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Cohesion Policy as Instrument for Competitiveness of European Union

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Abstract

The aim of the paper is to provide information about a process of drawing and implementation of the European structural and investment funds of the European Union. It is focused on the importance of Cohesion Policy of the EU within previous and current programming period. It presents a comprehensive view on strategic documents and principles. The paper analyses the setting of priorities of Cohesion Policy. The work tries to evaluate comprehensively the issues of EU funds comparing current level with past respectively expected level. It also identifies regional development and methods of management which can bring potential measures for more effective drawing the process of implementation of the EU funds.

Keywords: Cohesion Policy, shared management, multi-level governance, regions, development

1. Introduction

This paper describes how Cohesion Policy is useful for removing regional disparities and the next development of regions. The aim of the paper is to contribute to the part of the review that concerns cohesion, by undertaking an assessment of the evidence on European Union (EU) Cohesion Policy concerning whether and to what extent the objectives of the relevant policies have been met, and whether these policies and funds have delivered value for money – and an understanding of how this varies within and between policies. It is uses methodology based on analyses and comparing.

The specific objectives of the study are to assess:

- the effectiveness of Structural and Cohesion Funds in addressing the tasks given to them under the various Treaties, and other relevant goals assigned to Cohesion Policy,
- the extent to which the Funds should be targeted at less-developed Member States or regions and disadvantaged groups, rather than being available as sources of investment for economic development across all areas,
- the evidence (if any) to inform whether the types of activity covered by the Structural Funds are more appropriately funded at the EU, national or regional/local level.

The article focuses on the description of the EU Cohesion Policy in the previous and the current programming period, with particular emphasis on the balance of benefits and costs of individual states. We discuss the main features of the Cohesion Policy at a European and regional level. It talks about geographical coverage and targeting of finances from EU funds as main aspects of Cohesion Policy. The second part of article focus on shared management of Cohesion Policy as a management model for administering funding in the EU. Last but not least we try answer on the question if it is the multi-level governance model effective and efficient.

2. Cohesion Policy

The idea of the EU Cohesion Policy, initiated along with the Treaties of Rome in 1957, was intended to enhance socio-economic cohesion among regions of the Member States by supporting development of the poorest areas of the Community. The implementation of the Policy was to be realised by Structural Funds, established as financial instruments for individual sectors of the economy. In 1958, the European Social Fund was created to help adjust the skills of the European workforce, combat unemployment and social exclusion. In 1964, the European Agricultural Guidance and Guarantee Fund was created. Along with subsequent accessions to the European Community, divergence within the Community continued to increase, leading to the intensification of efforts to increase cohesion by Rajčáková (2005). After the accession of Denmark, Ireland and Great Britain in 1973 the European Regional Development Fund was created (1975) with the task of supporting less developed areas, especially industrialised ones. The Fund plays a key role in the currently implemented EU Cohesion Policy. The accession of Greece, Spain and Portugal in 1986 was preceded by a profound reform of the Structural Funds launched in 1989. Cappelen et al. (2003) underline policy goals which were formulated as: to promote economic growth in the poorest regions of the Community, promote entrepreneurship, and improve the quality of the environment in industrial areas; flexible programs focusing on labour market policies, and acceleration of the structural adjustment of agriculture to reforms within the Common Agricultural Policy.

In 1993, according to the provisions of the Treaty of Maastricht, a new instrument was incorporated in to the Cohesion Policy – the Cohesion Fund. It was meant to support large investments, primarily in the area of infrastructure and environmental protection in less developed countries of the Community. Furthermore, Bradley, Untiedt & Zaleski (2009) state the accession of new members of the Community was accompanied by the establishment of the Financial Instrument for Fisheries Guidance, in order to support restructuring of the fisheries sector.

Historically, EU Cohesion Policy has sought to address regional disparities and bring structural change to the economies of European regions 'lagging behind'. Cohesion Policy and its structural instruments as has been shown Hjerp et al. (2009) provide a mechanism for re-distributing an element of the EU's budget which itself represents only about one percent of the Union's GDP. The level of redistribution is rather modest in relation to the scale of the EU economy and expenditure is traditionally focused primarily but not exclusively on economic and social objectives, which emphasize job creation and economic growth. As Rodriguez-Pose & Novak (2013) demonstrated, Cohesion Policy has a role in the shaping the economic models deployed in Europe and the extent to which sustainable development, as referred to in the EU Treaties, is pursued in practice.

The Cohesion Policy for 2014-2020 is intended to be more closely aligned than its predecessor to the Europe 2020 strategy, which sets out objectives for smart, sustainable and inclusive growth. With an allocation of €325 billion for the seven-year period, Cohesion Policy is by far the most substantial funding instrument, representing about a third of the EU Multiannual Financial Framework, with a major impact in an important segment of the EU, particularly in Eastern and Southern Europe (Tvaronaviciene & Grybaite 2013). Consequently, the pattern of support it offers, the objectives pursued and the conditions attached are an important building block in the construction of a sustainable Europe. An appropriate Cohesion Policy is in the long term interest of all Member States of the EU by Bradley, Untiedt & Zaleski (2009).

The current financial perspective 2014-2020 is designed in the context of the Europe 2020 Strategy European, where European Commission (2010) includes the following priorities:

- smart growth: developing an economy based on knowledge and innovation,
- sustainable growth: promoting a more resource efficient, greener and more competitive economy,
- inclusive growth: supporting the economy with high levels of employment, ensuring social and territorial cohesion.

The priorities for Europe 2020 as it is states by European Commission (2007) are partially consistent with the priorities of the Lisbon Strategy: the most important are as still include competitiveness, building a knowledge based economy, the environment, high employment and social cohesion. The new strategy, however, placed greater emphasis on strengthening the digital society, developing research and innovation, the rational use of natural resources, developing entrepreneurship and competitiveness, while maintaining the objectives of employment growth and poverty reduction.

3. Geographical coverage and targeting as main aspects of cohesion policy

The Cohesion Policy is to accelerate and facilitate the process of real convergence between regions. The need for such a policy is shown in sustained differences in economic development among Member States of the EU. Bachtler & McMaster (2008) claim, that the effectiveness of the European Investment and Structural Funds can be assessed in relation to the goals set for Cohesion Policy. The overarching goal of Cohesion Policy is noted in the Treaty on the functioning of the European Union (2010a): *"In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. // In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions"*. Dheret (2011) underlines that EU Member States differ in terms of social development, as evidenced by different levels of the human development index, consisting of: gross output per capita (formerly GDP per capita), life expectancy, and the current average and expected duration of education issues falling within the area of Cohesion Policy interventions.

The 2004 and 2007 enlargements resulted in a considerable widening of the relative development gap between richest and poorest regions. Allen (2010) stresses, that the existing differences show the need for an effective Cohesion Policy, of particular importance for the new EU Member States, as their levels of economic and social development are lower than in the "old" EU Member States. Further goals are defined in the multi-annual regulations agreed for the Funds and in the programme documents through which the policy is operationalised. In addition, Cohesion Policy in the 2007-2013 and 2014-2020 periods aims to contribute to the Lisbon agenda and the Europe 2020 strategy for smart, sustainable and inclusive growth by European Commission (2013). The accession to the EU and the considerable investments made through Cohesion Policy (and other EU policies) led the new Member States to experience a process of national growth, generally driven by the capital regions. European Union (2010b) states this meant national convergence with EU averages, but also widening of infra-state disparities. The crisis, with the well-known consequences on the unemployment levels and macro-economic stability (particularly in the Southern European countries and Ireland) has fundamentally altered this trajectory of change. According to Hagen & Mohl (2009), a key issue is the extent to which the evolution of regional disparities can be attributed to the influence of Cohesion Policy, in relation to exogenous factors and wider macroeconomic policy choices, and against the domestic regional policies that are in operation in a number of countries.

Bachtler & Mendez (2007) posited, that the *geographical coverage* and *targeting* of Cohesion Policy is underpinned by the *concentration principle*, which aims to focus the funds on the less-developed countries and regions of the EU. As Bachtler et al. (2013) defined, the modalities of this principle are complex and encompass a series of geographical eligibility and financial allocations criteria agreed as part of the wider negotiations on the EU budget. The level of GDP per head relative to the EU average is the main criterion used for targeting the funding on the poorest countries and regions of the EU, which receive considerable higher financial allocations than the most developed parts of the EU. Ivaničková (2007) posited, while concentration has remained a key principle since 1988, geographical coverage has evolved from a targeted approach to an all-region policy since the elimination of 'zoning' (targeting of specific areas) in the more-developed EU regions in 2007-2013.

The geographical coverage, specifically the poor country/region focus, has been an issue in the last two reform debates. Mohl & Hagen (2010) stressed, that this partly reflects an intrinsic link between the Cohesion Policy budget and the EU budget negotiations, since the overall size of the Cohesion Policy budget and relative allocations to countries/regions can have a sizeable impact on the net balance of contributions and receipts from the overall EU budget, as well as doubts about the added value of Cohesion Policy in richer countries and regions. The European Commission and European Parliament have always argued for a pan-EU Cohesion Policy to support all Member States, with a higher concentration of funding in the less-developed EU regions. As part of its reform proposals for the 2007-2013 period, the Commission responded to the renationalisation threat by re-packaging Objectives 2 and 3 as a 'Regional Competitiveness and Employment' objective, oriented to the goals of the Lisbon strategy and giving Member States more flexibility to determine geographical eligibility and allocations internally (Varga & in't Veld, 2010). For the 2014-2020 period, the European Commission (2011) examined a 'lagging country focus' option in its impact assessment accompanying the reform proposals with funding restricted to the less-developed Member States. While concentration on less-developed countries would save money for the EU budget, the option was rejected for four reasons: Cohesion Policy would become a redistributive policy losing its allocative benefits across the EU; there would be lower incentives to foster cross-border spill-over effects across countries and regions; the incentives to contribute to EU-wide priorities would decline; and there would be lower growth effects on the EU economy explained by Bouvet (2007).

Geographical concentration is core principle underpinning Cohesion Policy. Over time, the targeting of Cohesion Policy has evolved from focusing on designated regions characterised by underdevelopment, industrial restructuring or rural problems to a policy that is available to all regions throughout the EU. Blom-Hansen (2006) explained, that in part, this reflects the shift in the policy's objectives, away from the traditional concern with reducing regional disparities to promoting growth and competitiveness across the whole of the EU. Research made by Smékalová et al. (2014) show, that big influence on competiveness of regions have entrepreneurs which cooperate with society and overall efforts of the government reflect the shift in the policy's objectives, away from the traditional concern with reducing regional disparities to promoting growth and competitiveness across the whole of the EU. EU funds are public investments but they support private sector as well. Organizations have the opportunity to effectively use this aid as it covers part of salaries of trainees and makes part of their own sources free of use for other development activities by Martinez & Potluka (2015).

3.1 EU policy coordination for richer countries/regions without funding

The Treaty commitment to cohesion requires the EU to promote harmonious development and a reduction in disparities across all Member States irrespective of the spatial targeting or level of financial support. Begg (2003) emphasizes if Cohesion Policy resources were restricted to the less-developed countries/regions, the role of the EU level in the more-developed areas could be more one of coordination of national regional policies. As in existing areas of EU policymaking, such as research or employment policies, this could be governed by the 'open method of coordination', involving the setting of joint objectives at EU level, periodic monitoring and sharing of national regional policy experiences with a view to improving the design and implementation of national policies and strategies, the development of coordinated or joint initiatives on issues of transnational interest, and the identification of areas where Community initiatives could reinforce national actions. It would involve developing some of the 'experimentalist governance' features of the existing programming method by Mendez (2011): agreeing objectives, guidelines and timetables for achieving EU cohesion and wider Europe 2020 objectives; establishing quantitative and qualitative indicators and benchmarks, tailored to the needs of Member States and regions; translating European guidelines into national and regional policies, but at the initiative of the Member States without any binding regulation at EU level; and periodic monitoring and peer review of the progress at EU level to stimulate mutual learning processes across Member States, both through formal institutional channels (e.g. Council of Ministers meetings) and through more informal networking initiatives (e.g. the open days).

According to Begg (2003), to be effective, this policy coordination approach would require the Member States to take political ownership of cohesion objectives. Mendez (2011) claims, that proactive engagement by the Member States in peer review processes would be another important ingredient. The OECD practice of territorial reviews of regional policies could provide a model to learn from. A key part of the Organisation for Economic Cooperation and Development (2009) review process are evaluation missions by international experts and high-level officials and elected representatives from peer countries/cities to feed into the process of assessment and to provide recommendations based on international experiences.

4. Shared management of cohesion policy

There are various management models for administering funding in the EU. As Bachtler & Taylor (2003) underline, Cohesion Policy is implemented under the so-called 'shared management' model, in which the European Commission delegates implementation responsibility for the European Structural and Investment Funds to the Member States while retaining overall responsibility for the budget. This model contrasts with 'indirect management', where implementation responsibility is delegated to third parties (such as European Investment Bank and European Investment Fund loans, or development aid through third countries and international organisations); or the 'centralised management' model where the Commission is responsible for administering funding directly or indirectly.

As Bachtler et al. (2013) stated, the shared management model in Cohesion Policy is widely accepted as the most effective method for implementing regional development funding, despite the existence of administrative and compliance difficulties. Administering substantial budgetary resources on an annual basis would not be feasible or cost-effective through direct management by the European Commission. Ward, Greunz & Botti (2012) showed, that the limited management capacity in the European Commission is one of the main the reasons why the EU moved from the project-based approach under the European Regional Development Fund in the 1970s and early 1980s, involving Commission approval of individual project applications, to the programming approach under the 1988 reform, requiring programmes to be agreed by the Member States and Commission while devolving responsibility for project decisions (except for major projects) and the main implementation functions to the Member States.

An area of the Cohesion Policy shared management model that has been subject to criticism by the Commission during the post-2013 policy review is TEN-T projects financed by the Cohesion Fund, because of Member State delays in approving and implementing priority projects deemed to be of major importance for EU transport and internal market objectives. As a consequence, it was agreed that a share of the Cohesion Fund for 2014-2020 would be transferred to the new Connecting Europe Facility managed directly by DG MOVE and Centrum for Industrial Studies (2013) a view to speeding up the implementation of the priority projects. During the negotiations, the main concern of the Member States and the European Parliament's REGI Committee was that countries eligible for the Cohesion Fund would not be guaranteed their pre-agreed envelopes of funding if they face absorption challenges, although the Commission provided safeguards to address these concerns. There are differences in the approaches to shared management across the Structural, Rural and Fisheries Funds (collectively known as the European Structural and Investment Funds for the 2014-2020 period) which lead to different views about their relative effectiveness and whether there are good practices that can be by European Commission (2011) identified to improve the functioning of the Funds individually or collectively. Multi-level governance also poses challenges, particularly in the area of financial management. The so-called shared management model of budgetary implementation, with responsibility for implementation delegated to the Member States and regions while granting the Commission overall responsibility for budgetary assurance, poses high delegation risk and an ongoing problem of high levels of irregularities. Bache & Chapman (2008) stressed, that this has forced the Commission to introduce more stringent requirements and stricter enforcement of compliance, resulting in higher administrative workload and bureaucracy for programme managers and implementing bodies with negative consequences for how the policy is perceived.

In several richer countries, beneficiaries are avoiding applying for Structural Funds if alternative funding sources are available. Begg (2009) states, that larger array of arguments in support of EU intervention and funding for richer regions is provided in the assessment, particularly in terms of the constitutional, political and economic case.

- *Constitutional*: In constitutional terms, the treaty objective of cohesion is vague but implies a commitment to Structural Funds support in all Member States.
- *Political*: There are also political and legitimacy arguments favouring an all-region approach (covering developed and less-developed regions), given the strong support for this among EU citizens, institutions (notably the European Parliament) and interests groups.
- *Economic*: compared to the other studies, the economic case places greater emphasis on the contribution to wider economic goals relating to the Lisbon agenda and in providing a supportive framework for the regulation of regional aid under EU Competition Policy.

The economic, social and territorial objectives underpinning Cohesion Policy are multidimensional and general providing the possibility of supporting a wide range of themes, investment priorities and types of activity in pursuit of cohesion. Moreover, as Beugelsdijk & Eijffinger (2005) showed, the policy is recognised to suffer from 'goal congestion' due to the need to address new EU priorities over time, and there has been an excessive dispersion of funding across too many goals and fields of interventions in many countries. Efforts to increase thematic concentration on the Lisbon agenda and Europe 2020 objectives are widely supported, but also raise challenges. First, Cohesion Policy is losing its identity and traditional focus on cohesion. Second, and related, the thematic priorities emphasized by the Lisbon/Europe 2020 strategies may not be suited to the economic conditions of less-developed countries and regions. Finally, the closer alignment of Cohesion Policy with the Europe 2020 strategy may have by Allen (2010), negative consequences for core governance principles such as integrated programming (owing to the thematic approach) and the partnerships principle because of the centralised approach to Europe 2020 governance.

5. Discussion

After our analyses we can ask the question: *"Is the Multi-level governance model effective and efficient?"* A unique and defining feature of EU Cohesion Policy compared to other EU policies is its Multilevel Governance (MLG) model of implementation. Bruszt (2008) explains that MLG contains partnership principle and is a broader concept than shared management in so far as it does not only relate to the role of public actors, but also the wider private and societal stakeholders that participate in the design and delivery of programmes at EU, national and sub-national levels.

Cohesion Policy operates in a complex MLG system including various partners from the social, economic and environmental domains where each level should play its critical role. Medarova-Bergstrom & Volkery (2012) explained, that there is a clear need for the EU to set out a strategic direction, robust policy framework and a coordination platform for information, knowledge and capacity building. It is possible to add very considerable value to spending programmes at the EU level through the efficient and forward looking execution of this role and maintaining this appears to be the priority at present rather than making any significant changes in competences.

As Bachtler and Taylor (2003) posited, the partnership principle is often identified as one of the main areas of EU added value in Cohesion Policy and is credited with having a significant impact on regional policy practice in the Member States. Since 1988, regional policy partnerships across all Member States have been Europeanized to varying degrees. According to Pollack (1995), in the early years, national governments were in many cases the sole interlocutors with the European Commission and 'gatekeepers' to European funding. As Bache & Chapman (2008) demonstrated, over successive programme periods, regional and local governments and partner organisations (including environmental and gender equality bodies and the voluntary sector) have been progressively integrated into programme decision-making and implementation. According to Boháčková & Hrabánková (2009), the impact of Cohesion Policy on wider territorial governance and political-institutional decentralisation disputed in the MLG and Europeanization literature, although positive spill-over effects can be detected on domestic policies and governance in both old and new Member States.

Beyond these well-documented governance effects and tensions, the contribution of Cohesion Policy's MLG model to regional development is uncertain. Various OECD reports (e.g. OECD 2009; OECD 2012) have argued that MLG is the most effective approach for regional and national development policies because its allows for top-level priorities to be tailored to local needs and potentials. A recent study by METIS & European Policy research Centre (2014) examining Cohesion Policy implementation in a number of case study regions, based on interviews with programme managers and stakeholders, found that the MLG model can contribute to greater policy effectiveness, legitimacy and transparency in decision-making processes, as well as greater commitment and ownership of programme outputs. However, there is a lack of robust, credible and quantified evidence of the impact of MLG on economic outcomes compared to other centralised models of regional development policy. Just as the impact of Cohesion Policy on economic development is difficult to disentangle from other drivers of growth, the contribution made by the MLG model is equally if not more difficult to quantify. The (in)efficiency of the MLG model is one the most frequent criticisms by national policy-makers and stakeholders in terms of the administrative workload and bureaucracy involved in managing the funds and complying with the multitude of rules, particularly in relation to the sums of funding involved or to domestic policies in many countries. However, a study by SWECO International (2010) examining other comparable policy fields managed by international organisations, such as the World Bank's global and regional partnership programmes and a range of other bilateral aid programmes, found that they have considerably higher administrative costs than EU Cohesion Policy, while the European Bank for Reconstruction and Development has broadly comparable management and implementation structures and roughly similar general administrative expenses. Moreover, various types of management and implementation systems across the Member States do not differ significantly in terms of administrative workload. Centralised systems have a somewhat lower median administrative workload than regionalised and mixed systems, although the differences are marginal. The implication is that the extent of MLG within Member States does not have a negative impact on the efficiency of Cohesion Policy management. The MLG model of policy implementation pioneered in EU Cohesion Policy - involving the participation of a wide array of public, private and societal actors at EU, national and sub-national levels in the design and delivery of programmes - is one of the policy's main areas of added value and is credited with having a significant impact on regional policy practice in the Member States and regions. The MLG model can by Allard et al. (2008) contribute to greater policy effectiveness, legitimacy and transparency in decision-making processes, as well as greater commitment and ownership of programme outputs, but the effects on regional development are extremely difficult to quantify.

6. Conclusion

The political realities of the European Union are changing, as is the context for Cohesion Policy. Long term challenges such as climate change, energy security, resource scarcity (raw materials, water), biodiversity loss, declining global competitiveness, and an aging society as well as the political stability of the EU's neighbours have become some of the key strategic priorities of the EU. As Bachtler & McMaster (2008) emphasized, these are coupled with short-term threats such as increasing sovereign debt and fiscal discipline which require intelligent, timely and forward-looking policy responses.

EU Member States derive benefits from Cohesion Policy investments undertaken in other countries. These benefits are direct, derived from firms winning contracts for EU-funded projects, and indirect associated with increased export of goods and services. European Union is facing unprecedented challenges at this age. We need clear European leadership to find a sustainable, rational and acceptable solution for all of Members States of EU. Because what we can see so far is a mix of individual and uncoordinated measures by Member States. Dehert (2011) states, that Member States have to be reachable and accountable on European issues with focus on practical results aimed at responsibility and democratic legitimacy as key in strengthening European integration process. The current European commission is more political as it reflects results of elections to the European Parliament. Of course, we do respect institutional limitations. But if the Commission is still to be perceived as 3B – Brussels Bureaucratic bubble – legitimacy drawback will remain on table. However, there is a significant deficit in our domestic political environment too. The number of issues Member States can only resolve at the European level is growing. Still, some countries are slow in connecting national and European agenda. That gives space for more alienating „Brussels versus we" rhetoric in all EU Member States. Instead of closing gap, it is getting wider.

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