

## COHESION POLICY. WHERE TO?

### **Abstract**

The European regulations that constitute the framework for the implementation of the Cohesion Policy 2014-2020 aim at strengthening the strategic dimension of policy and guiding EU investment on the long-term objectives that envisage European growth and jobs in line with the Europe 2020 strategy.

EU Cohesion Policy has contributed significantly to economic growth, prosperity and to promoting balanced growth across the Union. However, in view of the significant economic and social developments over the last few years, the Cohesion Policy will have to face new challenges, namely: the impact of globalization, migration, poverty, lack of innovation, climate change, energy transition and pollution, but especially BREXIT (exit of the United Kingdom from the European Union).

The White Paper on the Future of Europe (2017) launched a debate on the direction the EU is going to adopt in the coming years. It covers three major interdependent aspects of cohesion policy, namely: "What should be invested?", "What should be the investment priorities?", "How should policy be implemented?".

**Keywords:** cohesion policy, regional policy, reform, regional competitiveness

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## POLITICA DE COEZIUNE. ÎNCOTRO?

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### **Rezumat**

Pachetul legislativ care constituie cadrul de implementare a Politicii de Coeziune pentru perioada 2014-2020 vizează consolidarea dimensiunii strategice a politicii și orientarea investițiilor UE asupra obiectivelor europene pe termen lung privind creșterea economică și ocuparea forței de muncă în conformitate cu Strategia Europa 2020.

Politica de Coeziune a UE a contribuit în mod semnificativ la creșterea economică și la prosperitate, precum și la promovarea unei creșteri echilibrate în întreaga Uniune. Cu toate acestea, din perspectiva evoluțiilor economice și sociale semnificative petrecute în ultimii ani, Politica de Coeziune va trebui să facă față unor noi provocări, respectiv: impactul globalizării, migrației, sărăciei, lipsei inovării, schimbărilor climatice, tranziției energetice și al poluării, dar mai ales BREXIT (ieșirea Regatului Unit din Uniunea Europeană).

Cartea albă privind viitorul Europei (2017) a lansat o dezbatere cu privire la direcția pe care UE urmează să o adopte în următorii ani. Aceasta acoperă trei mari aspecte interdependente referitoare la politica de coeziune, respectiv: "În ce ar trebui să se investească?", "Care ar trebui să fie prioritățile în materie de investiții?", "Cum ar trebui să fie pusă în aplicare politica?".

**Cuvinte cheie:** politica de coeziune, politica de dezvoltare regională, reformă, competitivitate regională.



## 1. INTRODUCTION

Europe's place in the world is shrinking, as other parts of the world grow as Brazil, India, China. Compare to the 2004, the share of global DGP for European Union was decreasing from 26% to 22% today. This trend will be maintained in the next years, accounting for much less than 20% of the world's GDP in 2030, down from around 22% today. The rapidly rising influence of emerging economies accentuates the need for Europe to take the necessary actions in order to face the new competitors. This situation is also aggravated by the fact the European population is aging. Moreover, according to the estimation by 2060, Europe will account for less than 5%, compared to 1900 when Europe accounted for around 25% of global population.

The European Union was reformed and transformed in the last 25 years due to the Treaties of Maastricht, Amsterdam and Nice, doubling the size of its territory. Moreover, the Lisbon Treaty opened a new chapter of European integration that still have a potential unquantified yet. The European Commission starts from the premise that cohesion policy makes an important contribution to the achievement of the objectives of European strategies by reducing intra-Community disparities, ensuring that all regions and social groups can participate in the overall economic development of the Union. Additional, the regional policy, designed as a policy of solidarity at European level, is mainly based on the financial solidarity of the Member States towards less prosperous regions and social groups. Thus, regional policy can be considered as a result of the major reforms imposed by the enlargement of the European Union and initiated for the development of the Single Market (1985/88). Against this backdrop, the less developed economies (Greece, Ireland, Portugal, southern Italy, Spain) could not have benefited equally from the advantages offered by the single market, being exposed to fierce competition and facing socio-economic vulnerabilities. Through this policy, consistent aid could be provided to reduce the development gap and encourage effective regional economies.

The EU budget and cohesion policy emerged since 2008 as a major source for supporting investments needed for the stable growth. For some Member States, the EU budget is the main source for such investments. European Commission's reports for the economic and social cohesion show that persistent productive and social disparities between EU countries and regions stem from structural weaknesses linked to key competitiveness factors - inadequate human capital, lack of innovative capacity and regional governance, and low compliance with the environment requirements. The opportunity cost of not applying a strong regional and cohesion policy is measured not only by reducing individual and collective well-being, but also in economic terms, by lowering potential income and living standards. Given the interdependencies of an integrated economy, these losses are not limited to less competitive regions or

less productive people but affect all EU citizens. By ensuring a more balanced economic development at EU level, regional development policy contributes to balancing the positive effects on developed areas with those in less developed areas as well as preventing bottlenecks and potential economic crises. Cohesion Policy has invested heavily in reducing economic disparities across EU regions.

Changes made to cohesion policy aimed at achieving a strategic and operational perspective. Over time, there has been a gradual transformation from a redistribution mechanism closely linked to Member States' preferences to a genuine regional development policy based on objectives and priorities established at the level of the European Union and implemented through an implementation system innovative approach that exploits the mechanisms of cooperation between supranational, national and regional administrations.

Reforms undertaken periodically at Community level in line with European socio-economic challenges highlight the transformation and adaptation phases of regional policy.

At this moment, EU economy is still recovering from the global financial crisis and it's confronted also with new challenges: the refugee crisis that highlighted the gaps in the Schengen zone of free movement; the multiple terrorist attacks starting with 2015 revealed that new cooperative action are becoming necessary to ensure the internal and external security of EU; the risks related with global climate change, the new global powers that are emerging as old ones face new realities, the UK vote to leave the Union.

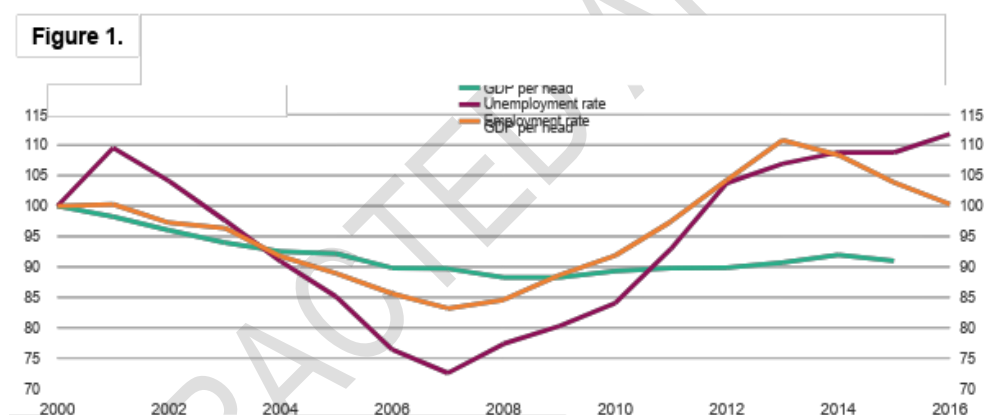
## 2. THE IMPACT OF THE COHESION POLICY

All the study related to the cohesion policy recognize the important role of that policy, mainly due to the take-up opportunities offered to regions in order to ensure the convergence objective. In this sense between 2000 and 2015, the GDP per capita, especially in the more developed regions of EU, achieved the EU average through an increased competitiveness trend. The regions with the GDP per capita above the EU average had an economic growth faster than the less developed countries, stimulated by the increase of productivity and high employment rate. These situations are encountered in the areas of the country capital or a large city that is able to impose an agglomeration economy sustained also by a large employment. These areas attacks services and providers, companies that generates innovation and dissemination of the results.

This has contributed to a significant convergence of GDP per head in these countries<sup>13</sup>. In the EU-12, this increased from 54% of the EU average in 2006 to 67% in 2015. Moreover, the 2007–2013 programmes led directly to the creation of 1.2 million jobs in supported enterprises. The impact of

cohesion policy on the EU economies is significant and the effects of investments build up over the long term. For the EU-12 countries, based on the estimation realized through the QUEST macroeconomic model estimates that investment for the 2007–2013 period increased their GDP by 3% in 2015, and by a similar amount for the 2014–2020 period<sup>2</sup> in 2023. The non-cohesion countries also benefit from spillovers generated by investments in cohesion countries both directly (through selling investment goods) and indirectly (through higher income and therefore increased trade). (EC, 2017) By 2023, 2007–2013 programmes are estimated to add 0.12% to GDP in non-cohesion countries, a quarter of which is due to spillovers from spending in cohesion countries. (EC, 2017)

The unemployment rate at the EU level decreased dramatically from 10,9% in 2013 to 7,7% in 2017, but is still above the value from 2008 before the economic crises. Even so, the persons under 25 continue to have difficulties in finding a job. Moreover, the “transition regions” of the cohesion policy had not recorded any progress so far, so most probably there will be considered less developed regions after 2020 if the trend continues.



Source: Seventh report on economic, social and territorial cohesion “My Region, My Europe, Our Future”, 2017  
 The cohesion policy increased permanently starting with 1993 and covers a large range of investments such as: innovation, education, health and social, digital competences, transport networks in order to create a single market that boosts growth, productivity and specialisation in areas where the regional comparative advantages could be valorized.

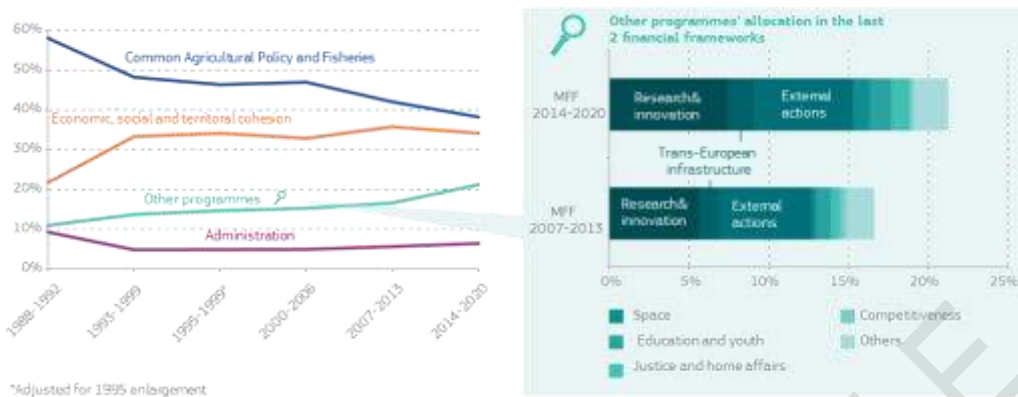


FIGURE 2 - EVOLUTION OF MAIN POLICY AREAS IN THE EU BUDGET  
Source: Reflection Paper on the Future of EU finances, CE, 2017

The cohesions report and the evaluation studies for the period 2007-2013 highlight the following results of the cohesion policy:

- Income has increased in the poorest EU regions with GDP per capita growing in these areas from 60.5 % of the EU average in 2007 to 62.7 % in 2010.
- An estimated 594 000 new jobs were created from 2007 to 2012.
- Every year, around 15 million people take part in the thousands of projects co-financed by the European Social Fund (ESF) across the EU, out of which 2.4 million participants in ESF actions supporting access to employment found a job within 6 months (2007-2010).
- From the finances available through EU cohesion policy more than 198.000 small and medium-sized enterprises (SMEs) received direct investment aid, 77.800 start-ups were supported and 262.000 jobs were created in SMEs.
- The actions that strengthening research and innovation have supported 61.000 research projects, was increased by 5 million the number of EU citizens that were covered by broadband connectivity. Moreover 21.000 new long-term research jobs were created.
- Through the investments dedicated to the environment have been modernised the water supply systems for 3.2 million citizens, the sustainability and attractiveness of towns and cities was improved through more than 9 400 projects.
- For transport more than 1 200 km of roads and 1 500 km of railway line modernized/ constructed have helped to establish an efficient trans- European transport network (TEN-T)

The impact of cohesion policy can be quantified far more than “number of” due to the spill over effects since the investments made under cohesion policy in one region or Member State contribute to 176

macroeconomic stability and increases the growth potential of the Union as a whole and the open competition at EU level to fund science and innovation has increased excellence compared to national funding that led to an increase competitiveness. Some other intangible achievements of the cohesion policy envisaged cross-border areas helping to remove sources of conflict and create new economic opportunities. European resources can also uphold common European values, such as democracy, fundamental rights, freedom, equality, solidarity, sustainability, the rule of law. The promotion of new type of instruments, but financial and territorial, allowed better adaptability of the cohesion policy. Compared with the previous programming period, the 2014 – 2020 highlights several measures introduced in order to improve the quality of investments. One of these refers to ex-ante conditionality (especially the thematic ones), preconditions attached to the operational programmes with the aim to tackle the major systemic bottlenecks hindering effective public investment in national policy area such as education, health, transport, environment, innovation. The impact of the ex-ante conditionalities applies not only to the european funds investments, but to the national policy field and led to the speeding up of ongoing reforms and the initiation of additional reforms. The general ex-ante conditionalities have also strengthened the administrative capacity to implement EU rules relating to public procurement, state aid, environmental legislation and anti-discrimination.

Another changed implemented at the level of cohesion policy in order to create impact is the stronger focus on results, transposed at the level of operational programmes in specific objectives, translated into clear result indicators with targets and benchmarks. The Commission undertakes a performance review based on the performance framework in order to see whether the programmes are achieving their goals and key indicators. There is also a performance reserve which can be released if pre-set targets are met.

TABLE 1 - SUMMARY OF IMPACTS ON COHESION OF DIFFERENT POLICY AREAS

Policy area	Instruments or mechanisms	Direct effects	Indirect effects
<b>Macroeconomic policy</b>	Common monetary policy; singlemarket	Stabilises economic environment	Induces change in behaviour, e.g. in labour market
<b>Territorial policies</b>	Subsidies; infrastructure enhancement; spatial planning	Competitiveness	Long-run economic development
<b>Technology, R&amp;D &amp; innovation</b>	Support for new technologies; Innovation strategies	Stimulates new industries; product & process innovation	Helps to transform and modernize economic structure
<b>Labour market &amp; employment policies</b>	Functioning of labour market; Raising employability	Better matching; improves employment rate	Higher labour productivity; raises attractiveness to investors.

Source: processing based on The Impact of Member State Policies on Cohesion - background study for the Third Cohesion Report, EC, 2004



### 3. TRENDS AND CHALLENGES IN THE COHESION POLICY POST 2020

Europe is ageing fast and life expectancy is reaching unprecedented levels. Nowadays the median age is 45 and according to the forecasts, Europe will be the “oldest” region in the world by 2030. The way that social cohesion is perceived depended on the new family structures, changing population, shrinking of the working age population, urbanization, profound digitization. For example, currently during a generation, at the european level a worker could have more than 10 jobs in a career, compared to previous situations when had a job for life.

“There are four important risk factors linked to globalization and technological change: (1) a large share of employment in low-tech manufacturing, (2) rapidly increasing unit labour costs in manufacturing over the past decade which may compromise competitiveness and reduce market share, (3) a large share of working-age population with low educational attainment, and (4) a decline in employment in industry between 2000 and 2014.” (EC, 2017) Moreover, since younger generations seems to the full potential of its digital talents the boundaries between workers and self-employed, goods and services, or consumers and producers are disappearing. The Reflection Papers on the Social Dimension of Europe and on Harnessing Globalisation highlighted the fact that the main approach should focus the investments on people, from education and training, to health, equality and social inclusion in order to enable them to face easily the socio and economic transformation and to increase their adaptability to the new requirements to the labour market.

The stabilization of the single market depends on cohesion policy responds to the challenges posed by globalization, the stabilization of the labor market. It should be borne in mind that the EU budget after BREXIT will obviously be lower and it is necessary to increase the budget by at least 10 billion euro a year in order to meet the current obligations that the EU needs to finance. Also, additional funding needs are generated by new challenges related to defense, the fight against terrorism, internal and external security and migration. Thus, the EU budget needs additional billions of euro per year for which additional sources need to be identified, in line with the reduction in other spending to maintain the credibility of the budget construction.

There is a need for convergence of economic structures, not just regions, stability in the euro area being very important. Investments are the key to relaunching the convergence process, and a better correlation of European funds with the requirements of the country-specific recommendations and European semester is needed. The economic and budgetary union should be envisaged by strengthening the size of the European Semester for the euro area, by creating a macroeconomic stabilization function with the

aim to protect the member states against different shocks that hit the countries should be explored according to the Reflection Paper on the deepening of the Economic and Monetary Union.

Moreover, the EU is embarked as a major advocate in limiting the energy consumption and CO2 reduction. These policies are implemented also in the current programming period and based on the agreement on climate change (2015 Paris Climate Conference) up on which the governments have committed themselves in evaluation and establishing more ambitious objectives every 5 years. It is expected to have an enhancement of this policy especially by imposing a cleaner efficient transport and also a modal shift from car use to public transport.

During the debates of the 7th Cohesion Forum (June 2017) three major challenges for cohesion policy were highlighted:

- continuing structural reforms by maintaining ex-ante conditionalities,
- adequate response to shocks of an economic nature, including: professional reconversion to regions or unexpected flux of migrants,
- maximizing cohesion policy performance (through rewarding results, unique set of rules, one tool and one demarcation in relation to other funding instruments).

Following the 7th Cohesion Forum, White paper on the future of Europe - Reflections and scenarios for the EU27 (2017) divided the European Union country in two, more exactly in north and south, poor and rich, euro and non-euro, by proposing two speed of development and convergence based on the level of achievements of the member states. The document highlighted also the determination for a policy reform on the main aspects considered important in order to push up the economic and social development in a global context, respectively: single market and trade, economic and monetary union, Schengen, migration and security, foreign policy and defence, EU budget, capacity to deliver. The synthesis of the scenarios proposed are presented in the table below.

TABLE 2 - THE FIVE SCENARIOS: POLICY OVERVIEW

Scenarios Policy field	Carrying on	Nothing but the single market	Those who want more do more	Doing less more efficiently	Doing much more together
Single market & trade	Single market is strengthened, including in the energy and digital sectors; the EU27 pursues progressive	Single market for goods and capital strengthened; standards continue to differ; free movement of people and services not fully guaranteed	As in "Carrying on", single market is strengthened and the EU27 pursues progressive trade agreements	Common standards set to a minimum but enforcement is strengthened in areas regulated at EU level; trade exclusively dealt with at EU level	Single market strengthened through harmonisation of standards and stronger enforcement; trade exclusively dealt with at EU level



	trade agreements				
<b>Economic &amp; Monetary Union</b>	Incremental progress on improving the functioning of the euro area	Cooperation in the euro area is limited	As in "Carrying on" except for a group of countries who deepen cooperation in areas such as taxation and social standards	Several steps are taken to consolidate the euro area and ensure its stability; the EU27 does less in some parts of employment and social policy	Economic, financial and fiscal Union is achieved as envisioned in the report of the Five Presidents of June 2015
<b>Schengen, migration &amp; security</b>	Cooperation in the management of external borders stepped up gradually; progress towards a common asylum system; improved coordination on security matters	No single migration or asylum policy; further coordination on security dealt with bilaterally; internal border controls are more systematic	As in "Carrying on" except for a group of countries who deepen cooperation on security and justice matters	Cooperation on border management, asylum policies and counter-terrorism matters are systematic	As in "Doing less more efficiently", cooperation on border management, asylum policies and counter-terrorism matters are systematic
<b>Foreign policy &amp; defence</b>	Progress is made on speaking with one voice on foreign affairs; closer defence cooperation	Some foreign policy issues are increasingly dealt with bilaterally; defence cooperation remains as it is today	As in "Carrying on" except for a group of countries who deepen cooperation on defence, focusing on military coordination and joint equipment	The EU speaks with one voice on all foreign policy issues; a European Defence Union is created	As in "Doing less more efficiently", the EU speaks with one voice on all foreign policy issues; a European Defence Union is created
<b>EU budget</b>	Partly modernised to reflect the reform agenda agreed at 27	Refocused to finance essential functions needed for the single market	As in "Carrying on"; additional budgets are made available by some Member States for the areas where they decide to do more	Significantly redesigned to fit the new priorities agreed at the level of the EU27	Significantly modernised and increased, backed up by own resources; a euro area fiscal stabilisation function is operational
<b>Capacity to deliver</b>	Positive agenda for action yields concrete results; decision-making remains complex to grasp; capacity to deliver does not always match expectations	Decision-making may be easier to understand but capacity to act collectively is limited; issues of common concern often need to be solved bilaterally	As in "Carrying on", a positive agenda for action at 27 yields results; some groups achieve more together in certain domains; decision-making becomes more complex	Initial agreement on tasks to prioritise or give up is challenging; once in place, decision-making may be easier to understand; the EU acts quicker and more decisively where it has a greater role	Decision-making is faster and enforcement is stronger across the board; questions of accountability arise for some who feel that the EU has taken too much power away from the Member States

Source: White paper on the future of Europe - Reflections and scenarios for the EU27 by 2025, EC 2017

Following the debates on the European union, based on different positions expressed by the member states, the Seventh report on economic, social and territorial cohesion "My Region, My Europe, Our Future" have a more middle approach able to respond to the new challenges related to competitiveness, but also to maintain the convergence objective. In this sense, social inclusion, healthcare and social infrastructure, employment, skills, innovation, climate change, energy and environmental transition will have a greater attention to the types of activities defined and funds allocated in order to allow the possibility to react to the highly increase number of the persons applying for asylum in the EU states.

The SMEs will maintain the important role in increasing the EU competitiveness by producing a larger leverage effect of the funds allocated compared with the other types of investments and by increasing the

sophistication level through the diminish of the grant use and increase of financial instruments. So the increase of economic competitiveness it should be encouraged in the conditions in which the EU seems to have lost the ability to create high-growth innovative companies as well as entrepreneurial capacity.

Moreover, the connectivity of regions will be improved by investments in transport and digital infrastructure. Additional, the EU services consider that the weak institutional arrangements reduce the competitiveness, the economic growth and the impact of investments. Therefore, will be taken into consideration the improvements of the quality in the public administration and institutions, as well as encouraging the structural reform through positive incentives as well as consolidated the administrative capacity.

Since the Regional policy is a proximity policy it is necessary to know its benefits. The European Commission propose to concentrate European measures on high stakes where they can bring high added value, namely to relaunch European structural funds for investments, to encourage financial instruments in regional development policy, to better explain / present the effects of European policies, to stimulate innovation - research - development conditions.

The resources will be graded based on a single set of rule applied to all existing funds in order to ensure coherence among the investments. This could be obtained through a unique legal framework for the cohesion policy and other financing instruments for the same type of projects. Thus will be achieved a greater complementarity between the cohesion policy and the funds dedicated to innovation and infrastructure.

Furthermore, it is considered the possibility of maintaining a part of cohesion funds at the level of European Commission or member states in order to allow a rapid response to new challenges. One important aspects that may affect especially the eastern country is related to the diminish of the cofinancing rate from the EU in order to increase the responsibility of the member state in the process of elaboration and implementation of the policy.

The increase of the leverage effect of the EU funds was tested since 2007 – 2013, especially thru financial instruments. Facing a possible reduction of the resources allocated to the cohesion policy, the European Commission envisages to ensure the complementarity between the loan, guarantee and equity instruments managed by Member States under cohesion policy and the European Fund for Strategic Investment and the new pan-European Venture Capital Fund.

One of the lessons learned from the previous policy reform is the key area of interventions are maintained with a focus on the new challenges identified.

#### 4. CONCLUSIONS

The debate on the future cohesion policy and implicitly on the European Union is forecasted to be difficult because of the different and in some cases divergent opinions that should be accommodated with the national developments level and needs of the member states.

The cohesion policy must be one of the pillars of the European construction and cannot be questioned or put in competition with other instruments, like the European Fund for Strategic Investment (Junker Plan), but the funds should be used to increase economic competitiveness. For the future, it is necessary to consider simplification but also a differentiated approach, synergy between policy and instruments so that they are used in a strategic, complementary way. Moreover, the delivery system for cohesion policy needs to be simplified where it is too much regulated and too bureaucratic and should impose a rewarding principle rather than a penalizing one as in the current programming period. Every simplification proposed at European level seems to end with more complicated activities, but the policy still needs to be workable, given that national rules are often more complicated than European rules. Simple, clear rules are needed and the proper use of the proposed simplifications results.

It is a time when reform is to be considered if it is to avoid failure, as well as solidarity and responsibility on the basis of applicable principles. Cohesion policy must be demanding, looking for the future, but should still remain a union of values and solidarity.

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