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## Preparing for the European Structural Funds' next funding period

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# **Preparing for the European Structural Funds' next funding period**

Synopsis of the central findings of the updates of the mid-term evaluation of the  
Operational Programmes in East Germany

WSI Discussion Paper 144, March 2006

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## Introduction

The implementation of European Structural Fund interventions is monitored by a three-pronged evaluation procedure. In the current funding period (2000-2006), this has included an ex-ante evaluation, a mid-term review halfway through the Programme period, and an ex-post evaluation. In addition, Article 42 para. 4 of the Regulation (EC) of Member States and Regions requires an update of the mid-term review to be undertaken. The update of the mid-term review of all the Operational Programmes (OP) operating in East Germany was completed at the end of 2005. The updates were carried out by the institutions listed in the Appendix (Table 1).

This more recent evaluation of European Structural Fund activities in East Germany focused on six areas. It was to analyse

- the socio-economic situation in each Programme area,
- the implementation of recommendations made in the mid-term review, and
- achievements and outputs to date.

It was further to provide

- conclusions with regard to effectiveness,
- recommendations for any Programme changes in the current funding period, and
- recommendations on the direction of the next funding Programme.

At this point, the updated mid-term reviews are of great interest since planning and preparation is now underway for the next period of the Structural Funds. Experiences gained in the current period could serve as important indicators as to where European resources should be applied in the future.

This synopsis is based on mid-term review updates of all East German states (i.e., Berlin, Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt, and Thuringia) and the Community Support Framework (CSF) for East Germany (see Bibliography for more specific information). The aim of this synopsis is to provide a systematic overview of the content of the updates on the utilisation of European Structural Funds—in particular the European Regional Development Fund (ERDF) and the European Social Fund (ESF), to compare and contrast these, and to highlight possible similarities and differences. The recommendations for the next funding period form the main focus of this paper. This article has not taken into account achievements in the agricultural sector and rural areas, as these will form part of the EU's general agricultural policy from 2007.

The synopsis is structured as follows:

Chapter 1 addresses central challenges (population and employment developments, innovative capacity) and highlights, in the view of the evaluators, the problem areas for the new funding period. This is followed, in Chapter 2, by an overview of the current funding period and an excursive outline of the adjustments still being recommended for the current funding programme. Chapter 3, which forms the core focus of this paper, discusses the recommendations proposed by evaluators on the

cross-national direction of European structural funding from 2007 onwards. Chapter 4 provides the Conclusion for this discussion paper.

Dusseldorf, March 2006-04-18

Astrid Ziegler

## **Chapter 1: Central challenges for the next funding period**

The updates of the mid-term evaluation of the Operational Programmes in the East German states provide, in the first instance, an overview of the status and development trends of the socio-economic situation for the period 2000-2004, based on central economic and social indicators. The central finding of these analyses is that the economic framework in which the EU's Structural Fund programmes are implemented remains difficult. In terms of main indicators (e.g., unemployment, economic growth), the East German states, both in a German and a European comparison, are substantially lagging behind. There is need for further Structural Fund action in East Germany above and beyond the current funding period. As the analyses also show, the lag would have been even greater without EU Structural Fund resources.

From the range of the topics discussed, this paper takes up three central challenges that are important for the future application of EU Structural Fund resources. These are, first, the continuing population decline; second, the lack of jobs; and, third, innovation activity in East Germany.

The population is falling in all East German states, a trend that, as individual population forecasts indicate, is set to continue. This population decline—in all states—is due to two reasons: on the one hand, young people in particular, are migrating to the West; on the other, fewer children are born every year. Saxony-Anhalt, for example, is forecast to lose 20 percent of its population by 2010; rural areas are particularly hard-hit by this trend. This migration of primarily young and skilled people—especially women—presents a problem, as their departure implies that, both in the short and the long term, local economies will be lacking potential employees. In the long term, there is the threat of a lack of skilled labour, which could become a serious disadvantage for East Germany in becoming an attractive place for business and investment. The selective population development also has a major impact on future demographic trends. The change in age structure will lead—or, indeed, has led—to a growing gap between “young” and “old” regions—with consequences in terms of public infrastructure provision and, consequently, EU Structural Fund allocation. The evaluators assume that, in large parts of East Germany, the population trend is irreversible.

The population development is a reaction to East Germany's negative economic situation and an absence of prospects particularly for the younger population. In recent years, more jobs in East Germany have been lost than created, with the exception Saxony, where employment levels have remained more or less constant. For selected states, Table 1 shows the sectors in which employment has risen and fallen.

**Table 1: Employment: Jobs Lost and Created, by sector**

	<b>Employment Lost</b>	<b>Employment Created</b>
<b>Berlin</b>	<ul style="list-style-type: none"> <li>▪ Healthcare and social care sector;</li> <li>▪ Public administration; Education and training;</li> <li>▪ Construction.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Aviation;</li> <li>▪ Data processing and IT;</li> <li>▪ Hotel and restaurant industry;</li> <li>▪ Economic services,</li> <li>▪ Research &amp; development;</li> <li>▪ Rental of movable goods.</li> </ul>
<b>Brandenburg</b>	<ul style="list-style-type: none"> <li>▪ Manufacturing;</li> <li>▪ Trade, transport and news services;</li> <li>▪ Construction.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial and business services.</li> </ul>
<b>Mecklenburg-Western Pomerania</b>	<ul style="list-style-type: none"> <li>▪ Public administration; Agriculture and forestry;</li> <li>▪ Church and lobby groups;</li> <li>▪ Construction;</li> <li>▪ Rural transport;</li> <li>▪ Education and training;</li> <li>▪ Food industry.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hotel and restaurant industry;</li> <li>▪ Health and social care sector;</li> <li>▪ Business-related services;</li> <li>▪ Measurement and control engineering;</li> <li>▪ Wood industry;</li> <li>▪ Publishing and printing industry.</li> </ul>
<b>Saxony-Anhalt</b>	<ul style="list-style-type: none"> <li>▪ Public and private services;</li> <li>▪ Investment goods production;</li> <li>▪ Construction.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financing, rental and business services;</li> <li>▪ Advance and consumer goods production.</li> </ul>

Given the European Structural Funds' focus on the Lisbon Strategy, the issue of "Research and Development" takes on an important role when looking at the current situation. While the current situation differs from one state to another, as the following summary shows, it is—with the exception of Saxony—a generally sobering picture; the states must undertake great efforts to attain the Lisbon goals:

- In Berlin, the proportion of employees in the field of knowledge-intensive services is above average, albeit at low dynamism. In contrast to the federal trend, the number of patent registrations is falling.
- Saxony-based businesses are among East Germany's most research-intensive. The share of employees in the R&D sector stood at 3.3% in 2001. R&D spending as a proportion of turnover stood at 1.8% in 2001 and is falling. In a comparison of East German states, Saxony was unable to maintain its lead in terms of patent density and intensity.
- In Saxony-Anhalt, R&D employment in manufacturing fell between 1995 and the end of 2001. In 2004, the proportion of employment in the field of

advanced technology stood at 3.5%, and in that of high-value technology at 21.3%. Advanced-technology sectors demonstrated a slight fall in employment, while that of high-value technology increased. There is no dynamism in patent registrations.

- Thuringia increased its total R&D spending between 1997 and 2001, although, at 2.19% (2001 figure), it still falls below the 3% threshold level stipulated by the Lisbon Strategy. The share of R&D employees is below average and rose slightly between 1997 and 2001.

## **Chapter 2: An overview of the current funding period**

In their overall assessments and recommendations for the current funding period, the evaluation reports place firm emphasis on the Programmes' efficient financial management. The criteria here are the following questions:

- What have been the developments in investment volume and public co-financing?
- How can the number of projects envisaged at the outset of the funding period be achieved?
- Can resources be spent up to the end of the funding period?

The assessments, effected on actual and envisaged approvals for the specific Programme priorities, and on their continuation to the end of the current funding period, are detailed accordingly.

The status of Programme execution varies between states. In the case of Saxony, evaluators view the status of implementing the ESF programme as generally problematic; it is improbable that financial implementation will proceed as planned. Without restructuring funds, the Free State of Saxony is unlikely to be able to take up all available ESF resources in the current funding period. Redirecting programmes away from ESF towards ERDF funding is recommended; indeed, it is not a new problem for Saxony, where shifting resources from ESF to ERDF has already taken place before. In other reports, proposals intervene in the concrete programme structure. For those programmes whose financial allocation has not been secured to the end of the current funding period, evaluators propose that

- they be given greater immediate attention by controlling the flow of resources; thus, should the need arise, it would be easier to shift funds in sufficient time;
- resources be moved from one programme to another—under-funded—programme.

Evaluators estimate that the number of jobs envisaged to be supported through Structural Funding will be achieved; in fact, many reports assume that this number will be exceeded during the current funding period. In light of Germany's miserable labour market situation, this should be considered a positive development—at first glance. At second glance, however, this needs to be qualified: planning conducted at the beginning of the funding period very probably relied on conservative estimates in terms of creating or safeguarding jobs; moreover, since state governments, in the planning phase, started from a relatively low level, the probability that target figures could be achieved was relatively high from the outset. How many jobs were, in actual fact, created or secured through European funding is not provided in any of the updates—it was also not part of the remit. Many reports broach the issue of windfall gains—especially in their evaluation of business support. The argument here is the call for reduced funding for business support to keep windfall effects low.



**Table 2: Jobs created or safeguarded through investment funding**

	Number of jobs, 2000-02	Number of jobs, 2003-2004	Number of jobs, 2000-2004	% change 2002/2004
<b>Berlin</b>	9,885	2,724	12,609	27,6
<b>Brandenburg</b>	32,505	16,900	49,405	52,0
<b>Mecklenburg-Western Pomerania</b>	18,909	8,395	27,304	44,4
<b>Saxony</b>	17,490	28,910	46,400	165,3
<b>Saxony-Anhalt</b>	28,138	40,878	69,016	145,3
<b>Thuringia</b>	45,482	28,133	73,615	61,9
<b>TOTAL</b>	<b>152,409</b>	<b>125,940</b>	<b>278,349</b>	<b>82,6</b>

Source: GEFRA et al., 2005b: 66

Since the mid-term evaluation, in addition to the financial adjustments effected between Programmes and Funds, guidelines, funding conditions/realities and quantitative aims have also been adjusted to the new conditions. Given the limited time left in this funding period, recommendations for the remainder of the current period focus on shifting resources and changing material outputs. Most evaluators accept that states need to complete the Operational Programmes smoothly, and that any intervention be limited to the most essential.

The updates vary substantially in one important aspect: while some of the state reports<sup>1</sup> place greater emphasis on recommendations for the current period, most reports focus on recommendations for the next funding period.

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<sup>1</sup> This is the case for Saxony-Anhalt and Thuringia. The report on Thuringia, however, does provide conceptual recommendations for action that strongly extend into the next funding period.

## Overview 1: Recommendations for the current funding period

<b>Berlin</b>	<ul style="list-style-type: none"> <li>▪ Continue with existing guidelines, with changes in financial priorities.</li> </ul>
<b>Brandenburg</b>	<ul style="list-style-type: none"> <li>▪ Financial implementation is realistic, no adjustments required to ERDF and ESF;</li> <li>▪ Recommendations focus on programme monitoring, effectiveness and evaluation.</li> </ul>
<b>Mecklenburg-Western Pomerania</b>	<ul style="list-style-type: none"> <li>▪ In some ERDF measures, a shift of resources to business support because of greater need;</li> <li>▪ No fundamental change to ESF interventions, but, because of excessive availability of resources, a shift of funds away from equal opportunity projects to other measures.</li> </ul>
<b>Saxony</b>	<ul style="list-style-type: none"> <li>▪ Increase shift of ESF funds, incl. information and acquisition activity, in the regions;</li> <li>▪ Give regions greater flexibility to put in place regional budgets and regional priorities and structures.</li> </ul>
<b>Saxony-Anhalt</b>	<ul style="list-style-type: none"> <li>▪ Emphasise strengthening the economy's R&amp;D potential;</li> <li>▪ Pay special attention to wrap-up of infrastructure projects;</li> <li>▪ Reconciliation of state and ESF funding,</li> <li>▪ Need for action concerns securing skilled workforce, lifelong learning, school-work learning.</li> </ul>
<b>Thuringia</b>	<ul style="list-style-type: none"> <li>▪ Recommendations are conceptual and, in terms of their scope, of particular relevance for the next funding period.</li> </ul>

## **Chapter 3: Orientation of the European Structural Funds in the next funding period, 2007-2013**

Where should EU Structural Fund resources be allocated in the future? With the exception of Saxony-Anhalt<sup>2</sup>, this issue was taken up in all evaluations, and placed in the context both of achievements to date as well as a strategic re-orientation of EU Structural Funds. Evaluators' recommendations on the new direction of the European Structural Funds are, on the one hand, general (See 3.2.); on the other, they delve directly into certain programme structures (see section 3.3). The EU Structural Funds' new underlying philosophy from 2007 onward has already been discussed elsewhere (Erdmenger/Ziegler, 2004). Nevertheless, to be able to better organise evaluators' recommendations, a number of underlying aspects on the future implementation of the EU's Structural Funds are described here (Paragraph 3.1.).

### ***3.1.: A New Framework***

Although the financial framework and the "funding landscape" of the EU Structural Funds' funding period have not yet been fully defined, it is likely that there will be cuts in the amount and scope of EU funding for Germany. While Germany will continue to benefit from considerable Structural Fund resources—i.e., support to the German regions will not be eliminated completely—it is anticipated that some German regions will lose their eligibility status, while others, based on economic and employment trends, might achieve higher funding status (e.g., the administrative district of Lüneburg). This will have repercussions for funding policy in Germany, since a large proportion of the resources currently spent on economic and employment policy programmes and measures are co-financed by the Structural Funds. From 2007 onwards, less European funding will be available on the one hand, and, on the other, some of it will be transferred to other areas.

The European Commission (Commission Communication, 2005) has placed the European Structural Funds under the umbrella of three large-scale European strategies—the Lisbon and Göteborg Strategies, and the Employment Strategy. In tandem with the three new strategic aims (these are: 1. Convergence, 2. Competitiveness and Employment; 3. Cooperation), which are to be pursued by European structural funding in the period 2007-2013, the three European-level strategies provide the framework for the programme planning process currently underway to prepare for both the next funding period and for the compilation of member states' and regions' national Strategic Framework Programmes and Operational Programmes.

The Regulations (see Bibliography) envisage future of ERDF and ESF expenditures focusing on the following core areas of European funding policy:

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<sup>2</sup> In the case of Saxony-Anhalt, provision of recommendations for Structural Fund implementation from 2007 onward was not part of the remit. The update therefore contains no recommendations as such, although it proffers a number of comments.

The **European Regional Development Fund** is to assist the strategic aims as follows:

- **“Convergence”**: funding to expand infrastructure in the transport, environment, energy, education and training, and health-care sectors; to support SMEs, research and innovation, and risk prevention.
- **“Competitiveness”**: funding to encourage innovation and the knowledge-based economy, the environment and risk prevention, accessibility to transport and telecommunications services of general economic interest;
- **“Cooperation”**: on the one hand, to encourage entrepreneurship, joint environmental management and joint utilisation of infrastructures in cross-border programmes; on the other hand, to focus, through transnational programmes, on water protection and management, accessibility to large-scale networks and systems interoperability, risk prevention and joint technological research and development activities.

The **European Social Fund** is to focus on the strategic aims as follows:

- **“Convergence”**: ESF funding to assist in widening employment potential for women and men, in investing in human capital, in governance, and in strengthening institutional and administrative capacities;
- **“Competitiveness”**: the prime focus is on employee and business adaptability, on access to the labour market, on social inclusion of disadvantaged persons, on combating discrimination, and on establishing partnerships and networks with a view to employment and inclusion;
- **Innovative Projects** (currently Article 6 projects) and **transnational cooperation** (currently EQUAL programme) are to be completely integrated into ESF programmes.

### **3.2.: Evaluators’ general considerations and recommendations for the next funding period**

In the updates, the “batch” of measures implemented during the current funding period are not just transferred over into the next funding period; evaluators do not consider this to be productive. All recommend a **mix of existing and new, complementary** fields. Evaluators extrapolate their recommendations<sup>3</sup> from the quantitative outputs achieved thus far in the current funding period. In so doing, they address future challenges that are already being discussed within the scope of regional, labour market and employment policy, and the effects of which are, to an extent, already evident.

This concerns, on the one hand, the long-term decline in population and employee potential as well as the increasing ageing of the workforce, and effects of these factors on the labour market (i.e., lack of a skilled workforce), on future infrastructure needs and on the provision of services of general interest. On the other hand, the state budgets pose a challenge. Evaluators consider it essential that, despite Solidarity Pact II, given continued fiscal strain on public budgets, new funding sources be

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<sup>3</sup> Comments in the individual updates on the concrete priority areas differ in length and specificity.

found to promote structural policy goals and that **private co-financing sources** should be involved to a much greater extent than has been the case until now.

Most of the proposals take the strategic orientation of programme planning for the next funding period as a starting point. Proposals can be summarised into two main priority areas:

### ***1. Adapting the overall strategy to the new challenges***

Given leaner financing in the future, evaluators consider it important for funding to focus on those areas that, measured against outputs, promise the greatest success. Thus, several experts recommend that state governments define a **goal-oriented system**. For future ESF funding in Saxony, for example, evaluators propose a goal-oriented system consisting of six strategic aims<sup>4</sup>; under this system, some of the current priorities and measures would be transferred over into the new funding period and additional priorities would be added in relevant areas. With regard to ERDF funding, an overall strategy is called for in Saxony because measures to date will be insufficient in achieving a “strategy aimed at growth and sustainable employment”. It would be left to state governments to decide the precise measures with which to achieve these goals. Reports from other states (e.g., Mecklenburg-Western Pomerania) see the funds’ strategic focus towards **coherent and integrated support** as the basis for efficient implementation of the Structural Funds. The state government would therefore be tasked with defining clear strategic goals to allow operable delineation criteria between Funds, areas of emphasis and measures to avoid an overlap between Funds and/or funding priorities (e.g., parallel ESF and ERDF support for business start-ups, tourism and agriculture).

### ***2. Simplifying the complex programme structure***

The majority of evaluators argue that the programme structure should be simplified, and that a more transparent structure be put in place. Many support the view that the **programme structure should be reduced** to concentrate on fewer main funding priorities wider in scope in terms of resources and content. This would imply definite advantages in terms of flexibility and management. This approach was most clearly formulated in the Mecklenburg-Western Pomerania and Brandenburg (for ESF) updates. For example, evaluators recommend that the Brandenburg government limit future ESF funding to five priorities (see Overview 2), supported by only two or three funding instruments. With regard to programme structure, the Thuringia and CSF reports underline that **not all state programmes** should be **co-financed** by the Structural Funds; these resources should be limited to only a few selected measures. Some evaluators also emphasise that **Structural Fund support of areas falling under communal obligations should be rejected**. The example of Thuringia’s communal infrastructure is cited as a case in point, but it also forms a

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<sup>4</sup> These six strategic goals are: 1. long-term assurance of skilled labour availability; 2. exerting influence on labour market migration; 3. compatibility of work and family life; 4. limiting social exclusion; 5. developing entrepreneurial potential/strengthening innovative capacity; 6. increasing labour market transparency/improving matching processes.

theme within the East German CSF. Thus, for example, evaluators consider that the costs arising from computerising schools as inevitable and as a continuing investment in education – which, in future, should be assumed by the state governments and not the European Structural Funds.

In general, the recommendations on the new orientation of the European Structural Funds are very closely aligned to the **Lisbon Strategy**. All reports favour supporting innovation more intensively than previously, and to allocate more resources to this priority area. One is left with the impression that the Employment Strategy plays a minor role in future ESF funding as it does in the current period.

Recommendations concerning support for innovation and technology are, consequently, very pronounced – both in terms of ESF and ERDF. It becomes clear that the updates are based on a fairly technology-oriented and **narrow definition of “innovation”**. As a rule, they focus on familiar measures, such as strengthening (technical) business innovation, expanding technological infrastructure, encouraging networks between business and science, or on technology transfer. The narrow view of “innovation” is most evident in the recommendations on future ESF funding. In several reports, the focus of ESF funding and the Lisbon Strategy are linked so that recommendations call for strengthening higher education activities – in particular in the technological centres emanating from universities. None of the updates discuss other potential areas of ESF funding within the Lisbon parameters (e.g., prevention and labour organisation in connection with ERDF measures).

Looking at the updates it also becomes evident that, sporadically, they touch upon issues that go above and beyond the public debate; although evaluators do not provide solutions, these issues cannot be ignored by the federal and state governments. These include, e.g.,

- The cardinal problem of future European structural policy, i.e., the European Structural Funds’ aim to **simultaneously achieve the goals of growth and regional balance**, is addressed only in the Mecklenburg-Western Pomerania update.
- According to the Saxony ERDF update, it is not yet evident how the diverging development within the state is to be dealt with and how Saxony envisages reversing gears to move on to a sustainable development path. However, the classic concepts of a policy aimed at achieving balance come up against limiting factors not only in Saxony.

When contrasting the updates, it becomes clear that evaluators ascribe great importance to the commercial and business orientation of the next generation of European Structural Funds. Thus, implementing European resources should be made dependent on whether the supported measure has a positive effect on both the economy and on businesses.

### **3.3.: Proposals for a new programme structure in East Germany's states**

In addition to the more general comments on the future allocation of the Structural Funds, a number of evaluators have directed their recommendations at current funding priorities. While some are merely keyword-style recommendations, evaluators have also provided very concrete measures. Overview 2 provides a state-comparison summary. These recommendations are also contrasted below, and similarities and differences for future funding are highlighted. However, the paper does not aim to pick up on all recommendations; rather, it discusses the main guidelines on the re-orientation of the European Structural Funds—insofar as this is discernible in the updates.

#### **1. Support for fields of competence and clusters**

For several years, and linked with the focus of funding resources, there has been some discussion around funding fields of competence and key technologies. This theme plays a role in the recommendations on the future allocation of European resources. Several evaluators favour supporting fields of competence and/or clusters; this approach is taken the furthest in the Berlin report, with evaluators basing their recommendations on existing studies<sup>5</sup>, in which fields of competence<sup>6</sup> were defined for Berlin and were further developed, with the Berlin Senate, as a cluster strategy for economic development. Against this backdrop, evaluators propose that future Structural Fund resources be concentrated on axes concentrating on growth determinants such as knowledge base, the economy's technological capacity, quality of human potential and shortages in infrastructure provision limiting structural growth, and to encourage structural change towards a knowledge-based economy. Support should focus primarily on the area of "innovation and the knowledge-based economy", into which defined fields of competence should be integrated and more seriously taken into consideration in funding. While business and infrastructure support outside the fields of competence should still be available, the lion's share of funding should be allocated to supporting fields of competence. However, in order to use fields of competence as a framework for action to promote Berlin's economy, further steps need to be taken. These include, for example, a more precise definition of the fields of competence, including taking into account their life cycle, identifying value-added chains, key players, integration into networks, technology platforms, and the required infrastructure. The establishment of a control system to monitor the development of fields of competence is recommended.

While the Brandenburg evaluators do not put forward such detailed proposals, they nevertheless do recommend that the state government make it a priority to establish

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<sup>5</sup> This is a study by the Boston Consulting Group (2004): "Evaluierung und Neuordnung der Wirtschaftsförderung in Berlin", and a report produced by the Enquiry Commission: "Eine Zukunft für Berlin."

<sup>6</sup> Biotechnology, media, information technology, communication technologies, medical technology, and transport technology.

clusters and networks within the scope of ERDF funding, and that it implement and further develop the sectoral and spatial economic policy strategy of “Strengthening Strengths”.

The report on Mecklenburg-Western Pomerania, citing the wood industry in Wismar, also highlights that promoting product-specific value-added chains can be successful. Evaluators conclude that resources in the next funding period for R&D, science, technology, the labour market, and education and training should be aligned much more closely with the economy’s regional sectoral priorities. Many of the evaluators do, however, warn against an exclusive focus on innovation and fields of competence, since Mecklenburg-Western Pomerania lacks the potential for such a strategy.

The CSF for East Germany does pick up on the vital importance of promoting clusters in connection with the re-orientation of infrastructure funding, but CSF experts reject concentrating all business support on clusters. They argue in favour of funding “content” rather than external “shells” (slide presentation, 13 December 2005).

## ***2. Support for individual businesses remains important***

All evaluators consider investment funding for individual businesses an important building block, one that remains indispensable in the new funding period. The reports on Berlin and Thuringia contain additional proposals for the future differentiation of business support. Evaluators in Berlin put future resources for individual businesses under the heading “Innovation”, i.e., business investments with innovatory relevance, or those that strengthen a field of competence, should receive higher levels of funding than “normal” investments without sizeable structural impact. Thuringia evaluators also recommend that, given the high degree of capital equipment, funding should be lowered and to reduce subsidy levels with compensatory justification. In this way, windfall gains can be kept low. R&D support should, however, be excluded. The arguments in the Thuringia report are also contained in the CSF for East Germany – not surprising given that both updates were authored by the same team.

Furthermore, in terms of support for individual businesses, resources made available to encourage foreign trade and/or a presence at trade exhibitions, as well as for business start-ups, play an important role in the reports. To strengthen businesses’ export orientation, evaluators note that there is a growing requirement to support businesses in positioning themselves internationally through enabling a presence at trade fairs or providing assistance with marketing. The Berlin report considers the importance of providing export support as an essential criterion to overcome weak domestic demand. What is not discussed, however, is the approach funding policy should take to encourage domestic demand.

With regard to business start-ups, many reports emphasise the need to improve the structures of the various instruments between ESF and ERDF. Thus the Berlin report proposes that the ESF should contain a social and employment policy assessment of newly established businesses, and that the ERDF should take into account



anticipated regional economic effects, e.g., grants for business start-ups at universities. Funding for newly established businesses would do well to place much greater emphasis on the pre-start-up phase, on profiling concepts, and on qualifying and advising business founders.

### 3. *Adapting infrastructure support to requirements*

In the past, European structural funding has contributed greatly to improving infrastructure equipment (i.e., innovation-, human capital-, and business-oriented infrastructure). Despite these efforts, however, the updates conclude that infrastructure gaps persist in East Germany. Nevertheless, rather than dealing with filling a general backlog, this is now on case-by-case and spatially differentiated basis. As a result, evaluators advise states to provide future infrastructure support with a conceptual foundation, focussed on regional economic effects and demographic aspects. They propose cost-benefit analyses to improve the efficiency and effectiveness of the individual infrastructure projects.

In summary, the individual states' updates make the following points about future infrastructure support:

For Brandenburg, a “clear focus for infrastructure support to enable the highest possible contribution to enhance business and labour market development, as well as to improve competitiveness” is recommended.

In Berlin, infrastructure support should prioritise qualitative aspects. Here, evaluators cite management of fields of competence and networks, interlinking science and the economy, the focus on and supply of existing technology and start-up centres. The environmental programme should be re-examined with a view to its contribution to economic structural change. Gaps in transport links between regions should be closed.

Future infrastructure and transport planning in Mecklenburg-western Pomerania should take into account the long-term population development to ensure efficient and cost-effective provision. This also includes business-oriented infrastructure (e.g., commercial areas). The evaluators argue that Mecklenburg Western-Pomerania will have to have a spatial focus in its infrastructure provision.

In Saxony, a quarter of ERDF resources have been committed to transport infrastructure (road building). Investment in transport infrastructure will remain important in the new funding period, but projects of regional importance should receive more funding and involve all transport authorities and carriers. More generally, evaluators recommend implementing infrastructure resources to improve regional competitiveness and to finance only those measures that aim at sustainable economic activity. Investments concentrating solely on environmental infrastructures should not be supported.

In Thuringia, the evaluators recommend that future infrastructure financing focus on modernising, enhancing, and equipping existing infrastructures. Thus, for example,

determining commercial areas should only occur in conjunction with an inter-communal or regional commercial area concept; tourism infrastructure support should focus on its supra-regional impact, and economic and R&D infrastructures should be strengthened further. Thuringia also has a need for investment with regard to the wastewater plants, water maintenance, and flood protection.

#### ***4. Future Allocation of ESF Funding***

Given Germany's huge labour market problems, all evaluators agree that there will continue to be great need for ESF funding in the future. However, given the way in which German labour market support has been regulated at the national level since early 2005 (through the so-called Hartz laws), in which national employment support was extended to central ESF target groups, the way ESF is used must be reconsidered. This applies to all federal states. Despite changes in federal labour market policy and the stated great need for future ESF financing, the updates do not provide concrete indications on how national and European-level support are to be delineated from each other. On a more fundamental level, the reports recommend that, in the **active labour market policy field**, only measures demonstrating discernible qualitative added value should receive ESF financing. The European Social Fund should cover gaps in funding, encourage innovatory projects, and focus quite specifically on prevention. Some of the evaluators consider that this would require linking areas of policy and strengthening model projects. ESF funding should not be applied to strengthen labour market policy at the federal level.

When looking at specific target groups for future ESF interventions, evaluators concentrated on the following:

- Young people: Recommendations here focus on continuing to prioritise education and training, doing more for early school leavers, etc.
- Women: Evaluators recommend a stronger gender-specific approach in funded measures, to integrate women-specific aspects more rigorously into mainstream funding, to direct resources in favour of women, to maintain key funding priorities in terms of equality between women and men.
- Older persons: Adapt further training opportunities to the requirements of older people and integrate this target group into the lifelong learning concept.

In addition, the reports envisage need for continued ESF funding for business start-ups (see above) and to promote "a culture of self-employment" (CSF East Germany). In general, however, ESF resources should focus much more closely on the Lisbon Strategy; for the evaluators, this clearly implies concentrating ESF financing on "growth and employment-related human resources" (professional integration of young people, lifelong learning, adaptability, research, knowledge and innovation). The reports do not, however, discuss whether there is a conflict in terms of aims between the focus of ESF resources on the labour market's problem groups and how this conflict can be overcome.

Only the Berlin update attempts to establish a link between ESF and ERDF resources: If the concentration of ERDF financing in Berlin focuses on fields of competence, then,

according to evaluators, ESF financing to promote qualifications to enhance adaptability, and on-the-job further training, should concentrate more closely on the requirements of the fields of competence. What is called for is an overall concept with a tailored analysis of requirements, profiling, close business links and contacts, and accompanying coaching provision.

##### **5. Advancing the cross-sectional objectives**

The updates were further tasked with monitoring the cross-sectional objectives (equal opportunities, sustainability, information society) pursued in the current Structural Fund programme. Their findings: When assessing projects' contributions to the **cross-sectional objectives**, the evaluators noted continued need for action and recommend applying manageable solutions. Thus, for example, the CSF highlights the conflict of goals between ESF priorities and the cross-sectional objectives and notes that this is a task to be solved in the new period.

##### **Cross-sectional objective: Equal Opportunities**

While evaluators have observed progress in this objective, they consider that the gender mainstreaming principle could be further developed in a number of projects. A variety of measures in the ERDF, ESF and EAGGF programmes promote the equal opportunities cross-sectional objective, and the ESF's individual-related approach assumes a decisive role in advancing equal opportunities between men and women.

Results thus far are sobering. In a comparison of the states, evaluators deem Brandenburg as exemplary, although there is still great need for action. Without gender mainstreaming, the gender imbalance within the life-and-work balance would likely be much greater. Evaluators (e.g., in Saxony) recommend a dual-track approach for the next funding period, featuring the adoption of measures to improve the equality of women and men as well as, simultaneously, aiming for solutions that go beyond the "women's quota". In the Mecklenburg-Western Pomerania report, evaluators point out the limited reach of the Structural Funds. Where support for business start-ups is concerned, they conclude that financial support can assist in reducing the gender imbalance only to a limited extent. They argue that support should be applied "through changes in the objective framework conditions and through the subjectively perceived options of women and men." In Brandenburg, evaluators suggest two concrete measures: the state government should, first, develop and apply a uniform gender budgeting approach for the entire planning and implementation procedures in the next funding period, and second, examine the changed conditions of women and their professional activity. This would be important not only for the allocation of Structural Fund resources, but also for the entire state's policy.

##### **Cross-sectional objective: Environment and Sustainability**

The evaluations confine this cross-sectional objective to that of the environment; they do not focus on implementation of the principle of sustainability, due, as some evaluators explain, to quantifying problems.

The updates note that the environmental situation has vastly improved thanks to Structural Fund intervention particularly from the EAGGF and the ERDF, through measures to reclaim contaminated sites, air pollution prevention, emissions reduction, and waste prevention. Only two reports (Brandenburg and Saxony) recommend further development of this cross-sectional objective: since the effects of Structural Fund intervention on sustainability cannot yet be measured in Brandenburg, evaluators propose the development of an evaluation matrix with quantifiable goals for the next financing period. In the case of Saxony, evaluators recommend that measures aimed at guiding the economy towards conserving its resources would carry greater weight within the scope of a sustainable development strategy.

#### **Cross-sectional objective: Information Society**

The evaluations credit the ERDF in particular with helping to implement measures in this area. For example, ERDF-funded measures have reached data processing businesses, supported a large number of information and communication projects, and equipped schools with computers. The evaluators acknowledge that, to some extent, ERDF interventions have contributed to diversifying economic structures (e.g., in Mecklenburg-Western Pomerania).

#### **6. Other specific state-level approaches**

In addition, some of the updates take up specific problems and structural policy approaches:

In Berlin, evaluators note, the “urban dimension” axis plays a central role and will remain important; however, this key area for funding will have to focus on the new goal of “Competitiveness and Employment.” Evaluators emphasise as positive the importance of carrying out **programmes on a partnership basis**, including economic and social partners.

According to evaluators, **state-level initiatives**, an integrated approach to support five priority areas (e.g., innovation, rural development) are an important way for Saxony-Anhalt to implement a cross-departmental policy to support selected key priority areas. This approach should be continued in the next funding period, albeit with less complex procedures and stronger business involvement in processes and projects.

The theme of “**regionalisation**” is addressed in all updates, with the exception of Thuringia, although only in connection with labour market policy. With the exception of Saxony, where a regional budget is recommended that would provide regions with the scope to act independently, discussion on this point remains general, e.g., “the regionalisation of labour market policy in Brandenburg should be further developed” or “existing structures in labour market policy should be migrated into networked regionalised employment support” in Berlin.

Evaluators for Thuringia and for the CSF for East Germany also point out the limitations of regional policy. “Without corresponding macro-economic conditions and without support for other economic policy areas, e.g., wage, fiscal or tax policy, it is not feasible to expect an acceleration of the convergence process through the intervention of ERDF resources alone” (GEFRA et al., 2005a: 165, GEFRA et al. 2005b: 184).

## Overview 2: Recommendations for the next financing period

	ERDF	ESF
<b>Berlin</b>	<ul style="list-style-type: none"> <li>▪ Strengthen fields of competence;</li> <li>▪ Investment support for individual businesses with innovatory relevance;</li> <li>▪ Promote economic dynamism through business start-ups and support at trade fairs/exhibitions;</li> <li>▪ Develop appropriate infrastructure, especially in fields of science and technology transfer;</li> <li>▪ Appropriate development of public infrastructure;</li> <li>▪ Axis of urban problem areas.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Business-oriented employment support with advice/coaching for new businesses, funding for apprenticeship positions, esp. for disadvantaged young people;</li> <li>▪ Promotion of continued on-the-job training with integration measures for disadvantaged groups and the long-term unemployed.</li> </ul>
<b>Brandenburg</b>	<ul style="list-style-type: none"> <li>▪ Continue business support;</li> <li>▪ Further develop SME support instruments (mix of investment support, R&amp;D projects, technology transfer, establishment of networks, advice, specific incentives for business start-ups);</li> <li>▪ Implement “Strengthening Strengths” sectoral/spatial strategy and adaptation to new economic strategy;</li> <li>▪ Promote cluster development and technology transfer networks;</li> <li>▪ Develop and implement integrated urban development concepts;</li> <li>▪ Dismantle environmental programmes and integrate into mainstream funding programmes;</li> <li>▪ Concentrate infrastructure support more on business and labour market development;</li> <li>▪ Incorporate funding conditions on services of general interest into the context of the economy and employment.</li> </ul>	<p>Reduction of priority support areas to:</p> <ul style="list-style-type: none"> <li>▪ Young people—training and entry into working life</li> <li>▪ Older people—ability to work, innovation and lifelong learning;</li> <li>▪ Equal opportunities and women;</li> <li>▪ Adaptability and entrepreneurship;</li> <li>▪ Regionalisation of labour market policy.</li> </ul>
<b>Mecklenburg-Western Pomerania</b>	<ul style="list-style-type: none"> <li>▪ Focus spatial infrastructure funding on central-towns system;</li> <li>▪ Maintain individual business investment support;</li> <li>▪ Apply new programme supporting goals of Lisbon Strategy;</li> <li>▪ Focus funding for R&amp;D, science, infrastructure, the labour market</li> </ul>	<ul style="list-style-type: none"> <li>▪ Great need for ESF interventions with stronger focus on Lisbon Strategy and orientation towards growth and employment-related human resources (integration of young people into the workforce, lifelong learning, adaptability, research, knowledge and innovation);</li> </ul>

	<p>and education and training on economy's regional priorities;</p> <ul style="list-style-type: none"> <li>▪ Increase financing for presence at trade exhibitions in strategic Scandinavian and East European countries.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Promote active labour market policy through ESF in areas where it adds qualitative added value to federal-level labour market policy;</li> <li>▪ Fill funding gaps and initiate innovative projects.</li> </ul>
<b>Saxony</b>	<ul style="list-style-type: none"> <li>▪ Continue to fund manufacturing investment;</li> <li>▪ Strengthen technology transfer;</li> <li>▪ Strengthen infrastructure measures that improve regional competitiveness;</li> <li>▪ Focus measures at sustainable economic activity.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Secure availability of skilled labour through education and training, on-the-job training, personal and organizational development, longer working life;</li> <li>▪ Influence labour migration by preventing movement of labour and selective immigration of funding agencies, compatibility of work and family life;</li> <li>▪ Restrict social exclusion through, e.g., inability to work, employment for unskilled workers;</li> <li>▪ Develop entrepreneurial potential and strengthen innovative capacity (e.g., business-start-ups, business takeovers, human resources in R&amp;D);</li> <li>▪ Increase labour market transparency and improve matching processes.</li> </ul>
<b>Saxony-Anhalt</b>	Not applicable: not part of the remit.	Not applicable: not part of the remit.
<b>Thuringia</b>	<ul style="list-style-type: none"> <li>▪ Continue investment support at reduced levels of funding—except to finance R&amp;D, wide spectrum for funding will continue to be required (incl. for consulting services, funding to attend trade exhibitions, SME networks); reject support for micro-businesses;</li> <li>▪ the new “research cheque” in encouraging individual business technology is to set a trend;</li> <li>▪ strengthening of innovative capacity;</li> <li>▪ better integration into national economic cycles;</li> <li>▪ focus infrastructure funding on qualitative modernisation, appreciation of and improvement in equipment, provide with evidence of regional-level economic effectiveness;</li> <li>▪ forward planning and adaptation of infrastructure equipment to</li> </ul>	<ul style="list-style-type: none"> <li>▪ Support transition from school to working life;</li> <li>▪ Support disadvantaged young people, implement ESF resources at schools to improve school leaving diplomas and reduce number of school dropouts;</li> <li>▪ Focus ESF financing on target groups but with proof of qualitative added value (e.g., new instruments, linking up offers/incentives, etc.);</li> <li>▪ Strengthen cooperation among higher education, research, businesses and education providers with ESF funding;</li> <li>▪ Involve older people in further training and provide on-the-job training for those in employment;</li> <li>▪ Stronger focus on growth in ESF-financed business start-ups;</li> <li>▪ Align promotion of equal opportunities for men and women more closely along structural factors of disadvantage.</li> </ul>

	<p>future population development;</p> <ul style="list-style-type: none"> <li>▪ Embed business-focused infrastructure projects into integrated urban development programmes;</li> <li>▪ Examine backlog needs in transport infrastructure, particularly road and rail, and especially the potential to shift freight from road to rail;</li> <li>▪ Needs analysis of losses in pipeline networks in water supply and waste water treatment;</li> <li>▪ Need for investment in sewage plants;</li> <li>▪ Ensure performance of communes in Agenda 21;</li> <li>▪ integrate environmental needs more firmly into commercial activity, e.g., through consulting;</li> <li>▪ Need for action in maintaining water supply and flood protection.</li> </ul>	
<p><b>Community Support Framework (CSF) for East Germany</b></p>	<ul style="list-style-type: none"> <li>▪ Continue investment support at lower funding levels—with the exception of R&amp;D support;</li> <li>▪ Development of new funding activities, e.g., thematically uncommitted vouchers;</li> <li>▪ Strengthening of innovative capacities;</li> <li>▪ Closer integration into national economic cycles;</li> <li>▪ Need for differentiated, conceptual infrastructure financing focused especially along regional economic effects;</li> <li>▪ Focus investment support on qualitative aspects (modernisation, appreciation, improved equipment);</li> <li>▪ Utilise cluster management for infrastructure interventions;</li> <li>▪ Focus technology infrastructure support on existing competencies and strengths;</li> <li>▪ Strengthen technology transfer, integration of infrastructural and institutional capacities and business;</li> <li>▪ Concentrate professional training and re-training infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>▪ Promote growth and employment-related human resources, focussing on school and professional education and training, lifelong learning, adaptability, research and innovation, entrepreneurship and equal opportunities;</li> <li>▪ ESF funding should contribute to national labour market policy through qualitative added value;</li> <li>▪ Ensuring training capacity and improving the quality of the (vocational) training system;</li> <li>▪ Strengthen cooperation of higher education, research, businesses and education facilities with ESF resources;</li> <li>▪ Involve older people in further training and on-the-job training for those in employment;</li> <li>▪ Focus more ESF resources on business start-ups, especially through activities in higher education institutions, create a “self-employment culture.”</li> <li>▪ Align promotion of equal opportunities for men and women more</li> </ul>



	<p>on urban centres;</p> <ul style="list-style-type: none"><li>▪ Reduce measures on water supply and sewage disposal;</li><li>▪ Future areas for support: soil conservation, increase in energy efficiency, preventative environmental protection in connection with sustainable utilisation of resources.</li></ul>	<p>closely along structural factors of disadvantage.</p>
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#### **4. Conclusion**

Preparations for the implementation of the next period of Structural Fund interventions, to begin in 2007, are now underway. The updates of the mid-term evaluations on the implementation of the European Structural Funds permit inferences on the new orientation of the European Structural Funds from 2007 onward. As the comparison of the updates of the individual states shows, it is not possible to derive a strategy on the basis of these recommendations—and, indeed, this was not the remit. Nevertheless, they provide indicators as to the direction into which the states could divert their strategies. It is noticeable that there is no single way forward. Everything, therefore, is possible!

Where in East Germany are the jobs of tomorrow? This question, of great importance to trades unions and employees alike, has not—even remotely—been addressed in any of the reports. Other issues of relevance to employment policy, e.g., the participation of economic and social partners, have been ignored, (with the exception of the report on Berlin—and here they are discussed only with regard to the development of city districts), although it is precisely the principle of partnership that forms such a cornerstone of European structural funding.

In addition, the reports' view of the European Structural Funds in East Germany is strongly based on economic considerations. Since the approach of European structural funding, by its very nature, is much wider and makes diverse cross-sectional links with employment, the labour market, working conditions, the environment, etc., it would be advisable, in future, to incorporate this interdisciplinary and comprehensive approach in the evaluations; as a first step, it would be worth considering putting together a team to do so.

## APPENDIX

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Table 1, Appendix:

**Institutions tasked with carrying out the update of the mid-term reviews of the East German states and the CSF for East Germany**

	<b>ERDF</b>	<b>ESF</b>
<b>Berlin</b>	Prognos AG, Berlin	Prognos AG, Berlin
<b>Brandenburg</b>	Kienbaum Management Consultants GmbH, Berlin	Kienbaum Management Consultants GmbH, Berlin
<b>Mecklenburg-Western Pomerania</b>	Prognos AG, Bremen	IfS Institut für Stadtforschung und Strukturpolitik mbH, Berlin
<b>Saxony</b>	IfS Institut für Stadtforschung und Strukturpolitik mbH, Berlin MR Gesellschaft für Regionalberatung mbH, Delmenhorst	isw Institut für Strukturpolitik und Wirtschaftsförderung gemeinnützige Gesellschaft mbH
<b>Saxony-Anhalt</b>	isw Institut für Strukturpolitik und Wirtschaftsförderung gemeinnützige Gesellschaft mbH	isw Institut für Strukturpolitik und Wirtschaftsförderung gemeinnützige Gesellschaft mbH
<b>Thuringia</b>	GEFRA – Gesellschaft für Finanz- und Regionalanalysen GbR Münster IfS Institut für Stadtforschung und Strukturpolitik mbH, Berlin MR Gesellschaft für Regionalberatung mbH, Delmenhorst Ruhr-Universität Bochum, Prof. Dr. Karl, Lehrstuhl für Wirtschaftspolitik	GEFRA – Gesellschaft für Finanz- und Regionalanalysen GbR Münster IfS Institut für Stadtforschung und Strukturpolitik mbH, Berlin MR Gesellschaft für Regionalberatung mbH, Delmenhorst Ruhr-Universität Bochum, Prof. Dr. Karl, Lehrstuhl für Wirtschaftspolitik
<b>CSF East Germany</b>	GEFRA – Gesellschaft für Finanz- und Regionalanalysen GbR Münster IfS Institut für Stadtforschung und Strukturpolitik mbH, Berlin MR Gesellschaft für Regionalberatung mbH, Delmenhorst	GEFRA – Gesellschaft für Finanz- und Regionalanalysen GbR Münster IfS Institut für Stadtforschung und Strukturpolitik mbH, Berlin MR Gesellschaft für Regionalberatung mbH, Delmenhorst

	Prof. Dr. Karl, Ruhr-Universität Bochum, Prof. Dr. Hecht, Fachhochschule Bochum	Prof. Dr. Karl, Ruhr-Universität Bochum, Prof. Dr. Hecht, Fachhochschule Bochum
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