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Why?

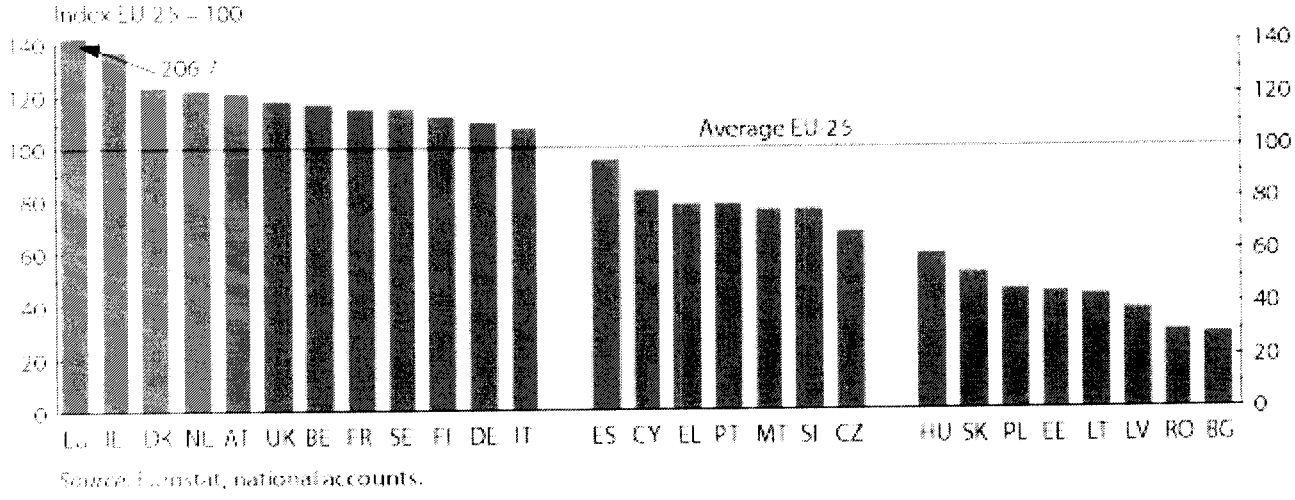
The European Union is one of the most prosperous economic zones in the world. Since the accession of 10 new Member States on 1 May 2004 , it has the power of an internal market and the human potential of more than 450 million citizens. But economic and social disparities among its Member States and among its regions weaken its dynamism overall. These disparities are twice as great in the Europe of the Twenty-five, with its 254 regions, than they were in the Europe of the Fifteen.

Disparities

Objective 1 of the Structural Funds (economic development of the least advantaged regions) involves the entire territory of the new Member States and almost 98 % of their population, of whom two thirds live in regions with a GDP per head of less than half the average GDP of the Twenty-five. With respect to employment, unemployment rates (2002 data) vary greatly within the Twenty-five: from 2 % in Tyrol (Austria) and 3.3 % in Cyprus to 29 % on Réunion Island (France) and 26.3 % in the Lubuskie region (Poland). Outside the most disadvantaged regions, many regions and cities find themselves in an intermediate situation with areas in which serious economic and social difficulties accumulate.

In short, Europeans do not all have the same advantages in the face of the challenge of globalisation, depending on whether they live in a region that is prosperous or one that is lagging behind with respect to development, a dynamic or depressed area, a city or the countryside, a peripheral or isolated area, or one of the key economic centres of the Union.

GDP per head, 2002



Source: Eurostat, national accounts.

Solidarity

Employment, training, the competitiveness of firms, investment in infrastructure, the information society, research, and the quality of the environment are all primarily the responsibility of authorities and economic

operators in each Member State and region. But not only ...

European solidarity is in fact already mentioned in the preamble of the Treaty on European Union. The Treaty specifies that the Community acts to strengthen its economic and social cohesion and specifically to reduce the gaps among levels of development in the various regions. This is why the Member States participate in a **European regional policy** co-financed by the European funds, Structural Funds and Cohesion Fund, which embody Community solidarity.

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How ?

More than a third of the budget of the Union is devoted to regional development and economic and social cohesion through a series of European funds.

The amounts available

For the period between 2000 and 2006, EUR 213 billion has been earmarked for all structural instruments for the 15 Member States. In addition, about EUR 22 billion in preaccession aid, and another EUR 22 billion in structural interventions for the new Member States in the period 2004–06, will be spent within the Union 's adjusted financial perspectives. The total of about EUR 257 billion represents approximately 37 % of the EU budget for the period up to 2006. Most of the funding is being spent through multiannual development programmes, managed jointly by Commission services, the Member States and regional authorities. The European subsidies do not replace but rather supplement national aid.

The Structural Funds

Each of the four existing Structural Funds has its own specific thematic area. The European Regional Development Fund (ERDF) finances infrastructure, jobcreating investment, local development projects and aid for small firms. The European Social Fund (ESF) promotes the return of the unemployed and disadvantaged groups to the workforce, mainly by financing training measures and systems of recruitment assistance. The Financial Instrument for Fisheries Guidance (FIFG) helps adapt and modernise the fishing industry. The Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF-Guidance) finances rural development measures and provides aid for farmers, mainly in regions lagging behind in their development. Other financial instruments exist in addition to these Structural Funds, including notably the Cohesion Fund.

Structural Funds budget *(billion EUR, commitments in 1999 prices)*

	Objective 1	Objective 2	Objective 3	Interreg	URBAN	EQUAL	Leader	Fisheries F.	Cohesion F.	Total
EU 15	137.800	22.040	24.050	4.875	0.700	2.850	2.020	1.106	18.000	**213.441**
EU 10	13.230	0.120	0.110	0.420	0.000	0.220	0.000	0.003	7.590	**21.693**
EU 25	151.030	22.160	24.160	5.295	0.700	3.070	2.020	1.109	25.590	**235.134**

The priority objectives

To enhance its impact and secure the best possible results, 94 % of structural funding for the period 2000–06 is concentrated on three objectives:

Objective 1: Helping regions whose development is lagging behind to catch up.

Objective 2: Supporting economic and social conversion in industrial, rural, urban or fisheries dependent areas facing structural difficulties.

Objective 3: Modernising systems of training and promoting employment. Measures financed by Objective 3 cover the whole Union except for the Objective 1 regions, where measures for training and employment are included in

the catch-up programmes.

Structural Funds and instruments for EU-15, 2000-06 (*) *(million EUR, commitments in 2004 prices)*

Member State	Objective 1 (*)	Objective 2	Objective 3	FIFG (**)	Cohesion F.	Community initiatives	Total	Population in Obj. 1 and 2 areas (million)	% of the population
Austria	288	740	585	0	0	395	**2 008**	2.270	28.20
Belgium	690	486	817	33	0	231	**2 257**	1.269	12.50
Denmark	0	199	397	221	0	92	**909**	0.538	10.20
Finland	1 008	541	442	33	0	280	**2 304**	2.650	51.70
France	4 203	6 569	5 013	254	0	1 155	**17 192**	20.412	34.00
Germany	22 035	3 776	5 057	121	0	1 775	**32 765**	24.447	29.80
Greece	23 143	0	0	0	3 388	952	**27 483**	10.476	100.00
Ireland	3 409	0	0	0	584	183	**4 177**	0.965	26.60
Italy	24 424	2 749	4 129	130	0	1 294	**32 707**	26.704	46.50
Luxembourg	0	44	44	0	0	14	**103**	0.117	28.20
Netherlands	136	863	1 866	33	0	719	**3 615**	2.324	15.00
Portugal	21 010	0	0	0	3 388	741	**25 139**	6.616	66.60
Spain	42 061	2 904	2 363	221	12 357	2 162	**62 067**	32.027	80.70
Sweden	797	431	795	66	0	307	**2 396**	1.674	18.90
UK	6 902	5 068	5 046	132	0	1 061	**18 209**	18.909	32.20
EU-15	**150 104**	**24 367**	**26 553**	**1 226**	**19 717**	**11 361**	**233 328**	**149.13**	**40.30**

(*) Incl. the phasing-out
(**) Out of Objective 1

New Member States and Structural Funds and instruments, 2004-06 (*) *(million EUR and current prices)*

Country	Objective 1	Objective 2	Objective 3	Interreg	EQUAL	Cohesion Fund (**)	Total	Population in Obj. 1 and 2 areas (millions)	% of the population
Cyprus (***)	0.00	28.02	21.95	4.30	1.81	53.94	**113.44**	0.212	30.90
Czech Republic	1 454.27	71.30	58.79	68.68	32.10	936.05	**2 621.19**	9.460	92.00
Estonia	371.36	0.00	0.00	10.60	4.07	309.03	**695.06**	1.379	100.00
Hungary	1 995.72	0.00	0.00	68.68	30.29	1 112.67	**3 207.36**	10.238	100.00
Latvia	525.57	0.00	0.00	15.26	8.03	515.43	**1 164.29**	2.391	100.00
Lithuania	895.17	0.00	0.00	22.49	11.87	608.17	**1 537.70**	3.531	100.00
Malta	63.19	0.00	0.00	2.37	1.24	21.94	**88.74**	0.387	100.00
Poland	8 275.81	0.00	0.00	221.36	133.93	4 178.60	**12 809.70**	38.654	100.00
Slovakia	1 041.04	37.17	44.94	41.47	22.27	570.50	**1 757.39**	4.957	91.90
Slovenia	237.51	0.00	0.00	23.65	6.44	188.71	**456.31**	1.986	100.00
Total	**14 959.64**	**136.49**	**125.68**	**478.86**	**252.05**	**8 495.04**	**24 451.18**	**73.195**	**97.70**

(*) Average
(**) Including Fisheries Fund

(***) Due to the different lengths of the programming periods for EU-15 and the 10 new Member States (seven years and three years), it is not useful to add the financial amounts up for these two groups of countries.

What does Europe do for your country and region?

Comrnunity initiatives and innovative actions

Four Community initiatives are aimed at finding solutions to problems common to a number of or all Member States and regions: Interreg III for the development of crossborder, interregional and transnational cooperation; URBAN II to support innovative strategies in cities and urban neighbourhoods; Leader+ to promote rural development initiatives; EQUAL to combat discrimination in the labour market. The Community initiatives absorb 5.35 % of the Structural Funds budget. In addition, programmes for innovative actions receive funding to work as laboratories of ideas for disadvantaged regions.

Community initiatives in EU-15, 2000-06 *(million EUR, commitments in 2004 prices)*

Member State	Interreg	URBAN	EQUAL	Leader	Total
Austria	202.05	8.53	105.99	78.39	394.96
Belgium	114.82	21.52	77.29	16.56	230.19
Denmark	37.54	5.38	30.91	17.67	91.50
France	438.32	103.54	332.33	278.23	1 152.42
Finland	142.43	5.38	75.08	57.41	280.30
Germany	813.71	150.95	534.38	272.71	1 771.74
Greece	627.12	25.89	108.20	189.90	951.11
Ireland	92.74	5.38	35.33	49.68	183.14
Italy	470.34	116.54	409.61	294.79	1 291.28
Luxembourg	7.73	0.00	4.42	2.21	14.35
Netherlands	385.32	30.25	216.40	86.12	718.09
Portugal	435.01	19.49	118.14	167.82	740.45
Spain	993.67	114.30	535.48	515.61	2 159.06
Sweden	170.03	5.38	89.43	41.96	306.79
UK	399.68	126.18	415.13	117.03	1 058.02
Networks	51.89	18.03	55.20	44.16	169.29
EU-15	**5 382.39**	**756.74**	**3 143.32**	**2 230.24**	**11 512.70**

The Cohesion Fund

A special fund, the Cohesion Fund, is designed to assist the least prosperous countries of the Union : the 10 new Member States as well as Ireland (until the end of 2003), Greece , Portugal and Spain . At the beginning, the criterion is that the country's gross national product (GNP) is no greater than 90 % of the average for the Union . The Cohesion Fund intervenes throughout the national territory to co-finance major projects involving the environment and trans-European transportation networks rather than programmes and thus makes it possible to avoid having the cost of these works disrupt budgetary efforts in the countries to satisfy the demands of economic and monetary union. Furthermore, it assists these countries to conform to European norms in these areas.

One third of the funding for the Cohesion Fund is reserved for the new Member States between 2004 and 2006.

Pre-accession aid

For the first time in the history of its progressive enlargements, the European Union has called for preaccession aid for the 10 central and east European countries (CEECs), of which eight became members in 2004 (Czech Republic , Estonia , Hungary , Latvia , Lithuania , Poland , Slovakia and Slovenia). This aid continues to be employed in Bulgaria and Romania .

Financial allocations under pre-accession assistance for Bulgaria and Romania *(million EUR, 2004 prices)*

		2004	2005	2006	Total
Bulgaria	Phare	203	220	237	660
	ISPA	135	147	158	440
	Sapard	68	73	79	220
	Total	406	440	474	1.319
Romania	Phare	474	513	552	1.539
	ISPA	316	342	368	1.026
	Sapard	158	171	184	513
	Total	948	1.026	1.104	3.078
Total	Phare	677	733	789	2.198
	ISPA	451	489	526	1.466
	Sapard	226	244	263	733
	Total	1.353	1.466	1.578	4.397

Source: Financial statement annexed to 'Roadmap' for Bulgaria and Romania.
Assumed split between instruments based on ratio 3/6 Phare, 2/6 ISPA, 1/6 Sapard.
Division of allocations between Bulgaria and Romania based on ratio 30:70.
Figures for ISPA relate to mid point of range: 26-34 % Bulgaria, 64-76 % Romania (Council decision pending).

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And tomorrow ?

The European Union's regional and cohesion policy will have to meet **four challenges** during the 2007-13 programming period.

1. Increase cohesion in an enlarged Union

The enlargement of the Union to 25 Member States and subsequently to 27 or more will present an unprecedented challenge for the competitiveness and internal cohesion of the Union . As illustrated in this report, enlargement will lead to the widening of the economic development gap, a geographical shift in the problem of disparities towards the east and a more difficult employment situation: socioeconomic disparities will double and the average GDP of the Union will decrease by 12.5 %.

2. Strengthen the Union 's priorities

In an effort to improve the performance of the EU economy, the Heads of State or Government of the Union meeting in Lisbon in March 2000 set out a strategy designed to make Europe the most successful and competitive knowledge-based economy in the world by 2010. The Nice Council in December 2000 translated the Lisbon objectives on poverty reduction into a coordinated EU strategy for social inclusion. At the Gothenburg Council in June 2001, the Lisbon strategy was widened, adding a new emphasis on protecting the environment and achieving a more sustainable pattern of development. Cohesion policy is also necessary in a situation where other Community policies have important benefits with limited costs, although in a localised way. Cohesion policy helps to spread the benefits. By anticipating change and facilitating adaptation, cohesion policy needs to incorporate the Lisbon and Gothenburg objectives and to become a key vehicle for their development via the national and regional development programmes.

3. Improve quality to promote sustainable and more balanced development

Strengthening regional competitiveness through welltargeted investment throughout the Union and providing economic opportunities which help people fulfil their capabilities will thus underpin the growth potential of the EU economy as a whole to the common benefit of all.

4. Create a new partnership for cohesion

The reform of cohesion policy should also provide an opportunity to bring greater efficiency, transparency and political accountability. This requires, first and foremost, the definition of a strategic approach for the policy, spelling out its priorities, ensuring coordination with the system of economic and social governance and allowing for a regular, open review of progress made. The corollary to the above is the need to reinforce institutional capacities at all levels of government throughout the Union , building on one of the key strengths of cohesion policy.

Priorities for the future: convergence, competitiveness, cooperation

On 18 February 2004 , the European Commission adopted 'A new partnership for cohesion in the enlarged Union : convergence, competitiveness cooperation', the third report on economic and social cohesion, in which it describes its vision of the cohesion policy for the period 2007-13. On the basis of the budget proposal presented by the Commission on 10 February 2004 , a little more than EUR 336 billion will be allocated to the cohesion policy for the new period, with the priorities indicated below:

- Convergence: support employment growth and job creation in the Member States and least developed

regions
- Regional competitiveness and employment: anticipate and encourage the change
- European territorial cooperation: ensure harmonious and balanced development throughout the entire Union