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on the proposal for a Council Regulation establishing a Cohesion Fund (COM(2004)0494 - 2004/0166(AVC))

Committee on Regional Development

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1. Background

The Cohesion Fund[1] was set up in 1993 by the Maastricht Treaty in preparation for Economic and Monetary Union. In order to participate in Economic and Monetary Union, Member States must reduce their government deficit and keep public debt under control. At the same time, the least prosperous countries must invest heavily in order to catch up with their more developed neighbours and increase their growth capacity. The Cohesion Fund was set up, therefore, so that the least affluent countries could work to meet the convergence criteria, while continuing to invest in infrastructure thanks to aid from the Cohesion Fund.

Article 161(2) of the Treaty states that 'a Cohesion Fund set up by the Council (...) shall provide a financial contribution to projects in the fields of environment and trans-European networks in the area of transport infrastructure'.
The objective is, therefore, to establish a fund that complements the other Community regional development instruments in the fields of environment and public transport infrastructure in order to promote economic and social cohesion and mutual support among the Member States.

The European Parliament has always defended the importance of the Cohesion Fund and its contribution to economic growth in Europe.

Only those Member States whose per capita gross national income (GNI) is less than 90% of the Community average, and who have put in place a programme designed to satisfy the economic convergence conditions under Article 104 of the Treaty establishing the European Community, are eligible.

Since the enlargement of the EU on 1 May 2004, the Cohesion Fund has applied to the ten new Member States, as well as to the three beneficiary Member States of the EU 15 (Spain, Portugal and Greece) eligible at the end of the 2000-2006 period. Ireland ceased to be a beneficiary on 1 January 2004. According to Commission (Eurostat) predictions, Spain will no longer fulfil the eligibility criteria for Cohesion Fund financing as of 1 January 2007.

2. Presentation of the proposal for a Regulation establishing a Cohesion Fund

In its third report on economic and social cohesion[2] and its proposal to reform cohesion policy by means of general provisions[3], the Commission stipulates that the priorities of cohesion policy for the 2007-2013 period will centre on three basic objectives: convergence, competitiveness and cooperation.
The Regulation establishing a Cohesion Fund is a regulation specifically intended to complement the general provisions on the Structural and Cohesion Funds.
Its aim is to define the tasks of the Cohesion Fund, and its specific application, in particular regarding the conditionality of assistance and the scope of the Fund.

[1] Regulation (EC) No 1164/94, amended by Regulations (EC) N°1264/1999 and (EC) N°1265/99.
[2] Commission communication: Third report on economic and social cohesion, COM 2004 107, of 17 February 2004.
[3] COM (2004) 492

The Commission proposes that the Cohesion Fund should consist of EUR 62.99 bn for the 2007-2013 period - 23.86% of convergence objective funding[1] - which is a significant increase in Cohesion Fund monies compared with the EUR 18 bn for the 2000-2006 period.

Eligibility for funding from the Cohesion Fund (Article 5(3) of the proposal for a general regulation[2])
As for the 2000-2006 period, only those Member States whose per capita gross national income (GNI) is less than 90% of the Community average, and who have a programme for meeting the economic convergence conditions referred to in Article 104 of the Treaty establishing the European Community, are eligible. These conditions are:
- control of public spending: a Member State may not receive assistance from the Cohesion Fund in the event of excessive government deficit (higher than 3% of GDP);
- observance of the economic convergence criteria for Economic and Monetary Union (Stability and Growth Pact).

Scope of assistance (Article 2 of the Regulation establishing a Cohesion Fund)
Trans-European transport networks in particular, projects of European interest and environmental infrastructure remain the priority for Cohesion Fund measures. A new element introduced by the regulation is a greater contribution to sustainable development under the Cohesion Fund, in line with the Gothenburg priorities. This means the Fund can now finance transport projects, beyond the trans-European networks, relating to rail, navigable maritime and river waterways, multi-modal transport programmes and sustainable urban transport and projects promoting sustainable development from an environmental point of view, such as in the key areas of energy efficiency and renewable energy.

Conditions applying to access to Fund assistance (Article 4 of the Regulation establishing a Cohesion Fund)
Under the current system, if the permitted level of government deficit is exceeded, payment appropriations are suspended and the projects under way are, therefore, immediately put on hold as a result. Under the new proposal, if the permitted deficit is exceeded, only the commitment appropriations are suspended, with effect from 1 January of the following year, provided the Member State concerned has not taken any effective action following the Council's identification of an excessive government deficit. The suspension of commitment appropriations means the cancellation of future projects and not those under way. The suspension ceases when the Council decides, on the same basis, that the Member State concerned has taken the measures necessary to allow a return to a situation that is in accordance with the Treaty and with the Council decisions.

Simplification (Articles 33 and 38 of the proposal for a general regulation)
As part of the process of simplifying the implementation of regional policy, Cohesion Fund interventions are now integrated into the multiannual programming of the Structural Funds and are subject to the same general principles[3] as the Structural Funds.

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[1] Objective 1 (convergence) accounts for 78.5% of funding allocated to the three objectives, i.e. EUR 264 bn. 17.2%, EUR 57.9 bn, is earmarked for Objective 2 (regional competitiveness and employment) and 3.94%, EUR 13.2 bn, for Objective 3 (European territorial cooperation).
[2] COM (2004) 492
[3] Multiannual programming, partnership, evaluation, additionality, management, monitoring and evaluation of the use of the Funds, payment and financial controls and the N+2 rule.

In future, the Cohesion Fund will be involved, along with the ERDF (European Regional Development Fund), in multiannual investment programmes managed on a decentralised basis. It will fund the 'priorities' instead of having to submit 'individual projects' for the Commission's approval. The funding will cover 'major projects' that exceed a sum of EUR 25m for the environment and EUR 50m for other areas.

Community contribution and pre-financing (Articles 51 and 81 of the proposal for a general regulation)
For each of the programmes' priorities, the contribution from the Cohesion Fund is subject to a ceiling of 85% of the public expenditure co-financed by the Cohesion Fund. Following the Commission decision approving the contribution from the Funds to an operational programme, the Commission will pay the body designated by the Member State a pre-financing amount representing 10.5% of the contribution from the Cohesion Fund to that operational programme.

3. Comments and suggestions

For the 2007-2013 programming period, the implementation of the Cohesion Fund is to undergo substantial changes resulting from adjustments made to the implementation rules between 1993 and 2003. In 1999, a major reform to the Cohesion Fund had already led to changes to the Cohesion Fund rules and the introduction of a more strategic approach, as well as improvements to the regulation, management and financial control of projects. In the last few years, the Cohesion Fund rules have, as a result, become more aligned with the rules governing the Structural Funds, which has led the Commission to incorporate the Cohesion Fund rules into the rules on the Structural Funds in its new proposal. This simplification should allow greater efficiency in the management of the different funds.
Nevertheless, taking into account current difficulties and the need to improve implementation in the future, it is advisable to include the **specific rules relating to major projects**, which are the Cohesion Fund's most important intervention tool and are governed by Articles 38 to 40 of the proposal for a general regulation, into the regulation on the Cohesion Fund.
Likewise, the **financing of technical assistance** (studies, evaluations, expert reports and statistics), governed by Article 43 of the proposal for a general regulation, should be mentioned in this regulation.

With regard to environmental and transport infrastructure, the Cohesion Fund and ERDF will be managed according to a single programming system for the 2007-2013 period, in order to create greater synergy. Major projects, the total cost of which exceeds EUR 25 m for the environment and EUR 50 m for other areas, will, however, be approved by the Commission separately but managed under the programmes relating to them. Ideally, the Cohesion Fund should define **its specific priorities** within the **national frameworks** as distinct from those of the ERDF**.**

The increase in the financial envelope for the Cohesion Fund from EUR 18 bn (for the 2000-2006 period) to **EUR 62.99 bn** is important given that more than half the Member States will receive assistance from the Cohesion Fund. The widening of the scope of measures under the Cohesion Fund stems from the Gothenburg objective of sustainable development and will enable the Union to meet the substantial funding needs of the new Member States in terms of the environment and transport. Community funding must be split equally between the eligible

areas of environment and transport. However, to ensure a degree of flexibility in assistance under the Fund, it is important that it is adapted to the needs of each Member State.

Article 3(3) of the Regulation establishing a Cohesion Fund proposes that the purchase of land for an amount exceeding 10% of the total eligible expenditure for the operation concerned should count as **ineligible expenditure**. However, there would need to be a flexibility clause allowing a derogation to be obtained in certain cases, thus providing greater freedom in decisions on the eligibility of expenditure.

The Commission's proposals for **simplification** and more efficient management are welcome changes. The proposal provides for a more strategic programming approach, based on the 'Community strategic guidelines on cohesion' and the priorities of the Commission and the new national strategic reference frameworks. These reference documents will replace the present Community Support Frameworks (CSFs), the Single Programming Documents (SPDs) and the Programme Complements.
Nevertheless, it would be a good idea for the Commission to draw up a **list of key priorities** in the programming phase, which would be beneficial in terms of the quality and evaluation of the project results and for the effectiveness of Community financing.

A '**premium system',** in the form of a 'Community reserve for quality and performance', is intended for the Structural Funds only (Articles 20, 48 and 49 of the proposal for a general regulation). The objective of the Cohesion Fund is different from that of the Structural Funds. It aims to take the place of national budget expenditure to support projects in the beneficiary Member States without any internal regional distinction. The Cohesion Fund will play a vital role during the 2007-2013 period given that, following enlargement, more than half the Member States will benefit from it. In addition, Community financing will be three times higher than for the previous period. It is important, therefore, that the Cohesion Fund's contribution to achieving economic and social cohesion is fully appreciated and that the progress made by the best performing Member States is rewarded.
In order to create competition between the Member States and their regions, it appears that it is necessary to introduce a premium system based on three main criteria: the quality of the project proposed and completed, the beneficiary Member State's ability to put to good use the monies allocated from the Cohesion Fund and the carrying-out of the project. Further criteria could be thought up for this premium system, e.g. the transnationality of the project and its contribution to sustainable development, the degree to which neighbouring countries cooperate and coordinate assistance for transport and for the environment and the promotion through projects of renewable energy sources and environmentally friendly waste treatment.

In accordance with the subsidiarity principle, cohesion policy currently contributes to the gradual and timely strengthening of the role of regional actors. However, when it comes to implementation, the technical and administrative capacity at local level is not always adequate for this new role. Specific accompanying measures and the application of the **best practice** system could be useful in helping national and regional authorities to manage the funding they receive more effectively.

Applying the **N+2 rule**[1] to the Cohesion Fund, which from now on is subject to the same rules as the ERDF and the ESF, encourages the prompt use of Cohesion Fund resources. The current period has shown that this rule brings a sense of discipline that aids the thorough and precise preparation of projects and the management of the Structural Funds. It will be necessary, however, to monitor carefully how the N+2 rule is applied to Cohesion Fund assistance of a different nature from assistance under the Structural Funds.

In the discussions on the future of the Cohesion Fund, some people have spoken in favour of a **phasing-out mechanism,** like the one in place for the Structural Funds. Although there are considerable financial and technical difficulties connected with the application of this kind of mechanism, transitional funding would also be helpful to the countries that will no longer be eligible for Cohesion Fund assistance as a result of the statistical effect of enlargement.

[1] Automatic decommitment of appropriations not used in the two years following their commitment (Articles 92-96 of the proposal for a general regulation)