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Investing in Europe's future

Fifth report on economic, social and territorial cohesion

Foreword
Summary
Conclusions
Maps and comments

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Table of contents

Foreword

The Union, especially during these difficult times, needs Cohesion Policy. It needs a policy that can make the investments that will help the Union and its regions emerge from the crisis, reduce disparities, and contribute to meeting the ambitious objectives of the Europe 2020 strategy.

Cohesion Policy has already helped to improve economic, social and environmental conditions within our Union, as shown by our evaluations. However, these same evaluations concluded that focussing on a few key priorities, especially in the more developed regions, would be more effective. Therefore, Cohesion Policy should become more selective.

Future programmes should concentrate on only a few priorities closely linked to the Europe 2020 strategy so that each priority receives enough funding to deliver a real impact. These priorities will be identified in a dialogue between the Commission, the Member States and regions, based on a joint assessment of the strengths and weaknesses of each Member State and of its regions.

We all share an interest in a Cohesion Policy that brings results. That is why we need to agree with the Member States and regions a more limited number of objectives per programme and carefully monitor progress.

In the current programming period, Cohesion Policy has already been closely aligned with the objectives of the Lisbon Strategy. The link to the Europe 2020 strategy must be even stronger in the future. This requires putting in place good programmes, with clear conditions and strong incentives. Pre-conditions could require, for example, that investment in environmental infrastructure is preceded by a transposition of the relevant EU environmental legislation. Incentives would reward regions and countries that have performed well and reached agreed European objectives.

This report and its proposals has also benefitted from the past public consultations. In response to the consultation following the *4th Cohesion Report*, we have proposed ways to streamline and simplify the delivery mechanisms to reduce the administrative burden for beneficiaries. Following the debate launched by the *Green Paper on territorial cohesion*, this report explains what territorial cohesion adds to Cohesion Policy and presents new indicators that reveal the territorial dimension of issues like poverty and access to services. Consultations with stakeholders and Member States' experts on the future of the Cohesion Policy have also highlighted the importance of enhancing the impact and visibility of the funds that support it, including for the investments made in human capital which are an important element of our new strategy.

The Cohesion Policy proposed for the period after 2013 allows all Member States and regions to actively pursue smart, sustainable and inclusive growth. Our efforts will in particular support development in the poorest regions in line with our commitment to solidarity. But the Commission will also consider the difficulties and potential for growth in other parts of the Union, such as urban deprived neighbourhoods, regions undergoing economic restructuring and more generally the necessary shift to a more innovative and knowledge based economy thanks to a better educated workforce.

The crisis has underlined the continued need for a policy that invests in the competitiveness of Europe, the well-being of its citizens and the quality of our environment. Yet this policy can only succeed through coordinated action focused on the key priorities. Only in this way can we promote economic, social and territorial cohesion and Europe 2020.

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for Regional Policy

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European Commissioner
for Employment, Social Affairs and Inclusion

Summary of the fifth report on economic, social and territorial cohesion*

The fifth Cohesion Report is adopted in the aftermath of the worst financial and economic crisis in recent history. The EU and its Member States responded to this crisis by taking measures to keep businesses in operation and people in employment, stimulate demand and increase public investment.

Subsequently, several governments have faced difficulties refinancing their debts due to a combination of falling revenue and increasing expenditure on welfare payments and stimulus measures. Faced with large deficits and pressure from financial markets, most EU governments are in the process of implementing fiscal consolidation measures.

In the midst of this, the EU has adopted an ambitious new strategy for long-term recovery, Europe 2020. Its key objective is smart, inclusive and sustainable growth. Even more than its predecessor, the Lisbon Strategy, Europe 2020 emphasises the need for innovation, employment and social inclusion and a strong response to environmental challenges and climate change in order to meet this objective.

The aim of this Cohesion Report is to support the Europe 2020 strategy and highlight the contribution that regions, and Cohesion Policy, can make to meet these objectives. The report argues that the Europe 2020 headline targets cannot be achieved by policies formulated at EU or national level alone. Such an ambitious agenda can only succeed with strong national and regional participation and ownership on the ground. This is one of the main lessons learnt from the Lisbon Strategy. For example, reaching the employment target of 75% in the Convergence regions would have required almost 10 million extra jobs in 2008, more than in all other regions combined.

In addition, the regional diversity in the EU, where regions have vastly different characteristics, opportunities and needs, requires going beyond 'one-size-fits-all' policies towards an approach that gives regions the ability to design and the means to deliver policies that meet their needs. This is what Cohesion Policy provides through its place-based approach.

The report argues that an efficient Europe 2020 strategy requires close coordination between Cohesion Policy and other EU policies. In many domains, public policies have a greater overall impact if they are closely coordinated rather than being implemented in isolation. Recent work by the OECD suggests that it is important to combine investment in transport infrastructure with support for businesses and human capital development to achieve sustainable economic and social development.

The fifth Cohesion Report is the first report adopted under the Lisbon Treaty, which added territorial cohesion to the twin goals of economic and social cohesion. To cover this, the report, first, analyses the territorial dimension of access to services. Second, it pays more attention to climate change and the environment. Third, it considers how the territorial impact of policies can be measured.

The report also includes a number of other novelties as compared with earlier reports. The analysis of regional economic disparities has been expanded to include issues

*SEC(2010) 1348 final, 9.11.2010.

relating to institutions and a new index of competitiveness is presented. Moreover, analysis of social cohesion, following the Stiglitz-Sen-Fitoussi report, covers both objective and subjective indicators of well-being and several indicators which have never been presented at the regional level before.

The report contains four chapters. The first focuses on the economic, social and territorial situation and trends in the EU by considering how to (1) promote economic competitiveness and convergence, (2) improve well-being and reduce social exclusion, and (3) enhance environmental sustainability. The second chapter assesses the contribution of national policies to cohesion. The third chapter presents an overview of how other EU policies have contributed to cohesion. The last chapter summarises the evidence on the positive impact of Cohesion Policy in furthering cohesion objectives and highlights the areas where there is room for improvement.

Economic, social and territorial situation and trends

Chapter 1 provides an extensive overview of the situation and trends in EU regions from an economic, social and environmental perspective. All three perspectives reveal striking regional disparities from differences in productivity, to infant mortality rates and vulnerability to climate change. Many of these disparities have shrunk over the past decade, some quite quickly, but overall there remains a wide gap between the less developed and the highly developed EU regions.

Although some of these regional disparities will never (completely) disappear, many of them are inefficient, unfair and unsustainable. To achieve real progress towards the goals of smart, green and inclusive growth, these regional disparities have to be reduced.

Promoting competitiveness and convergence

The EU is not alone in facing significant regional development disparities. Many large countries such as China, India, Brazil and Russia also have wide differences in regional GDP per head and have turned to EU Cohesion Policy to learn how to reduce them.

Differences in GDP per head between the US States are relatively narrow, but the differences within the North American Free Trade Association (NAFTA), which also includes Canada and Mexico, are much larger than those in the EU. These regional disparities in NAFTA have not diminished over time. This implies that belonging to a large free trade zone alone is not sufficient to enable less developed regions to catch up, especially when the gap in infrastructure, institutional efficiency and innovation is wide.

The EU's single market has grown to half a billion people today. Such a large market creates new opportunities in terms of economies of scale and specialisation. Both can help to make EU firms highly productive and globally more competitive. The value added of EU firms lies more and more in knowledge-intensive and other services, where the EU has a competitive edge as shown by a positive and growing trade balance in services with the rest of the world.

The internal market of the EU guarantees free movement not only of goods but also of people, services and capital. This allows people to travel more easily for leisure or work. The internal market opens up new horizons for investment or retirement and allows more people to find a job and more vacancies to get filled. This increasing integration can also be seen in growing trade and financial flows. Within the EU, trade in goods and services has expanded significantly, especially between countries in the EU-12 and between the EU-12 and the EU-15. Foreign direct investment and remittances from people working in another country have become crucial sources of capital for many of the less developed Member States. The crisis, however, has disrupted many of these flows.

Economic growth per head is linked to changes in population, employment and productivity. Since the population grew only slightly in most regions between 2000 and 2007, it had little effect on regional growth and hardly any effect at EU level. Increases in employment had a strong effect in Transition regions and a moderate one in Regional Competitiveness and Employment regions. In Convergence regions, employment made only a small contribution to growth, but the (very) low employment rates reveal a significantly underutilised resource. The main source of growth in all EU regions was higher productivity. Productivity growth was particularly high in Convergence regions fuelled by both increases within sectors (linked to innovation in the broad sense) and shifts in employment to sectors with a higher value added (restructuring). In Competitiveness regions, higher productivity came almost exclusively from innovation. Productivity growth came mostly from innovation in Transition regions, but, true to their name, was partly due to restructuring.

Innovation

To become more productive, the EU needs more innovation (in a broad sense) and more investment in education, training and life-long learning. Europe 2020 emphasises the need for more innovation. For example, only one region in ten has reached the Europe 2020 target of investing 3% of GDP in R&D.

Innovation is important for all regions, whether or not they are at the forefront of research. In regions that are not, i.e. most regions, the focus should be more on absorbing and spreading innovative practice developed elsewhere, than on radical innovations. Accordingly, these regions need to support investment in the capability of firms to internalise innovative practice and train their work force as well as helping to strengthen the links between private enterprise, research centres and government (the triple helix model).

The Europe 2020 target of increasing the proportion of those aged 30-34 with a tertiary education degree or equivalent to 40% has been reached in less than one in six regions and most others will need to increase greatly the capacity of universities and the number of young people remaining in education in order to meet this target by 2020.

The Europe 2020 'early-school leaving' target of at most 10% of young people aged 18–24 with no education beyond basic schooling has been reached in one in four regions, but it will require a substantial effort in many regions to achieve it, especially in Malta and the 17 regions in Spain and Portugal where the rate is still above 30%.

In many cases, public action is necessary to ensure that these economies can exploit their assets and opportunities efficiently. Investment in innovation and education can boost economic growth markedly, but only if the right infrastructure and institutions are in place.

Infrastructure

Innovations lead to more growth if they can easily reach a large market. The infrastructure needed to reach a large market is changing as more and more services can be purchased and distributed online, providing even remote regions with direct access to an EU-wide or even global market. Within the EU, this requires establishing a single digital market and increasing access to broadband. Broadband access, however, is far from universal. In thinly populated areas in Romania, only 13% of households had a broadband connection in 2009, compared to Finland where 77% of households in thinly populated and 84% in densely populated areas had broadband access.

Despite the growing importance of digital networks, the capacity to move people and goods by rail, road, air or water remains critically important. Transport infrastructure, however, is unevenly distributed across the EU. Most central and eastern Member States still have considerably fewer motorways than other parts of the EU and much lower speeds on their rail network. Access to air transport in most of these countries is also poor due to fewer flights and poor connections to airports.

Border regions often have lower grade transport infrastructure and less access to services and markets, especially along the external borders. This tends to reduce their GDP per head and employment rates. Cross-border cooperation can enhance welfare, but it may involve relatively high transaction costs due to different institutional systems, cultures and languages. EU support can help overcome such obstacles to bring untapped resources into use.

Institutions

Strong institutions are crucial for sustainable economic growth and social welfare. This is increasingly recognised by policy-makers and researchers alike. The crisis has highlighted the need for stable macroeconomic conditions, but the strategies for recovery should balance the need for fiscal consolidation with the need for sufficient levels of public investment. Wider availability and use of e-government services can also help to increase the transparency and efficiency of public administrations, and cross-border and inter-regional cooperation can help to strengthen institutional capacity.

Combined efforts to improve infrastructure, institutions and the pace of innovation can help the EU's economy become more productive and more competitive, which is key to sustaining adequate rates of growth and creating more and better jobs. To reach the Europe 2020 targets, a wide-ranging strategy is essential.

Improving well-being and reducing exclusion

Life expectancy and health

The EU has one of the highest life expectancies in the world. The average age and share of the population 65 and over are also among the highest in the world as a result. This has consequences for both health services and the labour force. An increase in the share of older people implies an increased demand for health and related services. As the average age of the labour force increases and people continue in employment until later in life, the demand for (re-)training will increase as may the demand for more flexible working arrangements.

Despite life expectancy being high overall, differences between regions remain relatively wide. The reasons are manifold, ranging from differences in income, education and living conditions to uneven access to high quality health care. Infant mortality, for example, is substantially higher in Romanian and Bulgarian regions, but also in some of the more remote or economically depressed regions in the EU-15. The same is true of death rates from cancer and heart disease. Road deaths per head of population differ by a factor of ten across EU regions, not so much because of the state of the road network but because of driver behaviour and the degree of law enforcement.

Living conditions

Unemployment fell substantially between 2000 and 2008. Nevertheless, regional unemployment rates remained high in Southern Italy, Eastern Germany and Southern Spain, even before the crisis. Since 2008, unemployment has risen dramatically in many Member States, notably in Spain and the Baltic States, where average rates were around 20% by early 2010. Considerable efforts will be needed to bring people back into employment in the years to come.

Labour mobility in the EU remains low, especially compared to the US, and this alone will not reduce the large regional disparities in unemployment across the EU. Nevertheless, regions with high unemployment have experienced larger outward migration, though the pattern of migration differs between the EU-12 and the EU-15. In the EU-12, migration has tended to be into predominantly urban regions, especially capital cities. In the EU-15, there has been more migration to predominantly rural regions than predominantly urban ones. Migration from outside the EU was until recently the most important source of population growth in EU regions, but the successful integration of the people concerned remains uneven and they have considerably lower employment rates than average in many Member States.

Within one generation, women have achieved and surpassed the level of education attained by men. In virtually all EU regions, many more women aged 25-34 than men have a university degree, while for women aged 55-64, this is the case in only a small minority of regions. This tendency has not yet led to more equal employment rates. In particular in southern European regions, employment rates of women are considerably lower than elsewhere, despite significant increases over the past decade, and unemployment among women is much higher than among men.

Access to services differs in two main ways, the most important is the difference between more and less developed countries and the second is the difference between thinly and densely populated areas. In most of the more developed Member States access to services, such as education, health care or banking, is not a problem in any type of area. In the less developed Member States, however, access is more limited, especially in thinly populated areas.

Densely populated areas, however, suffer from a combination of problems in all Member States, including from crime, violence, vandalism, pollution and noise. The share of population in densely populated areas experiencing these problems is two to three times larger than in other areas. Surveys of those living in cities, accordingly, show a high level of dissatisfaction with air quality and safety and, in several cases, low levels of trust.

Poverty

Europe 2020 aims to reduce poverty and exclusion. The indicator used to monitor this combines two absolute indicators (severe material deprivation and living in low work-intensity households) and a relative one (income below the at-risk-of-poverty threshold).

Severe material deprivation is highly concentrated in the less developed Member States and regions where up to a quarter of people are identified as being severely deprived. In the EU-12, the relative number tends to be larger in thinly populated areas, while in the EU-15 it is larger in densely populated ones.

Households with low work intensity are most common in the UK, Hungary and Ireland, where at least one in 10 lives in such a situation. In the Baltic States, Cyprus and Slovakia, by contrast, the number is less than one in 20.

The share of population with an income level that puts them at risk of poverty (less than 60% of national median disposable income) also differs markedly between countries, ranging from one in four (in Romania) to one in 10 (in the Czech Republic). But the range is far wider at regional level: from around one in 17 in two Czech regions and Trento in Italy to more than one in three in three southern Italian regions, two Spanish and one Romanian region. In several Member States, including the UK, Spain, Italy, Germany and Poland, the proportion is twice as large in the least prosperous regions than in the most prosperous ones.

Prior to the financial crisis, household income had increased markedly in many central and eastern Member States. This lifted many people out of material deprivation and increased their overall life satisfaction and happiness. Unfortunately, the crisis not only brought this increase to an end but reversed it. Consequently, it is likely to have increased deprivation, especially in the most affected countries, such as the Baltic States.

Promoting active inclusion and reducing poverty means investing in education, training and skills, modernising labour markets, training and education systems and social and health services to help people anticipate and manage change and to build a cohesive society.

Enhancing environmental sustainability

Adapting to climate change

Adapting to climate change will be most difficult in southern cities and regions and coastal and mountain areas. Even if greenhouse gas emissions were drastically reduced today, temperatures would still increase in the coming years and extreme weather events become more frequent, with more droughts, floods and reduced snow cover. Several regions which rely heavily on agriculture and winter or summer tourism are likely to have more droughts and less snow in the near future which could undermine these activities. At the same time, floods are likely to increase in other regions with many cities being particularly vulnerable.

Limiting climate change

Reaching the Europe 2020 target of 20% energy consumption from renewables will require substantially more investment in solar energy, particularly in southern Europe where there is most potential, and in wind energy, especially along the Atlantic and North Sea coasts.

The target of reducing greenhouse gas emissions by 20% is ambitious and will require investment by both the private and the public sector. The private sector will largely be covered by the emissions trading scheme, but the public sector will still need to make substantial changes and investment to reduce emissions and energy consumption. Increasing energy efficiency will require investing in the insulation of buildings, different heating systems, more efficient modes of transport and perhaps promoting urban living and more compact cities.

Improving environmental quality

The number of cities where waste water treatment is below EU standards has fallen over the past decade. Nevertheless, in several of the eastern Member States, more investment is still needed to comply fully with the urban waste water directive, which is why the accession treaties have foreseen a staggered transition. Though recycling of waste has increased and the use of landfills diminished, more progress in treating waste efficiently is still needed in some southern and eastern Member States.

Air quality is poor in many regions, especially in city centres and in the south, with detrimental effects on health and the quality of life. Reducing ozone levels and particulate matter in the air will require increased efforts at local and regional level. Moreover, both the Natura 2000 areas and green infrastructure in the wider countryside need to be properly managed and protected.

National policies and cohesion

National governments have implemented various regional development policies to further economic, social and territorial cohesion. While some Member States give priority to tackling regional disparities, others focus more on national competitiveness or on specific territorial features. Irrespective of the approach pursued, the emphasis is increasingly on *stimulating endogenous development* by providing support to areas of comparative advantage, rather than compensating regions for disadvantages.

Sub-national governments in virtually all Member States are responsible for a relatively large share of public investment. On average, some two-thirds of public investment is implemented by regional and local authorities across the EU, underlining the importance of their contribution to the Europe 2020 strategy.

Public investment is critical to improving the competitiveness of less developed regions, especially in those less well endowed with infrastructure. A number of recent studies have concluded that public investment boosts growth under certain conditions, among which good institutional governance is critical. Cohesion Policy support ensures that less developed countries and regions can maintain the rates of public investment required to increase their growth potential and equally helps them strengthen their institutional capacity.

Cohesion Policy funding means that public investment is higher relative to GDP in Cohesion countries than in the rest of the EU. The past decade has seen a positive correlation between rates of public investment and rates of economic growth, suggesting both that public investment is important for convergence and that economic growth is important for public investment.

Higher rates of public investment in Cohesion countries have mostly gone to improving infrastructure, notably transport networks, and Cohesion Policy has played a crucial role in helping to narrow the gap with more advanced parts of the EU in this respect.

Unlike in the case of their entitlement to EU funding under Cohesion, the relative prosperity of regions is not a major determinant of their access to national funds for investment, except in Germany and, to a lesser extent, in France. Other factors such as geophysical features, the extent of fiscal and political autonomy or the attraction of capital cities seem to be at least as important as cohesion objectives in determining the regional distribution of public investment.

Cohesion Policy is important for boosting the competitiveness of more advanced regions as well as less developed ones. On average it accounts for around 25% of total public investment at regional level in non-Convergence regions in Spain and France. It totals around 15% of public expenditure on environmental protection in the West Midlands and London and some 25% of public expenditure on improving the adaptability of workers and helping disadvantaged groups find employment in Central and Northern Italy.

The economic crisis led most national governments and some regional authorities to introduce *ad hoc* stimulus packages to mitigate the effects on growth and employment. Public investment was a major component of these packages. The legacy of the crisis, however, is a dramatic increase in government borrowing and debt. While this mostly stems from a fall in tax revenue, restoring macroeconomic stability and reducing government deficits in the coming years to more sustainable levels is likely to put pressure on public expenditure programmes and on public investment in particular.

Cohesion Policy, which accounts for a substantial proportion of financing for investment in many countries, is therefore likely to become increasingly important in the future. On the other hand, fiscal and budgetary constraints on Member States will have a significant impact on the environment in which Cohesion Policy operates. This might trigger a review of co-financing rules, which is a fundamental principle of Cohesion Policy underpinning the joint approach to EU funding and ensuring ownership of the policy on the ground.

The way that the additionality principle is verified to ensure that Cohesion Policy funding is used to support investment which is additional to what national governments would have otherwise undertaken needs to be revised. Currently, the method used is contested on grounds of reliability and lack of comparability between Member States, because of its *ad hoc* nature and complexity. A reform of the system is needed to make it more reliable, transparent and straightforward.

Structural and institutional reforms are important to maximise the impact of Cohesion Policy. However, the pace of reform over the past decade has been relatively slow and this has affected the impact of the policy 'on the ground'. The Europe 2020 strategy has set a new framework to which Cohesion Policy needs to adapt. A key aspect of this will be to establish closer links between the design and implementation of the policy and the macroeconomic objectives and structural and institutional reforms pursued.

Cohesion Policy in the current period includes conditions linked to the macroeconomic situation only in respect of the Cohesion Fund (apart from administrative requirements on financial management and control systems). For the next programming period, the issue of whether this kind of macroeconomic conditionality should be extended, and if so how, should be explored. Other conditions, such as incentives for reform in areas closely linked to the operation of Cohesion Policy and which might increase its impact, and value for money, might also be worth examining.

Other EU policies and cohesion

According to the EU Treaty, the design and implementation of all EU policies should take account of their effect on economic, social and territorial cohesion. Currently some policies have a clear territorial dimension, like transport or environment policy. Other policies have a partial territorial dimension, such as research, information society or health policy. Some policies do not or cannot distinguish in their implementation between different parts of the EU, for example the single market or trade.

Policies do not need to have a specifically regional thrust to be able to assess their effect on cohesion. However, it does require having a thorough understanding of the local impact of a policy, whether it is spatially targeted or not. Such assessments of the territorial impact could be carried out, prior to the approval of a policy, or as part of an *ex post* evaluation.

Policies also tend to have inter-dependent effects. Without proper coordination, the impact of any one policy is likely to be severely diminished and might even be negative. The impact of policies cannot therefore be maximised if a fragmented approach is adopted and policy decisions are taken in isolation.

Infrastructure improvements, for example, do not lead automatically to higher growth and, in fact, might even result in a net reduction in economic activity in less developed regions ('leaking by linking'). Investment in infrastructure needs to be combined with investment in education, enterprise, and innovation to ensure not only that it has a positive effect on development but that this effect is maximised by taking account of the complementary effects of this other investment.

Similarly, innovation may be spatially concentrated, but its benefits are not. Investment in R&D and businesses therefore needs to be complemented by investment in human capital, not only to foster the efficiency of the regional innovation process, but also to ensure that the benefits of innovation are distributed widely in spatial and social terms.

As regards R&D and innovation, Cohesion Policy needs to complement the activities carried out under the Research Framework Programme and the Competitiveness and Innovation Framework Programme. This can be achieved by focusing the role of Cohesion Policy on spreading and applying examples of innovative practice across the EU at regional level ('smart specialisation') and on supporting investment in basic infrastructure, institutions and human resources in less developed regions so that they can participate fully in the knowledge economy.

Given the tightening budget constraints which will limit public expenditure over the next few years across the EU and the parallel need to support economic recovery, these limited public resources should be used to maximum effect, which, as the Europe 2020 strategy makes clear, can only happen if all EU policies are mutually reinforcing.

The impact of Cohesion Policy

Cohesion Policy is the EU's main instrument for pursuing harmonious development across the Union. It is based on a broad vision, which encompasses not just the economic development of lagging regions and support for vulnerable social groups, but also environmental sustainability and respect for the territorial and cultural features of different parts of the EU. This breadth of vision is reflected in the variety of programmes, projects and partners that are supported under the policy.

In terms of the regional economy, the funding provided by Cohesion Policy over the period 2000-2006 created some 1 million jobs in enterprises across the EU, as well as perhaps adding as much as 10% to GDP in Objective 1 regions in the EU-15. As various studies indicate, this tended to boost the trade and exports of net contributor countries, which helps to offset their contribution to funding the policy. Accordingly, macroeconomic model simulations indicate that Cohesion Policy had the net effect of raising the level of GDP in the EU as a whole.

Nevertheless, there is room for improvement: grants to enterprise provide valuable support, but too often in the past there has been an over-reliance on them. The trend towards a more balanced mix, including financial engineering (loans and venture capital) as well as more indirect measures, such as advice and guidance and support for networking and clustering, is a welcome one. The European Commission, in close partnership with the EIB, is actively encouraging such diversification of support measures through initiatives such as JEREMIE, JASMINE, JASPERS and JESSICA.

In addition, Cohesion Policy investment in motorways and roads in the less developed parts of the EU-15 over many years means that the job is now largely done. Investment should shift towards more environmentally-friendly modes of transport (notably rail and urban transport systems), though in the EU-12 the need to improve all transport links remains a priority.

Cohesion Policy also supports the training of around 10 million people a year, with a strong focus on young people, the long-term unemployed and the low skilled. Through various local development initiatives, Cohesion Policy has a strong track record of cross-border co-operation, regenerating deprived urban neighbourhoods, and improving access to services in rural areas.

Involving regional and local communities can improve policies. Evaluation evidence has demonstrated that the active participation of people and organisations in projects at regional and local level, from the design to the implementation stage, is a crucial success factor. Indeed, such partnership is one of the key sources of added-value of Cohesion Policy, mobilising the skills and knowledge of those concerned to make programmes more effective and inclusive.

In terms of protecting the environment, more than half the Member States are tracking the reduction of greenhouse gas emissions as a target in their Cohesion Policy programmes for the 2007-2013 period.

More than 23 million people were connected to wastewater collection and treatment systems and at least 20 million people connected to clean supply of drinking water through ERDF and Cohesion Fund support in 2000-2006. As a result, Cohesion Policy has helped many regions to meet the requirements of EU environmental Directives and by so doing has helped to protect the environment and to improve the quality of life. However, the sustainability of the facilities constructed needs more careful consideration to ensure that investment in environmental infrastructure is made with clear plans for long-term financing.

In terms of policy management, strong and sound administration at national, regional and local levels is important for the success and lasting effect of Cohesion Policy. Evaluations have found that the EU-12 countries have significantly improved administrative capacity since accession. Nevertheless, continued efforts are needed to ensure that all government levels in the EU have the necessary administrative capacity to deliver Cohesion Policy effectively.

A recurrent evaluation finding across all areas of investment was a preoccupation with 'absorption', i.e., with spending the money more than focusing on what the programmes were actually designed to achieve. While the former is obviously a precondition for success, the latter is ultimately what matters. For example, monitoring systems typically prioritise spending and outputs (such as the number of people trained or kilometres of new roads constructed) rather than results (such as the number of people getting a job after training or the amount of journey time saved) let alone impacts (the effect of a better trained work force or more efficient transport networks on regional development).

Cohesion Policy needs to cultivate a focus on performance. This has to start from programmes identifying a limited number of policy priorities (concentration) with a clear view of how they will be achieved and how their achievement will contribute to the economic, social and territorial development of the regions, or Member States, concerned.

Monitoring and evaluation systems need to be improved across the EU to track performance and to help redirect efforts as necessary to ensure that objectives are attained. This requires a clear strategic vision of what the programme aims to achieve and how success will be recognised and measured (proper target setting). It also requires a strong and reliable monitoring system, as well as greater recourse to rigorous evaluation methods, including counterfactual impact evaluation, cost benefit analysis, beneficiary surveys, as well as a more rigorous use of qualitative methods such as case studies.

Conclusions of the fifth report on economic, social and territorial cohesion: the future of Cohesion Policy*

Introduction

Europe faces a daunting task. It must exit from a deep crisis and reduce unemployment and poverty, while switching to a low-carbon economy. Such an ambitious task requires swift action on many fronts, which is why the European Council adopted the Europe 2020 Strategy[1]. For Europe to succeed, European, national, regional and local levels all need to play their part. Cohesion Policy should continue to play a critical role in these difficult times, in order to deliver smart, sustainable and inclusive growth, while promoting harmonious development of the Union and its regions by reducing regional disparities.

Cohesion Policy has made a significant contribution to spreading growth and prosperity across the Union, while reducing economic, social and territorial disparities. The fifth report on economic, social and territorial cohesion shows that the policy has created new jobs, increased human capital, built critical infrastructure and improved environmental protection, especially in the less developed regions. Undoubtedly, without Cohesion Policy, disparities would be greater. Yet the lasting social effects of the crisis, the demand for innovation arising from increased global challenges and the imperative to make the most of every euro of public expenditure call for an ambitious reform of the policy.

As indicated in the EU budget review[2], in particular progress needs to be made in the following key areas: concentrating resources on the Europe 2020 objectives and targets; committing Member States to implementing the reforms needed for the policy to be effective; and improving the effectiveness of the policy with an increased focus on results. The explicit linkage of Cohesion Policy and Europe 2020 provides a real opportunity: to continue helping the poorer regions of the EU catch up, to facilitate coordination between EU policies, and to develop Cohesion Policy into a leading enabler of growth, also in qualitative terms, for the whole of the EU, while addressing societal challenges such as ageing and climate change.

With these conclusions, the Commission opens a public consultation on the future of Cohesion Policy. This is organised around a series of questions on the main ideas for its reform.

The following sections look, in turn, at how the policy can be made more effective and its impact improved so as to enhance the European added value (Section 2), at how governance of the policy can be further strengthened (Section 3), at how the delivery system can be streamlined and made simpler (Section 4) and at the architecture of the policy (Section 5).

* Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, COM(2010) 642 final, 9.11.2010.

1 'Europe 2020: A strategy for smart, sustainable and inclusive growth' - COM(2010) 2020, 3.3.2010.

2 'The EU budget review' - COM(2010) 700, 19.10.2010.

Enhancing the European added value of Cohesion Policy

The added value of Cohesion Policy is recurrently debated by policy-makers, academics and stakeholders. Some argue that Cohesion Policy is loosely linked to EU priorities, that it spreads resources too thinly across policy areas and that its impact is often difficult to measure. Though the report shows that Cohesion Policy has contributed to economic and social development of regions and to the well-being of people, the Commission takes these criticisms very seriously.

Further reforms of Cohesion Policy, while preserving its overall objective, should therefore aim to steer the policy decisively towards results and enact the reforms needed in order to achieve results, while cutting red-tape and simplifying the daily management of the policy.

Reinforcing strategic programming

Cohesion Policy has already been substantially aligned with the Lisbon Strategy, in particular by earmarking financial resources. However, this alignment is not sufficient due to a governance gap between the two strategic processes. More can be done in the future to further alignment of Cohesion Policy with the Europe 2020 Strategy. This requires, first of all, clear guidance at European level and a more strategic negotiating process and follow-up.

The EU budget review outlined a new strategic programming approach for Cohesion Policy with a view to closer integration of EU policies to deliver the Europe 2020 Strategy and the Integrated Guidelines. This approach would consist of:

- a **common strategic framework** (CSF) adopted by the Commission translating the targets and objectives of Europe 2020 into investment priorities. The framework would cover the Cohesion Fund, the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund;
- a **development and investment partnership contract** which, based on the common strategic framework, would set out the investment priorities, the allocation of national and EU resources between priority areas and programmes, the agreed conditionalities, and the targets to be achieved. This contract would cover Cohesion Policy. In order to promote economic, social and territorial cohesion in a coherent and integrated manner, it might be useful to extend its scope to other policies and EU funding instruments. The contract will be the fruit of the discussions between Member States and the Commission on the development strategy presented in their National Reform Programmes. It would also describe the coordination between EU funds at national level; and
- **operational programme**s (OPs) which, as in the current period, would be the main management tool and would translate the strategic documents into concrete investment priorities accompanied by clear and measurable targets — which should contribute to reach the national targets set in the framework of Europe 2020.

The timing of the **annual reports** monitoring progress towards the targets would be aligned with the Europe 2020 governance cycle. On this basis, a regular political debate in the relevant Council formations and European Parliament committees would improve transparency, accountability and assessment of the effects of Cohesion Policy.

Three proposals in the EU budget review have a particular impact on Cohesion Policy: concentrating financial resources, the system of conditionality and incentives, and focus on results.

Increasing thematic concentration

The *ex post* evaluations of Cohesion Policy concluded that greater concentration of resources is required to build up a critical mass and make a tangible impact.

In the future it will therefore be necessary to ensure that Member States and regions **concentrate EU and national resources** on a small number of priorities responding to the specific challenges that they face. This could be achieved by establishing, in the Cohesion Policy regulations, a list of thematic priorities linked to the priorities, Integrated Guidelines and flagship initiatives of Europe 2020.

Depending on the amount of EU funding involved, countries and regions would be required to focus on more or fewer priorities. Thus, Member States and regions receiving less funding would be required to allocate the entire financial allocation available to two or three priorities, whereas those receiving more financial support may select more. Certain priorities would be obligatory.

At the same time, thematic concentration should not prevent Member States and regions to experiment and fund innovative projects. Ring-fencing expenditure for specific target groups or experimental approaches (e.g. local development) might also be considered, possibly in the form of global grants.

Strengthening performance through conditionality and incentives

The financial and economic crisis has already compelled the Commission to propose measures to improve the economic governance of the Union[3]. Sound macroeconomic policies, a favourable microeconomic environment and strong institutional frameworks are preconditions for creating jobs, stimulating growth, reducing social exclusion and bringing about structural changes.

This is even truer of Cohesion Policy, since its effectiveness largely depends on the economic environment in which it operates. It is therefore possible to strengthen the links between Cohesion Policy and the economic policy framework of the Union.

First, to support the new economic governance system new conditionality provisions would be introduced creating incentives for reforms. Member States would be required to introduce the reforms needed to ensure effective use of financial resources in the areas directly linked to Cohesion Policy, for example environmental protection, flexicurity policies, education or research and innovation.

For each thematic priority the CSF would establish the key principles which interventions should follow. These principles must leave room for adaptation to national and regional contexts. Their main purpose would be to help countries and regions to tackle the problems that past experience has shown to be particularly relevant to policy implementation. These principles could be linked to, for example, transposition of specific EU legislation, the financing of strategic EU projects, or administrative, evaluation and institutional capacity.

On this basis, specific binding conditionality in the areas directly linked to Cohesion Policy would be agreed with each Member State and/or region — depending on the institutional context — at the beginning of the programming cycle in the programming documents (i.e. the development and investment partnership contracts and

3 'Enhancing economic policy coordination for stability, growth and jobs — Tools for stronger EU economic governance' - COM(2010) 367.

the operational programmes), in a coordinated approach with all relevant EU policies. Their fulfilment could be a prerequisite for disbursing cohesion resources either at the beginning of the programming period or during a review in which the Commission would assess progress towards completing agreed reforms.

Achievement of institutional reform is critical to underpin structural adjustment, foster growth and jobs and reduce social exclusion, notably by reducing regulatory and administrative burdens on businesses or by improving public services. As now, these would be complemented by support under Cohesion Policy to develop administrative and institutional capacity and effective governance. This should be available to every Member State and region.

Second, financial sanctions and incentives linked to the Stability and Growth Pact have been so far limited to the Cohesion Fund. The Commission has proposed to extend it to the rest of the EU budget as complementary leverage to ensure the respect of key macroeconomic conditions in the context of the corrective arm of the Pact. In cases of non-compliance with the rules of the Pact, incentives should be created by suspending or cancelling part of current or future appropriations from the EU budget without affecting end-beneficiaries of EU funds. Resources cancelled would remain within the EU budget.

Still in the context of the wider economic governance of the EU, the verification of the **principle of additionality** should be reformed by linking it to the EU economic surveillance process, using indicators already provided in the Stability and Convergence Programmes which Member States submit to the Commission every year.

Co-financing is one of the fundamental principles of Cohesion Policy ensuring ownership of the policy on the ground. Its level should be reviewed and, possibly, differentiated to reflect better the level of development, EU added value, types of action and beneficiaries.

Finally, other instruments which could further strengthen the effectiveness of Cohesion Policy also need to be explored. For example, a **performance reserve** could be established at EU level to encourage progress towards Europe 2020 targets and related national targets and objectives: a limited share of the cohesion budget would be set aside and be allocated, during a mid-term review, to the Member States and regions whose programmes have contributed most – compared to their starting point – to the 2020 targets and objectives. Also, the experience gained over the current period has demonstrated that the Commission needs some resources to support directly **experimentation and networking**, along the lines of the innovative actions of previous programming periods.

Improving evaluation, performance and results

Higher-quality, better-functioning monitoring and evaluation systems are crucial for moving towards a more strategic and results-oriented approach to Cohesion Policy. A number of changes would support this shift.

First, the starting point for a results-oriented approach is *ex ante* setting of clear and **measurable targets and outcome indicators**. Indicators must be clearly interpretable, statistically validated, truly responsive and directly linked to policy intervention, and promptly collected and publicised. Indicators and targets should be agreed in the discussions on the programming documents in addition to a few core Fund-specific indicators for all operational programmes linked to the Europe 2020 framework. Moreover, timely and complete submission of accurate information on the **indicators** and on the progress towards the agreed targets would be central to the annual reports.

Second, ***ex ante* evaluations** should focus on improving programme design so that the tools and incentives for achieving objectives and targets can be monitored and evaluated during implementation.

Third, evaluation should make much greater use of rigorous methods in line with international standards, including **impact evaluation**. Whenever possible, impact evaluations would be designed at an early stage to ensure collection and dissemination of the appropriate data. Moreover, plans for **on-going evaluation** of each programme would become an obligation, since they facilitate transparency at EU level, foster evaluation strategies and improve the overall quality of evaluations. Evaluations could also be envisaged once a certain amount of the funds has been certified to the Commission.

Finally, Member States could prepare a report synthesising results of on-going evaluations they conduct during the programming period with a view to giving a comprehensive summative evaluation of programme performance.

Supporting use of new financial instruments

The EU budget review makes a strong case for increasing the leverage effect of the EU budget. New forms of finance for investment have been developed in the 2007-2013 programming period, moving away from traditional grant-based financing towards innovative ways of combining grants and loans. The Commission would like Member States and regions to make a more extended use of such instruments in the future.

Financial instruments help to create revolving forms of finance, making them more sustainable over the longer term. This is also one way of helping Europe to increase resources for investment, especially in times of recession. It opens new markets to different forms of public-private partnership, bringing in the expertise of international financial institutions.

To improve financial engineering instruments within Cohesion Policy, a number of measures could be examined:

- provide greater **clarity and differentiation between rules** governing grant-based financing and rules governing repayable forms of assistance in the regulatory framework, especially on eligibility of expenditure and audits;
- channel generic **financial support to firms** mainly via financial engineering instruments and use grants to co-finance targeted support schemes (innovation, environmental investments, etc.);
- **extend both the scope and scale of financial engineering instruments**: in terms of scope, to encompass new activities (e.g. sustainable urban transport, research and development, energy, local development, lifelong learning or mobility actions, climate change and environment, ICT and broadband); in terms of scale, to combine interest subsidies with loan capital or other forms of repayable financing.

- How could the Europe 2020 Strategy and Cohesion Policy be brought closer together at EU, national and sub-national levels?
- Should the scope of the development and investment partnership contract go beyond Cohesion Policy and, if so, what should it be?
- How could stronger thematic concentration on the Europe 2020 priorities be achieved?
- How could conditionalities, incentives and results-based management make Cohesion Policy more effective?
- How could Cohesion Policy be made more results-oriented? Which priorities should be obligatory?

Strengthening governance

Introducing a third dimension: territorial cohesion

The Lisbon Treaty has added territorial cohesion to the goals of economic and social cohesion. As a result, it is necessary to address this objective in the new programmes, with particular emphasis on the role of cities, functional geographies, areas facing specific geographical or demographic problems and macro-regional strategies.

Urban areas can be the engines of growth and hubs for creativity and innovation. Higher growth levels and new jobs can be created provided a critical mass of actors like companies, universities and researchers is established. Urban problems, whether related to environmental degradation or to social exclusion, call for a specific response and for direct involvement of the level of government concerned. Accordingly, an ambitious **urban agenda** should be developed where financial resources are identified more clearly to address urban issues and urban authorities would play a stronger role in designing and implementing urban development strategies. Urban action, the related resources and the cities concerned should be clearly identified in the programming documents.

For the future, one aspect which should be examined is whether the regulatory architecture of Cohesion Policy should allow **greater flexibility** in organising operational programmes in order to reflect the nature and geography of development processes better. Programmes could then be designed and managed not only at national and regional levels, but also — for example — at the level of groups of towns or of river and sea basins.

The report has shown that in some cases **geographical or demographic features** could intensify development problems. This is particularly true of the outermost regions but also of northernmost regions with very low population density and island, cross-border and mountain regions, as explicitly recognised by the Lisbon Treaty. It will be necessary to develop targeted provisions to reflect these specificities, without unnecessarily multiplying instruments and programmes. Territorial cohesion also means addressing urban-rural linkages in terms of access to affordable and quality infrastructures and services, and problems in regions with a high concentration of socially marginalised communities.

Finally, further work on new **macro-regional strategies** should be based on a thorough review of existing strategies and the availability of resources. Macro-regional strategies should be broad-based integrated instruments focused on key challenges and supported by a reinforced trans-national strand, although the bulk of funding should come from the national and regional programmes co-financed by Cohesion Policy and from other national resources.

Reinforcing partnership

Effective implementation of Europe 2020 requires a governance system that involves the actors of change in Member States and that links the EU, national, regional and local levels of administration.

In order to mobilise fully all involved, representation of local and regional stakeholders, social partners and civil society in both the policy dialogue and implementation of Cohesion Policy should be strengthened. With this in mind, support for the dialogue between public and private entities, including socio-economic partners and non-governmental organisations, should be maintained.

In this context, the role of **local development approaches** under Cohesion Policy should be reinforced, for example by supporting active inclusion, fostering social innovation, developing innovation strategies or designing schemes for regeneration of deprived areas. These should be closely coordinated with similar actions supported under rural development and maritime policies.

- How can Cohesion Policy take better account of the key role of urban areas and of territories with particular geographical features in development processes and of the emergence of macro-regional strategies?
- How can the partnership principle and involvement of local and regional stakeholders, social partners and civil society be improved?

A streamlined and simpler delivery system

Although it is too early to draw final conclusions on the effectiveness of the delivery system of Cohesion Policy in the period 2007-2013, Member States have argued against too frequent and drastic amendments of the rules that could hamper implementation. Nevertheless, a number of targeted changes deserve to be examined.

Financial management

In line with the recent proposal for revision of the Financial Regulation[4], each year the authority responsible for managing Cohesion Policy programmes would present a management declaration accompanied by the annual accounts and an independent audit opinion. This would strengthen the line of accountability for expenditure co-financed by the EU budget in any given financial year.

On the basis of the annual management declaration, the Commission proposes to introduce a periodical clearance of accounts procedure for Cohesion Policy. This would reinforce the assurance process and also allow regular partial closure of programmes.

The Commission has to consider whether not reimbursing national authorities until the corresponding EU contribution has been paid to beneficiaries would speed up payments of grants to beneficiaries and increase the incentive for strong national control.

Also, the Commission will examine the possibility of introducing output- or results-based elements for disbursement of the EU contribution to operational programmes or parts of programmes, depending on the type of action.

Finally, simplified methods of reimbursement, such as the standard scale of unit costs and lump-sum payments for grants introduced for 2007-2013, should be further promoted, thus increasing their impact. This would be another way of moving towards a more results-based approach.

Reducing the administrative burden

The general approach for 2007-2013, under which eligibility rules are set at national level, should be retained. However, common rules should be adopted on key points such as overheads covering different EU Funds. Alignment of rules on eligibility of expenditures across policy areas, financial instruments and funds would simplify use of funds by beneficiaries and management of funds by national authorities, reducing the

4 'Proposal for a Regulation of the European Parliament and of the Council on the Financial Regulation applicable to the general budget of the European Union' - COM(2010) 260.

risk of errors while providing for differentiation where needed to reflect the specificities of the policy, the instrument and the beneficiaries.

In line with the proportionality principle, it would also be useful to examine how control measures could be made more cost-effective and risk-based to improve their effectiveness and efficiency while ensuring adequate coverage of the inherent risks at a reasonable cost, in accordance with the principle of sound financial management.

Financial discipline

The de-commitment rule aims to ensure that projects are implemented within a reasonable timeframe and to encourage financial discipline. However, it can distort the behaviour of Member States and regions by concentrating too much attention on quick, and less on effective, use of resources. Furthermore, application of the de-commitment rule has been complicated by a number of derogations. There is a need to strike a careful balance between ensuring the quality of investment and smooth and rapid implementation. One possibility would be to apply N+2 with the exception of the first year to all programmes and remove exemptions and derogations.

Financial control

With regard to management and control systems, there is a need not only to deliver stronger assurance but also to achieve greater commitment, on the part of Member States, to quality control. This would allow the European Parliament, the Commission and Member States to focus more on the results and impact of the policy.

The first proposal is to review the procedure for *ex ante* assessment of the systems, taking account of the experience gained from the *ex ante* compliance assessment for 2007-2013 programmes in order to prevent problems in management and control systems. The procedure should be streamlined whilst retaining its benefits. This can be achieved by targeting the assessment on the main management body responsible by means of an accreditation process and by reviewing the Commission's involvement in this process.

The second proposal is to reinforce assurance by concentrating responsibilities. An accredited body would assume sole responsibility for proper management and control of the operational programme.

- How can the audit process be simplified and how can audits by Member States and the Commission be better integrated, whilst maintaining a high level of assurance on expenditure co-financed?
- How could application of the proportionality principle alleviate the administrative burden in terms of management and control? Should there be specific simplification measures for territorial cooperation programmes?
- How can the right balance be struck between common rules for all the Funds and acknowledgement of Funds' specificities when defining eligibility rules?
- How can financial discipline be ensured, while providing enough flexibility to design and implement complex programmes and projects?

The architecture of Cohesion Policy

Cohesion Policy aims to promote harmonious development of the Union and its regions by reducing regional disparities (Article 174 of the Treaty). It also underpins the growth model of the Europe 2020 strategy including the need to respond to societal and employment challenges all Member States and regions face. The policy supports such development with a clear investment strategy in every region by increasing competitiveness, expanding employment, improving social inclusion and protecting and enhancing the environment. The multilevel governance system for the policy helps to make the EU more visible to its citizens.

All regions and Member States would be eligible to Cohesion Policy and able to tailor their strategy in an integrated manner to their specific strengths and weaknesses.

As today, support would be differentiated between regions based on their level of economic development (measured by GDP per capita), drawing a clear distinction between 'less' and 'more' developed regions. To soften the transition between these two categories and ensure a fairer treatment for regions with similar levels of economic development, the question could be asked as to whether a simpler system with a new intermediate category of regions could replace the current phasing-out and phasing-in system. This category would also include regions currently eligible under the 'convergence' objective but whose GDP would be higher than 75% of the Union average according to the latest statistics.

At the same time, and consistently with the EU budget review, there is a need to consider for the future architecture of Cohesion Policy, how the ESF could be refocused on securing the 2020 targets and objectives and how to achieve greater visibility and predictable funding volumes. It is also important to examine how the Fund could better serve the European employment strategy and contribute to the comprehensive European employment initiative called for by the EU budget review.

The policy will continue to focus on implementing the Integrated Guidelines for economic and employment policies.

The Cohesion Fund would continue to benefit Member States whose GNI per capita is lower than 90% of the Union average.

Finally, Cohesion Policy would continue to foster territorial dimensions of cooperation (cross-border, transnational and inter-regional). This would include a review and simplification of the current arrangements for cross-border cooperation, including IPA, ENPI and EDF cross-border cooperation at the EU's external borders, and also of current practices in transnational action supported both by the ERDF and the ESF.

- How can it be ensured that the architecture of Cohesion Policy takes into account the specificity of each Fund and in particular the need to provide greater visibility and predictable funding volumes for the ESF and to focus it on securing the 2020 objectives?
- How could a new intermediate category of regions be designed to accompany regions which have not completed their process of catching up?

Next steps

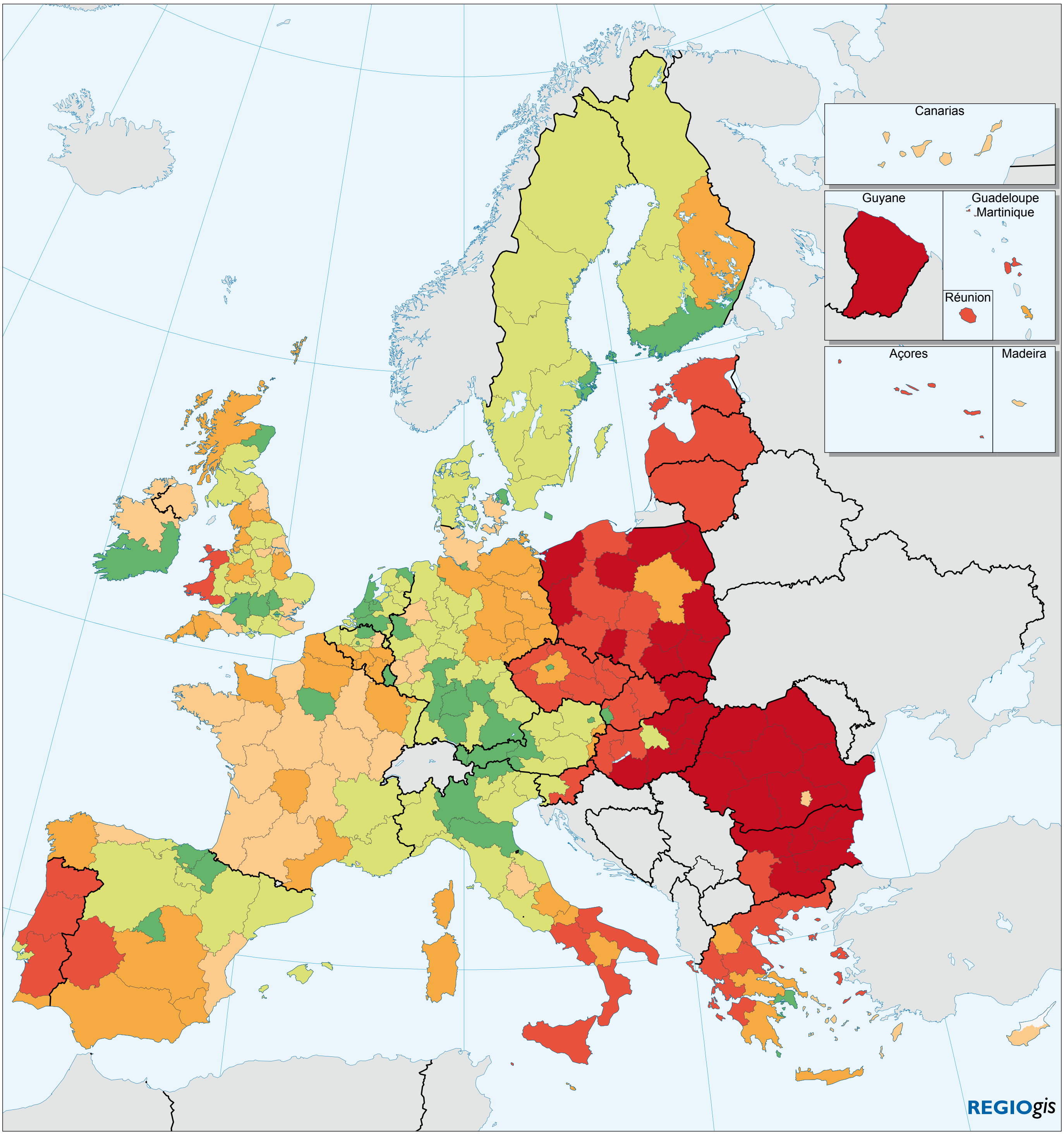
The fifth Cohesion Report sets out some of the Commission's key ideas for the reform of Cohesion Policy following a long discussion which started with the fourth Cohesion Report in 2007. These will be fine-tuned and consolidated in the next few months.

The Commission invites all stakeholders to give their responses to the questions presented in this Communication. Comments can be posted until 31 January 2011 on: **http://ec.europa.eu/regional_policy/consultation/index_en.htm**

Due account will be taken of the responses received when drafting the legislative proposals to be presented immediately after the adoption of the new Multi Annual Financial Framework in 2011.

The fifth Cohesion Forum which will take place in Brussels on 31 January and 1 February 2011 will provide a good opportunity for these ideas to be discussed.

Maps and comments



GDP per head (PPS), 2007

Index, EU-27 = 100

- < 50
- 50 - 75
- 75 - 90
- 90 - 100
- 100 - 125
- >= 125

Source: Eurostat

0 500 Km

GDP per head

Gross Domestic Product per head in Purchasing Power Standards.

Why does this matter?

Gross domestic product (GDP) is the total value of all goods and services produced within a region in a given period of time. GDP per head is the level of output per inhabitant which is an indication of the average level of economic wealth generated per person. In order to compare regions, it is computed in Purchasing Power Standards (PPS) which eliminates differences in purchasing power due to different price levels.

In general, the level of GDP per head is closely related to global economic performance, in particular to productivity and employment. Its change over time indicates the pace of economic development.

Country	Top Ten regions	GDP per head in PPS EU-27=100
This table shows the ten regions with the highest GDP per head in PPS in 2007		
UK	Inner London*	334.2
LU	Luxembourg (Grand-Duché)*	275.2
BE	Région de Bruxelles-Capitale / Brussels Hoofdstedelijk Gewest*	220.9
DE	Hamburg*	192.0
CZ	Praha	171.8
FR	Île de France	168.8
IE	Southern and Eastern	166.1
NL	Groningen	164.9
DE	Oberbayern	164.7
SE	Stockholm	164.6

* These figures are distorted by commuting

How do the EU regions score?

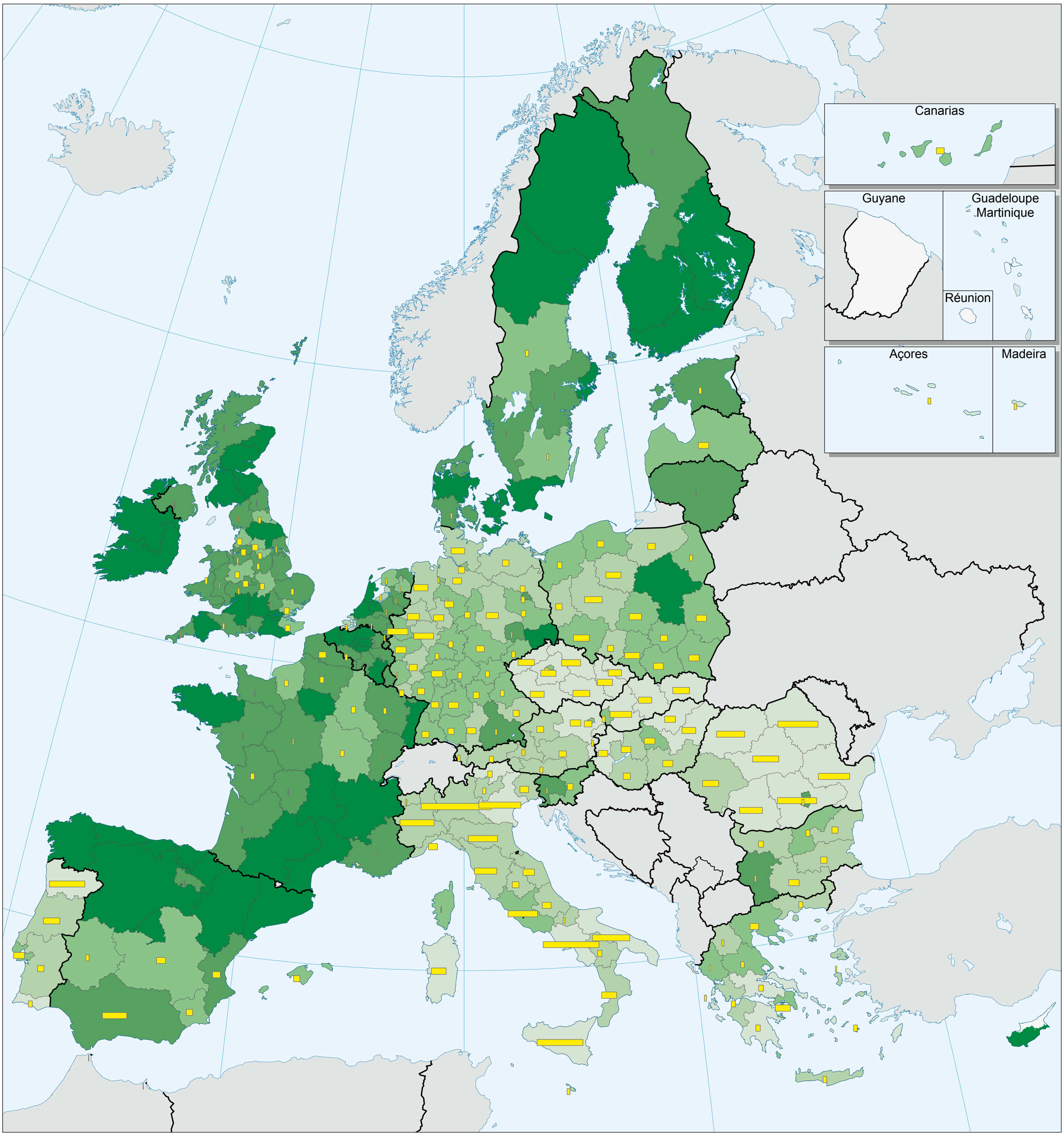
The geographical distribution of GDP per head underlines large development gaps between EU regions and particularly between the Western and the Central and Eastern Member States. The top ten regions are all located in the West and are often capital city regions. At the other end of the spectrum, several regions in Bulgaria and Romania have levels of GDP per head below 30% of the EU-27 average. The lowest level is 26% in Severozapaden, Bulgaria.

Country	Top Ten Movers	annual average % real change
This table shows the ten regions with the biggest increase in GDP per head in real terms between 2000 and 2007		
LV	Latvija	9.6
BG	Yugozapaden	9.2
LT	Lietuva	8.6
RO	Vest	8.6
EE	Eesti	8.2
RO	Nord-Vest	7.6
SK	Západné Slovensko	7.5
RO	Sud - Muntenia	7.2
RO	Bucureşti - Ilfov	6.9
SK	Bratislavský kraj	6.7

Growth of real GDP per head has been particularly high in the Baltic States as well as in regions hosting the national capital or a large city, although the crisis has disrupted this process. Strong upward trends are also frequently observed in regions with a low level of GDP per head, like for instance Vest, Romania whose GDP per head increased from 27% of the EU-27 average in 2000 to 48% in 2007. On the other hand, modest changes in GDP per head are observed in regions where its level is already high, particularly in Northern Italy or in France. For example, Provincia Autonoma Trento where GDP per head is 118% of the EU-27 average experienced a negative growth rate (-0.14%) between 2000 and 2007.

On average, Convergence and Transition regions have grown faster than RCE regions. This suggests that high growth poor regions are catching up with the rest of the EU and is consistent with the fact that convergence among EU regions in terms of GDP/head has increased.

	Convergence	Transition	RCE
GDP per head in PPS EU-27=100	60	94	121
Growth rate in real GDP per head, 2000-2007 (Annual average % change)	2.7	2.3	1.4



Population aged 30-34 with a tertiary education in 2008 and distance to Europe 2020 target

% of population aged 30-34
- < 17.5
- 17.5 - 25
- 25 - 32.5
- 32.5 - 40
- >= 40
- No Data

Distance to the Europe 2020 target (thousands of persons)
- 142
- 106
- 71
- 36
- 12
- 4

The Europe 2020 target for the share of population aged 30-34 with tertiary education is 40%
EU-27 = 31.1
ISCED levels 5 and 6

Source: Eurostat, DG REGIO

0 500 Km

Population aged 30-34 with tertiary education and the Europe 2020 strategy

Proportion of population aged 30-34 with tertiary education to the total population 30-34.

Why does this matter?

Education levels are one of the most important factors of economic growth, especially the share of working-age population with tertiary education. People with tertiary education are more likely to get a job, have a higher income and have higher life expectancy. Most of the increase in the share of the tertiary-educated working-age population comes from those under 35. Therefore, the Europe 2020 strategy has set the target for the share of population aged 30-34 with tertiary education at 40%.

		Convergence	Transition	RCE
Population aged 30-34 with tertiary education	in %	23.5	31.9	35.4
Change in the population 30-34 with tertiary education, 2000 - 2008	in pp points	9	7.6	9.5
Distance to Europe 2020	in pp points	16.5	8.1	4.6
	in thousand persons	1 920	238	1 418

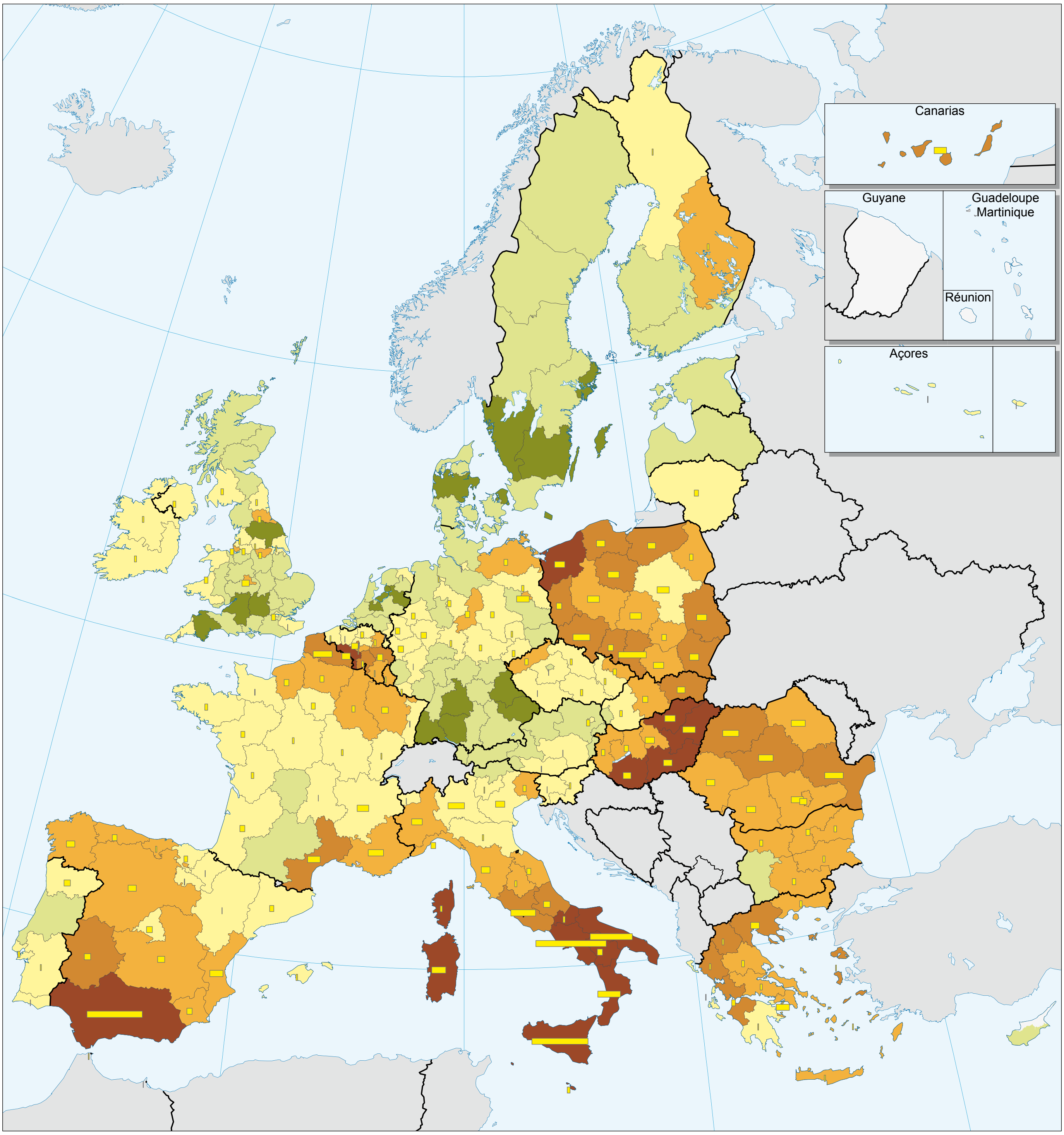
How do the EU regions score?

The Competitiveness regions have the highest share of tertiary-educated 30-34 year olds and have experienced the highest increase in 2000-2008 which will have a positive impact on their future productivity and competitiveness. The share increased significantly also in Convergence regions, however, with less than 25% they still lag significantly behind the Europe 2020 target. The top ten regions all have shares above the Europe 2020 target. Most of them are capital city regions or adjoin capital city regions which is not only a result of universities being located there but also people moving there after completing their education.

Country	Top Ten regions	Tertiary education %
This table shows the ten regions with the highest rate of population aged 30-34 with tertiary education in 2008		
DK	Hovedstaden	58.6
ES	País Vasco	58.3
UK	Inner London	57.1
BE	Prov. Brabant Wallon	57.0
UK	North Eastern Scotland	55.0
NL	Utrecht	54.9
BE	Prov. Vlaams-Brabant	53.7
SE	Stockholm	51.8
ES	Comunidad de Madrid	50.6
FR	Île de France	50.1

Country	Top Ten Movers	Change in tertiary education, percentage points
This table shows the ten regions in which the share of tertiary educated population (age 30-34) increased fastest between 2000 and 2008		
PL	Podlaskie	25.29
PL	Mazowieckie	24.14
UK	Cumbria	22.16
IE	Border, Midland and Western	22.16
UK	Devon	21.61
UK	North Eastern Scotland	21.61
PL	Małopolskie	21.30
PL	Śląskie	20.99
UK	North Yorkshire	20.51
UK	Northumberland and Tyne and Wear	20.23

The increase of the share of tertiary-educated 30-34 year olds in the top ten movers is impressive but the effect would be even higher if accompanied by an increase in the employment rates. Increasing employment rates at the same time as education levels is likely to mean that the additional jobs created have higher productivity than the current ones. Increasing the share of tertiary-educated 30-34 year olds in regions with very low shares, would also contribute to better local institutions.



Employment rate, 20-64, in 2008 and distance to Europe 2020 target

Employment rate
% of population aged 20-64

- < 60
- 60 - 65
- 65 - 70
- 70 - 75
- 75 - 80
- > 80

Distance to the Europe 2020 target
(thousands of employed)

- 1000
- 750
- 500
- 250
- 100
- 50

The Europe 2020 employment target is 75%

Source: Eurostat, DG REGIO

0 500Km

Employment rate and the Europe 2020 strategy

The employment rate is the number of employed relative to the population aged 20-64.

Why does it matter?

The employment rate reflects the efficiency on the labour market. Low employment rates mean unused potential in the region lowering its capacity to provide goods and services and leading to a much lower GDP per head than the potential one. Similarly, increases in employment can lead to higher GDP per head. The employment is positively associated with people's well-being. Hence, increasing employment rates would increase not only GDP per head but also the citizens' overall life satisfaction. The Europe 2020 strategy has set the target for the employment rate in the EU at 75%.

		Convergence	Transition	RCE
Employment rate	%	64.9	67.5	73.7
Change in employment rate 2000 - 2008	in pp points	3.2	5.4	4.2
Distance to reach the Europe 2020 target	in pp points	10.1	7.5	1.3
	in thousand persons	9 690	1 732	4 620

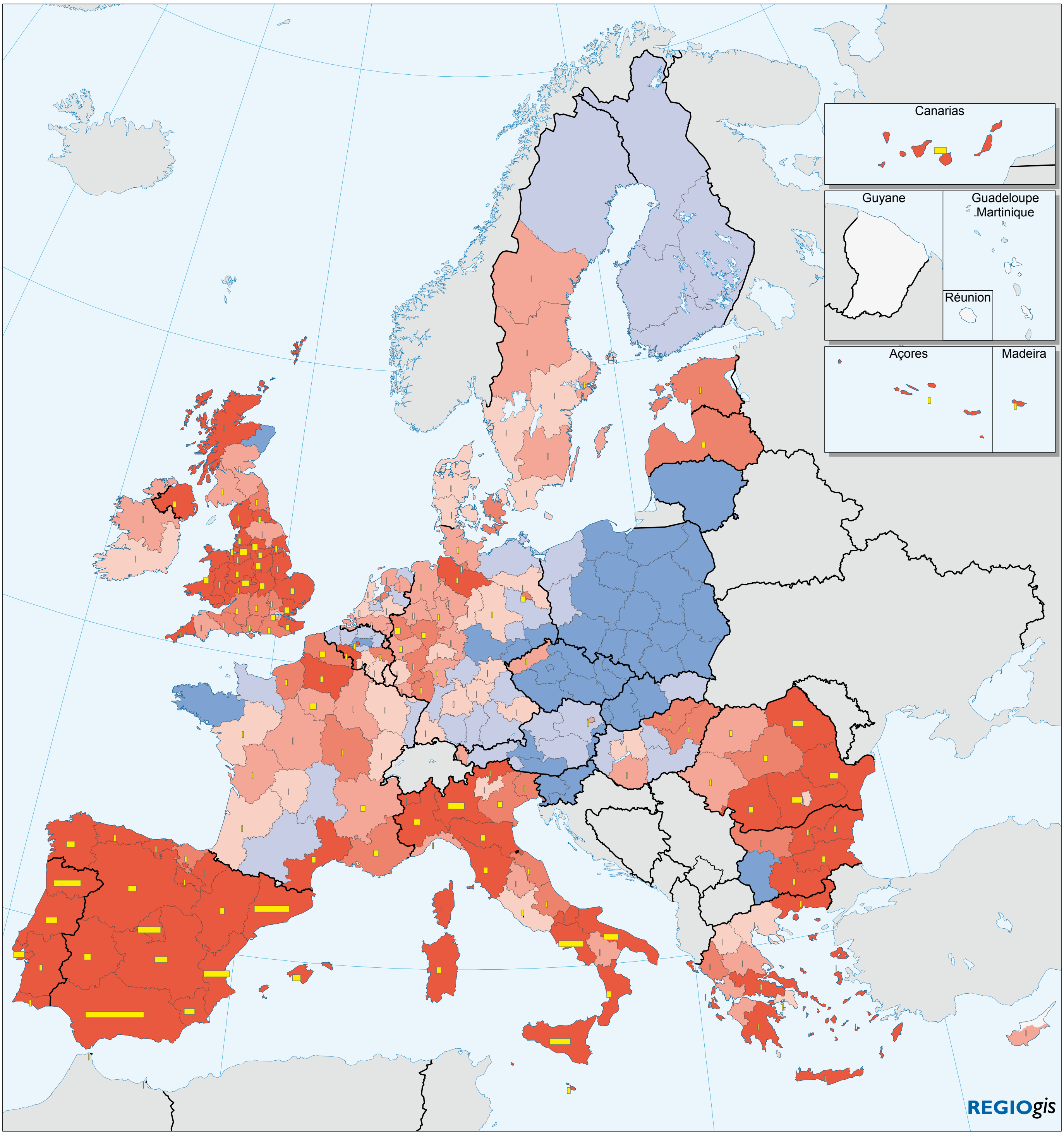
How do the EU regions score?

Most of the Convergence regions are in a phase of restructuring with falling employment in less productive sectors which is not always compensated with increases in most productive sectors. As a result, Convergence regions have generally lower employment rates and lower increases in employment rates than the more developed regions. Employment rates in the Nordic countries, the UK and the Netherlands are already in most regions above the 75% target. On the other hand, in Southern Spain, Southern Italy, Greece and many of the regions in the EU-12 rates are considerably below the target. Increasing the employment rates in these regions would make a very significant contribution to their economic growth. This would, however, require not only a reduction in unemployment but also many of the inactive to enter the labour market, particularly in the Convergence regions where labour participation tends to be lower.

Country	Top Ten regions	Employment rate %
This table shows the ten regions with the highest employment rate (age 20-64) in 2008		
SE	Stockholm	83.2
SE	Småland med öarna	82.9
UK	Berkshire, Buckinghamshire and Oxfordshire	82.1
UK	North Yorkshire	81.7
NL	Utrecht	81.5
NL	Flevoland	81.4
SE	Västsverige	81.2
DK	Hovedstaden	81.1
DE	Niederbayern	81.0
UK	Gloucestershire, Wiltshire and Bristol/Bath area	81.0

Country	Bottom Ten Regions	Employment rate %	Distance to Europe 2020 target (thousands of people)
This table shows the ten regions with the lowest employment rate (age 20-64) in 2008 and the distance to the target of Europe 2020			
IT	Sardegna	56.3	199
HU	Dél-Dunántúl	55.6	115
HU	Észak-Alföld	55.2	182
HU	Észak-Magyarország	54.7	151
IT	Basilicata	54.0	74
IT	Puglia	50.7	602
ES	Ciudad Autónoma de Ceuta	48.6	13
IT	Calabria	48.3	323
IT	Sicilia	48.2	804
IT	Campania	46.4	1 007

In particular, in regions with low employment rates, the impact of employment growth on economic growth would be even higher if accompanied by an increase in the education levels. This way, the regions would make sure that they create the kinds of jobs that raise productivity and living standards.



Early school leavers aged 18-24 in 2007-2009 and distance to Europe 2020 target

% of population aged 18-24

- < 8
- 8 - 10
- 10 - 12
- 12 - 14
- 14 - 16
- > 16
- No Data

Distance to the Europe 2020 target (thousands of persons)

- 240
- 180
- 120
- 60
- 20
- 10

The Europe 2020 target for early school leavers aged 18-24 is 10%
EU-27 = 14.8

Source: Eurostat, DG REGIO

0 500 Km

Early school leavers and the Europe 2020 strategy

The share of early school leavers measures the number of people aged 18-24 with at most lower secondary education and not in further education or training, divided by the total population aged 18-24.

Why does this matter?

The reduction of school leavers and the increase of educational attainment are key targets of Europe 2020. These two can provide vital support to Europe's employment and growth objectives. Education is one of the most important factors of growth in productivity and it can also lead to increases in employment, personal income and ones' overall life satisfaction.

	Convergence	Transition	RCE
Early school leavers (age 18-24), %	14.7	20.1	14.2
Distance to Europe 2020 target (thousands pers)	687	297	1 058

Note: absolute figures are estimated by DG Regio based on Eurostat data.

The Europe 2020 target (10% or lower by 2020) has been reached in 73 NUTS 2 regions, around one in four, but it requires a substantial effort in many regions of all objectives to achieve it. The current distance to the target is estimated to be equal to more than 2 million people. Transition regions have the highest share of early school leavers (20.1%). RCE regions perform better with 14.2%, but given their high population share, their absolute distance to the target is estimated to be rather high (more than 1 million people, half of the total).

How do the EU regions score?

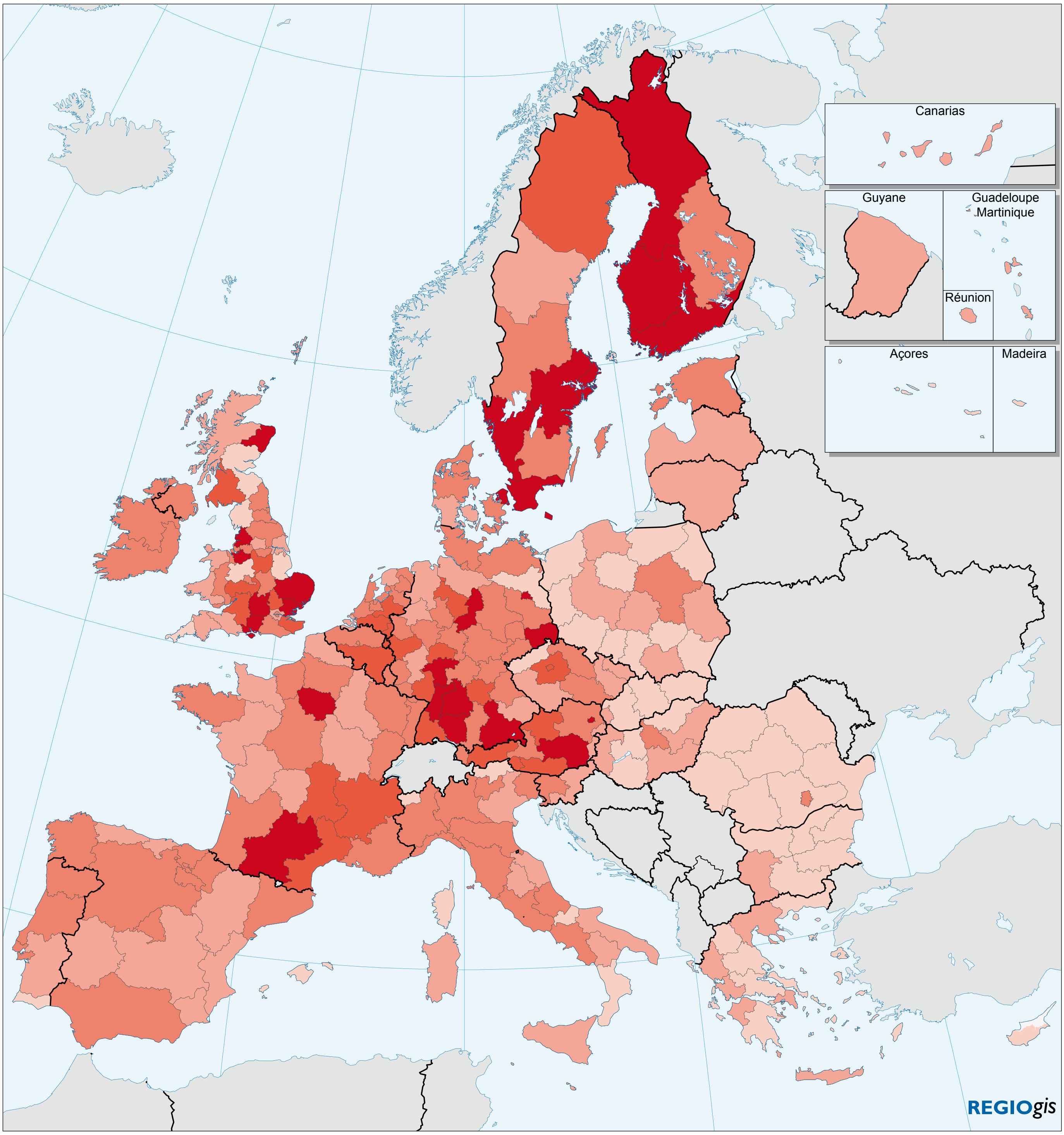
Regional differences in early school leavers are high. Regions of Portugal and Spain, as well as Malta, are the areas with the highest shares. Overall, 17 regions in Spain and Portugal are over 30%. Other regions with shares over 20% can be found in Greece, Italy, United Kingdom, Romania and Bulgaria.

The regions with the highest total distance to the target are Andalucía, Cataluña and Comunidad Valenciana in Spain, Norte in Portugal and Campania in Italy. The distance to the target in three Convergence regions (Andalucía, Norte and Campania) represents more than a half of the total distance estimated in all Convergence regions.

Country	Top Ten Regions	% of early school leavers	Distance to Europe 2020 target (thousands of people)
This table shows the ten regions with the highest share of early school leavers aged 18-24 in 2007-2009 and their distance to the Europe 2020 target			
PT	Região Autónoma dos Açores	50.3	10.7
PT	Região Autónoma da Madeira	44.9	8.8
ES	Ciudad Autónoma de Ceuta	43.4	2.4
ES	Illes Balears	42.4	28.1
ES	Ciudad Autónoma de Melilla	41.7	1.9
ES	Región de Murcia	39.3	37.3
PT	Norte	38.8	95.6
MT	Malta	38.0	11.3
ES	Andalucía	37.8	205.7
ES	Castilla-La Mancha	36.6	45.3

In contrast, the regions with the lowest share of early school leavers are located in Czech Republic, Slovakia and Poland. Other regions with low shares (below 5%) are located in France and Slovenia.

Country	Bottom Ten Regions	% of early school leavers
This table shows the ten regions with the lowest share of early school leavers aged 18-24 in 2007-2009		
PL	Śląskie	4.4
PL	Świętokrzyskie	4.1
PL	Wielkopolskie	4.0
CZ	Střední Morava	3.9
SK	Západné Slovensko	3.4
PL	Podkarpackie	3.4
CZ	Jihovýchod	2.9
PL	Małopolskie	2.9
SK	Bratislavský kraj	2.8
CZ	Praha	2.6



Total expenditure on R&D, 2007

% of regional GDP

- < 0.5
- 0.5 - 1
- 1 - 2
- 2 - 3
- >= 3

EU-27 = 1.85
EL, IT: 2005; FR: 2004; NL: 2003
The Europe 2020 R&D target is 3%
Source: Eurostat

0 500 Km

General expenditure on R&D (GERD)

This indicator measures the share of regional GDP invested in expenditure on research and development by both the private and the public sector.

Why does this matter?

GERD indicates the resources devoted by a region for the development of innovations and the transformation of new ideas into market opportunities through R&D. In general, the majority of activities related to R&D take place within the private sector but the public sector also plays a crucial role notably by supporting fundamental research. The Europe 2020 strategy includes the headline target of bringing GERD to 3% of GDP for the EU-27 by 2020.

How do the EU regions score?

Scores on this dimension vary widely across EU regions. GERD is highly concentrated from a geographical point of view. Ten regions account for 16% of this type of expenditure in the EU.

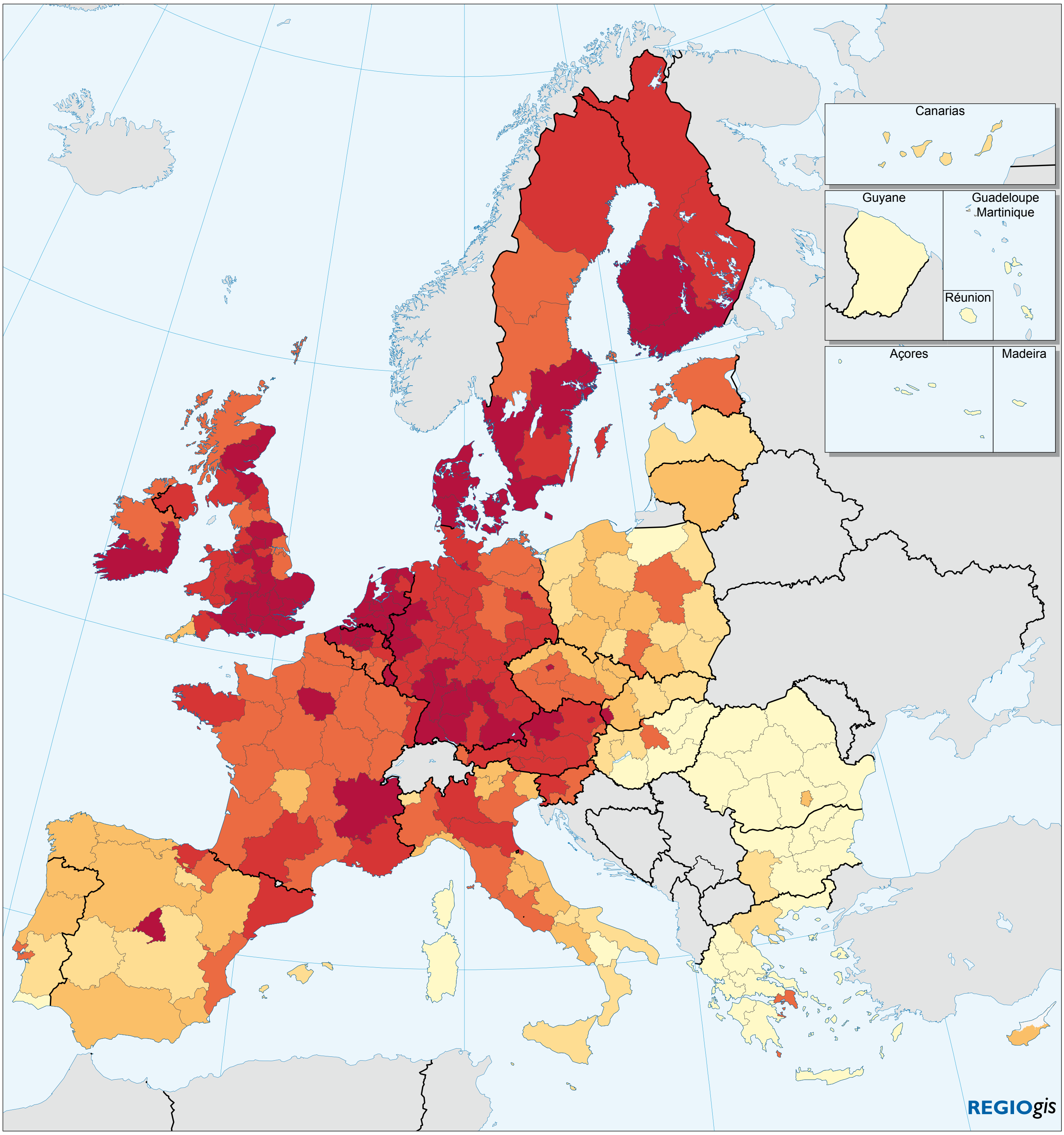
Regions with the highest GERD to GDP ratio are mostly located in Northern Europe, notably in Germany, the Nordic MS and the UK, with GERD exceeding 3% of GDP. At the other end of the spectrum, a series of regions mainly in Bulgaria, Greece, Poland and Romania have expenditure on research and development below 0.5% of their GDP. In some regions, like for instance Severen Tsentralen in Bulgaria or Lubuskie in Poland, this share is almost zero.

Country	Top Ten Regions	GERD in % GDP
The ten regions with the highest total intramural expenditure on R&D as a % of GDP in 2007		
DE	Braunschweig	6.77
DE	Stuttgart	5.84
UK	East Anglia	5.72
FI	Pohjois-Suomi	5.38
DK	Hovedstaden	5.09
SE	Sydsverige	4.91
UK	Essex	4.66
UK	Cheshire	4.55
SE	Västsverige	4.47
DE	Oberbayern	4.32
BE NUTS 1, DK national, no data for FR9 (=DOM) and BG31		

Country	Bottom Ten Regions	GERD as % of GDP
The ten regions with the lowest total intramural expenditure on R&D as a % of GDP in 2007		
EL	Ionia Nisia	0.16
BG	Severozapaden	0.15
RO	Centru	0.15
EL	Notio Aigaio	0.14
ES	Ciudad Autónoma de Ceuta	0.14
PL	Opolskie	0.14
PL	Świętokrzyskie	0.12
EL	Dytiki Makedonia	0.12
PL	Lubuskie	0.09
BG	Severen tsentralen	0.08

In general, RCE regions have much higher GERD to GDP ratio than Transition and Convergence regions. On average, the share of regional GDP spent of GERD is around 2% in RCE regions while it is less than 1% in Transition and Convergence regions.

	Convergence	Transition	RCE
GERD in % GDP	0.77	0.98	2.03
Distance to EU 2020 target (in pp points)	2.23	2.02	0.97



Competitiveness Index, 2010

Index - Values range between 0 (low) and 100 (high)

- <30
- 30 - 40
- 40 - 50
- 50 - 60
- 60 - 70
- >=70

EU-27 = 55
Source: JRC and DG REGIO

0 500 Km

Regional competitiveness index

This measures the institutions, policies and factors that determine the level of productivity of a region and the region's ability to offer high and rising incomes and a good quality of life to its residents. This index is based on 69 indicators. It ranges from 100 high to 0 low in the EU.

Why does this matter?

	Convergence	Transition	RCE
Regional Competitiveness Index	38.0	48.8	70.4

The economic crisis has highlighted that in many countries the sources of growth were not sufficiently robust. This underlines the need for better measures of economic performance that incorporate the critical elements of sustainable economic growth. Furthermore this indicator incorporates several indicators of well-being as well such as life expectancy, health perception and gender equality. For this reason, the best way to improve competitiveness of more developed regions is not the same as the best way to make less developed regions catch up; this index takes into account the level of development of a region. It places more weight on basic issues such as institutions, primary and secondary education, and basic infrastructure. Only in the most developed regions is the emphasis on innovation aspects such as business sophistication and technological readiness.

How do the EU regions score?

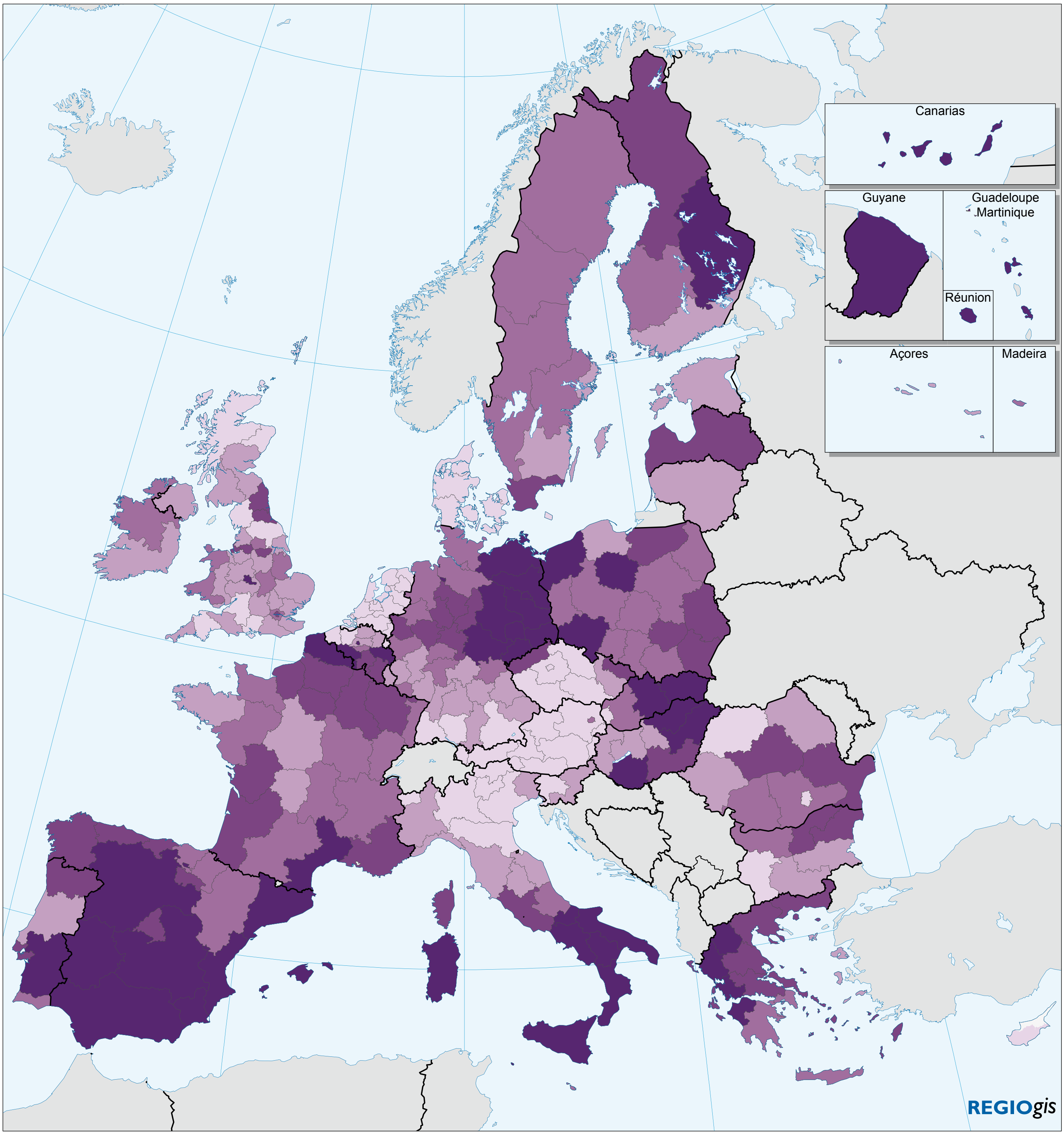
The top ten regions are all located in Nordic and Western Member States. Six out of the ten are capital city regions. There are significant differences within countries, notably in Belgium and Italy and in several of the EU-12 countries. This highlights that a national competitiveness index cannot capture the internal diversity, where some regions are much more and others less competitive.

The least competitive regions are located in south-eastern regions without a large city. They also include some of the outermost regions.

Country	Top Ten Regions	Competitiveness Index
This table shows the ten regions with the highest competitiveness index		
NL	Utrecht	100.0
DK	Hovedstaden	95.9
NL	Noord-Holland	95.4
UK	London (Inner and Outer)	94.3
SE	Stockholm	94.3
FI	Etelä-Suomi	92.6
NL	Zuid-Holland	92.4
FR	Île de France	92.1
NL	Noord-Brabant	91.4
UK	Berkshire, Bucks and Oxfordshire	90.1

Country	Bottom Ten Regions	Competitiveness Index
This table shows the ten regions with the lowest competitiveness index		
RO	Sud-Vest Oltenia	12.7
EL	Notio Aigaio	12.5
RO	Sud-Est	12.2
BG	Severozapaden	12.1
EL	Ionia Nisia	9.5
ES	Ciudad Autónoma de Ceuta	8.9
PT	Região Autónoma dos Açores	8.8
EL	Voreio Aigaio	8.0
ES	Ciudad Autónoma de Melilla	5.1
FR	Guyane	0.0

While in the EU-15, a competitive region tends to be surrounded by other competitive regions, in the EU-12 the most competitive region tends to be surrounded by regions with a much lower level of competitiveness. This implies that the spill-overs of growth and the dispersion of competitiveness are still in their infancy in these countries.



Unemployment rate, 2008

% of labour force

- < 4.0
- 4.0 - 5.8
- 5.8 - 7.1
- 7.1 - 8.9
- >= 8.9

EU-27 = 7
Source: Eurostat

0 500 Km

Unemployment rate

This measures the number of people aged 15 and more who are without work but looking for work and available for work, divided by the number of people aged 15 and more and active in the labour market, i.e. those working or looking for work.

Why does this matter?

High unemployment is a threat to social cohesion leading to poverty and social exclusion and it is one of the most important incentives for people to leave their regions.

	Convergence	Transition	RCE
Unemployment rate 2008	8.6	9.5	6
Change in unemployment rate 2000-2008	-5.3	-1.9	-0.7

The rapid reduction of unemployment rates in the Convergence regions between 2000 and 2008 reduced the gap between Convergence and the RCE regions by more than half. In 2000, the rate in Convergence regions was double that in RCE regions. Convergence regions are faced mainly with structural unemployment due to a skills mismatch; which is often caused by rapid restructuring. Convergence regions tend to have low rates of participation. This means that as employment rates increase, people who were not working or looking for work may start to look for work, and thus partially offset the decline in the unemployment rate.

How do the EU regions score?

Regional disparities among the EU-27 regions remain high. The French overseas departments and most Southern regions in Spain have the highest unemployment rates, partly due to the effect of the crisis on the labour market and also to the distance to the rest of the Union. The unemployment rate is high in Brussels too, a capital region with significant problems of social exclusion.

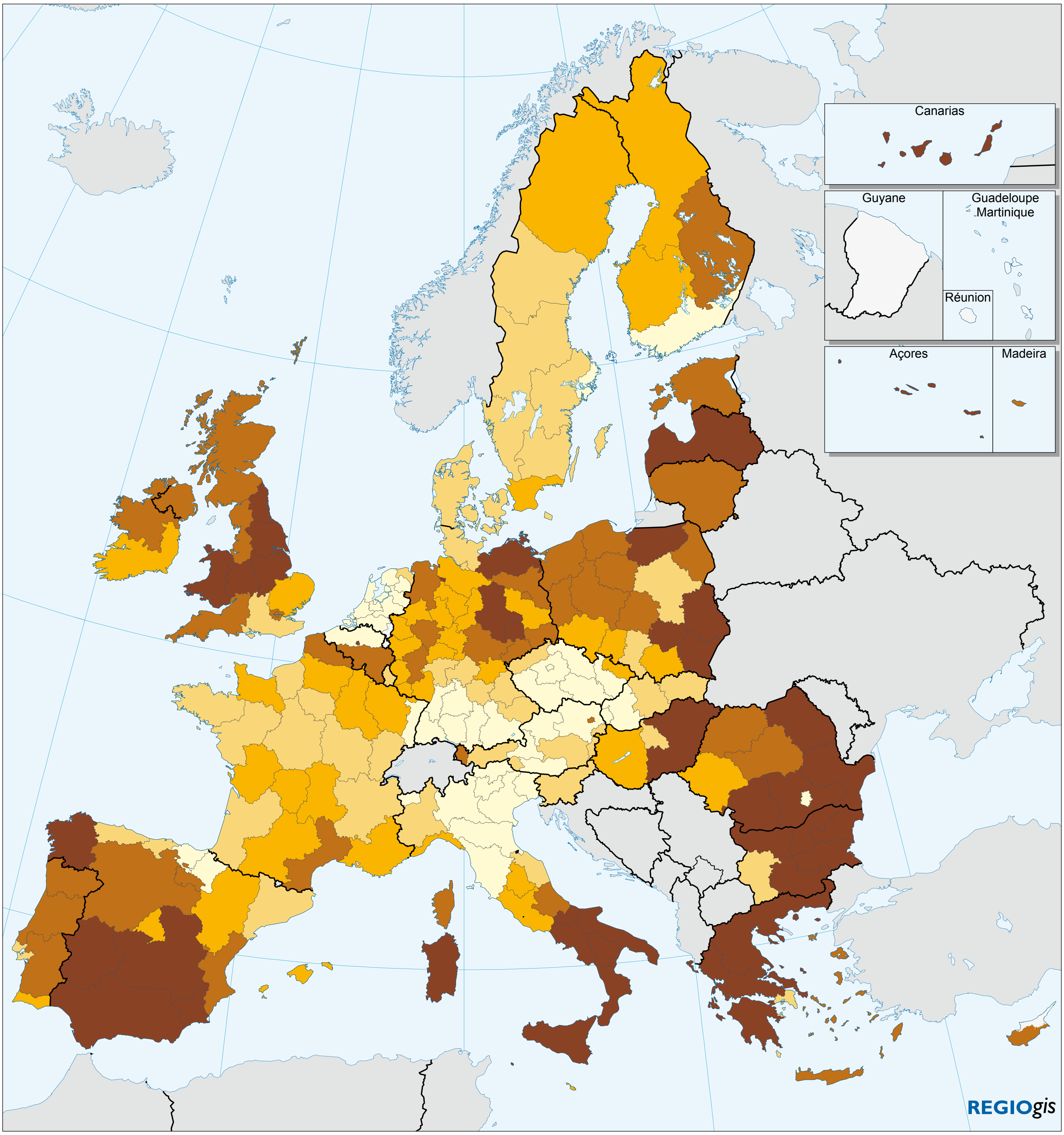
The other regions with rates over 10% can be found mainly in the Eastern regions of Spain, the South of Belgium, Southern Italy, Eastern Hungary and the East German Länder. In contrast, most Dutch regions, Praha and some regions in Austria and Northern Italy have rates of 3% or lower.

Country	Top Ten Regions	Unemployment rate, %
This table shows the ten regions with the highest rate of unemployment (% of labour force) in 2008		
FR	Réunion	24.8
FR	Guadeloupe	23.3
FR	Martinique	22.9
FR	Guyane	22.5
ES	Ciudad Autónoma de Melilla	20.7
ES	Andalucía	17.8
ES	Canarias	17.4
ES	Ciudad Autónoma de Ceuta	17.3
BE	Région de Bruxelles-Capitale / Brussels Hoofdstedelijk Gewest	15.9
ES	Extremadura	15.2

Country	Top Ten Movers	Change in unemployment rate, percentage points
This table shows the ten regions in which the unemployment rate (% of labour force) decreased fastest between 2000 and 2008		
PL	Warmińsko-Mazurskie	-16.2
BG	Severoiztochen	-15.3
PL	Lubuskie	-14.2
FR	Corse	-14.0
BG	Severozapaden	-13.9
IT	Calabria	-13.9
BG	Yugoiztochen	-13.0
PL	Dolnośląskie	-12.2
BG	Severen tsentralen	-12.1
SK	Západné Slovensko	-11.3

The ten top movers had an unemployment rate of more than 20% in 2000 and less than 8% in 2008. Regional unemployment disparities in 2008 were lower than in 2000, which means that the difference between the regions with high and low unemployment rates has been narrowed.

Unemployment rates dropped significantly in some Polish regions, the North of Bulgaria, Corse in France and Calabria in South Italy. On the other side, all continental regions of Portugal except Lisbon, Eastern Hungary and some regions in the South of Spain witnessed a substantial increase in their unemployment rates. Since 2008, however, unemployment rates in some regions have changed dramatically, in particular in Ireland, the Baltic States and Spain.



Population at-risk-of-poverty after social transfers, 2008

% of total population

- < 11.1
- 11.1 - 13.1
- 13.1 - 15.9
- 15.9 - 20.4
- >= 20.4

EU-27 = 17

At-risk-of-poverty is defined as having equivalised disposable income (i.e. adjusted for household size and composition) of less than 60% of national median.
The Europe 2020 target is to lift at least 20 million people out of the risk of poverty and exclusion.
This is defined as people who are either at-risk-of-poverty and/or severely materially deprived and/or living in households with very low work intensity.

Source: DE - 2008 - data Microcensus - DESTATIS; FR - 2007 data;
PT - based on HBS 2005; NL CBS - 2007;
UK - Households Below Average Income - 2007/09; All other data EU-SILC;

0 500 Km

Share of population with an at-risk-of-poverty income

This measures the share of the population with a disposable income (after social transfers) below the at-risk-of-poverty threshold (which is set at 60% of the national median disposable income).

Why does this matter?

The share of the population with an at-risk-of-poverty income reflects both the incidence of relative poverty and the extent of income disparities and hence social cohesion. Fighting against poverty is a key objective of the Europe 2020 strategy. The target is to reduce the number of Europeans living in poverty or exclusion by 20 million people. Regions characterized by a high share of the population at-risk-of-poverty are areas where problems linked to low income, social exclusion and material deprivation are likely to be more severe.

	Convergence	Transition	RCE
Share of the population at-risk-of-poverty	2.8	10.3	12.5

How do the EU regions score?

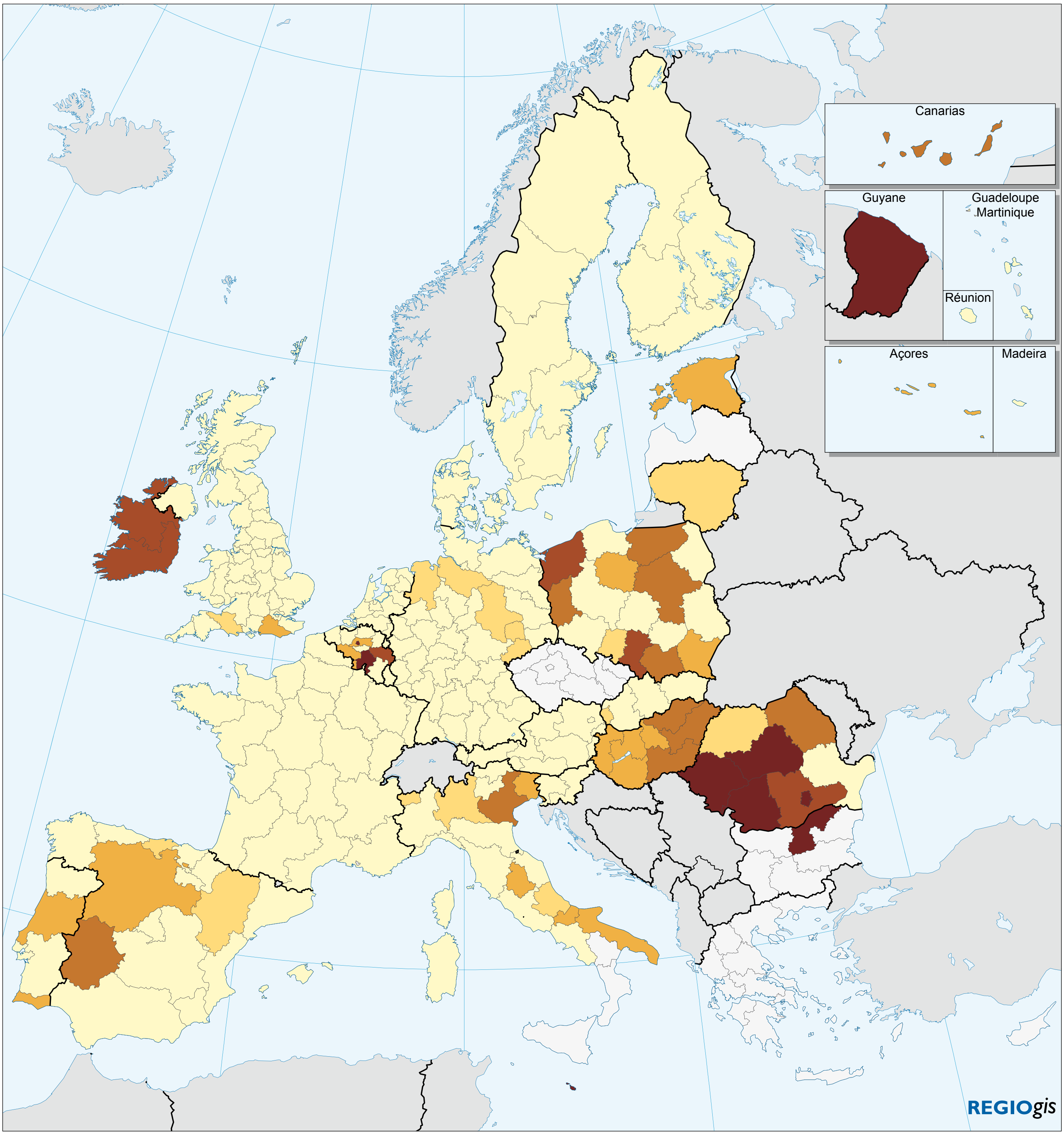
EU regions show wide variation in their share of the population at-risk-of-poverty. Regions like Ceuta, Extremadura in Spain or Campania in Italy have around 40% of their population at-risk-of-poverty. At the other end of the spectrum, this share is only 4.9% for Trento in Italy and 5.8% for Jihozápad in the Czech Republic.

Regions with high shares of population at-risk-of-poverty are mainly found in the South of Europe (Southern Spain and Italy, Greece) and in Eastern Europe (Bulgaria, Latvia, Poland, Romania). Some regions in Germany (Mecklenburg-Vorpommern and Sachsen-Anhalt) or in the United Kingdom (West Wales and The Valleys and Northumberland and Tyne and Wear) also record particularly high shares of population at-risk-of-poverty. Low rates are observed in regions of Austria, France, Northern Italy, the Czech Republic or Slovakia.

Country	Top Ten Regions	Population at-risk-of-poverty %
This table shows the ten regions with the highest share of the population with an at-risk-of-poverty income in 2008		
ES	Ciudad Autónoma de Ceuta	41.1
ES	Extremadura	38.4
IT	Campania	37.9
IT	Sicilia	37.0
RO	Sud-Vest Oltenia	36.9
IT	Calabria	36.1
BG	Severozapaden	32.6
RO	Nord-Est	32.4
IT	Basilicata	30.9
ES	Andalucía	28.9

Country	Bottom Ten Regions	Population at-risk-of-poverty %
This table shows the ten regions with the lowest share of the population with an at-risk-of-poverty income in 2008		
AT	Salzburg	7.8
CZ	Střední Čechy	7.4
IT	Provincia Autonoma Bolzano/Bozen	7.4
SK	Bratislavský	6.9
CZ	Severovýchod	6.8
ES	Comunidad Foral de Navarra	6.5
RO	Bucureşti - Ilfov	6.5
CZ	Praha	6.1
CZ	Jihozápad	5.8
IT	Provincia Autonoma Trento	4.9

On average, Convergence and Transition regions have higher shares of population at-risk-of-poverty than RCE regions.



Urban waste water treatment capacity, 2007

Treatment capacity as % of generated load

- < 30
- 30 - 60
- 60 - 80
- 80 - 90
- 90 - 95
- >= 95
- no data

Source: DG ENV, REGIO-GIS
Based on UWWT data available in November 2009

0 500 Km

Urban waste water treatment capacity

It measures the treatment capacity of urban waste water in a region compared to the total load generated. 100 means therefore that there is capacity to treat all urban waste water generated. Urban waste water means waste water from residential settlements and services which originates predominantly from the human metabolism and from household activities (domestic waste water) or a mixture of domestic water with waste water which is discharged from premises used for carrying on any trade or industry (industrial waste water) and/or run-off rain water.

Why does this matter?

Urban waste water is one of the most serious causes of water pollution. The European Union adopted in 1991 a Directive[1] which concerns the collection, treatment and discharge of urban waste water and the treatment and discharge of waste water from certain industrial sectors. Member States are asked to enact the dispositions of this Directive in their national legislation. The aim of this Directive is to protect the environment and human health from any adverse effects due to discharge of such waters and can be considered as an indicator of how Member States are achieving European objectives in these areas.

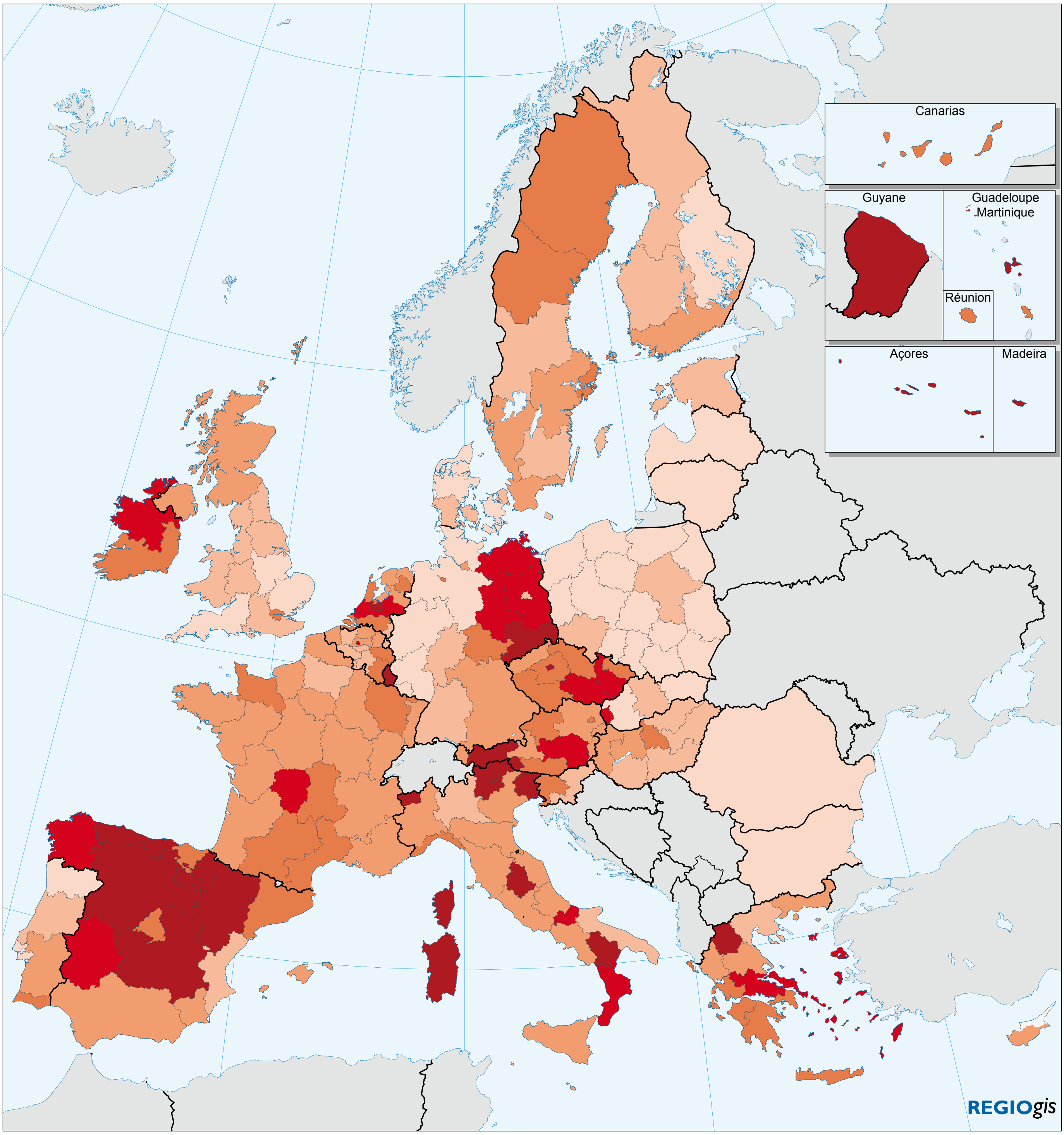
How do the EU regions score?

Full treatment capacity was observed in 2007 in all regions of the Netherlands, Austria, Slovenia, Sweden and France (except Guyane). There was also very high treatment capacity in the regions of Germany (only some regions in the East were not enjoying full capacity though over 90% in all cases), Austria (at least 97% in all regions) and Slovakia (full capacity in all regions except the capital region, Bratislava, which was at 91%).

Member States which joined the EU in 2004 or afterwards were given a transitional period until 2010 or later for compliance with the Directive This explains to some extent why Malta, five Romanian regions and a Bulgarian region are among the ten bottom regions in terms of treatment capacity. However, two Belgian regions (including Brussels, the capital region) and the outermost French region of Guyane are also in this group. Treatment capacity was also poor (lower than 85%) in most Hungarian regions, in the capital regions of Estonia, Ireland, Hungary and Poland and in a number of regions which are important touristic destinations such as Açores, Canarias, Algarve or Veneto which hosts the city of Venezia. These figures may suggest a challenge in these kinds of regions where urban waste water goes far beyond what could be expected just from their number of inhabitants due to commuting and touristic flows.

Country	Bottom Ten Regions	Treatment capacity %
This table shows the ten regions with the lowest treatment capacity as a % of the generated load in 2007		
RO	Sud - Muntenia	43
BE	Prov. Namur	29
RO	Vest	24
RO	Centru	22
BE	Région de Bruxelles-Capitale / Brussels Hoofdstedelijk Gewest	22
MT	Malta	21
RO	Sud-Vest Oltenia	15
BG	Severen tsentralen	8
FR	Guyane	2
RO	Bucureşti - Ilfov	1

1 Council Directive 91/271/EC of 21 May 1991 concerning urban waste treatment which was amended by Directive 98/15/EC of 27 March 1998.



Estimated public investment per head (PPS), average 2002-2006

PPS per head

- < 600
- 600 - 800
- 800 - 1000
- 1000 - 1200
- 1200 - 1400
- > 1400
- no data

CZ 2005/06, PL and PT 2002/05
Source: NSO, DG REGIO

0 500 Km

Public investment

Public investment is defined here as the sum of Gross Fixed Capital Formation (P51 in the European System of Accounts- ESA-95) and consolidated Capital Transfers (D9_CO) of the General Government, after netting out transfers between the different levels of Government. It is expressed in yearly terms and in Purchasing Power Standards (PPS) in order to take account of the differences in price levels across Member States.

Why does this matter?

Public investment is a critical factor for competitiveness of regions. It tends to increase the rate of return on private capital and, in the medium and long run, boosts economic growth. Public investment is particularly relevant to tackle structural weaknesses of many regions which hamper for instance developing business, strengthening their export capacity or attracting private investment.

	Convergence	Transition	RCE
Public investment per head in PPS 2002-2006	681	1 363	814

How do the EU regions score?

Transition regions have enjoyed by far the highest rates of public investment over the period 2002-2006. These are in general relatively less developed regions of countries which were already members of the EU before 2004. The main reason for these high rates is that many of these regions were fully eligible for Objective 1 of EU Cohesion Policy in the period 2000-2006, that they belong to relatively prosperous Member States and even in some cases that they were benefiting from special attention by national development policies. By contrast, many Convergence regions were part of countries with low capacity for public investment due to their low levels of GDP per head and, moreover, they were not eligible for EU Cohesion Policy as accession of most of these countries to the EU took place in May 2004.

Country	Top Ten regions	EUR per head
This table shows the ten regions with the highest yearly public expenditure per head in PPS in 2002-2006		
IT	Valle d'Aosta	4 263
IT	P.A. Trento	3 616
LU	Luxembourg	3 211
IT	P.A. Bolzano	3 094
PT	Madeira	2 422
FR	Corse	2 170
CZ	Praha	2 124
ES	Castilla y León	1 807
ES	Aragón	1 755
IT	Sardegna	1 696

Country	Bottom Ten Regions	EUR per head
This table shows the ten regions with the lowest yearly public expenditure per head in PPS in 2002-2006		
PL	Małopolskie	398
PL	Podlaskie	390
PL	Pomorskie	384
PL	Śląskie	376
PL	Podkarpackie	350
PL	Łódzkie	339
PL	Świętokrzyskie	338
PL	Warmińsko-Mazurskie	334
PL	Kujawsko-Pomorskie	312
PL	Lubelskie	304

The highest rates of public investment over the period 2002-2006 (over EUR 3 000) were observed in the three mountainous and buoyant regions of North Italy and in Luxembourg. The other top ten regions are three island regions, the capital region of the Czech Republic and two low-density populated regions in Spain. Relatively high levels of GDP compared to the EU average and special geographical features seem the main explanatory factors determining the size of public investment in regions.

The other regions with rates of public investment per head higher than EUR 1 250 can be mostly found in Spain, Eastern Germany, the South of Italy, the outermost regions of France and Greece. The European Cohesion Policy is a critical factor explaining their high scores as most of them were eligible for Objective 1 during the programming period 2000-2006.

In contrast, the lowest rates of public investment are found in most Polish regions and Latvia and Lithuania. The main factors behind this were their low levels of GDP per head compared to the EU average and that they were not eligible for the European Cohesion Policy during some part of the reference period. The gap between the top ten and bottom ten is nevertheless significantly narrowing over time thanks to higher rates of economic growth in most Eastern regions and to the support European Cohesion Policy provides them.

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