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POLICY DEPARTMENT STRUCTURAL AND COHESION POLICIES



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ECONOMIC, SOCIAL AND TERRITORIAL SITUATION OF BERLIN, GERMANY

NOTE

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DIRECTORATE-GENERAL FOR INTERNAL POLICIES POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES

REGIONAL DEVELOPMENT

ECONOMIC, SOCIAL AND TERRITORIAL SITUATION OF BERLIN, GERMANY

NOTE

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Abstract

This note provides an overview of Germany's socio-economic, political and administrative framework for EU Cohesion policy. With a focus on the state of Berlin, it presents the Operational Programmes 2007 - 2013 as well as the main policy objectives. The paper gives also an insight into the German view on the future of Cohesion policy and the preparation of the programming period 2014 - 2020.

The note has been prepared in the context of the Committee on Regional Development's delegation to Berlin, 16 - 18 June 2013.

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LIST OF ABBREVIATIONS

CDU	Christian Democratic Union (German political party)
CSU	Christian Social Union (German political party)
ERDF	European Regional Development Fund
ESF	European Social Fund
ETC	European Territorial Cooperation Objective
EU	European Union
FDP	Free Democratic Party
GDP	Gross Domestic product
GDR	German Democratic Republic
MA	Managing Authority(ies)
NSRF	National Strategic Reference Framework
NUTS	Nomenclature of Territorial Units for Statistics
OP	Operational Programme(s)
RCE	Regional Competitiveness and Employment Objective
ROP	Regional Operational Programme(s)
R&D	Research and Development
SME(s)	Small and medium sized enterprise(s)
SPD	Social Democratic Party of Germany

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1. THE FEDERAL REPUBLIC OF GERMANY

1.1. Key Facts and Figures

Map 1: Map of the Federal Republic of Germany



Source: www.cia.gov.

The **Federal Republic of Germany** is bordered to the North by the North Sea, Denmark, and the Baltic Sea, to the East by Poland and the Czech Republic, to the South by Austria and Switzerland, and to the West by France, Luxembourg, Belgium, and the Netherlands. The territory of Germany covers 356 854 km² and with **80.2 million inhabitants**, it has the largest population of the EU Member States.

Table 1: Key data of the Federal Republic of Germany

Area	356 854 km²
Population	80.2 million (2011)
Population density (per km²)	229.9 (2007)
Official language	German
Currency	Euro
GDP per capita (PPS)	121 (December 2011)
Real GDP growth rate	0.7 % (2012), 0.5 % (forecast 2013)
Unemployment rate	5.3% (January 2013)
Inflation rate	2.5 (2011), 2,1 (2012)
Public debt	80.5 % of GDP (2011)

Source: Eurostat; Statistisches Bundesamt 2013.

1.2. Political and governmental structures

Germany is a federal parliamentary republic. Its 16 states (*Länder*) have an important role in the legislative process at the federal level, as well as independent responsibilities, particularly in the fields of education and internal security, including police services. With the reunification, the *Länder* of the former German Democratic Republic (GDR, East Germany) acceded to the Federal Republic of Germany on October 3rd 1990.

Germany has a **bicameral parliament**: The *Bundestag* (lower house), has currently 620 members (either directly elected from the 299 individual constituencies, or elected through the party lists in each state, so as to obtain proportional representation¹). Parties must win at least 5% of the national vote, or three constituency seats, to gain representation. The *Bundesrat* (upper house) consists of members nominated by the 16 state governments.

Germany's main political parties are the Christian Democratic Union (CDU), its sister party, the Christian Social Union (CSU), the Free Democratic Party (FDP), the Social Democratic Party (SPD), the Alliance 90/The Greens, the Left Party and the fairly new Pirate Party.

The Head of state is the **Federal president**, elected for a maximum of two five-year terms by the Federal Assembly, which consists of members of the Bundestag and representatives of the state legislatures. His competences are mostly representative, and he signs all German laws after having checked their constitutional character. The current president, Joachim Gauck, was elected on March 18th 2012.

The federal executive government is led by the **chancellor**, who is elected by the Bundestag on the nomination of the federal president. The current government, a coalition of the CDU/CSU and FDP, was formed in October 2009 and is lead by the CDU leader, Angela Merkel.

The next general elections are scheduled on 22 September 2013. Since there is currently a centre-left majority in the *Bundesrat* representing the state governments, which will persist until at least 2015 according to the calendar of regional elections, the current (and any future CDU-led government if there should be one) has to work closely with the SPD and the Greens in order to implement its legislative projects.

In the Federal Constitutional Court (*Bundesverfassungsgericht*), the German Supreme Court, which is regularly consulted when the legal basis of the EU is to be modified, half the judges are elected by the *Bundestag* and half by the *Bundesrat*.

1.3. Administrative Structures

The Federal Republic of Germany consists of 16 *Länder* which differ in size and population, especially between **city states** (*Stadtstaaten*) and **states with larger territories** (*Flächenländer*). There are 3 city states, Berlin and Hamburg being states in their own right, while the State of Bremen consists of two cities, Bremen and Bremerhaven. The other 13 states are *Flächenländer*.

A part from this, there are currently 24 "Überhangsmandate", i.e. excessive mandates that arise when a party receives fewer seats according to the party vote than it has won constituencies.

Map 2: 16 German Länder



The Länder have considerable political competences and own constitutions and laws, though federal law takes precedence over Land law. The Federation holds exclusive legislative competence in all foreign policy issues, defense, including the protection of the civil population, citizenship, currency and money, the unity of the customs and trading area and cooperation between the Federation and the Länder concerning criminal police work. In fields subject to concurrent legislation, the Länder have the right to adopt legislation provided and in so far as the Federation makes no use of its legislative powers in the same field. Civil law, criminal law, the prison system, road traffic, the law of association and assembly, the education system, business law, consumer protection and the benefits granted to members of the public service are all among the fields subject to concurrent legislation.

Most of the states are governed by a Prime Minister (Ministerpräsident)², together with a unicameral legislative body known as the Landtag. The states are parliamentary republics and the relationship between their legislative and executive branches mirrors the one of the federal system: the legislatures are popularly elected for four or five years (depending on the state), and the Prime Minister is then chosen by a majority vote among the Landtag's members. The Prime Minister appoints a cabinet to run the state's agencies and to carry out the executive duties of the state's government.

-

In the city states, the first Mayor occupies this position.

Politics at the state level often have implications for federal politics. Opposition victories in elections for state parliaments, which take place throughout the federal government's 4-year term, can weaken the federal government, because state governments have assigned seats in the *Bundesrat*, which has to give its approval to many laws after their scrutiny by the *Bundestag*.

Every state (except the city-states) consists of **rural districts** (*Landkreise*), **district-free towns/cities** (*Kreisfreie Städte*, cities which are districts in their own right) or *Kommunalverbände besonderer Art* (local municipal association of a special kind). There are 295 *Landkreise* and 107/110 *Kreisfreie Städte* in Germany. Each district has an elected council and an executive chosen by either the council or the people, depending on the state. It is in charge of supervising the local government administration. The *Landkreise* have primary administrative functions in specific areas, such as highways, hospitals, and public utilities.

Map 3: Rural districts in Germany



Source: www.intermap.de.

Every rural district is subdivided into **municipalities** (*Gemeinden*), while every urban district is a municipality in its own right. There are 12 141 municipalities, which are the smallest administrative units in Germany. Cities and towns are municipalities as well, which have city rights or town rights (*Stadtrechte*).

Gemeinden are ruled by elected councils and an executive, the mayor, who is chosen by either the council or the people, depending on the *Bundesland*. The "constitution" for the *Gemeinden* is created by the states and is uniform throughout a *Bundesland* (except for Bremen, which allows Bremerhaven to have its own constitution).

1.4. The Economy

After the **meltdown of 2008**, the country suffered from a GDP contraction of -5% in 2009, but afterwards recuperated rapidly and has resisted the crisis better than the rest of the euro zone. In fact, reforms undertaken from the year 2003 on addressed chronically high unemployment and weak growth rates reigning at the time and helped, together with a specific government subsidized, reduced working hour scheme³, to keep the increase in unemployment during the recession of 2008/09- the deepest since World War II - relatively low

Despite an above-average fall in real GDP during the crisis, the **unemployment** rate in Germany increased by only 0.5 %, compared to 3% in the OECD on average. This unemployment reaction was also highly unusual relative to past recessions in Germany itself (which followed the OECD average). Some of the reasons for this phenomenon are Germany-specific. For example, the impact was primarily hitting the German manufacturing sector while the more labour-intensive sectors, such as construction, were not affected. Also, employment in public services continued to increase. However, these factors cannot fully explain the benign labour market outcome during the crisis. Evidence suggests that the important structural reforms mentioned above played a significant role. They included notably labour market reforms on work incentives and flexibility for enterprises ("Hartz" reforms, and some other measures) and were arguably the most significant reforms realised among OECD countries during that time. They were at the time - and even until today - highly disputed in Germany because they significantly changed labour market institutions and structures in the country.

However, the current crisis has its impact in Germany. Economic activity weakened steadily during 2012, notably in the large industrial sector. Real GDP contracted by 0.6% in the final three months of 2012, with a subdued private-sector confidence and a temporary falling export demand. Also, the worsening euro-zone financial crisis and the financial burden it places on Germany contributed to it.

Investment and stimulus efforts initiated in 2008/09 as well as tax cuts increased Germany's budget deficit to 3.3% in 2010, but slower spending and higher tax revenues reduced the deficit in 2011. The government is focused on steady **consolidation** of the public finances, with the aim of limiting the structural deficit. In fact, a **constitutional amendment** approved in 2009 limits the federal government to structural deficits of no more than 0.35% of GDP per year as of 2016. It also requires a balanced budget for the *Länder* by 2020 - a considerable challenge since some of them have serious consolidation problems.⁵ No borrowing limits have been specified for municipalities and social security funds.

The system is called "Kurzarbeit" and gives companies flexibility in times of crisis.

OECD (2012), "Assessment and recommendations", in OECD, Economic Surveys: Germany 2012, OECD Publishing.

⁵ OECD, Regional Outlook 2011: Building resilient regions for stronger economies, OECD 2011, here p. 95.

As regards the sectoral profile, the German economy is a leading exporter of machinery, vehicles, chemicals, and household equipment and benefits from a highly skilled labour force. The service sector contributes around 72.6% to the country's gross value added, followed by the industry with 22%, the construction sector with 4.6% and agriculture, forestry and fisheries with 0.8% (all numbers 2009).

Finally, a significant policy change in the energy sector is affecting the German economy since 2011. In fact, following the March 2011 Fukushima nuclear disaster, Chancellor Merkel announced in May 2011 that 8 of the country's 17 nuclear reactors would be shut down immediately and the remaining plants would close by 2022. Germany intends to replace nuclear power with **renewable energy** and is working on a strategy to achieve this major policy change. Before the shutdown of the 8 reactors, Germany relied on nuclear power for 23% of its electricity generating capacity and 46% of its base-load electricity production. An intense political and public debate is currently ongoing about the way to implement this reversion of the energy sector and the promotion of renewable energies.

1.5. Regional Disparities in Germany

20 years after the German reunification the **division between East and West** is still a determining factor for regional development in Germany. Indeed, in terms of economic regional disparities, states that were part of the former German Democratic Republic are last in the country's GDP/capita list and rank below the national average. In the most problematic regions several aspects of the living conditions are under average and create an altogether difficult area, for example one relatively huge area of Mecklenburg Vorpommern, north-western Brandenburg and north of Sachsen-Anhalt.

Notwithstanding discrepancies following the collapse of the socialist regime, after the reunification immense inequalities in GDP per capital declined between 1990 and 2007 - with a large decline from 1990 to 1993, then a stabilization and slowly deckling pattern since 2000. The reasons for the reduction of inequalities lie both in the catching up of lagging regions Thüringen, Sachsen Anhalt, Sachsen, Brandenburg and Mecklenburg Vorpommern and the relative loss of leading regions Nordrhein Westfalen, Baden Württemberg and Bayern.

Besides and beyond the inequalities following the transformation of eastern Germany, there are also considerable **disparities** in living standards *within* **old and new** *Länder*, often linked to the restructuring and conversion of industrial areas such as the *Ruhrgebiet* or the *Lausitz* with their former coal and steal mines. Also, the **urban-rural dimension** and the **North-South dimension** are further determining factors of regional development in Germany. In general, both in Eastern and Western Germany rural areas are weaker than urban areas, and in all areas there are regions with problematic rates of unemployment and deprived neighbourhoods.

In terms of GDP, the **distribution of economic power and output** illustrates the heterogeneous regional distribution of wealth in Germany, influenced by the above mentioned factors as well as by the divergent sizes and regional characteristics of the states:

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⁶ OECD, Regional Outlook 2011: Building resilient regions for stronger economies, OECD 2011, p. 248.

Ibid., p. 9ff.

Table 2: GDP of the 16 German Länder 2012

Regional breakdown	GDP (EUR bn, at 2011 prices)
Baden-Württemberg	376.29
Bayern	446.44
Berlin	101.39
Brandenburg	55.09
Bremen	28.03
Hamburg	94.43
Hessen	228.51
Mecklenburg-Vorpommern	34.99
Niedersachsen	224.35
Nordrhein-Westfalen	568.86
Rheinland-Pfalz	113.22
Saarland	30.50
Sachsen	95.07
Sachsen-Anhalt	51.88
Schleswig-Holstein	73.63
Thüringen	48.12
Germany	2.570.80

Source: Statistisches Bundesamt (2012).

A similar pattern holds with regard to **unemployment**, with Eastern German states featuring an unemployment rate nearly the double (10.3 %) compared to the Western areas (5.7 %).⁸ They also have a clearly higher youth unemployment rate, representing a problem in particular for larger urban areas and the capital city Berlin.

Institut für Stadtforschung und Strukturpolitik GmbH, Strategiebericht 2012 zur EU-Strukturpolitik. Berichterstattung zum Nationalen Strategischen Rahmenplan für den Einsatz der EU-Strukturfonds in der Bundesrepublik Deutschland, (im Auftrag des Bundesministeriums für Wirtschaft und Technologie), Dezember 2012, p. 8.

Table 3: Unemployment rate in German Länder, 2012

Regional breakdown	Unemployment (%, annual average 2012)
Baden-Württemberg	3.9
Bayern	3.7
Berlin	12.3
Brandenburg	10.2
Bremen	11.2
Hamburg	7.5
Hessen	5.7
Mecklenburg-Vorpommern	12.0
Niedersachsen	6.6
Nordrhein-Westfalen	8.1
Rheinland-Pfalz	5.3
Saarland	6.7
Sachsen	9.8
Sachsen-Anhalt	11.5
Schleswig-Holstein	6.9
Thüringen	8.5
Germany	6.8

Source: Statistisches Bundesamt, 2012.

Taking into account the complexity of the situation in the German federation and the considerable economic and social disparities within the German territory, a closer look at the political responses to the challenges linked thereto can be interesting. Thus, the following paragraphs provide an overview of the main national political instruments introduced as by German regional policy to balance the regional disparities in the country.

Solidarity surcharge, Solidarity Pact and "Länderfinanzausgleich"

As indicated above, the disparities between East and West are not the only ones within Germany. Long before the challenges linked to the post-reunification occurred, the legislators in the Western parts of Germany had adopted a special legal procedure to equalise the divergent revenues of the then 11 *Länder*. Of course, since 1991, the 5 former Eastern German *Länder* also participate in this system.

The basic idea of transfers between federal, state and local governments as well as among Länder is laid down in the German constitution, aiming at the unification of living conditions in the whole territory of Germany. Several taxes and other measures have been introduced to achieve this.

The <u>Länderfinanzausgleich</u> regulates the distribution of income between all 16 <u>Länder</u>. Based on the solidarity principle and the financial needs of each state, through a system of fiscal equalisation, the richer regions (donor states) pay compensations to the recipient <u>Länder</u>. In 2012, there were only 3 donor states: Hessen, Badem-Würtemberg and Bavaria. The other 13 <u>Länder</u> were all recipient states, with Berlin claiming the biggest payment (3.32 billion EUR).

Table 4 features the amounts of transferred money according to last year's procedure of the "Landerfinanzausgleich".

Table 4: Donors and recipients, "Länderfinanzausgleich" 2012

Land/state	EUR million	
<u>Recipients</u>		
Berlin	3.322,71	
Sachsen	962.54	
Sachsen-Anhalt	547.03	
Brandenburg	541.70	
Thüringen	541.19	
Bremen	516.99	
Mecklenburg-Vorpommern	452.10	
Nordrhein-Westfalen	401.73	
Rheinland-Pfalz	224.49	
Niedersachsen	172.96	

Land/state	EUR million	
Schleswig-Holstein	128.59	
Saarland	92.21	
Hamburg	21.21	
<u>Donors</u>		
Hessen	-1.326.83	
Baden-Württemberg	-2.694.28	
Bayern	-3.904.34	

Source: Own processing of data, based on Bundesministerium der Finanzen, January 2013.

This fiscal equalisation system has been criticised from time to time over the years. In 1999, after complaints of the donor states, it was reformed to include some incentives for all states to manage their budgets effectively. Notwithstanding, the gap in fiscal revenues between the *Länder* has further increased in the last 14 years, and the reduction of donor states to now only 3 has lead to more conflictual discussions. The context of the financial crisis and the different EU activities to address these may have also contributed to intensify the discussions.

The donor states consider it unfair that they impose fares and taxes for certain public services on their citizens in order to balance their state budget, whereas recipient *Länder* offer the same public services to their citizens for free. In February 2013, Bavaria and Hessen decided to challenge the constitutional framework at the German Supreme Court (*Bundesverfassungsgericht*) claiming the transfer system needs further reform and stronger incentives for all *Länder* to balance their budgets. The reaction to this step has been mixed, from understanding the principle argumentation of the donor states to the opinion that - in particular regarding Berlin - the German capital city has a right to financial support to cover the expenditure linked to its representing the whole country.

In addition to the traditional *Länderfinanzausgleich* to ease regional disparities, two other measures have been put in place following the reunification of Germany. With the historic fall of the Berlin wall new massive challenges in terms of regional disparities entered, quite abruptly, the picture, and considerable amounts of money were needed to address them as quickly as possible. Therefore, the **solidarity surcharge** (*Solidaritätszuschlag*) was introduced in July 1991, at first for one year. The premium of 3.75 % on the income and corporation tax was supposed to help co-finance the reconstruction of the East. After a few years it became clear that the state needed much more funding to deal with the lagging Eastern German regions. Thus, the surcharge was reintroduced in 1995 - this time indefinitely -, at a rate of 7.5 %. Since 1998 it amounts to 5.5 % of the income. It has

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The examples given in this context refer to the fact that some recipient states offer free childcare systems and universities, as well as high salaries for their political representatives, whereas the donor states do not.

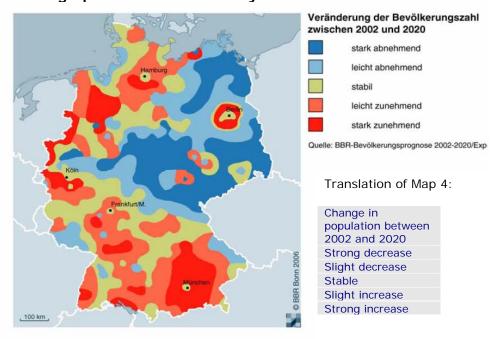
turned into a general tax and the revenue of 13 billion EUR is included in the national budget.

The second package to support the Eastern German regions is the <u>Solidarity Pact</u>, a transfer from federal and state governments to the Eastern German states which is in place since 1991. The second edition of this agreement took effect in 2005 (*Solidarpakt II*), and runs through 2019, guaranteeing the new states in total 156.6 billion EUR. 105 billion EUR of this sum are foreseen for investments in the infrastructure and financial consolidation of the local entities. For the time being, it is planned that from 2020 onwards, the Eastern states of Germany do manage without subsidies, but experts believe that - despite the amounts transferred during the last 22 years - an adjustment to the level of the Western states is unlikely until then.

Demographic challenges

Finally, as for other EU countries, another indicator for structural problems and disparities at regional level is increasingly important in Germany: the demographic trend. Germany faces significant demographic challenges to sustain long-term growth, particularly in the Eastern and some middle parts of the country. One of the lowest fertility rates, even in the EU, and declining net immigration create increasing pressure on the country's social welfare system.

With regard to the population numbers, there is a clear East-West division which is likely to increase towards 2020, leaving most of the Eastern German regions with a drop in their population. In this context it is worth noticing that **Berlin** is the only area in Eastern Germany where population is actually expected to strongly increase in the years to come, due to the particular dynamics of the metropolitan capital area and migration flows.



Map 4: Demographic trends in Germany until 2020

Source: NSRF 2007-2013 of Germany.

Despite recent **legislative reforms** that have put Germany among the OECD countries with the fewest restrictions on labour migration for highly-skilled occupations, this instrument has been used - for the time being - relatively rarely by German employers. There are, though, indications that the crisis has enhanced migration to Germany from countries like Greece, Spain and Portugal (1.08 million in 2012). The increase of immigration from Spain was 45 %, from Greece and Portugal 43 % and from Italy 40 % compared to 2011. ¹⁰

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Statistisches Bundesamt (<u>www.destatis.de</u>). The employment of people who are already residents in Germany does not appear in the statistics of the above mentioned high level of migration to Germany.

2. COHESION POLICY IN GERMANY 2007-2013

2.1. Objectives and Funds

For 2007–2013, Germany has been allocated a total of **26.4 billion EUR** of Cohesion policy funding:

- 16.1 billion EUR under the Convergence Objective (ERDF and ESF);
- 9.4 billion EUR under the Regional Competitiveness and Employment Objective (ERDF and ESF);
- **850 million EUR** under the **European Territorial Cooperation Objective** (23 ETC programmes; ERDF only).

Map 5: Convergence and Competitive objective regions in Germany 2007-2013



Source: European Commission.

The Eastern German regions Brandenburg, Mecklenburg-Vorpommern, Saxony, Saxony-Anhalt and Thuringia as well as the area around Luneburg in the North-West fall under the **Convergence Objective**, with 15.26 million citizens living in these regions. Parts of these regions are "Phasing out" areas, with quite positive development results in recent years. All other regions of the German territory fall under the **Competitiveness and Employment Objective** (RCE).

2.2. NSRF and Operational Programmes

The plans to implement the objectives of the German Cohesion policy for the current programming period are presented in the National Strategic Reference Framework (NSRF).

It features **36 Operational Programmes** for Germany:

- A regional programme for each of the 16 *Bundesländer* and one for Lüneburg (with funding both from ERDF and ESF);
- 2 programmes at federal level: one for Transport and one for Education and Training Activities.

To complement the EU investment under NSRF, the national German co-financing amounts to around 16.6 billion EUR for the years 2007-2013.

Table 5: Attribution of EU Structural Funds in the NSRF of Germany (EUR)

Operational Programme	Fund	Total
Convergence Objective		
Brandenburg	ESF	620 249 615
Mecklenburg-Vorpommern	ESF	417 473 463
Lower Saxony - Region Luneburg	ESF	210 010 942
Saxony	ESF	871 859 914
Saxony-Anhalt	ESF	643 930 752
Thuringia	ESF	629 009 103
Federal Level	ESF	1 325 569 051
Brandenburg	ERDF	1 498 732 588
Lower Saxony - Region Luneburg	ERDF	589 000 000
Mecklenburg-Vorpommern	ERDF	1 252 420 390
Saxony	ERDF	3 091 139 706
Saxony-Anhalt	ERDF	1 931 792 253
Thuringia	ERDF	1 477 687 909
Transport ERDF Federal Level	ERDF	1 520 319 639
Total ESF		4 718 102 840
Total ERDF		11 361 092 485
Total Convergence		16 079 195 325

Fund	Total	
Regional Competitiveness and Employment		
ESF	265 998 586	
ESF	310 059 703	
ESF	335 976 031	
ESF	89 054 742	
ESF	91 152 890	
ESF	186 735 204	
ESF	237 090 765	
ESF	683 996 369	
ESF	113 766 267	
ESF	86 490 338	
ESF	100 011 739	
ESF	2 162 219 289	
ERDF	143 400 068	
ERDF	575 934 188	
ERDF	875 589 810	
ERDF	142 006 631	
ERDF	35 268 791	
ERDF	263 454 159	
ERDF	638 769 613	
ERDF	1 283 430 816	
ERDF	217 613 760	
ERDF	197 512 437	
ERDF	373 888 769	
	4 662 551 923	
	4 746 869 042	
	9 409 420 965	
	ESF	

Source: European Commission.

In general it can be noted that funding under the ERDF in Germany is a significant, but not a decisive part of regional development policies at *Länder* level. There are the above mentioned schemes Solidarity surcharge, Solidarity Pact and "Länderfinanzausgleich", and most regional governments use a broad set of instruments covering grants for investment, innovative financing instruments, R&D-related instruments, urban development programmes, etc. to promote regional development. Therefore, a typical German programme consists of some 20 or more single instruments.

European Territorial Cooperation

With its numerous neighbours, cross-border and interregional cooperation is important for German regions. Thus, Germany and its *Länder* participate in **23 territorial cooperation programmes** with a total EU contribution of **851 million EUR**:

14 cross-border cooperation programmes

The country has bilateral or multilateral cross-border cooperation programmes with all of its neighbours: 2 programmes with Denmark; the South Baltic programme involving Sweden, Denmark, Poland and Lithuanian regions; 3 programmes with Poland; 2 programmes with the Czech Republic; one programme with Austria; one programme with Switzerland, Liechtenstein and Austria; one programme with France/Switzerland; the 'Grande région' programme with France, Belgium and Luxembourg; the Euregio Meuse-Rhine programme with Belgium and the Netherlands; and one German-Dutch programme.

5 transnational cooperation programmes

German regions participate in five transnational cooperation programmes: 'Alpine Space', 'Baltic Sea region', 'Central Europe', 'North Sea region' and 'North-West Europe'.

Interregional cooperation

Germany participates in all four interregional cooperation programmes (total budget for all the 27 EU Member States is 443 million EUR): INTERREG IVC, URBACT, INTERACT and in ESPON.¹¹

2.3. Priorities

The political priorities of the German Operational programmes are closely linked to the Lisbon strategy and the EU 2020 goals, as well as to the German national investment strategies. Germany directs its Structural Funds investments to a very large extend towards growth and job promotion, with a focus on innovation, the knowledge economy and sustainable public transport. The following numbers of the NSRF illustrate how these priorities are put into practise on the ground:

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INTERREG IVC: Exchange of experience and good practices among the regions; URBACT: Thematic city networks; INTERACT: Support for cooperation programme management organisation; ESPON: Observation network for spatial planning.

- 3.7 billion EUR are targeted on SMEs, plus new financial engineering instruments specifically for SMEs, as well as loan schemes, are available, worth a combined total of 1.3 billion EUR;
- 8 billion EUR are to be invested in Research & Development (R&D) and innovation;
- 2.9 billion EUR of EU funds are spent on improving education and training;
- 4.3 billion EUR to improve the environment and fight climate change and
- 3 billion EUR are to make the transport infrastructure more environmentally friendly.

2.4. Institutional and administrative framework for EU Cohesion policy implementation

The management and implementation system of EU Cohesion policy in Germany, laid out in the NSRF mentioned above, is coordinated by the Federal Ministry of economics and technology (*Bundesministerium für Wirtschaft und Technologie*) which in turn cooperates closely with the administrations of the *Länder*. The 16 states are entirely in charge of their Regional Operation Programmes while the federal government manages the 2 national OPs (transport and ESF national OP). With regard to the ETC, the responsibility for management and implementation depends on the respective actors of each programme.

Given the **strong political and administrative position of the** *Länder* and a strong involvement of intermediate bodies and local stakeholders, a well functioning cooperation and coordination of several policy levels is crucial for the successful programmation and implementation of Cohesion policy in Germany.

The ministries of economy of the *Länder* are responsible for the regional Operational programmes under the ERDF, e.g. in Berlin the Managing authority is the Administration for Economy, Technology and Women (*Senatsverwaltung für Wirtschaft, Technologie und Frauen*). In many cases the respective ministries in charge delegate parts of their responsibilities to specialised executive secretariats and/or cooperate closely with other management institutes such as the "Stelle für Qualitätsmanagement" in Nordrhein Westfalen. These intermediate bodies with technical expertise ensure among other things high level quality controls of beneficiaries regarding the effective spending of funds, an aspect closely monitored in Germany.

For the 2 national Operational programmes the Federal Ministry of transport, building and urban development (*Bundesministerium für Verkehr, Bau und Stadtentwicklung*) and the Federal Ministry of labour and social affairs (*Bundesministerium für Arbeit und Soziales*) are in charge. Especially for the ESF programme a complex net of decentralized actors participate in the implementation.

There are **17 Managing authorities** as **well as Certifying and Audit Authorities** in Germany which is quite a demanding structure for policy implementation. The delegation of tasks to further 50 or more intermediate bodies with technical expertise further adds to complexity. Especially regarding ESF implementation, this complexity and some overlapping between federal and regional competencies have led to problems in some

programming and controlling exercises. ¹² The high number of actors in the implementation of measures for employment, social inclusion and education policies and the need of wide consultation of all levels concerned is a constant challenge. In search for simplification of procedures and reduction of red tape, the German government is aware of this and intends to avoid or at least reduce this issue in the next programming period.

Regarding **Audit authorities**, the European Commission has indicated that their independence should be closely monitored since in 10 German states, the Managing, Certifying and Audit authorities are installed in the same ministry. The fact that there are frequently either national or regional elections in one of 16 *Länder* does not simplify the system, as administrative or institutional changes after an election are possible, with the consequence of e.g. merging departments or ministries, or switching their responsibilities.

2.5. ESF in Germany

The complexity of ESF implementation in Germany is also particularly high because under the leadership of the national Ministry for Employment and Social Affairs 4 other national ministries participate in the implementation of the programmes: The Ministries responsible for education and research, for economy and technology, for family, seniors women and youth and, finally, the ministry for transport, construction and urban development.

These are added to the regional governments of the *Länder* in charge of the regional ESF programmes who also designate actors and delegate parts of the management procedure to specialised intermediate bodies which are involved among others in the selection of projects and on the ground management.¹³

In the current programming period Germany receives **9.3 billion EUR for ESF programmes**, which is split nearly exactly in half between the Convergence and RCE objectives (4.718 billion EUR and 4.662 billion EUR).

The focus of the ESF programmes lays on sustainability of jobs and support for disadvantaged people, with the following 2 principal core priorities:

Employment and enterprise

Support for aspiring entrepreneurs and university students in gaining business skills in the EXIST programme, micro-credit schemes for self-employed entrepreneurs – including women and immigrants ("Girls day", language lessons etc.); the XENOS programme is fighting discrimination in recruitment and at work.

· Education for the future

Regional ESF projects in Berlin are promoting education and training for young people as well as vocational training for disadvantaged groups, such as immigrants or disabled people, and for the low-skilled.

European Commission, Position of the Commission Services on the development of Partnership Agreement and programmes in Germany for the period 2014-2020, Ref. Ares (2012) 1320393-9/11/2012, Brussels 2012.

In Berlin, these are SPI Consult GmbH, gsub mbH and ziz GmbH.

2.6. State of play of implementation

At the end of 2011, 74.4 % of all Structural funding available to Germany had been allocated; 78 % in Convergence and 72 % in the RCE regions. However, the German authorities consider this fairly good implementation result as preliminary, still reflecting the midterm situation of 2011, which is the basis for the **latest implementation report** of December 2012. They cite the fact that due to delayed legislative decisions and important overlappings with the previous programming period many programmes started late and most commitments only were granted in 2009. Therefore, many programmes were still in full implementation phase by 2012. This observation has been communicated by many governments to Brussels which clearly shows that not only countries with special challenges or administrative difficulties report serious **delays in the implementation in this programming period**, but that the belated start of the programming period was problematic for many, if not all EU member states.

Hence, the German authorities are very concerned with the threat of preparing yet again a delayed start of the upcoming programming period beginning 2014, thus accumulating delays from period to period, even if there is no danger of losing funds due to n+2 in most programmes.

Regarding the current period, after 2009, significant progress in implementing the programmes was measured in output in terms of project numbers. At the same time, the rather critical German government representatives note in the 2012 implementation report that effects on regional development – at least hard evidence – are hardly visible; on macro-level relatively specific results are acknowledged, though, e.g. from a HERMIN-calculation in Thüringen.

A number of mid-term **evaluations** of Cohesion policy implementation in Germany are available and more are underway, both at national and at *Länder* level. These evaluations focus mostly on implementation analysis and gross-effects, complemented by general reasoning on expected net effects.

The main future challenges of Cohesion policy implementation in Germany are old and new ones: the old ones consist in tackling deficits in economic performance and reducing incoherence; innovation and ongoing structural adjustments also remain on the agenda. Newer patterns of regional disparities to be dealt with more than in the pasts are the consequences of demographic change or the focus on renewable energies and green economy.

The overall results of Structural funding can be seen positively in Germany. The ERDF has shown positive effects in the areas of innovation and competitiveness as well as several transport infrastructure projects, whereas the ESF has helped promoting young people from school to professional life and the inclusion of challenging target groups.

¹⁵ Ibid., p. 78ff. The Strategic Report 2013 based on the national implementing reports was published by the Commission on 18.04.2013.

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Institut für Stadtforschung und Strukturpolitik GmbH, Strategiebericht 2012 zur EU-Strukturpolitik. Berichterstattung zum Nationalen Strategischen Rahmenplan für den Einsatz der EU-Strukturfonds in der Bundesrepublik Deutschland, (commissioned by the Ministry of Economy and Technology), December 2012.

The earmarking and contribution to the Lisbon strategy was constantly higher than those fixed by the European guidelines, and the German government will continue to focus Cohesion policy on the EU 2020 goals.

Finally, a certain impact on Cohesion policy implementation in the near future can be expected by the new debt rule introduced in the constitution which strictly limits the amount of new public debt (see chapter 1.4). Especially the *Länder* as the main implementing actors of the regional OPs - many of which have high public deficits - will come under increasing pressure for consolidation in the coming years which might influence their capacity or attitude towards Structural funding projects.

3. ZOOM ON BERLIN

3.1. Location

Berlin is situated in north-eastern Germany on the river Spree, approximately 60 km west of the Polish border. It is one of the 3 German city states as well as the capital of the Federal Republic of Germany. With a population of 3.51 million it is Germany's largest and most densely populated city. At the centre of the Berlin-Brandenburg Metropolitan Region, the city is at the core of a growing innovative urban area.

Map 6: Berlin's location in Germany



Source: Wikipedia.

3.2. Politics and Administration

The current form of the constitution of the Federal State of Berlin was put into place in 1950 in former allied-controlled West Berlin. It was applied to re-unified Berlin starting January 1991. A revision and parliamentary reform took place and amendments were adopted by a referendum during city and district elections on 22 October 1995. These amendments included among others commitments to protect marriage, families and unmarried partnerships, women's equality, the environment, as well as new provisions for referenda and for committee meetings of the House.

During the legislative period 2011-2015, the Berlin House of Representatives has 149 members who are elected for 5 years. The House elects the Mayor of Berlin and 8 Senators, and it controls the budget for the State of Berlin.

The executive government of Berlin is the **Senat** with the Senators responsible for their respective departments (*Senatsverwaltungen*). The first Mayor holds the city's highest office and is also the federal state's premier, heading the government with similar powers as a *Minsterpräsident* in other *Länder*. Since 2001 Klaus Wowereit (SPD) is first Mayor of Berlin, leading a great coalition of SPD and CDU, with 4 senators for each party.

Berlin is subdivided into **12 boroughs** (*Bezirke*), down from 23 boroughs before a 2001 administrative reform. Each borough contains a number of localities (*Ortsteile*), which often have historic roots in older municipalities and became urbanized and incorporated into the city. The current 96 localities are made up of smaller residential areas called *Kiez* in the Berlin dialect.

Each borough is governed by a **borough council** (*Bezirksamt*) consisting of five councillors (*Bezirksstadträte*) and a borough mayor (*Bezirksbürgermeister*). The borough council is elected by the borough assembly (*Bezirksverordnetenversammlung*). However, these boroughs are not independent municipalities and have limited powers subordinated to the Senate of Berlin. The borough mayors form the **Council of mayors** (*Rat der Bürgermeister*), led by the city's governing mayor, which advises the Senate.

The administrative division of the city of Berlin is shown in Map 7, while Table 6 features the respective numbers of residents.



Source: berlin. barwick. de/information/districts/index. html.

Table 6: Overview of number of inhabitants in Berlin boroughs

District of Berlin	Inhabitants
Charlottenburg-Wilmersdorf	315.244
Friedrichshain-Kreuzberg	264.922
Lichtenberg	258.964
Marzahn-Hellersdorf	249.882
Mitte	325.629
Neukölln	305.658
Pankow	356.956
Reinickendorf	243.536
Spandau	224.408
Steglitz-Zehlendorf	288.572
Tempelhof-Schöneberg	332.091
Treptow-Köpenick	236.450

Source: berlin.barwick.de/information/districts/index.html.

In the past, a fusion of the state of Berlin with the *Land* Brandenburg has been discussed, but did not receive the necessary majority (of the people of Brandenburg) in a referendum in 1996. However, both regions are closely interlinked and cooperate in many areas (see below).

3.3. The Economy

As a result of the **separate development during the post-war period**, today's city of Berlin still is relatively provincial in terms of its economic status, compared to other capital cities or the large cities in the former West Germany which were preferred locations for major national and international business investments for decades.

In fact, there was a certain lack of interest on the part of the private economy during the cold war years which still subsists today. For example in 2009, 42 % of the R&D investments in Berlin came from private businesses - for total Germany the rate was about

66%. Thus, the city of Berlin is **relatively more dependant on public investment** than other parts of Germany. This is also why the numerous excellent public research institutions in Berlin are crucial for its development.

As another legacy of the two opposing cold war systems, Berlin did not have a well-developed economic infrastructure. This situation has been improving dramatically since the fall of the wall as significant institutional investment, a vibrant informal infrastructure and an abundance of creativity and innovation among small and micro businesses has been developed. The **creative economy** represents a major part with 7.8 % of all businesses and even 9.6 % of employees in Berlin. This sector has also been identified by the Berlin government as one with the most potential for future development.

Indeed, Berlin's economy is primarily based on the **service sector**, encompassing a diverse range of creative industries, media corporations, and convention venues. Significant other industries include IT, pharmaceuticals, biomedical engineering, biotechnology, electronics, traffic engineering, and renewable energy. Berlin also serves as a continental hub for air and rail transport, and is a popular tourist destination.

The contribution of the classical producing industries sector (except for construction) is with only 15 % of the gross value added quite low in Berlin, compared to other states, both in Western and Eastern Germany. Thus, Berlin's exports are also lower than the German average - a fact which had positive implications in 2009 when the crisis hit other export orientated regions in Germany very hard (e.g. Saarland -6.8% GDP growth rate, Baden-Württemberg (- 5.7%), Nordrhein-Westfalen (-4.4%). Berlin with the lowest share of industry was actually the only state with a positive growth rate in 2009 (+2.0%). In 2010 GDP grew by 3.1 %, confirming a positive trend which was slowing down in 2011 with 1.9 %.

Regarding information and **communication technologies** Berlin has a special **location advantage:** because all the telephone cables had to be renewed after the reunification to make them compatible for one single city, Berlin is the best networked and digitalised city in Germany. This fact has led to spin-off initiatives and developments that combine culture and different sectors of the innovation economy.

In order to promote Berlin as a commercial and innovative location, the city has set up a number of large-scale projects and initiatives in cooperation with innovative technological businesses. The main ones are TSB Technologiestiftung Innovationszentrum Berlin, RITTS-Projekt Berlin, Technologie-Coaching Center, BioTOP Berlin-Brandenburg, Mobilität und Verkehr Berlin-Brandenburg and MediaCity Adlershof. Many of these projects have been cofinanced by EU-Funds, including Structural funds.

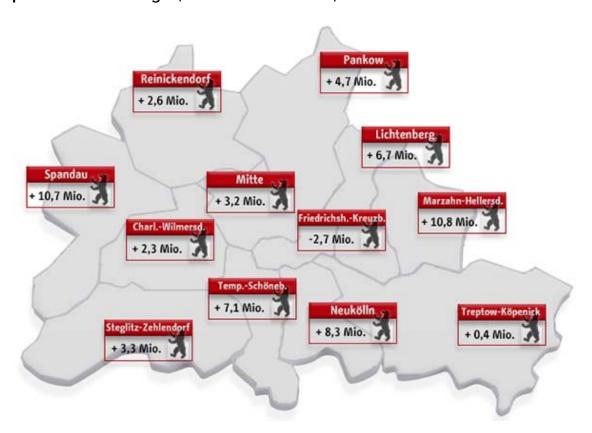
Mainly due to reunification-related expenditures, the federal state of Berlin has accumulated more **debt** than any other city in Germany, with the most current estimate being 61.2 billion EUR in December 2012. In 2011, the very high level of public sector debt prompted the *Stabilitätsrat von Bund und Ländern* (Council for Fiscal Stability of the Federal and Local States) to declare a possible fiscal emergency for the city.

Berliner Senatsverwaltung für Wirtschaft, Technologie und Forschung, *EFRE- Förderung in Berlin 2014 bis 2020, Strategische Eckpunkte*, 23. März 2012, p. 4f.

¹⁷ Schwab, Oliver, IFS Institut für Stadtforschung und Strukturpolitik, *Expert Evaluation Network delivering* policy analysis on the performance of Cohesion policy 2007-2013, year 1 (2011), Task 2: Country report on achievements of Cohesion policy. Germany. A report to the European Commission, Brussels 2012, p. 6.

Together with Bremen, Saarland and Schleswig-Holstein, the state of Berlin is currently following a **consolidation procedure**, based on a consolidation programme presented in September 2012.

At the end of 2012, the government of Berlin has declared that 11 of the 12 boroughs have closed the year with budgetary surpluses, for the second year in a row. ¹⁸ In order to sustain this positive development of the budget, the *Senatsverwaltung* has been asked to stick to the lines of this consolidation procedure. ¹⁹ The coming into effect of the legislative limit for new debt in 2016 in Germany also contributes to the pressure of working towards balancing the state's budget.



Map 8: Berlin boroughs, consolidation trend, 2012

Source: Berliner Senatsverwaltung 2012.

3.4. Joint Innovation Strategy Berlin - Brandenburg

The region of Berlin falls under the Regional Competitiveness and Employment objective whereas it is surrounded by the Land Brandenburg, a Convergence region. While different in classification, these two regions face a number of common challenges which is why they have created a common strategic framework.

In order to combine forces, the state governments of Berlin and Brandenburg adopted in June 2011 a **Joint Innovation Strategy of the States of Berlin and Brandenburg**

Berliner Senatverwaltung 2012.

¹⁹ Beschluss des Stabilitätsrates zum Sanierungsverfahren nach § 5 Stabilitätsratsgesetz, 24. Oktober 2012.

(innoBB).²⁰ The objective is to concentrate forces by enhancing coordination and cooperation, and to enable both regions to position themselves optimally with regard to the global competition.

The common strategy builds upon the particular strength of the region, starting from the high density of **research facilities** in the Berlin-Brandenburg area: It features 7 universities, 21 applied science and other higher education facilities and more than 200 non-university research facilities. Another particular value of this region is the **cooperation between science and industry** through a well developed system of **cross-border clusters**.

The core objective of these clusters is to concentrate science and technology-based areas especially on economic development and to promote the joint innovative industrial sectors as sustainably growing and internationally competitive. Knowledge and technology transfer as well as international networking and systematic integration in EU funding structures are other characteristics of the clusters.

There are 5 main fields of activity of these clusters which have been identified to have the most potential for economic growth and sustainable job creation: The areas of energy technology, mobility and transport, life sciences and healthcare, ICT and media and photonics and microsystems. Furthermore, the main cross-cutting themes of these clusters are clean technologies, security, materials and automation engineering.

It is obvious that this joint strategy follows closely the principle and the goals of the EU 2020 strategy, especially with the theme "clean technologies", including all technological developments which are focused on sustainability on environment- and climate-friendliness.

Also, it is worth noticing that the combination of forces benefits especially SMEs in the capital region Berlin Brandenburg: Innovative enterprises get the opportunity to develop their potential within a group of companies and science facilities and to contribute to regional added value in a broader context. Cross-border management structures, networking and guidance regarding application procedures for EU funding are of particular importance. Thus, this joint strategy is also an important reference framework for the use of Structural funds in the region of Berlin.

3.5. Regional disparities

As indicated above, Berlin is surrounded by the lesser developed regions in Eastern Germany where the level of GDP per head is between 84.2 % and 87.8 % of the EU average; in Berlin it is more than 90 % of EU average. Compared to a generally quite high employment rate of 76.3 % in Germany, in Berlin only 68.8 % are employed (for comparison: in Baden-Württemberg or Bavaria it is 78.2 %). This is, combined with the relatively high unemployment, including long-term and youth unemployment, the main feature making parts of Berlin vulnerable areas in terms of living standards.

²⁰ Senat von Berlin und Regierung des Landes Brandenburg: Gemeinsame Innovationsstrategy der Länder Berlin und Brandenburg (innoBB), Berlin 2011. http://www.berlin-brandenburg.de/wirtschaft.

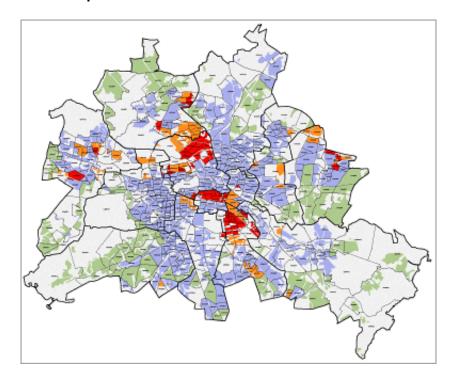
European Commission, Position of the Commission Services on the development of Partnership Agreement and programmes in Germany for the period 2014-2020, Ref. Ares (2012) 1320393-9/11/2012, Brussels 2012, p. 4f.

The Berlin labor market which is quite high skill orientated leads to exclusion and social problems, which concentrate particularly in problematic neighborhoods. The social integration of specific vulnerable groups (migrants, disabled, older people at risk of poverty, drug addicts) is another challenge to be met.

Like in many metropolitan areas, the distribution of wealth in Berlin is unequal. Problematic locations are concentrated in 5 greater areas of the city. Three of these are located in the inner city circle: Wedding/Moabit, Kreuzberg-Nordost and Neukölln-Nord. The two other areas are more at the external part of Berlin, namely Spandau-Mitte and Nord-Marzahn/Nord Hellersdorf. 22

These areas feature most of the problems typical for deprived neighbourhoods, such as high unemployment, especially of young people and migrants, early school leaving and high migration rates. Most deprived areas in Berlin have a large population with a migrant background, in some cases, up to 79 %.

The dynamics of the overall picture of the social and local developments in the different areas of Berlin, and particularly in the 5 challenging areas, have been stable during the last years. Therefore, the mentioned parts of the city remain the areas where political interventions to support regional development and social inclusion are the most needed.



Map 9: Berlin Development index 2011

Source: Senatsverwaltung für Stadtentwicklung und Umwelt, Monitoring Soziale Stadtentwicklung, 2011.

According to the "Monitoring Soziale Stadtentwicklung" conducted by res urbana GmbH, Berlin, for the Senatsverwaltung, Berlin 2011 (www.stadtentwicklung.berlin.de).

4. EU COHESION POLICY IN BERLIN 2007-2013

4.1. Operational Programmes and objectives

The state of Berlin falls entirely under the Regional Competitiveness and Employment objective of EU Cohesion policy.

The Operational Programme "Berlin" comprises a total budget of **EUR 1 751 million**, with **ERDF assistance** of around **EUR 876 million**. This represents about 3.4% of the total EU Structural funds available for Germany for the years 2007-2013. The amount of the complementary national co-financing by the state of Berlin is EUR 825 million.

Objectives

The ERDF funded programme for Berlin is particularly well aligned with Berlin government's priorities and the Joint Innovation Strategy of the states of Berlin and Brandenburg (see chapter 3.4). The EU investments are being used to reinforce the activities set up at national and regional level. It has been illustrated earlier that to a large extend these activities are closely linked to the EU2020 strategy.

Thus, the main objective of the Operational programme is to improve the competitiveness of the state of Berlin and its enterprises. The resources of the region, like innovation, knowledge and creativity are used as the engine for economic and social development, especially aiming at sustainable job creation. For this reason, the ERDF investments focus on promoting the capacity for innovation and the knowledge-based economy. A further aim is to tap new potential through social integration and improvements to the situation of the environment.

Priorities

In order to achieve the main objectives, the ERDF financed programme of Berlin for 2007-2013 has been divided into the following priorities:

Priority 1: Promotion of business competitiveness and start-ups

The ERDF aid is concentrated on the following areas: support for business investment, particularly through repayable loans and subsidies, the promotion of business start-ups through subsidies, advice and events; support for SMEs entering new markets and infrastructural projects with particular economic significance.

• Priority 2: Innovation and knowledge-based economy

This priority covers research and development in enterprises, knowledge-intensive services, the use of IT and communications technology, technology transfer and research infrastructure. There are also experiments with new tools to increase the efficiency and effectiveness of the funding provided.

²³ Operational Programme "Berlin".

• Priority 3: Integrated urban development

As regards urban development, the specific potential of individual areas of the city is singled out for development and strengthened following an integrated policy approach. In this respect, the Commission considers Berlin as a role model for urban policy for the next programming period 2014-2020.

• Priority 4: The environment

The key issues in this context are climate change, measures to increase energy efficiency and R&D in environmental technologies, the protection of waters to improve water quality, nature and landscape protection and safeguard of the biodiversity.

Priority 5: Technical assistance

Technical assistance for implementing the programme is provided for measures to prepare an application for funding, as well as for monitoring, evaluation and control of the programmes' management and implementation.

The following breakdown of Structural fund's allocations reflects the respective financial weight of these priorities:

Table 7: Breakdown of Cohesion policy financing and priorities in Berlin

Priority Axis	EU Contribution	National Public Contribution	Total Public Contribution
Promotion of business competitiveness and start-ups	293 010 000	275 429 400	568 439 400
Innovation and knowledge based economy	284 520 810	267 449 560	551 970 370
Integrated urban development	284 520 810	171 697 580	354 354 580
The environment	80 402 000	75 577 880	155 979 880
Technical assistance	35 000 000	35 000 000	70 000 000
Total	875 589 810	825 154 420	1 700 744 23

Source: European Commission.

Innovative Financial Instruments²⁴

Through the OP Berlin, besides the "classical" Structural fund use and their combination with national measures, a number of (Holding) Funds have been set up to implement Innovative financial instruments, mainly in form of **loans**, **equity or guaranties**. The aim of using these instruments consists in maximising the returns from public investments, the advantage being the possibility of re-investing money after an agreed period of time. In this context, Structural funds can be used to finance innovative funds instead of

In the current programming period they are named "Financial engineering instruments", in the up coming period it will be "Financial instruments". infrastructure projects. A variety of combinations of different funds to implement such a financial instrument is possible. Often the European Investment Banc contributes to these instruments, but in the case of Berlin, the IBB (Investment bank Berlin) has ensured the management and national co-financing of the financial instruments set up in this programming period. ²⁵

Innovative financial funds have been created under the **priority axes 1 and 2** of the OP "Berlin". For example, a SME loan fund has been set up, running from 2008 to 2025, with EUR 34.5 million from the ERDF and the same amount provided by IBB, providing micro credits for start ups and further development of SME's. ²⁶ This is the biggest fund currently operating with innovative financial instruments in Berlin, with its total volume of EUR 69 million. The second largest is a fund of EUR 52 million, running through 2018 under priority 2 (innovative and knowledge based economy), and targeting start ups in the innovative technologies. ²⁷ The financing is shared in equal parts by ERDF and IBB. The following table gives an overview of financial instruments in the state of Berlin:

Table 8: Use of Innovative financial instruments in Berlin

Priority axis of the OP	Fund	Time frame	ERDF funding	National funding (IBB)	Total Funding (EUR)
Promotion of business competitiveness	SME fund microcredits and loans for start ups and SMEs (25 000 - 250 000)	2008- 2025	34.5 Mio.	34.5 Mio.	69 Mio.
Promotion of business competitiveness	Berlin capital capital structure of enterprises, innovative growth (500 000 - 5 Mio.)	until 2015	6.5 Mio.	6.5 Mio.	13 Mio.
Promotion of business competitiveness	Berlin mezzanine fund	until 2025	5.5 Mio.	5.5 Mio.	11 Mio.
Promotion of business competitiveness	ERDF guarantee fund	until 2025	8 Mio.	8 Mio.	16 Mio.
Innovation and knowledge based economy	VC fund technology	until 2018	23.5 Mio.	23.5 mio	52 Mio.
Innovation and knowledge based economy	VC fund creative economy Berlin	until 2018	14.5 Mio.	14.5 Mio.	29 Mio.

 $\textbf{Source:} \ \ \textbf{Author's own processing of data from } \textit{Senatsverwaltung} \ \ \textbf{Berlin}.$

²⁷ Ibid., VC (Fonds Technologie (offene und stille Beteiligung).

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Data provided to the author from Senatsverwaltung Berlin für Wirtschaft, Technologie und Forschung, Abteilung Strukturförderung, 2.5.2013. See also flyer "KMU-Fonds" by Senatsverwaltung für Wirtschaft, Technologie und Forschung (www.ibb.de/kmu-fonds).

²⁶ Information provided by Senatsverwaltung Berlin.

4.2. Focus on innovative urban development

As a capital city and metropolitan area Berlin is expected to play a crucial role in the achievement of the EU2020 goals, as a catalyst for competitiveness, employment and innovation. At the same time, like all big urban areas, it is confronted with a concentration of problems, many of them linked to increasing social and economic disparities. For both reasons, capital cities are considered "laboratories" for finding perspectives and solutions when it comes to the EU's social and economic cohesion.

Hence, the European Commission has opened an official, direct dialogue with the mayors of capital cities in the EU, in order to improve the integrated policy approach, involving the economic, environmental, social, cultural and demographic dimension of urban challenges. In fact, Berlin is considered a role model for **sustainable urban development**, for the way it takes into account the social, environmental and economic characteristics of the city as well as its surroundings. Also, Berlin has been awarded at the "RegioStars" 2013 for its neighbourhood management project which promotes social inclusion and exemplary involvement of all local residents to improve the quality of neighbourhoods (see under 4.4 the exemplary Structural fund projects in Berlin).

Analysing the framework, the objectives and the implementation of EU Cohesion policy in Berlin it appears indeed that several best practise features have been put into practise by the regional government, namely the **integrated policy approach and the targeted thematic concentration**.

In principle, it can be noted that all 5 priorities of the OP "Berlin" can be considered contributing parts of the third priority, entitled "integrated urban development", since they overlap and are all focused on innovation and job creation in the specific urban environment, following at the same time cross cutting horizontal priorities echoing the EU2020 strategy.

Berlin has one advantage favouring the coherence and effectiveness of Cohesion policy implementation. In Cohesion policy in general there is a difficulty when it comes to the involvement of local and regional decision makers, be it in the programming or the project selection phases. As a consequence, projects at city level are often run solely on their own terms, i.e. without being part of a genuine regional strategy. ²⁹ In Berlin, this is different. As one of the 16 German states, the city government has the competences and the instruments to plan and follow an integrated approach for urban policy at regional state level. The focus on good coordination and cooperation between all Senatsverwaltungen and with other stakeholders is also a positive factor in this context.

In a way, the case of Berlin demonstrates what the newly proposed option of "Integrated Territorial Investment Strategies" (ITIs) 30 - foreseen in the legislation for 2014-2020 - is expected to bring for other cities in terms of better strategic involvement in Cohesion policy implementation. 31 The key elements of ITIs can be noted in Berlin: a designated territory

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First direct talk of Commissioner Hahn with mayors of EU capital cities, 28 February 2013, Brussels.

²⁹ European Parliament, Policy Department Structural and Cohesion policies, *Regional strategies for industrial areas*, (Note by Metis GmbH), Brussels 2013, here p.26f.

Article 7 of the Specific Provisions for the ERDF. http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/regulation/erdf/erdf_proposal_en.pdf.

³¹ Factsheet on Integrated Territorial Investment, DG Regio.

and an integrated territorial development strategy, a package of actions to be implemented and the necessary governance arrangements.

The urban development's objectives are complemented by both the Joint strategy with the state of Brandenburg and the German national policy objectives. All together, they fit into the EU 2020 strategy so that the common fields of action of all policy frameworks relevant for Berlin turn around the development of the economy, knowledge, environment and sustainable urban development.

4.3. ESF in Berlin

The ESF implementation in Berlin is traditionally organized in a decentralized way in order to enlarge and widen the coverage of ESF projects and the potential beneficiaries. Thus, 7 of the 8 administrations of the city government (Senatverwaltungen) are involved in the implementation, depending on the nature of the project. As in other regions in Germany, a number of specialised intermediate bodies are also part of the process.

The traditional structural weakness of growth in Berlin - as indicated due to the weak industrial basis and relative low export rates -, is reflected in the below average employment rate in the city. Since the early 1990s, both the number of persons employed and the number of social security contributions has steadily declined. The employment rate in 2005 was only 58.6%, corresponding to a high rate of unemployment. In particular, it is the high rate of long-term unemployment, which is concentrated in certain districts of Berlin.

The main priorities of the ESF programme implementation in Berlin have been defined, like the ones for ERDF, alongside Berlin's "strategy for more growth and employment" of 2007. Based on the situation on the ground they include the following priorities:

- Improving the **adaptability and competitiveness of workers** and enterprises Share of funding under this priority: 11.4% (EUR 38 million)
- Promotion of human capital
 Share of funding under this priority: 44.3%, (EUR 149 million)
- Improving access to employment / social inclusion of disadvantaged people Share of funding under this priority: 40.3%, (EUR 135 million)

In the more problematic areas of Berlin sustainable job creation is a great challenge since they tend to be less developed and less attractive for innovative long term investments. As noted before, the labour market in Berlin in general has a tendency of high skills orientation which causes problems for low skilled and other disadvantaged groups.

4.4. Exemplary Structural funding projects in Berlin

A great variety of Structural fund financed projects has been conducted in the Berlin area, from business support over cultural development to support of disadvantaged groups and deprived neighbourhoods. The area which stands out, though, is innovation and technology as well as the creative industry. Berlin is also one of Europe's most cultural cities with over

170 museums, 150 stages, 11 symphony orchestras and 300 cinemas, combined with the high number of research and education facilities.

Here are examples of successful projects co-financed by Structural funds in Berlin, in the above mentioned key areas.

Structural funding for the Creative industry in a former industrial area

A key project in the **URBAN II programme** for Berlin is the **Kulturgewerbliches Gründerzentrum RAW-tempel e.V** (Arts and Crafts Centre), which promotes the establishment of small cultural and craft enterprises and artists in disused railway buildings. The project aims to renovate and regenerate the local area and strengthen the local economy.

The programme covers parts of two districts in the southeast, Lichtenberg and Friedrichshain. This former industrial area, characterised by derelict railway infrastructure, has been experiencing economic decline since 1990 and has an unemployment rate of almost 16%. For the Kulturgewerbliches Gründerzentrum project, the first step was the establishment of the cultural association RAW-tempel, with the financial support of URBAN. The association renovates architecturally significant buildings, houses media institutions and provides training for small businesses attempting to become financial viable. producers. This project provides an integrated approach, where culture is the catalyst for economic development and urban renewal.

The total investment for this project is EUR 661 000, the EU contribution EUR 400 000.

Berlin Adlershof - city of Science, Business and Media

After the reunification, the area around the former East Germany's *Akademie der Wissenschaften* and the state-run television network was transformed into a huge **science and technology park**. 12 non-university research institutes, 362 technology-oriented companies, and around 6,800 highly qualified scientists and staff members have settled there. Innovation, science and business are combined in Adlershof with living in green surroundings In 2007, 6 of the Humboldt University's mathematics and natural sciences departments moved from Berlin-Mitte to the new campus at Adlershof. It is also a media location: With 7 fully equipped studios, Studio Berlin can provide the full range of studio and production services. At 2,400 square meters, in comprises one of the largest television studios in Europe.

This is one of the most successful locations of high technology in Germany, a city within the city, in the south-eastern district of Treptow-Köpenik. Between 1991 and 2011, an impressive 1.9 billion EUR have been invested in this area. Several construction projects and major infrastructure provision measures have been co-financed by ERDF since 1994/96; at the advanced current stage of the site, though, since 2007 projects were financed by other sources than EDRF.

The regional economic analysis shows that the development area of the technology and business Park represents one of the most dynamic growth locations in Berlin. Based on indicative analysis it is expected that the capacities of the development area will be fully utilised between 2025 and 2033.

Social inclusion and participation - Neighbourhood Management Councils

To counteract the negative outcomes of social issues found in certain areas of Berlin after the reunification of the city, the **Neighbourhood Management Berlin intervention strategy** was launched in 1999 by the city authorities and, for more than a decade, has proven to be a valuable tool in the development of the 'Socially Integrative City' of Berlin.

The socially disadvantaged areas of Berlin have suffered from a demonstrable neglect of public space as well as unemployment, dependence on state aid and the issues arising from a lack of social and ethnic integration. In the target areas, Neighbourhood Councils have been set up, composed of representatives of local institutions and citizen's associations - usually nurseries, schools and churches - as well as the local police and the local housing societies, which are closely attuned to the needs of the neighbourhood. All residents and local actors are invited to debate the strengths and problems of an area and to jointly work out the best strategy to consolidate and improve the neighbourhood. They can also submit project ideas to improve the quality of neighbourhood life.

The most popular actions undertaken include support to schools to let them become 'special places' in the area, the refurbishment of public houses to strengthen social cohesion, and the promotion of the neighbourhood culture to establish a new solidarity.

This project received support from the ERDF both in the 2000-2006 and the 2007-2013 programming periods. It is part of a long term strategy of social integration in Berlin, expected to continue after 2013.

In February 2013, it was awarded at the RegioStars 2013 in the category "CityStars".

The total investment of this project was EUR 223.500.000, while the Structural fund contributed EUR 83.500.000.

CONCLUSIONS AND OUTLOOK: COHESION POLICY IN BERLIN AFTER 2013

The analysis of the framework, the objectives and the implementation of EU Cohesion policy in Berlin shows an overall positive picture. It appears that the regional government of Berlin has put the regional OP in a coherent and effective way into practise, namely by applying an integrated policy approach and a consistent thematic concentration. This does not mean, however, that there is no need for Cohesion policy any more - the city has to face a complex set of regional and socio-economic challenges.

The political objectives of German Cohesion policy are closely linked to the EU2020 goals. In Berlin, the focus of Cohesion spending lays on the areas of innovation and technology (including climate change), on SMEs and social inclusion. The sector of the creative industry plays also an important role.

In order to be ready for the new programming period in January 2014, the responsible actors for Structural funding in Berlin have started discussions about their planning in 2011. In April 2012, they presented strategic frameworks for 2014-2020, both for ERDF and ESF.

Like in the past, the key goals of the EU2020 strategy determine Cohesion policy in Germany in general and in Berlin in particular. Out of the 11 themes for Cohesion policy proposed by the European Commission in the legislative package for 2014-2020, the government of Berlin has chosen 6 - all in continuity with the investment priorities of the current period, and all based on the specific regional profile of the city. Hence, the key objectives of Cohesion policy in Berlin 2014-2020 will be³²: The strengthening of research and innovation, the competitiveness of SME's, the reduction of CO2 emissions^{33,} the mobility of the workforce, social inclusion and the fight against poverty and, last but not least, education and lifelong learning.

All themes relate to the two overriding objectives of regional, national and EU policies - competitiveness and social integration - both of which are to be pursued by ERDF as well as ESF funding, though it is clear that their target groups differ quite a bit. The government of Berlin emphasises the necessity to enhance the synergies between the two funds, especially when it comes to overlapping areas such as start ups and innovation, or the development of enterprises and training capacities, where both funds have their respective role to play.

It is projected that public financing in Berlin will be scarcer than in the current programming period whereas the challenges of economic and social cohesion will remain, if not increase. Against the backdrop of the national government's legally binding objective to avoid new debts after 2016, both ERDF and ESF are explicitly expected to support Berlin's development towards becoming a "self-supporting state". In the same vein, the goal is to make Berlin much more independent from the payments of other German states through the "Länderfinanzausgleich" so that efficiency and effectiveness of all policies, including Structural funding, are of major importance. These financial objectives can be considered as very ambitious.

Berliner Senatsverwaltung für Wirtschaft, Technologie und Forschung, Referat "Europäische Strukturfondsförderung", "Berlin 2020" Strategischer Rahmen für EFRE und ESF 2014 bis 2020 in Berlin, Berlin Juni 2012.

³³ By 40 % before 2020 (compared to 1990) - in line with German national and EU2020 goals.

Moreover, main issues to address by EU Cohesion policy in the coming years in Berlin are the low employment rate (8% below the 2020 goal) and the high trend of early school leaving. In this context, the *Senat* requires an interpretation of "innovation" that is wide enough to cover investments in education and science as well as the environment and social or cultural projects because this area is bound to be even more important in Cohesion policy than in the past ("Smart specialisation").

As regards the ESF programming, Germany foresees for the next programming period a strengthening of the regional programmes, managed by the state governments, in order to better target the objectives and priorities of ESF implementation. This should benefit a city state like Berlin with its complex urban and migratory context and the challenges to create sustainable jobs.

Furthermore, in order to avoid increasing gaps between the city of Berlin and its surroundings, the close cooperation and interdependence of Berlin with the *Land* Brandenburg will remain an important feature of regional development policy and therefore also EU Cohesion policy. The relatively young "Joint Innovation strategy" will be further developed and is expected to produce measurable effects.

At management level, the government of Berlin is open to further discussions; e.g. it advocates - besides the use of the GDP per head as indicator for the allocation of funding in Convergence regions - the inclusion of other socio-economic indicators to get a broader perspective on Cohesion policy results. And finally, regarding the territorial cooperation objective, Berlin promotes a strengthening of ETC, citing in particular the partnership across the *Oder* river or a cooperation along a corridor from the Baltic sea to the *Adria* as potential future investment areas.

The legislative package for Cohesion Policy 2014-2020 proposes some improvements and new ideas which could be very useful for urban areas, such as the "Integrated Territorial Investment Strategies". The integration of funding from various sources (including the ERDF, ESF) and close links between long-term local strategic planning and Cohesion Policy goals can be expected to remain characteristic features in Berlin.

Regarding the future of EU Cohesion policy after 2013 all together, the German government has defended that all regions remain eligible for Structural funding.³⁴ This is not surprising, considering the relatively important development disparities in different parts of the German territory.

Germany, a member of the "Friends of better spending" group, has supported the proposed performance framework as a positive option to introduce more effectiveness in Cohesion policy implementation, as well as better strategic planning and programming at programme and project level. Both aspects are traditionally taken very seriously in Cohesion policy implementation in Germany, including in Berlin.

Despite the special status as a city state and as Germany's capital, Berlin can be seen as exemplary for Germany's position on Cohesion policy, now and in the future. Furthermore, the case of Berlin illustrates how relevant both objectives of EU Cohesion policy remain in the coming years: The EU2020 goals and more competitiveness as well as the traditional objective of Regional policy, reduction of regional disparities and social inclusion.

³⁴ Gemeinsame Stellungnahme von Bund und Ländern zum Fünften Bericht der Europäischen Kommission über den wirtschaftlichen, sozialen und territorialen Zusammenhalt, Berlin 2011.

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