUR 21 million for INTERREG, EUR 6 million for Equal, and EUR 169 million for the cohesion fund, totalling EUR 405 million.

Graph: **Financial resources for cohesion policy broken down by objectives, 2007-2013**



Source of data: Third report on economic and social cohesion, http://europa.eu.int/comm/regional_policy/sources/docoffic/official/reports/cohesion3/cohesion3_en.htm