EU Funds and the Cohesion Policy

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Abstract: There are some factors that influence the link between the effect of Structural finds on economic growth and the national characteristics of member states and/or recipient regions. The study tries to catch these aspects, also presenting an EU funds implementation model. Moreover, it reveals the evolution of the shares of cohesion policy in the EU budget, given that the aim of this policy is to stimulate the potential of endogenous development of EU regions and to reduce the social and economic disparities between them. The study briefly presents the conclusions of one if the most important documents drawn up by the European Commission, in this field up to present, emphasizing the strong and weak points identified in the financial perspective 2007-2013.

Keywords: structural funds; cohesion policy 2007 – 2013; economic growth

JEL Classification: F15; R11; R58, 047

1. Aspects Regarding the Influence of Structural Funds

In the academic literature, there are opinions according to which the success of the non-reimbursable assistance depends, on a large extend, on the national and regional characteristics of the beneficiary member states and/or regions. In this respect, Edeveen (2002) considers that the decisive factors of the EU funds efficient usage are government policy, social policy, institutional[2] framework and the openness of the economy. Fayolle and Lecuyer (2000) and De la Fuente (2002) considers that the EU funds efficiency is „relative limited” and it depends on the national affiliation of the beneficiaries and on the national specific features. Burnside and Dollar (2000) reveal that „*only states with sound domestic policies experience the positive effects of structural funds*”.

The EU funds implementation system is presented below:

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[2] The quality of the institutions is analyzed from the corruption perspective and the institutional organization is analyzed from the bureaucratic point of view.

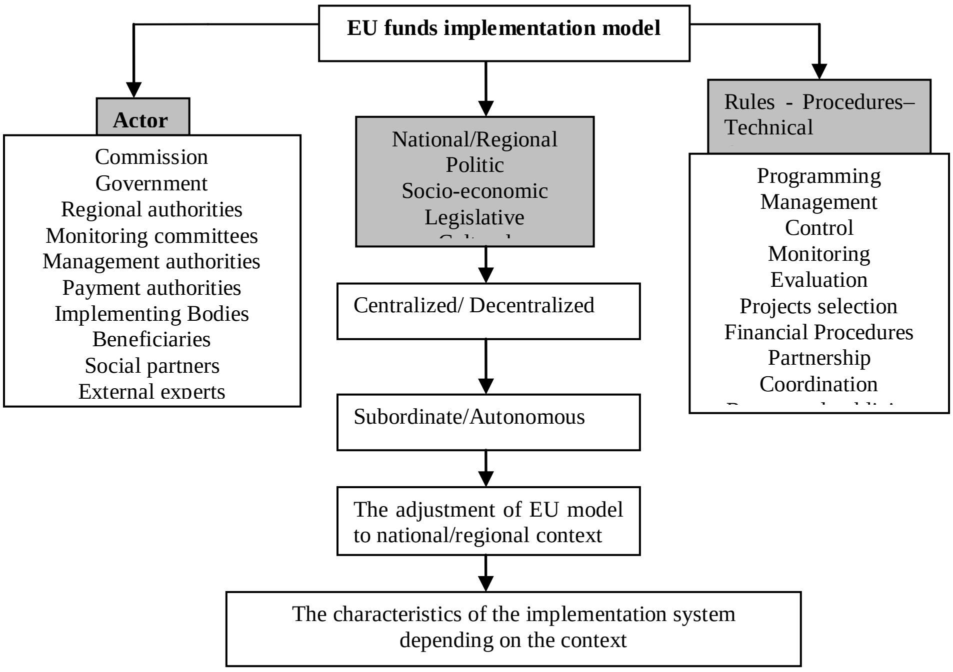

Figure 1. EU Funds Implementation System

Source: Adaptation by Todling-Schonhofer H. et al. (2003) – A Study of the Efficiency of the Implementation Methods for Structural Funds, Final Report, OIR in association with LRDP and IDOM, European Commission, DG Regional Policy

Ederveen, de Groot and Nahuis (2006) and also Baehr (2006) sustain that, at national level, the effect of EU structural funds on economic growth depends on the quality of the institutional system that exists in every state, being influenced by the openness of the economy, the inflation, the citizen’s trust, corruption, etc.. In the paperwork „*How does sub-national autonomy affect the effectiveness of Structural Funds?*”, Baehr (2006) underlines that there is a high degree of interdependence between decentralization and effective use of structural funds, the increased local autonomy influences in a positive manner the effect of interventions, they also consider that the regional development policy should be addressed from „bottom to top”.

Gripaios et al. (2006) identified the problems that characterize the monitoring and evaluation process of the financial assistance, as follows: the lack of information, the lack of statistical databases and of common methods used at Community and inter-regional level as regards data collecting and interpreting, as well as overlapping of the national policies with the community ones and their contradictory actions. Gripaios proposes the financial assistance to be allocated in regions with higher growth potential, considering that this approach will ensure long-term competitiveness of the European Union.

Analyzing the economic, social, legal and institutional framework evolutions, Ciupagea C. et. al (2006) reveals that in the new member states, the absorption of the structural funds in the first two year after enlargement had effects on investments, infrastructure, quality of human capital development, etc.. The different absorption capacity in the member states depended on every member state „personal” experience, acquired the pre-accession period. The study points out that "*positive lesson provided by Ireland and its strong upward path in the post-integration was not assimilated very well by the governments of the new member states*". In conclusion, the success of the EU funds absorption depends on the preparation level of the country at the time of its accession and if it has learned the lessons during the pre-accession period. The same idea is shared by Oprescu G. et al. (2003) who believe that the effective use of structural funds is influenced by the impact of the financial assistance received during the pre-accession period.

2. EU Cohesion Policy

The main objective of cohesion policy is to reduce economic and social disparities as regards the levels of development of European regions. Thus, it is necessary that the less developed regions to remain in the spotlight of this policy. On the other hand, the most member states – together with the European Parliament – sustain that cohesion policy should cover the whole EU territory, given that it does not consists of a solidarity mechanism, but it aims at stimulating the potential of endogenous development of EU regions.

The share of the regional policy in the EU budget has increased over time: as shown in Table no. 1 below, in 1988 the share was 17% and since then, it slightly increased, so at the end of 2013 it is expected to reach 38%.

For financial framework 2007-2013, the total amount allocated to cohesion policy is EUR 308 billion (in 2004 prices) and for the new financial framework 2014-2020 the total proposed budget for the Cohesion Policy is EUR 376 billion (in 2011 prices), including the financial resources allocated to the new Connecting Europe Facility. However, the budget allocated to cohesion policy has not significantly increased despite of the increasing disparity of wealth in the enlarged EU.

Table 1. The Shares of Cohesion Policy in the EU Budget

Year	% in EU budget		EU budget as % GNI
	Cohesion Policy	Common Agriculture Policy	
1975	6,2	70,9	0,53
1980	11,0	68,6	0,80
1985	12,8	68,4	0,92
1988	17,2	60,7	1,12
1993	32,3	53,3	1,20
2000	34,8	44,5	1,07
2007	36,7	47,1	1,04
2013	38,1	43,0	0,93

Source: European Commission, Community Budget: Situations shown in figures, 2000, www.ena.lu

„Cohesion policy and regional policy are often considered synonymous, EU regional policy serving the purposes of cohesion policy”. (Constantin et al., 2007)

The Fourth Progress Report of the Commission to the European Parliament and the Council on economic and social cohesion identified a number of difficulties that member states and regions are facing and will have to face more often, respectively: globalization, demographic change and social tensions, climate change and the growth of energy price. Although, there is a consensus that cohesion policy should address these problems, most member states underlined that the cohesion policy can neither be the unique nor the main instrument of intervention. Some member states considered that these challenges are already being addressed through the Lisbon Agenda and the Göteborg Agenda, while others have noted that approaching these challenges should not place on secondary level the main objectives of cohesion policy established by the Treaty. Some member states asked the Commission to supplement the GDP per capita expressed in PPP - purchasing power standard - with other measures of wealth and living standards.

The conclusions of the Fifth Progress Report on economic, social and territorial cohesion: the future of cohesion policy states that "*cohesion policy contributes significantly to the widespread of growth and prosperity across the Union, reducing economic, social and territorial disparities (...) cohesion policy has created new jobs, increased human capital, led to the construction of infrastructure and improved environmental protection, especially in less developed regions. Undoubtedly, without cohesion, the disparities would be greater. However, the social effects of the crisis caused by the increasing demand for innovative global challenges and the need to make best use of every euro in public spending are necessary to achieve an ambitious reform of the reform*".

Therefore, the progress is needed in the following key areas: concentration of resources on the objectives of Europe 2020 Strategy, obtaining commitments of the member states relating to the implementation of reform and focusing on the results.

The explicit link between cohesion policy and Europe 2020 Strategy provides an opportunity to continue to support EU poorer regions, in order to reduce the gap between the regions, to facilitate coordination between EU policies and to transform the cohesion policy into a main engine of growth.

The added value of actual cohesion policy is intensely debated. Thus, some stakeholders state that it does not bind sufficiently to the EU priorities, it wastes the resources between different policy areas and that its impact is difficult to measure. The Commission approaches seriously these criticisms and it believes that, on the future, the cohesion policy should be focused on results, it should reduce the bureaucratic constraints and it should simplify its management.

Through the distribution of the financial resources, the cohesion policy has been aligned to the Lisbon Strategy. Further, it aims to align itself to Europe 2020 Strategy, approach that involves the following achievements:

- *Common Strategic Framework* adopted by the Commission, which may convey the Europe 2020 Strategy objectives into investment priorities and it includes all structural instruments, namely the Cohesion Fund, the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund;

- a *partnership contract for development and investments*, which based on the Common Strategic Framework, which establishes the investment priorities, the allocation of EU and national resources between the domains and priority programmes, agreed conditions and the objectives that must be achieved. The contract will be the result of the negotiations between member states and the Commission related to the development strategy presented in their national reform programs. Also, it describes the coordination between EU funds and operational programs at national level;

- the *operational programmes*, as they are in the present, would represent the main instrument for managing the EU funds and they would transpose the strategic documents into investment priorities, accompanied by operational programs, along with clear and measurable objectives.

There are three proposals within EU budget review with significant impact on cohesion policy, respectively the concentration of the financial resources, the system regarding the conditionality and incentives and the focus on results.

Regarding the first element, the member states considers that in the future, it will be necessary the concentration of EU and national resources on a small number of priorities, that can address the specific challenges they are facing. This objective can be achieved by establishing in the EU Regulation a list of thematic priorities linked to Europe 2020 Strategy. Member states and regions should focus on a certain number of priorities, depending on the value of EU financing. In the case of the member states and regions which receive less funding, they would be required to allocate the funds available for two or three priorities, while those which receive substantial funding, they can select more priorities. Some priorities should be mandatory. However, thematic concentration should not prevent member states and regions to finance innovative projects. The funds allocation in favor of some target groups (for example local development) should be considered, taking the form of local subsidies.

Analyzing the second element, namely strengthening the performances through conditionality and incentives, it is in connection with the microeconomic environment, with the macroeconomic policies and the EU economic framework (Onica, 2009). In order to support the economic government system, new provisions on conditionality should be introduced in order to create reform incentives. In this scenario, member states were required to undertake reforms in order to ensure efficient use of the financial resources in the domains link to the cohesion policy, for example the environmental protection, flexicurity policies, education, research and innovation.

For each priority area, the Commission should establish the key elements that the EU financing should follow. They should be adapted to national and regional contexts. The principles may be linked, for example, to the transposition of EU legislation, to finance some EU strategic projects and to the administrative capacity and institutional assessment.

On this basis, at the beginning of the programming period, it may be agreed specific conditions with each member state and region as regards the programming documents (for example, the partnership contract for development and investment and the operational programmes). Their achievement might be a prerequisite for the disbursement of funds under the cohesion policy at the beginning of the programming period or during the reexamination through which the Commission would assess the progress in implementing the agreed reforms.

So far, the application of sanctions and the financial incentives related to the cohesion fund was related to the Stability and Growth Pact. The Commission proposed to extend it to the rest of the EU budget, as additional leverage, in order to ensure the compliance of the macroeconomic conditions in the context of the corrective component of the Pact. Failure to comply with the rules laid down in the Pact, should create incentives through the suspension or cancellation of a part of the current or future funds allocated from the EU budget, without affecting the final beneficiaries of EU funds. The cancelled financial resources would remain in the EU budget and they can eventually be distributed to member states.

In the EU extended economic governance, the principle of additionality should be reformed and linked to the EU economic surveillance process, based on the already established indicators of stability, which are presented to the Commission by the member states every year. The co-financing is one of the fundamental principles of the cohesion policy that ensures the policy is assumed by its actors on the ground. It is taken into consideration both the revision and its differentiation in order to reflect better the level of development, the European added value, the types of activity and the beneficiaries. In order to strengthen the effectiveness of the cohesion policy, it is taken into consideration the establishment of a performance reserve. That would be allocated, during a mid-term assessment of the multi-annual programming, to the member states and regions whose programmes have contributed the most to achieve the objectives of Europe 2020 Strategy compared to their point of departure.

Regarding the third element, namely the orientation toward results of the cohesion policy, I consider that there are necessary the monitoring and the evaluation systems of a higher quality and improved functioning. The starting point consists in establishing ex-ante objectives and measurable results indicators. The indicators should be clearly interpreted, statistically validated, directly linked to the applied policy, as well as quickly collected and published. I consider that the indicators and the objectives should be agreed within discussions on programming documents and they should be added to the basic indicators of each fund, valid for all operational programmes related to the Europe 2020 Strategy. Moreover, the annual reports must provide complete information about the indicators and the progress registered.

However, I consider that the ex-ante assessments should focus on improving the implementation of programmes, so that the tools and incentives can be monitored and evaluated during implementation. At the same time, the assessment should use methods according to the international standards, including the impact evaluation in an early stage to ensure data collection and dissemination. The obligatory character of drawing up these continuous assessments has as result to facilitate transparency in the EU. Also, the evaluations are envisaged from the moment the Commission certifies certain amounts of EU funds.

Finally, in order to provide an overall assessment, I consider that member states should draw up a report that summarizes the results of the continuous evaluations during the multi-annual financial programming period.

Although it is too early to draw up final conclusions about the effectiveness of the implementation of the Cohesion policy 2007-2013, is worth paying attention to aspects regarding the financial management.

The Commission must examine whether the non-granting of a reimbursement to national authorities prior to the payments from the EU contributions to the beneficiaries (in this case, the payment would be made from the national budget, in the first stage) would accelerate the payment of grants to the beneficiary and encourage a more strict national control of the funds. In the context of the current financial crisis, this aspect should not be neglected. The Commission takes into consideration the introduction of some elements based on results as regards the payment of EU contribution to the operational programmes or part of this programmes, depending on the type of action. As regards the financial perspective 2007-2013, the Commission considered the introduction of simplified reimbursement methods, such as standard scale for the unit costs and lump-sums grants. For the current financial perspective, the eligibility criteria of the expenses are set out at national level. There are opinions according to common rules should be adopted as regards the overheads in relation to different EU funds. In this respect, I personally consider that a harmonization of the eligibility rules for the structural funds can simplify the use of EU funds by the beneficiaries and the managing authorities.

The decommitment rule aims at ensuring the implementation of the projects in a reasonable time and also to encourage the sound financial management. Nevertheless, it can alter the behavior of the member states in focusing too much on a rapid absorption detrimental to the efficient use of the resources. The application of the decommitment rule was complicated by a number of derogations. It is necessary to ensure a balance between the quality of investments and quick implementation. For Romania, at least, I consider a good solution the application of n+2/n+3 rule, except for the first year, for operational programmes and removal of all derogations.

3. Conclusions

The study analyzes the benefits brought by the cohesion policy despite of the disparities regarding the economic development of the member states and/or recipient regions. It also reveals the opinions of the specialist in the field on the economic and social changes produced by the impact of the cohesion policy through the structural funds. The topic of this study is to present reflections on the future of cohesion policy, on the elements that can be revised, improved and maintained out of the existing ones for the financial perspective 2007-2013, as well as the elements that might be taken into consideration, analyzed and put in practice for the financial framework 2014 – 2020. Moreover, there are described personal opinions regarding the improvement of the instruments and incentives necessary for achievement the objectives of the cohesion policy.

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