

*Report A: EU assisted
development
programmes and
programmes assisted
exclusively by national
means in Austria*

Commissioned by:
DHV CR, spol. s.r.o.

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and programmes assisted exclusively by
national means in Austria*

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“5/04 Identification, Analysis and Evaluation of Arrangement of EU assisted development programmes and programmes assisted exclusively by Czech means, with a view to proposing a more co-ordinated and rational system” financed by technical assistance means of measure JROP 5.2. “CSF Technical Assistance”

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1. INTRODUCTION

This study is part of the project “Identification, Analysis and Evaluation of Arrangement of EU assisted development programmes and programmes assisted exclusively by Czech means, with a view to proposing a more co-ordinated and rational system” financed by technical assistance means of measure JROP 5.2. “CSF Technical Assistance”.

The aim of this report is to analyse the EU assisted development programmes and programmes assisted exclusively by national means in Austria. The system of co-existence of national and EU development programmes will be explained including lessons to be used for the Czech system.

A particular focus will be on the evolution of the Austrian funding system since EU accession in the framework of Structural Funds programmes. The coordination between national funding schemes on federal and regional level as well as Structural Funds programmes will be described in detail.

As Czech Republic is eligible for Objective 1 – except for the region of Prague – this study contains a case study for the region (Land) of Burgenland, which is the only Objective 1 programme in place in Austria.

This study focuses on funding schemes or funding programmes in place. Funding schemes in Austria in general are based on regulations issued by public authorities or other entitled funding institutions. The regulations provide the legal framework for approval of and payment to project beneficiaries. These regulations contain detailed funding conditions (aim of the scheme, targeted beneficiaries, eligibility criteria, project duration, maximum grant/loan, coherence/coordination with other funding schemes, interest rates, relation to EU-competition legislation and EU-Structural Funds programmes and application procedure). Austrian EU Structural Funds programmes are based on these national funding schemes and incorporate the grant schemes in place within priorities and measures of the Operational Programmes.

Besides these funding schemes there exist strategic policy documents on spatial and regional development (e.g. Austrian Spatial Development Concept, National Transportation Strategy, National Employment Pact). These strategic documents are clearly policy oriented and provide justification for political decisions on operative level (laws, spatial development programmes, zoning). Although these documents are often justification for funding, they provide no legal framework for funding. These strategic documents are rather the content related strategic backbone for funding schemes and programmes.

As the aim of this study is to show the inter linkage of national and EU funding system on operative level, the documents which are exclusively policy oriented are not examined further within this report.

2. DEFINITION OF REGIONS IN AUSTRIA

Regions could be defined in various ways. In terms of EU and national policy the most important criteria for classification are:

- the political/administrative national system on the one hand and,
- the definition of European statistical regional units according to EU legislation (NUTS classification) on the other hand.

The NUTS-system of EU distinguishes 3 levels and NUTS 0. Up to now the definition of these statistical regions was a „gentlemen’s agreement“ between the EC and the member states. This should change due to an own regulation on the NUTS system, which aims to provide a legal framework for the definition of the NUTS regions in the individual member states.

Criteria for the definitions of regions within the NUTS system are:

The political/administrative classification of a member state and

The amount of population as a certain threshold for comparability of size.

In addition geographic, socio-economic, historical, cultural and environmental criteria could lead to exemptions from the population thresholds.

In accordance with the draft EU-regulation following population thresholds are proposed:

Level 0 = whole member state

NUTS 1 = min. 3 mn inh./ max. 7 mn inh.

NUTS 2 = min. 800.000 inh. / max. 3 mn inh.

NUTS 3 = min. 150.000 inh. / max. 800.000 inh.

In Austria the general government sector comprises four sub-sectors: federal government, 9 state governments, 2.359 local governments and social security institutions.

According to constitutional law, the federal and the nine Länder governments are autonomous with respect to administration and legislation. The constitution distributes the different tasks associated with administration and legislation as follows:

Most legislative functions are assigned to the federal level. The first chamber of the Federal Parliament, the Nationalrat, assembles 183 representatives, elected in a free and secret vote by Austrian citizens. The second chamber, the Bundesrat consists of 62 representatives elected by

state parliaments (Landtag). They are free in their vote, but usually only empowered to a suspensory veto.

As opposed to the federal level, the emphasis of the Länder lies in the administration (Austrian administrative federalism). They administer their own laws as well as most laws of the federation (indirect administration). In the latter case the governor of each Land (Landeshauptmann) has to follow the directives of the respective federal minister.

In the case of the implementation of EU funded regional development programmes (Structural Funds programmes) the Austrian constitution foresees under article 15a the sharing of tasks and responsibilities among the federal and regional level. Related to this a so-called 15a-agreement was negotiated between federal and regional level, which clearly specifies which EU programme, is administered by which authority at national or regional level.

An important exception to the administration by Länder authorities is the fiscal administration: Austria's tax offices are managed by the federal level.

Legislative and administrative matters not explicitly mentioned in the Constitution remain at the Länder level. Jurisdiction is confined to the federal level.

The 2.359 Austrian municipalities (Gemeinden) are the third level of government, are autonomous and have the right to self-government (supervised by the Länder, e.g. local budgets). The Austrian municipalities have associated voluntarily in two institutions to represent them: the Österreichische Städtebund represents larger cities, while the Österreichische Gemeindebund represents smaller ones, esp. rural communities.

Based on this political/administrative structure the Austrian NUTS classification is as follows:

- NUTS 0 = Austria
- 3 NUTS 1 units = western, eastern and southern Austria (all including several Länder)
- 9 NUTS 2 units = equal to the 9 Länder (Vorarlberg, Tyrol, Salzburg, Upper Austria, Lower Austria, Vienna, Styria, Carinthia and Burgenland)
- 35 NUTS 3 units = in 26 cases consisting from one or several political districts (e.g. Mühlviertel, Waldviertel, Weinviertel on the border to Czech Republic), for 8 cases due to objective reasons the local court districts were used for the definition; Vienna was not split and is therefore a region on NUTS 2 and NUTS 3 level

The classification of NUTS 2 units corresponds to the administrative and political classification of the Länder. This is of particular importance in view of the national implementation system for management of EU Structural Funds in Austria described below.

3. STRUCTURAL FUNDS PROGRAMMES IN AUSTRIA

On the European level the Structural Funds is of great importance, even if they can only be applied in connection with national subsidies. Their application is based on commonly accepted, several-year-long, national or regional target (development) programmes, which contain exact development aims, measures as well as several-year-long financial plans.

According to Article 1 of General Regulation on the Structural Funds there are three main objectives for the period 2000-2006, for which the Structural Funds can be applied.

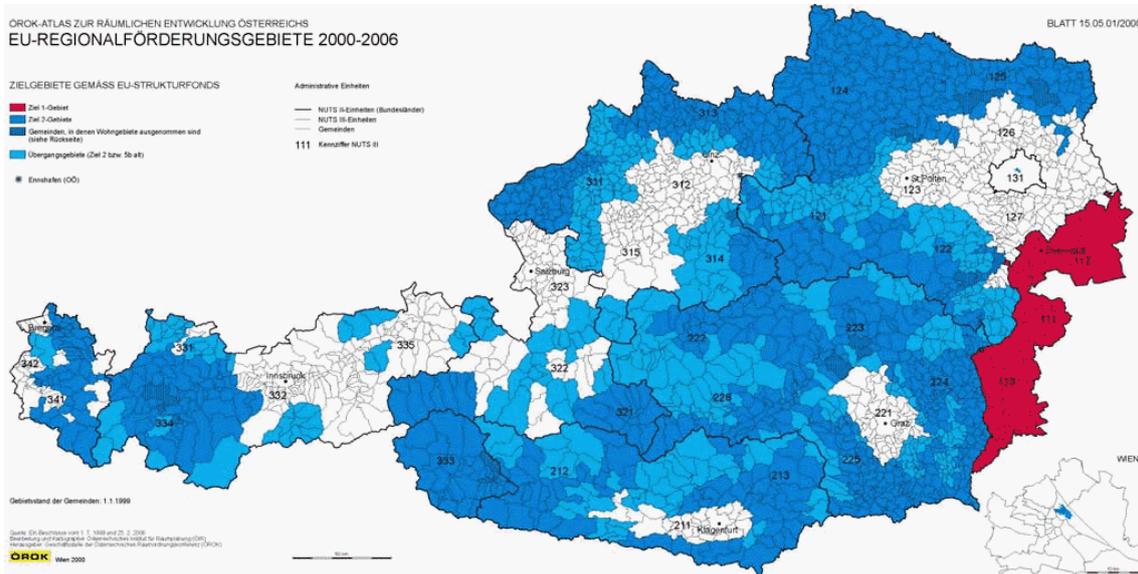
- Objective 1 promotes the development and structural adjustment of regions whose development is lagging behind, i.e. whose average per capita GDP is below 75% of the European Union average. Almost 20% of the Union's total population should benefit from the measures taken under this Objective; (including ESF, ERDF and EAGGF)
- Objective 2 contributes to the economic and social conversion of regions in structural difficulties other than those eligible for the new Objective 1. Overall it covers areas undergoing economic change, declining rural areas, depressed areas dependent on fisheries and urban areas in difficulty. No more than 18% of the Union's population is covered by this Objective; (including partly ESF and ERDF – Lower Austria or only ERDF – Tyrol, Vorarlberg¹)
- Objective 3 gathers together all the measures for human resource development outside the regions eligible for Objective 1. It is the reference framework for all the measures taken under the new Title on employment in the Treaty of Amsterdam and under the European Employment Strategy. Objective 3 focuses on the improvement and modernization of training, education and employment policies and systems. Objective 3 is designed “horizontal”, which means that the whole population of a member state can take part within an Objective 3 programme. Except for Objective 1 regions: here the measures from the (national) Objective 3 are offered within the integrated Objective 1 Programme. (including only ESF)

Within Austria all of them are implemented in the on-going Structural Funds period. Whereas Objective 1 is only implemented in the region (Land) of Burgenland, Objective 2 covers large parts of Austria (see map below). The Objective 3 programme has no regional focus and is implemented by the Federal level (Ministry for Economy and Labour as Managing Authority).

¹ Due to low share of ESF money it was decided not to set up a specific implementation system for the ESF

Map 1

Objective 1 and 2 programmes 2000-2006 in Austria (including the phasing-out areas for Objective 2)



Source: www.orok.gv.at

In addition the Structural Funds for the period 2000-2006 foresee so called Community Initiative programmes:

- INTERREG, which aims to encourage cross-border, trans-national and inter-regional cooperation;
- LEADER+, which promotes rural development through the initiatives of local action groups;
- EQUAL, which provides for the development of new ways of combating all forms of discrimination and inequality as regards access to the labour market;
- URBAN, which stimulates the economic and social renewal of towns, cities and suburbs in crisis.

3.1 Objective 1 in Austria

In Austria the whole territory of Burgenland (3,4% of the Austrian population) falls under Objective 1, which is why it is eligible for EU subsidies of 271 million EUR (at 1999 prices) in the framework of this measure for the period 2000-2006.

Burgenland has 270.880 inhabitants, that is, the 3,3 per cent of the Austrian population. The overall unemployment rate is below the Austrian average, since one third of the labour force work outside of the region. The share of agriculture in the employment on the whole is relatively high.

The regional differences in Burgenland are considerable. The more prosperous northern part of Burgenland is located near Vienna and lies centrally between the economic core zones of Austria, Hungary and Slovakia. In contrast, the middle and southern parts of Burgenland have fewer opportunities for economic development.

The most important aim of the Objective 1 programme is to reduce and eventually eliminate the economic underdevelopment. For this purpose a total amount of 271 million EUR are available in EU funds for the program-planning period 2000-2006. For the program three basic aims were set:

1. Development of Burgenland into a Central European region
2. Preparation for the enlargement of the European Union
3. Elimination of regional differences

Based on this the program mainly targeted the increase of the region's economic potential and the improvement of the competitiveness of companies. To achieve these, innovation and technology transfer as well as establishment of cooperation networks among companies are of great importance.

The program contains the following priorities:

- Priority 1: Trade and industry
- Priority 2: Research, technology and innovation
- Priority 3: Tourism and culture
- Priority 4: Agriculture and forestry, nature protection
- Priority 5: Human resources
- Priority 6: Technical assistance and evaluation

These Priorities are then broken down into measures in the Programme Complement.

Table 1

Breakdown of funds according to Priorities (in mn. EUR, at 1999 prices)

Priorities	Total costs	Public expenditure		Private investments
		EU	National	
1. Trade and industry	340,88	88,34	29,46	223,08
2. Research, technology and innovation	72,67	29,43	9,81	33,43
3. Tourism and culture	197,43	50,87	16,96	129,59
4. Agriculture and forestry, nature protection	158,79	41,29	13,77	103,73
5. Human resources	86,56	55,39	26,68	4,49
6. Technical assistance and evaluation	7,56	5,68	1,86	0
Total expenditure	863,89	271,00	98,54	494,32

61,14% of EU subsidies stem from the European Regional Development Fund, 20,30% from the European Social Fund, 15,25% from the guidance section of the European Agricultural Guidance and Guarantee Fund and 0,30% from the Financial Instrument for Fisheries Guidance.

Of great importance for Czech Republic are the funds deriving from Objective 1 programmes. Except for the region of Prague, the whole territory of Czech Republic is eligible for Objective 1 programmes in the current programming period (2004-2006) and will still be eligible for 2007-2013. Therefore this report will in particular analyse the co-existence of national and EU funding schemes in the region (Land) of Burgenland, which is the only region eligible for Objective 1 within Austria (see chapter 6).

3.2 Objective 2 in Austria

Objective 2 measures affect industrial, rural and urban areas in all Austrian regions except for Burgenland, which entirely falls under Objective 1. The European Commission assessed that in Austria the maximum number of inhabitants eligible for Objective 2 are 1,995 million, which is approximately 25 per cent of the Austrian population. Further 1,091 million inhabitants live in areas, which fell under the former Objectives 2 and 5b until 1999, but which do not meet any more the new criteria to be eligible for EU subsidies. These areas receive further EU subsidies in the framework of the so-called “phasing-out” measures. For Objective 2 and “phasing out” the EU made available funds at an amount of 680 million EUR to Austria (578 mn. EUR for Objective 2 regions and 102 mn. EUR for phasing-out).

In addition to the Structural Funds around 400-420 mn. EUR will be provided from national public funds. Overall a considerable amount of around 3 bn. EUR is available for Objective 2 regions in Austria for the current programming period.

The Managing Authorities for the Objective 2 program are the respective regional governments (except for Karinthia and Vienna). They are responsible for the implementation of the overall program as well as for the coordination of the organizations taking part in the program execution. The implementation on measure and project level is the competence of the Intermediate Bodies assigned for specific measures in the program. The monitoring of the programme is conducted by the monitoring bodies, the common secretariat of which is hosted by the Austrian Conference on Regional Planning (Österreichischen Raumordnungskonferenz /ÖROK/).

The Objective 2 programs vary in contents and size depending on the regions. In Lower Austrian Objective 2 regions (including phasing out) overall 794.800 inhabitants are living. For the measures within the programme ERDF means of 178 mn. EUR are provided, in addition 153 mn. EUR of national public means are allocated for co-financing. Expected private contribution amounts to 546 mn. EUR. This means the Lower Austrian Objective 2 programme is one of the largest among all Austrian programmes.

In Salzburg the Objective 2 programme area only covers Lungau and Oberpinzgau – overall 93.400 inhabitants. For Salzburg the regional programme for innovation oriented regional policy in rural areas was adopted to the SPD Objective 2 for 2000 to 2006 for Salzburg. The programme includes public funds (EU and national) of total 25,3 mn. EUR. In addition this rather small programme aims to attract considerable private funds (around 62 mn. EUR). In contrary to the Lower Austrian Objective 2 programme the envisaged private contribution is cornerstone of the programme design.

Table below shows how different these programs can be in two Austrian regions (Lower Austria and Salzburg).

Table 2

Comparison of Objective 2 programmes in Lower Austria and Salzburg

(in mn. EUR, prices of 2000)

Priorities	Lower Austria		Salzburg	
	Public contribution (EU and national)	Private contribution	Public contribution (EU and national)	Private contribution
1. mobilizing endogenous potential for regional development, Infrastructure of enterprises and pilot projects	158	71	6	7
2. development of trade/industry, innovation/technology	127	372	9	26
3. development of tourism and leisure industry	40	103	9	28
4. technical assistance to support programme implementation	4	–	0,5	–
Overall	329	546	24,5	61
<i>for "Phasing Out"</i>	<i>53</i>	<i>86</i>	<i>6</i>	<i>19</i>

For both programmes the EU means are provided by 100% through ERDF.

Both programmes include similar thematic priorities but with substantially differing financing framework in the background. Whereas in Lower Austria the regional development priority includes considerable public contribution, in Salzburg the expected private contribution is in relation to public money higher.

Overall for Objective 2 programmes the expected private contribution is two to three times higher than the public contribution from national and EU means. Although the ratio of private and public contribution differs among them as well. In Lower Austria the ratio is for instance 62% private contribution to 38% public contribution, in Salzburg the private contribution is 71% and public contribution below one third of the programme (29%). In comparison to the Objective 1 programme of Burgenland (380 mn. EUR public means versus 500 mn. EUR private means) the expected leverage of private funding is for Objective 2 programmes much higher (57% private contribution versus 43% public input). So Objective 2 programmes overall aim at higher involvement of the private sector than the Objective 1 programme.

3.3 Objective 3 in Austria

For the period 2000-2006 an amount of 528 million EUR (at 1999 prices) is available for Austria from ESF in the framework of Objective 3.

It is the Federal Ministry of Economy and Labour, which is responsible for the planning and administration of interventions of the European Social Fund and which is the Managing Authority and the Paying Agency for the present Objective 3. The main Beneficiaries are the Federal Ministry of Economy and Labour, the Austrian Labour Market Service, the federal offices for social and handicapped affairs and the Federal Ministry of Education, Science and Art.

The financial support from ESF flows through the Federal Ministry of Finance to the Federal Ministry of Economy and Labour. The latter transfers the funds to the Beneficiaries. It also makes sure that the funds not applied in correspondence to the program are reclaimed and reallocated. The coordination of financial control is incumbent on the internal audit of the Federal Ministry of Economy and Labour.

The Federal Ministry of Economy and Labour as the Managing Authority has the responsibility among others for gathering reliable financial and statistical data on the program implementation, monitoring and evaluation, for transmitting these data to the European Commission, for carrying out and adapting the programme complement, for checking if the operations within the framework of the program are in accordance with the regulations, for conducting the mid-term evaluation, for preparing annual reports on execution and for examining the most important evaluation results together with the European Commission.

The program implementation is controlled by a monitoring committee, which has the following tasks:

- To confirm or adapt the program complement including the material and financial indicators for the program monitoring,
- To examine and approve the selection criteria of the operations financed within the framework of the measure,
- To scrutinize the progress and results of implementation,
- To examine and approve the proposals for changes of the program contents as well as the annual progress reports and the final reports,
- To deal with the issues of gender mainstreaming and equal chances for men and women.

Following table provides an overview of the ESF allocation for the three objectives applicable in Austria.

European Social Fund in Austria 2002-2006	
Objective-1:	€ 57.000.000
Objective-2:	€ 28.000.000
Objective-3:	€ 572.000.000
Equal	€ 104.000.000

Source: BMWA

The focus of ESF is obviously on Objective 3, in addition a considerable amount was allocated within the community initiative programme EQUAL.

4. NATIONAL FUNDING SYSTEM IN AUSTRIA

Besides the EU Structural Funds programmes the socio-economic development on regional level in Austria is based on a national funding system, which was constantly adapted to the needs of EU regulations over the past years since EU accession of Austria.

In Austria the national funding system is closely related to the EU programmes and some of the national programmes are used for co-financing of individual measures within the Structural Funds programmes. In the case of the Objective 1 programme of Burgenland in measure 1.1 “Strengthening Economic Development” overall 12 different national and regional grant schemes provide potential sources for co-financing. These sources of co-financing are administered by specific funding institutions with longstanding experience (see also chapter 6).

4.1 Federal funding institutions (= members of www.foerderportal.at)

The various existing funding programmes and regulations are administered by several funding institutions on national and regional level. Table below presents an overview on the most important funding institutions on federal level with a short description of their specific tasks in relation to the programmes they run.

Table 3

Overview on national funding institutions in Austria

Services provided	Funding institution	Contact details
Business start-up, Support of investment, funding of restructuring activities, technology funding for enterprises	Austria Wirtschaftsservice (aws), ERP-Fonds (erp) former Bürges, Innovationsagentur, FGG	www.awsg.at www.erp-fonds.at
Research and Development (R&D) for enterprises	Österreichische Forschungsförderungsgesellschaft mbH (ffg)	www.ffg.at
Support of co-operations and business start-up for enterprises in relation with universities, research institutes and collages, technology centres and business incubators	Bereich 1: Forschungsförderung Wirtschaft Bereich 2: Kooperation Wissenschaft / Wirtschaft	
Environmental and economic funding for the public sector (in particular municipalities)	Kommunalkredit Austria AG	www.kommunalkredit.at
Support of tourism for tourism enterprises	Österreichische Hotel- und Tourismusbank Ges.m.b.H. (öht)	www.oeht.at
Labour market funding for enterprises	Bundesministerium für Wirtschaft und Arbeit (bmwa)	www.bmwa.gv.at

For the ERDF part of the Structural Funds of particular importance is the ERP Fund, which is a government-run, customer-driven service organization in Austria which acts as professional partner for the full range of issues relating to investment assistance programmes for enterprises. The ERP Fund was created as part of the Marshall Plan after World War II. Fifteen years later – in 1962 – Austria took over the management of the Marshall Plan assistance from the American government. The Austrian ERP Fund was established with the passing of the ERP Fund Act, which authorised the disbursement of funds from assets that at the time stood around EUR 815 mn.

In 2002 the ERP Fund was organisationally integrated into the Austria Wirtschaftsservice GmbH. (AWS), a bank specialised in Austria business promotion. The AWS is 100% owned by the Republic of Austria (Ministry of Finance and the Ministry of Economy and Labour). As public bank it is client and acts as contractor of other public authorities at the same time.

Most important clients are the Ministry of Finance, the Ministry of Economy and Labour, the Ministry for Transport, Innovation and Technology as well as the Ministry of Education, Science and Culture (see also chapter 5).

Apart from the five funding agencies mentioned above, there are two institutions on federal level, which provide enterprise related services as well, but with a focus on export funding.

Export-funding

Services provided	Funding institution	Contact details
Austria's central provider of financial services and information to exporters and capital markets. The specialized institution was established in 1946 and is owned by Austrian commercial banks. OeKB's wide range of services is available to companies, financial institutions and Austrian government organizations.	Österreichische Kontrollbank Aktiengesellschaft (OeKB)	www.oekb.co.at
Österreichischer Exportfonds GmbH supports since it was established in 1950 Austrian enterprises through financing their exports. Support is provided to Austrian SMEs for export trades or projects for the extension of the market (second activities only outside EU).	Österreichischer Exportfonds GmbH	www.exportfonds.at

Source: www.foerderportal.at

Each of these core stakeholders within the federal funding system has a specific thematic focus and provides various individual funding opportunities within their competence.

- a) Austria Wirtschaftsservice (aws), ERP-Fonds (erp) provide funding in following areas:
- AWS-Industry & Internationalisation (financing guarantees): Securing of financial and project related risks for investments in Austria or abroad by means of individual designable, enterprise related guarantees
 - AWS-Capitalmarket & Owncapital (financing guarantees): Guarantees for the funding of venture funds and the improvement of the financing structure of SMEs.
 - AWS-SME & business start-ups (grants and guarantees): Grants and guarantees for Austrian SMEs.
 - AWS-technology & innovation (grants and services): Support in the pre-funding phase through implementation of impulse programmes with a focus on Life Science, support of high-tech business start-ups through seed financing as well as researchers, universities and research institutes in the area of patents through Tecma and adoption of risk in the financing of environmental and energy projects
 - ERP-growth financing (loans and grants): In the framework of ERP-growth financing Austrian enterprises in the area of industry, crafts and production oriented services are supported with cheap credits and cash allowances. The minimum project size is as a rule EUR 300.000.-
 - AWS-competitions (grants): Youth innovative, state prize for innovation
- b) Österreichische Forschungsförderungsgesellschaft mbH (ffg) in area 1: Promotion of research in economy:
- The area: Promotion of research in economy of the FFG supports innovative research and development projects in all technological areas which could be economically utilised
 - Feasibility Studies for SMEs: this aid is exclusively related to the costs of external feasibility studies ordered by SMEs
 - EU – Project development funding: Support for the elaboration of an application for the EU-Research programme (6.Framework programme)
- In area 2: cooperation research, science and economy (implemented by the Technologie Impulse GmbH):
- Academia Business Spin-off founders programme AplusB: AplusB aims to increase the amount of innovative and technology oriented founders of new businesses from the academic sector in a sustainable way
 - the Impulse programme Fhplus
 - Competence centres programme Kplus: excellence, co-operation of several partners, size and limited duration are important characteristics of a K plus centre

- ProtecNETplus: programme to support projects which aim to improve the innovative level of enterprises
 - REGplus – a module of the regional impulse promotion: with REG plus innovative contents of regional impulse centres should be supported
- c) Kommunalkredit Austria AG runs funding programmes in following areas:
- Management of the federal environmental funding: according to the law on environmental funding in the areas of brown fields regeneration and stabilization, environmental funding in Austria and abroad as well as domestic water services (contractor: Federal Ministry for Agriculture, Environment and Water Management); in addition management of the Fund for Environment and Water Management
 - Foreign aid and co-operation with eastern countries: Support of bilateral and EU-co-financed projects of NGOs as well as East projects in the areas of energy, water and environment, education, labour and social affairs as well as the public sector in south eastern Europe and central Asia (contractor: Federal Ministry of Foreign Affairs)
 - Economy-Impulse programme Upper Austria: the economic-impulse programme Upper Austria focuses on necessary on-going modernisation and diversification of the upper Austrian economy through investments for foundation and attraction of enterprises, resettlement of enterprises and extension of business sites.
- d) Österreichische Hotel- und Tourismusbank Ges.m.b.H. (ÖHT) provides following services:
- ERP credits which aim to improve the competitiveness and extend the tourism related infrastructure (ERP-regulation 2002)
 - TOP-Tourism-funding programme 2001 – 2006: TOP A to E provide supports in various fields (e.g. investive measures, coaching and training activities, co-operation, measures for restructuring, foundation and succession of enterprises)
 - Export-support-credit (for tourism enterprises): refinancing of export subsidies by the Österreichische Kontrollbank for tourism enterprises
 - Export-promotion-schemes (for travel agencies): refinancing of export subsidies by the Österreichische Kontrollbank for travel agencies
 - Guarantees for tourism enterprises: improvement of the competitiveness and security of employment as well as better access to risk and venture capital, support of innovative projects which aim to prolong the duration of the annual seasons
 - Guarantees for congresses or similar events with the aim to improve the competitiveness of the Austrian congress economy

- e) Federal Ministry of Economy and Labour (BMWA) (AMF)
- Promotion of the labour market according § 27a AMFG: promotion of SMEs for labour market related reasons according § 27a Arbeitsmarktförderungsgesetz – whole country
 - Promotion of the labour market according § 35a AMFG: promotion of enterprises in problematic regions – regional development areas due to labour market related reasons according to § 35a Arbeitsmarktförderungsgesetz

The federal funding agencies are of major importance in ensuring the coherence and co-ordination of national and EU Structural Funds. They are at the same time funding agency for their national programmes and act as so called Intermediate Bodies for specific measures within the EU Structural Funds programmes. This means they are responsible for checking of coherence in terms of the national funding requirements as defined within their own funding regulations as well as of checking compliance with the programming framework (programme objectives, eligibility criteria, eligibility of costs) of EU Structural Funds programmes. As one-stop-shop for grant schemes they set up and administrate subsidy contracts, which include national and EU part of the financing as well as the private obligations (case of Burgenland see chapter 6).

4.2 Funding institutions on the regional level (Länder)

Besides the federal funding institutions there are so called business agencies at Länder level, which provide coordination of business and enterprise related grants for the individual Land concerned. In relation to the Structural Funds programmes these business agencies are of particular importance as well. Like the federal funding agencies mentioned before, they also act as so called intermediary bodies in the implementation of Structural Funds programmes and ensure matchmaking between or avoiding of overlapping of national funding system and EU funds.

The table below provides an overview of the most important funding institutions on regional level in Austria.

Table 4

Overview on regional funding institutions in the Austrian Länder

Land	Funding institution	Contact details
Burgenland	Wirtschaftsservice Burgenland Aktiengesellschaft (WiBAG)	www.wibag.at
Kärnten	Kärntner Wirtschaftsförderungsfonds (KWF)	www.kwf.at
	Entwicklungsagentur Kärnten GmbH	www.entwicklungsagentur.at
	Kärntner Betriebsansiedlungs- und Beteiligungs- Ges.m.b.H.	www.babeg.at
Niederösterreich	NÖ Wirtschaftsförderungs- und Strukturverbesserungsfonds	www.noel.gv.at
	NÖKBG und NÖBEG	www.noebeg-noekbg.at
	ecoplus	www.ecoplus.at
Oberösterreich	Oberösterreichische Technologie- und Marketingges.m.b.H. (TMG)	www.tmg.at
	Amt der Oberösterreichischen Landesregierung	www.ooe.gv.at
Salzburg	Amt der Salzburger Landesregierung, Wirtschafts- und Technologieförderung	www.salzburg.gv.at
	Salzburg Agentur	www.salzburgagentur.at
	Innovationsservice	www.innovationsservice.at
Steiermark	Steirische Wirtschaftsförderung Ges.m.b.H. (SFG)	www.sfg.co.at
Tirol	Amt der Tiroler Landesregierung, Abteilung Wirtschaftsförderung	www.tirol.gv.at
	Tiroler Zukunftsstiftung	www.zukunftsstiftung.at
Vorarlberg	Vorarlberger Landesregierung	www.vorarlberg.at
Wien	Wiener Wirtschaftsförderungsfonds (WWFF)	www.wwff.gv.at

Source: www.foerderportal.at

These institutions provide a broad variety of funding programmes and activities at regional level. As this report aims to draw conclusions for the Czech situation, the specific case of Burgenland as the only Objective 1 region in Austria should be examined further later on (see chapter 6).

Besides these business agencies of course individual Departments of the regional Governments provide sources of financing as well. In relation to EU Structural Funds programmes, these possible sources of co-financing (e.g. from the Department of Transport, the Department of Environment or the Department of Economy) are co-ordinated by the regional business agencies within one subsidy contract including all national sources of co-financing. In terms of financial control the individual Departments could agree to either share responsibilities or to delegate its tasks to the “leading” Department, which provides the core part of co-financing.

4.3 Regional managements and EUREGIOs in Austria

Apart from these “administrative” bodies responsible for the establishment, administration and operative implementation of national and EU funding schemes, a core “instrument” of Austrian regional development and bottom-up project development on local level are the so-called regional managements.

On the local level (municipalities) a strong pressure to cooperate has been present since the EU accession, which has particularly manifested itself in the common participation of communities in EU subsidy programs. This was even more evident as EU funded strategic programmes needed adequate institutional background for **bottom-up project development activities** in sub-regions lagging behind.

In 1983 ÖAR (Austrian Consortium for sustainable Regional Development) was founded to support regional development on the level of municipalities. This was converted into a regional consultant company in the 90's. Besides, freelancer consultants were supported so that they can promote bottom-up sustainable regional development. In 1990 30 consultants worked at institutions supporting labour market in 12 locations.

Due to EU alignment around fifteen years ago the priorities of regional development in Austria changed substantially from top down to the bottom up principle. From the 90's up to now the focus of regional development was on:

- Strengthening the regional identity
- Motivation of population for cooperation and self-initiatives
- Being used to traditional forms of cooperation

- High independence of regions
- Intensive participation in formulating development concepts
- Reinforcement by regional innovations in all fields
- Increased regional export
- Development of new forms of cooperation between companies and regions
- Reinforcement by regional business cycles
- New orientation of energy policy

In the middle of 90's local regional cooperation was initiated through the setting-up of development organizations ranking above parties and local authorities. The two different types of regional support institutions (regional and federal) were merged. Between 1995 and 1999 25 regional management locations were founded with an annual support amount of 3,8 million EUR.

Furthermore intermediate regional consultant institutions were founded to help implement EU programs. Such institutions exist in the fields of agriculture (rural development, LEADER action groups) and tourism, too. In addition, there are also private regional consultancies.

With Austria's accession to the EU in 1995, so-called regional management structures were reorganized by the Federal Chancellery together with the Länder in order to support the local level in implementing the EU Structural Funds, in particular the European Regional Development Fund programmes. The responsibility and financing of regional managements was gradually handed over to the Länder, which are now responsible for them. The regional managements vary in their structures and tasks. However, they have in common the entrepreneurial commitment to the objectives:

- To develop and implement regional projects and programs on municipal level
- Information work with respect to the EU Structural Funds and EU action programs in particular
- To make EU funds available to the municipalities, to network local actors and organizations in the sub-regions and to contribute to development

In contrary to the regional funding institutions described above the regional managements are not directly responsible for operative implementation of funding programmes. The regional managements are not engaged in setting up of funding schemes, legal contracting of individual projects or financial control and payment of funds. These technical administrative tasks are rather related to the regional funding institutions (business agencies), which act on Länder level.

The regional managements act on a sub-regional level within cooperation of municipalities and are in charge of bottom-up project generation processes. They provide a missing link between local stakeholders (needs) and funding opportunities in place at Länder level.

Besides the regional managements, the idea of institutionalisation of the cross-border cooperation in the form of EUREGIOs was born as a part of the attempt of the European Union to abolish barriers in the border regions. The objective of the EUREGIOs is to improve the cross-border collaboration in many fields (e.g.: tourism, labour market, economy, transport) so that these regions can catch up with the development backwardness stemming from their peripheral locations on the national level.

With Austria joining the EU in 1995, this type of cross-border cooperation was initiated in Austria, too. Since then several EUREGIOs have come to existence in the border regions, which are significant partners in the implementation of the EU Community Initiatives INTERREG and up to 2004 also PHARE-CBC. For the future it would be reasonable to create development concepts so that a stronger connection could be established between the spatial planning and EU regional policy. The cooperation with the neighbouring countries and regions has become more important as a supplement to the national level and as a link to the European level. The scale of measures varies from the exact INTERREG projects to the measures in the framework of international agreements (e.g.: Alpine convention), which partially provide a clear counterpoint to the competition-oriented approach.

5. CO-EXISTENCE OF NATIONAL AND EU DEVELOPMENT PROGRAMMES

EU accession led to substantial restrictions to the national funding system. As a major focus of regional development policy within Austria was and still is on strengthening the competitiveness of the regional economy (see also chapter 3), this in particular was true for funding of enterprises. A core part of the means available within national and EU development programmes was and still is dedicated to support initial investment or operation costs of companies to reduce their current expenditure. Therefore national grant schemes had to be amended and revised in line with the EU requirements - in particular in terms of the provisions of State aid legislation.

As a result of the first Structural Funds period (1995-1999) the individual funding schemes and programmes in place were analysed and if necessary revised in line with EU State aid provisions. In addition this process helped to restructure the schemes as well as reorganize the institutional background in place so that they either complemented each other or addressed clearly distinct activities or “clients”.

In the current Structural Funds programming period (2000 to 2006) therefore the national and the EU funding system complement to each other. The implementation system of EU Structural Funds programmes is closely related to the national funding institutions in place. Nevertheless the national funding system had to be further developed according to EU requirements as well.

5.1 EU accession and restructuring of the national funding system

Due to EU accession of Austria, more intense co-operation and co-ordination among the funding institutions as well as programme implementing authorities in charge of Structural Funds programmes was needed. To avoid overlapping as well as ensure use of synergies between national and EU development programmes a cross-programme platform for discussion was established under the guidance of the Austrian Conference on Regional Planning (ÖROK).

Within the subsequent programming process of the EU Operational Programmes many funding institutions on federal and regional level participated. In addition of course the responsible public authorities (Governmental Offices or Departments from the regions – Länder) were present. Besides the multi annual EU Structural Funds programming framework another aim of these platforms was to discuss the new restrictions on funding of enterprises due to EU accession (EU State aid rules and notification requirements).

In the phases of the basic decision and programming the broad involvement of various stakeholders from federal and regional level was useful. Nevertheless when it came to programme implementation the number of involved institutions should rather have been limited to only a few of them. In order to ensure quick programme implementation and minimise administrative costs the stakeholders and funding possibilities should be streamlined.

This was not the case from the very beginning of EU programme implementation in Austria. The various funding institutions on federal and regional level as well as individual departments within the federal Ministries as well as regional governmental offices acted in the programme administration, selection of projects and approval of funds in parallel.

As the allocated means from Structural Funds are forwarded through the Ministry of Finance to the relevant federal and regional departments and from these to their funding agencies, the administration was rather complex and lead to lengthy financial transactions.

The experience of older EU member states with EU regional development programmes showed, that they decided to restructure the institutional background (competences, reorganization of agencies in place) and simplified the content of national funding schemes and instruments².

² See also European Audit Court 1994, 115; on the operational efficiency of the number of responsible authorities and funding schemes as well as the duration of financial transactions within EU funding programmes, as well as community funding concepts 1989-1993 and the programming documents 1994-1999.

In order to simplify this system in Austria a reduction of federal and regional funding instruments was proposed for the current Structural Funds period (2000-2006). In the area of R&D the previous three funding institutions on federal level (ERP, FFF and ITF) that were in charge of related funding schemes, were reorganized to one single agency the FFG.

In addition the investment support for SME, which was in the past offered by BÜRGES, FGG, Innovationsagentur and ERP-Fonds, was reorganized under the roof of one agency, the AWS (see also chapter 4).

The BÜRGES Förderungsbank was founded already in 1954 as special bank for promotion of SME. In 1969 the foundation of the Finanzierungsgarantie Gesellschaft mbH followed, as the federal financing institute to secure economic risks in project financing. The Innovationsagentur, founded in 1984, was responsible for the support of economic prospective ideas in the area of technology, research and development. In 2002 according to the law on the foundation of the AWS, these funding institutions then were organizationally interlinked with the ERP-Fonds (established since 1962) under the roof of the AWS.

The AWS is in parallel an important client of Hotel- und Tourismusbank and implements grants that are related to the labour market support. As a consequence all enterprise related support programmes and funding schemes on federal level are nowadays accessible through this One-Stop-Shop. The AWS provides support to enterprises from the business foundation to the initial public offering at the stock exchange.

In parallel to this dramatic institutional reorganisation, a reduction and simplification of national funding schemes was developed. The enterprise related national funding instruments had to be adjusted in the light of EU state aid legislation.

5.2 EU State aid rules and notification requirement

In its Guidelines for the Structural Fund programmes, the Commission encourages Member States and regions to prioritise action to strengthen the competitiveness of the regional economy. Measures providing State aid to individual companies obviously play an important part in this respect. However, such measures also distort competition as they discriminate between companies that receive assistance and others that do not. As such, they could present a threat to the operation of the internal market.

The authors of the EC Treaty had recognised this risk. Still, they did not impose a total ban on State aid. Instead, they set up a system, which while it is centred on the principle that State aid is incompatible with the common market, nevertheless accepts that the granting of such aid can be justified in exceptional circumstances.

Therefore any plan to grant State aid has to be notified to the Commission before putting such plan into effect. Also Structural Funds resources should be used in compliance with EU State aid rules. Thresholds of funding intensity specified in the relevant legislation always refer to the total of all public assistance considered (EU and national means). The Commission has the power to decide whether the proposed aid measure qualifies for exemption or whether the State concerned shall abolish or alter such aid.

According to article 87 of the treaty of Amsterdam “any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between Member States, be incompatible with the common market. ”

This ban of aid, which distorts competition, applies for funding from federal and regional (Länder) level, but in addition for economic support measures of municipalities and public equivalent bodies (public institutions under private law). Not only financial grants to newly established or expanding enterprises, but also tax exemptions or reductions, in particular the provision of business sites below market prizes as well as non-invoicing of infrastructure fees for water and waste water treatment, roads or other infrastructure are monitored strictly.

But the EU-competition legislation foresees also exemptions from this general ban of state aid, of which for the regional economic support as well as the Structural Funds programmes in Austria the exemptions according to Article 87 (3a and c) of the EC-treaty are the most important. These foresee that

- (Art. 87.3.a) „aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment;“ and
- (Art. 87.3.c) „aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest“

is compatible with the common market. For providing grants either the respective national regulation has to be approved or an individual approval of the project is necessary (notification requirement). This notification requirement also includes Structural Funds resources, which should be used in compliance with EU State aid rules.

The notification of State aid is based on a system of ex ante authorisation. Under this system, Member States are required to inform (“ex ante notification”) the Commission of any plan to grant or alter State aid and they are not allowed to put such aid into effect before it has been authorised by the Commission (“Standstill-principle”). Under the Treaty, the Commission is given the competence to determine whether or not the notified aid measure constitutes State aid in the sense of Article 87(1) EC, and if it does, whether or not it qualifies for exemption

under Article 87(2) or (3) EC. Member States cannot grant any State aid unless it has been notified and authorised by the Commission. Any aid, which is granted in absence of Commission approval, is automatically classified as “unlawful aid”. Under the present procedural rules, the Commission is under the obligation to order the recovery from the beneficiaries of any unlawful aid that is found to be incompatible with the common market.

In recent years, the Commission has started a process of modernisation and simplification of State aid procedures. To this end, the Council adopted Regulation (EC) No 994/98 of 7 May 1998, which enables the Commission to adopt so-called “block exemption regulations” for State aid. With these Regulations, the Commission can declare certain categories of State aid compatible with the Treaty if they fulfil certain conditions, thus exempting them from the requirement of prior notification and Commission approval. At present, the Commission has adopted four block exemption regulations. Three of these regulations create exemptions for aid to small and medium-sized enterprises, employment aid and training aid. As a result, Member States are able to grant aid that meets the conditions laid down in these three regulations without the need for giving prior notification to and securing the agreement of the Commission. A fourth regulation codifies the application of the de-minimis rule. That regulation clearly establishes that aid to an enterprise that is below the threshold of EUR100,000.- over a period of three years and that respects certain conditions, does not constitute State aid in the sense of Article 87(1) of the EC Treaty, since it is deemed not to affect trade or distort competition. Such aid does therefore not need to be notified.

Within aid measures that are subject to the notification requirement we can distinguish three main aid categories:

- Regional aid: Article 87(3) a and c both provide a basis for the acceptance of State aid measures aimed at tackling regional problems
- Horizontal rules: Cross-industry or “horizontal” rules set out Commission’s position on particular categories of aid which are aimed at tackling problems which may arise in industry and region
- Sectoral rules: The Commission has also adopted industry-specific or “sectoral” rules defining its approach to State aid in particular industries

Regional grants aim on promoting the development of regions lagging behind and are, despite their influence on the position in the competition, allowed. The guidelines of the EC on regional grants refer not only to grants, which are explicitly notified as regional grants but also enterprise related grants. Regional aid aims to promote development of less-favoured regions mainly by supporting initial investment or in exceptional cases, by providing operating aid.

The regional grants are applicable within a clearly defined area, where grants to a pre-defined intensity are allowed. In the definition of the regions two types of eligible regions have to be distinguished:

- areas according to Article 87 (3a) are regions on NUTS II level with a GDP per inhabitant below 75% of the EU average. The maximum grant is 50% of the net investment (net grant equivalent).
- Areas according to Article 87 (3c) are defined on lower regional level and cover problematic areas, which are selected according to national indicators proposed by the member state. In these areas the maximum grant is 20% of the net investment (net grant equivalent).

In Austria for the definition of regions eligible for State aid according to EU-competition legislation for the period 2000 to 2006, a proposal was elaborated in the framework of the Austrian Conference on Regional Planning (ÖROK) and submitted in amended version on 3. December 1999 to European Commission. The Austrian definition of regions according to Article 87 of the EC treaty was approved by the EC on 30. May 2000 and covers 27,54% of the Austrian inhabitants (for the period 1995-1999: 35,16%).

- Overview on the national regional grant areas
(http://www.oerok.gv.at/EU_Regionalpolitik_in_Oesterreich/eu_koordination/NRF_Uebersicht_Foerderintensitaeten.pdf) on NUTS III-level with the respective maximum funding intensity in net investment equivalent,
- register of municipalities
(http://www.oerok.gv.at/EU_Regionalpolitik_in_Oesterreich/eu_koordination/Liste_NRF_G_2000_2006.pdf)

5.3 Co-ordination within the implementation systems (differentiated and subsumed approach)

Besides the co-ordination in terms of content (funding intensity, focus, eligibility of costs) of schemes and programmes, the responsible institutions needed to co-operate in the implementation process of EU Structural Funds programmes closer than before. In Austria it was decided to establish a specific implementation system on the basis of the experience of other Member States. The basic principle of this implementation system is to use EU funds as “add on” part to national schemes and programmes in place.

Based on the experience all over EU, individual member states implement their EU development programmes in a very specific manner. Depending in particular on the national background and institutional setting (e.g. classification of regions, centralised versus decentralised administrative/political system, funding institutions in place) in the individual member state, the tasks and responsibilities of implementing bodies as well as administrative mechanisms in place (contracting, financial control, monitoring) differs.

Nevertheless management and implementation of EU development programmes mainly follows two basic patterns in various EU member states.

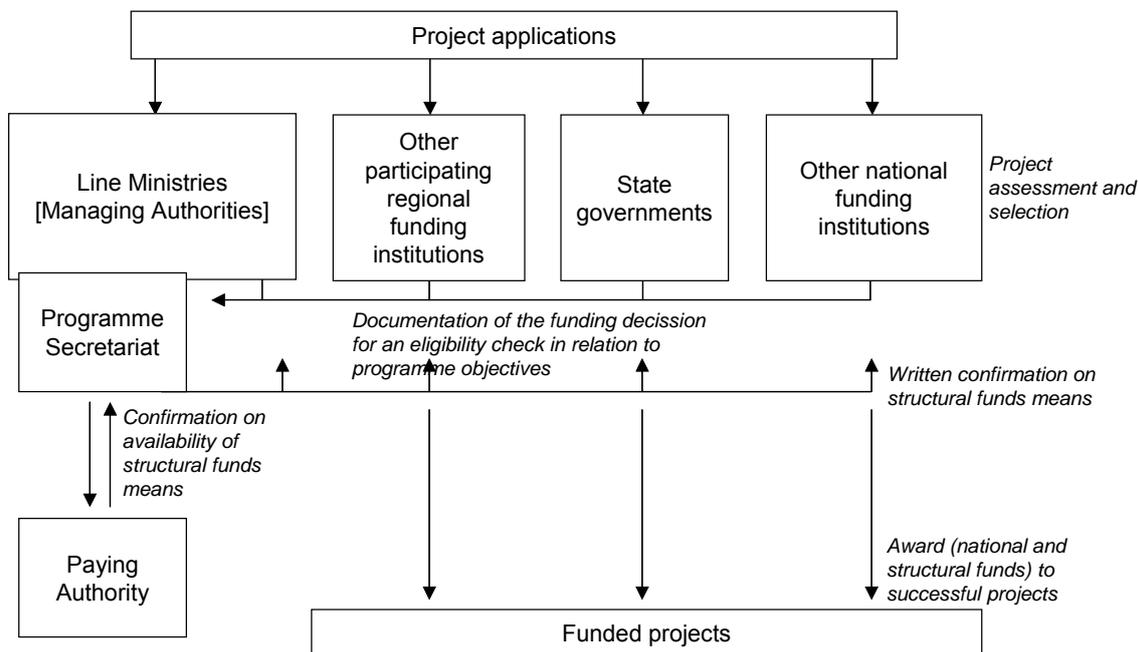
Looking from a birds perspective one could distinct among:

- the holistic approach or so called “subsumed” system and
- the general approach or so called “differentiated” system

In a „subsumed“ system the structural funds means are closely related and linked to the existing policies and administrative structures. The selection of projects is mainly done by the administration and funding institutions, which are in parallel responsible for national and regional funding programmes and in general also apply the same criteria as within national and regional programmes. Within the “subsumed” system the means of Structural Funds are integrated in the national funding system as an “add on” financial source implemented with regard of national and regional funding regulations and the EU requirements (eligibility of costs, principle of territoriality, coherence with programming framework). As a precondition the notification requirements according to State Aid legislation as described in the chapter before has to be fulfilled.

Chart 1

“Subsumed” system of programme implementation

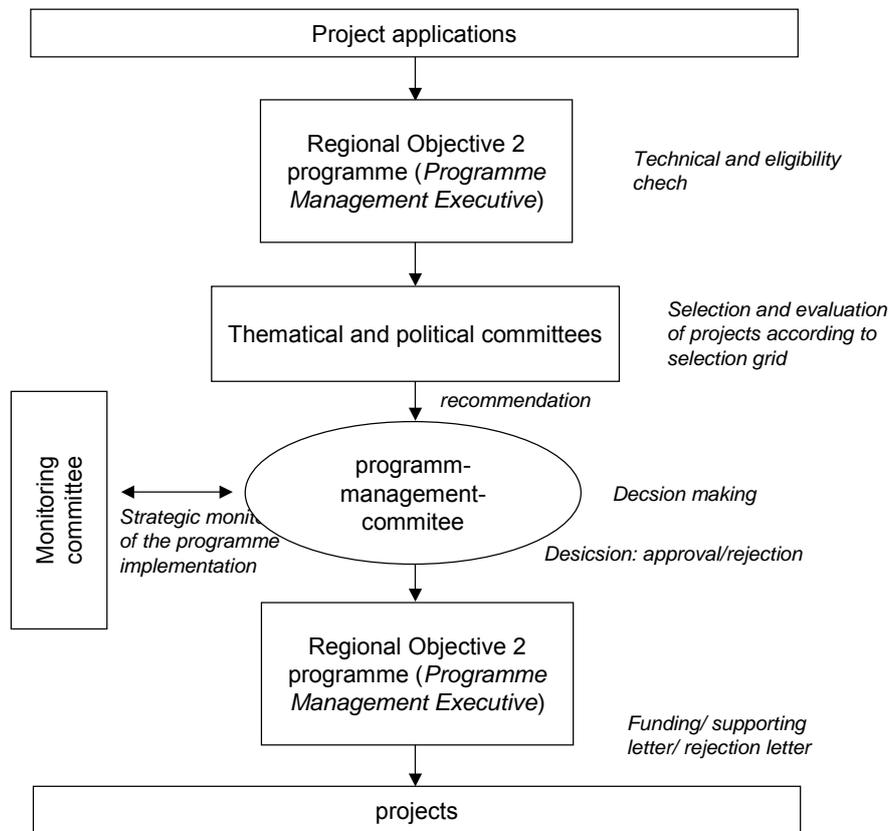


Source: Taylor, S. Bachtler, Rooney (2000) Implementing the New Generation of Programmes: Project Development, Appraisal and Selection, IQ-Net Thematic Paper No. 7.2, Glasgow

In contrary to this the general approach – “differentiated” system. In a “differentiated” system, implementing of Structural Funds is provided within distinct and dedicated channels (e.g. the example of Scotland). The allocation of Structural Funds means is safeguarded by separate organisations and institutions, which were funded particularly for this function. These institutions implement on the basis of the specific Structural Funds criteria the project selection as well as all other aspects of programme management and monitoring. The national co-financing is provided from separate budget line(s) within the federal or regional level. Decision on national contribution is done on the basis of the criteria of the Structural Funds programmes. In Scotland for instance Structural Funds are allocated through a competitive bidding process based on detailed projects applications by partners. The process is a reflection of the “challenge fund” nature of much non-core financial support in the UK. Structural Funds share their competitive style with the bodies, which distribute funds raised by the National Lottery, University Challenge Fund and, in England, the Single Regeneration Budget.

Chart 2

“Differentiated” system of programme implementation



Source: Taylor, S. Bachtler, Rooney (2000) Implementing the New Generation of Programmes: Project Development, Appraisal and Selection, IQ-Net Thematic Paper No. 7.2, Glasgow

The potential effects of this competitive process are:

- The drive to support the highest quality projects must be balanced with the drive to commit available budgets
- Involvement in the funding process is necessarily widened beyond those departments or organisations with access to central government finance
- The search for co-finance becomes a fundamental issue, at times mitigating against strategic direction, coherence with national policy aims, and co-ordination or the involvement of smaller organisations
- Financial absorption becomes a factor of partnership and involvement rather than government commitment

- As public sector co-finance is not assured, private sector co-finance becomes a necessary element of the financial package. At its best, this promotes an increasingly innovative culture of “cocktail” financing, though it carries with it potential challenges to public accountability and tensions between public and private interests.

Both implementation systems have specific advantages and disadvantages. Nevertheless in view of limited national public sources of co-financing of Structural Funds, Austria preferred to rather make use of existing schemes as well as already established institutions with longstanding experience in public funding programmes and schemes. It was preferred not to establish a separate implementation system for EU Structural Funds programmes within competitive bidding process.

Within the programming process the existing federal and regional grant schemes were integrated in the programme architecture of the EU Structural Funds programmes. For each measure within the Operational Programmes specific national funding regulations are used for co-financing of individual projects. The implementation and administration system of the EU programmes is mainly based on the national funding agencies and institutions, which were in place already before EU accession. The EU Structural Funds were fitted into the pre-existing domestic policy rather than there was a separate implementation system established with dedicated instruments with distinct channels for decision-making.

6. CASE STUDY OF BURGENLAND

As for the other Austrian EU Structural Funds programmes, in the case of Burgenland the example of a “subsumed” implementation system was and still is applied for co-ordination of national and EU funds. As described before, the Objective 1 programme in Burgenland was designed on the basis of the existing federal and regional funding programmes and clearly reflects the internal logic of the national system (federal as well as regional schemes) in place.

6.1 Thematic focus of regional funding schemes in Burgenland

Besides the federal level, each region in Austria runs separate funding programmes and set up its own agencies for the implementation of these schemes (see also chapter 4.2). On the regional level in Burgenland one of the core funding institution is the WIBAG which runs the majority of enterprise related funding schemes. WiBAG (www.wibag.at) is a business agency, one hundred per cent owned by the province of Burgenland. As such it gives tremendous impetus to local business and stimulates economic growth. It is the central agency for business grants and also functions as an all-round service provider and economic think-tank for the province.

WIBAG offers federal and regional funding programmes in various fields. Below is information on business grants available through WIBAG in Burgenland:

- Training Grants for companies and top managers dedicated to:
 - a) Self-employed individuals
 - b) Managing directors and top managers who have a long-term, significant influence on the management of an SME in Burgenland in industry or trade
- Young Entrepreneur Follow-up Grants: The purpose of grants awarded under this programme is to promote the formation or takeover of competitive, economically viable small enterprises. Grants are awarded with the goal of saving and investing capital resources in newly established or taken over companies and the promotion of investment in connection with the formation or takeover of a company
- Innovative Business Ideas: Grants will be awarded based on the criteria of growth, degree of innovation, focus on technology, synergies with educational institutes or regional businesses and the creation of permanent jobs for highly qualified staff. The project must have a positive impact on the employment structure in Burgenland and create permanent jobs (trainee positions).

- Business Clusters and Networks: Grants will be awarded based on the criteria of growth, degree of innovation, focus on technology, synergies with educational institutes or regional businesses and the creation of permanent jobs for highly qualified staff. The network or cluster must comprise at least ten companies or institutions; in certain regionally justifiable cases, this minimum size need not be met.
- Region and City Marketing: Objectives of the Grant are
 - Strengthen cooperation between companies
 - Win new customers, keep regular customers
 - Company relocation measures to improve the industry mix
 - Competitive measures
 - Improve the accessibility of town and city centres

Eligible are local and regional sponsoring organizations of businesses whose mission is to carry out marketing for towns and cities.
- Tourism Grants: WIBAG offers various grants in several areas (e.g. Tourism grants in accordance with the 1994 Economic Promotion Act for Burgenland, Accommodation grants, Gastronomy grants, Sports and recreation facility grants, Training grants, Grants for improving the structure of SMEs in the tourism industry, Grants for opening up new tourism regions, Private guest room grants, Contingency measures in the tourism industry). Besides the Federal level represented through Österreichische Hotel –und Tourismusbank GesmbH offers the TOP Tourism Grants 2001-2006 (areas A to E see above).
- Commerce and Industry: in the area of Trade and Industry Grants the legal basis for Burgenland is the 1994 Economic Promotion Act for Burgenland. The corresponding implementation guideline foresees following grants:
 - Grants to enhance economic development
 - Research & development grants
 - Environment & ecology grants
 - Internationalisation grants
 - Grants for improving the structure of small and medium sized enterprises in Burgenland
 - Infrastructure grants.
- SME Promotion: This campaign is intended to motivate SMEs to tap into the markets in the new EU member states from their offices in Burgenland. The SME campaign is a package that includes existing grant opportunities and also foresees the expansion of current programmes. Small and medium-sized enterprises located in Burgenland can take advantage of the programme.

As the Objective 1 programme in Burgenland has a particular focus on strengthening of the economic competitiveness of the eligible region, the WIBAG business agency is one of the key stakeholders in the programme implementation process within the region (Land) Burgenland. It is on the one hand an important institution in terms of national economic development funding schemes but in parallel acts as main intermediate body in the implementation of EU supported measures within the Objective 1 programme that aim on strengthening economic competitiveness and providing support to enterprises in Burgenland.

6.2 Institutional implementation structure for the Objective 1 programme

The Managing Authority for the Objective 1 program is the Office of the Burgenland Regional Government (Amt der Burgenländischen Landesregierung). It is responsible for the implementation of the overall program as well as for the coordination of the organizations taking part in the program execution.

The Office of the Burgenland Regional Government is supported by the RMB (Regional Management Burgenland) to carry out the operative tasks (e.g. information and publicity activities). The costs stemming for the program implementation are partly covered from the Technical Assistance budget (ERDF/national co-financing) within the Objective 1 programme.

For the financial implementation of the Objective 1 program fund specific federal departments within three Ministries were selected, which can delegate the operative implementation to external institutions. The fund specific departments responsible for ERDF, ESF and EAGGF (FIFG) are:

- for ERDF: Federal Chancellery;
- for ESF: Federal Ministry for Economy and Labour;
- for EAGGF and FIFG: Federal Ministry for Agriculture, Forestry, Environment and Water management.

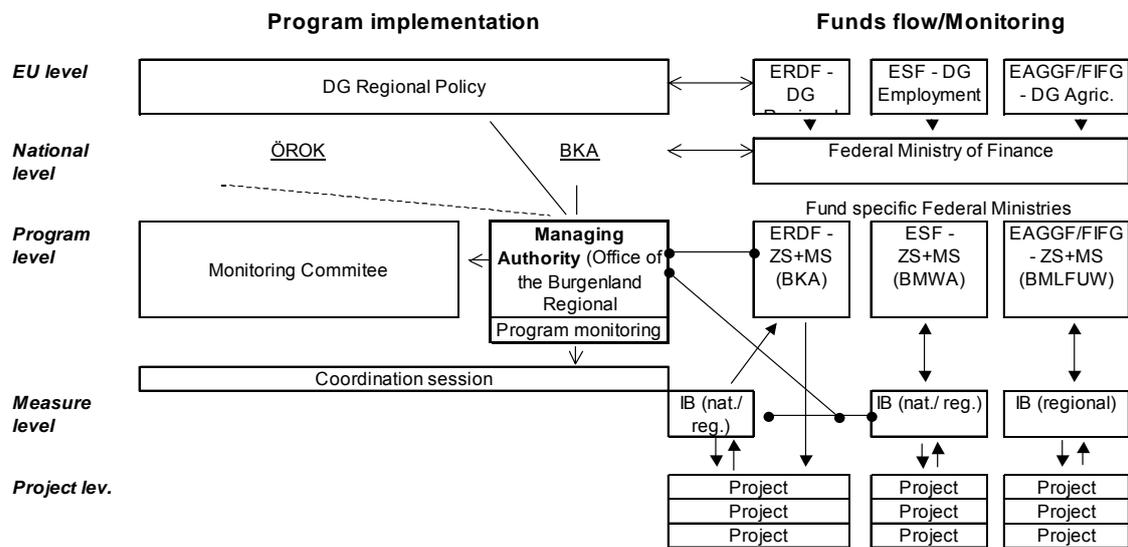
The related paying agencies are responsible for the operative implementation, which means: conducting of payments to the beneficiaries, application for refunding and booking of financial incomes and outcomes.

To fulfil their tasks, the paying agencies cooperate closely with the Managing Authority, the Intermediate Bodies and the Monitoring Committee. This is even more important as they themselves are not assigned with the monitoring tasks. The costs of the administrative tasks of the paying agencies are covered by the fund specific federal departments and the Technical Assistance budget in the program (co-financed by the ERDF).

The chart below provides an overview on the implementation structure in place for this multi funds programme, which includes money from ERDF, ESF and EAGGF.

Chart 3

Structure of Implementation



IB: Intermediate Bodies assigned for specific measures
ÖROK: Austrian Conference on Spatial Planning
BKA: Federal Chancellory
BMWA: Federal Ministry of Economy and Labour
ERDF: European Regional Development Fund
ESF: European Social Fund
FIFG: Financial Instrument for Fisheries Guidance
EAGGF: European Agricultural Guidance and Guarantee Fund
DG: Directorate General
ZS: Paying Agencies
MS: Monitoring Bodies

Source: EPPD Objective 1 Burgenland

The implementation on measure and project level is the competence of the Intermediate Bodies (federal and regional funding agencies) assigned for specific measures in the program. The tasks of these bodies are:

- to provide advisory services for those interested on the support objectives and the conditions for granting subsidy from EU funds and national co-financing in the framework of a specific measure.
- to receive the requests for support
- to perform compliance checks with regard to formal and eligibility criteria
- to scrutinize the requests for support if they meet the criteria of support
- to provide preparatory decisions on support for decision-makers
- to prepare and finalize support contracts
- to scrutinize the project settlement presented by the beneficiary concerning the compliance with criteria

- to request the payment of EU funds to the beneficiary and as well as to reclaim the support
- to report to the fund specific monitoring committee

To ensure that the decisions concerning EU supports in the framework of Objective 1 are consistent with the aim of the programme and agreed among the stakeholders in consensus, so called coordination sessions are held regularly. The coordination sessions are related to each field of the Structural Funds separately. These meetings are attended by institutions entitled to vote (e.g.: Managing Authority, Intermediate and other co-financing bodies) as well as organizations with advisory function (e.g.: Ministry of Finance, federal departments, social partners etc.).

The monitoring of the programme is conducted by the monitoring bodies, which are nominated by the fund specific federal departments and the corresponding paying agencies. For the ERDF this is for example the ERP Fund, which is responsible for the whole ERDF monitoring in Austria for all other Objective 2 programmes as well as the community initiative programmes (e.g. INTERREG).

The technical framework conditions as well as the contents and form of the monitoring reports are assessed by the managing authorities as well as the fund specific federal departments within the line ministries (ERDF, ESF and EAGGF) and by the monitoring bodies with respect to the specifications of the European Commission. The Managing Authority and the intermediate bodies as well as the paying agencies transmit all required data to the fund specific monitoring bodies and confirm the validity of statements. The transmitted data is considered official and any divergence from them during the project implementation is not taken into account in official presentations.

The common secretariat of the monitoring bodies is hosted by the Austrian Conference on Regional Planning (Österreichischen Raumordnungskonferenz /ÖROK/) and has the following tasks:

- Coordination of time schedules;
- Formulation of plans for the rules of procedure for the monitoring bodies;
- Invitation to the sessions;
- Obtaining, examining and sending the session documents in due time;
- Preparation of and sending decision memoranda;
- Preparation of a structure for the annual reports;

- Assuring information exchange between the programs in the framework of ÖROK subcommittee “Regional Economy”;
- Contribution to publicity.

The Intermediate Bodies assigned for specific measures have to ensure that consistency of EU co-financed projects with the conditions of support is controlled. For the financial control according Article 4 of EU regulation 438/2001 (first level control) the measure related Intermediate Bodies are responsible. All expenditures are audited in relation to national and EU requirements of eligibility of costs defined in the respective national grant regulations and EU regulation 1145/2003.

The financial control according to Article 10 of EU regulation 438/2001 (second level control) is carried out by the fund specific federal departments within the line ministries responsible for ERDF, ESF or EAGGF.

6.3 Co-ordination of national and EU funding system

The close relation of EU and national grant schemes is obvious when analysing the Programme Complement of the Objective 1 programme Burgenland. In the Programme Complement the applicable federal and regional funding schemes, including their EC approval number according to EU State aid notification requirement, are listed for each measure. These national granting regulations are the basis for national co-financing of individual projects. In the course of the programme implementation each individual co-financing decision is monitored and registered in the monitoring database as well.

As an example within the Objective 1 programme of Burgenland in measure 1.1 “Strengthening Economic Development” following national grant schemes can be used for co-financing.

Overview on national grants regulations applicable for co-financing of M 1.1: “Strengthening Economic Development” within the Objective 1 programme Burgenland

National grant regulation	EC approval number
ERP-Regionalprogramm	(N302/97)
Regulation for the joint Regional Innovation bonus	(N450/99)
Grant regulation 1996 on waste water treatment measures for enterprises	(N699/95)
Grant regulation on waste water cleansing for enterprises 2002	(N811/01)
Grant regulation 1997 for national environmental funding	(N714/96)
Grant regulation for national environmental funding 2002	(N530/01 BMU4d)
Regulation on the provision of grants according to § 27a and 35a of the law on labour market promotion (AMFG)	(ESA-Nr. 93-358, 93-359)
Regulation on the provision of grants according to § 51a (article 3 to 5) of the law on labour market promotion (AMFG)	(N701/99)
Regulation regarding the award of subsidies according to the regional law on economic grants 1994	(N688/00)
Regulations regarding loans and guarantees according to the regional law on economic grants 1994	(N542/95)
Regulations for guarantees of the Austrian Business Service GmbH	(ESA Dok 94-18539)
Regulations of the Research promotion fund for trade and industry	(E4/96)

Source: SPD Objective 1 Burgenland, own translation

This means in Burgenland the EU projects must be in the form of a co-financing from existing national programmes, i.e. the project must comply with a federal or provincial guidelines (see above), and in addition it must correspond to a priority activity under the Objective 1 programme. Besides meeting the criteria of the individual activity/measure within the Objective 1 programme, the requirements of the relevant national guideline of the individual grant agency must be met.

In terms of the programme administration and implementation each request for or payment of funding from the Structural Funds on project level are made by the grant agency responsible for the activity. These are primarily

- AWS (ERP Fund)
- WiBAG
- Research Promotion Fund
- Federal Ministry for Economic Affairs
- Kommunalkredit Austria (on behalf of the Federal Ministry for Agriculture, Forestry, the Environment and Water Resource Management)
- The Office of the Burgenland Provincial Government

In this respect the WiBAG (regional business agency owned by the Land) is one of the core funding institution as it covers enterprise related funding schemes which aim to improve the economic competitiveness of the programming region.

As part of EU financial monitoring, the grant agency responsible for the activity must ensure that the projects co-financed using Structural Funds meet the grant requirements of the Objective 1 programme and must regularly check the content and arithmetic of statements on fundable expenses and the grant amounts to be awarded, if necessary on site.

In the monitoring system for each measure within the programme the relevant national (federal or regional) co-financing regulation is registered on project level. This means that for each project the applicable national grant regulation (including the EC approval number) is registered.

In relation to the EU Structural funds, the grant agencies (Intermediate Bodies) listed above, take over the responsibility for all EU means. This applies for projects co-financed by themselves as well as for projects where national co-financing is coming from other national institutions or authorities (individual Departments within the regional government or municipalities), which are not nominated as Intermediate Bodies.

As “co-ordinating EU funding agencies”, they are responsible for all EU Structural Funds means. But checking of compatibility with national co-financing regulations is normally done by the respective national institutions/authorities. If several funding agencies (federal and regional) are participating in the co-financing of a project, it could be decided to delegate the tasks of EU project administration (contracting, financial control, requests for payments), to the grant agency, which provides the core part of co-financing (leading institution).

7. LESSONS TO BE USED FOR CZECH SYSTEM

EU Structural Funds programmes were of great importance for the re-design and re-organisation of the Austrian national funding system. Before EU accession there was no nominal legal background in place. In addition for the elaboration and implementation of the strategic programming framework the institutions on federal and regional were forced to co-operate together and coordinate each other more intense.

Before accession the relevant institutions had no formal framework of coordination. The information flows among them were based on rather informal, personal networks than on structured regular information flows within the EU programming and monitoring framework. In this respect a particular innovation of EU Structural Funds programmes was the introduction of evaluation cycles in the implementation process, which helped to narrow or re-design funding schemes in place or develop new programmes.

A key benefit of EU Structural Funds in Austria was that the funding system got more transparent. Although this increase in transparency lead to quite substantial additional bureaucracy for programme implementation.

Besides this the restrictive EU requirements lead to less flexibility in terms of time, eligible regions and content (e.g. the restrictions of funding to enterprises according to State aid).

In contrary to the “informal” system of regional policy before EU accession, major resources of public administration were used for technical implementation of Structural Funds programmes after 1995. Therefore little time remained for discussion on the content of regional development programmes. Apart from Structural Funds programmes, public authorities on federal and regional level had scarce resources for parallel activities on Austrian regional policy.

Nevertheless EU Structural Funds programmes helped to achieve a more strategic focus as well as to introduce formal consistency and co-ordination of funding schemes. Through the multi annual stability of the financial framework of Operational Programmes it was possible to plan in a medium term perspective also apply this to national programmes. The existing funding schemes were adjusted to EU requirements (e.g. legislation on State Aid for enterprise related funding instruments) and integrated in the programme priorities and measures as possible sources of co-financing.

Of course for the Czech Republic the institutional background is different. The rather centralised approach of sharing responsibilities and competences among federal and regional level is not comparable to the Austrian Federalism, which provides substantial possibilities of self-government at regional (Länder) level since decades. Nevertheless processes of alignment of

national funding schemes to the requirements of EU Structural Funds programmes is probably in Czech Republic ahead as well.

As the amount of national public money for co-financing of means available through EU Structural Funds programmes is limited, it should be attempted to integrate major national funding schemes and programmes in the EU Structural Funds context. This could lead to enhanced use of synergies between the national funding programmes as well as to provision of sufficient national co-financing for EU projects.

Besides the co-ordination of national and EU funding programmes, in Austria the structure of regional managements (see also chapter 4), which was set up in the past ten years, proved a valuable institutional framework for guiding less experienced project applicants (e.g. municipalities, tourism initiatives) in the process of bottom-up project development.

The regional managements provided the missing link between funding possibilities allocated through the EU Objective 1 or 2 programmes as well as the Community Initiative programmes and the potential applicants from the region. With their cross-sectoral knowledge on funding opportunities (ERDF, ESF and EAGGF), they helped to establish the contact between the potential beneficiaries and the responsible funding agency, which runs national schemes and is in charge of the respective measure within the EU Structural Funds programme.

A crucial feature in this respect is the independence of regional managements from political influence or project related involvement. The financing of regional managements is ensured by the Länder with support from EU Structural Funds (specific measures within the individual programmes). With the support of regional managements it was possible to initiate major larger tourism infrastructure projects as well as municipal co-operations in the establishment of larger business sites.

ANNEX 1

CONCLUSIONS FROM THE MID-TERM EVALUATIONS OF THE CURRENT OBJECTIVE 1 AND 2 PROGRAMMES

Besides the institutional background and the programme architecture one of the key issues is the focus of funding instruments and schemes. In this respect the mid-term evaluations of the current Objective 1- and 2-programmes in Austria lead to the following conclusions in terms of innovation and R&D which partly might be considered within the Czech system as well:

The current and last Structural Funds period concentrated very much on the establishment of business incubators and R&D centres in less developed regions. A dense network of business related facilities was established on municipal level in the respective programming regions. The location of these business sites was based on regional strategic documents. The initial aim of the incubators was to create some kind of innovative milieu through usage of externalities and economies of scale by concentrating several enterprises on one site. The incubators should focus on specific branches within the regional economy with a potential for endogenous regional economic development and innovation. In the end this approach turned out to be too ambitious, in fact only in rare cases the initial intention of innovation could be implemented in all its consequences. The construction of these incubators is now quite advanced and only a very limited amount of new locations is proposed in regional strategic documents. Hence a change in the funding system is probably required to take place for the coming Structural Funds period. Operation costs of the incubators and institutional support might be of crucial importance in this respect. In the regional context a re-classification regarding the potential for endogenous economic development might be needed for the various incubators established.

In general, the support of R&D-projects by Structural Funds in Austria has been quite successful. But measures aiming at R&D are more effective if there are no thematic priorities. Only if the measures are open to projects of any field of technology, there are enough firms submitting adequate proposals. Usually, R&D-projects are larger than expected. As a consequence, the number of projects that can be supported with the available funds is smaller than originally planned. Supporting R&D- and innovation-networks has been proven to be very difficult. The number of R&D-projects, which are carried out in cooperation with research organizations, is comparatively small. Initiatives trying to create clusters of firms are numerous with many participants but they lack substantial activities regarding joint learning, development and building up of competences. All network- and infrastructure-oriented measures face the problem of restricted support areas. Many potential participants cannot be supported because they are located outside the Objective 1- or 2-area. As far as the foundation and extension of technology, incubation and innovation centres is concerned, the programmes have been quite successful. However, their range of services regarding innovation and R&D-consultancy still

seems to be expandable. So far, the targeted number of start-ups has been clearly missed. Of course, partly this is due to the currently weak economy. But it also has to be mentioned that the support instruments are hardly suitable for significantly raising the willingness to start up a new business. It is, for example, impossible within the Objective 1- or 2-programmes to provide enough risk capital, if such an instrument is part of the programme at all.

In general, the mid-term evaluations show that most measures are risk-averse. It is usually a single-firm investment project, highly reliable to be successful, that will be co-financed. Certainly this does not apply to innovation projects, because research and development is necessarily risky. The rationale of the Objective 1- and 2-programmes gives no incentive to the administration in charge of a certain measure to support higher-risk projects. As a consequence, positive effects on the innovation potential of a region's economy are very limited from the beginning. Another barrier is the high cost of administration compared with the size the average co-financed project. Often the support intensity is too low in order to trigger significant effects. For stimulating innovation it seems to be more adequate to support less projects but with a higher EU-participation per project.

Finally, the mid-term evaluations show that the horizontal objectives 'environment' and 'equal opportunities' have, in general, not been achieved. Only in those measures that explicitly aim at these objectives comprehensible results can be found. It seems necessary to include the horizontal themes explicitly in all measures and to formulate accordingly well-operationalized project selection criteria.

To sum up the implementation of the Objective 1 and 2 programmes is mainly driven by highly specialised funding structures, which show high risk sensitiveness for the implementation of new/additional instruments with low certainty on absorption of funds. Due to the several years lasting experience of Austria with EU-regional development programmes and their implementation, the national funding institutions were adjusted to the specific EU requirements.

The logic, which lies behind programming, funding and evaluation, in consequence leads to a low willingness to implement new measures and projects (e.g. innovative funding schemes in the area of R&D) in the framework of EU-regional development programmes. This even more applies as the absorption of funds could be endangered as a consequence of N+2 rule. Due to this the funding institutions concentrate on well established and requested funding programmes and instruments (e.g. SME grant schemes which are a major part of current Objective 1 and 2 programmes).

Here it has to be noticed that for the future programming period due to the proposed changes from EC (see Third Cohesion report), probably some innovative funding schemes for a successful implementation will be necessary. Therefore it is needed to discuss commonly with

EC necessary changes in the programming, implementation and evaluation logic as well, which would not hinder the conception and application of such innovative funding schemes.

The following challenges have to be taken up for the next programme period 2007 – 2013: Considering the likely reduction of EU-funds as far as Austria is concerned, it is necessary to concentrate the programmes on few objectives and a small number of measures. Furthermore, a basic decision has to be taken concerning the strategic priority: balancing regional disparities on the one hand or improving competitiveness and innovativeness on the other hand. To some extent these objectives are conflicting, therefore it is hardly possible to achieve both objectives in one programme, especially considering the small amount of available EU-funds.

If the strategic focus is on innovation, the instruments will have to be designed in a way that more risky projects can be supported. It is certainly necessary to aim more at supporting networks, which is impossible if the support areas are too small. Overall, securing the adequate capability of the responsible institutions with regard to the strategic targeting and controlling of the next EU-regional programmes will be of crucial importance.

ANNEX 2

AUSTRIAN OF TAX REDISTRIBUTION AS MAJOR SOURCE OF BALANCED REGIONAL DEVELOPMENT (FISCAL EQUALIZATION IN AUSTRIA)

Fiscal equalization in Austria is of crucial importance for balanced regional development and is therefore at municipal and regional (Länder level) a core part of the national co-financing source for EU assisted development programmes. Therefore this chapter is added as an annex to this report to make aware of the importance of this mechanism for the “Austrian internal cohesion”.

The importance of fiscal equalization in terms of balanced regional development is even more evident when comparing the amount of money redistributed through the FAG and EU Structural Funds programmes. Whereas the Structural Funds programmes (ESF, ERDF and EAGGF) for Austria for the period 2000 to 2006 provide 1,827 bn. EUR for defined programming areas, the amount of money redistributed through the FAG is around 35 times higher: 63,265 bn. EUR for the whole country.

In particular at municipal level the co-financing for individual projects derives from the means of the fiscal equalization redistributed to the municipalities from the federal level. Therefore this report briefly describes the current mechanism in place and analyses the effects in terms of balanced regional development in Austria.

The constitutional background of intra-government fiscal relations is given by the Fiscal Constitutional Law

(Finanz-Verfassungsgesetz 1948, F-VG 1948). The F-VG is a framework law, which needs a "simple" law (i.e. a law which is not at constitutional level) for the working out of details. The simple law in this case is the Fiscal Equalization Law (Finanzausgleichsgesetz, henceforth FAG).

The FAG details the rules of tax sharing, intra-government transfers and cost bearing between the federation, the Länder and the municipalities. There is no horizontal equalization regulated by federal government, nevertheless the vertical equalization system contains built-in elements with horizontal effects.

The FAG is an example of a "sunset-law", so called because it is in force for only a few years after which it has to be replaced by a new regulation. The present FAG came into force in 2001 (FAG 2001).

Although the federation could push an FAG through parliament, negotiations between the federal minister of finance, the respective finance ministers of the Länder, and representatives of the local governments usually take place before the federal government submits the draft of a new FAG to the parliament. As a general rule, consensus is found. Additionally, Länder and municipalities are protected from any discrimination or unfair treatment by the right to sue at the Constitutional Court. Given the law is unconstitutional the Court declares it to be null and void.

Table 5
Tax sharing in Austria (2001)

Tax	Revenue (mn. €)		Länder	% of Municipalities
Exclusive Federal taxes				
WBF-Contributions to Housing Development ³	614	100	–	–
Customs Tax	225	100 (EU 75)		
Tobacco Tax	1.234	100		
Administrative Fees	798	100		
Insurance Tax	814	100		
Employer Contributions to Family Allowance Fund	3.262	100 (Fund)		
Other Exclusive Federal Taxes	2.441	100	–	–
Shared Taxes				
Corporate Tax	6.235	71.891	14.941	13.168
Income Tax	3.814	71.891	14.941	13.168
Wage Tax (withheld) 15.154		71.891	14.941	13.168
Tax on Interests (withheld) 1.615		53.000	27.000	20.000
VAT	16.148	67.437	18.341	14.222
Advertising Tax	87	4.000	9.083	86.917
Mineral Oil Tax	2.880	91.291	6.575	2.134
Other Shared Taxes	4.697			
<i>Vorweganteile/ deduction at source -</i>	3.718			
Local Taxes				
Property Tax	479	–	–	100
Payroll Tax	1.797	–	–	100
Charges	1.668	–	–	100
Other Local Taxes 734			–	
State Taxes				
Fire Protection Tax	45	-	100.0	–
Hunting,	9	- 100.0	-	
Fishing Licenses				
Tax on Tourism	53	d.s.*)		d.s.*)
Entertainment Taxes	73	d.s.*) d.s.*)		
Other State Taxes	237		-	
Total	63.265	73.3		26.7

*) different shares in the respective states;
Source: STATÖ, Government Finance Statistics, own comp., FAG 2001;

³ Contributions to Housing Development, fixed percent of payroll

Other entities of the public sector, esp. the self-governing social security authorities, are not included in the system of fiscal equalization. They are regulated by the federal parliament in the way of other laws.

The first step toward fiscal equalization in the respective FAG is tax sharing. In Austria the Federation can legislate for a certain tax if it is at least partially entitled to the tax revenue. If there is no federal share of revenue, legislation remains with the Länder. Municipalities are not empowered to legislate for taxes. However, they can regulate local taxes if they are entitled to it by either federal or Länder law. Tax administration in Austria is principally a task of the federal government. 95% of all revenue is levied by federal revenue offices. Municipalities levy more than 4% and Länder less than 1% of all revenue.

The revenue of shared taxes is allocated as follows:

- First, deductions are made at source to finance some common tasks of all levels of governments (Vorwegabzüge).
- Next, FAG determines the tax revenue distributed to federal and respective state governments and to local governments state wise.
- Again deductions for common tasks take place.
- Distribution to the nine Länder follows:

Revenue for both the Länder and municipalities (grouped together by Land) are distributed by the federal government to the individual Länder. This procedure is guided by two main criteria:

- Tax revenue criteria: allocation is based on regional or local revenue of a tax.
- Demographic criteria: allocation is based on the number of inhabitants of a Land or municipality.

Länder now allocate the local share of revenues to the individual municipalities as follows:

- 87.3% according to criteria such as financial requirements, demographic criteria, and special demographic criteria referred to as the "scaled population multiplier". This index multiplies the simple population figure by a scale factor, the latter being based on population categories: The scaled population multiplier favours larger municipalities. The idea underlying the positive bias is the assumption that larger municipalities have disproportionately larger financial requirements (Brecht's Law).
- 12.7% are allocated according to criteria decided on by the distributing Land.

A second step of fiscal equalization follows: intra-government transfers. They exist as special cost bearing rules, as quota allocation of funds or as grants to cover special needs or purposes. Of special interest are:

- Transfers to equalize the average revenue: The federation subsidizes both needy Länder and municipalities to guarantee them financial means close to the respective national revenue average per capita. The necessary amounts are paid out of the federal budget, not from Länder or municipalities ranking above the national average.
- Transfers to cover the needs of municipalities, which are no longer able to carry out their legal duties.
- Transfers from the federal level to the Länder for housing development, environmental purposes and infrastructure, for theatres and for stable budgets of sub-national governments.
- Transfers from the federal natural disasters fund to support sub-national governments in case of own losses or aid to the private sector.
- Länder are additionally entitled to organize a horizontal equalization for municipalities via transfers from local government revenues for purposes such as financing Länder budgets (max. 7.8%) or for financing specific tasks of Länder or municipalities.

Constitutional law also regulates cost bearing obligations of governments: each territorial unit (federation, each Land, each municipality) has to bear its own costs. This sounds simple in principle, but is tricky in detail, esp. as far as indirect administration is concerned:

The Constitutional Court decided that wages of Länder employees working in indirect administration (i.e. to fulfil tasks of the federation) have to be borne by the Länder. In addition, the Länder have to pay all expenses necessary to create proper working conditions for these employees (i.e. buildings, furniture, paper, telephone costs, and other variable expenses.)

The Federation pays costs connected with specific tasks of that administration (e.g. construction costs of a highway).

Austria's fiscal equalization system has developed to be quite complex. The reason for this is mainly the negotiatory approach which is consensus oriented. Nevertheless, there is an efficient horizontal outcome: Broad acceptance of the system gives a hint that the balance between regional equalization and remaining performance incentives could be maintained.

After all these tax sharing, transfers and cost bearings the various governments can dispose of the following means:

Table 6

Allocation of Financial Means after Fiscal Equalization

	Mio €	%
Fed.	38.602	59,4
Länder *)	12.705	19,5
Vienna	5.509	8,5
Municipalities *)	8.207	12,6
Total	65.023	100,0

*) without Vienna.

Source: STATÖ, Government Finance Statistics, own comp., FAG 2001;

Despite this success reforms have to be implemented:

- It has to be reconsidered whether vertical equalizing is still appropriate when there are budgetary surpluses of the Länder governments financed by federal deficits.
- The meagre competences of Länder governments to legislate for taxes are not appropriate to the federal character of Austria.
- Local governments discuss very eagerly whether the system of revenue allocation among themselves is still appropriate and if it should not be reformed towards a more specific task oriented approach.